ALIGN
RESEARCH

Wishbone Gold

26th September 2017

Unique gold play providing artisanal miners with processing equipment to gain attractive gold off-take agreements

Wishbone Gold joined AIM in July 2012 as a gold exploration vehicle. The 2015/16 recession in the resources sector led the management to sensibly mastermind the acquisition of the gold trading business Black Sand in 2016, seeking to grow cash flow/profits via a different gold strategy.

Rapid growth in gold trading using the Marc Rich/Glencore model

Wishbone is financing equipment to dramatically improve gold production for artisanal miners in countries in Central America and Africa: the model is first being implemented in Honduras. In this way, the company can negotiate long term gold off-take contracts with attractive margins as Marc Rich + Co AG pioneered, which was the basis of Glencore.

First mill in production shortly with three more to follow in 2018

Artisanal miners provide 20% of world gold production. In Honduras, Wishbone has a pipeline of 4 projects and is teaming up with its US mining equipment supplier, Scotia International and the Honduran government. Rapid growth is expected by rolling out this strategy in S. America & Africa.

Proven management led by Sirius Minerals' ex-CEO/Chairman

Aligning interest with shareholders, Wishbone management own the majority of the shares. CEO/Chairman Richard Poulden held the same roles at Sirius Minerals where he oversaw its transformation into a substantial potash company, with the share price rising from under 2p to 40p.

DCF analysis suggests upside of over 180%

Investors have enjoyed a near 200% increase in the share price in the last 18 months. Discounting forecast cash flows of the gold trading arm and using a peer comparison of the gold exploration projects gives a target price of 1.97p. With the shares currently trading at 0.70p we see material upside & initiate coverage of Wishbone Gold with a **Conviction buy** stance.

Table: Financial overview. Source: Company accounts & Align Research.

Year to end Dec	2015A	2016A	2017E	2018E
Revenue (US$m)	N/A	4.26	11.91	65.64
PTP (US$m)	(1.12)	(0.96)	(1.38)	0.86
EPS (cents)	(0.273)	(0.093)	(0.114)	0.060

This investment may not be suitable for your personal circumstances. If you are in any doubt as to its suitability you should seek professional advice. This note does not constitute advice and your capital is at risk. This is a marketing communication and cannot be considered independent research.

CONVICTION BUY – Price Target 1.97p

Key data

EPIC	WSBN
Share price	0.70p
52 week high/low	1.17p/0.60p
Listing	AIM
Shares in issue	1,301,410,482
Market Cap	£9.1m
Sector	Mining

18 month share price chart

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IMPORTANT: Wishbone Gold is a research client of Align Research. Align Research & a director of Align Research holds an interest in the shares of WSBN. For full disclaimer information please refer to the last page of this document.

Business overview

Wishbone Operations

• **Precious metals trading** – Wishbone owns a 100% of Dubai-based Black Sand FZE which holds a gold, precious metals and gem trading licence to operate in the United Arab Emirates.

• **Exploration projects** – Wishbone holds four Exploration Permits for Minerals (EPM) in north east Queensland, Australia and which are highly prospective for gold and other metals with numerous mineral shows having been seen.

Gold

For centuries, gold has been seen to be a store of value in turbulent times. Over the last twenty years, the precious metal has certainly provided protection in times of economic turmoil. A good example was the 2011 US debt downgrade/Eurozone sovereign debt crisis, when the gold price peaked above the $1,900 per ounce level. Subsequently, as the world financial system has become more stable, the yellow metal has given up some of these gains.

Gold price over the last twenty years. Source: BullionVault

The value of gold is due to its relative rarity, along with being easy to mint and fabricate, as well as being corrosion-resistant. Half of the world's consumption of new gold goes into jewellery, with 40% made into bars and coins for the investment market. The remaining 10% is used by industry in electronics, computers, medicine and dentistry.

The price of gold is reactive to a potent combination of fear and market expectations. The biggest drivers of the price tend to be macroeconomic factors and political uncertainty, along with movements in interest rates and, of course, supply and demand considerations. Mounting political or economic uncertainty, whether it is in the US, China or the Eurozone, are powerful forces that have dramatically moved the gold price over the years.

There is a strong negative correlation between interest rates and the price of gold. This is because there is an opportunity cost in holding gold as it pays no dividend or income. When interest rates are low or the gold price is forecast to strengthen on the back of mounting economic or political concerns, investors believe that this is a price worth paying. But in times of rising and high interest rates, the opportunity cost of holding gold increases as a decent return could be made in investing funds elsewhere.

Supply issues

Global mined gold production hit an all-time high of 3,100 metric tons in 2015 and remained fairly static in 2016. A range of industry commentators believe that gold production is set to decline this year. However, the average *grade* of gold mined continues to fall as the high-grade mines of the past have increasingly become exhausted. **This is well illustrated by South Africa, where today gold production is just 20% of the level it was forty years ago.**

At the same time, exploration is no longer replacing the ounces of gold that have been mined. **Since 2010 the number of major new gold discoveries has fallen dramatically.** This is due to low precious metal prices in the past which failed to encourage junior miners to explore for gold, along with tighter environmental regulations and a lack of success with the drill bit which has served to reduce the number of new gold mines coming on stream.

In our view, it does seem that investors might have seen peak gold production and that a substantial decline in new gold supply is on the cards. Earlier on this year, leading US broker, BMO Capital Markets predicted a decline of a third in new gold supply from 2020 to 2025.

Demand

Last year global demand for gold was at the highest level seen since 2013, as political uncertainty pushed investment demand 70% higher. Brexit and the election of Donald Trump created an unprecedented level of political uncertainty, which led to large institutional investment flows into gold. However, this was balanced by consumers in China and India, the two biggest gold markets, buying less gold.

Recently, gold moved strongly upwards to the $1,350 level**. We believe that over the medium term and beyond, the underlying fundamentals seems to be getting stronger for the price of gold, with decreasing mine supply combining with increasing demand for gold as a safe haven investment in times of economic difficulties.** In addition, slow growth and low inflation have led to mushrooming levels of global debt which could trigger another economic crisis where gold once again would be attractive as a safe haven.

Company Background

Wishbone Gold Plc was incorporated in Gibraltar on 28th October 2009. On 6th December 2010, it acquired Wishbone Gold Pty Ltd, a company incorporated and registered in Queensland, Australia which held two concessions, Wishbone II and White Mountains, covering a total area of 11,100 hectares. These tenements are located in highly prospective and previously mined areas of Queensland.

Wishbone listed on AIM in July 2012 at a market capitalisation of £3.4 million following a placing that raised £0.515 million at a price of 2p per share. On admittance to AIM, the company was an exploration and acquisition vehicle focused on precious metals. The corporate strategy was to acquire, explore and develop gold assets with an initial focus on Queensland, Australia.

In March 2013, Wishbone was granted two additional licences in NE Queensland, adjacent to the existing Wishbone II licence. These new licence areas were known as Wishbone III and Wishbone IV, covering a total area of approximately 23,600 hectares. Since then the board has been able to issue a number of positive exploration updates based on work on the licence areas.

In November 2013, Wishbone completed a share exchange agreement with the Global Resources Investment Trust plc (GRIT), following which GRIT owned a 20% holding in Wishbone Gold. That move was followed in April 2014, by the company raising £0.5 million in a Placing and Open Offer at 1.5p per share, to provide working capital for exploration work as well as funding potential acquisitions. This was underwritten by Black Swan FZE, part of the Black Swan Group of which Richard Poulden is Chairman.

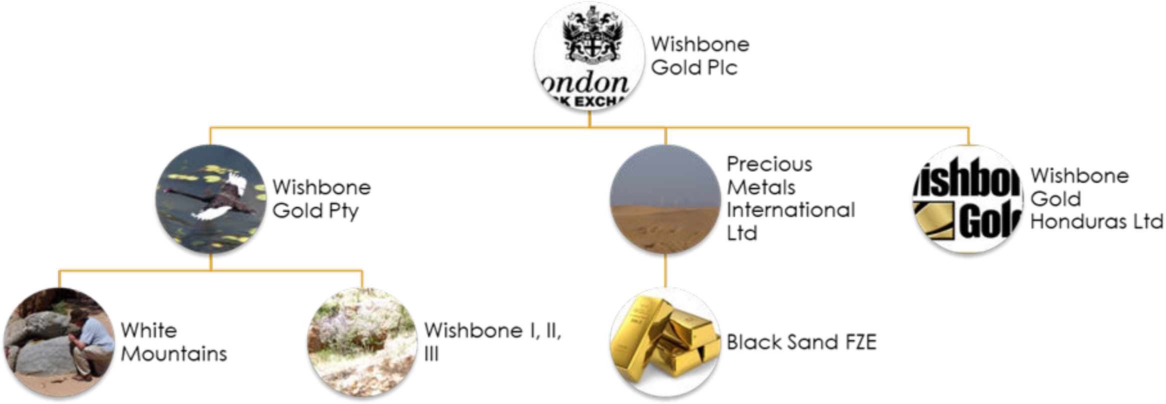
In the mid-2000's raising money for mineral exploration was nigh on impossible and thus much of the company's operations were funded by loans from the directors. In September 2015, the Company converted just under US$1.5m of loans into equity at the same price as a recent placing. Of this amount US$1.25m was subscribed by Richard Poulden's associated Black Swan group which in our view shows a massive commitment to the future of the company.

In February 2016, Wishbone announced the acquisition of **Precious Metals International Ltd** (PMI) and its wholly owned subsidiary **Black Sand FZE** (Black Sand) for an initial payment of 240 million ordinary shares (equivalent to £0.648 million at the then 0.27p per share) plus a deferred consideration of 240 million shares once the annual profit after tax of the PMI Group exceeded $1 million**. Black Sand holds a gold, precious metals and gem trading licence to operate in the United Arab Emirates.** This was a tough time for mineral exploration businesses and the board was seeking to provide the company with more options to create value for shareholders.

In March 2017, Wishbone was able to report the signing of a thirty-year joint venture agreement with a US based company to finance the development and exploitation of existing gold mining sites in Honduras. This agreement allowed for Wishbone to provide equipment and expertise to existing small-scale mines in Honduras, to help the artisanal miners increase gold production.

Operations

Wishbone provides exposure to the gold market in being a trader in gold and precious metals. Today the company looks to be set firmly on a path leading to increasing cash flows and profitability. Although the historical exploration interests have been retained, in our opinion it does look likely that these projects may be divested in the future.



Group structure. Source: Company

Gold and Precious Metals Trading

Black Sand FZE is a 100%-owned precious metals trading business based in Dubai. The company is licensed as a precious metals and gem trader in the United Arab Emirates (UAE) and provides a secure supply chain from the mine to trade buyers. Black Sand was established in 2014 by its CEO Barrett Kosh as a successor company to MCT FZE, which under his management developed a profitable track record of trading in gold.

Dubai skyline. Source: Company

Wishbone acquired Black Sand in February 2016. At that time, Black Sand had agreements in place to import gold from Colombia and Honduras along with a number of other supply deals from other countries in South America. On acquisition, Black Sand was at a pre-revenue stage but now includes the trading relationships which provided much of MCT's success.

As stated above, the initial consideration for the acquisition of Black Sand was £648,000, payable by issuing 240 million ordinary shares at a then price of 0.27p. A further payment of an additional 240 million shares is due once the profit after tax of the Black Sand Group exceeds $1 million a year.

The trading base in the UAE makes good commercial sense as around 40% of the world's physical gold is traded through Dubai. In addition, the UAE charges no corporation tax and there is also no tax paid on either importing or exporting gold and silver. Plus, the country is politically stable and offers a good environment for running such a business.

Currently Black Sand sources gold mainly from South America. During the current year the group has also been shipping from Africa, specifically from Ghana and Mali. South America provides a more secure and stable economic environment in which to do business than many of the world's other leading gold producing regions. Importantly, international security firms operate a secure shipment from the region to Dubai.

Sourcing gold

Trading in precious metals is a highly regulated business. In addition to licences to mine the metals, there are also export licences and commercial licences that need to be checked. Suppliers of gold are thoroughly vetted as part of an extensive due diligence (DD) process that Black Sand undertakes. This painstaking DD process also involves checking all the trading and supply authorisations with governments and trade commissions of the increasing number of countries where Wishbone is seeking to become active. Plus, there are worldwide checks on shareholders and verification of bank accounts.

The board of Wishbone ensure that all the group companies comply with the guidelines of the Organisation for Economic Co-operation and Development (OECD), which is an intergovernmental body that promotes policies to improve the economic and social well-being of people around the world. It takes three to four months to board a supplier, with the DD process needing to be very thorough as gold trading is such a highly regulated business.

Black Sand has a standard form supply contract which is agreed with each of the artisanal mining companies and sets out the precise terms and conditions of trading and the volume of gold doré_(a semi pure gold bar) to be purchased. Security is provided to the supplier of gold doré by a letter or credit, which can be drawn only if Black Sand fails to pay.

10 kilos of gold doré. Source: Company

Gold doré is shipped on a Cost, Insurance & Freight (CIF) basis, which means that the seller has to arrange the carriage of goods by a global security service courier such as G4S or Brink's directly to the refinery in Dubai for smelting and assaying. On the basis of assay of the gold doré at the refinery, Black Sand makes payment and the transfer is credited in 2 to 3 days.

Wishbone only trades in physical gold and silver. At present, the business does not take a position in the market, but hedges each and every trade against the London gold fix. On each trade, around 0.5-3% is made between buying and selling. This might represent only a small percentage but management is seeking to turn its working capital once a week. **This means that 0.5-3% can be earned on the working capital employed, each and every week. With fixed costs, a rising gold price would provide a growing profit margin for Wishbone.**

There has been pressure on gold trading margins due to an increase in competition from India and other gold consuming nations. In order to guarantee supplies of gold and also gain a higher margin, Black Sand is now seeking to become involved higher up the supply chain.

Reverse integration into the supply chain

The strategy of reverse integration into the supply chain strategy was pioneered by the international commodities trader Marc Rich and his company Marc Rich + Co. AG, which would later become Glencore. Marc Rich showed that oil and other raw materials could be traded with less capital and fewer assets than the big producers believed, if backed by bank finance. This highly leveraged business model became the template for modern traders like Trafigura, Vitol and of course Glencore.

Wishbone is targeting artisanal and small-scale mining to provide a guaranteed supply of gold, with decent margins. This is planned to be achieved by gentle integration, supplying equipment and expertise to the local miners. The company is not seeking to buy these mines but is locking them into long-term supply contracts in exchange for the equipment and expertise.

With finance provided by several fundraising exercises over the past twelve months or so, Wishbone has begun to supply mineral processing equipment to artisanal miners. The equipment supplied relies on simple gravity separation and so no chemicals or mercury are required. The level of investment is in the region of US$250,000 to US$400,000 per project. Payback is from the gold produced and is planned to normally take 4-6 months. This differs a lot from regular mining models where large amounts of investment are placed into big projects which take many years to return initial investment. Importantly, Black Sand retains ownership of the equipment, which can be moved to another mining site should a site reach the end of its useful life.

Such processing equipment will allow the production of small-scale miners to increase dramatically.

In most instances, the equipment will process gold ore from more than one mine. Once one plant is working at full capacity for 24 hours a day, then a second plant could be planned. **On the back of providing such equipment, margins could be as high as 15% on gold production with supply contracts of 10 years or more.**

Artisanal and Small-Scale Mining

Wishbone is targeting artisanal and small-scale mining to provide a guaranteed supply of gold, with decent margins. **This sub-sector of the gold mining industry attracts little interest, but the World Bank reckons that artisanal and small-scale mining accounts for some 20% of world gold production.** It has been estimated that worldwide there are 15 million artisanal miners, compared to 2 million people employed in large scale mining. So, small scale mining employs around 88% of the global mining workforce.

Artisanal mines in Honduras. Source: Company

Artisanal miners use hand tools in simple mines, either chasing gold veins in hard rock mines or mining alluvial material. These miners lack finance and proper equipment, the mines can be very unsafe and the levels of output are low. While production costs for large-scale mining may be in the region of US$600 – 1,000 per ounce of gold, artisanal miners' costs can be of the order of a few hundred dollars per ounce.

However, the work of artisanal miners is creating a ticking time bomb. The environmental damage created by these mines is enormous as gold is commonly recovered using mercury. The gold bearing ore is combined with mercury to create a gold-mercury amalgam. The mercury is burnt off, leaving the gold, but in this process mercury is released onto the air, soil and water.

Mercury is highly toxic and being an element means that it does not break down in the environment. This poison can seep into the water table and can cause terrible deformities to wildlife. Graphic news stories from around the world have demonstrated the appalling tragedy caused when mercury gets into the water supply and the food chain. **So, in providing mineral processing equipment, Wishbone will be helping reduce the damage to the environment as well improving the lot of many people in poorer countries around the world – something we applaud.**

Mercury in gold pan. Source: Company

Supply contracts agreed

Wishbone expects that its ongoing developments in early stage projects should begin gaining some traction this year. Black Sand has been working on the Honduran projects since 2015. In each country in which Wishbone is seeking to roll out this strategy the plan is to work in partnership with a mining equipment supplier. Moving forward, the rolling out of each such contact is expected to take 3-6 months.

In March 2017, Wishbone signed a joint venture agreement with SION Honduras, an associated company of Scotia International of Nevada Inc, a USA based equipment manufacturer, to finance the development and exploitation of existing gold mining sites in Honduras. This is a 30-year deal whereby the company will be providing equipment and expertise to existing small mines in Honduras, in order to help increase gold production.

Honduras is a very good place to start as the country's artisanal miners are responsible for the bulk of gold production. The key problems facing Honduras include: low gold production and taxes not being paid by artisanal gold miners. In addition, there are poor levels of exploitation, as a lot of the gold fails to be recovered, along with environmental problems. **Wishbone's strategy will allow these problems to be resolved, with all parties benefitting, including the environment**.

Concentrator | Shaker Table | Crusher and Grinder

Mining equipment to be supplied to artisanal miners. Source: Company

Scotia will supply the mining equipment. Importantly, the deal has government backing, with Scotia's subsidiary having an agreement with the Honduran government to help in the modernising and expansion of the mining industry in the country.

The range of mining equipment to be supplied to artisanal miners includes: concentrators, conveyors, crusher and grinders, generators, shaker tables and crushers. This equipment is simple to install and operate, but acts to transform the processing capability at the mines.

Wishbone will benefit by gaining all the gold production from these mines at a reasonable discount to the prevailing gold price. The margin from the supply contract from these mines will be shared equally between Black Sand and Scotia.

Actual mine site in Honduras with equipment prior to installation. Source: Company

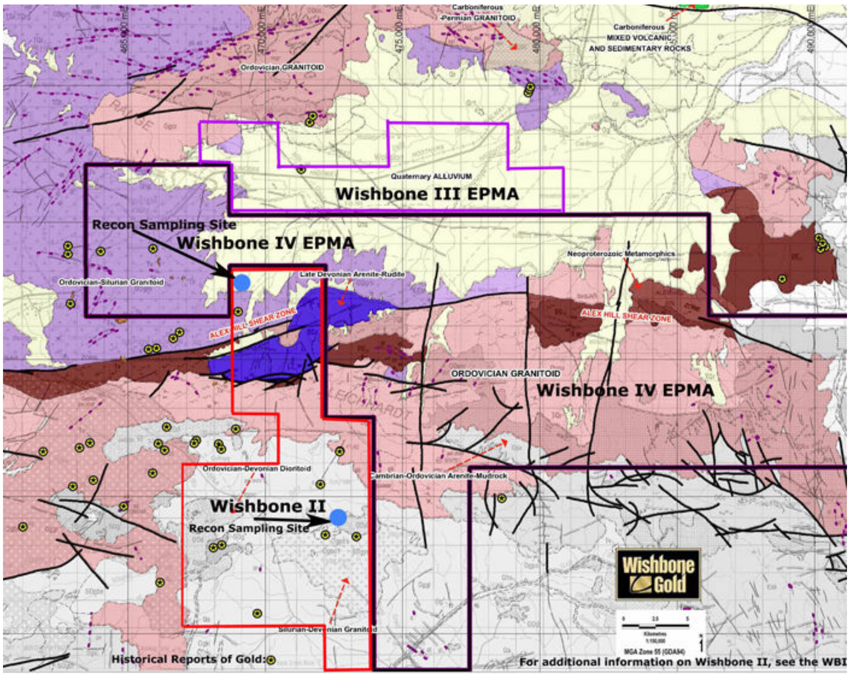
Gold exploration projects

Wishbone has four exploration tenements in north-east Queensland which are highly prospective for precious metals and have seen historic mining activity. All the four licence areas contain various shows of mineralisation (gold, silver, arsenic, copper, iron, manganese, zinc etc) and geologists believe that this is the right geological setting for a major ore body to be discovered. Following the move into precious metals trading, we believe that the board may seek to divest these interests, which might mean a joint-venture deal with an Australia mining company or the properties vended into another explorer for equity.

On admission to AIM, Wishbone held two concessions, Wishbone II (EPM 18396) and White Mountains (EPM 18393). In March 2013, the company was granted two highly prospective gold licences (Wishbone III & IV) covering 23,600 hectares which expanded the portfolio to over 58,000 hectares at that time. This move allowed the company to build up its land holding position around the key The Bluff Area in Wishbone II, where the company's preliminary sampling work had highlighted prolific multi-element mineralisation.

Wishbone II, III and IV

The three Wishbone licences are located in the highly prospective Mingela area. The northern boundary of Wishbone II is located 8km by road from Mingela, which is 80km along the Flinders Highway to the major city of Townsville, on the coast.



The Wishbone II, III and IV tenements. Source: Company

The Mingela area lies within the eastern outcrops of igneous and metamorphic rocks of the Ravenswood-Lolworth Province. The Ravenswood Granodiorite Complex outcrops throughout the area and is bounded by a large shear zone structure along which much of the gold mineralisation in the region is located. The area in and around the Wishbone licences has been explored for decades, though many sites remain untested. Larger historical deposits found on or near the surface include **Resolute Mining's (ASX:RSG)** Mount Wright Gold Mine (20km south east of Wishbone II) and the area of the Welcome Breccia discovery.

Historic mine	Production	Comment
The Welcome Mine	6,737oz gold @ 25g/t	North Queensland Resources estimate the mine has a current shallow resource of 250,000t @3.0g/t gold.
Grass Hut Mine	2,397oz gold @33.76g/t	1897 – 1910
New Caledonia Mine	16,500oz gold @ 30g/t	
Mount Sulphide Mine	66oz gold @ up to 29.06g/t 748oz silver @ up to 331.4g/t	1934 – 1940
Althea/Christian Kruck Mine		Gold Mines of Kalgoorlie estimated an indicated open-pit resource of 0.63Mt @ 3.1g/t gold totaling 70,548 oz gold.
The City of Melbourne Mine	2,000oz of gold @ 28.6g/t	
Kitty Cummings Mine	164oz of gold @ 13.68g/t	
King Solomon Mine	97oz of gold @ 59.9g/t	
Rose of Allandale No.1 SW Mine	93oz gold @36.16g/t	

Larger historical deposits found at or near the surface at the Wishbone tenements. Source: Company

Early exploration work by the company at The Bluff Area in Wishbone II revealed sampling results with anomalous grades of gold, copper, arsenic, manganese, vanadium and antimony. Further exploration activity has been focused on defining drill targets.

There has been renewed interest in the major trend along which the company's Wishbone licences are located. This results from the discoveries in 2010 by Resolute Mining at the Welcome Breccia prospect (located 15km to the west of Wishbone II) where high-grade gold mineralisation was discovered in a first pass three diamond drilling program - drill hole WED003 recorded 113m @7.70g/t gold from 316m depth including 19m @ 31.30g/t gold. The Welcome Breccia has shown geochemical and geophysical similarities with the breccia pipe at Resolute's 1 million ounce Mount Wright Gold Mine (20km south of Wishbone II), which produces around 100,000 ounces gold annually.

North-east Queensland is home to a number of notable breccia-hosted intrusive-related gold systems (IRGS) apart from Mount Wright including: Kidston (5Moz), Ravenswood (4.8Moz), Mount Leyshon (3.5Moz), Red Dome (2.1Moz) and Mungan (1.1Moz). The three Wishbone licences thus represent a good address for gold exploration projects.

White Mountain

White Mountain is located 300km west-southwest of Townsville via the Flinders Highway. The old gold mining town of Charter Towers lies 180km to the east along the same highway, which serves as a hub for the exploration industry.

On the western boundary of White Mountain is the Granite Castle deposit where recent work by **Mantle Mining (ASX:MNM)** has led to the discovery of significant gold and silver grades. At the centre lies an Ordovician-Silurian granitoid (coarse grained rock similar to granite) intrusion which hosts a trend of prospects lying along strike in an EW direction which are the Diecon Mine (gold), Edwards prospect (antimony) and Northeast Workings (gold).

Just below the surface, it has been reported that there are also numerous small gold deposits plus a host of small copper and antimony occurrences. These deposits are thought to be hosted in mineralisation within two granites called SDgul and SDgbg, which are in contact with one another. A competent persons report was able to conclude that the White Mountain tenement has substantial potential for mineralisation of potential economic importance.

Historic mine	Production	Comment
The Diecon Mine	614oz gold @ 255.9g/t	1910-16
Edwards Mine	310 tonnes of antimony ore	1915
Little Wonder Mine	24oz gold & 29.4g/t	1913-15
Sunday School Mine	10oz gold@ 53.6g/t	1914
Bradley's Jubilation		Copper prospect
Clements' Copper		Copper prospect
Northeast Wokings		Gold prospect

Major historical production at White Mountain. Source: Company

The tenement covers a highly prospective area of the Lolworth region with a number historic mines and advanced gold, silver, copper, lead, antimony, nickel and molybdenum prospects which have seen intermittent exploration over the past forty years.

Sample number	Results
Rock-Chip Sampling Anomalies	
3011338	1.12g/t gold, 1,490 ppm arsenic
3011332	0.66g/t gold, 107 ppm arsenic, 14% antimony with high sulphur
3011336	0.2% antimony, 146 ppm arsenic
Other samples	1.4% nickel, 3,110 ppm zinc, 3,920 ppm copper, 73 ppm molybdenum, 206 ppm vanadium
Stream-Sediment Sampling Anomalies	
4029095	276 ppb gold in -2mm sieved bulk cyanide leach (BCL) sample
4029094	316 ppb gold in -80# sieved sample
4029092	20 ppb gold in -80#sieved sample
4029098	23 ppb gold in -80# sieved sample
Soil-Sampling Survey Anomalies	Soil sampling over the Silica Breccia prospect
4029111	10 ppb gold, 102 ppm arsenic, 4 ppm antimony

Sampling results from White Mountain announced on 18th December 2014. Source: Company

The company's exploration effort has been focused on the SW area of the tenement closest to Mantle Mining's developing mining operations. Here, work on the ground has included: rock-chip sampling, soil sampling, stream-sediment sampling, and ground magnetics surveys. There seems to be several structural linear features which come together to form a single feature close to The Diecon Mine workings. These are linked to strongly anomalous gold in stream sample results of 316 ppb and 276 ppb gold that have been found. Sampling at the old Edwards Mine to the south provided rock chip sample of 14% antimony with 0.66 g/t gold and 107 ppm arsenic. The program of exploration work has been designed to delineated good targets for a future drilling program.

Looking more closely at the work by Mantle Mining on the adjacent property Granite Castle reveals that this company has defined a JORC compliant resource of 77,200 ounces of gold and 1.5 million ounces of silver, which is reportedly from a 600m long portion of a single mineralised zone. Mantle's exploration target below the Granite Castle JORC Resources is 300,000 – 400,000t of 2.5 - 3.5g/t gold and 55-70g/t silver, which equates to over 1 million ounces gold and 21 million ounces silver with an in-situ valuation of more than $1.6 billion at current precious metal prices. Obviously, this target needs to be proved up by drilling, but this does highlight the potential of Wishbone' White Mountain tenement.

Strategy for growth

The board of Wishbone is seeking to create rapid and sustainable growth via a strategy which has been designed to ensure that the company will be a beneficiary from a rising gold price. **Low-risk precious metals trading and controlling the company's supply chain in physical gold have been designed to create growing margins as the gold price rises.**

The acquisition of Black Sand brought with it existing supply agreements in Colombia and Honduras and a strong pipeline of further deals. There is also governmental support for Wishbone's strategy as it would bring artisanal miners into the banking system, reduce illegal exports of gold, reduce environmental damage and allow these nations to collect tax.

Wishbone has seen rapid growth in gold trading. The financing for the business was not in place until June 2016, with $4.26 million of revenue achieved just in the second half of 2016 by shipping in gold primarily from Ghana. In the recently announced interim results for the first half of 2017, Wishbone reported that trading for the first 6 months was $3.9m.

The strategy of reverse integration into the small mining sector globally allows the company to gain a guaranteed source of supply and also serves to provide healthy margins on these long-term off-take agreements. Wishbone is developing its supply base in Peru, Chile and Ghana. In December 2016, Black Sand CEO Barrett Kosh visited Peru and Chile as part of a UAE Trade Delegation. Since then, in February 2017, representatives of the company have visited Ghana at the invitation of the new government to review existing gold projects. It is clear that both these visits have been instrumental in new gold supply deals being offered to the company. The first Honduras mine using Wishbone-financed mineral processing equipment is expected to be in production shortly and it is anticipated to form a decent proportion of the division's revenues over the coming months. **This new equipment is expected to lift gold production by 400%, with a rapid pay back of the loan to Wishbone which is to receive 80% of net profit until payback. The off-take agreement will be running for the next ten years.**

This is expected to be followed by another three comparable projects in Honduras, with finance arranged by RiverFort Global Capital (RiverFort), as mentioned in a recent RNS announcement. It is possible that two of these projects could be initiated in H1 2018. These sorts of deals will form the blueprint for further off-take agreements with artisanal miners in a growing number of countries around the world. This strategy is timetabled to be rolled out to more countries in South America and also into Africa. RiverFort has indicated that they are able to provide funds on a project level, which could finance the new country subsidiaries as and when Wishbone establishes them; and help to fuel growth.

In addition to growing the business into other countries, the board is planning to create larger more centralised processing facilities. This move is in search of economies of scale as there are big cost savings to be gained in providing technical expertise, management, security and so on to a single plant rather than say five separate smaller operations. We see a tremendous opportunity to grow in helping to finance increased gold production within this largely ignored subsection of the gold mining industry. This style of financing produces almost instantaneous gold production compared with the traditional route trodden by mining juniors.

Financials & current trading

Losses that have been recorded over the years are largely due to rising exploration at the mineral tenements in Australia and administration fees. Following the acquisition of the UAE-based gold trading business Black Sand FZE in February 2016, the company now has a fast-growing source of revenue.

Y/E 31 December U$'000	2012A	2013A	2014A	2015A	2016A
Revenue	-	-	-	-	4,261
Pre-tax profit/loss	-248	-662	-2,591	-1,120	-958
Net profit/loss	-821	-662	-2,591	-1,120	-958

Wishbone's five-year trading history. Source: Company accounts

2016 results

The company made good progress in the year ending 31st December 2016, which saw the first contribution from Black Sand, with revenue of US$4.261 million achieved in the second year. Administration expenses were 51% higher at US$944,285 as befits a growing organisation, but all directors' salaries were paid in shares. The net loss for the year was US$0.958 million and the weighted average number of shares stood at 1.0295 billion, resulting in a loss per share of 0.093 cents.

At the year-end cash stood at US$1.065 million compared with US$0.263 million as at 31st December 2015. In the period, there were two placings which raised a total of £1 million. Plus, a US$3 million debt facility was arranged with Sanderson Capital. This has an interest rate of 2%, along with a trading override of 0.5% of the value of gold traded using the facility.

2017 interim results

Results for the first half of the year were announced in September 2017. Turnover in this six-month period was $3.98 million, which was almost as much as for the whole of the previous year. In the IH 2017, there was a gross profit of $0.02 million and a net loss before tax of $0.33 million, which compares with a loss of $0.19 million in the comparable period of 2016.

With the strategy focused on Honduras, the results were impacted by funds being diverted to finance the company's investment in that country. There was also news of discussions which were underway in two African countries for similar structures to the Honduras investment. Certainly, Wishbone are in a much better cash position, with a total of $2.6 million as at 30 June 2017, compared with $1.4 million at the same stage in 2016.

Other recent developments

In August 2017 Wishbone announced the conversion of director’s fees into shares and a fundraising and investment agreement arranged with RiverFort Global Capital (RiverFort). The new monies raised will be used to finance the continuing operations and for general working capital requirements.

The fundraising element consisted of a subscription of £0.8 million at 0.7p per share (114,285,714 shares) and the company will initially receive £142,000 (£200,000 less fees). In addition, Wishbone will also receive £33,333 a month for 18 months, which involves an equity sharing arrangement. This monthly payment can be adjusted up or down depending on the performance of the share price in relation to a 0.77p benchmark.

There is then a further loan agreement arranged by RiverFort, with YA II PN Ltd which covers a total amount of US$2 million. This deal allows for an initial drawdown of US$400,000 which is due to be repaid in 12 months’ time, with an interest rate of 10%. Any further tranches are at YA II PN Ltd’s discretion and have to be drawn down over the next 12 months. Warrants are to be issued for 20% cover of the amounts drawn down and for the initial drawdown of US$400,000 the company will grant 8,934,663 warrants having a strike price of 140% of the 5-day volume weighted average price (VWAP).

Risks

Political risks

Mining is highly susceptible to political risks. This is because mining projects can generate significant wealth and be big contributors to a nation's GDP, especially in emerging economies. Wishbone is susceptible to political risks in the countries in South America and Africa in which it operates and is looking to gain gold off-take agreements.

Precious metal price risks

Gold and silver prices are highly cyclical and could have a negative or positive impact on the valuation of the company's projects and revenue from gold trading. Over the past decade, the price of gold has been highly volatile, trading in the range of $600 - $1,900 per ounce and currently trades around the $1,300 level. Over this same time horizon, silver has been comparably volatile, trading in the range of $8.90 - $48.50 per ounce and currently trades around the $17 level.

Trading margin risks

The level of trading margins can vary over time. Although trading volumes were good in 2016 across the industry, trading margins came under pressure due to India's change in import rules which provides a premium to gold shipped to and processed in certain economic zones. Wishbone's reverse integration into the supply chain should serve to insulate the company from such risks.

Exchange rate risks

Movements in the value of currencies will have an effect on the company's accounts on translation from transactions in a variety of currencies including: United Arab Emirates dirham, US dollars and sterling. Fluctuations in the value of these currencies against the reporting currency of the US dollar may have an effect on the valuation that Wishbone shares are awarded by the market.

Future funds

The market for raising funds for resources companies may have improved from conditions seen eighteen months ago. However, the equity market does continue to be difficult, especially for pre-revenue companies. Some recent fundraising exercises in the resources sector have seen share prices being undermined by incoming investors demanding substantial discounts to provide the necessary capital.

Board of Directors

Richard Poulden – Chairman & CEO

Richard, a qualified Barrister, has co-founded natural resources, healthcare, retail and internet-based technology companies where he has executed strategies for growth by acquisition in all sectors. Most recently Richard was Chairman and CEO of AIM quoted Sirius Minerals Plc where he oversaw the transformation of the business into a substantial potash company, achieved through a series of acquisitions in Australia, US and the UK.

Previously, Richard worked as a merchant banker at Samuel Montagu & Co Limited, and also as a management consultant at Arthur D. Little, where he worked in their European strategy practise as well as co-founding their Financial Industries Group. In the past, Richard has been Executive Chairman of JMI Seed Capital and is currently Chairman of PCG Entertainment Plc, also quoted on AIM and Chairman of Black Swan Plc.

Michael Mainelli – Non-Executive Director

Michael, a qualified accountant, has natural resources experience dating back to 1979 when earlier research work on mapping and satellite imagery led to him starting companies in seismology, cartography and oil and gas information for a Swiss firm. In the early 1980s Michael initiated and ran a multi-million dollar oil industry consortium (Shell, BP, Chevron and Elf Aquitaine were major partners) which culminated in the development of Geodat and MundoCart, an oil industry standard set of cartographic data. Michael's previous roles include several years as a partner and board member of one of the leading accountancy firms directing global consulting work, and serving on the UK Ministry of Defence's Defence Evaluation & Research Agency board.

In 1994, Michael co-founded Z/Yen, a commercial think-tank based in London with numerous finance and technology clients where he is currently Executive Chairman. From 2005-2014, Michael was a Non-Executive Director of AIM listed Sirius Minerals Plc. Michael is Emeritus Professor, Trustee and Fellow of Gresham College and a Non-Executive Director of the United Kingdom Accreditation Service.

Jonathan Harrison – Non-Executive Director

Jonathan is a chartered accountant with experience in quoted and unquoted companies. He has plenty of experience of the natural resource sector in the past as Finance Director of Sirius Minerals Plc, overseeing the financial aspects of the company through flotation and its series of acquisitions. He spent most of his career working in senior financial positions within the hotel and leisure industry and during this time oversaw a number of IPOs and mergers and acquisitions.

Alan Gravett – Non-Executive Director

Alan worked at Barclaytrust Limited, (then Barclays Bank Executor and Trustee Department) from 1965 to 1988, reaching the highest level in Gibraltar administering offshore companies and trusts, leaving in 1988 to join a large local trust corporation. He is now a freelance consultant based in Gibraltar but continues to be closely involved with company and trust structures for a range of international clients.

Forecasts

We initiate coverage of Wishbone Gold with forecasts for full year 2017 and 2018. In 2017 the company will be working hard to establish the reverse integration of the precious metals trading business. This reverse integration up the supply chain, is expected to bring benefits in the future years. It is anticipated that a maiden deal will start to provide a supply of gold doré to the company following the financing of key mining equipment to artisanal miners in the current year. For current year 2017, we forecast revenues of US$11.9 million, a pre-tax loss of US$1.18 million with a loss per share of 0.097 cents.

In 2018, we expect to begin to see the full benefits of the first supply contract plus further similar contracts entered into that will begin to provide additional off-take agreements.

US$'000s. Year end Dec	2015A	2016A	2017E	2018E
Sales	0	4,261	11,912	65,635
Less: cost of goods sold	0	-4,241	-11,760	-59,941
Gross profit	0	20	152	5,694
Abortive acquisition costs	-196	0	0	0
Administration expenses	-622	-945	-1,200	-1,300
Profit share to Black Sand	0	0	0	-750
Preference shareholders	0	0	0	0
Exploration expenses	0	0	-200	0
Operating profit/(loss)	**-818**	**-924**	**-1,248**	**3,678**
Impairment of investments	-272	0	0	0
Interest expenses	-29	-33	-60	-80
Minorities	0	0	-73	-2,738
Profit/(loss) before income tax	**-1,120**	**-958**	**-1,382**	**860**
Taxation	0	0	0	0
Profit/(loss) for the financial year	**-1,120**	**-958**	**-1,382**	**860**
Loss per share:				
Basic and diluted (cents)	-0.273	-0.093	-0.114	0.060
Weighted average number of shares	409,955,753	1,029,542,339	1,215,245,557	1,423,826,140
Total shares plus options and warrants	759,900,364	1,176,634,324	1,318,413,068	1,576,282,394

Table: Wishbone Gold summary forecasts. Source Company accounts and Align Research

Also in 2018, we expect that the weighted average number of shares is expected to increase by 17% to 1.423 billion as we forecast that the deferred consideration (240 million shares) for Black Sand will become payable having, importantly, met the US$1 million post tax profit milestone. Minorities relate to the joint-venture interests of SION in the Honduran off-take agreements. For 2018, we estimate that the company will make a pre-tax profit of US$0.86 million which equates to earnings per share of 0.060 cents.

Valuation

We have determined a sum-of-the-parts valuation for Wishbone Gold. A financial model of the company and its precious metal activities has been built and we have also used peer comparisons to place a valuation on Wishbone's exploration licences in Australia.

Precious Metal Trading

The financial model has been developed to place an after-tax valuation on Wishbone and the Black Sand gold trading business over the next ten years. We have also shown the NPVs determined by our model at discount rates of the industry standard 10% and our own more conservative 12%. Below are set out the various assumptions which are based upon discussions with the management team, together with own opinions which again are more tempered.

- Although the gold price looks likely to rise over the period under consideration in our view, we have used a flat gold price of $1,300 per ounce from 2018 onwards, to be conservative.

- The average level of trading in kilograms of gold per week has been put at 5kg per week in 2017 and 2018, rising rapidly to 11kg/week and 17kg/week in 2018 and 2019 respectively.

- The first gold from the maiden offtake agreement is expected to be received in 2017. From 2018 onwards it is assumed that three gold reverse integration projects will be established each and every year. The size of these projects is assumed to be in the range of 5-10kg/week, which equates to an 8,000 – 16,000 ounces of gold per annum operation. In this analysis, it has been assumed that each reverse integration project will provide 8kg of gold production per week, require $400,000 of funding and have a six-month payback period. Full nameplate capacity is assumed to be reached at each project following a commissioning period. Each off-take agreement is assumed to have a ten-year life.

- Margins for the traditional gold trading business have been under pressure. **Going forward, it has been assumed that margins will be in the range of 1-3%, so a figure of 2% has been used in this analysis. The margin for the offtake agreements could be as high as 15%, but we have assumed it is more likely to average 10%.**

- Wishbone is pursuing its strategy in Honduras in a joint-venture with SION and the government, with the company and SION sharing the profits equally. The board is seeking to use a similar joint-venture arrangement with a mining equipment supplier as it expands into other countries in South America and Africa once production has become stable at the first gold processing operations. On that basis, we have assumed a 50:50 split on profits on the gold off-take agreements resulting from all the reverse integration deals.

- By 2019, we forecast that the number of reverse integration projects being funded along with the gold trading will become self-funded. There is a 30% entitlement to any annual audited profits after tax of the gold trading business for the holder of the Preference Shares, which has been allowed for in this analysis.

- Exploration expenses are assumed to be no longer paid from 2018 onwards, our assumption is that a deal will be concluded within the period which makes such payments another company's responsibility. Although there is a 10% standard rate of corporation tax in Gibraltar this is only applicable to operations within Gibraltar itself; Wishbone is not operating in that country and so no tax will be payable.

U$$ million	2017	2018	2019	2020	2021	2022	2023	2024	2025
Gold price US$	1,250	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300
Gold trading									
Kgs gold per week	5	5	11	17	19	24	29	34	38
Revenue	10.45	10.87	23.91	36.95	41.29	52.16	63.03	73.89	82.56
Margin	0.5%	2%	2%	2%	2%	2%	2%	2%	2%
Cost of sales	10.44	10.65	23.43	36.21	40.47	51.12	61.77	72.42	80.94
Gross profit	0.01	0.22	0.48	0.74	0.83	1.04	1.26	1.48	1.65
Off-take agreements									
Kgs gold per week	0.7	25.2	49.2	73.2	97.2	121.2	145.2	169.2	193.2
Revenue	1.46	54.77	106.93	159.09	211.25	263.41	315.57	367.73	419.89
Margin	10%	10%	10%	10%	10%	10%	10%	10%	10%
Gross profit	0.15	5.48	10.69	15.91	21.12	26.34	31.56	36.77	41.99
Gross profit share	0.07	2.74	5.35	7.95	10.56	13.17	15.78	18.39	20.99
Total gross profit	0.08	2.96	5.82	8.69	11.39	14.21	17.04	19.86	22.65
Administration costs	1.20	1.30	1.40	1.50	1.60	1.70	1.80	1.90	2.00
Profit share to Pref shareholders	-	0.72	1.58	2.44	3.18	4.01	4.84	5.67	6.49
Exploration expenses	(0.20)	-	-	-	-	-	-	-	-
Operating profit	(1.32)	0.94	2.84	4.75	6.61	8.50	10.40	12.29	14.15
Interest expenses	(0.06)	(0.08)	(0.15)	(0.20)	-	-	-	-	-
Pre-tax profit	(1.38)	0.86	2.69	4.55	6.61	8.50	10.40	12.29	14.15
Tax	-	-	-	-	-	-	-	-	-
Net income	(1.38)	0.86	2.69	4.55	6.61	8.50	10.40	12.29	14.15
Discount factor	1.0000	1.1364	1.2913	1.4674	1.6675	1.8949	2.1533	2.4469	2.7806
Discounted cash flow	(1.38)	0.76	2.08	3.10	3.97	4.49	4.83	5.02	5.09

	US$ million
Total Net Present Value (12)	27.95
Terminal value PV (12)	10.09
NPV + Terminal Value (12)	**38.05**

Discount rate	**10%**	**12%**
NPV US$ million	44.24	38.05

Table: Revenue forecast, cash flows and NPV for the gold trading interests, off-take agreements and plc costs. Source: Align Research

Gold exploration projects

Wishbone's exploration projects are highly prospective for gold, silver and other metals. We believe the board may seek to divest these projects, which are at the pre-drilling stage. Projects at this stage of their development are notoriously hard to value, but peer group analysis provides a useful guide to the valuation that the stock market places on such projects.

Company	**EV A$m**	**Comments**
AusMex Mining (ASX:AMG)	4.95	Australia - 6 gold projects + 1 iron oxide copper-gold (IOCG)/copper-gold project Gold – Six projects in Queensland, including the 80%-owned Mt Freda Gold Project near Cloncurry comprising of 2 mining leases (120 hectares). Former tenement holder Diversified Mineral Resources produced 350kg of gold from its carbon in leach plant. AusMex intends to undertake a drilling program and other feasibility work. No JORC resources. Copper-gold - 970km² project targeting IOGC or copper-gold targets near Burra, in South Australia
Cazaly Resources (ASX:CAZ)	5.29	Australia – 1 gold project Gold – The Mount Venn Gold adjacent to Gold Road Resources' emerging world class Yamarna Gold Project central western Australia. Good data base generated by previous explorers. Drilled Three Bears prospect in January 2017 confirmed presence of a large wide gold mineralised system over 1.5km+. Also, energy metals. Applications lodged over two known Cobalt-Manganese. Alliance signed for exploration and development of lithium projects. Graphite project in Kimberley where high grade surface samples found.
GBM Resources (ASX:GBZ)	4.21	Australia – 3 gold projects and 3 copper-gold projects Gold projects – Most advanced is the Mount Coolon Gold project in the northern Drummond Basin, Queensland the most advanced, 4 EPMs (671km²) and 4 mining leases. Published resource of 268,600 ounces of gold, currently working to upgrade resource base. Copper-gold projects – Most advanced is the Mount Morgan Copper-Gold Project near Rockhampton, Queensland close to world class Mt Morgan Copper-Gold mine. 8 EPMs (1,000+ km²). No detailed compilation of existing exploration data until recent GBM work. Also, 40% interest in the Lubuk Mandi Gold Project in Malaysia
Hammer Metals (ASX:HMX)	4.12	Australia – 11 IOCG projects Mount Isa Project hub, Queensland – Three projects with resources. Kalman (194,700t copper, 294,900oz gold & 30,000t molybdenum). Overlander (13,341t copper & 448t cobalt), Mount Philip (iron - 19.11Mt @ 41.42% Indicated and 11.4Mt @ 33.82% Inferred). Plus 8 earlier stage projects – 7 of which have been drilled.

Peer comparisons – companies with gold exploration projects in Australia. Source: Align Research

A peer group of mainly gold exploration companies that are active in Australia has been prepared. In the above table, we have listed a number of such companies along with their Enterprise Value. This table demonstrates the sort of valuation currently being awarded by the market to such exploration plays.

These companies' projects are either at a more advanced stage of exploration, or are larger in scale or more numerous than Wishbone's four exploration projects. Based on this analysis, we believe that a credible valuation of A$2.32 million (or US$1.85 million) could be placed on Wishbone's exploration interests. **This represents a hefty 50% discount to the average Enterprise Value of these four peer group companies.**

Sum-of-the-parts valuation

Our target price is based on a sum-of-the parts valuation of the NPV(12) of the gold trading business, the peer comparison valuation for the exploration projects and allowing for current cash and debt.

US$ million	Valuation
Gold trading, exploration expenditure and plc costs	38.05
Gold exploration properties	1.85
Cash	2.6
Debt	(1.0)
Total	**41.50**

Target price	Number of shares	SOTP valuation US$ million	SOTP valuation £million	Per share p
Currently in issue	1,301,410,482	41.50	30.74	2.36
Fully diluted basis	1,558,413,068	41.50	30.74	**1.97**

Table: Sum-of-the-parts valuation and target price for Wishbone. Source: Align Research

Our valuation for Wishbone is thus US$41.50 million (£30.74 million) which equates to 2.36p based on the number of shares currently in issue (1,301,410,482). **Our target price however has been calculated on a fully diluted basis (1,558,413,068 shares) dividing the valuation by the sum of the total number of shares and warrants expected to be in issue by the year-end, plus the 240 million shares that will result from the payment of the deferred consideration for PMI and Black Sands.** On a fully diluted basis our target price is 1.97p.

As the gold trading business is being ramped up and the off-take contracts begin to bear fruit, we expect there should be good news flow over the next eighteen months. Each and every deal in supplying mining equipment brings a long-term off-take agreement, providing a guaranteed additional supply of gold at an attractive discount to the current gold price. **This has the potential to create a growing, highly visible stream of earnings for the company stretching well into the future**. In this way, each of these deals will add value and we look forward to being able to update our target price in the future as the strategy is rolled out in a number of countries. **Our coverage of Wishbone Gold is initiated with a target price of 1.97p and a Conviction Buy stance.**

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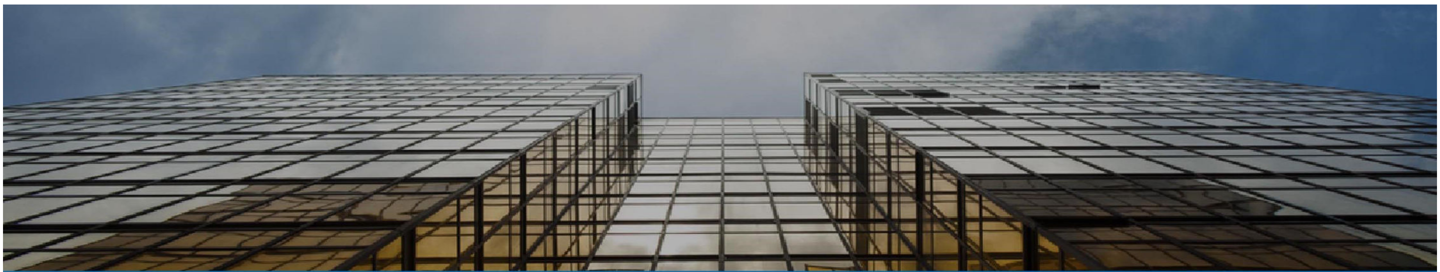

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