

MUSTANG RESOURCES LIMITED (MUS)

Montepuez rubies set fire to gem markets

Mozambican rubies first appeared in quantity on world markets in 2009. The worldwide ruby trade has since been revitalised by the quantities and qualities of Mozambican rubies mined in the Montepuez district. The best Montepuez rubies are often compared to the highest value Mogok stones from Myanmar that have long been in scarce supply in the rough. Gemfields Plc produced and sold rough Montepuez rubies for US\$280M revenue from 2014 to 2017. At least an equivalent amount of informal production may also have come out of Montepuez in the same period.

Ruby bearing gravels present, bulk sampling underway

The main commercial sources of high value rubies at Montepuez are laterally extensive gravel beds with varying ruby content up to 3ct/t and average ruby values of US\$50-700/ct.

Mustang Resources Limited (Mustang) established the presence of ruby bearing gravels on its Montepuez licences in 2016 and the first half of CY2017 through production of 8,400 carats. Mustang's best bulk sampling grades of 50 ct/100t were returned in June 2017 from a shallow objective gravel within a newly acquired licence. The Company's test pits and previous artisanal mining have recovered rubies over a 2km trend at the site.

Mustang's most recent bulk sampling is a significant advance towards understanding the geology at Montepuez and opening up the commercial potential of its licences.

Ramp-up expected from July 2017

The Company has installed capacity to bulk sample 1,500 tonnes of gravel per day, equivalent to about half of Gemfields' recent average throughput rate. Mustang's ramp up to full capacity of 380ktpa began in July 2017.

Inaugural ruby auction due in October 2017

MUS expects to sell its first rubies by auction and tender in October 2017. The Company anticipates offering 200,000 carats of rubies at the auction, a large proportion of which will be inventory acquired for US\$2-10/ct from contracted local prospectors. Hartleys estimates MUS could receive about US\$10M in revenue from the auction. The Company plans to extend its arrangements with prospecting teams into 2018.

Field potential drives Speculative Buy

Mustang is the only pure listed exposure to the Montepuez gem field. The Company has a promising bulk sampling program coming up that would convert seamlessly to commercial operation if successful. Hartleys recommends Mustang as a Speculative Buy to risk tolerant and patient investors as the Company builds up a production and sales record in 2017 and 2018. We set a 12 month target price of 8.5 cps.

17 Jul 2017

Share Price (last):	\$0.055
Price Target:	\$0.085

Brief Business Description

Ruby producer and explorer

Hartleys Brief Investment Conclusion

Mustang is developing a production base in the lucrative Montepuez ruby field in Mozambique. Bulk sampling ramp-up is planned from July 2017.

Issued Capital	566M
- fully diluted	699M
- ITM diluted	699M
Market Cap	\$31.1M
- fully diluted	\$38.5M
- ITM diluted	\$38.5M
Cash -Mar 2017	\$3.1M
Debt -Mar 2017	\$0.0M
EV	\$28.0M
- fully diluted	\$38.5M

Projects

Montepuez, Mozambique	Rubies
Balama, Mozambique	Graphite

Board & Management

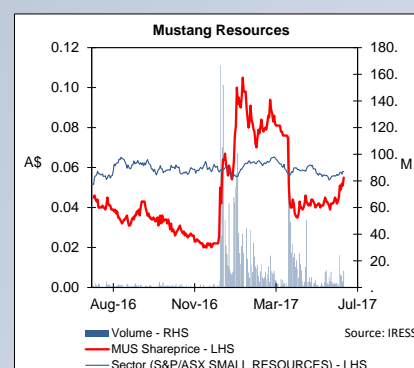
Ian Daymond	Non-Exec Chairman
Christiaan Jordaan	Managing Director
Cobus van Wyk	Exec Director
Peter Spiers	Non-Exec Director

Top Shareholders

Regius Resources Group Limited	10.6%
Lanstead Capital L.P.	7.2%
Andium Pty Ltd	5.8%

Company Address

Level 10, 20 Martin Place
 Sydney NSW 2000



John Macdonald
 Resources Analyst
 Ph: +61 8 9268 3020
 E: john.macdonald@hartleys.com.au

Hartleys has provided corporate advice within the past 12 months and continues to provide corporate advice to Mustang Resources Limited, for which it has earned fees and continues to earn fees. Hartleys has a beneficial interest in 22,253,796 unlisted options in Mustang.

SUMMARY DATA

Mustang Resources Ltd		Share Price		17/07/2017	
MUS		\$0.055		Speculative Buy	
Key Market Information					
Share Price		\$0.055			
Market Capitalisation		\$31.1M			
Cash		\$3.1M			
Debt		\$0.0M			
Net cash Mar '17		\$3.1M			
Issued Capital		566M			
Issued Capital (fully diluted ITM options)		699M			
Options		133M			
Issued Capital (fully diluted all options)		625M			
EV		\$28.0M			
12 mth price target		\$0.085			
Projects					
Interest		Location		Commodity	
Montepuez *		52.5-65%		Mozambique Rubies	
Balama		60-95%		Mozambique Graphite	
* JV Partners include SLR Mining Lda and Lanstead Partners Limited					
Bulk sampling					
Ore t		Grade cpts		Carats	
Rubies					
Secondary 2016-17		35,363		0.24 8,397	
26-Oct		2,683		0.17 460	
24-Nov		3,218		0.11 350	
20-Jan		5,399		0.15 828	
9-Mar		24,063		0.10 2,313	
28-Jun		8,823		0.50 4,445	
P&L					
FY2014A		FY2015A		FY2016A FY2017H	
A\$		A\$		A\$ A\$	
Net Revenue		-		- -	
Total Costs		(23.4) (6.6)		(10.2) (1.2)	
EBITDA		(23.4) (6.6)		(10.2) (1.2)	
Deprec/Amort		-		(0.1) -	
EBIT		(23.4) (6.6)		(10.3) (1.2)	
Net Interest		0.0 0.0		0.0 0.0	
Pre-Tax Profit		(23.4) (6.6)		(10.3) (1.1)	
Tax Expense		-		- -	
NPAT		(23.4) (6.6)		(10.3) (1.1)	
Abnormal Items		0.2 4.7		(1.4) 0.7	
Reported profit (loss)		(23.3) (1.9)		(11.6) (0.5)	
Financial years are years to June 30					
Directors and Key Management					
Company Details					
Ian Daymond (Non-Exec Chairman) Level 10, 20 Martin Place					
Christiaan Jordaan (CEO/MD) Sydney NSW 2000					
Corbus Van Wyk (Exec Director) +61 2 9239 3119					
Peter Spiers (Non-Exec Director) www.mustangresources.com.au					
Shareholder					
M shs		%			
Regius Resources Group Limited		59.7		10.6%	
Lanstead Capital L.P.		40.9		7.2%	
Andium Pty Ltd		32.9		4.7%	
Investment Summary					
Ruby explorer with extensive tenure and 380ktpa bulk sampling capacity in the Montepuez district of Mozambique.					
Gems produced in the Montepuez district have rejuvenated ruby markets worldwide. Mustang is ramping up bulk sampling activity to 380ktpa from July 2017.					
Key Milestones/Newsflow					
Project					
MUS acquires ruby licences in Montepuez		Oct-15		Montepuez	
Capital raise \$5.75M at 20cps		Nov-15		Montepuez	
Jordaan appointed MD		Dec-15		Montepuez	
Bulk sample equipment moved to Montepuez		Apr-16		Montepuez	
Capital raise \$3M at 4cps		Apr-16		Montepuez	
1st rubies identified in exploration		Jul-16		Montepuez	
Capital raise \$1M at 4cps		Aug-16		Montepuez	
Plant commissioning 460cts recovered		Oct-16		Montepuez	
Capital raise \$2.8M at 2.1cps		Dec-16		Montepuez	
Acquisition 65% of 8245L		Feb-17		Montepuez	
High grade graphite intersected at Caula		Mar-17		Balama	
Ruby auction planned for October 2017		Apr-17		Montepuez	
4400 cts recovered from pit LM01, 0.5ct/t grade		Jun-17		Montepuez	
Bulk sampling at capacity		Q3 CY17		Montepuez	
Bulk sampling ruby recoveries		Q3 CY17		Montepuez	
Ruby auction results		Q4 CY17		Montepuez	
Sales of bulk sample rubies		CY18		Montepuez	
Move to positive cashflow		CY18		Montepuez	
Unpaid Capital					
No (m)		\$ (m)		Ave Pr % Ord	
Options/Performance Rights					
30-Jun-18 Options		19.1 0.6		0.03 3%	
30-Jun-19 Options		34.5 3.1		0.09 6%	
30-Jun-20 Options		79.7 3.5		0.04 14%	
Total		133.4 7.2		0.05 24%	

Sources: Mustang Resources, IRESS, Hartleys Research

Top quality rubies command similar prices to equivalent diamonds. Rubies are much rarer.

COMPANY BACKGROUND

The current Mustang board, and the Company's focus on Mozambique mineral exploration, began to take shape in 2014. Acquisition of the Balama Graphite licences (October 2014) and Montepuez Ruby licences (October 2015) formed the basis of subsequent activities.

MONTEPUEZ RUBY PROJECT

The Montepuez Ruby Field

Ruby is red corundum (Al_2O_3). Non-red (even pink) corundum is designated sapphire, and a diffuse boundary separates the two classifications. Ruby value per carat can exceed that of any gem, including diamond, and like diamonds the value range extends from +US\$100,000/ct all the way down to a few dollars per carat. Prices depend on origin, colour, fluorescence, size and clarity.

Ruby supply can be fitful, and is generally restricted to artisanal and/or privately funded mines with limited future supply visibility. Rubies from the Mogok region in Myanmar have historically set the standard for quality and value. Other fields with less consistent or inferior value rubies have been developed in Sri Lanka, Afghanistan, Thailand, Madagascar and Vietnam. Supply shortages in the decade prior to 2010 led to a proliferation of enhancement techniques, some of which undermined demand. Rubies from Mozambique first appeared in quantity in Thai markets from about 2009. Mozambican rubies have since revitalised the worldwide trade because of the large quantities and the wide range of qualities and sizes made available. The best Mozambican rubies can be compared to the highest value Mogok stones that have long been in scarce supply in the rough.

Fig. 1: Montepuez Project location map.



Source: Mustang Resources

MRM (75% Gemfields Plc) produced 10M carats of rubies and corundum in 2015/16 at Montepuez and has plans to increase output to 20M carats per annum.

Mozambique's ruby field lies within a package of weathered metamorphic rocks north and east of the regional town of Montepuez. An unspecified amount of rubies has been generated by informal *garimpeiro* or artisanal workings occurring over a 30km by 20km belt. The artisanal activity predominantly targets alluvial gravels, mined at surface or in pits dug through up to 10m of overburden.

Prior to 2017 the only formally reported sales of Mozambican rubies were made by AIM listed Gemfields Plc, operating as Montepuez Ruby Mining (MRM). MRM acquired 75% of two ruby licences at Montepuez in early 2012 and began mining and processing operations later the same year. In eight auctions from June 2014 to June 2017 MRM sold 9.5M carats of rough rubies, for US\$280M in revenue. At the most recent MRM auction, conducted in June 2017, 900k cts were sold realising US\$55M in revenue at an average of US\$61/ct; a record revenue total so far from a single MRM auction.

MRM mines gravel beds, worked elsewhere by artisanal miners, and friable amphibolite or primary ruby and corundum material. Rubies from the gravel beds are naturally sorted and have a high average value, but occur at lower grades (<3ct/t), while primary ores are high average grade (+10ct/t), but yield low average value rubies and corundum. Average values per carat realised at each MRM auction have varied from US\$4/ct to US\$688/ct; reflecting the range of ruby pricing according to quality.

Fig. 2: MRM auction results.

Auction date		Jun-14	Dec-14	Apr-15	Jun-15	Dec-15	Jun-16	Dec-16	Jun-17	Total
Sales	US\$M	33.5	43.3	15.9	29.3	28.8	44.3	30.4	54.8	280.3
Average price	\$/ct	18	689	4	617	318	29	28	61	30
Total sales	M cts	1.82	0.06	3.96	0.05	0.09	1.52	1.09	0.90	9.48

Source: Gemfields Plc

MRM average price per carat for Montepuez rubies has been US\$30/ct, including both high value colluvial and low value hard rock sourced stones.

Fig. 3: Gemfields Plc share price chart 2007-2017.



Source: IRESS

Gemfields Plc was taken over in June 2017 by JSE listed Pallinghurst Resources Ltd through a contested scrip bid. Gemfields' market capitalisation at the close of the bid was of GBP211M (35p, June 2017), incorporating US\$55M net debt, the loss making Faberge marketing division and producing assets in Mozambique (rubies) and Zambia (emeralds). Based on proportionate revenue (rubies comprise 70% of Gemfields' post 2014 revenue), the estimated enterprise value for Gemfields' MRM assets at the time of the takeover was about A\$300M.

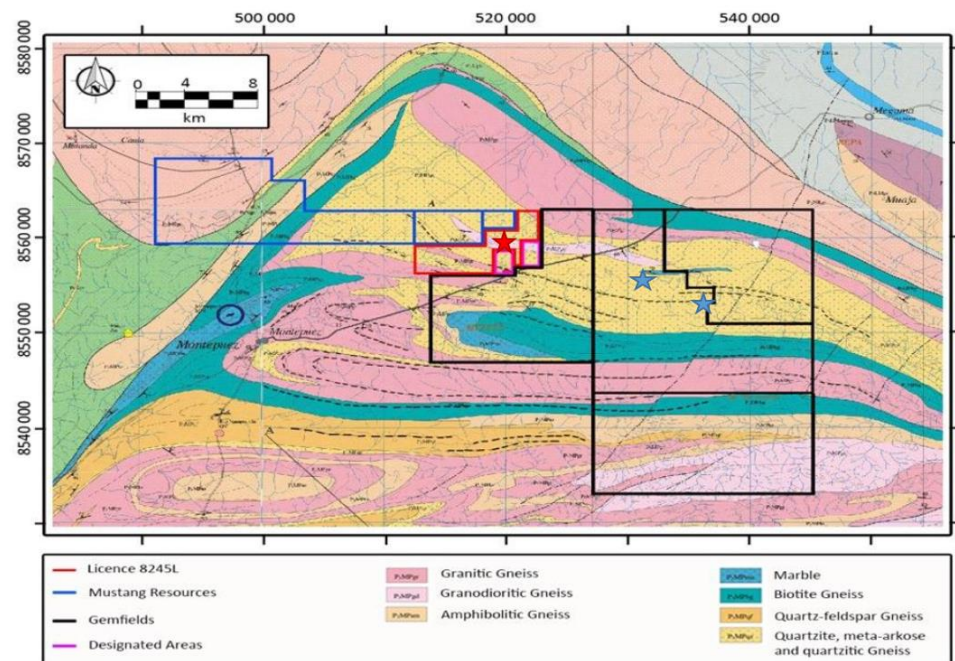
The absorption of Gemfields into a more diversified group has strengthened Mustang's case as the only listed, pure Mozambican ruby exposure.

Fig. 4: Montepuez licence map.

★ Pallinghurst (Gemfields) mining operations 29Mcts in sales for US\$280M in revenue

★ MUS bulk sampling on license 8245L, Pit LM01

Mustang's licences are along geological trend from Gemfields' 75% owned MRM operations.



Source: Mustang Resources, Hartleys.

Mustang at Montepuez

Mustang acquired majority interests in Licences 4143L (60%), 4258L (52.5%) and 5030L (52.5%) in late 2015, covering the interpreted north western extension of the prospective geology worked by MRM. In February 2017 Mustang acquired 65% of 8245L (figure 6). The Company began field work at Montepuez in early 2016. The former Chief Geologist for MRM in Montepuez, Paul Allen, has led the geological program for Mustang since March 2016.

Fig. 5: Mustang licence register, Mozambique, April 2017.

Licence No.	Area (km2)	Commodity	Issue Date	Valid Until	Interest/RTE
8245L	35	Rubies	16/12/2016	16/12/2021	65%
4143L	19	Rubies	14/12/2011	14-12-2016 #	60%
4258L	5	Rubies	21/07/2011	21/07/2019	52.5% to 60%
5030L	134	Rubies	3/09/2013	3/09/2018	52.50%
4661L	148	Graphite	11/09/2013	11/09/2018	60%
4662L	95	Graphite	1/10/2012	1/10/2017	60%
5873L*	138	Graphite	17/11/2014	17/11/2019	60% to 75%*
6636L	46	Graphite	16/07/2014	16/07/2019	75%
6678L	32	Graphite	18/03/2014	18/03/2019	80%
6363L	76	Graphite	18/11/2015	18/11/2020	90%
7560L	128	Graphite	21/06/2016	21/06/2021	95%

Source: Mustang Resources

Licence extension application submitted and letter of comfort from Ministry of Mines received stating that extension to 14-12-2019 will be granted.

Mustang's interest in licence 5030L is contingent upon acquisition payments to the local partner of US\$750,000 six months after bulk sampling startup and US\$750,000 twelve months after bulk sampling startup. Bulk sampling on 5030L has not yet started.

Mustang has a call option to acquire an additional 10% in licence 4258L for US\$1M, upon successful conclusion of the bulk sampling program.

MUS will be required to pay SLR Mining Lda US\$1.5M following the successful completion of a 150kt bulk sampling program on licence 8245L which leads to the decision to start full-scale mining. Bulk sampling on 8245L began in June 2017. SLR Mining Lda receives a US\$3,000 per month consulting fee, effective from 1 June 2017.

Geology and mineralisation

Mustang's strategy at Montepuez is to find and exploit commercial colluvial deposits, or gravel horizons. Interpretation of the geology of the ruby bearing gravels over the entire Montepuez field is in its formative stages. The range of ruby types suggests multiple source rock types, and there is also evidence that there is more than one sort of ruby bearing gravel. One objective, which occurs widely over at least 30km east-west, is a poorly sorted, 30cm to 4m thick conglomeratic bed with highly variable ruby content. The gravel has an angular clast component, suggesting it is a reworked colluvial deposit with possibly erratic ruby distribution on a 1km scale.

Bulk sampling and exploration

Mustang established the presence of a prospective bed at the Alpha site, beneath 7-14m of overburden, with small scale pits before committing to a bulk sampling program in mid-2016.

Mustang's equipment previously used for alluvial diamond exploration was relocated to site in September 2016 and bulk sampling began from the Alpha pit site in October 2016. Early processing rates and recoveries were impeded by water shortage and clay handling issues. A series of plant upgrades and modifications, mainly addressing water access and use, meant plant throughput was restricted to a fraction of planned capacity in the six months to June 2017. Bulk samples from Alpha extended, Pit 224 and Pit FNB were processed in this period. By late April Mustang had mined and processed 26,600t of gravels, recovering 3,900 cts of rubies (15 ct/100t).

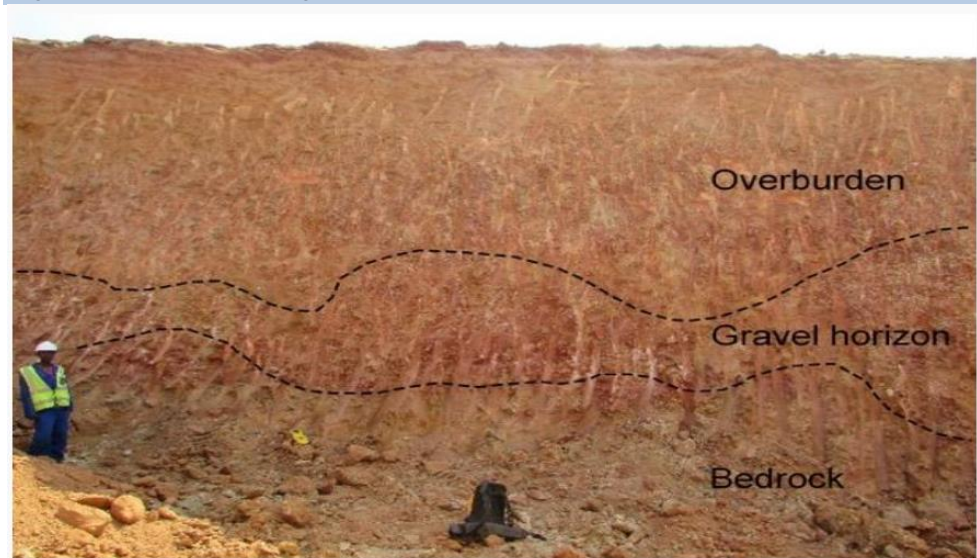
Artisanal mining activity 3km south east of the Alpha pit trial mine, in the newly acquired licence 8245L, led Mustang to prepare for bulk sampling in that location in May 2017. Earlier in the year up to 100 *garimpeiro* miners were working a near surface gravel in a low lying area. Mustang geologists witnessed good quality rubies being recovered by the *garimpeiros*.

Upon receipt of an environmental permit in late April 2017, transfer of bulk sampling operations to 8245L (pit LM01) yielded an immediate improvement. By June 2017 4,400 cts were recovered from a sample of 8,800 tonnes, for an average recovered grade of 50 ct/100t. The target gravel at the new prospect is exposed by a modern drainage, along which hand dug test pits have traced the colluvial gravel for 2km (figure 7). Overburden in the area is generally less than 1.5 metres thick.

Mustang plans to increase throughput at Montepuez to 1,500tpd (380ktpa) by the end of July 2017.

The target gravel on Mustang leases is an easily identified, poorly sorted horizon with rounded, grapefruit sized clasts and sub 5mm angular fragments.

Fig. 6: Exposed gravels, Alpha pit, Montepuez.



Stratigraphy of Alpha-Pit (licence 4143L)

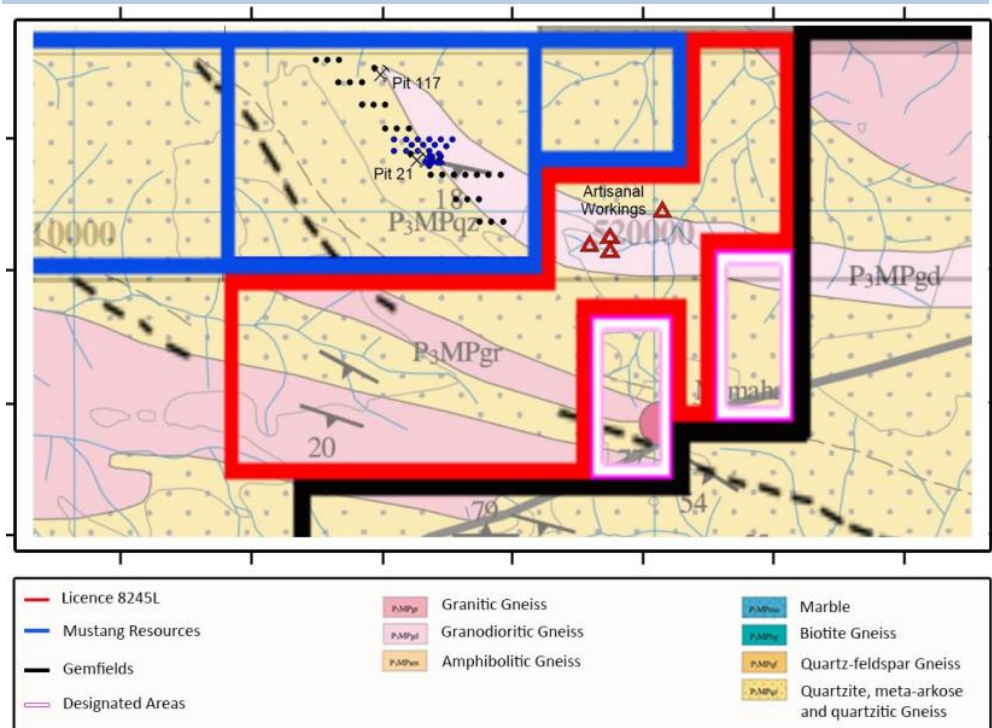
Source: Mustang Resources

Resource potential

In common with MRM's experience Mustang has found the objective gravel almost wherever testing has occurred on its leases, at varying thickness and overburden cover. Bulk sampling is still required to determine the commercial potential, as the geological controls on ruby distribution are not yet well understood. The source rocks for the rubies are structures within amphibolite, which are generally not exposed and difficult to map from geophysics. The objective gravels were likely deposited in high energy, short lived flooding events, and the rubies may have been transported more than once. Gemfields' reports suggest the distribution of rubies within the gravels is highly variable. One colluvial deposit is reported to have yielded 160kt of material at an average grade of 3 ct/t (300ct/100t). In alluvial gem deposits 3ct/t is super high grade. For Mustang, success at Montepuez requires a combination of persistence in bulk sampling gravel horizons, and geological detective work, to discover trends of higher ruby grades.

Fig. 7: Mustang bulk sampling pits and auger drilling, April 2017.

Auger drilling and hand dug test pits identify the presence of the target gravel, but ruby grades must be tested by bulk sampling.



Source: Mustang Resources

Fig. 8: Mustang bulk sampling pits and hand dug test pits, June 2017.

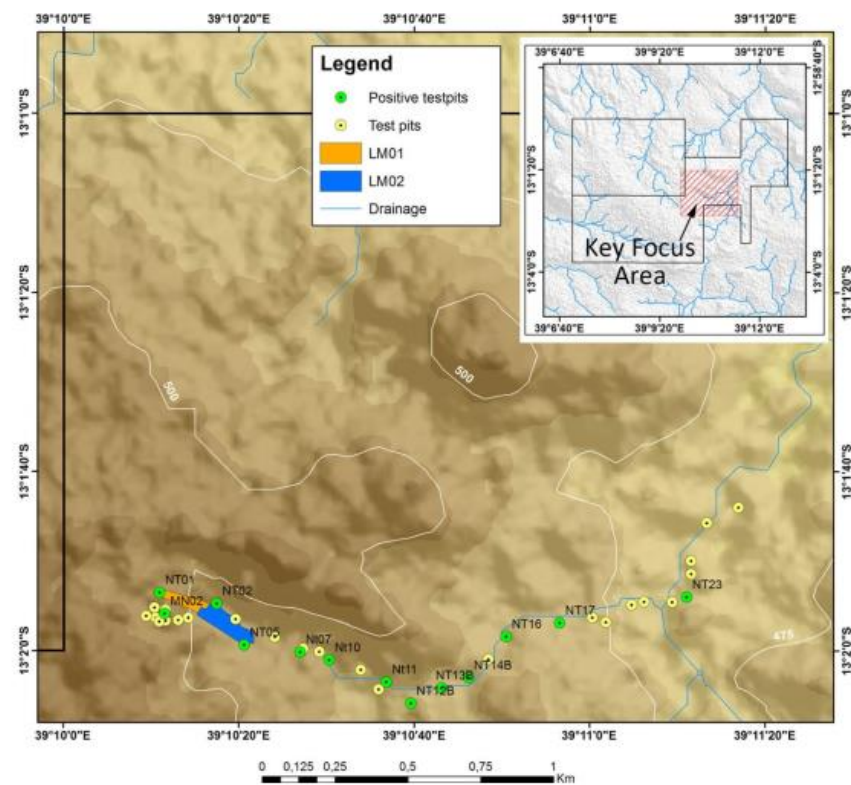


Figure 3. Map of current bulk sampling activity & manual test pits

Source: Mustang Resources

*Estimates of average
ruby values obtainable
from secondary
material range up to
US\$700/ct.*

Production considerations

To date Mustang has developed a 380ktpa processing capacity at Montepuez at a cost of less than A\$10M. Commercial gem operations depend both on ore grades in carats per tonne and average value per carat. The product of the two statistics gives a \$/t figure which is a more useful number. All up costs in Montepuez might average US\$15-40/t, depending on a number of factors. At 50 ct/100t (recovered) and US\$300/ct (rough), revenue would be US\$150/t. Mustang's early indication of 50 ct/100t from the June bulk sampling results at 8245L is encouraging in this context, although the tonnage tested is still limited at this stage. Average carat value also remains unconstrained, probably in the US\$50-700/ct range.

MRM's past operational results are not split out into gravel and primary derived rubies and corundum, although past production reports include mention of colluvial pit ruby grades of 10 to 300 ct/100t. Mined colluvial gravel grades may be highly variable, with gem concentrations in potholes or pockets. Even grades of 10 ct/100t are commercial if the average ruby value exceeds \$600/ct.

Revenue statistics for stand-alone colluvial operations at Montepuez are not available. MRM's average ruby revenues at individual auctions vary from US\$4/ct (US\$16M total revenue in April 2015) to US\$688/ct (US\$29M total revenue in December 2014). MRM's project average revenue per sold carat to June 2016 was US\$30/ct. The figures combine secondary (colluvial, low volume, high unit value) and primary (weathered rock, high volume, low unit value) derived rubies and corundum. The weathered primary rock pits produce the majority of MRM production by total carats, but a minor proportion of total revenue.

Importantly, MRM has sustained high value (+US\$50/ct) ruby production over at least a three year period, and multiple colluvial deposits have been found and successfully exploited. There are no signs that the Montepuez field's ruby output, by volume or value, has waned.

Security

Montepuez has become a ruby mining and trading hub, attracting numerous organised groups from around the world, active at all levels of ruby extraction and sales. MRM employs a security force of over 400 to protect its commercial interests and mining rights. Mustang has 20 security staff and has plans to expand security measures in proportion with its activities.

Ruby sales

In January 2017 Mustang began to engage and employ local workers in prospecting teams with the intention of accelerating exploration. By the end of April 2017 Mustang announced that the Company had a ruby inventory of 120,000 carats, of which 111,600 carats had been brought in by its prospecting teams. For the most part the prospecting teams are unsupervised. Mustang has taken reasonable measures to ensure that prospecting by its contracted workers is conducted within its leases. Workers are paid a salary plus production bonuses for ruby volume, quality and quantity. Mustang's use of prospecting teams augments exploration and provides quantities of rubies for marketing development purposes. Mustang estimates a cost of US\$2-10/ct for rubies acquired through its artisanal mining development scheme.

The Mozambican government began a crackdown on illegal ruby exports in 2017, motivated by missed tax revenue. Agreements with Mustang became more

*Mustang sees ruby
production through
contracted
prospectors as a way
of assisting
exploration and
marketing efforts.*

attractive for local prospectors as a result. Mustang intends to extend its artisanal mining development scheme into 2018, subject to the forbearance of customers requiring watertight chain of custody evidence.

After investigating the potential for in-house cutting Mustang has opted to sell rough ruby product only. Sales of rough rubies are usually conducted by tender or auction. Sorting and classification of rubies by the vendor into marketable parcels assists buyers of bulk product and can maximise revenue. Mustang has adopted a similar rough ruby classification scheme to the one developed by MRM.

Mustang expects to sell its first rough rubies through closed bid in October 2017. The Company anticipates offering up to 200,000 carats of rubies at the auction (MRM sells its rubies by 2 auctions/tenders each year in parcels of low quality, high quality or mixed quality stones). Hartleys thinks US\$10M total revenue from the auction, before 6% production tax, would be a good result for Mustang.

Finance

Mustang spent \$8.1M, including corporate and administration costs, in the 9 months to March 2017. Cash at the end of March 2017 was \$3.1M. Mustang will require external funding before October 2017, when the Company expects to receive revenue from ruby sales.

Fig. 9: Mustang's rubies from LM01 pit, June 2017.



Source: Mustang Resources

BALAMA GRAPHITE

Mustang Resources has up to 95% of 7 licences in the Mozambican belt that hosts the higher profile graphite projects held by Syrah Resources (SYR.ASX), Battery Minerals (BAT.ASX) and Triton Minerals (TON.ASX). Mustang drilled 5 holes at Caula in early 2017, intersecting true widths of 14-65 metres averaging 15% total graphitic carbon (maximum intercept 26% TGC). Caula's prospective graphite unit is within a fold nose whose limbs extend from 800 to 1000m of strike in Mustang's licence. Core from Caula has been submitted for metallurgical analysis. Resource estimation and scoping studies are planned upon receipt of the initial metallurgical assessment.

Balama is a potentially strategic asset within the developing graphite industry in Mozambique. Syrah is due to commission production facilities in early 2018. Caula is potentially a higher grade resource situated nearest the transport hubs of Montepuez town and the port of Pemba.

INDUSTRY AND GEOGRAPHIC EXPOSURE

A new Mining Law was enacted in Mozambique in August 2014. The intent of the Law is to require Mozambican participation in the mining sector through direct ownership and supplier roles. The Law provides for 7 types of mining title, which can only be granted to Mozambican persons or entities. Relevant taxes include 32% income tax and a mining tax of 1.5-8.0% of sales.

Mozambique became an independent nation in 1974 upon the collapse of the Portuguese colonial administration. A subsequent civil war ended in 1992 allowing the first democratic elections to take place in 1995. Filipe Nyusi was sworn in as president in 2015. The discovery of offshore gas fields in 2015 is likely to transform the Mozambican economy.

MANAGEMENT, DIRECTORS AND MAJOR SHARE HOLDERS

Economic Exposure of Board and key management					Total Economic Exposure	rank
Position		Shares	Options	Rights		
Directors						
Ian Daymond	Non-Exec Chairman	500,000	33,333	250,000	783,333	3
Christiaan Jordaan	Managing Director	59,725,308		6,860,000	66,585,308	1
Cobus van Wyk	Exec Director	59,725,308		6,860,000	66,585,308	1
Peter Spiers	Non-Exec Director					
		119,950,616	33,333	13,970,000	133,953,949	
Key Management Personnel						
Paul Allan	Independent Consulting Geologist	Not disclosed				
Gerhard Burger	Mine Manager	Not disclosed				
Graca Calheiros	Country Manager	Not disclosed				

Source: Mustang Resources

DIRECTORS

Ian Daymond, appointed Non-Executive Chairman in July 2014

Mr Daymond is a solicitor and consultant to the mining and resources area. He was General Counsel and Company Secretary of Delta Gold Ltd for over 11 years during which the company grew from small gold explorer into one of the largest Australian gold producers with mining interests in southern Africa. Mr Daymond has served as a NED of International Base Metals Ltd, Eldore Mining Corporation Ltd, ActivEX Ltd and Copper Range Ltd and Hill End Gold Ltd. He is Honorary Consul in NSW for the Republic of Botswana.

Christiaan Jordaan – Managing Director, appointed December 2015.

Mr Jordaan is former CEO and Co-Founder of Regius Resources Group Ltd, a Mozambican focused mining and exploration company operating in Mozambique since 2004. He is a Member of the Australian Institute of Company Directors and holds a Commercial Law Degree.

Cobus van Wyk – Executive Director, appointed June 2015

Mr van Wyk is CEO and co-founder of the Regius group of companies. He has a Bachelor of Marketing from the Tshwane University of Technology and an MBA at the University of Wales. Mr van Wyk is a qualified portfolio manager and Stockbroker.

Peter Spiers - Non-Executive Director, appointed May 2017

Mr Spiers is a geologist, formerly Group Manager Business Development for WMC Resources to 2001 and MD of ASX listed Orbis Gold, until its takeover in 2015.

MAJOR SHAREHOLDERS

Shareholder	M shs	%
Regius Resources Group Limited	59.73	10.6%
Lanstead Capital L.P.	40.86	7.2%
Andium Pty Ltd	32.90	4.8%

Source IRESS

MUSTANG OPTIONS AND PERFORMANCE RIGHTS

Expiry year ending		Jun 17	Jun 18	Jun 19	Jun 20
Options	M		0.1	8.0	61.9
Exercise price	\$/opt	0.25	0.24	0.15	0.04
Options	M		2.0	19.0	5.9
Exercise price	\$/opt	0.21	0.09	0.08	0.03
Options	M		1.0	7.5	3.0
Exercise price	\$/opt	0.25	0.06	0.06	0.15
Options	M		2.0		3.0
Exercise price	\$/opt		0.15		0.20
Options	M		14.0		5.9
Exercise price	\$/opt		0.00		0.03
Total	M	0.0	19.1	34.5	79.7
Exercise price	\$/opt		0.03	0.09	0.04

Source IRESS, Mustang Resources

VALUE CONSIDERATIONS

SHARE PRICE TARGET

Mustang's major asset is at an early stage of exploration and development. Potential tonnage, ruby grades and average contained ruby values available to the mining/bulk sampling operation at Montepuez are yet to be formally estimated by the Company and its consultants.

A useful yardstick for placing Mustang's Montepuez project in context is the MRM Montepuez project, which has an operating history and a discernible market value. Since 2012 Gemfields has built an operation at Montepuez (75% ownership) with an EV of about A\$300M (pre takeover, proportionate to revenue, see page 5) after capital expenditure of US\$70-80M. Gemfields has about twice the ore treatment capacity of Mustang at Montepuez. Gemfields is also considerably more advanced in identifying ruby resources and establishing a market presence than Mustang.

Hartleys considers that, on the evidence available, Mustang is well placed to establish a commercial ruby mining operation at Montepuez. Hartleys sets a 12 month target price of 8.5 cps on Mustang, based on a 30% chance of Mustang developing a project with an apparent value of A\$200M in 12 months' time (Mustang share ~A\$124M).

RECOMMENDATION AND RISKS

RECOMMENDATION

In gem mining exploration and development are often parallel processes. At Montepuez, Mustang is in the early stages of understanding the geology and its commercial layout. Regional activity, including private ruby production and Gemfields' operations, demonstrates exceptional commercial potential among the district's ruby prospects, to the extent that the world's ruby markets have been rejuvenated by the inflow of quality stones. Mustang has established that the

prospective geology extends throughout its leases and bulk sampling is about to start in earnest. Hartleys is looking for progress to commercial production in the 2nd half of CY2017, with confirmation of revenue levels in CY2018, when Mustang sells its own mined and processed rubies in quantity.

Mustang has clear medium term potential based on its capabilities and assets in an exciting new gem field. Patience may be required in the short term as the Company builds up a production and sales record. We initiate with a Speculative Buy recommendation.

Assumptions and risks for valuation

Assumption	Risk of not realising assumption	Downside risk to valuation if assumption is incorrect	Comment
The geology of Mustang's leases can support commercial ruby production.	Medium	High	A commercial precedent is established on nearby leases. Rubies have been recovered from Mustang's leases, possibly at commercial grade. Sample size remains small and revenue indications are at an early stage.
Mustang will find commercial ruby deposits at a reasonable cost.	Medium	High	Gem commerciality is difficult to determine from small samples. Geological inference and systematic bulk sampling are required.
The market will absorb Mustang's ruby output	Low	Medium	The impact of Montepuez ruby production on world ruby markets has so far been positive, with considerable unmet demand being only partly satisfied.
Tenure and social licences remain secure.	Medium	High	Mozambique has an explicit Mining Law. Several multinational mining firms are operating in Mozambique.

Conclusion

Mustang shares are a very high risk investment. The Company is yet to establish a track record. Most of the risks are associated with the geology of Mustang's Montepuez project and the process of exploration.

HARTLEYS CORPORATE DIRECTORY

Research

Trent Barnett	Head of Research	+61 8 9268 3052
Mike Millikan	Resources Analyst	+61 8 9268 2805
John Macdonald	Resources Analyst	+61 8 9268 3020
Paul Howard	Resources Analyst	+61 8 9268 3045
Aiden Bradley	Research Analyst	+61 8 9268 2876
Michael Scantlebury	Junior Analyst	+61 8 9268 2837
Janine Bell	Research Assistant	+61 8 9268 2831

Corporate Finance

Dale Bryan	Director & Head of Corp Fin.	+61 8 9268 2829
Richard Simpson	Director	+61 8 9268 2824
Ben Crossing	Director	+61 8 9268 3047
Ben Wale	Associate Director	+61 8 9268 3055
Stephen Kite	Associate Director	+61 8 9268 3050
Scott Weir	Associate Director	+61 8 9268 2821
Scott Stephens	Associate Director	+61 8 9268 2819
Rhys Simpson	Manager	+61 8 9268 2851

Registered Office

Level 6, 141 St Georges TcePostal Address:

PerthWA 6000 GPO Box 2777
 Australia Perth WA 6001
 PH:+61 8 9268 2888 FX: +61 8 9268 2800
 www.hartleys.com.au info@hartleys.com.au

Note: personal email addresses of company employees are structured in the following manner:firstname_lastname@hartleys.com.au

Hartleys Recommendation Categories

Buy	Share price appreciation anticipated.
Accumulate	Share price appreciation anticipated but the risk/reward is not as attractive as a "Buy". Alternatively, for the share price to rise it may be contingent on the outcome of an uncertain or distant event. Analyst will often indicate a price level at which it may become a "Buy".
Neutral	Take no action. Upside & downside risk/reward is evenly balanced.
Reduce / Take profits	It is anticipated to be unlikely that there will be gains over the investment time horizon but there is a possibility of some price weakness over that period.
Sell	Significant price depreciation anticipated.
No Rating	No recommendation.
Speculative Buy	Share price could be volatile. While it is anticipated that, on a risk/reward basis, an investment is attractive, there is at least one identifiable risk that has a meaningful possibility of occurring, which, if it did occur, could lead to significant share price reduction. Consequently, the investment is considered high risk.

Institutional Sales

Carrick Ryan	+61 8 9268 2864
Justin Stewart	+61 8 9268 3062
Simon van den Berg	+61 8 9268 2867
Chris Chong	+61 8 9268 2817
Digby Gilmour	+61 8 9268 2814
Tia Hall	+61 8 9268 3053

Wealth Management

Nicola Bond	+61 8 9268 2840
Bradley Booth	+61 8 9268 2873
Adrian Brant	+61 8 9268 3065
Nathan Bray	+61 8 9268 2874
Sven Burrell	+61 8 9268 2847
Simon Casey	+61 8 9268 2875
Tony Chien	+61 8 9268 2850
Tim Cottee	+61 8 9268 3064
David Cross	+61 8 9268 2860
Nicholas Draper	+61 8 9268 2883
John Featherby	+61 8 9268 2811
Ben Fleay	+61 8 9268 2844
James Gatti	+61 8 9268 3025
John Goodlad	+61 8 9268 2890
Andrew Gribble	+61 8 9268 2842
David Hainsworth	+61 8 9268 3040
Neil Inglis	+61 8 9268 2894
Murray Jacob	+61 8 9268 2892
Gavin Lehmann	+61 8 9268 2895
Shane Lehmann	+61 8 9268 2897
Steven Loxley	+61 8 9268 2857
Andrew Macnaughtan	+61 8 9268 2898
Scott Metcalf	+61 8 9268 2807
David Michael	+61 8 9268 2835
Jamie Moullin	+61 8 9268 2856
Chris Munro	+61 8 9268 2858
Michael Munro	+61 8 9268 2820
Ian Parker	+61 8 9268 2810
Charlie Ransom	+61 8 9268 2868
Mark Sandford	+61 8 9268 3066
David Smyth	+61 8 9268 2839
Greg Soudure	+61 8 9268 2834
Sonya Soudure	+61 8 9268 2865
Dirk Vanderstruyf	+61 8 9268 2855
Samuel Williams	+61 8 9268 3041
Jaime Walsh	+61 8 9268 2828

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Hartleys has provided corporate advice within the past 12 months and continues to provide corporate advice to Mustang Resources Limited, for which it has earned fees and continues to earn fees. Hartleys has a beneficial interest in 22,253,796 unlisted options in Mustang.

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