MUSTANG
RESOURCES LTD

ABN 34 090 074 785

Interim Financial Report for the Half-Year Ended
31 December 2017

INDEX

CORPORATE DIRECTORY

This half-year report covers the consolidated entity consisting of Mustang Resources Limited (the "Company" or "Mustang") and the entities it controlled during the half-year ended 31 December 2017 ("Consolidated Entity" or "Group"). The Group's presentation currency is Australian Dollars.

OFFICERS	Ian Daymond (Non-Executive Director, Chairman) Bernard Olivier (Managing Director) Cobus van Wyk (Chief Operating Officer & Executive Director) Christiaan Jordaan (Non-Executive Director) Evan Kirby (Non-Executive Director) Robert Marusco (Company Secretary)
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SHARE REGISTRY	Computershare Investor Services Pty Ltd Level 11, 172 St Georges Terrace Perth, Western Australia 6000 Telephone: 1300 850 505 (within Australia) +61 3 9415 4000 (outside Australia) Facsimile: +61 3 9473 2500
ASX CODE	MUS

Directors' report

Your Directors submit this report for the half-year ended 31 December 2017.

Directors

The names of the Directors of Mustang Resources Limited in office from the beginning of the half-year until the date of this report, except where stated below, are:

Ian Daymond (Non-Executive Director, Chairman)
Cobus van Wyk (Non-Executive Director appointed 15 January 2018 as Chief Operating Officer & Executive Director)
Christiaan Jordaan – (resigned as Managing Director and appointed Non-Executive Director 13 November 2017)
Bernard Olivier (Managing Director) – appointed 15 January 2018
Evan Kirby (Non-Executive Director) – appointed 7 March 2018
Peter Spiers (Non-Executive Director) – resigned 31 December 2017

Review of Operations

Operating results

The consolidated net loss for the Consolidated Entity for the half year was $16,626,196 (2016: net loss of $1,159,809).

Operational overview

The Company continued with the development of its ruby and graphite exploration projects in Mozambique with a principal focus on the Montepuez Ruby Project. The Company also committed to additional resource definition work on its graphite licences publishing a maiden JORC Inferred Mineral Resource for the flagship Caula Project during the reporting period and targeting the completion of a scoping study in early 2018. Both projects in are being developed by Mustang under an operational management agreement with Regius Resources Group Ltd who has long history of operating in Mozambique.

Capital raisings of $10.93m during the 6 month period have allowed the Company to ramp up the bulk sampling activities on its ruby assets, conduct resource drilling on its graphite assets and strengthen its consolidated statement of financial position.

The Group's ability to continue as a going concern is dependent upon its ability to raise additional capital. The Company generates ad hoc revenue from the Montepuez Ruby Project from the recovery of rubies from its bulk sampling program which are sold into the wholesale jewellery market as part of its sales and marketing testing program. The Company is currently in the exploration stage and has not yet developed a commercial mining operation. While the Directors will be expending their best efforts to generate revenue and raise capital, the generation of sufficient revenue and the raising of additional capital cannot be assured. The Directors are confident that the Montepuez Ruby Project development will proceed to plan and confident of their ability to raise additional capital, given the Company having successfully raised substantial capital in the past and given the market's expected interest in future capital raisings.

Because of the above uncertainties and noting the emphasis of matter contained in the auditor's report relating to the half year review, there may be doubt about the Group's ability to continue as a going concern and doubt that it may be able to realise its assets and discharge its liabilities in the normal course of business. However, the Directors are of the opinion that, as at the date of these consolidated financial statements, the Group is a going concern.

Montepuez Ruby Project, Mozambique

During the reporting period, 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 totaling 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.

The Company continues to enlarge its ruby market intelligence, develop sales channels and fine-tune its grading and sorting system. A sales and marketing office was established in Chantaburi, Thailand just prior to the publication of this report. 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. Direct test sales will commence in the first quarter of 2018. The Company will focus on developing long-term sales channels and strategic sales partnerships for its rubies while conducting ongoing sales, rather than conducting larger half-yearly tenders.

During the period, 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 total amount impaired to the financial report to 31 December 2017 in relation to this licence interest was $3,335,701.

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 period, 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 an estimate of over 700,000 tonnes of contained graphite.

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 confirmed 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).

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 reporting period and results are expected to be released during the first half of 2018. The purpose of this drilling is to increase the JORC Compliant Resource at Caula and to obtain more samples for metallurgical testing and optimisation, with all such information feeding into planned future scoping and feasibility studies.

Given the better than expected 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 period, 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 total amount impaired to the financial report to 31 December 2017 in relation to these licence interests was $6,085,714. The Company has decided to focus on its efforts and expenditures on the more prospective licences, 6678L and 5873L, based upon results obtained. 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

At the Company's AGM on 24 November 2017, shareholders approved the establishment on the Mustang Long Term Incentive Plan and also approved the issue of 1,500,000 shares (which vest after 12 months' continuous service from the meeting date) and 4,500,000 options (which vest subject to the Company's market capitalisation being not less than $100,000,000 over a period of 20 consecutive trading days within 18 months after the issue of the options) to the Mustang Long Term Incentive Plan on behalf of non-executive chairman Ian Daymond.

On 13 November 2017 Christiaan Jordaan stepped down as managing director and became a non-executive director of the Company.

On 31 December 2017 Peter Spiers resigned as non-executive director. As Mr Spiers had resigned as non-executive director and notwithstanding that shareholders had approved the issue of 10,000,000 options to him with certain conditions, these options were not issued to Mr Spiers.

Capital Raising

During the period under review the Company secured a funding package from Arena Investors LP ("Arena") a major US institutional investor for a net $8,500,000 (face value of $10,000,000) in the form of a convertible note facility. Arena converted all of the convertible note facility to shares in the Company and as such Mustang has repaid the convertible note liability of $10,000,000 in full.

The Company also raised capital progressively during the period under review as follows:

- On 11 August 2017 the Company issued 3,896,104 shares at $0.077 per share to raise $300,000.
- On 8 September 2017 the Company issued 2,310,516 shares at $0.0273 per share upon exercise of options to raise $63,077.
- On 15 September 2017 the Company issued 1,000,000 shares at $0.06 per share upon exercise of options to raise $60,000.
- On 4 October 2017 the Company issued 99,330 shares at $0.0273 per share upon exercise of options to raise $2,711.
- On 12 October 2017 the Company issued 780,780 shares at $0.0273 per share upon exercise of options and 5,000,000 shares at $0.075 per share upon exercise to raise a total of $396,315.
- On 19 October 2017 the Company issued 69,300 shares at $0.0273 per share upon exercise of options to raise $1,891.
- On 26 October 2017 the Company issued 38,709,677 shares at $0.062 per share upon exercise of options to raise $2,400,000.

Subsequent events

On 8 January 2018 the Group announced that it had secured a funding package from Arena Investors LP, a major US institutional investor, for net proceeds of $19,950,000 ($21,000,000 full face value) in the form of a convertible note facility. These funds are to be provide in seven tranches subject to shareholder approval.

The first tranche of net $1,900,000 was received 12 January 2018 and was ratified at the shareholder meeting 2 March 2018 along with shareholder approval for the issue of 25,723,472 options to be issued at a price equal to 130% of the 5 day VWAP prior to the date of issue of the respective notes, with a 3 year term. The first follow on tranche of net $3,800,000 was also approved at shareholder meeting 2 March 2018 and will be received by the Company on or about 20 May 2018. The remaining 5 tranches of net $2,850,000 each will be available to the Company over 2 years subject to shareholder approval along with the issue of options at a price equal to 130% of the 5 day VWAP prior to the date of issue of the respective notes, with a 3 year term.

On 8 January 2018 the Company announced terms for a rights issue, which were revised on 22 February 2018 when the Company announced a one for four non-renounceable rights entitlement to existing shareholders at 2.3 cents per share to raise up to $4,435,742.

On 12 January 2018 the Company received an insurance settlement of $423,650 in relation to an insurance claim lodged by the Company relating to the rubies and corundum stolen in the robbery at its Montepuez Ruby Project in September 2017.

On 15 January 2018 the Company appointed Dr Bernard Olivier as its new managing director and non-executive director Cobus van Wyk was appointed executive director and chief operating officer.

On 1 March 2018 the Company upgraded its prospecting and exploration licence 8245L to a mining concession 8955C.

On 2 March 2018 shareholders:

- Ratified the prior issue of 2,000,000 convertible notes to Arena.
- Approved the issue of 25,723,472 options to Arena as part of the convertible note agreement.
- Approved the issue of 4,000,000 convertible notes to Arena plus options to be issued which will be equal to the principal amount of the applicable convertible notes multiplied by 40% and then divided by the 5 trading day volume weighted average price (VWAP) of shares on the last trading day before the date of issue of the 4,000,000 convertible notes.
- Approved the issue of 5,000,000 options to managing director Bernard Olivier via the Mustang Long Term Inventive Plan of which 2,500,000 vest subject to 12 months' continuous service and 2,500,000 vest subject to the Company's market capitalization being not less than $100,000,000 over a period of 20 consecutive trading days within 18 months after the issue of the options. The options are to be issued at a 25% premium to the 30 day VWAP on the date of issue and expire 3 years from date of issue.

On 7 March 2018 the Company appointed Dr Evan Kirby as a non-executive director.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under S307C and the Corporations Act 2001 is set out on page 9.

Signed in accordance with a resolution of the Directors.

On behalf of the Directors

Ian Daymond
Chairman

Dr Bernard Olivier
Managing Director

16 March 2018

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 statement.

Competent Persons' Statements

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. Mrs Turnbull is an independent consultant who was engaged by the company to undertake this work. Mrs Turnbull has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he 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. Mrs. Turnbull consents to the inclusion of the data in the form and context in which it appears.
Information in this report that relates to the Balama Graphite Poject's Exploration Targets, Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Mr Johan Erasmus, 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. Mr Erasmus is a consultant to Sumsare Consulting, Witbank, South Africa which was engaged to undertake this work. Mr Erasmus has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined by the 2012 Edition of the Australasian Code for Reporting of Exploration Results. Mr Erasmus consents to the inclusion of the data in the form and context in which it appears.

Auditor's Independence Declaration

As lead auditor for the review of Mustang Resources Limited for the half-year ended 31 December 2017, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

(b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Mustang Resources Limited and the entities it controlled during the period.

Craig Heatley
Partner
PricewaterhouseCoopers

Perth
16 March 2018

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Consolidated statement of profit or loss and other comprehensive income

For the six months ended 31 December 2017

	Note	Consolidated 31 Dec 2017 $	31 Dec 2016 $
Interest income		2,236	3,832
Gain on sale of assets		19,817	16,410
Fair value loss on financial asset held as fair value through profit or loss		(159,658)	(175,373)
Administration costs		(1,921,476)	(1,324,074)
Finance costs	10	(4,894,728)	(17)
Write off capitalised exploration expenditure	6	(9,747,023)	-
Foreign exchange gain		74,636	319,413
Loss from continuing operations before income tax expense	3	**(16,626,196)**	**(1,159,809)**
Income tax expense		-	-
Loss from continuing operations		**(16,626,196)**	**(1,159,809)**
Loss from discontinued operations		**-**	**-**
Net loss for the period		**(16,626,196)**	**(1,159,809)**
Other comprehensive income/(loss)			
Items that may be reclassified to profit or loss:			
Foreign currency translation reserve		183,009	670,743
Total comprehensive loss for the period		**(16,443,187)**	**(489,066)**
Loss for the period attributable to:			
Non-controlling interest		(611,133)	(225)
Owners of the parent		(16,015,063)	(1,159,584)
Total comprehensive loss for the period is attributable to:			
Non-controlling interest		(525,762)	(225)
Owners of the parent		(15,917,425)	(488,841)

Consolidated statement of profit or loss and other comprehensive income (continued)

For the six months ended 31 December 2017

	Consolidated	
	31 Dec 2017 $	31 Dec 2016 $
Loss per share		
Continuing operations		
Basic loss per share (cents per share)	2.52	0.36
Diluted loss per share (cents per share)	2.52	0.36
Total		
Basic loss per share (cents per share)	2.52	0.36
Diluted loss per share (cents per share)	2.52	0.36

The above consolidated statement of profit or loss and comprehensive income should be read in conjunction with the accompanying notes.

Consolidated statement of financial position

As at 31 December 2017

	Notes	Consolidated 31 Dec 2017 $	Consolidated 30 June 2017 $
Current assets			
Cash & cash equivalents		1,615,229	510,169
Trade & other receivables		1,036,398	549,601
Financial assets held at fair value	4	-	203,986
Prepayments		137,410	187,457
Total current assets		**2,789,037**	**1,451,213**
Non-current assets			
Property, plant and equipment	5	1,229,682	1,126,781
Exploration and evaluation assets	6	28,050,782	30,581,065
Total non-current assets		**29,280,464**	**31,707,846**
Total assets		**32,069,501**	**33,159,059**
Current liabilities			
Trade and other payables		1,058,410	2,009,215
Provisions		103,502	25,064
Total current liabilities		**1,161,912**	**2,034,279**
Non-current liabilities			
Provisions		**-**	105,110
Total non-current liabilities		**-**	**105,110**
Total liabilities		**1,161,912**	**2,139,389**
Net assets		**30,907,589**	**31,019,670**
Equity			
Contributed equity	9	168,123,808	155,013,532
Reserves	12	17,066,360	13,747,892
Accumulated losses		(157,214,241)	(141,199,178)
Parent entity interests		**27,975,927**	**27,562,246**
Non-controlling interests		2,931,662	3,457,424
Total Equity		**30,907,589**	**31,019,670**

The above consolidated statement of financial position is to be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity

for the half-year ended 31 December 2017

	Contributed Equity	Accumulated Losses	Option Premium Reserves	Performance Rights Reserves	Foreign Currency Translation Reserve	Owners of The Parent	Non Controlling Interest	Total Equity
	$	$	$	$	$	$	$	$
Balance at 1 July 2016	**146,056,472**	**(130,056,614)**	**5,028,922**	**7,508,955**	**(1,116,191)**	**27,421,544**	**3,542,795**	**30,964,339**
Loss for the period	-	(1,159,584)	-	-	-	(1,159,584)	(225)	(1,159,809)
Other comprehensive loss	-	-	-	-	670,743	670,743	-	670,743
Total comprehensive loss for the half-year	-	(1,159,584)	-	-	670,743	(488,841)	(225)	**(489,066)**
Transactions with owners in their capacity as owners								
Shares issued	2,019,760	-	-	-	-	2,019,760	**-**	**2,019,760**
Options granted	-	-	112,308	-	-	112,308	**-**	**112,308**
Transaction costs on shares issued	(126,227)	-	-	-	-	(126,227)	**-**	**(126,227)**
Balance at 31 December 2016	**147,950,005**	**(131,216,198)**	**5,141,230**	**7,508,955**	**(445,448)**	**28,938,544**	**3,542,570**	**32,481,114**
Balance at 1 July 2017	**155,013,532**	**(141,199,178)**	**6,441,048**	**7,763,444**	**(456,600)**	**27,562,246**	**3,457,424**	**31,019,670**
Loss for the period	-	(16,015,063)	-	-	-	**(16,015,063)**	(611,133)	(16,626,196)
Other comprehensive income	-	-	-	-	97,638	97,638	85,371	183,009
Total comprehensive loss for the half-year	-	(16,015,063)	-	-	97,638	(15,917,425)	(525,762)	**(16,443,187)**
Transactions with owners in their capacity as owners								
Shares issued	13,352,596	-	-	-	-	13,352,596	**-**	**13,352,596**
Options granted	-	-	2,949,862	-	-	2,949,862	**-**	**2,949,862**
Transaction costs on shares issued	(242,320)	-	-	-	-	(242,320)	**-**	**(242,320)**
Amortisation of performance rights				270,968		270,968		**270,968**
Balance at 31 December 2017	**168,123,808**	**(157,214,241)**	**9,390,910**	**8,034,412**	**(358,962)**	**27,975,927**	**2,931,662**	**30,907,589**

The above consolidated statement of changes in equity is to be read in conjunction with the accompanying notes.

Consolidated statement of cash flows

For the half-year ended 31 December 2017

	Consolidated	
	31 Dec 2017 $	31 Dec 2016 $
Cash flows from operating activities		
Payment to suppliers and employees	(2,956,224)	(1,565,137)
Interest received	2,236	3,832
Interest paid	(2,186)	(17)
Net cash outflows from operating activities	**(2,956,174)**	**(1,561,322)**
Cash flows from investing activities		
Payment for exploration and evaluation	(6,560,213)	(2,374,913)
Payments for plant & equipment	(321,531)	(212,394)
Proceeds from sale of assets	44,062	99,078
Net cash outflows from investing activities	**(6,837,682)**	**(2,488,229)**
Cash flows from financing activities		
Proceeds from the issue of shares	290,000	2,019,760
Proceeds from the conversion of options	2,923,996	-
Proceeds from Lanstead	44,328	150,304
Proceeds from the issue of convertible notes	7,743,220	-
Share issue costs	(71,267)	(126,227)
Net cash inflows from financing activities	**10,930,277**	**2,043,837**
Net increase/(decrease) in cash held	**1,136,421**	**(2,005,714)**
Cash and cash equivalents at 1 July	510,169	2,173,329
Effect of exchange rate changes on cash	(31,361)	435,087
Cash and cash equivalents at 31 December	**1,615,229**	**602,702**

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the financial statements

1. Basis of preparation and accounting policies

Basis of preparation

This financial report for the half-year ended 31 December 2017 has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

It is recommended that the half-year financial report be read in conjunction with the annual report for the year ended 30 June 2017 and considered together with any public announcements made by Mustang Resources Limited during the half-year ended 31 December 2017 in accordance with the continuous disclosure obligations of the ASX Listing Rules.

Significant accounting policies

The accounting policies applied by the Group in this consolidated half-year financial report for the six months to 31 December 2017 are the same as those applied by the Group in its consolidated financial report as at and for the year ended 30 June 2017 and the corresponding interim reporting period.

Estimates

The preparation of the half-year financial statements require management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Financial asset at FVTPL – Lanstead Agreement

In preparing these consolidated half-year financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were, other than in the notes are the same as those applied to the consolidated financial report as at and for the year ended 30 June 2017.

Convertible Notes

Convertible notes issued during the period are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share from their date of issue. The notes have not been included in the determination of basic earnings per share. Details relating to the notes are set out in note 9. Convertible notes during the period where all converted to shares.

Pre – Commercial Production Sales

Sales proceeds of rubies produced from exploration and development activities are credited to capitalised exploration and development until the Group achieves commercial production at the Montepuez Ruby Project.

Notes to the financial statements

1. Basis of preparation and accounting policies (continued)

Going Concern

This half-year financial report has been prepared and presented on a basis assuming it continues as a going concern. The going concern basis of preparation contemplates the continuity of normal business activities, including the realisation of assets and settlement of liabilities in the normal course of business.

The Group incurred a net loss for the half-year of $16,626,196 (2016: $1,159,809). At 31 December 2017 the Group had cash at bank totaling $1,615,229 and working capital surplus of $1,627,125 (June 2017: working capital deficit of $583,066). The Group is currently in the exploration and development stage and has not yet developed a commercial mining operation.

The Group has budgeted significant capital commitments in the next half of the financial year and it is unlikely that revenue generated from the trial bulk sampling program at Montepuez Ruby Project will be sufficient to fund these commitments in the required timeframe. Potential revenues will only be from sale of gemstones from continuous sales and marketing activities of all of the Group's ruby product categories to international customers as part of its market intelligence program. The volume of saleable material is contingent on bulk sampling / trial mining activities. No commercial ruby production and sale operations have been established at this stage.

On 8 January 2018 the Group announced that it had secured a further funding package from Arena Investors LP, a major US institutional investor, for $19,950,000 in the form of a convertible note facility. The facility can be repaid in cash or via an equity payment option at the Group's election. These funds are to be provided in seven tranches subject to shareholder approval. The first tranche of net $1,900,000 was received on 12 January 2018 and was ratified at the shareholder meeting held on 2 March 2018. The second tranche of net $3,800,000 was also approved at the shareholder meeting of 2 March 2018 and will be received by the Company on or about 20 May 2018. The remaining 5 tranches of net $2,850,000 each will be available to the Company over 2 years subject to shareholder approval.

On 22 January 2018, the Group announced a one for four non-renounceable rights entitlement to existing shareholders at 2.3 cents per share and is expected to raise up to $4,435,742.

The directors believe that the Group will be able meet all committed expenditure however the continuing viability of the Group and its ability to continue as a going concern and meet its debts and commitments as and when they fall due is dependent upon the Group being successful in its ability to:

- draw down on each tranche of the convertible note facility, and
- continue to raise additional capital.

While the directors will be expending their best efforts to generate revenue and raise capital, the generation of sufficient revenue and the raising of additional capital cannot be assured.

As a result of these matters, there is a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and, therefore, that the entity may be unable to realise its assets and discharge its liabilities in the normal course of business. However, the directors believe that the Group will be successful in the above matters and, accordingly, have prepared the financial report on a going concern basis.

Notes to the financial statements

2. Operating segments

No information is disclosed for operating segments as when management accounts are reviewed by the board of directors only consolidated numbers together with revenue and capital expenditure by project are included.

3. Loss for the half-year

Loss for the half-year includes the following items:

Continuing Operations

	31 Dec 2017 $	31 Dec 2016 $
Fair value movement on financial assets held as fair value through profit or loss	(159,658)	(195,935)
Office, meeting & travel costs	(393,254)	(228,699)
Professional fees	(356,844)	(394,365)
Employee costs & consulting fees	(544,384)	(514,507)

4. Financial assets held at fair value through profit or loss

	31 Dec 2017 $	30 Jun 2017 $
Financial asset held at fair value through profit or loss		
Financial asset – current	-	203,986
	-	203,986

Overview:

There is no change to the treatment of Tranche A and Tranche B as at 31 December 2017 with fair value remaining at $Nil.

The initial fair value (including the initial lump sum payment) was calculated as $629,412. The fair value of Tranche C at 31 December 2017 has been calculated to be $Nil (2016 $611,041). The Company was informed by Lanstead in September 2017 that as a result of the Arena Convertible Note financing entered into in July 2017 the equity sharing agreement benchmark prices for Tranches A to C have been increased by 50% resulting in an increase of the benchmark price for Tranche A and B to $0.40 and for Tranche C to $0.079. This resulted in the reduction of the monthly returns received from Lanstead under the equity sharing agreements.

Based on the share price at 31 December 2017, no additional amounts would be receivable under the contract and the fair value of Tranche A and Tranche B and Tranche C has been determined to be $Nil under the original contract terms and the renegotiated terms. During the review period ended 31 December 2017, the Company received variable payments of $44,428 under the Sharing Agreements for Tranches A, B and C.

Notes to the financial statements

5. Property, plant & equipment

	31 Dec 2017 $	30 Jun 2017 $
Office equipment		
Office Equipment at cost	14,733	14,785
Accumulated depreciation	(4,696)	(3,828)
	10,037	10,957
Buildings		
Buildings at cost	358,725	359,982
Accumulated depreciation	(35,872)	-
	322,853	359,982
Plant & equipment		
Plant & equipment at cost	1,548,978	1,234,333
Accumulated depreciation	(652,186)	(478,491)
	896,792	755,842
Total property, plant & equipment	1,229,682	1,126,781

Reconciliation	31 Dec 2017 $	30 Jun 2017 $
Office equipment		
Balance at start of year	10,957	13,256
Disposals	-	(2,839)
Movement in carrying value as a result of foreign currency valuations	(62)	666
Depreciation	(858)	(126)
	10,037	10,957
Buildings		
Balance at start of year	359,982	-
Additions	-	359,982
Movement in carrying value as a result of foreign currency valuations	(2,203)	-
Depreciation	(34,926)	-
	322,853	359,982
Mining, plant & equipment		
Balance at start of year	755,842	706,715
Additions	321,531	418,800
Disposals	(24,245)	(171,510)
Movements in carrying value as a result of foreign currency valuations	16,866	46,255
Depreciation subsequently capitalised to exploration & evaluation expenditure	(114,081)	(212,008)
Depreciation	(59,121)	(32,410)
	896,792	755,842
Total property, plant & equipment	1,229,682	1,126,781

Notes to the financial statements

6. Exploration and evaluation assets

	31 Dec 2017 $	30 Jun 2017 $
Exploration and evaluation assets	28,050,782	30,581,065
Reconciliation:		
Carrying amount at beginning of period	30,581,065	28,107,516
Sale of rubies net of costs	(484,686)	-
Movement in carrying value as a result of a foreign currency variations	274,406	841,601
Additions – acquisition exploration and evaluation assets	-	1,454,489
Additions – capitalised exploration and evaluation costs	7,427,020	8,232,535
Write off capitalised exploration and evaluation expenditure	(9,747,023)	(8,055,076)
Total exploration and evaluation assets	28,050,782	30,581,065

Exploration and evaluation assets are only recognised where right of tenure of the area of interest is current. This method is consistent with the methods the Company employed in prior periods. In relation to the carrying values recorded as at 31 December 2017, the Company completed further work on interests in Montepuez licence 4258L however in reassessing this asset considers it no longer of strategic value and as such has been fully impaired. Further Balama Graphite licences 4661L, 4662L and 6636L were fully impaired with no further exploration and development to be considered going forward.

7. Commitments

	31 Dec 2017 $	30 Jun 2017 $
Between one and five years	3,816,227	4,206,299
	3,816,227	4,206,299

As part of the acquisition of Montepuez Minerals Pty Ltd, the Group assumed contingent acquisition payments for licence 5030L to the local partner of US$750,000 6 months after bulk sampling startup and US$750,000 12 months after bulk sampling startup. Payment is contingent on the licence being transferred to Mozambican SPV (which has been completed) and the time period only starts upon bulk sampling activities starting on the particular licence area (current bulk sampling focused on deposit on licence 8955C, bulk sampling has not started on 5030L).

As part of the acquisition of a 65% interest in licence 8245L (converted to Mining Concession 8955C in March 2018) the Group assumed a contingent acquisition payment to the local partner of US$1,500,000 payable 18 months after bulk sampling commenced in June 2017, subject to the bulk sampling being successful and proving an economically viable project.

Notes to the financial statements

8. Contingent assets & liabilities

Other than those events disclosed in Note 7 there are no other contingent liabilities (2016: nil).

9. Contributed equity

Reconciliation of movement in share capital	31 Dec 2017		31 Dec 2016	
	$	No.	$	No.
On issue at 1 July – fully paid	155,013,532	565,618,436	146,056,472	298,749,913
Issued for cash	290,000	3,896,104	2,019,760	73,560,000
Conversion of options	2,923,996	47,969,603	-	-
Conversion of convertible notes	10,000,000	148,653,180	-	-
Issued in lieu of cash transaction cost	138,600	1,800,000	-	-
Less: Transaction costs	(242,320)	-	(126,227)	-
On issue at 31 December – fully paid	168,123,808	767,937,323	147,950,005	372,309,913

As at 31 December 2017 the Company had 30,000,000 fully paid ordinary shares under escrow agreements with the vendors of a joint venture interest that sold a 65% interest in ruby licence 8245L until 6 June 2018.

During the period under review the Company secured a funding package from Arena Investors LP, a major US institutional investor, for $8,500,000 in the form of a convertible note facility. These funds were used primarily to scale-up the Montepuez Ruby Project bulk sampling program and complete limited work on the Caula Graphite Project.

Between 8 September 2017 and 19 October 2017 Arena progressively converted all of the convertible note facility into a total of 148,653,180 shares in the Company and as such Mustang has extinguished the convertible note liability.

In addition to the shares issued to Arena noted above, the Company issued the following securities during the period under review:

- On 30 June 2017 31,324,181 listed options with exercise price of $0.25 expired and 8,750,000 unlisted options with exercise price of $0.25 also expired.
- On 27 July 2017 the Company issued 38,709,677 unlisted options with exercise price of $0.062 and expire 20 July 2020 in satisfaction as part of the Arena convertible note facility.
- On 31 July 2017 the Company issued 729,771 unlisted options with exercise price of $0.0273 and expire 25 January 2020, 1,519,559 unlisted options with exercise price of $0.10 and expire 9 March 2020 and 2,181,818 unlisted options with exercise price of $0.0715 and expire 20 July 2020 in satisfaction of corporate advisor services.

- On 11 August 2017 the Company issued 3,896,104 shares at $0.077 per share to raise $300,000 plus 1,800,000 shares in satisfaction of corporate advisory services.

- On 8 September 2017 the Company issued 2,310,516 shares at $0.0273 per share upon exercise of options to raise $63,077 plus 1 convertible note to Arena with a face value of $2,000,000.

- On 15 September 2017 the Company issued 1,000,000 shares at $0.06 per share upon exercise of options to raise $60,000 plus 2 convertible notes to Arena with face values of $2,000,000 and $3,000,000 respectively plus 13,333,333 unlisted options with exercise price of $0.117 and expire 20 July 2020 in satisfaction of Arena convertible note facility and 3,333,333 unlisted options with exercise price of $0.117 and expire 15 September 2020 in satisfaction of capital raising services.

- On 4 October 2017 the Company issued 99,330 shares at $0.0273 per share upon exercise of options to raise $2,711.

- On 12 October 2017 the Company issued 780,780 shares at $0.0273 per share upon exercise of options and 5,000,000 shares at $0.075 per share upon exercise of options to raise a total of $396,315 plus 1 convertible note to Arena with a face value of $3,000,000.

- On 16 October 2017 the Company issued 1,800,000 unlisted options with exercise price of $0.13 and expire 16 October 2020 in satisfaction of capital raising services

- On 19 October 2017 the Company issued 69,300 shares at $0.0273 per share upon exercise of options to raise $1,891 and all Arena convertible notes cancelled as they have all be converted to shares in the Company.

- On 26 October 2017 the Company issued 38,709,677 shares at $0.062 per share upon exercise of options to raise $2,400,000.

Notes to the financial statements

10. Finance Costs

	31 Dec 2017 $	30 Jun 2017 $
Interest paid	2,186	17
Convertible note interest	1,510,904	-
Costs of convertible note	756,780	-
Options issued	2,624,858	-
	4,894,728	17

During the period under review the Company secured a funding package from Arena Investors LP (Arena), a major US institutional investor, for net cash proceeds $8,500,000 (face value $10,000,000) in the form of a convertible note facility with a 1% coupon rate. The funds were drawn down in four tranches. In addition to the convertible note, the Company issued 52,043,010 options to Arena as part of the funding package. The notes are convertible into ordinary shares in the Company, at the option of Arena, or repayable by 19 January 2019. Between 8 September 2017 and 19 October 2017 Arena progressively converted all of the convertible note facility into a total of 148,653,180 shares in the Company and as such Mustang has extinguished the convertible note liability.

The notes were converted at variable strike prices based on the lowest 1 day VWAP of the 20 trading days prior to conversion. Arena was also entitled to two tranches of options with tranche A options exercisable at a price equal to 130% of the 30 day VWAP prior to the date of issue of tranche 1 notes, with a 3 year term equal to 60% of the value of tranche 1 and 2 notes and tranche B options (exercisable at a price equal to 130% of the closing price of the Company's shares on the ASX prior to the date of issue of tranche 3 notes, with a 3 year term) equal to 40% of the value of tranche 3 and 4 notes.

11. Dividends

No dividend has been paid or is proposed in respect of the half-year ended 31 December 2017 (2016: Nil).

12. Reserves

	31 Dec 2017 $	30 Jun 2017 $
Option reserve	9,390,910	6,441,048
Foreign exchange translation reserve	(358,962)	(456,600)
Performance rights reserve	8,034,412	7,763,444
Total exploration and evaluation assets	17,066,360	13,747,892

Notes to the financial statements

(a) Option Reserve

(i) Nature and purpose of reserve

The option reserve is used to record the value of options.

(ii) Movements in reserve

	31 Dec 2017 $	30 Jun 2017 $
Balance at the beginning of the year	6,441,048	5,028,922
Exercise of options	-	(72,850)
Issue of options	2,949,862	1,484,976
Balance at end of the year	9,390,910	6,441,048

(b) Foreign currency translation reserve

(i) Nature and purpose of reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

(ii) Movements in reserve

	31 Dec 2017 $	30 Jun 2017 $
Balance at the beginning of the year	(456,600)	(1,116,191)
Currency translation differences	97,638	659,591
Balance at end of the year	(358,962)	(456,600)

(c) Performance rights reserve

(i) Nature and purpose of reserve

The performance rights reserve is used to record the value of the performance rights issued, which are being amortised over their vesting period. These performance rights have the ability to convert to ordinary shares upon the non-market vesting conditions being met and in accordance with the accounting standards the entire instrument has been classified as equity.

(ii) Movements in reserve

	31 Dec 2017 $	30 Jun 2017 $
Balance at the beginning of the year	7,763,444	7,508,955
Amortisation of performance rights	270,968	254,489
Balance at end of the year	8,034,412	7,763,444

Notes to the financial statements

13. Subsequent Events

On 8 January 2018 the Group announced that it had secured a funding package from Arena Investors LP, a major US institutional investor, for net proceeds of $19,950,000 in the form of a convertible note facility. These funds are to be provide in seven tranches subject to shareholder approval.

The first follow on tranche of net $3,800,000 was also approved at shareholder meeting 2 March 2018 and will be received by the Company on or about 20 May 2018. The remaining 5 tranches of net $2,850,000 each will be available to the Company over 2 years subject to shareholder approval along with the issue of options at a price equal to 130% of the 5 day VWAP prior to the date of issue of the respective notes, with a 3 year term.

The Company executed a Convertible Note Deed, with convertible notes having a face value of $21,000,000.

Under the terms of the Convertible Note Deed, Arena has agreed to invest up to a net $19,950,000 (face value $21,000,000) through an unsecured convertible note facility, to be drawn-down in seven separate tranches as follows:

- $1,900,000 (face value $2,000,000) which was received 12 January 2018 and was ratified at the shareholder meeting 2 March 2018 along with shareholder approval for the issue of 25,723,472 options to be issued at a price equal to 130% of the 5 day VWAP prior to the date of issue of the respective notes, with a 3 year term;
- The first follow on tranche of net $3,800,000 was also approved at shareholder meeting 2 March 2018 and will be received by the Company on or about 10 May 2018; and
- The remaining 5 tranches of net $2,850,000 each will be available to the Company over 2 years subject to shareholder approval along with the issue of options at a price equal to 130% of the 5 day VWAP prior to the date of issue of the respective notes, with a 3 year term.

Each tranche has an 18-month term.

The convertible notes under the Convertible Note Deed will be issued at 95% of face value, and are redeemable at par at maturity. All conditions precedent for the first convertible note tranche under the Convertible Note Deed have been satisfied. The conversion of the first tranche of convertible notes is subject to a floor price of 1.8 cents per Share, and the issue of such shares is capable of being issued under the Company's existing placement capacity under the ASX Listing Rules. In addition, the convertible note is subject to a 50% conversion restriction for a period of one calendar month.

Notes to the financial statements

The drawdown of the remaining tranches is subject to the satisfaction of the following conditions precedent:

- the Company providing evidence that it has sufficient capacity or the necessary shareholder approvals for the issue and conversion of the convertible notes in accordance with the Convertible Note Deed terms as well as for the exercise of the options to be issued to Arena (subject to shareholder approval);

- the market capitalisation of the Company being at least $12,000,000;

- the Company confirming at the time that no event of default (as defined in the Convertible Note Deed) has occurred and is continuing at the time of the issue of the relevant tranche; and

- the Company confirming at the time that no material adverse event or change of control (as defined in the Convertible Note Deed) has occurred or is likely to occur at the time of the issue of the relevant tranche.

Should the Company fail to draw any portion or all of the Follow on Tranches prior to the 2 year anniversary of the Closing Date, or to obtain any required shareholder approvals for the transaction, the Company shall make a Termination Payment to the Investor equal to 15% of the undrawn amount of the commitment.

The convertible notes attract interest at 11% per annum accruing on monthly balances and are payable in cash or shares with tranche one interest payable in cash only. The notes are convertible at variable strike prices based on the lowest 1-day VWAP of the 20 trading days prior to conversion. Tranche 1 is subject to a floor price of 1.8 cents per share. Upon conversion the Company may choose to either deliver shares or cash equal to the value of the shares.The noteholder is also entitled to options, subject to shareholder approval, equal to 40% of the face value of the notes exercisable at a price equal to 130% of the 5 day VWAP prior to the date of issue of the respective notes, with a 3 year term.

On 8 January 2018 the Company announced terms for a rights issue, which were revised on 22 February 2018 when the Company announced a one for four non-renounceable rights entitlement to existing shareholders at 2.3 cents per share to raise up to $4,435,742.

On 12 January 2018 the Company received an insurance settlement of $423,650 in relation to an insurance claim lodged by the Company relating to the rubies and corundum stolen in the robbery at its Montepuez Ruby Project in September 2017.

On 15 January 2018 the Company appointed Dr Bernard Olivier as its new managing director and non-executive director Cobus van Wyk is appointed executive director and chief operating officer.

On 1 March 2018 the Company converted its prospecting and exploration licence 8245L to a mining concession 8955C.

Notes to the financial statements

On 2 March 2018 shareholders:

- Ratified the prior issue of 2,000,000 convertible notes to Arena.
- Approved the issue of 25,723,472 options to Arena as part of the convertible note agreement.
- Approved the issue of 4,000,000 convertible notes to Arena plus options to be issued which will be equal to the principal amount of the applicable convertible notes multiplied by 40% and then divided by the 5 trading day volume weighted average price (VWAP) of shares on the last trading day before the date of issue of the 4,000,000 convertible notes.
- Approved the issue of 5,000,000 options to managing director Bernard Olivier via the Mustang Long Term Inventive Plan of which 2,500,000 vest subject to 12 months continuous service and 2,500,000 vest subject to the Company's market capitalisation being not less than $100,000,000 over a period of 20 consecutive trading days within 18 months after the issue of the options. The options are to be issued at a 25% premium to the 30 day VWAP on the date of issue and expire 3 years from date of issue.

On 7 March 2018 the Company appointed Dr Evan Kirby as a non-executive director.

Directors' declaration

In accordance with a resolution of the Directors of Mustang Resources Limited, we state that:

In the opinion of the Directors:

(a) the financial statements and notes of the Consolidated Entity on pages 10 to 28 are in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2017 and of its performance for the half-year ended on that date; and
- (ii) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

Ian Daymond	**Dr Bernard Olivier**
Chairman	**Managing Director**

16 March 2018

Independent auditor's review report to the members of Mustang Resources Limited

Report on the half-year financial report

We have reviewed the accompanying half-year financial report of Mustang Resources Limited (the Company), which comprises the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the Mustang Resources Limited Group (the Group). The Group comprises the Company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2017 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Mustang Resources Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Mustang Resources Limited is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the Group's financial position as at 31 December 2017 and of its performance for the half-year ended on that date

2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001.*

Material uncertainty related to going concern

We draw attention to Note 1 in the half-year financial report which indicates that the Group incurred a net loss after tax of $16,626,196 for the half year ended 31 December 2017 and highlights that in order to meet its forecasted capital commitments it needs to be successful in its ability to draw down on each tranche of the convertible note facility and continue to raise additional capital. These conditions, along with other matters set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

PricewaterhouseCoopers

PricewaterhouseCoopers

Craig Heatley
Partner

Perth
16 March 2018