



# MINERAL RESERVE STATEMENT

Period ended 31st December 2019

## **Summary**

The reporting of Mineral Resources and Mineral Reserves of Farafina Gold Group SA (“Company” or “Group”) is conducted in accordance with the principles and guidelines contained in the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, also known as the [JORC Code](http://www.jorc.org) (<http://www.jorc.org>).

In the course of a 5-year exploration program, which Farafina commenced in 2013, the Group carried out exploration works on a territory extending over 500 square miles.

Aerial photography was taken with detailed mapping of the territory, thereby identifying areas of active artisanal activities, including historically exhausted mines. Surface mining and its traces are clear indicators of underground reserves, which were not accessible to prospectors and medieval tools. Gold-mining industry in medieval Mali, which extends through the present territory of Guinea, was the world's most developed gold mining territory at the time, and to this day the head of this kingdom called King Musa I is considered the richest man in the history of civilization.

The Group further prospected the mineralization zones in high-potential areas with subsoil geochemical sampling, pit and trench sampling, and their subsequent analysis.

Deep drilling to and through the crystalline basement included RC (reverse circulation) and DD (diamond) drilling and allowed the Company to estimate the resources of the explored deposits (about 22 tons of gold ore or 1,952,000 ounces) and their potential resources at not less than 120 tons of gold (or 5,000,000 ounces).

Based on the results of the exploration program, the Company identified approximately 3 tons of high-grade gold reserves (about 100,000 ounces) and obtained one mining license. At the Kanguela East property, the Company conducted pilot deep pit mining, which confirmed the results of the geological exploration and allowed management to refine the estimates of the reserves ready for mining.

The Company continues to explore promising horizons within the largest known auriferous Birimian Siguiri Basin and is situated within a mining region in which most of the gold mines of Guinea are located, such as Siguiri (Ashanti Goldfields) and Lefa (Nordgold) in the north and Kiniero in the southwest.

## **Integrated Mineral Resource Management**

FGG combines the most modern methods of geological exploration, including digital orthophotography and mapping, creation of a three-dimensional dynamic model of the deposit with resource estimation based on the [Micromine expert system](https://www.micromain.com/cmms-software/) (<https://www.micromain.com/cmms-software/>). This enables management to correct the work plan in real time, concentrate on high-potential areas and refine drilling depths (the FGG drilling complex provides for drilling up to the depth of 200-250 m).

The availability of a modern [Retsch](http://www.retschn.com) laboratory (<http://www.retschn.com>) sample preparation line, in concert with on-line processing of results within the model of the explored orebodies enables the management to drastically shorten the decision-making cycle based on the sample analysis results, and to refine the exploration activity plan within a week timeframe (whereas traditionally it can take from three to six months, and even more).

Data on gold grade is formed on the basis of [SGS](http://www.sgs.com) (<http://www.sgs.com>) laboratory analysis. SGS is a Swiss-based internationally certified laboratory. The regional representative office is located in Bamako, Mali.

An analogous approach is used in the course of preparation and implementation of the mining program.

The FGG mineral resources management (MRM) function is to grow mineral assets in terms of both Resources and Reserves, and to unlock value through a constant search for optimal extraction plans which yield returns in line with the corporate and business objectives.

The main objective of the MRM function is to add value to the organization, through:

- Appropriate investigation, study and understanding of the ore bodies;
- Accurate and reconcilable Mineral Resource and Reserve estimates;
- Integrated and credible short, medium and long-term plans;
- Measured and managed outputs;
- Sound management information systems.

The following figures represents the stages of the MRM process

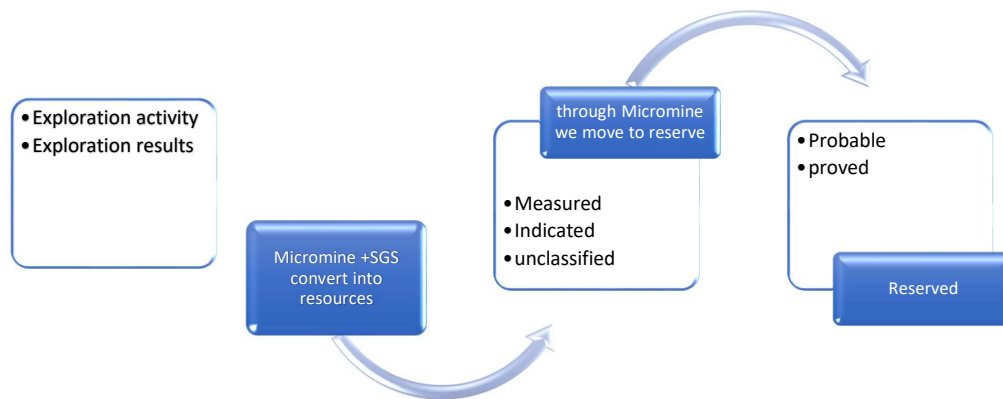


Figure 1: Key stages of FGG MRM process

Specific focus is given to standardization and the development of protocols to govern the MRM function. The Group accordingly remains committed to:

- The legislative regime that governs mineral rights ownership
- The transparent, responsible disclosure of Mineral Resources and Mineral Reserves in line with the prescribed codes, SAMREC and JORC, giving due cognizance to materiality and competency.

### **Geological exploration strategy**

The Group exploration strategy remained essentially unchanged from the previous year -- i.e. focused on the refinement of the quality of the data about the discovered reserves and preparation for mining operations.

A notable exception was the new strategic initiative pursued by the Group -- exploration mining at the Kanguela East property within the area of the existing semi-industrial mining license. In combination with intensive additional reconnaissance activities, this process enabled management to isolate the initial zone for the commencement of mining activities and develop a precise financial model thereof.

The mineral resource estimates were carried out by wireframe and block modeling methods of ore zones using Micromine software and have been classified according to the JORC. A sample of the results is presented below:

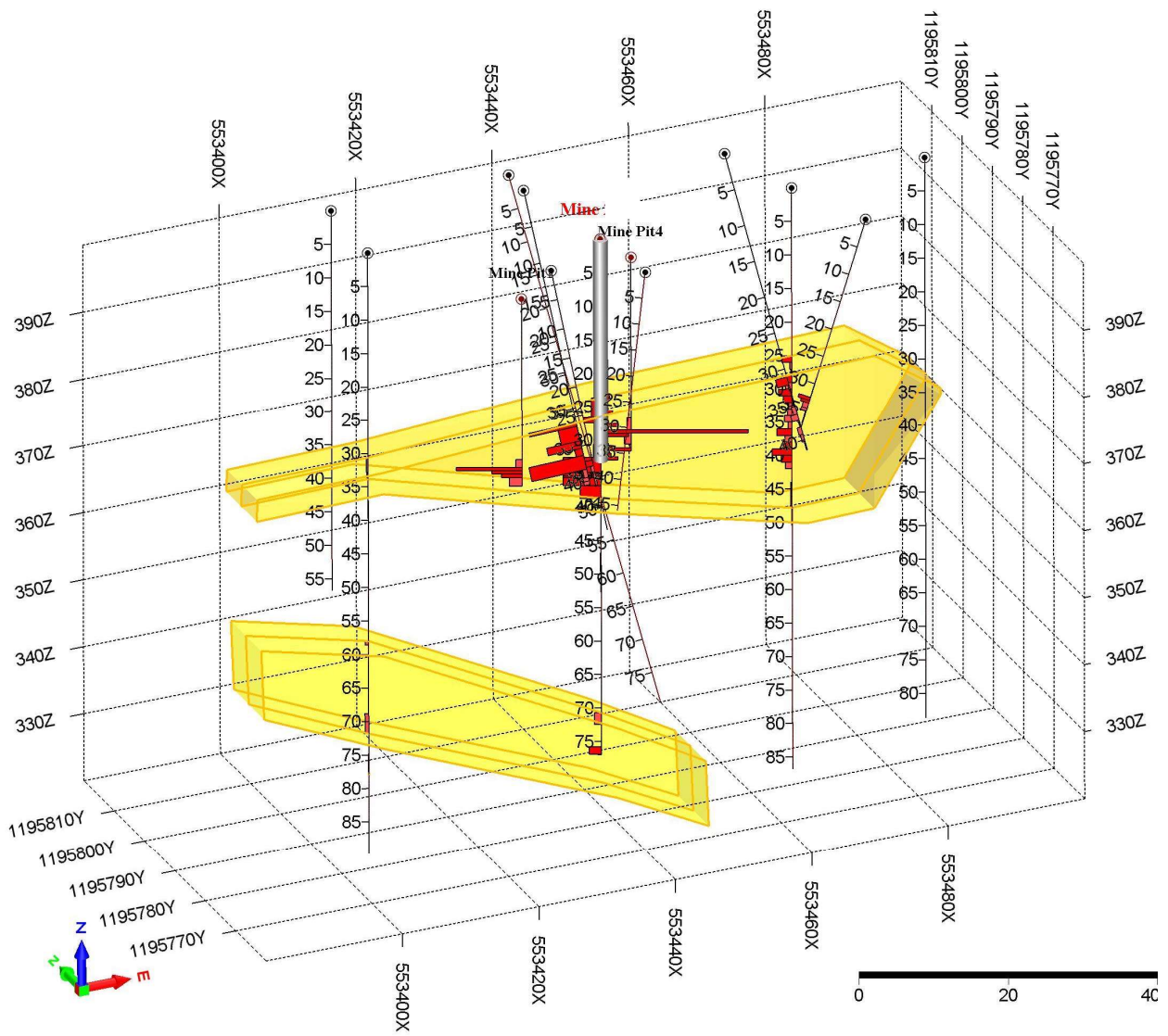


Figure 2: Wireframe model for the Gressifalani / Kanguela East ore zones (2019). Legend: N-North (green arrow), E-East (red arrow), Z-height above sea level (blue arrow)

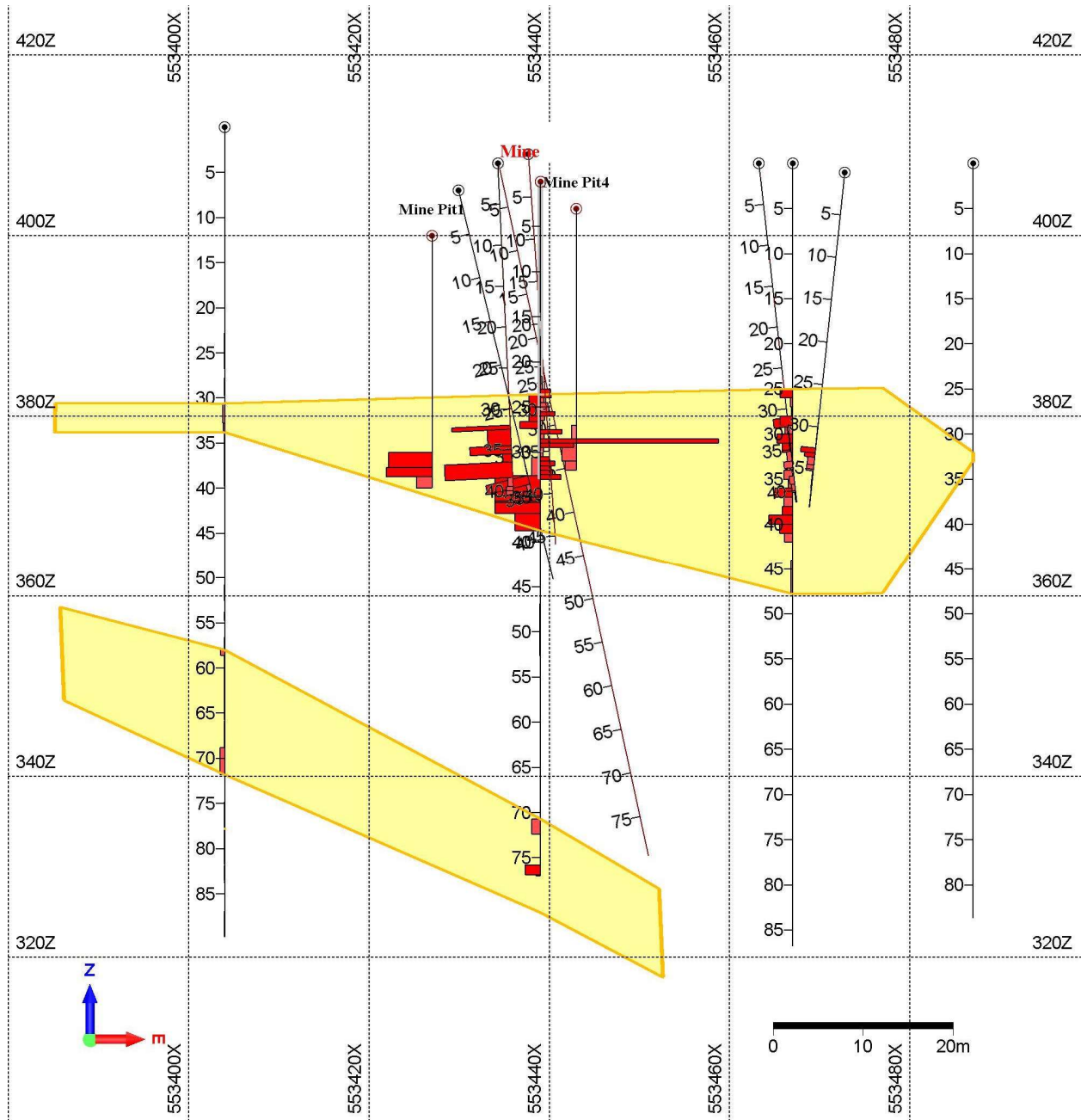


Figure 3. cross section model for the Gressifalani / Kanguela East ore zones (2019). Legend: E-East (red arrow), Z-height above sea level (blue arrow)

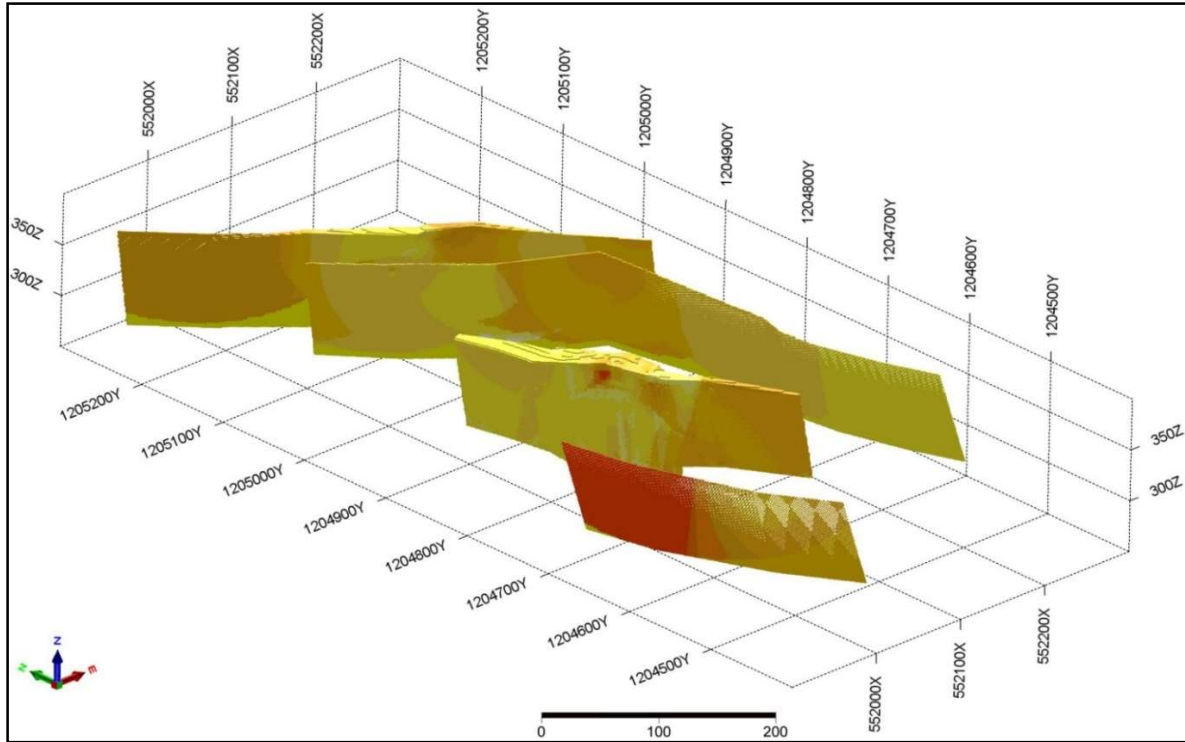


Figure 4: Block model for Wodokodoni / Kanguela East site ore zones (3D-visualization) Legend: N-North (green arrow), E-East (red arrow), Z-height above sea level (blue arrow)

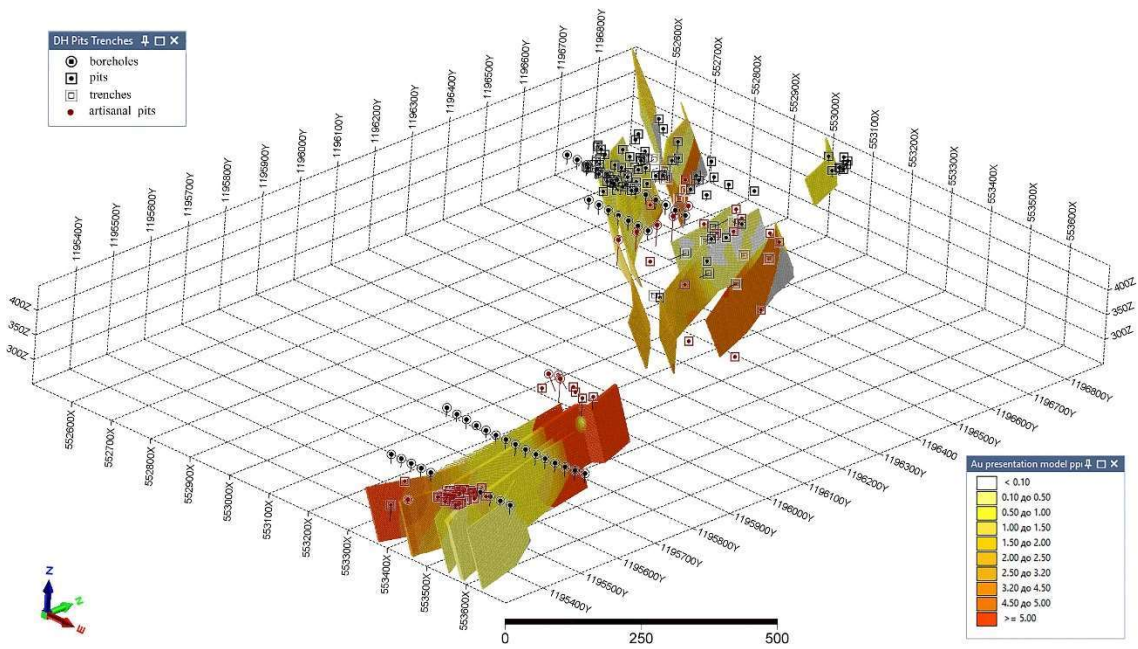


Figure 5: Block model for the Gressifalani / Kanguela East deposit ore zones (3D-visualization) Legend: N-North (green arrow), E-East (red arrow), Z-height above sea level (blue arrow)

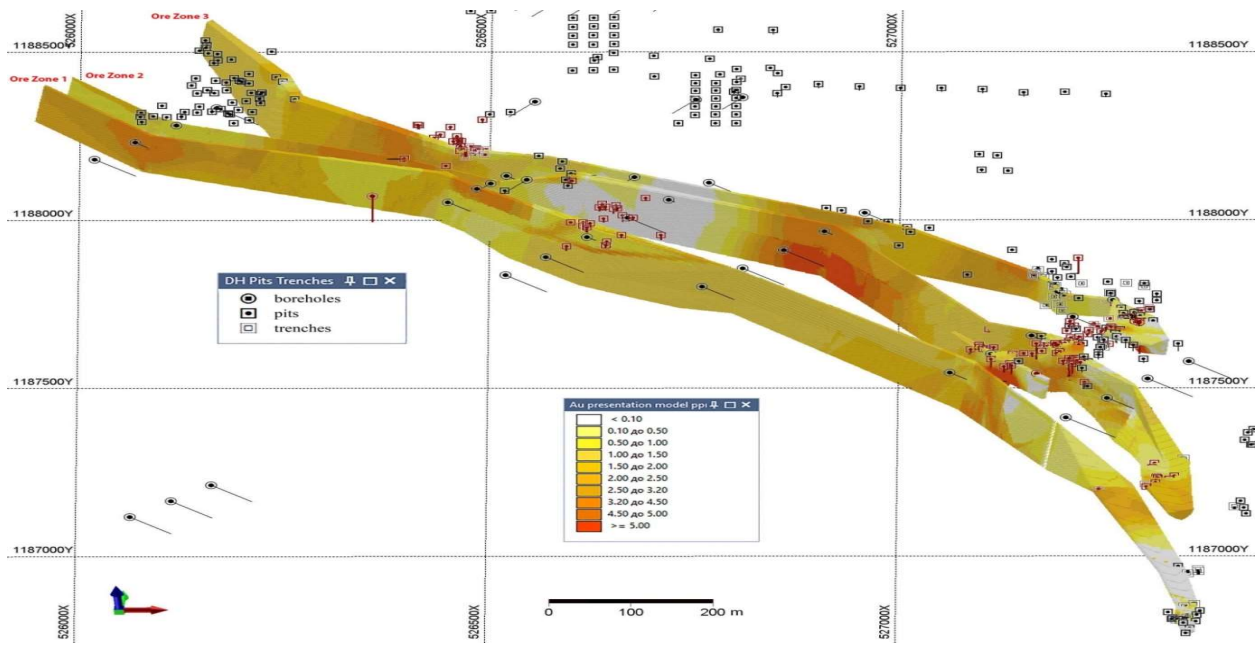


Figure 6: Block model for the Nzima / Kanguela East deposit ore zones (3D-visualization) Legend: N-North (green arrow), E-East (red arrow), Z-height above sea level (blue arrow)

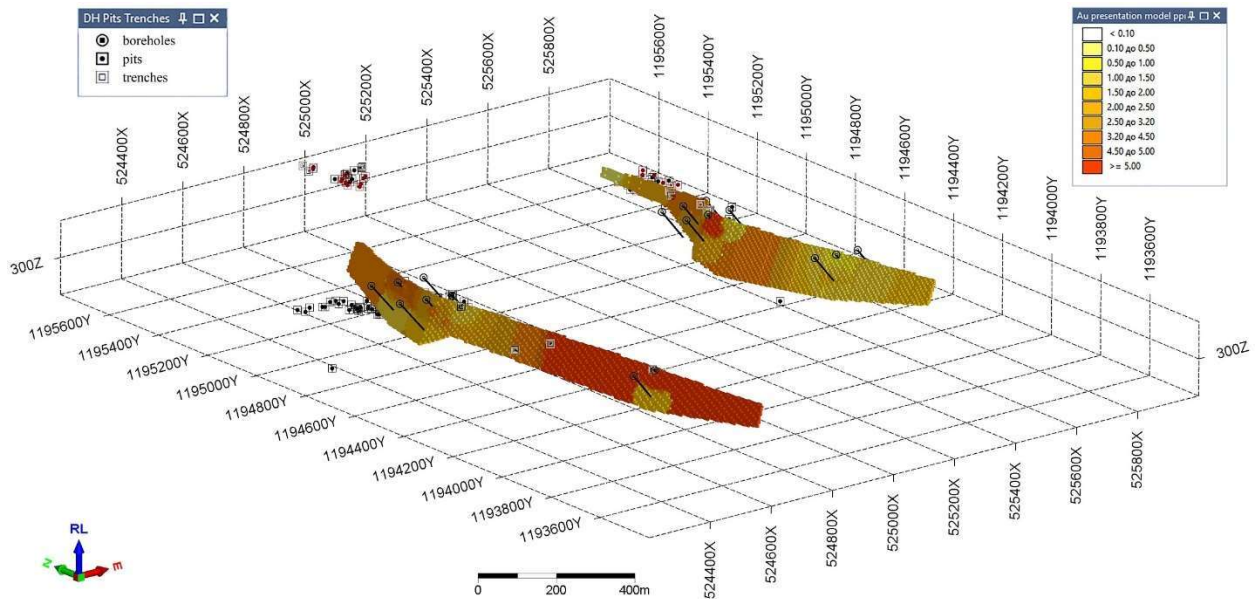


Figure 7: Block model for the Faralako North deposit ore zones (3D-visualization) Legend: N-North (green arrow), E-East (red arrow), Z-height above sea level (blue arrow)

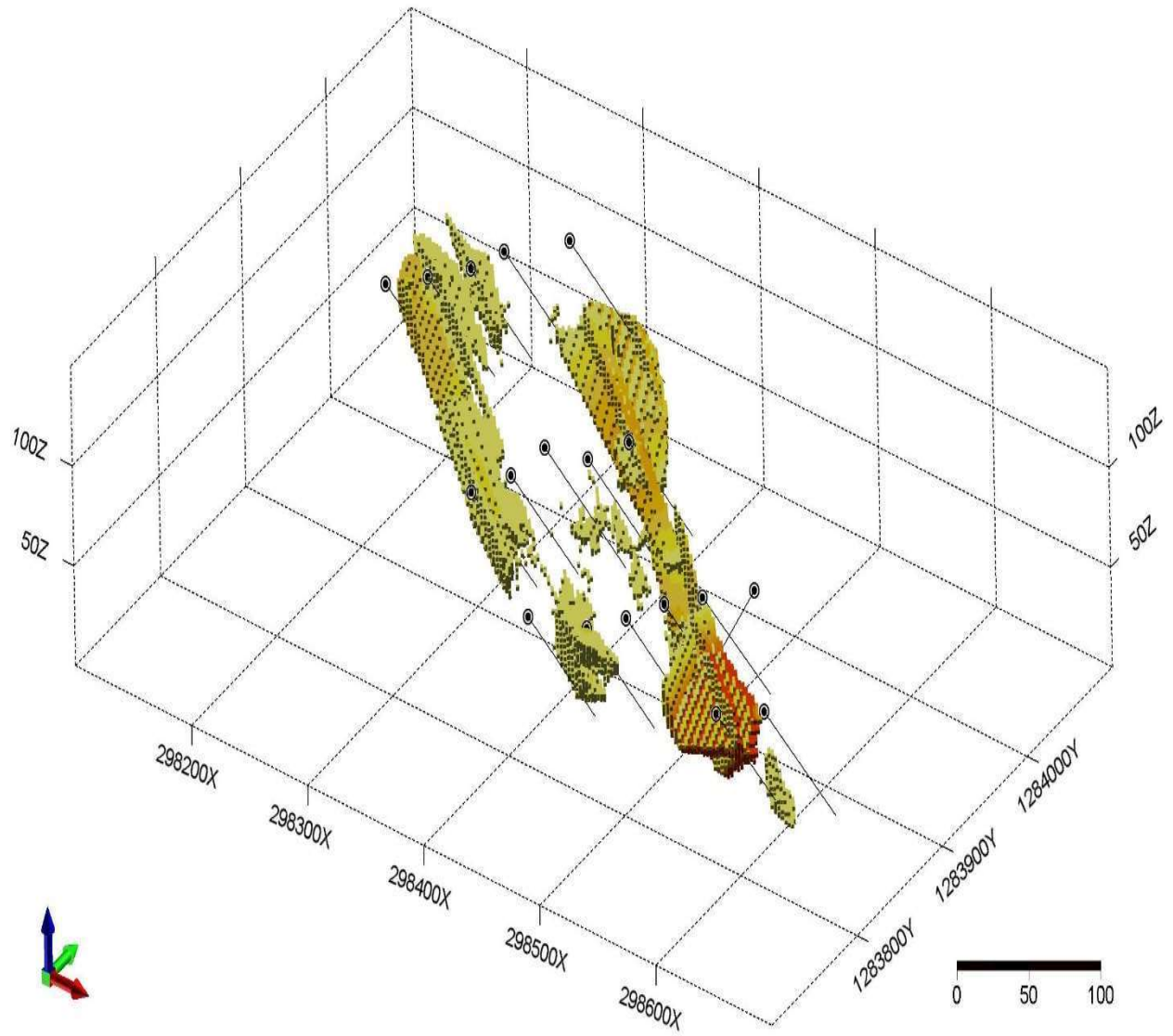


Figure 8: Block model for the Paramangui North deposit ore zones (3D-visualization) Legend: N-North (green arrow), E-East (red arrow), Z-height above sea level (blue arrow)



## Attributable Mineral Resources as of 31<sup>st</sup> December 2019

|                           |                        | Category     | Gold ore in Tonnes<br>(000s) | Grade<br>(gm/t) | Attributable Ounces<br>(000s) |
|---------------------------|------------------------|--------------|------------------------------|-----------------|-------------------------------|
| Farafina Resources SARL   | (Nzima), kOuz          | Measured     | -                            |                 |                               |
|                           |                        | Indicated    | 1,755                        | 2.3             | 130                           |
|                           |                        | Inferred     | 3,619                        | 1.7             | 199                           |
|                           |                        | Unclassified | 3,482                        | 2.0             | 224                           |
|                           |                        | <b>Total</b> | <b>8,856</b>                 | <b>2.0</b>      | <b>553</b>                    |
| Lions Head Resources SARL | (Kanguela East), kOuz  | Measured     | 63                           | 19.8            | 40                            |
|                           |                        | Indicated    | 506                          | 1.2             | 45                            |
|                           |                        | Inferred     | 2,270                        | 4.8             | 283                           |
|                           |                        | Unclassified | 3,226                        | 2.6             | 322                           |
|                           |                        | <b>Total</b> | <b>6,065</b>                 | <b>3.6</b>      | <b>690</b>                    |
| Tiger Resources SARL      | (Faralako North), kOuz | Measured     | -                            | -               | -                             |
|                           |                        | Indicated    | 132                          | 6.6             | 28                            |
|                           |                        | Inferred     | 1,546                        | 2.9             | 142                           |
|                           |                        | Unclassified | 2,675                        | 4.8             | 416                           |
|                           |                        | <b>Total</b> | <b>4,353</b>                 | <b>4.3</b>      | <b>586</b>                    |
| Lions Head Resources SARL | (Paramangui), kOuz     | Measured     | -                            | -               | -                             |
|                           |                        | Indicated    | -                            | -               | -                             |
|                           |                        | Inferred     | -                            | -               | -                             |
|                           |                        | Unclassified | 3,000                        | 1.3             | 125                           |
|                           |                        | <b>Total</b> | <b>3,000</b>                 | <b>1.3</b>      | <b>125</b>                    |
| <b>ALL</b>                |                        | <b>TOTAL</b> | <b>22,236</b>                | <b>1.3</b>      | <b>1,954</b>                  |

Table 1: Attributable Mineral Resources as of 31<sup>st</sup> December 2019

As illustrated in the table above, deep exploration increased resources in both Kanguela East by 255,000 ounces (two hundred and fifty-five thousand ounces) and Faralako North by 470,000 ounces (four hundred and seventy thousand ounces) during the year 2019.

Attributable Mineral Reserves as of 31<sup>st</sup> December 2019;

| Site     | Category            | Gold ore in Tonnes (000s) | Grade (gm/t) | Attributable Ounces (000s) |
|----------|---------------------|---------------------------|--------------|----------------------------|
| Nzima    | Probable            | 1,116                     | 2.17         | 77                         |
| Kanguela | Proved and Probable | 361                       | 19.80        | 50                         |
|          | <b>TOTAL</b>        | <b>1,477</b>              | <b>2.68</b>  | <b>127</b>                 |

Table 2. Attributable Mineral Reserve as of 31<sup>st</sup> December 2019

Note:

- Attributable Mineral Reserves are expressed in tonnes; Gold ounces are based on the Farafina Gold Group SA equity interest.
- These are summary estimates and inaccuracy are derived from the rounding of numbers
- The Mineral Reserves are located within quartz veins and vein zones of mineralization in meta-sedimentary rocks and weathering crusts.

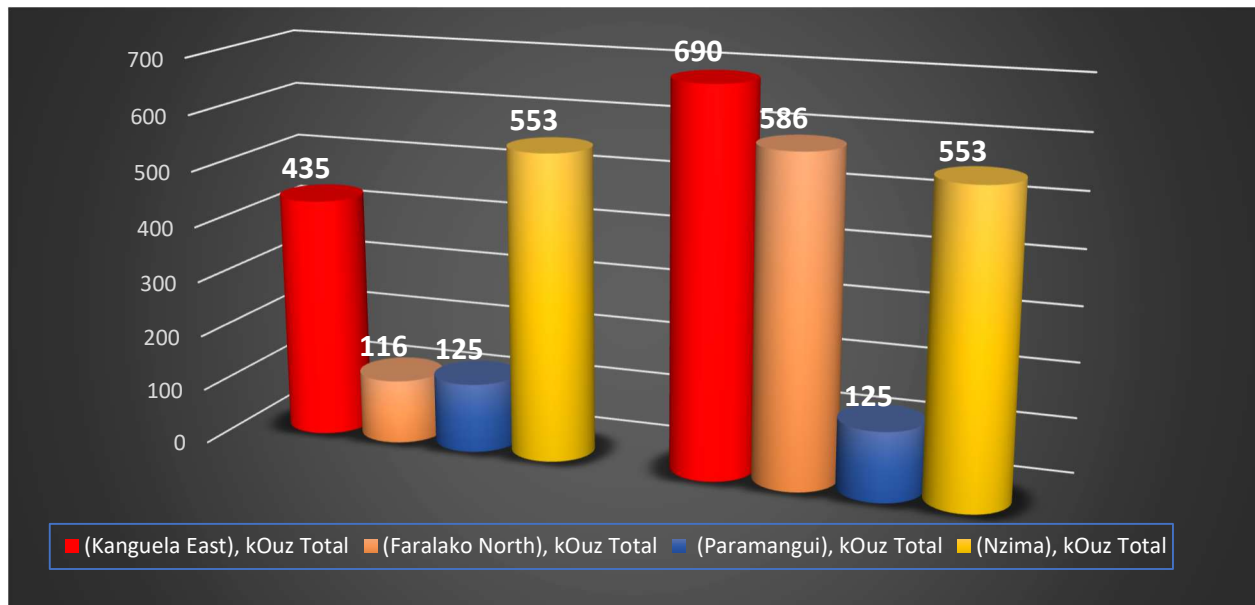
Indicated, inferred and unclassified resources are based on extensive drilling, sampling, mine modeling and metallurgical testing. Metallurgical recovery rates vary depending on the metallurgical properties of each deposit and the production process used. The cut-off grade, or lowest grade of mineralization considered economic to process, varies with material type, price, operating costs and co- or by-product credits.

The indicated, inferred and unclassified mineral properties figures presented herein are estimates based on information available at the time of calculation. Mineral properties estimates may require revision based on actual production. Market fluctuations in the price of gold as well as increased production costs or reduced metallurgical recovery rates, could render certain mineral properties containing higher cost resources uneconomic to exploit and might result in a reduction of mineral assets.

Dynamic table of increase in resources and reserve from 31<sup>st</sup> December 2018 to 31<sup>st</sup> December 2019:

|                           |                        | As of 31 <sup>st</sup> December, 2018 |                            | As of 31 <sup>st</sup> December, 2019 |                            |            |
|---------------------------|------------------------|---------------------------------------|----------------------------|---------------------------------------|----------------------------|------------|
|                           | Category               | Gold ore in Tonnes (000s)             | Attributable Ounces (000s) | Gold ore in Tonnes (000s)             | Attributable Ounces (000s) |            |
| Farafina Resources SARL   | (Nzima), kOuz          | Measured                              |                            | -                                     |                            |            |
|                           |                        | Indicated                             | 1,755                      | 130                                   | 1,755                      | 130        |
|                           |                        | Inferred                              | 3,619                      | 199                                   | 3,619                      | 199        |
|                           |                        | Unclassified                          | 3,482                      | 224                                   | 3,482                      | 224        |
|                           |                        | <b>Total</b>                          | <b>8,856</b>               | <b>553</b>                            | <b>8,856</b>               | <b>553</b> |
| Lions Head Resources SARL | (Kanguela East), kOuz  | Measured                              |                            | 63                                    | 40                         |            |
|                           |                        | Indicated                             | 466                        | 18                                    | 506                        | 45         |
|                           |                        | Inferred                              | 2,532                      | 160                                   | 2,270                      | 283        |
|                           |                        | Unclassified                          | 3,000                      | 258                                   | 3,226                      | 322        |
|                           |                        | <b>Total</b>                          | <b>5,998</b>               | <b>435</b>                            | <b>6,027</b>               | <b>690</b> |
| Tiger Resources SARL      | (Faralako North), kOuz | Measured                              |                            | -                                     | -                          |            |
|                           |                        | Indicated                             | -                          | -                                     | 132                        | 28         |
|                           |                        | Inferred                              | -                          | -                                     | 1,546                      | 142        |
|                           |                        | Unclassified                          | 1,800                      | 116                                   | 2,675                      | 416        |
|                           |                        | <b>Total</b>                          | <b>1,800</b>               | <b>116</b>                            | <b>4,353</b>               | <b>586</b> |
| Lions Head Resources SARL | (Paramangui), kOuz     | Measured                              | -                          | -                                     | -                          | -          |
|                           |                        | Indicated                             | -                          | -                                     | -                          | -          |
|                           |                        | Inferred                              | 3,000                      | 125                                   | -                          | -          |
|                           |                        | Unclassified                          |                            |                                       | 3,000                      | 125        |
|                           |                        | <b>Total</b>                          | <b>3,000</b>               | <b>125</b>                            | <b>3,000</b>               | <b>125</b> |
| <b>ALL</b>                | <b>TOTAL</b>           | <b>19,654</b>                         | <b>1,229</b>               | <b>22,236</b>                         | <b>1,954</b>               |            |

Table 3: Dynamic table of increase in resources and reserves from 31<sup>st</sup> December 2018 to 31<sup>st</sup> December 2019:



*Figure 9. Dynamic progress chart of resources from 31st December 2018 to 31st June 2019*

As reflected on the chart above, in the course of exploration activities pursued during the year ending 31<sup>st</sup> December 2019 on Kanguela East and Faralako North properties, increased in the Group's mineral assets value was significant.

The financial valuation of the Farafina Gold Group mineral assets is based on the method established by the academic paper "What are in-situ gold resources worth? An empirical study" (<https://docplayer.net/15169054-What-are-in-situ-gold-resources-worth-an-empirical-study.html>), which provides the most realistic methodology for valuation of mineral reserves and complies with industry best practices.

The valuation presented herein is based on the market price assumption of approximately \$1,000 per ounce. The current market price is approximately \$1,500 per ounce, which implies a 50% discount. (In reality, the profitability of gold production operations is not linear with the market price of gold, since production margins are determined by the difference between the market price and the much lower average production cost. In a bullish gold market, mining margins of gold producers often expand).

Based on the referenced paper:

- Indicated resources are classified as medium-grade – more than 1 million ounces (1 000 000 ounces);
- Reserves are classified as low-grade (less than 3 g/t), based on a conservative estimate (high-grade sites are evaluated separately, considering the mining plan and economic model);
- The region is considered high-risk

Based on the above assumptions, the Company gold resources and reserves may be valued at approximately \$46.32 per ounce. Since the licensed territories, except for Paramangui, are located on neighboring tracts (some are directly adjoined), the following valuation parameters of Group resources are presumed to be accurate:

## Economic Growth of Mineralized Assets Resources

| Category               | As of 31st December, 2018  |                            |                | As of 31st December, 2019 |                            |                    |               |
|------------------------|--|----------------------------|----------------|---------------------------|----------------------------|--------------------|---------------|
|                        | Gold ore in Tonnes (000s)  | Attributable Ounces (000s) | Cost USD (000) | Gold ore in Tonnes (000s) | Attributable Ounces (000s) | Value in USD (000) |               |
| (Nzima), kOuz          | Measured   |                            |                | -                         |                            |                    |               |
|                        | Indicated  | 1,755                      | 130            | 5,451                     | 1,755                      | 6,011              |               |
|                        | Inferred   | 3,619                      | 199            | 8,357                     | 3,619                      | 9,216              |               |
|                        | Unclassified   | 3,482                      | 224            | 9,404                     | 3,482                      | 10,371             |               |
|                        | <b>Total</b>   | <b>8,856</b>               | <b>553</b>     | <b>23,211</b>             | <b>8,856</b>               | <b>553</b>         | <b>25,598</b> |
| (Kanguela East), kOuz  | Measured (converted into reserve with different economical value. Ref. next table) |                            |                | 63                        | 40                         |                    |               |
|                        | Indicated  | 466                        | 18             | 755                       | 506                        | 2,084              |               |
|                        | Inferred   | 2,532                      | 160            | 6,701                     | 2,270                      | 13,109             |               |
|                        | Unclassified   | 3,000                      | 258            | 10,816                    | 3,226                      | 14,915             |               |
|                        | <b>Total</b>   | <b>5,998</b>               | <b>435</b>     | <b>18,273</b>             | <b>6,065</b>               | <b>690</b>         | <b>30,108</b> |
| (Faralako North), kOuz | Measured   |                            |                | -                         | -                          |                    |               |
|                        | Indicated  | -                          | -              |                           | 132                        | 28                 | 1,297         |
|                        | Inferred   | -                          | -              |                           | 1,546                      | 142                | 6,562         |
|                        | Unclassified   | 1,800                      | 116            | 4,861                     | 2,675                      | 416                | 19,281        |
|                        | <b>Total</b>   | <b>1,800</b>               | <b>116</b>     | <b>4,861</b>              | <b>4,353</b>               | <b>586</b>         | <b>27,139</b> |
| (Paramangui), kOuz     | Measured   | -                          | -              |                           | -                          | -                  |               |
|                        | Indicated  | -                          | -              |                           | -                          | -                  |               |
|                        | Inferred   | 3,000                      | 125            | 5,266                     | -                          | -                  |               |
|                        | Unclassified   |                            |                |                           | 3,000                      | 125                | 5,808         |
|                        | <b>Total</b>   | <b>3,000</b>               | <b>125</b>     | <b>5,266</b>              | <b>3,000</b>               | <b>125</b>         | <b>5,808</b>  |
| <b>ALL</b>             | <b>TOTAL</b>   | <b>19,654</b>              | <b>1,229</b>   | <b>51,611</b>             | <b>22,274</b>              | <b>1,954</b>       | <b>88,653</b> |

Table 4: Economic valuation changes from Dec. 31st, 2018 to period ending 31st December 2019

The main achievement of FGG in the year 2019 was the conversion of a part of the Group resources (38,000-thirty thousand ounces) to highly reliable reserves, which, taking into account the economic justification, enables management to value them at gold price range of about \$700 per ounce to \$1,500 per ounce, which led to the estimated increase in company valuation of more than \$ 26 million (Table found Below)

### Economic Value of converted minable proven reserves

| Site  | Category     | Tonnes (000s) | Attributable Ounces (000s) | Value in USD (000) |
|---|--------------|---------------|----------------------------|--------------------|
| Lions Head Resources SARL (Kanguela East), kOuz | Measured     | 63            | 38                         | 26,600             |
|   | <b>TOTAL</b> | <b>63</b>     | <b>38</b>                  | <b>26,600</b>      |

Table 5: Economic Valuation of minable proven reserves

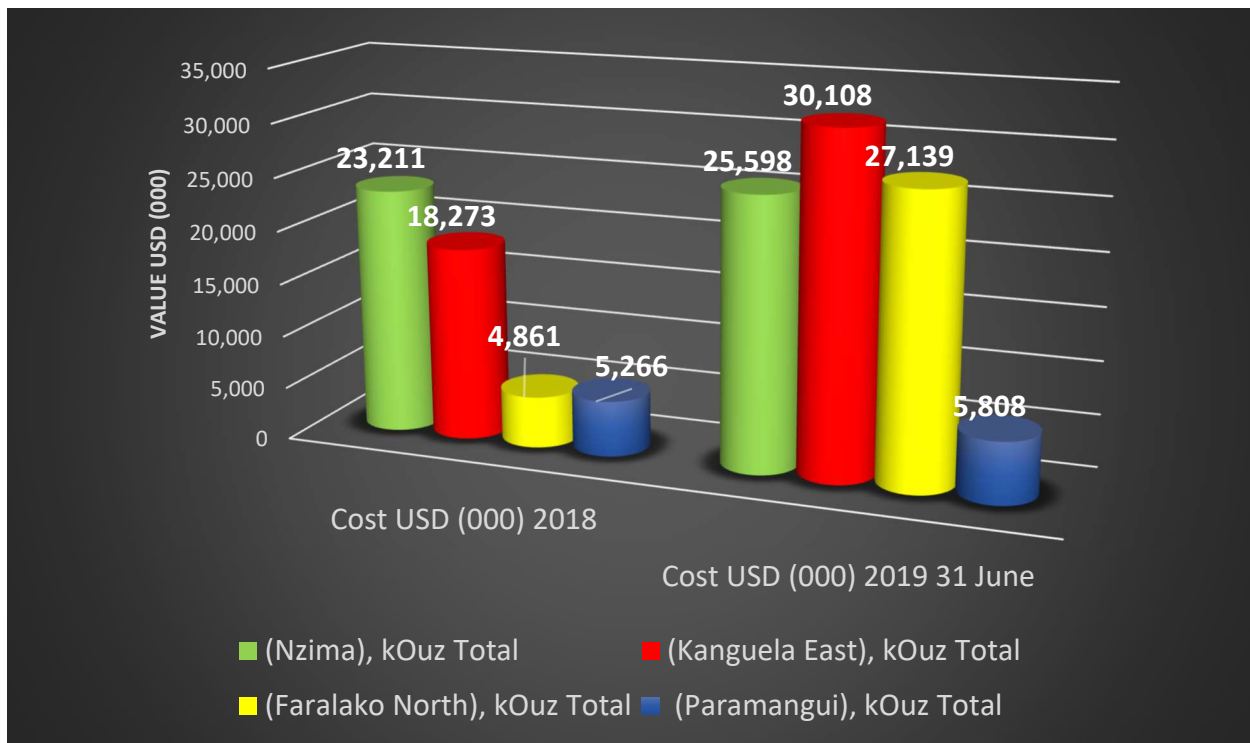


Figure 10. Dynamic Chart of increase in metal value from 31<sup>st</sup> December 2018 to the period ending 31<sup>st</sup> December 2019

#### Depletion of reserves:

At the end of 2019, the Group commenced production on Kanguela east site, from which a total of 63 ounces (1.960KG) of gold was extracted from reserves of 38,000 ounces (1,189.93KG). The extracted amount represents 0.1659% of total reserves.

| State   | Attributable in Ounces |
|---|------------------------|
| Increase of mineral reserve for the period 2019 | 38,000                 |
| Gold extracted                                  | 63                     |
| Mineral reserve balance for the period 2019     | 37,937                 |

#### Note

A *mineral reserve* is the economically mineable when part of a measured or indicated mineral resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified. Resources which are not reserves do not have demonstrated economic viability and therefore are not measured in this balance.

#### Determination:

The term “economically,” as used in the definition of reserve, means that profitable extraction or production has been established or analytically demonstrated in a feasibility study to be viable and justifiable under reasonable investment and market assumptions.

The term “legally,” as used in the definition of reserve, does not imply that all permits needed for mining and processing have been obtained or that other legal issues have been completely resolved. However, for a reserve to exist, FGG must have a justifiable expectation, based on applicable laws and regulations, that issuance of permits or resolution of legal issues necessary for mining and processing at a particular deposit will be accomplished in the ordinary course and in a timeframe consistent with FGG current mine plans.

The term “inferred mineral resources” means that part of mineral resource for which tonnage, quantity and grade or quality can be estimated on the basis of geological evidence, sampling and reasonably assumed, but not verified, geological and grade continuity. The estimate is based on limited information and sampling gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes.

The term “An indicated mineral resource” is that part of a mineral resource for which tonnage, quantity, grade or quality, densities, shape and physical characteristics, can be estimated with a level of confidence sufficient to allow the appropriate application of technical and economic parameters, to support mine planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough for geological and grade continuity to be reasonably assumed.

The term “proven reserves” means reserves for which (a) quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes; (b) grade and/or quality are computed from the results of detailed sampling; and (c) the sites for inspection, sampling and measurements are spaced so closely and the geologic character is sufficiently defined that size, shape, depth and mineral content of reserves are well established.

The term “probable reserves” means reserves for which quantity and grade are computed from information similar to that used for proven reserves, but the sites for sampling are farther apart or are otherwise less closely spaced. The degree of assurance, although lower than that for proven reserves, is high enough to assume continuity between points of observation. FGG classifies all reserves as Probable on its development projects until a year of production has confirmed all assumptions made in the reserve estimates.

Proven and probable reserves were calculated using different cut-off grades. The term “cut-off grade” means the lowest grade of mineralized material considered economic to process. Cut-off grades vary between deposits depending upon prevailing economic conditions, mine ability of the deposit, by-products, amenability of the ore to gold extraction and type of milling or other facilities available.