



CAPITAL  
PARTNERS

07 June 2017

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<b>Ticker:</b>	WAF CN/AU	<b>(Net) cash:</b>	A\$16m	<b>Project:</b>	Sanbrado
<b>Market cap:</b>	A\$155m	<b>Price:</b>	A\$0.32/sh	<b>Country:</b>	Burkina Faso

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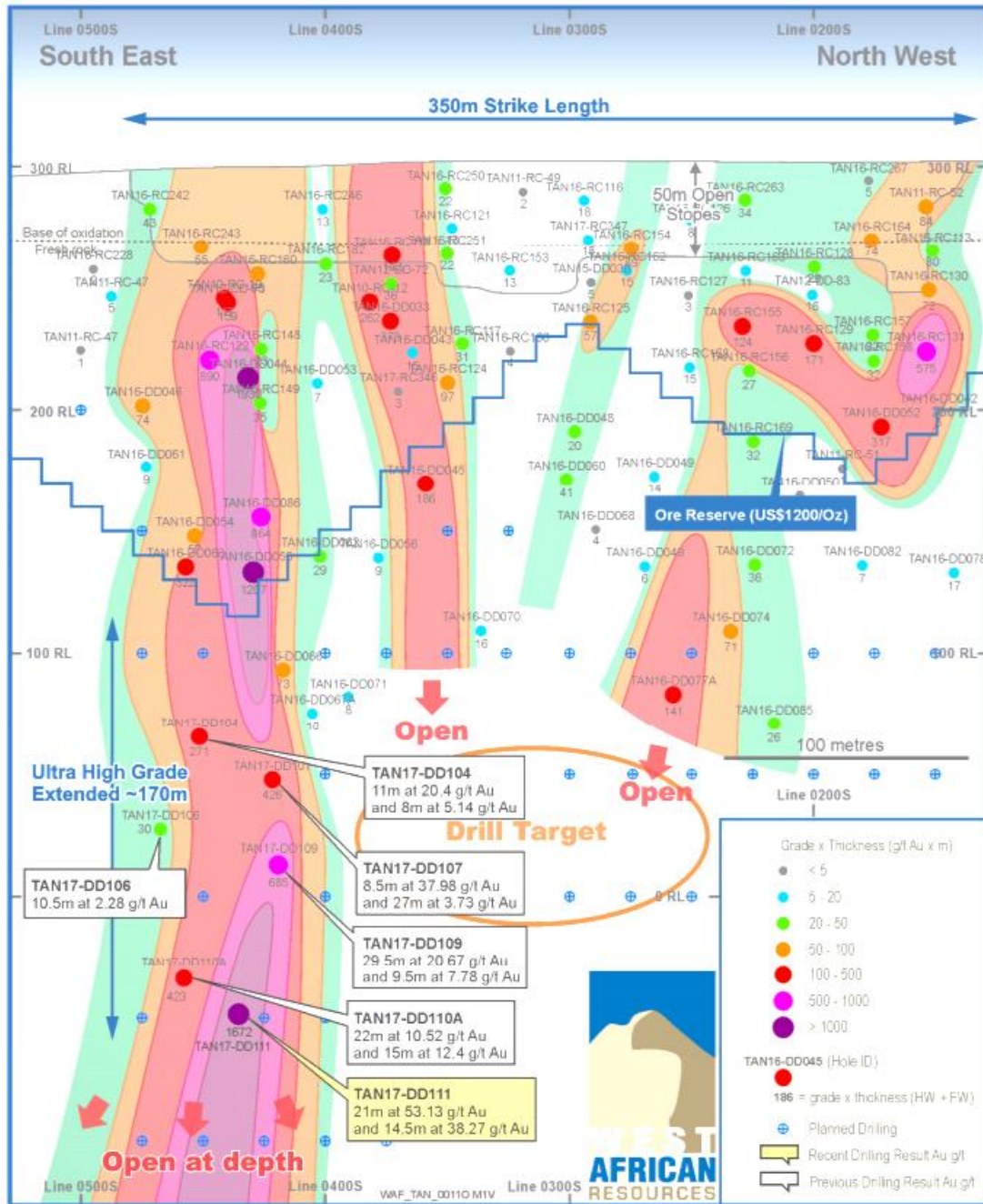
In short, given the endowment of >6,000oz per vertical meter in today's drilling, we see potential for a resource not just approaching 1Moz but materially exceeding. Both geologically (gold is disseminated and evenly distributed) and statistically (regression coefficient between duplicates of 0.9975) the ultra-high grades appear not to be nuggets at this stage, which bodes well for their inclusion in future resource updates. Looking at project valuation, we estimate that lifting from just 500koz to 1Moz, even only assuming a 500tpd / 180ktpa underground, improves the project NPV<sub>8</sub> at US\$1,280/oz from US\$290m to US\$455m. As a low capex / high IRR development project, or M&A / consolidation target (15km from B2's Toega discovery, B2's Kiaka and Orezone's Bombore project both <40km, we think the M1 South deeps discovery made just this year makes West African an exciting story to follow.

### **M1 South deepest drilling hits highest grade**

West African have released assays from hole 111, the deepest yet at M1 South, with multiple high-grade horizons summarised below, with all assays verified by a duplicate sample sent to a second lab. The company has six rigs drilling, with A\$14m cash and A\$7.5m in-the-money options expiring in 3Q17. In light of these high grade hits, a resource update will be released in 3Q17, but not a revised FS, which will be targeted for only once the extent of the high grades is better drilled and understood.

- 317m below surface: 1m @ 1,071g/t Au (including 0.5m sections at 427g/t and 1,257g/t)
- 323m below surface: 1.5m @ 10.1g/t (including 0.5m @ 20.0g/t)
- 353m below surface: 7m @ 73.1g/t Au (including 0.5m sections at 135g/t, 166g/t and 301g/t)
- 360m below surface: 1.5m @ 22.0g/t Au (including 0.5m @ 45.5g/t Au)

Figure 1 Long section of M1 South showing deep drilling released today



### Multi-million ounce potential

Based on the existing 1,400oz / vm resource to ~190m below surface, we previously estimated M1 south could host 420koz to 350m, or up to 1.4Moz to 1,050m depth (extent of Roxgold mine plan) if vertical continuity is proven. However, using today's drill results, even if the strike only continues 50m (vs. ~50-80m drilled on average), the intersections would add 6,714oz per vertical meter. Of note, this excludes the other two shoots for which visible gold has also been logged (albeit in lower concentrations) and assays are outstanding. At this endowment, 100m vertical extent would add 670koz. Of course it is unrealistic to expect these kg/tonne intervals to extend to the full strike and dip extent of the structure,

so we show the total resource potential at M1 south below sensitised to depth and vertical endowment. This shows very quickly that the 1.4Moz potential we saw could potentially extend into the multi-million ounce potential range if vertical continuity is proven. However, even though Archean orogenic deposits typically have excellent vertical continuity (unlike epithermal deposits), we would temper any enthusiasm until the deeper drilling was completed.

Resource potential (koz)	Endowment >200m below surface				
	1,400oz (existing reserve to 200m)	2,725oz	4,050oz	5,375oz	6,700oz (today's drilling)
350m (deepest drilling)	420	580	740	895	1,055
450m (potential drilling to 3Q resource)	560	850	1,145	1,435	1,725
750m (intermediate case)	980	1,670	2,360	3,045	3,735
1,050m (Roxgold mine plan limit)	1,400	2,485	3,575	4,660	5,745

**Table 1: Resource potential sensitivities to depth and vertical endowment (SCP estimate)**

### Immediate economic impact

Very simply, the project NPV of course increases with grade and depth. We previously estimated 1xNPV<sub>8%</sub> at US\$1,280/oz (post tax, discounted to build start) at US\$314-549m based on 560-1400koz ounce potential. Below, we show that at 1.5Moz, even running a small underground at 500tpd / 180ktpa, this NPV lifts rapidly over US\$500m, and given forecast AISC at a diluted 22g/t would be <US\$400/oz, a premium to this NPV could reasonably be expected.

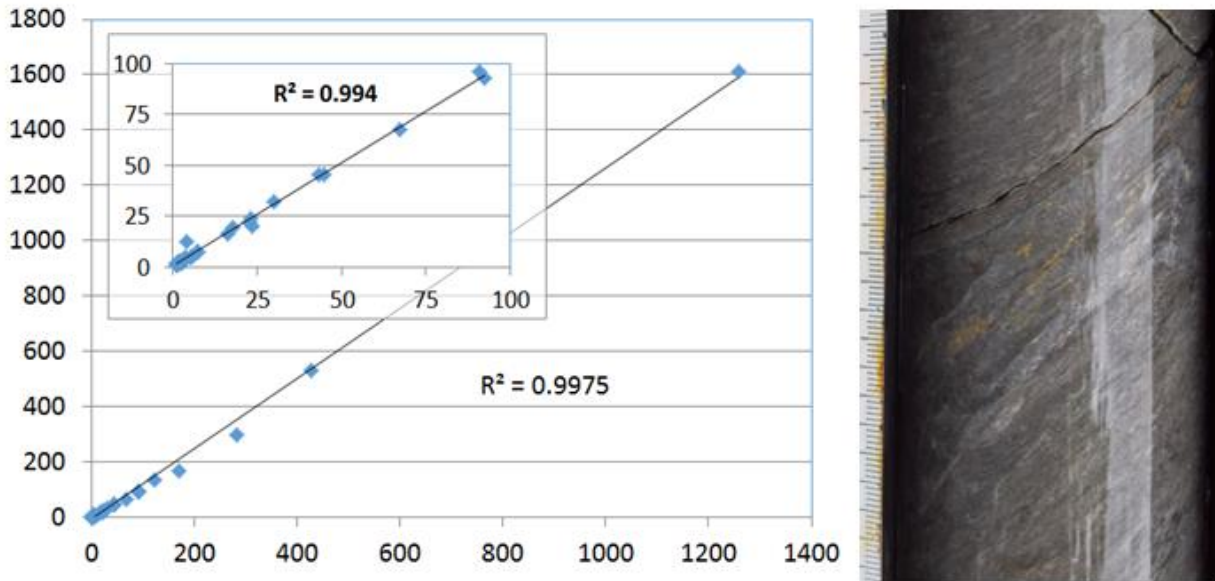
NPV8 1200 vs M1 gold (US\$m)	500koz	750koz	1000koz	1500koz	2000koz
ROM grade: 12g/t	236	287	326	356	356
ROM grade: 22g/t	290	379	455	569	660
ROM grade: 32g/t	308	424	511	674	795

**Table 2: Project valuation sensitivities to ROM grade and mining inventory (SCP estimate)**

### High grades appear 'real', not nuggets

Previous resources had been top-cut at 200g/t, which we considered the 'safe and conservative' thing to do, simply 'avoiding the debate' about the impact of extreme high grade hits. However, today's duplicate analyses on entire sections of drill core provide an good insight into the reliability of the high grade. We show the two sets of assay graphically below – at both ≤100gt, and at all grades, the regression coefficient R<sup>2</sup> (measure of linearity of two datasets) is near perfect (1.0) at >0.994. Put more simply, this shows the gold appears not to be nuggety, given that even on a multi-centimetre level (ie width of half cores) the high grades aren't coming from uncommon nuggets, but are more evenly distributed grains throughout the core, as seen geologically in fine disseminations of visible gold. While early days yet as a population of 200-600g/t samples will need to be defined before being able to be included in resource estimates, this bodes well for including the impact of higher grades.

Figure 2 Regression analysis of duplicate samples (g/t Au) and drill core showing disseminated gold



Source: SCP, West African

### Why we like West African

1. Existing compliant 246koz @ 33g/t in high grade M1 South Shoot
2. Depth extension at M1 South from drilling support 400-500koz at similar grade
3. Potential to grow to >1Moz at high grade if shoots continue to depth
4. Open pit inventories of ~800koz, plus M1 South UG, could provide 200koz pa at <US\$500/AISC

### Catalysts

- June 2017: Assay results from deep holes on 2<sup>nd</sup> and 3<sup>rd</sup> M1 South shoots
- 3Q17: Completion of 30,000m drill programme
- 2H17: Updated resource statement
- 2018: Updated FS including underground production

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