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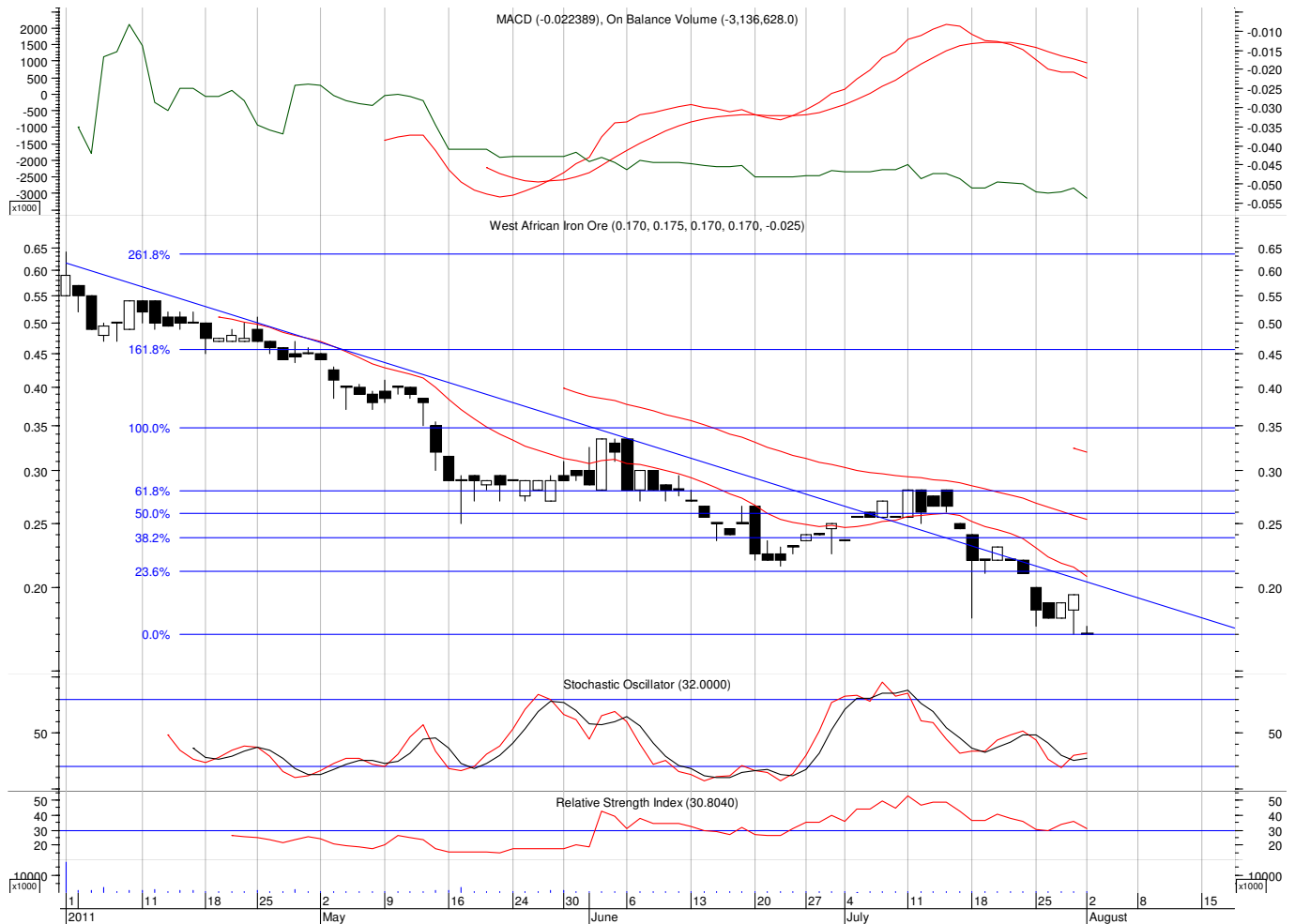
YE Apr30 Δ: '96 116.9%; '97 28.1%; '98 36.4%; '99 39.4%; '00 180.9%; '01 -50.5%; '02 18.7%; '03 28.8%; '04 166.7%; '05 28.2%; '06 153.3%; '07 8.8%; '08 -25.2%; '09 -50.3%; '10 162.3%; '11 2.6%

## Junior Gold and Natural Resource Sector Report

August 2, 2011

### West African Iron Ore (WAI-TSX Venture)

#### UPDATE REPORT



**Daily chart: High \$0.64, Low \$0.17, Last \$0.17**

West African Iron Ore (WAI), formerly known as Westward Explorations, is a recently-formed exploration-stage iron ore junior in the Republic of Guinea, West Africa. WAI started trading on April 1, 2011 at a healthy premium to its pre-halt shell price, but has since seen relentless selling pressure and set an all-time new low of \$0.17 today. The company completed a \$12.6 million funding at \$0.28 per unit and acquired their project on April 1<sup>st</sup>. They started the process of gaining market awareness with a promising business plan, management group, and savvy financial backers and strategists. That financing's shares and warrants came free trading today.

A corporate update released today stated that the drilling program is behind schedule, due to unusual heavy rainfall in the area, and is now expected to lead to a resource estimate in Q1 2012. The COO resigned and a new Country Manager was appointed. Also, a two-year tenement extension has been applied for from the Minister of Mines and Geology effective October 2011.

Results from the high-resolution aeromagnetic survey on the Kerouane permit are expected any day now, and a NI43-101 report will then be completed. Preliminary interpretation shows cumulative strike of iron formations to be approximately 15km in length and ranging from 200m to 1km in width.

The Forécariah tenement saw first phase drilling of a 15,000m diamond/reverse circulation drill program commence in April, of which 2200m of diamond and 1590m of reverse circulation has been completed. Early indications confirm that the Forécariah tenement magnetite iron mineralization can be turned into a high Fe concentrate of 63% Fe.

According to nearby mine developer Bellzone Mining's press release of July 4th, 2011 "Route of the first 74km of the railway from the proposed port of Matakan to Moussaya has been agreed in principle with the Government." "As per the definitive agreements signed with CIF (Chinese International Fund Joint Venture) in August 2010, CIF have agreed to fund and develop the multi-user infrastructure required to support the export of iron ore from the Kalia Mine Project and other projects that will be developed in the area."

The majority of the proposed first 74km railway runs directly through WAI's Forécariah Permit. Bellzone and the CIF have selected the Matakang Deep Sea Port. This location is some 40km from WAI's main targets area such as Sambalama and Kalyadi.

### **Review**

We issued our Initial Report on WAI back on April 26. The GSW Model Portfolio holds 400,000 shares at a \$0.46 average cost. 150,000 of those shares were accumulated mid-2008 when WAI was still a shell named Westward, looking for a meaningful project. The shares resumed trading on April 1 and closed at \$0.59 with 18.1 million shares traded. The share price hit a high of \$0.64 on the first day of trading. With the share price now trading at \$0.17 we are considering the merits of averaging down.

CEO Guy Duport's Sky Alliance is the company's largest shareholder controlling 24.5 million shares for a 14% interest. Sam Magid's Peninsula Merchant Syndications, a Vancouver investment company, is the second-largest with 16.92 million shares. Although Vancouver financier Frank Giustra has no formal role with WAI, three of WAI's directors, Paul Matysek, Harald Ludwig and Craig Angus, were nominated by Westward, his group's shell company. Mr. Giustra shows as WAI's third largest shareholder controlling 16.275 million shares through one of his charities, the Radcliffe Foundation.

WAI holds two iron ore permits in Guinea, the Forécariah permit and the Kerouane permit. The company's Forécariah iron ore mineral project is located approximately 90km from Conakry, the capital city of Guinea. An exploration target size of between 2.9 and 5.1 billion tonnes has been estimated for the two largest targets, Kalyadi and Sambalama. An average grade of 36% Iron (Fe) was calculated on 186 surface samples within mineralized units in the Forécariah Project, while an average grade of 39% Fe was obtained on 78 surface samples from the Kalyadi and Sambalama targets.

WAI has also been granted exploration rights for a three-year period over iron deposits in an area covering 500 km<sup>2</sup> in the prefecture of Kerouane. The Kerouane project is located approximately 400 km from Forécariah. The company committed spending approximately \$3.4 million on a Phase I exploration program on the territory covered by the Forécariah permits.

### **Background**

The iron ore price has tripled in the last few years as supply has outstripped the ability of the mining industry to deliver enough iron ore. Iron ore demand is forecast to continue to grow strongly.

According to a recent *Reuters* article, major mining companies such as Rio Tinto, Vale, BHP Billiton and ArcelorMittal have committed to spending plans totaling US\$14 billion to develop iron ore projects throughout West Africa, deemed by many to be iron ore's new frontier. Sierra Leone, Liberia, Cameroon, Gabon and Ivory Coast are all home to significant iron deposits, with Guinea widely considered to be the centre of the action.

There are currently three large iron mining companies developing mines or exploring in the country. One of those companies – Rio Tinto – is planning development of an iron mine with a proposed rail line that would cross the WAI

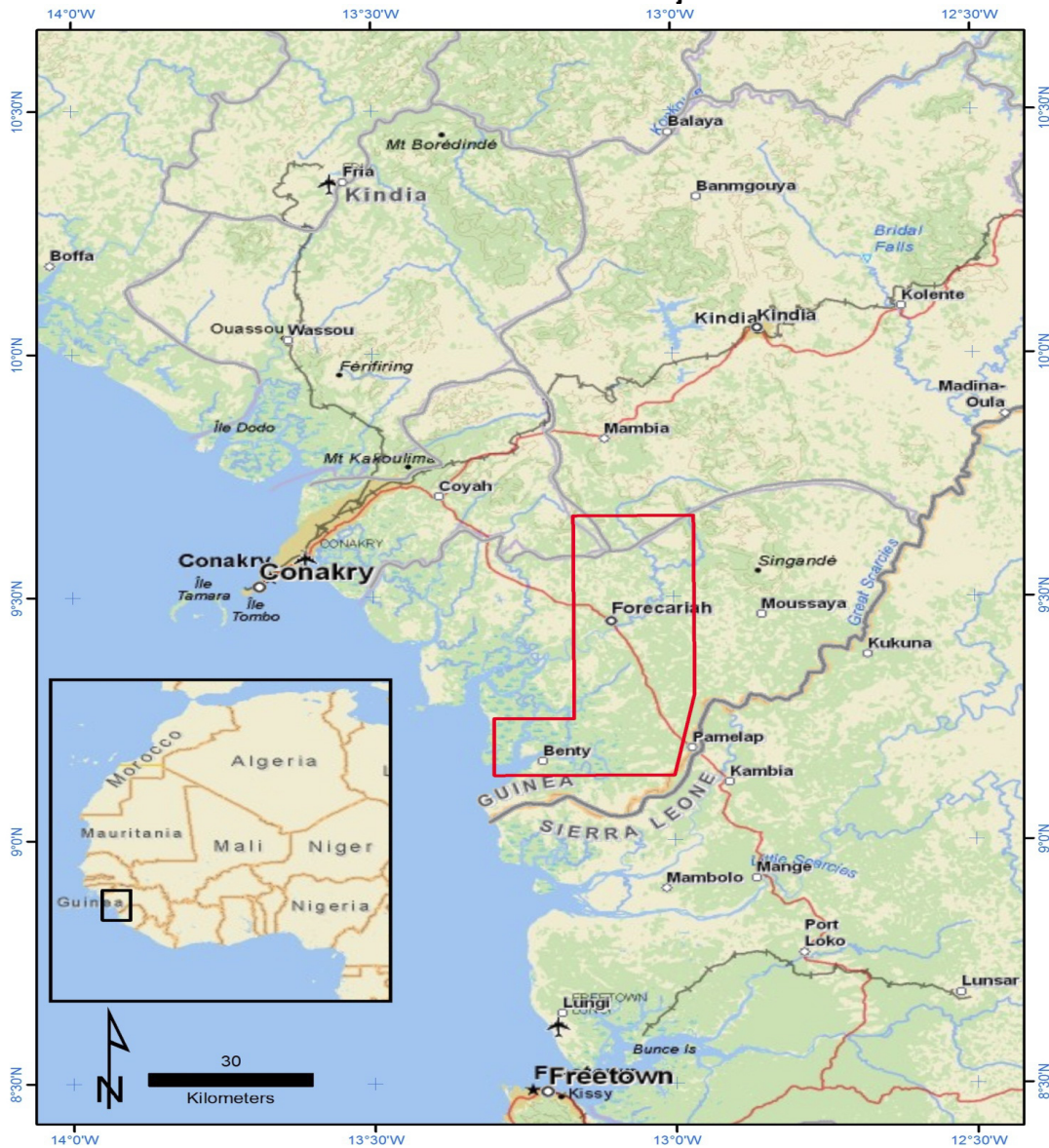
property. Another one of these projects is expected to begin mining iron ore next year and initially trucking the ore to the port.

Smaller players such as Bellzone Mining (BZM-L) have also made waves in the area. Last summer, a Chinese company agreed to invest US\$2.7 billion in a 286-km railway and port facilities for Bellzone's Kalia project in Guinea in return for the right to purchase 100% of the off-take (estimated at an eventual 50 million tonnes a year).

The WAI property is just 90 kilometers east of the capital city Conakry, with good road access. The project has had enough previous work to suggest the potential for a large iron deposit. In the 1970s limited mapping, sampling and trenching confirmed the presence of magnetite quartzite (metamorphosed banded iron formation) and magnetite schist in four separate areas. Thicknesses of the formations ranged from 30 to 400m, with strike lengths between 3 km and 11 km.

An iron deposit that is made up of a magnetic mineral like magnetite is relatively easy to find just by using an aeromagnetic survey. They can also be cheaper and easier to process, as the magnetic ore can be separated from the gangue material in the mill using magnets.

### Location of the Forécariah Mineral Project in Guinea



The project's former owner is Skye Alliance Resources Guinée SA (SARG), which was effectively sold to WAI for shares and some cash. SARG' largest shareholder was Guy Duport who subsequently became WAI's CEO. SARG had earlier collected 227 surface samples from the project, of which 186 contained iron contents up to 68% with an

average of 36%. It also completed a helicopter-borne magnetic survey over the northeastern half of the tenement, which when combined with reconnaissance mapping led to the identification of 10 drill targets. The main three - Kalyadi, Sitafaya and Sambalama - form a semi-continuous north-northwest-oriented zone of prospective iron mineralization with a strike length of about 16km.

SRK Consulting recommended a US\$3.5-million initial drill program for Forécariah, including 22 diamond holes for 4,700m and 29 reverse-circulation (RC) holes for 5,800m on the largest target, Kalyadi. An additional 16 diamond drill holes totaling 3,200m are planned to provide first-pass information on eight additional targets. Over the past couple of years, billions in iron ore investments have been poured into Western Africa, but development has been slowed by logistics and capital costs.

WAI has roughly 237 million shares issued and outstanding on a fully-diluted basis, before taking into account any conditional share issues tied to the expansion of the iron-ore resource over a base-case scenario. If exploration goes well, WAI will issue up to 226 million more shares to SARG, providing certain NI43-101-compliant resource milestones are met (such as the establishment of a multi-billion-tonne iron ore indicated mineral resource grading at least 63% iron). WAI would issue 106 million shares if the resource exceeds three billion tonnes, with another 10 million shares issued for each 500 million tonne increment over 3 billion.

### **Technicals**

The Stochastic Oscillator (STO) follows the speed or the momentum of price. As a rule, the momentum changes direction before price. The indicator can therefore be used to identify turns near support or resistance. When a security trades near support with an oversold STO, we look for a break above 20 to signal an upturn and successful support test. Divergences in the STO can often be used to foreshadow reversals. In WAI's case we have a new price low not confirmed by the STO, a bullish divergence. This shows less downside momentum that could foreshadow a bullish reversal. A bullish divergence can be confirmed with a resistance break on the price chart or an STO break above 50. A rally above the downtrend line and through the 23.6% Fibonacci line would be very bullish.

The Relative Strength Index (RSI) is a momentum oscillator that measures the speed and change of price movements. RSI oscillates between zero and 100. Traditionally, RSI is considered overbought when above 70 and oversold when below 30. WAI's RSI is bouncing along the top of its 30 threshold. Signals can also be generated by looking for divergences, failure swings and centerline crossovers. RSI can also be used to identify the general trend. Divergences signal a potential reversal point because directional momentum does not confirm price. A bullish divergence occurs when the underlying security makes a lower low and RSI forms a higher low. In WAI's case RSI does not confirm the lower low and this shows strengthening momentum.

### **Conclusion**

Extensive drilling is required to outline a resource and to confirm the enormous potential for WAI's Guinea iron ore project. With this type of deposit, given that the surface sampling and geophysics are already in and professionally assessed, the prospects continue to be high for a substantial resource to be outlined by the first round of drilling.

Infrastructure is always a key element for economic viability with iron deposits, given the ore's value to weight. This project is very close to a proposed port, with a rail line planned to cross the property. The project is so close to potential port facilities that management is considering a dedicated transport system. This very favorable location relative to the port adds substantial value to this project.

The company's insiders control a significant 81.39 million shares according to the latest filings, which represents about 46.5% of the issued shares outstanding. This is a highly motivated and market-savvy group that has a history of creative wealth generation and value-accretive deal making.

We expect WAI's share price to bottom out here now that liquidity from the spring financing is in the market, and as investors discover the story and assess its risk-reward dynamics. With near term drill results, and a first resource estimate expected by early January, there is significant upside potential from current levels.

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