



30 January 2018

COMPANY INFORMATION

Mustang Resources Ltd
ABN 34 090 074 785
ASX Code: MUS

Current Shares on Issue:
771,433,387
Market Capitalisation:
\$21M as at 25 January 2018

COMPANY DIRECTORS

Ian Daymond
Chairman

Bernard Olivier
Managing Director

Christiaan Jordaan
Director

Cobus van Wyk
Director

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QUARTERLY ACTIVITIES REPORT FOR THE PERIOD ENDING 31 DECEMBER 2017

Mustang Resources (ASX: MUS) provides the following report on its activities for the three months to 31 December 2017.

Operations Report

Montepuez Ruby Project, Mozambique

During the quarter, Mustang announced that it would take a total of 405,000 carats to its maiden rough ruby tender at the end of October 2017. This was more than twice the 200,000 carats it initially targeted when setting the sale date and was considered by the Company to be an outstanding result driven by the highly successful expansion of its exploration activities at the Montepuez Ruby Project.

Mustang conducted the maiden tender of its rubies between 27 and 30 October 2017 in Port Louis, Mauritius. The tender results were received by the Company at 8pm AEDT on Monday, 30 October 2017.

Eight Bid Schedules totalling 29,463 carats of rough rubies were sold at prices ranging from A\$6 a carat to A\$1,944 a carat. The average realised price was A\$24.21/ct and gross sales proceeds of approximately A\$713,456 were received. Bids for the remaining 13 Bid Schedules offered for sale did not reach their reserve prices and were held over for subsequent sale.

As the Company acknowledged at the time, the tender results were clearly disappointing, but it had gathered valuable market intelligence for future tenders.

The feedback from buyers and the results demonstrated that Mustang needs to offer larger quantities of rubies in each category. This is because large buyers and their jewellery customers like to be confident there are an adequate number of similar rubies available to enable them to produce the required numbers for particular jewellery items. The tender process also enabled Mustang to identify those categories of stones in high demand.

Immediately following the tender, Mustang conducted an internal review of the auction and a re-assessment of its commercial and exploration strategy for rubies.

The review was aimed at identifying the reasons for the auction results and the measures Mustang should adopt to best unlock the full underlying value of its Montepuez Ruby Project.

Mustang announced that, as a result of the review, the following actions were being taken:

- the ruby grading system is being refined based on buyer feedback
- the current ruby inventory is being re-graded
- selected rough ruby parcels from the re-graded inventory will be offered for sale in Asia
- bulk sampling (excavation) activity was scheduled to be suspended at the onset of the wet season around end-November 2017 and preference given to processing surface stockpiles
- the exploration emphasis will shift towards lower-cost manual test pitting in order to establish a greater number of potential bulk sample test pit sites
- the artisanal miner development program (AMDP) was temporarily suspended pending a review of revenues to be received from the sale of AMDP rubies.

The AMDP was re-instated in January 2018 once a better understanding of pricing for stones obtained from the AMDP was achieved.

The remainder of the inventory offered for sale (but not sold) was retained in Mauritius in safe-keeping for future sale, together with subsequent inventory obtained from the processing of stockpiles at the Montepuez Ruby Project processing plant, which, except for a short break over Christmas, has been continuous.

The Company continues to enlarge its ruby market intelligence, develop sales channels and fine-tune its grading and sorting system. It has decided to set up a sales and marketing office in Chantaburi, Thailand. Chantaburi is seen as the centre of the global ruby trade with weekly rough gem trading and wholesale buyers converging there from around the world. The establishment of the Thailand sales office is well advanced, and the Company intends to commence direct test sales in the first quarter of 2018. The Company will focus on developing long-term sales channels and strategic sales partnerships for its rubies while still conducting ongoing sales, rather than conducting larger half-yearly tenders.

In identifying the most suitable sale channels for its rubies, the Company intends to test a number of avenues during the course of 2018. As a first step in this process, a further small, private tender was held in Bangkok, Thailand in December 2017 with 52,493 carats of mostly low-quality rubies sold for US\$220,800. This private tender provided the Company with valuable information in the development of its marketing and sales strategy and the use of the tender sales format versus direct, more frequent sales.

During the quarter, the Company relinquished one of its ruby licence interests (4258L), being the smallest of its licence areas comprising 490 hectares after initial sampling and test pitting were found not to be encouraging.

The Company is in negotiations to acquire additional ruby licence interests to increase its prospective areas in the ruby focused area in Montepuez to extend the life of the mine for the future.

Caula Graphite Project, Mozambique

The Caula Deposit is located along strike from Syrah Resources' (ASX:SYR) world-class Balama graphite project in Mozambique.

During the quarter, a maiden JORC compliant Inferred Mineral Resource of 5.4 million tonnes at an average grade of 13.0% TGC for 702,600 tonnes of contained graphite was estimated for the Caula Graphite Deposit. A cut-off grade of 6.0% Total Graphitic Carbon (TGC) was used for the estimation and resulted in over 700,000 tonnes of contained graphite.

The result confirms Caula's status as one of the highest-grade graphite deposits in the world.

Following the Resource estimate, Mustang announced that further metallurgical test work on oxide and fresh samples taken from Caula provided more firm evidence of the quality of the mineralisation.

The test work produced an improved flake distribution on the Oxide material, quantified the proportion of high revenue Super Jumbo (>500 µm) flake and improved the amorphous (<75 µm) grade from both oxide and fresh samples. Preliminary metallurgical testing done to date has firmly established Caula as being able to yield high percentages Super Jumbo, Jumbo and Large flakes (~55% in the fresh ore) with carbon content up to 98% (average of 97% across all products). This is a significantly better higher-value product distribution than all other peers in the Balama graphite province (including Syrah Resources) and at a high resource grade of 13% TGC.

Following the excellent results to date a further drilling program comprising 11 diamond holes and costing around \$500,000 was conducted on the resource during the quarter and results are expected to be released shortly. The purpose of this drilling is to increase the JORC Compliant Resource at Caula and to obtain more samples for metallurgical testing and optimisation, all such information feeding into planned future scoping and feasibility studies.

Given the excellent results achieved to date, the Company intends to fast track the project, including initiating discussions with potential offtake parties during the course of 2018 in pursuit of its goal of advancing the Caula project through its project phases.

During the quarter, the Company relinquished three graphite licence interests 4661L, 4662L and 6636L in the Balama region owing to a re-assessment of the prospectivity of the areas in the light of the relatively low grades obtained from previous drilling programs. The Company has decided to focus on its efforts and expenditures on the more prospective licences, 6678L and 5873L, based upon results obtained. However, the Company has decided to retain the northern licence interests (6363L and 7560L).

The Company is also investigating making additional graphite licence interest acquisitions in the near future, which strategically align with its current focus areas.

Corporate

During the quarter, Mustang announced that Christiaan Jordaan had resigned as Managing Director.

He remains as a Non-Executive Director of the Company. Mustang emphasises that it was Mr Jordaan's decision to resign and the Directors reluctantly accepted his resignation and are pleased he continues to serve on the Board.

Mustang Chairman Ian Daymond became Interim Executive Chairman until the appointment of a new managing director. Director Cobus van Wyk remained in charge of the ruby and graphite operations in Mozambique.

As previously announced subsequent to quarter end, Mr Peter Spiers resigned as a Non-Executive Director on 31 December 2017 to pursue other opportunities and, as announced in detail on 15 January 2018, the Company has appointed a highly experienced and qualified new Managing Director, Dr Bernard Olivier. Mr Cobus van Wyk has moved from being a Non-Executive Director to become an Executive Director and Chief Operating Officer reporting to Dr Olivier. Mr Daymond reverted to being independent Non-Executive Chairman and the newly constituted Board of Directors will give consideration to the appointment of a second independent non-executive director.

Subsequent to the quarter end, the Company also confirmed that the Sydney office had closed. The Company's registered office remains the same at Level 1, 9 Bowman Street South Perth Western Australia. The general office contact number is +61 (08) 9217 2400 and facsimile +61 (08) 9217 2401.

Mustang had A\$1.57 million cash on hand as at 31 December 2017 (refer to accompanying Appendix 5B).

As announced on 8 January 2018 subsequent to quarter end, the Company secured a significant A\$19.95 million funding package, in the form of a series of convertible notes over the next 18 months, from Arena Investors LP, a major US institutional investor with more than US\$750 million assets under management. This funding package highlighted the support for Mustang's graphite and ruby projects and follows an A\$8.5 million investment under a similar but not identical convertible note facility from Arena Investors LP in June 2017.

Further to the institutional funding, the Company also announced a one for five non-renounceable entitlement issue to give existing shareholders the opportunity to subscribe for new shares in the Company at 2.6 cents to raise up to A\$4 million. Further details will be announced shortly.

As announced on 12 January 2018, the Company received A\$423,650 from its insurers as a result of a successful insurance claim following the robbery at the Montepuez Ruby Project on 25 September 2017.

For and on behalf of the Company.



Dr. Bernard Olivier
Managing Director

FOR FURTHER INFORMATION, PLEASE CONTACT:

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COMPETENT PERSON STATEMENT:

Information in this report that relates to the Montepuez Ruby Project's Exploration Targets, Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Sara Turnbull, a Competent Person who is a registered member of the South African Council for Natural Scientific Professions (SACNASP), which is a Recognised Professional Organisation (RPO) included in a list posted on the ASX website. Ms Turnbull is an independent consultant who was engaged by the company to undertake this work. Ms Turnbull has sufficient experience, which is relevant to the style of mineralisation and type of deposit under consideration and to the activity, which she is undertaking to qualify as a Competent Person as defined by the 2012 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Ms. Turnbull consents to the inclusion of the data in the form and context in which it appears.

FORWARD-LOOKING STATEMENTS:

This document may include forward-looking statements. Forward-looking statements include, but are not necessarily limited to the Company's planned exploration program and other statements that are not historic facts. When used in this document, words such as "could", "plan", "estimate", "expect", "intend", "may", "potential", "should" and similar expressions are forward-looking statements. Although the Company considers that its expectations reflected in these statements are reasonable, such statements involve risks and uncertainties, and no assurance can be given that actual results will be consistent with these forward-looking statements.

APPENDIX: TENEMENT OVERVIEW 31 DECEMBER 2017

LICENCE NO.	AREA (KM ²)	COMMODITY	ISSUE DATE	VALID UNTIL	INTEREST/RIGHT TO EARN INTEREST
8245L	35.0	RUBIES	16-12-2016	16-12-2021	65%
8921C	19.2	RUBIES	13-09-2017	13-09-2042	60%
5030L	134	RUBIES	03-09-2013	03-09-2018	52.5%
5873L	137.8	GRAPHITE	17-11-2014	17-11-2019	60% TO 75%
6636L	45.7	GRAPHITE	16-07-2014	16-07-2019	75%
6678L	31.9	GRAPHITE	18-03-2014	18-03-2019	80%
6363L	75.79	GRAPHITE	18-11-2015	18-11-2020	90%
7560L	127.92	GRAPHITE	21-06-2016	21-06-2021	95%