African Gold Group, Inc.: Updated Preliminary Economic Assessment Establishes Low Capex and High Returns for the Kobada Gold Project

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TORONTO, ONTARIO--(Marketwired - Nov 25, 2014) - **African Gold Group, Inc.** (TSX VENTURE:AGG) ("African Gold Group" or the "Company") is pleased to announce the completion of a Scoping Study and Updated Preliminary Economic Assessment (PEA) for the Kobada Gold Project, located in Mali, West Africa.

HIGHLIGHTS: Low Capital and Operating Costs for scalable gold production

- The completion of the Scoping Study demonstrates robust Project economics for a 1.6Mtpa gravity concentration and concentrate leaching operation;
- Annual production in first two years of more than 50,000 Au ounces. Life of mine average gold production of 44,000 ounces for a 15 year mine life;
- Cash costs of US$482 per ounce for the first two years of operations, with cash costs of US$694 per ounce life of mine. All in sustaining costs (AISC) of US$792 per ounce life of mine;
- Total pre-production capital of US$$46.6 million - includes contingency of US$6.1 million;
- Project payback in 18 months from initial production;
- Project $NPV_{5\%}$ of US$172 million;
- Project IRR of 62%; and
- Significant exploration and brownfields expansion potential to be funded from project cash flow with the potential to quickly develop additional shallow (within 25m of surface) resources for inclusion in the mine plan.

Scoping Study Parameters and Results

The Scoping Study indicated that the Project will generate US$278 million in pre-tax cash flow over a mine life of 15 years. The Net Present Value of the project at a discount rate of 5% was estimated to be US$172 million and the Internal Rate of Return (IRR) was 62% at a gold price of US$1,250 per troy ounce.

Gold production is estimated to exceed 50,000 ounces per annum for the first two years, and the life of mine average is expected to be more than 44,000 ounce per annum. Figure 1 illustrates the gold production profile.

To view Figure 1 please click on the following link: http://media3.marketwire.com/docs/1AGG1125.pdf

Processing

The Scoping Study considered the construction of a mine to process 1.6Mtpa through pre-concentration and gravity concentration, followed by intensive leaching of the concentrates, electro-winning and smelting to produce gold bar (doré).

The processing concept is to remove most of the gangue material (the matrix of rock that does not contain

gold) in the initial stage of the process. It is a metallurgical characteristic of the Kobada deposit that allows this to occur in the initial process, at low cost. Traditional Carbon-in-pulp (CIP) plants rely on the crushing and grinding of 100% of the feed for the leaching process. This requires large, power intensive crushing and milling equipment, which is expensive to purchase and operate. The Kobada process flow sheet requires washing of the ore and the subsequent crushing of a small percentage of the coarser quartz rocks within the saprolite. It is expected that this crusher (a Vertical Impact Crusher) will have installed power of only 200kW.

The next process step is pre-concentration via two stage hydro-cyclones that reject the fine (-0.02mm) size fraction. The test work indicated that between 57% and 61% of the total mass of material is rejected with around 96% recovery of gold.

Gravity concentration then occurs, further reducing the volume of the material from pre-concentration. This step can be considered a classification process where the process flow is separated based on density, with lighter material being rejected while the heavier material is upgraded to a concentrate. Test work completed by Gekko Systems Pty Ltd indicated that the concentrate consisted of 1% to 2% of the total feed but recovering up to 87% of the gold. More specifically, from 1.6 million tonnes of feed material from mining, a concentrate of 16,000 to 32,000 tonnes is produced.

This concentrate is then milled traditionally before passing to an intensive leach reactor. The significance of the pre-concentration and gravity concentration means that rather than milling 1.6Mtpa, less than 32,000 tonnes per annum of concentrate will be milled. The installed power for the regrind mill is only 75kW which is 40 times smaller than that required to grind 1.6Mtpa.

The net outcome for this process route is recovery of 85% of the gold for a cost of US$7.19 per tonne processed. This places Kobada into a processing cost regime similar to a heap leach operation but with higher, faster and more reliable recovery of gold.

The processing plant will be modular, designed and fabricated in Australia, pre-commissioned in Australia prior to being shipped to Mali for assembly. This presents very low construction risk for the Project and offers opportunities to relocate the plant in order to maintain optimal haulage distances.

The low capital cost of this style of plant also offers opportunities to grow the production profile as increases in the resource base are established. This can be done in a cost effective and incremental manner adding a parallel circuit to the process.

Mining and Production

The updated Scoping Study indicates that the Project has robust economics through a 15 year mine life, and the first two years can be considered exceptional from a financial perspective. The waste to ore strip ratio is less than 0.73 to 1 for the first three years as a result of the outcropping mineralisation. A head grade of more than 1.1 g/t Au can also be maintained for the first two years production, resulting in pre-tax cash flows of more than US$37 million per annum in Years One and Two. Figure 2 illustrates the mining rate and waste to ore ratio over the life of mine.

To view Figure 2 please click on the following link: http://media3.marketwire.com/docs/2AGG1125.pdf

The mining operation is expected to be simple as the saprolite rocks are completely weathered and free digging, which negates the need to drill and use explosives. This is an important consideration that results in the estimated average mining cost to be US$2.56 per tonne of waste and US$3.85 per tonne of ore mined. General and Administration costs were estimated at US$3.03 per tonne processed.

Initial mining is via two starter pits before stripping to the final pit limits begins in earnest in Year 4, with a consequent rise in strip ratio. The in-pit mining inventory was estimated to be 24Mt at a diluted grade of 1.01g/t Au, containing more than 778,000 ounces of gold. This inventory comprised the Measured, Indicated and Inferred Mineral Resource within a pit design based on optimizations using Whittle software. The inventory is detailed in Table 1, while the pit design is illustrated in Figure 3.

Table 1 Diluted in pit inventory by resource category			
Resource Category	Mt	Au g/t	Au Koz
Measured	7.2	1.06	246
Indicated	9.5	1.05	318
Inferred	7.3	0.92	214
Total	24.0	1.01	778

To view Figure 3 please click on the following link: http://media3.marketwire.com/docs/3AGG1125.pdf

Pre-Production Capital Expenditure

One of the features of the Kobada Project is the relatively small amount of infrastructure required prior to the commencement of operations. Total pre-production capital was estimated to be US$46.6 million, including a contingency of US$6.1 million. This includes the following significant items:

- Modular Processing Plant - US$21.7 million;
- Upgrade to access road and all weather crossing of the Fie River - US$3.6 million;
- Accommodation camp - US$3.2 million;
- Power stations - US$2.4 million;
- Process water and pumping infrastructure - US$1.5 million; and
- Tailing storage facilities - US$1.43 million for initial 3 years.

Further Studies

Progress on completion of the Feasibility Study is significant with approximately 80% of the study now complete. Much of the key data and studies that support the PEA are of a very high level of confidence; however the requirement to complete geotechnical drilling for both the final pit shell design and detailed engineering for the tailings storage facility will require further time, necessitating completion of the final study in early 2015.

The issues which differentiate the current updated PEA from the full Feasibility Study are not significant from an economic, social or environmental risk perspective. A mining license application is being planned for near term submission based on the outcomes of the current updated study that is being presented in this press release.

Availability of debt finance for the project will require the full Feasibility Study outcomes despite the fact assumptions and parameters used in the current study are conservative. This position offers the opportunity to further improve on the economic outcomes of the project with further detailed work.

Mineral Resource Estimate

The average grade of the Measured, Indicated and Inferred Mineral Resource Estimate, as contained in this updated study, is now above 1 g/t Au (as reported above a lower cutoff grade of 0.3g/t Au). This is a significant development for the Kobada Gold Project as it is 20% higher than the previous grade estimation, reported in June 2013. The resource estimation technique used was Multiple Indicator Kriging (MIK), considered to be best industry practice for this style of mineralisation. The new resource estimate is presented in Table 2.

Table 2 Kobada Gold Project Mineral Resource Estimate above 0.3g/t Au			
Resource Category	Mt	Au g/t	Au koz
Measured Mineral Resource	10.8	1.06	367
Indicated Mineral Resource	25.2	1.04	843
Total M&I Resource	36.0	1.05	1,210
Inferred Mineral Resource	39.0	1.0	1,205

The Company acknowledges that there is significantly more Inferred Mineral Resource than the previous

resource estimate stated. Much of the Inferred Resource has been drilled at closer than 50m by 50m drill collar locations, however much of the drilling in the area of the Inferred Resource has been drilled in the same orientation or parallel to the strike of the deposit. This has introduced a volumetric uncertainty in the mineralized interpretation because detailed information as to the exact location of the hanging wall and footwall of the mineralisation is often not available across the strike of the deposit. That is, the drill hole orientation is parallel to the mineralisation rather than across it. This typically occurs at the north and south of the main mineralized zone, however upon investigation, it does not appear to introduce any bias to grade interpolation. The grade of the Inferred Resource category is generally lower than the Measured and Indicated portions of the estimate.

Environmental Studies

The Company has completed an environmental base line study for the Project, and is currently completing the Environmental and Social Impact Assessment (ESIA). These documents will be used in the application for the exploitation license and will ultimately form part of the final Feasibility Study.

Qualified Persons

The Preliminary Economic Assessment was prepared under the supervision of John Dunlop (John Dunlop and Associates), Tim Hughes (Gekko Systems Pty Ltd) and Brian Wolfe (International Resource Solutions Pty Ltd). All three are independent of African Gold Group and are Qualified Persons as defined by NI 43-101. Declan Franzmann (CEO of AGG) is the Company's designated Qualified Person for the study. All QP's have reviewed the content of this press release.

Conclusion

Designs and financial modelling has been completed assuming a gold price of US$1,250 per ounce. The Project displays robust economics at a range of metal prices and Table 3 details the sensitivity of the project to changes in gold price.

Table 3
Sensitivity to gold Price

Gold Price	Pre Tax NPV ($'million)			IRR
US$/oz	0%	5%	10%	%
1,000	117	66	38	30%
1,250	278	172	112	62%
1,500	438	278	186	92%

The nature of the Kobada Deposit lends itself to high early cash flow, as illustrated in Figure 4. This characteristic allows fast repayment of debt, and the tax regime in Mali allows for a three year tax free window for the local operating company. This is significant as the project has a capital payback period of just 18 months, during the time of the government tax incentive.

To view Figure 4 please click on the following link: http://media3.marketwire.com/docs/4AGG1125.pdf

The priority of the Company during the initial years of production will be to identify other shallow resources (within 25m of surface) on the 215km^2 property which will allow continued mining of low waste to ore ratio pits, further enhancing the cash flow characteristics of the project.

President and CEO of African Gold Group Mr. Declan Franzmann, FAusIMM, comments:

"The MIK resource estimate has lowered the resource tonnage with a corresponding 20% improvement in gold grade to 1.05 g/t. This is a significant increase in resource grade and has an important impact on the Project's economics.

The favourable metallurgy characteristics have resulted in a processing route with a cost profile equivalent to

heap leaching techniques, but with more reliable, faster and greater recovery of gold. This favourable metallurgy also means that pre-production capital expenditures are significantly lower than for CIP processing plants of this throughput.

The free digging saprolite means mining is relatively cheap and simple. The outcropping mineralisation leads to high early cash flow and fast capital payback.

All these facets underlie an economic mine plan, but there is significant upside potential that can be demonstrated. It is my opinion that additional resources can be added to mine plan. The target depth is less than 25m below surface and covers a significant portion of AGG's 215km^2 land holding. The pathfinder exploration tool utilises the artisanal miner's workings, which is pervasive throughout the concession, following up with shallow augur and RC drilling. Success in this strategy will allow a low strip ratio to be maintained for a greater duration, enhancing the Project's financial parameters further. This exploration can be funded from the Project cash flow."

On Behalf of the Board of Directors:

Declan Franzmann, President and CEO

About African Gold Group

African Gold Group is a Canadian exploration and development company with a strong focus on West Africa. African Gold Group is positioned to grow in value as it progresses its Kobada Gold Project through a Feasibility Study, development and into production. For more information regarding African Gold Group visit our website at www.africangoldgroup.com.

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