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Scotland set to welcome back miners

UK-based Scotgold Resources has finally delivered what looks to be a buildable mine at its Cononish gold-silver project in Scotland, though the initial operation may do more for the industry in the UK than it will for investors.

Chris Cann | 05 Aug 2015 | 13:56 | Feature



On site at Cononish in Scotland's Loch Lomond and Trossachs National Park

The bankable feasibility for Cononish was released this week, outlining a modest 23,000 ounce per annum gold-equivalent underground operation with an eight-year mine life. The cost to construct the 72,000 tonne per annum mine is estimated at £18.5 million (US\$28.9 million) with the average life-of-mine grade of 11.8 grams per tonne keeping operating costs down to an industry low US\$523/oz and all-in-sustaining-costs to \$729/oz.

The pre-tax net present value (10% discount) of the operation has been calculated as \$36 million with a pre-tax internal rate of return at 45%. The payback period is just over a year-and-a-half.

The BFS has been a long time coming – the scoping study was published in February 2009 – and finally clears the path forward for Scotgold to get on with the business of building a mine.

The timing of the BFS has not been from a lack of effort on Scotgold's behalf. The company worked tirelessly with the local community and the Loch Lomond and Trossachs National Park within which the mine is to be built, leading into its planning application, only to have its proposed mine rejected.

Having revised the proposal and resubmitted its application successfully, Scotgold was then forced to tweak its plans in line with the changing gold price environment and then collapsing equity markets. With a BFS on the table, all that stands between Scotland and a modern gold mine is a very manageable round of financing.

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It is not an insignificant milestone for the UK, coming on the back of England's first metal mine in 45 years at Hemerdon (tungsten), Devon, operated by Wolf Minerals, and planning permission being granted for Sirius Minerals' York potash project recently - also within a national park.

It signals something of a revival in mining for the British Isles and, specific to Scotland, an opportunity to realise the mineral potential that lies along trend from the gold mines of Northern Ireland, such as Galantas Gold's Omagh openpit mine.

Though the BFS is a milestone for management and potentially British mining, investors may be underwhelmed by the initial economics.

"[It] looks like some restrictions are limiting the annual throughput, including a requirement to store a portion of tailings in old stopes due to the restricted capacity of the surface tailings storage facility," Numis Securities noted.

"We think this all looks like quite hard work despite the low capex entry point, with a small operation and narrow vein, and potentially tricky, mining, there doesn't look like much room for error."

With financials based on \$1,100/oz gold and the likelihood of the mine life increasing once underground drilling fattens out the resource, investors would be hoping that the BFS is a truly base case scenario.



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
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