

The Cononish goldmine and Scotgold on the rocks – who profits and the future of the planet

Description



Herald 27th March

It is almost two years since my last post on the Cononish goldmine ([see here](#)) and five since the Loch Lomond and Trossachs National Park Authority (LLTNPA) granted it planning permission. Since the mine was first mooted there has been a steady stream of "news" stories from the owners, Australian Company Scotgold Resources Ltd, about the mine's prospects and of how well it was doing ([see here](#) for example). Those stories have frequently mentioned the potential for Scotgold to expand its mining operations across the Dalradian rocks of Scotland through its (other) subsidiary SGZ Grampian which holds 13 licenses from the Crown Estate to mine gold ([see here](#)). Most of this spin is reported uncritically by the media so the piece in the Herald (above), after Scotgold announced ([see here](#)) it maybe isn't a "going concern" after all, was not before time. This post takes a critical look at what is going on.

Scotgold's finances

Gold is inherently almost as valueless as cryptocurrencies – far more gold has been mined than will ever be needed for the manufacture of mobile phones – but has dazzled people for centuries and its lure has been used to justify almost anything, including the mine at Cononish.

Gold mining is a very risky business, requiring lots of capital investment up front and is partly a matter of luck, depending on the amount of gold that is carried in the ores. According to the Scotgold Resources website ([see here](#)), investigations at Cononish in 2015 had found 65 tonnes of proven ore reserves with a further 490 tonnes probable. The financial viability of the mine has always depended on how far the "probable" gold bearing ore delivers on its promise.

The financial viability of gold mining also depends on the price of gold on world markets. This fluctuates enormously, if not quite to the extent of cryptocurrencies, and is currently at record highs due to the current financial crisis. When the world banking system risks collapse, "gold" is seen as the only

safe investment and its price rises. The paradox is that this “safe investment” will only be safe so long as other people believe that this inherently valueless substance has value. If left alone after Armageddon, what would be more useful, a sack of gold or a sack of grain?

Nine months ago Scotgold was claiming the “cut and fill stop[e] (sic) mining” was progressing well and resulted in “record profitable gold production” of 1,984 oz of gold in April and May ([see here](#)). This was still well below what would be needed to produce the average annual production that had been predicted for the mine – 23,370oz. As recently as 30th January Scotgold was claiming to the BBC ([see here](#)) that it was about to ramp up production, that the gold vein itself, and others nearby, are “hundreds of kilometres long” and that by “the end of this year, it aims to be extracting about 2,000 ounces (57kg) of gold monthly [ie meet its original target] worth more than £3m.”

As long as Scotgold can persuade investors the mine might be about to produce enough gold to become profitable, there will be people prepared to gamble more money and ten days later, Scotgold went to the markets to raise new working capital ([see here](#)). The financial markets were not impressed and the value of Scotgold’s share declined by a third. That they were right was shown at the start of last week when Scotgold reported that in February and March “gold grades began to decline significantly” and that it is now in the process of introducing a different method of mining, “long hole stoping” ([see here](#) for an introduction to mining methods). Scotgold did not report how much gold the mine had actually produced in the last few months and unsurprisingly the share price then collapsed, not the first time this has happened.

Scotgold allowed the bad news to dribble out slowly and left it to Thursday to reveal that in the half year to December 2022 it had made losses of £5.2m (A\$9.5 million), quite a contrast to the £3m a month it had claimed it would start earning in January. The last accounts for the operating company and Scotgold’s subsidiary, SGZ Cononish Ltd ([see here](#)), for the year to 30th June 2022 are now overdue:

SGZ CONONISH LIMITED

Company number **SC569264**

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Overview

Filing history

People

Charges

More

Registered office address

**Upper Tyndrum Station, Tyndrum, Crianlarich, United Kingdom,
FK20 8RY**

Company status

Active

Company type

Private limited Company

Incorporated

21 June 2022

 **Accounts overdue**

Next accounts made up to **30 June 2022**
due by **31 March 2023**

Last accounts made up to **30 June 2021**

Confirmation statement

Next statement date **20 June 2022**
due by **4 July 2023**

Last statement dated **20 June 2021**

Without accounts, it is impossible to verify the accurateness of the various interim reports issued by the company. However, its last published accounts indicate that SGZ Cononish was in deep trouble in

June 2021. The loss for the year was £2,222,075 but what really matters is the balance sheet:

SGZ Cononish Limited

Registered number:

SC569264

Balance Sheet

as at 30 June 2021

	Notes	30 June 2021 £	30 June 2020 £
Fixed assets and debtors balances due after one year			
Intangible assets	6	19,431,882	21,278,581
Tangible assets	7	9,091,989	473,877
Debtors balances due after one year	8	857,684	853,153
		<u>29,381,555</u>	<u>22,605,611</u>
Current assets			
Inventory	9	101,672	34,796
Debtors	8	357,454	166,297
Cash at bank and in hand		364,745	368,867
		<u>823,871</u>	<u>569,960</u>
Total assets		<u>30,205,426</u>	<u>23,175,571</u>
Liabilities falling due within one year			
Creditors	10	1,577,452	828,603
Borrowings	12	3,442,165	52,688
		<u>5,019,617</u>	<u>881,291</u>
Liabilities falling due after one year			
Creditors	11	24,139,000	20,881,665
Borrowings	12	6,197,266	4,466,975
Provisions	13	493,450	367,522
Deferred taxation	14	913,631	913,631
		<u>31,743,347</u>	<u>26,629,793</u>
Total liabilities		<u>36,762,964</u>	<u>27,511,084</u>
Total assets less total liabilities		<u>(6,557,538)</u>	<u>(4,335,513)</u>
Capital and reserves			
Called up share capital	15	100	100
Profit and loss account		(6,557,638)	(4,335,613)
Shareholder's funds		<u>(6,557,538)</u>	<u>(4,335,513)</u>

Without reported intangible fixed assets of £19,431,882, SZG Cononish's liabilities would exceed £25m. So what are those intangible fixed assets? Note 6 to the accounts show that they mainly comprise "Mine Development Expenditure" and this is treated as an asset "unless a project is abandoned or considered as of no further use to the company". The moot point here is how much anyone would be prepared to pay for those intangible fixed assets given there appears to less gold ore than predicted and the mine has never reached its production targets?

With gold production and revenue stalled, what counts is working capital and, with liabilities in the last accounts increasing from £27,511,084 to £36,762,964 only investors with an enormous appetite for risk are likely to likely to take a punt. Unfortunately it is the small investors, lured by the glow of Scotgold's golden promises, who are likely to have had and to get their fingers burned.

Besides the production figures, the monitoring reports provided to the LLTNPA provide further indirect evidence that all may not be well:

<p>Mine extents survey received 11.02.22. Overlay of mine extents shows that the mine workings are not within Turquoise Line Boundary (TLB) on Fig. 13.1</p> <p>Noted that the mine extents started outwith the Turquoise Line Boundary (email R Latimer 17.08.22). No further changes to the mine plan are proposed in the next two/three years. NPA minded to treat this issue as a 'de minimis' breach via exchange of letters</p>	<p>Not in compliance</p>
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Extract from Monitoring report 23rd August 2022

Why would SGZ Cononish have extended the mine beyond the area granted planning permission if everything was going to plan?

The possible environmental consequences of Scotgold's financial difficulties

Each time Scotgold runs out of working capital, the pressure on it to cut costs also increases, hence the recent announcement that it intended to change from traditional cut and fill stope mining to long stope mining, which is cheaper. Unfortunately, the LLTNPA only publishes mine monitoring reports on its planning portal six months in arrears ([see here](#)), so the most recent available pre-dates the current crisis and the extent to which Scotgold are still abiding by the LLTNPA's planning conditions is not in the public realm. That is not in the public interest nor in the interests of those being asked to invest in the company as it helps conceal the true extent of Scotgold's liabilities – I have therefore requested the reported under Freedom of Information.

Given the lure of gold and current prices on world markets, if SGZ Cononish enters administration

another mining company might try their luck but there is a risk they could make any takeover dependant on environmental conditions being relaxed. But if not and Cononish is abandoned, the cleanup cost will be considerable.

When LLTNPA officers provided their annual report on the Cononish mine to the Planning Committee in November [\(see here\)](#) they considered “that the value of both the Restoration and Aftercare Bond and the GCGMP [Greater Cononish Glen Management Plan] Bond could be deficient to meet the anticipated cost of implementing the GCGMP and meeting the Decommissioning and Restoration Obligations”. The restoration bond was only £537,918.20 and the need for this should have been apparent for some time but the review of the amount was only due in January (again, I have requested it under FOI). Scotgold now probably doesn’t have the money to increase the bond even if it was prepared to do so meaning the public could be left with the costs of a significant clean up bill.

Gold mining is one of the world’s most destructive and unnecessary industries, as explained in this excellent [article](#). The mine at Cononish was partly justified on the grounds that it would use cleaner methods. The LLTNPA allowed, however, the dirtiest part of the process, the extraction of the gold from the concentrated ore to be exported abroad while allowing Scotgold to pioneer a new method of storing mine tailings, in stacks disguised as glacial moraine:

APPENDIX 1 – SELECTED SITE PHOTOGRAPHS



Stack 1 ongoing construction/deposition of tailings – Stack 1 at approx. 55% capacity

sideFarrar

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Cononish PMO Planning Compliance Checklist 23.08.22 FINAL

The LLTNPA has recognised some of the risks associated with this. They have set up a Habitat and

Land Management Group (whose membership and meetings are secret) to advise on habitat restoration and officers appear to be doing their best to monitor the stack construction closely (information on the stack restoration comprises a large part of the monitoring reports).



Turf placement establishing well – side of Stack 1

IronsideFarrar

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Cononish PMO Planning Compliance Checklist 23.08.22 FINAL

While so far there is no sign of the disaster that I predicted might happen, however well restored initially once created there is no escaping the longer-term forces of erosion. The consequences of compressed tailings being exposed to water – whenever this does eventually happen – would appear to be very much more severe than for normal moraine, unless the tailings set like concrete (see photo above). In that case in 200 years time Cononish Glen could be graced with some half finished concrete mounds, standing proud of the wild land round about, monuments to the human obsession with gold.

Who knows too what other horrors may emerge once the mine does stop working?

Gold mining in Scotland and public policy – what needs to happen

If we stopped extracting black gold, Scotland's oil and gas, immediately that would cause obvious problems – there needs to be a transition – but if we stopped extracting the real stuff now we would immediately reduce carbon emissions and reduce the damage to the natural environment. Moreover,

while the mine currently employs a fair number of people (c80 according to Scotgold), most are expert tunnellers whose skills could be deployed creating an alternative to the A83 under the Rest and Be Thankful and to the plans to widen the A82 along Loch Lomond.

Politically, with the Scottish Greens still partners in the Scottish Government, there is an opportunity for them to demand an end to any further gold mine development in Scotland now. As part of this, Lorna Slater, the Green MSP who has retained responsibility for National Parks in the new Scottish Government, could be seeking public assurances from the LLTNPA that they will not relax any of the planning conditions that apply to the Cononish Mine as a result of Scotgold's difficulties.

Gold mining is not mentioned in National Planning Policy Framework 4 – a serious omission – and the policy principles could be interpreted either to support it or oppose it:

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Minerals

Policy Principles

Policy Intent:

To support the sustainable management of resources and minimise the impacts of the extraction of minerals on communities and the environment.

Policy Outcomes:

- Sufficient resources are available to meet industry demands, making an essential contribution to the Scottish economy.
- Important raw materials for manufacturing, construction, agriculture, and other industries are available.
- Important workable mineral resources are protected from sterilisation by other developments.
- Communities and the environment are protected from the impacts of mineral extraction.

The effect of the policy very much depends on whether gold is regarded as an “important” mineral. My argument and one that I think needs to be pressed for nationally, is that gold is not important for industry and because of the emissions and pollution it causes, should be left below ground.

If we are to create a policy presumption against gold mining in Scotland, that means tackling private landowners, including the Royal Family and the Crown Estate, who have such influence over the Scottish Government. SGZ Cononish's last accounts do not record how much money has been paid in rent and royalties up until now but they do report how much is due in future:

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SGZ Cononish Limited
Notes to the Accounts
for the year ended 30 June 2021

Minimum certain rent payments

In terms of the lease agreement between the Company and the owners of the land on which the Cononish mine is situated, an annual rental, indexed to the Retail Price Index ("RPI") is payable annually up to 23 July 2039. The term of the mining lease was extended for a period of 9 years on 11 March 2021.

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

	£
Not later than one year	20,186
Later than 1 year but not later than 2 years	20,590
Later than 2 years but not later than 5 years	64,273
Later than 5 years	356,009
	<u>461,058</u>

Minimum royalty payments

The mining lease agreement between the Company 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. The obligation to pay the minimum royalty commenced with effect from the date of commencement of production at the Cononish mine and the amounts are payable as follows:

	£
Not later than one year	38,366
Later than 1 year but not later than 2 years	39,333
Later than 2 years but not later than 5 years	122,781
Later than 5 years	680,090
	<u>880,570</u>

Certain Rent payments

The lease agreement between the Company 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 RPI with effect from the third anniversary of such signing.

Using the expected levels of annual Royalty Rent levels set out in the latest life-of-mine model, and assuming an annual increase in the RPI of 2%, the following amounts are estimated to be payable as Certain Rent after 30 June 2021:

	£
Not later than one year	75,000
Later than 1 year but not later than 2 years	472,821
Later than 2 years but not later than 5 years	1,417,571
Later than 5 years	1,622,395
	<u>3,587,787</u>

While Cononish Farm, where the mine is located, was put up for sale in 2001 ([see here](#)) the details of who owns it and benefits from the annual rent and royalty payments are not on the Registers of

Scotland.

The Crown Estate, however, receives £150k rent each year before royalties with a quarter of this, under the agreement made between the UK Government and the Queen in 2017, goes to the Royal Family. King Charles therefore is profiting out of Cononish to the tune of a minimum of £37,500 a year raising further concerns about his credentials as an environmentalist ([see here](#)) and ([see here](#))! While not directly controlling the Crown Estate, King Charles could call of them to cease issuing any further licenses because of the environmental destruction gold mining causes. That would be entirely consistent with the call he has made today to school children to put the planet first ([see here](#)).

As for the LLTNPA, it has the opportunity to reverse past policy mistakes and give real effect to all the noises it is now making about the need to address the climate and nature emergencies. Its original Board quite rightly opposed the proposals to develop a gold mine in the National Park but then under political pressure, first a narrow majority agreed to support the original planning application for the mine and then, when the revised application was submitted, agreed unanimously to support the mine. That decision always was wrong and the current crisis affecting the mine now leaves the LLTNPA very exposed. Any reasonable public authority would now take the opportunity to admit past mistakes and initiate a public discussion with the other public authorities who went along with the mine proposal, NatureScot and SEPA, about how the public interest can now be protected.

Category

1. Loch Lomond and Trossachs

Tags

1. climate change
2. King Charles
3. landed estates
4. LLTNPA
5. natural environment
6. NatureScot
7. planning
8. Scottish Government
9. SEPA

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