

17 January 2011

LETTER TO SHAREHOLDERS

Dear Shareholder

The year 2010 has proved a challenging year for the Company. Going into 2011, we remain fully committed to our strategy in Scotland of advancing the Cononish Gold and Silver Project to production whilst continuing to explore our large, highly prospective land position around Cononish and elsewhere in Scotland which extends to some 3200km².

The scoping study on the Cononish Project completed in mid 2009 indicated positive returns using a gold price of US\$ 720/oz (GBP£450/oz). At the current gold price of around US\$1,380/oz (GBP £870/oz), the Project has the potential to generate significant cashflows for the Company and based on the 2009 study, at a gold price of US\$1,270/oz (GBP£800/oz), the Project would generate around US\$87 million (GBP £55 million) free cashflow over its lifetime. The Company is in the process of updating that study in order to advance the Project to a production decision pending planning permission.

In January 2010, subsequent to the extensive public and other consultation processes, the Company submitted its application for planning permission at Cononish. On 11 August 2010, the Parks Authority's Director of Planning recommended refusal of the application largely on landscape and visual impact issues and this refusal was upheld by a narrow margin of 12 to 10 at the National Parks Board meeting on 18 August 2010. An appeal against the refusal was lodged with the Scottish Ministers on 17 November and remains 'live' at present.

However, since 18 August, Scotgold directors have met on several occasions with senior representatives of the Parks Authority to discuss the issues surrounding their recommendation for refusal and the Company believes encouraging progress is now being made. The principal changes to the previous application would involve a reduction in the volume of the Tailings Management Facility, accompanied by some underground disposal of tailings, thereby facilitating a design which would have significantly less visual impact whilst accommodating development of the current resource at the same annual rate of production.

As a result, on 22 December, the Company submitted a Planning Application Notice to the Parks Authority indicating its intention to re-apply for planning permission. The re-application again involves the statutory 12 week period for Pre Application Consultation prior to submission subsequent to which it is likely a non binding processing agreement would be signed with the Parks Authority to indicate the likely decision date. The Company believes this could be early in Q3 2011.

In concert with progressing Cononish, the Company has been active in advancing its exploration prospects. Significant and encouraging results have been recorded over the Beinn Udlaidh area in terms of the discovery of the extension to the Beinn Udlaidh vein (now traced for 1.9km in length), the Beinn Udlaidh breccia pipe system and the Glen Orchy River Vein area. These areas will form the target for further exploration initiatives in the 2011 exploration season which are likely to include further short surface drilling, geophysical surveys and deeper diamond drilling.

2011 is likely to be a significant year for Scotgold, both in terms of the Cononish development and further exploration. We realise that your patience has been tested with the delay in progressing Cononish but believe that we are now poised to add considerable value to the Company through a successful reapplication and that further patience will be amply rewarded. We know we have the strong support of the local community and senior politicians in Scotland and the relationship with the Parks' executive has entered a new more collaborative phase, all of which gives us much greater confidence that we will have a positive result this time.

We would like to thank you for your continuing support of the Company.

The Board, Scotgold Resources.

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