



ABN : 42 127 042 773



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COMPANY INFORMATION



Company / Group / Economic Entity	Scotgold Resources Limited and controlled entities	
ABN	Scotgold Resources Limited, incorporated 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	
	Telephone: +61 8 9463 3260	Email: sgz@scotgoldresources.com
Share Registry	Computershare Investor Services Pty Ltd Level 11 172 St Georges Terrace Perth, WA 6000	
	Telephone: +61 8 9323 2000	
Auditor	BDO Audit (WA) Pty Ltd 38 Station Street Subiaco, WA 6008	
	Telephone: +61 8 6382 4600	
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



Nominated Adviser
and Broker

SP Angel Corporate Finance LLP
Prince Frederick House,
35-39 Maddox Street,
London, W1S 2PP

Lawyers

Australian Law -
Steinepreis Paganin
Level 4, The Read Buildings,
16 Milligan Street,
Perth WA 6000

English Law -
Fox Williams LLP
10 Finsbury Square
London
EC2A 1AF

Scots Law -
Reul Advisory LLP
PO Box 13766
North Berwick
East Lothian
EH39 9AW

Website

www.scotgoldresources.com

OPERATIONS and STRATEGIC REVIEW



OPERATIONS REVIEW

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 advancement of the Cononish Gold and Silver 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 held its first meeting on 10th May 2019, noting its purpose as 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. The CSR Committee may investigate any concerns regarding activities of the Company that relate to sustainable development and community development.

Peter Hetherington chaired the first meeting in May 2019 and subsequent to adopting the Charter, three broad areas of focus were proposed and agreed:

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

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

Through the year to August 2019, our activities with regard to CSR have included the following:

- Compliance with all relevant health & safety, employment and data protection legislation
- Revision of the Employee Handbook to ensure clear information on policies and procedures is provided to every employee
- An Occupational Health Scheme has been put in place, recognising the importance of monitoring and securing the health of the workforce
- An ongoing training and development programme for SGZ Cononish staff, plus provision of training as required for all Scotgold employees
- Working with the statutory agencies, including the Health and Safety Executive, Scottish Environmental Protection Agency and Loch Lomond and the Trossachs National Park, to build a professional relationship through a proactive approach to achieving short and long term compliance.
- Provision of accommodation for staff living over 25 miles away and working on shifts.
- Meetings with local housing and planning authorities with regard to increasing the supply of social housing in the area
- Continuing to support young people by working with universities to provide opportunities for research and work experience
- Complying with equality and data protection legislation in recruitment whilst having a particular focus on employing local people
- Instigation of quarterly Community Meetings to enable local people to understand developments and to present their views
- Working with the Scottish Business Pledge, delivering on all nine elements.

OPERATIONS and STRATEGIC REVIEW



Cononish Gold and Silver Project –

On 15th 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.

Grampian Gold Project –

The Grampian Gold Project comprises Crown Option agreements covering approximately 2,900 km² 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. 4M oz of gold).

The Company has historically undertaken regional stream sediment sampling programs over the wider Grampian gold project area and identified a number of high grade outcrops in the vicinity of the Cononish project. In the current reporting period work has focused on orientation surveys over the known Cononish deposit in order to better understand the significance of these anomalies and improve our exploration methodology going forward.

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. In March 2018 the Company announced the entering of an “earn in” agreement for Pomar. However, during the year, PanEx Resources Limited, the counterparty to that agreement, resolved to withdraw from the agreement.

OPERATIONS and STRATEGIC REVIEW



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. Accordingly, deferred exploration expenditure of \$118,402 attributable to the Pomar licence was written off during the year.

The Company withdrew its interest in the Vendrennes licence and placed SGZ France SAS into voluntary liquidation during the year. The liquidation process 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 £6.0 million at a nominal interest rate of 9% per annum, to be drawn down in tranches which are repayable with accumulated interest 24 months after the date of drawdown. By the end of the reporting period, £2.0 million of that facility had been drawn down by SGZ Cononish Limited.

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.

Under the then assumed start date of November 2018, the phases were scheduled as follows:

→ Phase 1 (December 2019 - February 2022): 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 (March 2022 - End of Life of Mine): 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).

Phase 2 is intended to be organically funded by Phase 1 and the Company anticipates being in a position where profits generated by Phase 1 can be invested into the development requirements of Phase 2 within 2.5 years of first production.

Following the submission of a new planning application to accommodate the revised phased project and a successful fund raising in May 2018, the Company took the decision to proceed with Phase 1 and work during the current reporting period has focussed on the preparation for and initiation of project development activities.

Whilst progressing the planning application process, the Company committed funds to the ordering of the owner operated mining fleet, which was received in late 2018. The Company also advanced the processing plant tendering process and selected a preferred bidder.

Following receipt of the positive Planning Decision Notice in October 2018 and subsequent satisfaction of certain pre-commencement conditions in December 2018, mine development activities commenced in January 2019. With the limited mining expertise available locally, the Company focussed on local recruitment and training programs and is now successfully operating 24hr/day with a two-shift system.

Work also continued with the preferred bidder for the process plant to conduct confirmatory metallurgical testwork, and complete final design and equipment selection, culminating in a fixed price order being placed.

The process plant design facilitated the detailed design of the plant building and associated infrastructure. This highlighted the challenges of the plant’s location in terms of topography, ground and weather conditions. As a result, together with certain engineering practicalities, a decision was taken to complete the full Phase 2 design for the building, associated infrastructure and significant elements of the processing plant, including the crushing and dewatering circuits.

OPERATIONS and STRATEGIC REVIEW



The execution of the earthworks required for the building platform, together with the preparations for the tailings dry stacks and associated drainage and settlement systems, have been carefully considered to ensure compliance with stringent planning conditions appropriate for an environmentally sensitive area of the National Park.

Subsequent to the reporting period, in August 2019 the Company provided a project update indicating first production was expected at end February 2020, revised cost estimates and re-evaluating the project economics using a £1,200/oz gold price. Based on these assumptions, the key project parameters are given below:

Cononish Key Parameters:

Estimated Reserves	550,000t
Head Grade Au	11.8g/t
Life of Mine	9 years
Total Capital	£26.8m
Ave. Annual Production	23,370oz
Ave. Operating Cost	£398/oz
Ave. Capital Cost	£146/oz
Total Cost	£544/oz
Employees @ full production	63

The above key parameters were derived by Scotgold management using revised cost and gold price estimates and using 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.

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.

OPERATIONS and STRATEGIC REVIEW



Table: Latest 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

Scotgold Resources Limited - Cononish Gold Project						
Mineral Resource Estimate as at 12 January, 2015						
<i>Reported at a cut-off grade of 3.5 g/t gold</i>						
Classification	K Tonnes	Grade Au g/t	Metal Au Koz	Grade Ag g/t	Metal Ag Koz	In-situ Dry BD
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
Sub-total M&I	541	14.3	248	59.9	1,043	2.72
Inferred - In-situ	75	7.4	18	21.9	53	2.72
Total MRE	617	13.4	266	55.3	1,096	2.72
<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 30/06/2018.

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 the Cononish mine, 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.

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 30/06/2018.

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

Table: Latest Annual Ore Reserve Statement

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

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 2019, 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 km²) in the Dalradian Belt of the south west Grampians, a terrain highly prospective for both gold 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.

Scotgold has historically used various traditional exploration techniques to identify anomalies with a view to generating drill targets and, potentially, future mineral resources. Principal amongst these has been soil and stream sediment sampling to identify gold-bearing zones. It is recognised however that the history of glaciation over the last 30,000 years has spread anomalous sediment particles across the region, making interpretation difficult.

In addition to the above, geochemical techniques that rely on a full digest of the sample are known to be susceptible to very fine gold "nuggets", such that very large samples are required to produce representative results. The sample sizes required are much larger than those typically collected during exploration programmes.

Scotgold recognised that a different survey technique was required in order to counter the above challenges and generate geochemical anomalies representative of the geology and mineralisation in the bedrock (for soils) and catchment area (for streams). Scotgold worked with Dr Russell Birrell of Glob-ex Solutions, a leading exploration geochemist, to apply modern partial leach techniques that analyse for mobile metal ions on the surface of sediment particles. This technique is known as "ionic leach geochemistry".

Ionic Leach™ is a static sodium cyanide leach using the chelating agents of ammonium chloride, citric acid and EDTA with the leachant buffered at an alkaline pH (pH 8.5). Samples are digested as collected so there is very little opportunity to lose or introduce elements during the partial leach process. This innovative leach technique is designed for near surface soil samples. It is designed to improve geochemical mapping and enhance the potential to detect and resolve geochemical anomalies for a range of commodity elements.

OPERATIONS and STRATEGIC REVIEW



Separately, the Company historically evaluated Very Low Frequency (“VLF”) / magnetics and Induced Polarisation (“IP”) Gradient Array geophysical surveys with limited success. The techniques worked well to map the bedrock geology but failed to “see” deep enough to help define the geology in three dimensions.

Orientation surveys have been conducted over the known Cononish Project Orebody, in order to evaluate the efficacy of the new exploration techniques in identifying bedrock mineralisation and to establish optimum parameter settings, such as sample spacing, as well as data processing methods.

The results of the initial orientation drainage survey were a success in both proving the application of the new technique, and in providing higher resolution anomalies over the wider Cononish area. The technique produces a strong positive anomaly in the area bounded by the drainages to the north east and south west of the estimated Cononish Project Orebody. The same techniques and parameters were then applied in the Beinn Udlaidh area to the north of Cononish. The Company is particularly encouraged by the scale of the Beinn Udlaidh anomaly produced. Previous drainage surveys did not produce such clear cut and unambiguous results.

Having established an anomalous area through stream sediment sampling, the next level of detail was obtained by conducting a systematic soil sampling campaign over the area. Not only has this new technique been able to map mineralised sections of the Cononish Vein, it has identified further anomalies associated with off-setting faults and structures in the immediate vicinity. These new anomalies are associated with the Mother Vein and so-called Barren Vein structures interpreted from the extrapolation of mapped veins.

Following these encouraging results from orientation surveys conducted over the Cononish orebody and within the wider Glen Orchy Central license block, the methods were applied over additional areas of interest within the company’s licenses, with 3 main areas covered during the reporting period:

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

Scotgold is pleased to report on the successful identification of new exploration techniques. The application of these techniques will ensure a more efficient, systematic and targeted approach to future exploration. Ionic leach stream sediment sampling can be used to define prospective catchment areas at the district and regional scale that will allow focus on the best areas. Ionic leach soil sampling can then be used, together with geological mapping, to identify the prospective areas at the prospect scale. The identified ground geophysics techniques can be used to map the bedrock geology in three dimensions and allow for optimal drill hole planning.

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.

The Pomar licence area includes the historic antimony mines of das Gatas, Pomar and Casalinho, in addition to numerous small scale trials and occurrences.

OPERATIONS and STRATEGIC REVIEW



Evaluation of styles of mineralization during initial site visits indicated the potential for undiscovered gold prospects in zones with quartz-only mineralization in addition to the known gold bearing felsic dykes traversing the area and potential extensions to the known antimony occurrences.

In March 2018 the Company announced the entering of an “earn in” agreement for Pomar. However, during the year, PanEx Resources Limited, the counterparty to that agreement, resolved to withdraw from the agreement.

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. Accordingly, deferred exploration expenditure of \$118,402 attributable to the Pomar licence was written off during the year.

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 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.

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 ²	county of Argyll, Scotland UK
2	Knapdale North	250 km ²	county of Argyll, Scotland UK
3	Inverliever West	250 km ²	counties of Dunbarton, Argyll and Perth, Scotland UK
4	Inverliever East	233 km ²	counties of Dunbarton, Argyll and Perth, Scotland UK
5	Glen Orchy West	103 km ²	counties of Perth and Argyll, Scotland UK
6	Glen Orchy Central	242 km ²	counties of Perth and Argyll, Scotland UK
7	Glen Orchy East	241 km ²	counties of Perth and Argyll, Scotland UK
8	Glen Lyon West	246 km ²	counties of Perth and Argyll, Scotland UK
9	Glen Lyon North	244 km ²	counties of Perth and Argyll, Scotland UK
10	Glen Lyon South	243 km ²	counties of Perth and Argyll, Scotland UK
11	Glen Lyon East	247 km ²	counties of Perth and Argyll, Scotland UK
12	Ochills West	189 km ²	county of Clackmannan, Perth, Kinross and Stirling, Scotland UK
13	Ochills East	150 km ²	county of Clackmannan, Perth, Kinross and Stirling, Scotland UK

Portugal –

As at 30 June 2019, the Company held a 100% interest in the Pomar Licence with a period of validity of 3 years from May 2016 (and an option to extend) in eastern central Portugal, near Castelo Branco through its subsidiary Scotgold Resources Portugal Ltda.

OPERATIONS and STRATEGIC REVIEW



Subsequent to 30 June 2019, the Company announced its intention not to extend the Pomar Licence.

France –

The Company held a 100% interest in the Vendrennes PER (Permit Exclusif de Recherche or Exploration Licence) through its subsidiary SGZ France SAS.

The Company withdrew its interest in the Vendrennes Licence during the year.

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 - 2018 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 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.

OPERATIONS and STRATEGIC REVIEW



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 has adopted the QCA code of corporate governance and appointed an advisory service to assist with UK regulatory compliance issues as an AIM listed company. During the period the Company formally established a Corporate Social Responsibility Committee and is pleased to include its maiden report.

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 and the first £50,000 tranche was disbursed in August 2019.

With effect from 1st 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. However, to provide longevity beyond Cononish, and potentially growth in overall production, the Company is developing a pipeline of 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 km² 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, now scheduled for the end of February 2020. Construction delays, particularly due to inclement weather, remain a risk factor.

The Updated BFS also demonstrated the increased value of Cononish given the improved gold market, particularly in GB Pound terms. The gold price has climbed from £948.87/oz to £1,114.87/oz over this reporting period and reached £1,278.06/oz in September 2019. 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. The Company currently expects project returns in line with these estimates.

The work completed on advancing our future pipeline of projects has again 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. These programs will continue to be expanded and are expected to provide the Company with significant number of prospective drill targets in due course.

The coming period will be dominated by the Cononish development activities and we look forward to reporting the production of first gold.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2019



Your Directors submit their report on the consolidated entity consisting of Scotgold Resources Limited and its controlled entities ("Scotgold") for the financial year ended 30 June 2019. All amounts are presented in Australian Dollars, unless otherwise stated.

DIRECTORS

The following persons were Directors of Scotgold Resources Limited during the whole of the financial year and up to the date of this report unless otherwise stated:

		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/ Non-Exec Director	09/10/2017	present
Peter Hetherington	Non-Executive Director	18/06/2018	present
William Stysliger	Non-Executive Director	18/06/2018	present
Ian Proctor	Non-Executive Director	14/08/2019	present

PARTICULARS OF CURRENT DIRECTORS AND COMPANY SECRETARY

Nathaniel le Roux **Non-Executive Chairman** **MSc (Hons)**

Qualifications and experience

Mr Nathaniel "Nat" le Roux has spent most of his career in financial markets and was Chief Executive of IG Group plc between 2002 and 2006. He served as an independent director of the London Metal Exchange from 2008-2016 and is a trustee of various charities. Nat was born in Scotland and was educated in Edinburgh. He holds an MA in Law from Cambridge University and an MSc in Anthropology from University College London.

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

Interest in Shares and Options

Fully Paid Shares	22,618,223
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Special Responsibilities

Overall strategic guidance and UK Capital markets.

A company controlled by Mr le Roux made available a secured loan facility of £6.0 million to SGZ Cononish Limited during the year for mine development and working capital purposes. The loan is secured over all the assets of that company as well as all the assets of its fellow subsidiary, SGZ Grampian Limited.

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

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2019



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	96,738
Options	1,008,939

These options include 1,000,000 options granted as share-based payment on 1 May 2018 subject to shareholder approval.

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	202,045
Options	4,000

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.

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.

DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2019



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
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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)
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Qualifications and experience

Mr Hetherington is the Chief Executive Officer of Schrodgers Personal Wealth. Prior to this he was Chief Executive Officer of 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 prior to joining IG.

Other Directorships in past three years:

- Deal City Limited
- Dot Trading Registry Limited
- DotBroker Registry Limited
- DotCFD Registry Limited

DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2019



DotForex Registry Limited
DotMarkets Registry Limited
DotSpreadbetting Registry Limited
Extrabet Financial Limited
Extrabet Limited
Financial Domains (Services)
Limited
Financial Domains Limited
Financial Domains Registrar
Limited
Financial Domains Registry
Holdings Limited
Fox Japan Holdings
Fox Sub 2 Limited
Fox Sub Limited
IG Asia Pte Limited
IG Bank S.A
IG Finance
IG Finance Two
IG Finance 5 Limited
IG Finance 8 Limited
IG Finance 9 Limited
IG Finance Four
IG Finance Three
IG Forex Limited
IG Group Holdings Plc
IG Group Limited
IG Index Limited
IG Infotech (India) Private Limited
IG Limited
IG Markets Limited
IG Markets South Africa Limited
IG Services Limited
IG Spread Betting Limited
ITS Market Solutions Limited
LLC IG Dev
Market Data Limited
Nadex Clearing, LLC
Nadex Domains Inc
North American Derivatives
Exchange Inc
Extrabet Financial Limited
ITS Market Solutions Limited

Interest in Shares and Options

Fully Paid Shares

4,088,961

DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2019



William Styslinger

Non-Executive Director

BSc Engineering

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: **None**

Interest in Shares and Options

Fully Paid Shares	5,646,400
Options	320,000

Special Responsibilities

Mr Styslinger is a member of the Audit Committee.

Other Directorships in past three years:

Metrosoft, Inc.

Ian Proctor

Non-Executive Director

ACA

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.

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

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
- Hestview Ltd
- Bonne Terre Limited
- Core Gaming Limited
- Cyan Blue Core Limited
- Cyan Bidco Limited
- Cyan Blue Holdco 1 Limited
- Cyan Blue Holdco 2 Limited
- Cyan Blue Holdco 3 Limited
- Cyan Blue Holdco 4 Limited
- Cyan Blue Topco Limited
- Cyan Blue VLNco Limited

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2019



Cyan Blue International Holdings Limited
Stars Group UK 1 Limited
Stars Group UK 2 Limited
Stars Group Holdings (UK) Limited
Cyan Blue International Limited
Cyan Blue Odds Limited
Cyan Blue Manco Limited
Cyan Blue Odds Australia Pty Limited

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 2020
2,483,681	£0.40	31 December 2019
Granted but not vested		
120,000	£0.34	16 April 2024
Granted subject to shareholder approval and not yet vested		
1,000,000	£0.30	1 May 2028

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 2,900km².

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 \$3,518,455 (2018: \$1,899,667).

Financial Position

At 30 June 2019 the Company had cash reserves of \$3,917,920 (2018: \$11,207,036).

Dividends

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

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2019



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.

MEETINGS OF DIRECTORS

The following table sets out the number of meetings of the Company's Directors held during the year ended 30 June 2019, 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

AUDIT COMMITTEE

The Audit Committee is comprised of Mr Jackson (Chairman), Mr Barker and William Styslinger. One meeting of the audit committee was held during the year ended 30 June 2019.

The Audit Committee Report for the year ended 30 June 2019 can be found under Principle Ten in the QCA Corporate Governance Statement of the Company, which can be found on the Company web-site at <https://www.scotgoldresources.com/wp-content/uploads/2019/11/SGZ-Corporate-Governance-Statement-FINAL.pdf>.

REMUNERATION REPORT (audited)

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

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 and may be increased from time to time, subject to approval by shareholders in general meeting. Fees for Non-Executive Directors are not linked

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2019



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.

The group does not operate an Employee Share Scheme and 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.

Details of remuneration for year ended 30 June 2019

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 (\$243,902) plus pension contribution. 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.

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 grant of the options is subject to shareholder approval which, at the date of this report is outstanding.

A charge of \$200,954 has been recognised for the period from the date of grant of the options to 30 June 2019.

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 \$87,826 in the year ended 30 June 2019 (2018 - \$115,614).

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 \$39,996 in the year ended 30 June 2019 (2018 - \$39,996).

DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2019



iii) The loan owing by the Company to the Chairman and major shareholder, Nat le Roux was repaid in full during the year. 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. Details of the secured loan facility are set out in Note 12.

Loans to Directors

There are no loans due from Company Directors.

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. The Directors may approve a Managing Director whose fee or salary is agreed by the Directors within such aggregate sum. 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
		\$	\$	\$	\$	\$
Year ended 30 June 2018						
Nat le Roux	*	-	-	-	-	-
Richard Gray		-	173,551	3,471	52,870	229,892
Chris Sangster		17,420	115,614	-	-	133,034
Phillip Jackson	Holihox Pty Ltd	18,192	-	-	-	18,192
Richard Barker	Barston Corp. Pty Ltd	12,554	39,996	-	-	52,550
Peter Hetherington		-	-	-	-	-
William Styssinger		-	-	-	-	-
		48,166	329,161	3,471	52,870	433,668

Director/Executive	Associated Company	Short-term benefits Fees	Consulting / Salary	Retirement Benefits	Share- Based payments	Total
		\$	\$	\$	\$	\$
Year ended 30 June 2019						
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 Styssinger		-	-	-	-	-
		54,033	397,277	8,491	148,084	607,885

* Mr le Roux has waived his director fees for the time being

DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2019



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	
		2019 \$	2018 \$	2019 \$	2018 \$
Year ended 30 June 2019					
Nat le Roux *		100%	100%	-	-
Richard Gray		65%	77%	35%	23%
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%	-	-

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

The grant of these options is subject to shareholder approval, which had not yet been obtained at 30 June 2019 nor by the date of this report. 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 2019.

Additional information

The earnings of the consolidated entity for the five years to 30 June 2019 are as follows:

	2019 \$	2018 \$	2017 \$	2016 \$	2015 \$
Sales revenue	-	-	-	-	-
EBITDA	(3,285,036)	(1,657,616)	(1,124,095)	(1,273,707)	(1,891,621)
EBIT	(3,416,512)	(1,727,523)	(1,227,227)	(1,289,083)	(1,910,718)
(Loss) after income tax	(3,518,455)	(1,899,667)	(1,348,167)	(1,505,592)	(2,112,965)

DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2019



Voting at the 2018 Annual General Meeting

The Remuneration Report for the year ended 30 June 2018 was adopted unanimously at the 2018 Annual General Meeting on a show of hands.

Key management personnel share holdings

	Balance 30 June 2017	Share Consolidation	Rights issue/ Placing	At date of resignation/ appointment	Balance 30 June 2018
Year ended 30 June 2018					
Nat le Roux	632,220,806	(625,898,598)	15,996,015	-	22,318,223
Richard Gray	5,204,240	(5,152,197)	44,695	-	96,738
Chris Sangster	18,204,484	(18,022,439)	20,000	-	202,045
Phillip Jackson	4,331,250	(4,287,937)	-	-	43,313
Richard Barker	-	-	-	-	-
Peter Hetherington	-	-	-	3,231,818	3,231,818
William Styslinger	-	-	-	1,990,555	1,990,555
	<u>659,960,780</u>	<u>(653,361,171)</u>	<u>16,060,710</u>	<u>5,222,373</u>	<u>27,882,692</u>
	Balance 30 June 2018	Acquisitions	Subscription	At date of resignation/ appointment	Balance 30 June 2019
Year ended 30 June 2019					
Nat le Roux	22,318,223	300,000	-	-	22,618,223
Richard Gray	96,738	-	-	-	96,738
Chris Sangster	202,045	-	-	-	202,045
Phillip Jackson	43,313	-	-	-	43,313
Richard Barker	-	-	-	-	-
Peter Hetherington	3,231,818	-	-	-	3,231,818
William Styslinger	1,990,555	-	2,727,274	-	4,717,829
	<u>27,882,692</u>	<u>300,000</u>	<u>2,727,274</u>	<u>-</u>	<u>30,909,966</u>

Key management personnel option holdings

Year ended 30 June 2018

	Free attaching options	Expiry or exercise of options ¹	Rights Issue ²	Balance 30 June 2018
Nat le Roux	45,656,433	(45,656,433)	1,744,657	1,744,657
Richard Gray	291,294	(291,294)	8,939	8,939
Chris Sangster	493,333	(493,333)	4,000	4,000
William Styslinger	-	-	320,000	320,000
	<u>46,441,060</u>	<u>(46,441,060)</u>	<u>2,077,596</u>	<u>2,077,596</u>

¹ Includes those options cancelled due to the share consolidation

² The Rights Issue options are exercisable at 40p and expire 31 December 2019

DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2019



Year ended 30 June 2019

	Free attaching options	Expiry or exercise of options	Issues of options	Balance 30 June 2019
Nat le Roux	1,744,657	-	-	1,744,657
Richard Gray	8,939	-	-	8,939
Chris Sangster	4,000	-	-	4,000
William Styslinger	320,000	-	-	320,000
	<u>2,077,596</u>	<u>-</u>	<u>-</u>	<u>2,077,596</u>

An agreement to dispose of all the options held by Mr Nat le Roux options was concluded on 14 May 2019, but the transfer of those options only occurred on 18 July 2019.

The 1,000,000 options granted to Mr Richard Gray in May 2018 subject to shareholder approval are not reflected above. Such approval is outstanding as at 30 June 2019.

Aggregate amounts payable to Directors and their related entities:

	Consolidated Entity 2019 \$	Consolidated Entity 2018 \$
Accounts payable	<u>14,393</u>	<u>29,477</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 is subject to shareholder approval which, at the date of this report is outstanding.

End of 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.

SUBSEQUENT EVENTS

On 18 July 2019, the consolidated entity 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.

On 7 August 2019, SGZ Cononish Limited received £50,000 from Scottish Enterprise in the form of the first payment of the Regional Selective Assistance grant.

On 14 August 2019, Ian Proctor was appointed as a Non-Executive Director.

On 28 August 2019, the consolidated entity announced an increase of £1,500,000 in the amount available under the secured loan facility provided by Bridge Barn Limited and the subscription by investors, including key management personnel, for 3,285,783 new ordinary shares in the Company at a subscription price of £0.35 per share.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2019



At the same time, the terms of the secured loan facility were amended to extend the repayment period of each tranche drawn down on the facility from 24 months to 36 months.

The first of five shipments of components of the processing plant to be installed at the Cononish mine arrived at Grangemouth on 28 August 2019, with all seaborne components being received by 12 October 2019.

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 voluntary liquidation of SGZ France SAS was concluded on 1 October 2019.

On 24 October 2019, the Company announced the conclusion of the thirteen new exploration agreements and the replacement of the five agreements in effect at 30 June 2019, with the effective date of these new exploration agreements being retrospective to 5 November 2018.

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, 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
- 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 services to the Company – 2019: \$8,488 (2018: \$3,519).

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration has been received for the year ended 30 June 2019 and forms part of the Directors' report.

DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2019



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.

A handwritten signature in black ink, appearing to read 'Richard Gray', is written over a horizontal dotted line.

RICHARD GRAY – Managing Director

Dated at Tyndrum, Scotland, this 8th day of November 2019

AUDITOR'S INDEPENDENCE DECLARATION

FOR THE YEAR ENDED 30 JUNE 2019



Tel: +61 8 6382 4600
Fax: +61 8 6382 4601
www.bdo.com.au

38 Station Street
Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia

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 2019, 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, 8 November 2019

**CONSOLIDATED STATEMENT OF
COMPREHENSIVE INCOME**
FOR THE YEAR ENDED 30 JUNE 2019



	Notes	2019 \$	2018 \$
Interest income	2	6,314	969
Other income	2	-	1,666
Gain on loan renegotiation		-	263,707
Administration costs		(527,619)	(514,758)
Interest expense		(101,943)	(172,144)
Depreciation and loss on disposal of plant and equipment	3	(208,608)	(69,907)
Pre-development costs expensed as incurred		(1,253,211)	-
Exploration expensed as incurred		(28,194)	(68,009)
Deferred mineral exploration and evaluation costs written		(118,402)	-
Employee and consultant costs, excluding share-based payments		(615,809)	(438,955)
Share-based payments	16	(200,954)	-
Listing and share registry costs		(164,991)	(313,221)
Legal fees		(50,282)	(226,734)
Office and communication costs		(96,587)	(112,727)
Other expenses		(158,169)	(249,554)
LOSS BEFORE INCOME TAX		(3,518,455)	(1,899,667)
Income tax benefit	4	-	-
LOSS FOR THE YEAR		(3,518,455)	(1,899,667)
Other Comprehensive Income			
<i>Items that may be reclassified to Profit or Loss</i>			
Exchange difference on translation of foreign subsidiaries		(726,967)	109,191
Total comprehensive result for the year		(4,245,422)	(1,790,476)
Basic (loss) per share (cents per share)	25	(7.84)	(7.92)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 30 JUNE 2019



	Notes	2019 \$	2018 \$
CURRENT ASSETS			
Cash and cash equivalents		3,917,920	11,207,036
Trade and other receivables	5	57,970	59,267
Inventory	6	29,724	62,850
Other current assets	7	93,273	53,082
Total Current Assets		<u>4,098,887</u>	<u>11,382,235</u>
NON-CURRENT ASSETS			
Trade and other receivables	5	1,511,493	97,894
Plant and equipment	8	996,562	226,042
Mineral exploration and evaluation	9	2,034,815	16,685,135
Mine development expenditure	10	20,293,754	-
Total Non-Current Assets		<u>24,836,624</u>	<u>17,009,071</u>
TOTAL ASSETS		<u><u>28,935,511</u></u>	<u><u>28,391,306</u></u>
CURRENT LIABILITIES			
Trade and other payables	11	581,947	294,262
Other current liabilities	11	63,123	43,529
Borrowings	12	174,838	1,740,867
Total Current Liabilities		<u>819,908</u>	<u>2,078,658</u>
NON-CURRENT LIABILITIES			
Borrowings	12	4,212,914	-
Provisions	13	238,690	-
Total Non-Current Liabilities		<u>4,451,604</u>	<u>-</u>
TOTAL LIABILITIES		<u><u>5,271,512</u></u>	<u><u>2,078,658</u></u>
NET ASSETS		<u><u>23,663,999</u></u>	<u><u>26,312,648</u></u>
EQUITY			
Issued capital	14	41,098,558	39,706,967
Reserves	15	(448,311)	73,474
Accumulated losses	15	(16,986,248)	(13,467,793)
TOTAL EQUITY		<u><u>23,663,999</u></u>	<u><u>26,312,648</u></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 2019



	Issued Capital	Accumulated Losses	Options Reserve	Share- based payment reserve	Foreign Currency Translation Reserve	Total Equity
YEAR ENDED 30 JUNE 2018	\$	\$	\$	\$	\$	\$
Balances at 1 July 2017	27,216,549	(11,658,126)	224,769	-	(170,486)	15,612,706
Total comprehensive result for the year	-	(1,899,667)	-	-	109,191	(1,790,476)
Transactions with owners in their capacity as owners:						
Issue of shares	4,612,375	-	-	-	-	4,612,375
Placements	7,971,620	-	-	-	-	7,971,620
Options exercised	12,187	-	-	-	-	12,187
Options expired	-	90,000	(90,000)	-	-	-
Share issue expenses	(105,764)	-	-	-	-	(105,764)
Balances at 30 June 2018	<u>39,706,967</u>	<u>(13,467,793)</u>	<u>134,769</u>	<u>-</u>	<u>(61,295)</u>	<u>26,312,648</u>
YEAR ENDED 30 JUNE 2019						
Balances at 1 July 2018	39,706,967	(13,467,793)	134,769	-	(61,295)	26,312,648
Total comprehensive result for the year	-	(3,518,455)	-	-	(726,967)	(4,245,422)
Transactions with owners in their capacity as owners:						
Issue of shares	1,390,854	-	-	-	-	1,390,854
Options exercised	737	-	-	-	-	737
Share-based payments	-	-	-	205,182	-	205,182
Balances at 30 June 2019	<u>41,098,558</u>	<u>(16,986,248)</u>	<u>134,769</u>	<u>205,182</u>	<u>(788,262)</u>	<u>23,663,999</u>

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2019



	Notes	2019 \$	2018 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Payment to suppliers		(3,057,998)	(1,744,357)
Interest income received		6,314	969
Net Cash Outflow from Operating Activities	21	<u>(3,051,684)</u>	<u>(1,743,388)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for exploration expenditure		(487,024)	(247,268)
Payments for mine development activities		(5,263,745)	-
Purchase of plant and equipment		(1,072,636)	(6,172)
Lodging of deposits as security for obligations		(1,409,024)	-
Net Cash Outflow from Investing Activities		<u>(8,232,429)</u>	<u>(253,440)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares and options		1,391,591	12,596,182
Share and option issue transaction costs		-	(105,764)
Repayment of current borrowings		(1,815,521)	-
Proceeds on draw-down of first tranche of non-current borrowings		3,729,952	-
Net proceeds from Hire Purchase borrowings		731,122	-
Net Cash Inflow from Financing Activities		<u>4,037,144</u>	<u>12,490,418</u>
Net (decrease)/increase in cash held		(7,246,969)	10,493,590
Effect of exchange rate fluctuations on cash and cash equivalents		(42,147)	141,114
Cash and cash equivalents at the beginning of this financial year		11,207,036	572,332
Cash and cash equivalents at the end of this financial year		<u>3,917,920</u>	<u>11,207,036</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 2019



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.

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 sheet date, the consolidated entity had current assets of \$4,098,887 (2018 : \$11,382,235), including available cash and cash equivalents of \$3,917,920 (2018 : \$11,207,036), and current liabilities of \$819,908 (2018 : \$2,078,658).

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 the consolidated entity has further available funds by way of a secured £5.5m (\$9.94m) loan facility not yet drawn down.

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 2019, the consolidated entity had cash balances of \$3,917,920 (30 June 2018 : \$11,207,036) and for the financial year then ending, incurred net cash outflows from operating and investing activities of \$11,284,113 (2018 : \$1,996,828). The consolidated entity is currently commencing construction of the Cononish gold mine, and first cash inflows are expected in the first quarter of calendar year 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:

- As announced on 28 August 2019, the secured loan facility available from Bridge Barn Limited increased by £1,500,000, bringing the total available facility to £7,500,000. Of that amount, £2,000,000 had been drawn down at 30 June 2019;
- As also announced on the same date, the consolidated entity has been successful in raising further capital in an equity raising exercise subsequent to the reporting date, in an amount of £1,150,000;
- The amount of any additional cost which may be incurred as a result of a delay in commissioning is mitigated by the fact that the contract between SGZ Cononish Limited and the supplier of the processing plant to be commissioned provides that of the total contract value of USD3,862,668, USD115,880 (\$165,245) will only be payable on successful completion of commissioning of the processing plant and USD193,133 (\$275,408) will only be payable on the subsequent issuing by SGZ Cononish Limited of a certificate of completion in respect of the installation and commissioning of the processing plant; and
- As at the date of signing of this report, there are 2,459,151 outstanding options with an exercise price of £0.40 per option. Each option entitles the holder thereof to acquire one ordinary share in the Company and is exercisable on or before 31 December 2019. The number of options outstanding includes 1,744,657 options acquired by an institutional investor from Nat le Roux in terms of an agreement concluded on 14 May 2019, in respect of which transfer was completed on 18 July 2019. These options are all “in-the-money” at the date of signing of this report. Should all the outstanding options be exercised, the expected inflow of cash will be £983,660 (\$1,777,164).

The expiry date of the options precedes the commencement date of the period during which the Directors estimate that the peak funding requirement in respect of the development of the Cononish mine will be reached.

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.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019



Statement of Compliance

The financial report was authorised for issue on 8 November 2019.

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 2019, 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.

The following new or amended standards have been adopted during the year ended 30 June 2019:

AASB 9 Financial Instruments (which became effective for financial years commencing after 1 January 2018)

AASB 9 replaced AASB 139 Financial Instruments: Recognition and Measurement and, in particular, the provisions of AASB 139 relating to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The accounting policies implemented on adoption of the provisions of AASB 9 are set out in the Accounting Policies section below.

Adoption of AASB 9 has not resulted in any reclassification of financial instruments or any adjustments to previously reported figures.

AASB 15 Revenue from contracts with Customers (which became effective for financial years commencing after 1 January 2018)

AASB 15 replaces all existing revenue requirements in Australian Accounting Standards and applies to all revenue arising from contracts with customers, unless the contracts are in the scope of other standards, such as AASB 117 (or AASB 16 Leases, once applied). The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with the core principle by applying the following steps:

- ▶ Step 1: Identify the contract(s) with a customer
- ▶ Step 2: Identify the performance obligations in the contract
- ▶ Step 3: Determine the transaction price
- ▶ Step 4: Allocate the transaction price to the performance obligations in the contract
- ▶ Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

The adoption of AASB 15 has had no impact on the consolidated entity.

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New Accounting Standards and Interpretations

The Directors are also reviewing all new Accounting Standards and Interpretations that have been issued but are not yet effective for the year ended 30 June 2019.

AASB 16 Leases (Application date: Financial years commencing after 1 January 2019)

AASB 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under AASB 117 Leases. The Standard includes two recognition exemptions for lessees – leases of ‘low-value’ assets (e.g. personal computers) and short-term leases (e.g. leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (e.g. the lease liability) and an asset representing the right to use the underlying asset during the lease term (e.g. the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be required to remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting is substantially unchanged from today’s accounting under AASB 117. Lessors will continue to classify all leases using the same classification principle as in AASB 117 and distinguish between two types of leases: operating and finance leases.

The consolidated entity is currently evaluating the impact of the new standard.

In addition, the consolidated entity is also currently evaluating the impact of the following new standards:

Effective 1 January 2019:

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

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

AASB 2017-7 Amendments to Australian Accounting Standards – Long-term interests in associates and joint ventures;

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);

AASB 2018-2 Amendments to Australian Accounting Standards – Plan Amendment, Curtailment or Settlement;

AASB 2018-3 Amendments to Australian Accounting Standards – Reduced Disclosure Requirements;

Interpretation 23 Uncertainty over income tax treatments.

Effective 1 January 2020:

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

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

Conceptual Framework;

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

Effective 1 January 2021:

AASB 17 Insurance Contracts

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 difference 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.

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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 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 including capitalised lease assets, but 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:

Class of Fixed Asset:	Depreciation Rate:
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

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 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.

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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.

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.

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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 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

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- 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;

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.

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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.

As at 30 June 2019, 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) 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.

(p) 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.

(q) Comparative Figures

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

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(r) 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.

(s) Share based payments – shares and options

The fair value of shares and share options granted is recognised as an expense 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.

(t) 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. 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.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

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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.

(u) 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.

Determination of date of reclassification to mine development expenditure

During the 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.

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 premia 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.

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As at 30 June 2019, the gross asset base of the consolidated entity directly attributable to the Cononish mine amounted to \$23,602,730 (2018: 16,152,682). The Directors do not believe that there is any necessity to impair the carrying value of that asset base at 30 June 2019.

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-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 2019, the consolidated entity had capitalised mineral exploration and evaluation expenditure of \$2,034,815 (2018: \$16,685,135). The Directors do not believe any indications of impairment are present.

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 2019 was \$238,690 (2018 - \$Nil).

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 premia 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.

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.

**NOTES TO AND FORMING PART OF
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Recognition of deferred tax assets

The Directors exercise judgement as to the likelihood that taxable income will arise in future against which assessable losses can be offset in order to reduce the liability for income tax on that taxable income. Where such taxable income is adjudged to be likely to arise, a deferred tax asset will be recognised to the extent of the future taxation saving.

As at 30 June 2019, the amount of deferred tax assets recognised was \$Nil (2018 - \$Nil).

NOTE 2 – OTHER INCOME

Other income	2019	2018
	\$	\$
Interest received	6,314	969
Other income	-	1,666
Gain on loan renegotiation	-	263,707
Total other income	6,314	266,342

NOTE 3 - LOSS FROM ORDINARY ACTIVITIES BEFORE TAX EXPENSES

Expenses	2019	2018
	\$	\$
Interest expensed	101,943	172,144
Total borrowing cost expensed	101,943	172,144

Depreciation of non-current assets

Plant and equipment	121,381	68,171
Motor vehicles	9,140	1,718
Office furniture and equipment	955	18
Total depreciation of non-current assets	131,476	69,907

Loss on disposal of non-current assets

Plant and equipment	72,078	-
Motor vehicles	2,727	-
Office furniture and equipment	2,327	-
Total loss on disposal of non-current assets	77,132	-

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NOTE 4 - INCOME TAX

The prima facie tax benefit at 27.5% (2018 : 27.5%) on loss from ordinary activities is reconciled to the income tax benefit in the financial statements as follows:

	2019	2018
	\$	\$
Loss from ordinary activities	(3,518,455)	(1,899,667)
Prima facie income tax benefit at 27.5% (2018 : 27.5%)	967,575	522,408
Tax effect of permanent differences		
Share issue costs amortised	60,421	29,018
Other non-deductible expenses	-	-
Income tax benefit adjusted for permanent differences	<u>1,027,996</u>	<u>551,426</u>
Deferred tax asset not brought to account	<u>(1,027,996)</u>	<u>(551,426)</u>
Income tax benefit	<u>-</u>	<u>-</u>

INCOME TAX BENEFIT

The directors estimate the cumulative unrecognised deferred tax asset attributable to the Company and its controlled entities at 27.5% is as follows:

UNRECOGNISED DEFERRED TAX ASSETS

	2019	2018
	\$	\$
Revenue losses after permanent differences	3,198,284	2,637,395
Capital raising costs yet to be claimed	-	55,150
	<u>3,198,284</u>	<u>2,692,545</u>

The potential deferred tax asset has not been brought to account in the financial report at 30 June 2019 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.

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NOTE 5 – TRADE AND OTHER RECEIVABLES

Current	2019	2018
	\$	\$
GST / VAT receivable	47,940	56,424
Other receivables	10,030	2,843
	<u>57,970</u>	<u>59,267</u>
Non-current		
Bond on Tenement	-	97,894
Rehabilitation, restoration and land management Bond deposits	1,457,292	-
Performance Bond deposits	54,201	-
	<u>1,511,493</u>	<u>97,894</u>

During the 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. This 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").

The Bond which was in place prior to the concluding of the Section 75 Agreement was refunded to SGZ Cononish Limited and the following amounts were lodged as security for the performance by that company of its obligations:

- £537,918 (\$971,848) in respect of obligations to undertake restoration, decommissioning and environmental aftercare and monitoring on cessation of operations at the Cononish mine; and
- £268,693 (\$485,444) in respect of obligations in terms of the Greater Cononish Glen Management Plan.

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, SGZ Cononish Limited lodged a deposit of £30,000 (\$54,201) 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 6 – INVENTORY

	2019	2018
	\$	\$
Inventory of gold concentrates	-	62,850
Inventory of mining consumables	29,724	-
	<u>29,724</u>	<u>62,850</u>

NOTE 7 – OTHER CURRENT ASSETS

	2019	2018
	\$	\$
Prepayments	<u>93,273</u>	<u>53,082</u>

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NOTE 8 – PLANT AND EQUIPMENT

Plant and equipment	2019	2018
	\$	\$
Cost	1,304,305	661,402
Accumulated Depreciation	(307,743)	(435,360)
	<u>996,562</u>	<u>226,042</u>

Movement for the year ended 30 June 2018

	Plant and equipment	Motor vehicles	Furniture and office equipment	Total
Cost				
Opening balance	560,212	83,918	11,163	655,293
Additions	-	6,109	-	6,109
Closing balance	<u>560,212</u>	<u>90,027</u>	<u>11,163</u>	<u>661,402</u>
Accumulated depreciation				
Opening balance	296,782	64,208	4,463	365,453
Depreciation expensed	68,171	1,718	18	69,907
Closing balance	<u>364,953</u>	<u>65,926</u>	<u>4,481</u>	<u>435,360</u>

Movement for the year ended 30 June 2019

	Plant and equipment	Motor vehicles	Furniture and office equipment	Total
Cost				
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	<u>1,221,591</u>	<u>71,348</u>	<u>11,366</u>	<u>1,304,305</u>
Accumulated depreciation				
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	<u>282,276</u>	<u>24,439</u>	<u>1,028</u>	<u>307,743</u>
Net carrying value				
At 30 June 2019	<u>939,315</u>	<u>46,909</u>	<u>10,338</u>	<u>996,562</u>
At 30 June 2018	<u>195,259</u>	<u>24,101</u>	<u>6,682</u>	<u>226,042</u>

Fixed assets with a net carrying value of \$842,517 are the subject of hire purchase agreements and serve as security for the repayment of amounts owing in terms of these agreements.

**NOTES TO AND FORMING PART OF
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NOTE 9 – MINERAL EXPLORATION AND EVALUATION

	2019	2018
	\$	\$
Opening balance	16,685,135	16,346,365
Net (gain)/loss from the BPT	(5,360)	(280,331)
Additional expenditure deferred during the year	641,623	619,101
Reclassification to mine development expenditure	(15,180,832)	-
Write-off of deferred expenditure attributable to Pomar licence	(118,402)	-
Foreign exchange movement	12,651	-
Closing balance	<u>2,034,815</u>	<u>16,685,135</u>

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

The net gain of \$5,360 (2018 : \$280,331) from the BPT is an integral part of the Company's mineral exploration and evaluation activities and includes \$68,684 of revenue from Dore sales (2018: \$203,177) and \$63,324 of production costs (2018 : \$557,477). There were no concentrate sales during the year, compared to a level of \$634,631 in 2018.

The criteria to reclassify mineral exploration and evaluation expenditure to mine development expenditure in respect of the Cononish gold and silver mine project of SGZ Cononish Limited were met on 19 December 2018 and \$15,180,832 of deferred mineral exploration and evaluation expenditure was accordingly reclassified to mine development expenditure on that date.

This amount includes deferred expenditure on minor preliminary works commenced on the development of the Cononish Mine of \$130,635.

Pursuant to the taking of a decision by management not to extend the Pomar exploration licence in Portugal, \$118,402 of deferred mineral and evaluation expenditure attributable to that licence was written-off during the year.

NOTE 10 – MINE DEVELOPMENT EXPENDITURE

	2019
	\$
Reclassification from mineral exploration and evaluation expenditure	15,180,832
Expenditure incurred subsequent to reclassification	5,606,392
Share-based payment costs capitalised	4,228
Provision for restoration and decommissioning (see Note 13)	238,690
Foreign exchange movement	(736,388)
Closing balance	<u>20,293,754</u>

The criteria for reclassifying mineral exploration and evaluation expenditure attributable to the Cononish mine project were met on 19 December 2018, with a consequent transfer of \$15,180,832 of deferred costs. Subsequently, an amount of \$5,606,392 was expended on mine development activities and capitalised into this asset. As the transfer occurred in the current financial period, no amounts are presented for the year ended 30 June 2018.

Share-based payment costs capitalised as mine development expenditure relates to options granted to senior management to incentivise the meeting of the corporate target of producing first gold at the Cononish mine in February 2020.

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NOTE 11 – TRADE AND OTHER PAYABLES

	2019	2018
	\$	\$
Trade creditors	581,947	294,262
Other accruals	63,123	43,529
	<u>645,070</u>	<u>337,791</u>
Trade creditors and accruals relating to exploration expenditure	144,910	42,814
Trade creditors and accruals relating to development expenditure	385,770	-
Trade creditors and accruals relating to administration	114,390	294,977
	<u>645,070</u>	<u>337,791</u>

Trade creditors are non-interest bearing and are normally settled on 30 days terms (2018 : 30 days).

NOTE 12 – BORROWINGS

	2019	2018
	\$	\$
Non-current		
Secured loan facility	3,655,221	-
Hire purchase agreement facilities	557,693	-
	<u>4,212,914</u>	<u>-</u>
Current		
Shareholder loan	-	1,740,867
Hire purchase agreement facilities	174,838	-
	<u>174,838</u>	<u>1,740,867</u>
Total borrowings	<u>4,387,752</u>	<u>1,740,867</u>

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

Shareholder loan

On 14 March 2017 the Company entered into a short-term loan agreement for £1,000,000 with Nat le Roux, the Company's non-executive Chairman and major shareholder. Pursuant to the amendment of the loan terms on 20 March 2018 in terms of which all interest (including accrued interest) was waived and the date of repayment was extended to 30 September 2018 (which gave rise to the gain on renegotiation recognised in 2018), the principal was repaid on 26 September 2018.

The movements on the loan are as follows:

	2019	2018
	\$	\$
Opening balance	1,740,867	1,742,964
Interest at effective rate	43,384	170,883
Gain on loan renegotiation	-	(263,707)
Foreign exchange movement	31,270	90,727
Loan repayment	(1,815,521)	-
Closing balance	<u>-</u>	<u>1,740,867</u>

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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 2 October 2018, the period of availability of the facility was extended to 12 months, with the facility to be drawn down in three tranches each repayable 24 months after date of drawdown of that specific tranche; and
- (b) On 26 February 2019, the amount available to be drawn down under the facility was increased from £5,000,000 to £ 6,000,000, the number of tranches to be drawn down increased from three to four and the terms of payment of the interest on amounts drawn-down were amended to provide for repayment of interest on each tranche as at the date of repayment of that tranche.

No amounts had been drawn down on the facility as at the date of any of these amendments, with the first tranche of £2,000,000 being drawn down on 13 May 2019 and no other drawdowns being made during the year.

The terms of the secured loan as at 30 June 2019 are accordingly as follows:

- i) An overall facility amount of £6,000,00 to be drawn down in two tranches of £ 2,000,000 followed by two tranches of £1,000,000;
- ii) The period of availability of the first tranche ended on 30 June 2019, with the second tranche being available for a period of six months after the date of drawdown of the first tranche and the period of availability of the subsequent tranches being the period of six months from the date of draw-down of the immediately preceding tranche;
- iii) Nominal interest rate is 9.0% applied to all amounts drawn down;
- iv) Each tranche, together with accumulated interest thereon, is repayable 24 months after the date of drawdown of that 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.

The movements on the secured facility loan agreement during the year are as follows:

	2019
	\$
First tranche drawn down on 13 May 2019	3,729,952
Interest at effective rate	41,626
Foreign exchange movement	(116,357)
Closing balance	<u>3,655,221</u>

The effective interest rate on the secured loan facility is 8.63%. As set out in the note on matters subsequent to the end of the financial year the amount available in terms of the secured loan facility agreement was increased in August 2019.

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Hire purchase facilities

Subsidiaries of the Company have entered into hire purchase agreements with financial institutions to finance the purchase of motor vehicles and mobile plant during the year, as follows:

Subsidiary company	<u>SGZ Cononish Limited</u>		<u>SGZ Grampian Limited</u>		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 30 June 2019	422,261	23,482	264,342	22,446	732,531
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 30 June 2019	455,383	18,814	350,528	17,792	842,517

The respective assets financed in terms of each hire purchase agreement constitute the sole security for repayment of the amounts owing in respect of each of these agreements.

The movements during the year on those respective hire purchase agreements are as follows:

Subsidiary company	<u>SGZ Cononish Limited</u>		<u>SGZ Grampian Limited</u>		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 at 30 June 2019	422,261	23,482	264,342	22,446	732,531

NOTE 13 – PROVISIONS

Provision for restoration and decommissioning	2019	2018
	\$	\$
Balance at 30 June 2019	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 2019.

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 2019 using a discount rate of 1.32%.

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No provision was made during the year ended 30 June 2018.

NOTE 14 – ISSUED CAPITAL

	2019 No. of shares	2018 No. of shares	2019 \$	2018 \$
Ordinary shares – fully paid	45,639,546	42,911,254	41,098,558	39,706,967

(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 2018:

Date	Details	Shares	Value (cents)	\$
	Balance at 30 June 2017	1,593,220,666		27,216,549
04/07/2017	Options conversion	50,000	1.6695	837
	Total before consolidation	1,593,270,666		27,217,386
25/08/2017	1 for 100 share consolidation	(1,577,337,734)		-
	Total after share consolidation	15,932,932		27,217,386
02/10/2017	Options conversion	4,402	1.6955	7,464
08/11/2017	Options conversion	1,575	1.7074	2,689
28/11/2017	Options conversion	500	1.7374	867
21/12/2017	Rights issue	10,625,940	1.7363	4,612,375
21/12/2017	Rights issue costs			(83,343)
04/01/2018	Placing	1,800,000	1.7236	775,620
23/03/2018	Options conversion	450	1.8333	330
17/05/2018	Placing	14,545,455	1.7990	7,196,000
17/05/2018	Placing costs			(22,421)
	Balance at 30 June 2018	42,911,254		39,706,967

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	45,639,546		41,098,558

Shares issued for non-cash consideration amounted to Nil during the year (2018: Nil).

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

During the year ended 30 June 2018

Details	Number	\$
Balance at 30 June 2017	156,457,334	224,769
Options exercised	(56,477)	-
Options expired 22 September 2017	(30,000,000)	(90,000)
Options expired 30 September 2017	(123,400,857)	-
Options before share consolidation	3,000,000	134,769
1 for 100 share consolidation	(2,970,000)	-
Total after share consolidation	30,000	134,769
Options issued with Rights issue	2,125,149	-
Options issued with placement	360,000	-
Conversion of options	(450)	-
Balance at 30 June 2018	2,514,699	134,769

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	2,513,681	134,769

Option exercise dates and prices

Number	Exercise Price	Expiry Date	Reserve \$
30,000	\$8.00	31 March 2022	134,769
2,483,681	£0.40	31 December 2019	-
2,513,681			134,769

Details of options issued to key management and senior managers are set out in Note 16.

NOTE 15 – RESERVES AND ACCUMULATED LOSSES

Accumulated Losses	2019 \$	2018 \$
Balance at beginning of the year	(13,467,793)	(11,658,126)
Net loss from ordinary activities	(3,518,455)	(1,899,667)
Options expiry	-	90,000
Balance at end of the year	(16,986,248)	(13,467,793)

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	2019	2018
	\$	\$
Foreign Currency Translation Reserve		
Balance at beginning of the year	(61,295)	(170,486)
Reserve arising on translation of foreign currency subsidiary	(726,967)	109,191
Balance at end of the year	<u>(788,262)</u>	<u>(61,295)</u>
Share Option Reserve		
Balance at beginning of the year	134,769	224,769
Options expiry	-	(90,000)
Balance at end of the year	<u>134,769</u>	<u>134,769</u>
Share-based payment Reserve		
Balance at beginning of the year	-	-
Issue of options for services rendered (Note 16)	205,182	-
Balance at end of the year	<u>205,182</u>	<u>-</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 16 – 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 are 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 2019, only 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.

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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 2019, only 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 2019, the share options granted to management for services rendered and expected to vest in future have the following expiry date 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 2019 of the 1,120,000 options outstanding at that date and expected to vest in future is £0.304.

NOTE 17 - COMMITMENTS FOR EXPENDITURE

Mineral Tenement Leases

As at 30 June 2019, the consolidated entity held five licences in Scotland. In December 2018, an application was made to the Crown Estate Scotland to exchange these licenses for thirteen licences broadly covering the same area as the original, but with some decrease in overall land holding.

On making that application, the following programme of exploration costs was proposed:

	Minimum expenditure (est.)	Licence Fee (est.)	Total (est.)
	\$	\$	\$
Not later than one year	5,824,554	117,435	5,941,989
Later than 1 year but not later than 2 years	2,590,561	117,435	2,707,996
Later than 2 years but not later than 5 years	7,427,403	352,305	7,779,708
	<u>15,842,518</u>	<u>587,175</u>	<u>16,429,693</u>

Contract for purchase of processing plant

On 14 February 2018, SGZ Cononish Limited entered into a contract with Appropriate Process Technologies Pty Limited for the fabrication of a processing plant to be used for processing ore at the Cononish mine.

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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 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 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:

	\$
Not later than one year	269,864
Later than 1 year but not later than 2 years	123,546
Later than 2 years but not later than 5 years	23,375
Later than 5 years	85,351
	<u>502,136</u>

Minimum royalty 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. The amount payable for the year ended 30 June 2019 amounted to \$33,588 and the amount paid in July 2019 amounted to \$34,694.

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

	\$
Not later than one year	34,694
Later than 1 year but not later than 2 years	35,388
Later than 2 years but not later than 5 years	110,467
Later than 5 years	241,632
	<u>422,181</u>

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.

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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 2019:

	\$
Not later than one year	271,003
Later than 1 year but not later than 2 years	397,563
Later than 2 years but not later than 5 years	1,978,673
Later than 5 years	3,695,284
	<u>6,342,253</u>

Rental of immovable property

Rental payments expected to be incurred in terms of rental agreements in place in respect of immovable property after 30 June 2019 are as follows:

	\$
Not later than one year	57,310
Later than 1 year but not later than 2 years	60,923
Later than 2 years but not later than 5 years	182,770
	<u>301,003</u>

Rental of mobile equipment

Rental payments in respect of agreements for the rental of mobile equipment utilised in mining activities are due to be made after 30 June 2019 as follows:

	\$
Not later than one year	161,879
Later than 1 year but not later than 2 years	40,469
	<u>202,348</u>

NOTE 18 - 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 during the year 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

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and the Trossachs Countryside Trust, 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. 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 17).

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 2019, no grants had been received by SGZ Cononish Limited from Scottish Enterprise. A grant payment of £50,000 was received on 7 August 2019.

Scotgold Resources Limited and its controlled entities have no other known material contingent liabilities as at 30 June 2019.

NOTE 19 - INVESTMENT IN CONTROLLED ENTITIES

	Registered Number	Country of Incorporation	Interest Held
Parent			
Scotgold Resources Limited	42 127 042 773	Australia	100%
Subsidiary			
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%

The Scottish subsidiary Scotgold Resources Limited changed its name to SGZ Grampian Limited during the year.

NOTE 20 - 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.

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The structure of internal reporting changed during the year in order to report the mine development and corporate activities carried out by SGZ Cononish Limited separately from the mineral and exploration activities undertaken by SGZ Grampian Limited. The comparative segment information for the year ended 30 June 2018 has been restated accordingly.

Year ended 2018	Scotland Mining \$	Scotland Exploration \$	Australia \$	Other \$	Total \$
Segment other income	-	968	1	-	969
Segment loss	796,852	459,074	586,139	57,602	1,899,667
Segment assets	16,152,682	12,039,947	58,892	139,785	28,391,306
Segment non-current assets	15,493,781	1,390,414	6,474	118,402	17,009,071
Segment liabilities	245,386	56,515	1,759,067	17,690	2,078,658
Included in segment result:					
Interest expense	-	-	172,144	-	172,144
Depreciation	34,381	35,043	483	-	69,907
Capitalised exploration	-	275,857	-	62,913	338,770
Mine development costs	-	-	-	-	-
Acquisition of fixed assets	-	6,074	-	-	6,074

All of the segment liabilities at 30 June 2018 were current.

Year ended 2019	Scotland Mining \$	Scotland Exploration \$	Australia \$	Other \$	Total \$
Segment other income	24	6,289	1	-	6,314
Segment loss	2,608,799	52,293	670,480	186,883	3,518,455
Segment assets	23,602,730	5,252,032	74,334	6,415	28,935,511
Segment non-current assets	22,388,271	2,440,389	7,964	-	24,836,624
Segment liabilities	4,808,425	429,788	23,127	10,172	5,271,512
Segment non-current liabilities	4,259,083	192,521	-	-	4,451,604
Included in segment result:					
Interest expense	55,223	3,336	43,384	-	101,943
Depreciation	94,521	36,544	411	-	131,476
Capitalised exploration	-	636,263	-	-	636,263
Mine development costs	5,849,310	-	-	-	5,849,310
Acquisition of fixed assets	636,762	435,874	-	-	1,072,636

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The following material agreements were in place at 30 June 2019 in each segment:

Scotland – Mining

Location	Agreement	Grant 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
Cononish Glen Orchy	Option Agreement	5 November 2015	975 sq km
Glen Lyon	Option Agreement	5 November 2015	1,369 sq km
Inverliever	Option Agreement	5 November 2015	660 sq km
Knapdale	Option Agreement	5 November 2015	676 sq km
Ochills	Option Agreement	5 November 2015	426 sq km

Portugal

Location	Agreement	Grant Date	Area
Pomar MN/PP/001/16	Exploration Contract	21 April 2016	264 sq km

During the year, an application was made to divide the existing five Crown Option agreements in respect of exploration into thirteen agreements as well as to extend the effective period of those agreements as follows:

Existing agreement	Area	Replacement agreements	Area
Cononish Glen Orchy	975 sq km	Glen Orchy Central	242 sq km
		Glen Orchy East	241 sq km
		Glen Orchy West	103 sq km
Glen Lyon	1,369 sq km	Glen Lyon North	244 sq km
		Glen Lyon East	247 sq km
		Glen Lyon South	243 sq km
		Glen Lyon West	246 sq km
Inverliever	660 sq km	Inverliever West	250 sq km
		Inverliever East	233 sq km
Knapdale	676 sq km	Knapdale South	250 sq km
		Knapdale North	250 sq km
Ochills	426 sq km	Ochills East	150 sq km
		Ochills West	189 sq km

The thirteen new exploration agreements were concluded on 24 October 2019, with the effective date thereof being retrospective to 5 November 2018. The portion of the licence costs attributable to the period of use from 5 November 2018 to 30 June 2019 has been accrued at 30 June 2019.

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

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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.

NOTE 21 - NOTES TO THE STATEMENT OF CASH FLOWS

	2019	2018
	\$	\$
Reconciliation of loss after income tax to net operating cash flows		
Loss from ordinary activities	(3,518,455)	(1,899,667)
Depreciation	131,476	69,907
Loss on disposal of plant and equipment	77,132	-
Interest expense	101,943	-
Exchange loss on repayment of loan	31,270	-
Share-based payments	200,954	-
Deferred mineral exploration and evaluation costs written off	118,402	-
Exploration expenditure expensed	-	68,009
Gain on loan renegotiation	-	(263,707)
	<u>(2,857,278)</u>	<u>(2,025,458)</u>
Movement in assets and liabilities		
Receivables	1,355	(17,157)
Inventory	-	159,398
Other current assets	(12,593)	(36,813)
Payables	(183,168)	282,257
Revaluation effect of foreign currency working capital	-	(105,615)
Net cash used in operating activities	<u>(3,051,684)</u>	<u>(1,743,388)</u>

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NOTE 22 - 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

(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.

	Consolidated	
	2019	2018
	\$	\$
Short-term employee benefits	451,310	377,327
Post-employment benefits	8,491	3,471
Share-based payments	148,084	52,870
	<u>607,885</u>	<u>433,668</u>

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

	Consolidated Entity	
	2019	2018
	\$	\$
Accounts payable	<u>14,393</u>	<u>29,477</u>

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NOTE 23 - RELATED PARTY INFORMATION

	Parent Entity	
	2019	2018
	\$	\$
a) Transactions within the Consolidated Entity		
Aggregate amount receivable within the consolidated entities at balance date		
Total non-current receivables	32,135,303	32,166,970
Write down of loans attributable to losses of subsidiaries	<u>(14,304,488)</u>	<u>(9,936,324)</u>
Non-current receivables in parent entity	<u>17,830,815</u>	<u>22,230,646</u>
Interest charged within the consolidated entities	<u>793,221</u>	<u>-</u>

b) 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 the Remuneration Report.
- iii) Nat le Roux received repayment of loan funds previously advanced and provided further loan funds to the consolidated entity on commercial terms. The details of the loan repaid and the further loan funds provided are shown in Note 12. Refer also the Remuneration Report.

NOTE 24 - REMUNERATION OF AUDITORS

	Consolidated	
	2019	2018
	\$	\$
Auditing and reviewing of the financial statements of Scotgold Resources Limited and of its controlled entities.	35,560	19,605
Other services (tax)	<u>8,488</u>	<u>3,519</u>
	<u>44,048</u>	<u>23,124</u>

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NOTE 25 - LOSS PER SHARE

	Consolidated	
	2019	2018
	\$	\$
Earnings used in calculation of loss per share	<u>(3,518,455)</u>	<u>(1,899,667)</u>
	Number	Number
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic loss per share	<u>44,891,914</u>	<u>23,978,240</u>

There are 3,633,681 potential ordinary shares as at 30 June 2019 (30 June 2018 : 2,514,699). The issuing of these potential ordinary shares would be anti-dilutive.

NOTE 26 - FINANCIAL INSTRUMENTS

(a) Financial Risk Management Policies

The consolidated entity's financial instruments consist mainly of deposits with banks, accounts receivable, accounts payable, hire purchase 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 2019 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.

**NOTES TO AND FORMING PART OF
THE CONSOLIDATED FINANCIAL STATEMENTS**
FOR THE YEAR ENDED 30 JUNE 2019



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

	Weighted Average Effective Interest Rate		2019 \$	2018 \$
	2019	2018		
Financial Assets				
Cash at Bank	0.05%	0.03%	3,917,920	11,207,036
Trade and other receivables	-	-	57,970	59,267
Non-current Bond obligation deposits	1.25%	0.03%	1,511,493	97,894
Total Financial Assets			5,487,383	11,364,197
Financial Liabilities				
Trade and other payables	-	-	581,947	294,262
Hire purchase agreements	7.77%	-	732,531	-
Secured loan facility	8.63%	-	3,655,221	-
Shareholder loan	10%	10%	-	1,740,867
Total Financial Liabilities			4,969,699	2,035,129

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 2019 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. If the draw-down on the secured loan facility had been made on 1 July 2018 instead of 13 May 2019, the interest charge for the year attributable to the secured loan facility would have been \$310,074. In that case, had there been an increase of 100 basis points in the interest rate applicable to the secured loan facility, then the interest charge for the year would have been \$343,019, resulting in a decrease in equity of \$32,945 and a corresponding increase in the secured loan facility balance of \$32,945.

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.

**NOTES TO AND FORMING PART OF
THE CONSOLIDATED FINANCIAL STATEMENTS**
FOR THE YEAR ENDED 30 JUNE 2019



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 2019 \$	Assets 2019 \$	Liabilities 2018 \$	Assets 2018 \$
£ Sterling	5,163,200	4,527,250	276,572	11,318,329
€ Euro	75,153	6,415	17,690	21,383
USD US Dollars	-	921,142	-	-
	<u>5,238,353</u>	<u>5,454,807</u>	<u>294,262</u>	<u>11,339,712</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 2019 in terms of this contract, details of which are set out in Note 17. 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 \$148,712.

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

Liquidity Risk

The group manages liquidity risk by monitoring forecast cash flows.

As at 30 June 2019 the consolidated entity had an amount of £4,000,000 (30 June 2018 : £5,000,000) 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.

**NOTES TO AND FORMING PART OF
THE CONSOLIDATED FINANCIAL STATEMENTS**
FOR THE YEAR ENDED 30 JUNE 2019



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 27 - MATTERS SUBSEQUENT TO THE END OF FINANCIAL YEAR

On 18 July 2019, the consolidated entity 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.

On 7 August 2019, SGZ Cononish Limited received £50,000 from Scottish Enterprise in the form of the first payment of the Regional Selective Assistance grant.

On 14 August 2019, Ian Proctor was appointed as a Non-Executive Director.

On 28 August 2019, the consolidated entity announced an increase of £1,500,000 in the amount available under the secured loan facility provided by Bridge Barn Limited and the subscription by investors, including key management personnel, for 3,285,783 new ordinary shares in the Company at a subscription price of £0.35 per share. At the same time, the terms of the secured loan facility were amended to extend the repayment period of each tranche drawn down on the facility from 24 months to 36 months

The first of five shipments of components of the processing plant to be installed at the Cononish mine arrived at Grangemouth on 28 August 2019, with all seaborne components being received by 12 October 2019.

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 voluntary liquidation of SGZ France SAS was concluded on 1 October 2019.

On 24 October 2019, the Company announced the conclusion of the thirteen new exploration agreements and the replacement of the five agreements in effect at 30 June 2019, with the effective date of these new exploration agreements being retrospective to 5 November 2018.

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**
FOR THE YEAR ENDED 30 JUNE 2019



NOTE 28 - PARENT ENTITY DISCLOSURES

Financial Position	2019	2018
	\$	\$
CURRENT ASSETS		
Cash and cash equivalents	34,988	21,367
Trade and other receivables	31,382	31,051
Total Current Assets	<u>66,370</u>	<u>52,418</u>
NON CURRENT ASSETS		
Plant and equipment	7,964	6,474
Investment in subsidiary	5,781,978	5,781,978
Loan to subsidiaries	17,830,815	22,230,646
Total Non-Current assets	<u>23,620,757</u>	<u>28,019,098</u>
TOTAL ASSETS	<u>23,687,127</u>	<u>28,071,516</u>
CURRENT LIABILITIES		
Trade and other payables	23,128	18,000
Borrowings	-	1,740,867
Total Current Liabilities	<u>23,128</u>	<u>1,758,867</u>
TOTAL LIABILITIES	23,128	1,758,867
NET ASSETS	<u>23,663,999</u>	<u>26,312,649</u>
EQUITY		
Issued capital	45,176,049	43,784,458
Reserves	339,951	134,769
Accumulated losses	(21,852,001)	(17,606,578)
TOTAL EQUITY	<u>23,663,999</u>	<u>26,312,649</u>
Financial Performance		
Loss for the year attributable to the parent	<u>4,245,423</u>	<u>1,700,475</u>
Total comprehensive loss	<u>4,245,423</u>	<u>1,700,475</u>

The loss attributable to the parent entity includes write down of loans to subsidiaries caused by subsidiary losses of \$4,368,164 (2017: \$1,205,482). During the year, the parent entity issued a guarantee to Scottish Enterprise in respect of any amounts of grants received from that entity by SGZ Cononish Limited which may become repayable (see Note 18). No grants had been received by SGZ Cononish Limited as at 30 June 2019. 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 2019 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 2019.

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

.....
RICHARD GRAY – Managing Director

Dated at Tyndrum, Scotland, this 8th day of November, 2019.

INDEPENDENT AUDITOR'S REPORT



Tel: +61 8 6382 4600
Fax: +61 8 6382 4601
www.bdo.com.au

38 Station Street
Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia

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 2019, the consolidated statement of 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 Scotgold Resources Limited, 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 2019 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* (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.

Carrying Value of Mine Development Asset

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>On 19 December 2018, the Group transferred \$15.2 million from Mineral Exploration and Evaluation, to Mine Development, following all approvals to mine having been obtained. As a result of this transfer, management performed impairment testing under AASB 136 Impairment of Assets, which involved a comparison of the recoverable amount with the carrying amount.</p> <p>This assessment was based on a discounted cash flow ('DCF') model informed by the definitive feasibility study as announced by the company.</p> <p>The use of a DCF model in the determination of recoverable amount requires management to make certain critical estimates and judgements about the future cash flows of the Cononish project. As a result of the significance of these, we considered that the carrying amount of the Mine Development expenditure asset was a Key Audit Matter.</p>	<p>Our audit procedures included, but were not limited to:</p> <ul style="list-style-type: none">• Agreeing the amount transferred to Mine Development assets to supporting documentation.• Obtaining an understanding of the process associated with the preparation of the DCF model.• Evaluating management's methodology in the DCF model and key assumptions made.• Performing sensitivity analysis in relation to the key inputs in the DCF that either individually, or collectively would be required for the Cononish Project to be impaired, and considering the likelihood of such movements.• Comparing the carrying amount of the Mine Development expenditure to the Project's calculated Net Present Value, and cross-checking this with the market capitalisation of the company.• Assessing the competency of certain experts used by management in respect of the DCF model; and• Assessing the adequacy of the related disclosures in Notes 1 and 10 to the financial statements.

INDEPENDENT AUDITOR'S REPORT



Other information

The directors are responsible for the other information. The other information obtained at the date of this auditor's report is information included in the Directors' report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly 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 on the other information obtained prior to the date of this auditor's report, 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.

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:

http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf

This description forms part of our auditor's report.

INDEPENDENT AUDITOR'S REPORT



Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included on pages 21 to 26 of the directors' report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of Scotgold Resources Limited, for the year ended 30 June 2019, 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

BDO


Phillip Murdoch

Director

Perth, 8 November 2019

SHAREHOLDER DETAILS



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	46.21%
Mr William Styslinger	5,646,400	11.54%
Mr Peter Hetherington	4,088,961	8.35%
Mr Charles Outhwaite	1,883,115	3.85%

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/wp-content/uploads/2019/11/SGZ-Corporate-Governance-Statement-FINAL.pdf>.