MUSTANG
RESOURCES LTD

# Full Year Annual Report
# 30 June 2018

ABN 34 090 074 785

# CORPORATE DIRECTORY

| | |
|---|---|
| **DIRECTORS** | Ian Daymond (Non-Executive Chairman)<br>Bernard Olivier (Managing Director)<br>Cobus van Wyk (Executive Director)<br>Christiaan Jordaan (Non-Executive Director)<br>Evan Kirby (Non-Executive Director) |
| **SECRETARY** | Robert Marusco |
| **REGISTERED OFFICE** | Level 1, 9 Bowman Street<br>South Perth, Western Australia, 6151<br>Telephone: +61 8 9217 2400<br>Facsimile: +61 8 9217 2401<br>Email: info@mustangresources.com.au<br>Website: www.mustangresources.com.au |
| **SYDNEY OFFICE** | 111 Flinders Street<br>Surry Hills, New South Wales 2010 |
| **PRETORIA OFFICE** | Mustang Resources (Pty) Ltd<br>Office at Nature Block A3<br>500 Botterklapper Street<br>Die Wilgers 0081 |
| **MAPUTO OFFICE** | Mustang Resources Limitada<br>Avenida Martires da Machava<br>Nº 1569, 2º andar<br>Esq, Maputo |
| **SOLICITORS** | Steinepreis Paganin<br>Level 4, 16 Milligan Street<br>Perth, WA 6000 |
| **AUDITORS** | PricewaterhouseCoopers<br>Brookfield Place, 125 St Georges Terrace<br>Perth, Western Australia 6000 |
| **SHARE REGISTRY** | Computershare Investor Services Pty Ltd<br>Level 11, 172 St Georges Terrace<br>Perth, Western Australia 6000<br>Phone: 1300 850 505 (within Australia)<br>+61 3 9415 4000 (outside Australia)<br>Facsimile: +61 3 9473 2500 |
| **AUSTRALIAN SECURITIES EXCHANGE CODE** | MUS (Ordinary Shares) |

CONTENTS

MUSTANG
RESOURCES LTD

# CHAIRMANS LETTER

28 September 2018

Dear valued shareholder

The past financial year has seen the start of a period of significant transformation for Mustang Resources Limited ("Mustang" or "the Company"). Such a period of transformation is never easy, nor without its challenges, but as a responsible Board we Directors have to make difficult decisions based on the careful analysis and consideration of all the information and facts for the long-term benefit of the Company and its shareholders. The decision to divest the Company's Montepuez Ruby Project, which occurred after the end of the reporting period, was not taken lightly and the decision was only reached after careful analysis of all available data.

**Montepuez Ruby Project**

Mustang had decided, on the basis of guidance from industry marketing experts and in an attempt to break into the ruby business, to conduct a maiden tender of its rubies between 27 and 30 October 2017 in Port Louis, Mauritius. Mustang recognised that the maiden tender may simply have been the first step in a process of establishing a significant marketing presence.

The ruby project was still clearly in the exploration stage but with an inventory increasing to around 400,000 carats at the time of the tender. Producing such an inventory in such a short period of time was a great achievement for the operational team in what were very challenging conditions in Northern Mozambique. It was always appreciated that the Company would encounter many market challenges and that there were many marketing and sales risks in what is still a highly competitive and rather opaque industry which is not at all well understood, with many difficulties for a new entrant gathering market intelligence on pricing and on quantities and qualities of stones in demand.

Eight Bid Schedules totalling 29,463 carats of rough rubies only were in fact sold during the tender at an average realised price of A$24.21/ct and gross sales proceeds of approximately A$713,456 were received. As the Company acknowledged at the time, the tender results were clearly below our expectations and led to an extensive review of not only the ruby sales and marketing methods but also a review of the longer term financial viability of the Montepuez Ruby Project in general.

**Board and Management Changes**

On 13 November 2017 Mr Christiaan Jordaan decided to resign as Managing Director but agreed to remain on the Board as a Non-Executive Director. The Company is indebted to him for all his hard work in raising high-risk funds around the world for the Company and the Company did not wish to lose his considerable skills, knowledge and connections. I agreed to serve in an executive capacity by becoming Interim Executive Chairman until a new Manging Director was appointed. Mr Peter Spiers resigned as a Non-Executive Director on 31 December 2017 to pursue executive and other opportunities. On 15 January 2018 after an intensive executive search over the holiday season, the Company was delighted to announce the appointment of Dr Bernard Olivier as its new Managing Director. Dr Olivier is a seasoned Managing Director and qualified geologist with experience in both coloured gemstones and graphite as well as various other commodities. Mr Cobus van Wyk moved from being a Non-Executive Director to become an Executive Director and Chief Operating Officer. Dr Olivier was further tasked with driving the internal review process regarding the financial viability of the ruby project as well as the potential of the Caula Vanadium-Graphite Project.

**Analysis of Viability of Montepuez Ruby Project**

The exploration and bulk sampling of the ruby project continued over the following months with both costs and sales conducted on a quantifiable level in order to deliver tangible data for the viability analysis and to see if we could make the ruby project viable. The exploration and pitting activities were also designed to further define extensions of the secondary deposits as part of the information required to establish a work program to lead to a maiden JORC resource. During Q1 2018 a total of 29,069.1 carats were recovered from processing of 43,940m3 (~68,107 tonnes) of stockpiled material at an average of 0.42 carats/tonne. Ruby recovery during the period was 13.5% higher than Q4 2017. In Q2 2018 a total of 17,774 carats were recovered from the processing of 41,213m3 (~63,880 tonnes) of material. The average grade of 0.28 carats/tonne achieved for Q2 was 33% lower than Q1 2018. During the same period AU$722,313 was received from pre-production sales of 132,194 carats of rubies conducted at the Chanthaburi office, Thailand. The sales were conducted in various quality, size and colour categories with sales from each category recorded to enable extrapolation of sales data in a quantifiable manner.

Following a detailed analysis of the results of the review the Board concluded that substantially greater amounts of capital would be required to be raised by the Company to continue ongoing ruby exploration and development and to ensure that exploration and processing costs would be reduced and revenue increased. The cost analysis showed that the exploration and bulk sampling costs expressed as a dollar value per carat extracted were more than three times higher than the extrapolated revenue achieved from sale of the product on a per carat basis. It was not apparent to the Board how the Company would be able to raise the necessary capital on good terms nor without substantial and unacceptably high level of dilution for existing shareholders. The Company therefore came to the difficult decision to divest the project since it did not appear that the project could become economically viable without significant further investment accompanied by a very high degree of uncertainty surrounding the quantities and qualities of ruby recoveries in the future.

After several approaches by interested companies over a 12 month period, the Company subsequently announced, after the end of the reporting period, on 17 July 2018 that it had entered into a merger agreement for its Montepuez ruby assets with Fura Gems Inc. ("Fura") (TSXV:Fura) for approximately (subject to exchange rate) 10.5 million in shares in Fura. Under the terms of the agreement, the shares are to be issued to Mustang in three tranches over 20 months from closing expected to occur by end November 2018. Importantly the agreement contained a commitment by Fura to invest $25 million in further exploration and resource definition work on its expanded Montepuez Project over 3 years. Mustang considers that this exploration expenditure commitment is likely to provide the project with the additional finance that it requires to make the project economically viable in the longer term. We wish Fura every success in its ongoing exploration and attempts to consolidate a significant ground position on the Montepuez gem-field and we do hope that an increased Fura share price can be achieved over time to deliver added wealth for the shares Mustang holds in Fura.

**Focus on Caula Graphite and Vanadium Project and Company Name Change**

Whilst Montepuez has been our key focus during most of 2017 the Company also continued to progress its 80%-owned Caula Vanadium-Graphite Project in Mozambique which shares a boundary with the Montepuez Ruby Project and is located along strike from Syrah Resources' Balama graphite project. On 6 November 2017 Mustang announced its maiden JORC Inferred Mineral Resource estimate for the Caula Project. The inferred Mineral Resource totalled 5.4M tonnes at an average grade of 13.0% TGC for 702,600 tonnes of contained graphite at a 6.0% TGC cut-off. A strategic review on the potential of the Caula Project was also initiated and led by the newly appointed MD. As part of the review process all historical graphite samples were submitted for vanadium assaying. Dr Evan Kirby, who has over 40 years' experience as a metallurgist including extensive experience in both graphite and vanadium was subsequently appointed as Non-Executive Director and consulting metallurgist.

The quality and potential of both the graphite and vanadium hosted in the Caula deposit became increasingly clear as the assay results of the Scoping Study and resource drilling campaign as well as the vanadium assay results of the previous drilling were returned. Vanadium assay results of 0.4% $V_2O_5$ over 125m intersection as well as multiple intersections from 0.7% to 1.02% $V_2O_5$ were reported together with graphite assay results of up to 24.2% TGC and 14.1% TGC average over 125m. A total of 11 holes were completed for 1,421.5m as part of the Scoping Study and resource infill and extension drilling campaign. The assays results include intersections of up to 1.9% vanadium ($V_2O_5$) and 28.9% Total Graphitic Carbon (TGC). The results further contain multiple high-grade intersections over extensive widths, including 215m at 14.72% TGC average and 0.51% $V_2O_5$ average (MODD018).

On 25 June 2018, the Company announced metallurgical testwork results, which confirmed the quality graphite with a cumulative proportion of large to super jumbo flakes (>180μm), which increased from 44% to 60% for the combined Oxidised zone, whilst the Fresh zone increased from 55% to 68%.

The Board's confidence in the potential of the Caula project was validated subsequent to the financial year end with the announcement of Mustang's maiden Vanadium Mineral Resource and upgraded Graphite Mineral Resource. The maiden Vanadium Resource, all in the Measured Category, is 22Mt at 0.37% vanadium pentoxide ($V_2O_5$) (0.2% cut-off) for a total of 81,600 tonnes of contained vanadium pentoxide. The upgraded Graphite Resource, all in the Measured Category is 21.9Mt at 13.4% TGC (8% cut-off) for a total of 2,933,100 tonnes of contained graphite.

The Fura transaction has allowed the Company to move its attention and capital away from rubies and to the Caula Vanadium-Graphite Project. In the light of this focus on bringing the world-class Caula Vanadium and Graphite Project into development and production, the Board therefore proposes that the Company changes its name to New Energy Minerals Ltd (ASX:NXE), subject to shareholder approval.

# CHAIRMANS LETTER

**The Future**

As Chairman, I fully realise that this transition period has been a difficult and frustrating one for shareholders.

I would like to thank all our shareholders for their loyalty, patience and understanding despite the disappointments. I wish to reassure shareholders that the Board and management take their responsibilities seriously and I emphasise that the difficult decisions taken during the last 12 months were made only after very careful consideration of all the data and the realities. Going forward, we are very enthusiastic and optimistic about the Caula Graphite and Vanadium Project as we look forward to fast-tracking the project into trial mining within the next 12 months. We invite shareholders and new investors to share our vision.

It has also been a very difficult period for Mustang's management team and staff in Mozambique. I would like to also thank them for all their incredibly hard work and dedication over the past 12 months, as well as thanking my co-Directors and the Company Secretary for all their sterling efforts. The contributions from our professional and technical advisers are also greatly acknowledged.

Overall, shareholders should recognise we have a very solid, professional and incentivised team in place capable of achieving much in the years ahead.

Yours faithfully,

**Ian C Daymond**

**Mustang Resources Limited**

**Chairman**

# Review of Operations

During the financial year under review the Company continued with the respective exploration programs for its Montepuez Ruby Project as well the Caula Graphite and Vanadium Project. During the second half of the reporting period, both projects were subjected to a comprehensive internal review and viability analysis of their respective current and future prospects.

**Montepuez Ruby Project, Mozambique**

During the first quarter of the financial period under review (July 2017 to September 2017) Mustang's main focus was the generation of stock for sale at its maiden rough ruby tender that was held between 27 and 30 October 2017. Mustang managed to take 405,000 carats to the maiden tender conducted at Port Louis, Mauritius. A total of 29,463 carats of rough rubies were sold and the average realised price was $24.21/ct. Gross sales proceeds of approximately $713,456 were received. As the Company acknowledged at the time, the tender results were disappointing. During 2018 Mustang initiated a comprehensive review of the project and the ongoing exploration, bulk sampling and sales activities were structured in a fashion that enable a quantitative analysis of the costs and revenue generated by the exploration program with the aim of establishing the financial feasibility of the project. A further 46,843 carats of rubies and corundum were subsequently extracted and processed on a quantifiable cost basis as part of the exploration program conducted between January 2018 and 30 June 2018. During the same period 140,411 carats of rubies and corundum were sold for $820,617. The carats sold between January 2018 and 30 June 2018 include stock carried over from the maiden tender.

The review and project viability analysis, led by management, was completed during the latter parts of the reporting period and concluded that the project was not economically viable and would require significant further funding to continue exploration and development work with a high level of uncertainty over the future viability of its project.

Subsequent to the reporting period, on 17 July 2018, Mustang announced that it had entered into a merger agreement for its Montepuez ruby assets with Fura for approximately (subject to exchange rate) 10.5 million in shares in Fura. Under the terms of the agreement, the shares are to be issued to Mustang in three tranches over 20 months from closing. The agreement contained a commitment by Fura committed to invest $25 million in further exploration and resource definition work on its expanded Montepuez Project over 3 years, subject to continued exploration success.

The Company subsequently impaired the carrying value of the Montepuez Ruby Project in the financial report to 30 June 2018 in relation to the project to $3.99 million.

**Caula Vanadium & Graphite Project**

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

In November 2017 Mustang announced its 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.

During the reporting period drilled, logged, sampled and assay a total of 11 holes for 1,421.5m on the Caula Project as part of its Scoping Study work program and Graphite and Vanadium resource estimation work. The assays include intersections of up to 1.9% vanadium ($V_2O_5$) and 28.9% Total Graphitic Carbon (TGC). The results contain multiple high-grade intersections over extensive widths, including 215m at 14.72% TGC average and 0.51% $V_2O_5$ average (MODD018).

The Vanadium results include:

- 125m @ 0.42% $V_2O_5$ including 21m @ 0.7% $V_2O_5$ (MODD014)
- 32m @ 0.82% $V_2O_5$ including 14m @ 1.29% $V_2O_5$ (MODD018)
- 79m @ 0.39% $V_2O_5$ including 6m @ 0.55% $V_2O_5$ (MODD022)

The Graphite results include:

- 125m @ 14.1% TGC including 18m @ 19% TGC (MODD014)
- 48m @ 17.68% TGC including 13m @ 21.5% TGC (MODD018)
- 66m @ 15.41% TGC including 13m @ 17.79% TGC (MODD022)

On 25 June 2018 the Company announced metallurgical test work results. Metallurgical test work confirms quality graphite with cumulative proportion of large to super jumbo flakes (>180um) increased from 44% to 60% for the combined Oxide zone while the Fresh zone increased from 55% to 68%. The metallurgical testing done to date has firmly established Caula as being able to yield high percentages Super Jumbo, Jumbo and Large flakes (~68% 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. A modified and improved flowsheet design was also developed that allows for integrated vanadium and graphite extraction and high concentrate grades of more than 97% Total Graphitic Carbon have been maintained in the modified flowsheet.

Subsequent to the financial year-end, Mustang announced its maiden Vanadium Mineral Resource and upgraded Graphite Mineral Resource. The maiden Vanadium Resource, all in the Measured Category, is 22Mt at 0.37% vanadium pentoxide ($V_2O_5$) (0.2% cut-off) for a total of 81,600 tonnes of contained vanadium pentoxide. The upgraded Graphite Resource, in the Measured Category is 21.9Mt at 13.4% TGC (8% cut-off) for a total of 2,933,100 tonnes of contained Graphite.

The Company believes that the results of the Scoping Study will support the Board and management's confidence in the potential of both the vanadium and graphite contained in the Caula Project.

**Corporate**

On 20 July 2017 the Company announced it had secured a $10,000,000 face value Convertible Note funding package from Arena Investors LP a major US institutional investor. The Convertible Notes attract interest at 1% per annum. The funds were fully drawn down in four tranches approved by shareholders. The Convertible Note facility also includes the issue of options.

On 1 September 2017, all resolutions were approved by a show of hands at the Company's General Meeting, specifically, the issue of securities pursuant to the Convertible Note Facility and ratification of the prior issue of shares and options.

On 24 November 2017, all resolutions were approved by a show of hands at the Company's AGM, specifically, the adoption of the FY 2017 Remuneration Report, the election of Mr Peter Spiers as a non-executive director of the Company, approval of 10% placement capacity, approval of the maximum aggregate non-executive directors' remuneration to $400,000, and the ratification of the prior issue of various shares and options. Further 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, Mr Christiaan Jordaan resigned as managing director and became a non-executive director of the Company.

On 6 January 2018, Mr Peter Spiers resigned as non-executive director of the Company. 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 vesting conditions, these options were not issued to Mr Spiers.

On 8 January 2018 the Company announced it had secured a $21,000,000 face value Convertible Note funding package from Arena Investors LP a major US institutional investor. The Convertible Notes attracted interest at 11% per annum. The funds were to be drawn down in seven (with Tranche 2 subsequently split into Tranche 2A and 2B on May 2018). As at the date of this Annual Report Tranche 1 ($2,000,000 face value), Tranche 2A ($2,100,000 face value) and Tranche 2B ($1,900,000 face value) have been drawn down by the Company. Each Tranche has an 18 month term. The Convertible Note facility also included the issue of options all of which are to be approved by shareholders.

On 15 January 2018, the Company announced the appointment of Dr Bernard Olivier as managing director and the appointment of Mr Cobus van Wyk as executive director and chief operating officer from his role as non-executive director.

On 2 March 2018, all resolutions were approved by a show of hands at the Company's General Meeting, specifically, the ratification of prior issues of convertible notes, approval for the issue of first tranche options pursuant to convertible note facility, approval for the issue of convertible notes and options pursuant to convertible note facility, approval for the issue of director incentive options to Dr Bernard Olivier and the ratification of prior issues of shares and options.

On 21 March 2018, the Company announced a one (1) for four (4) Non-Renounceable Rights Issue at $0.023 per new share to raise up to $4,435,742. Further on 27 March 2018 the Company announced the results of the Non-Renounceable Rights offer which raised $2,456,666 (before costs) and issued 106,811,504 new shares at $0.023 cents per share. The shortfall arising from the Non-Renounceable Rights offer was 86,046,843 new shares.

On 17 May 2018 the Company raised $500,000 (before costs) by way of the placement of 23,652,174 Non-Renounceable Right shortfall shares at $0.023 per share to professional and sophisticated investors.

On 7 March 2018, the Company announced the appointment of Dr Evan Kirby as non-executive director.

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 extinguished the $10,000,000 convertible note liability.

The Directors of Mustang Resources Limited ("MUS" or "the Company") present their report and the financial report of MUS and the entities it controlled ("the Group") at the end of, or during the year ended, 30 June 2018. The financial report was authorised for issue by the Directors on 28 September 2018. The Company has the power to amend and reissue the financial report.

## 1. DIRECTORS AND COMPANY SECRETARY

The Directors of the Company at any time during or since the end of the financial year are as follows. Directors were in office for the entire period unless otherwise stated.

**Ian Daymond BA LLB – Non-Executive Director, Chairman (Appointed 30 July 2014)**

Mr Daymond practised as a solicitor for more than 41 years as an external or in-house lawyer and as a consultant in the mining and resources area. He was General Counsel and Company Secretary of Delta Gold Ltd for over 11 years which saw the company grow from a small gold explorer into one of the largest gold producers in Australia with significant platinum and gold mining interests in southern Africa. Mr Daymond has significant independent director experience, having served as a non-executive director of International Base Metals Ltd with substantial copper interests in Namibia and is the former chairman of ElDore Mining Corporation Ltd (ASX: EDM), ActivEX Ltd (ASX: AIV) and Copper Range Ltd (ASX: CRJ) and a former non-executive director of Hill End Gold Ltd. Mr Daymond was the national chairman of the Australia-Southern Africa Business Council from 2002 to 2005 and has substantial business, legal and corporate government experience. He has experience in precious, base metals and diamond projects, not only in Australia but also in southern Africa for more than 25 years. He is currently the Honorary Consul for the Republic of Botswana in NSW.

During the last three years, Mr Daymond has not served as a director of any other listed company.

**Bernard Olivier – Managing Director (Appointed 12 January 2018)**

Dr Olivier holds a PhD in Economic Geology from the University of Stellenbosch, South Africa. He has been working as a geologist since 1998 and has worked throughout various African, Asian and South American countries, including Tanzania, South Africa, Burundi, Swaziland, Argentina, Colombia, Australia and the Philippines. He is a dual Australian and South African national and a Member of the Australasian Institute of Mining and Metallurgy (MAusIMM). He has worked on a variety of exploration and development projects as well as in mining operations across a spread of commodities, including, gemstones, gold, graphite, diamonds, PGEs, base metals and coal. He has over 10 years' experience as a quoted company director.

Dr Olivier's agreement is between the Company's wholly owned subsidiary Mustang Resources (Mauritius) Ltd and Dr Olivier.

During the past three years Dr Olivier has served as the Chief Executive Officer of Richland Resources PLC (formerly Tanzanite One) since March 2010 and as an Executive Director of Bezant Resources PLC since March 2007.

**Cobus van Wyk – Executive Director (Appointed 10 June 2015, appointed to Chief Operating Officer 15 January 2018)**

Mr van Wyk is the Chief Executive Officer and co-founder of the Regius group of companies and obtained his Bachelor of Marketing at the Tshwane University of Technology and his MBA at the University of Wales. Mr van Wyk started his career in the financial industry and capital markets in the Bankorp Group in South Africa. He commenced work on the Johannesburg Stock Exchange ("JSE") in 1994 and is a qualified portfolio manager and Stockbroker. Mr van Wyk was accepted as a member of the JSE in January 1996, became a member of the South African Futures Exchange (Safex) in 1996 in the derivatives market. Since 1999 Mr van Wyk has been involved in corporate finance as part of his duties as a member of the JSE. Mr van Wyk has more than 23 years' experience in the financial services industry which he is applying to the mining sector. Mr van Wyk has more than 10 years' experience in mining and exploration ventures in Mozambique (tantalite & coal) as well as South Africa (platinum group metals).

During the last three years, Mr van Wyk has not served as a director of any other listed company.

**Christiaan Jordaan – Non-Executive Director (Appointed 10 December 2015, resigned as managing director 13 November 2017)**

Mr Jordaan is the former Chief Executive Officer and Co-Founder of Regius Resources Group Ltd (UK), the Mozambican-focused mining and exploration company that has been operating in Mozambique since 2004. He is the Chief Executive Officer of Regius Resources Group (Australia) Ltd. Mr Jordaan has extensive experience in managing mining and energy projects in Mozambique, an intimate knowledge of the Mustang projects from their inception, as well as the local operating environment. He is a Member of the Australian Institute of Company Directors, holds a Commercial Law Degree, and prior to co-founding Regius, he was a director of a financial services Group in South Africa where he was responsible for risk management. He is based in Mustang's Sydney office.

During the last three years, Mr Jordaan has not served as a director of any other listed company.

**Evan Kirby – Non-Executive Director (Appointed 7 March 2018)**

Dr Kirby is a metallurgist with more than 40 years' experience and has extensive corporate and technical expertise. Dr Kirby worked for 16 years in South Africa with Impala Platinum, Rand Mines and then Rustenburg Platinum Mines. In 1992, he moved to Australia and was employed by Minproc Engineers and then Bechtel Corporation, where he had management and technical responsibilities. In 2002, Evan established his own Australian-based consulting business, Metallurgical Management Services. He has held leading roles in numerous metals and minerals projects, including many world-class developments, and has been a director of several ASX and AIM-listed mining companies. His hands-on experience includes diamonds, coloured gemstones, graphite, gold and platinum group metals, mineral sands and base metals.

During the last three years, Dr Kirby has served as a director of AIM listed Ferrum Crescent Limited and AIM-listed Bezant Resources PLC.

**Peter Spiers – Non-Executive Director (Appointed 23 May 2017, Resigned 31 December 2017)**

Mr Spiers has more than 30 years of international experience in the resources industry spanning exploration, mine development, operations and commercial roles. He spent 15 years with Western Mining Corporation ("WMC"), during which time he worked as a senior geologist, project manager and lastly Group Manager – Business Development prior to WMC being acquired by BHP Billiton for A$9.2 billion. Subsequent to his employment with WMC, Mr Spiers was Managing Director of Orbis Gold, an ASX-listed West African gold company which was acquired for A$170 million in 2015 by SEMAFO Inc. at a 98% bid premium.

Mr Spiers is a graduate geologist from the University of Melbourne and a Member of the Australasian Institute of Mining and Metallurgy.

During the last three years, Mr Spiers served as the Managing Director of ASX listed company Orbis Gold up to its takeover in 2015.

**Robert Marusco B.Bus, CPA SA FIN ACSA GradDip ACG Dip FS (FP), Company Secretary (Appointed 4 March 2016)**

Mr Marusco has developed experience and competence in equity capital markets, debt advisory and operational knowledge in relation to capital raising support and facilitation, corporate management including company secretarial, governance and compliance dealing with the ASX, ASIC and other authorities for both ASX listed public and private corporations.

**Interests in the shares and performance rights of the company and related bodies corporate**

As at the date of this report, the interests of the current directors in the shares, options & performance rights of the Company were:

| | Ordinary Shares | Options | Unlisted Performance Rights |
|---|---|---|---|
| Ian Daymond | 2,500,000 [1] | 4,500,000 [1] | - |
| Bernard Olivier | - | 5,000,000 [2] | - |
| Cobus van Wyk | 65,290,525[3] | - | 6,860,000 |
| Christiaan Jordaan | 65,290,525[3] | - | 6,860,000 |
| Evan Kirby | 417,815 | - | - |
| Peter Spiers (resigned 6 January 2018) | - | - | - |

Note 1: 1,000,000 shares are held by Ian Daymond and 1,500,000 shares and 4,500,000 options are held via the Mustang Long Term Incentive Plan Trust on behalf of Ian Daymond subject to vesting conditions.
Note 2: 5,000,000 options are held via the Mustang Long Term Incentive Plan Trust on behalf of Bernard Olivier subject to vesting conditions.
Note 3: Shares held via Regius Resources Group Limited.

**Directors' Meetings**

The number of directors' meetings held during the financial year each director held office and the number of meetings attended by each director is:

| Director | A | B |
|---|---|---|
| Ian Daymond | 12 | 12 |
| Bernard Olivier (appointed 15 Jan 2018) | 5 | 5 |
| Cobus van Wyk | 12 | 12 |
| Christiaan Jordaan | 12 | 12 |
| Evan Kirby (appointed 7 Mar 2018) | 3 | 3 |
| Peter Spiers (resigned 31 Dec 2017) | 7 | 7 |

**A** – Number of meetings attended
**B** – Number of meetings held during the time the director held office during the year

The Group does not have separate audit, remuneration, ethical standards or diversity committees and these matters are addressed at board meetings when required.

## OPERATING AND FINANCIAL REVIEW

### Overview of the Group and Operations

During the financial period the Company continued with the exploration work and assessment of the Montepuez Ruby Project as well as the Caula Graphite and Vanadium Project, both located in Northern Mozambique.

Significant capital raisings have allowed the Company to continue the exploration and development of its vanadium and graphite asset as well as the exploration, bulk sampling and of its ruby licenses and further strengthen its consolidated statement of financial position.

### Financial

The consolidated net loss for the Group for the year ended 30 June 2018 was $43,251,407 (2017: $11,229,405).

Total assets decreased from $33,159,059 in 2017 to $14,976,518 in 2018 as a result of impairment of exploration and evaluation on relinquishment of licenses, and net assets decreased from $31,019,670 in 2017 to net assets of $11,088,856 in 2018. The Group's working capital surplus is $1,615,075 as at 30 June 2018 (2017: working capital deficit $583,066).

During the year the Company raised $6,170,661 (net of costs).

## Going Concern

The Group's consolidated financial statements have been prepared on a going concern basis which 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 after tax of $43,251,407 (2017: $11,229,405) and had net cash outflows from operations of $4,963,176 (2017: $2,209,811) for the year ended 30 June 2018. At 30 June 2018 the Group had cash at bank totalling $879,394 and working capital surplus of $1,615,075 (2017: deficit of $583,066).

Based on the Group's cash flow forecast, the Group will require additional funding in the next 12 months to enable the Group to continue its normal business activities and to ensure the realisation of assets and extinguishment of liabilities as and when they fall due, including the further development of the Caula Vanadium-Graphite Project and meeting its annual minimum tenement expenditure commitments.

The continuing viability of the Group and its ability to continue as a going concern and meet its debts and commitments as they fall due are dependent upon:

- the Group's operating cash requirements not exceeding its historical levels
- the Group obtaining shareholder approval to access 5 convertible note tranches of net $2.85 million each, as outlined in Note 10(b), over the next two years
- as a result of the transaction with Fura Gems Inc. (refer to Note 10), the Group significantly reducing its tenement minimum spend commitments with respect to the Montepuez Ruby Project as outlined in Note 17
- the Group raising $2.4 million through a private placement (which settled on 20 August 2018), and
- the directors being successful in obtaining future funding to meet the Group's objectives and payment obligations as and when they fall due by engaging with parties in raising additional capital or issuing debt in which the Group has demonstrated a history of success in this regard.

As a result of the above matters, there exists a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business. The directors are of the opinion that, as at the date of these consolidated financial statements, the Group is a going concern and, as a result, the financial report for the year ended 30 June 2018 does not include any adjustments relating to the recoverability and classification of the recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

Included in the Consolidated Financial Statements for the year ended 30 June 2018 is an independent auditor's report which includes and Emphasis of Matter paragraph in regard to the existance of material uncertainty on the Group's ability to continue as a going concern.

## Strategy and investments for future performance

Following the completion of the merger agreement with Fura Gems Inc. (see Section 10) regarding the Company's ruby assets, the Company will no longer be running and operating the ruby project as this will be the responsibility of Fura. Fura has committed to invest $25m in further exploration and resource definition, subject to exploration success, on its expanded Montepuez Project which following the closing of the agreement with the Company includes the Montepuez Ruby Project.

The Company is therefore no longer involved at an operational level and is merely an investor in Fura by virtue of the shares it will receive as part of the transaction.

Mustang will continue to focus its effort on the exploration development of the Caula Graphite-Vanadium Project. During July 2018 the Company announced its maiden JORC Measured Resource for the Vanadium component of the Caula project followed by an upgraded JORC Measured Resource for the Graphite component of the same project and deposit. The establishment of the JORC Measured Resource for both Vanadium and Graphite from the same deposit allows the Company to fast-track the project, through the scoping study and feasibly study phases and to Phase 1 trial mining through the establishment of a small pilot processing plant by mid-2019.

The planned upcoming development steps by the Company are as follows;

- Completion of its Feasibility Study Drilling program
- Completion of its Scoping Study by end September/beginning October 2018
- Feasibility study work including geological, hydrological, geotechnical, metallurgical and plant design work
- Project permitting by the end of December 2018
- Resource updates and Feasibility Study results
- Product offtake framework and financing for Phase 1 establishment by the end of March 2019
- Phase 1 open pit and pilot plant construction
- Phase 1 trial mining and pilot processing plant commissioning by end of June 2019
- Preliminary product sales from its trail mining and pilot operations in H2 2019

### Performance indicators

The board and management team work together in preparing strategic plans and budgets. Key performance indicators identified from the plans and budgets are used to monitor performance.

## 2. PRINCIPAL ACTIVITIES

The principal activities of the entities within the Group during the financial year were the continued exploration and viability assessment of the Montepuez Ruby project as well as the exploration and development of the Caula Vanadium and Graphite project. Following the ruby merger agreement with Fura (see Section 10), the Company's core focus is on the development of the Caula Vanadium and Graphite project.

## 3. RESULTS

The net loss after income tax of the Group for the financial year ended 30 June 2018 totalled $43,251,407 (2017: $11,229,405).

## 4. DIVIDENDS

The directors do not recommend the payment of a dividend and no amount has been paid or declared by way of dividend since the end of the previous financial year, or to the date of this report (2017: $Nil).

## 5. CORPORATE STRUCTURE

The Company is a company limited by shares that is incorporated and domiciled in Australia. The Company has prepared a consolidated report incorporating the entities that it controlled during the financial year.

## 6. EARNINGS PER SHARE

The basic loss per share for the Company for the year 2018 was 5.78 (2017: 2.77) cents per share from continuing operations.

## 7. SHARE OPTIONS

**Shares issued as a result of the exercise of options**

No options were exercised either in the current or previous year.

**Un-issued Shares**

As at the date of the report, there were un-issued ordinary shares under option.

| Number of Options | Listed / Unlisted | Exercise Price | Expiry Date |
|---|---|---|---|
| 61,938,095 | Listed | $0.035 | 25/01/2020 |
| 8,000,000 | Unlisted | $0.15 | 14/06/2019 |
| 14,000,000 | Unlisted | $0.075 | 21/06/2019 |
| 7,500,000 | Unlisted | $0.06 | 04/08/2019 |
| 2,662,879 | Unlisted | $0.0273 | 23/01/2020 |
| 729,771 | Unlisted | $0.0273 | 25/02/2020 |
| 1,519,559 | Unlisted | $0.10 | 09/03/2020 |
| 3,000,000 | Unlisted | $0.15 | 31/03/2020 |
| 3,000,000 | Unlisted | $0.20 | 31/03/2020 |
| 2,181,818 | Unlisted | $0.0715 | 20/07/2020 |
| 13,333,333 | Unlisted | $0.117 | 20/07/2020 |
| 12,765,957 | Unlisted | $0.1222 | 20/07/2020 |
| 3,333,333 | Unlisted | $0.117 | 15/09/2020 |
| 1,800,000 | Unlisted | $0.13 | 16/10/2020 |
| 7,500,000 | Unlisted | $0.0307 | 15/01/2021 |
| 5,000,000 | Unlisted | $0.0356 | 13/03/2021 |
| 25,723,472 | Unlisted | $0.0323 | 13/03/2021 |
| 41,749,503 | Unlisted | $0.0262 | 29/05/2021 |
| 6,000,000 | Unlisted | $0.0273 | 22/05/2021 |

Option holders do not have any right, by virtue of the option, to participate in any share issue of the Company. All options (if exercised) would convert at a ratio of 1 fully paid ordinary share for every 1 option.

As at the date of the report, there were un-issued ordinary shares under performance rights.

| Class | Number of Rights | Listed / Unlisted |
|---|---|---|
| E | 14,000,000 | Unlisted |

The non-market vesting conditions of the performance rights, which need to be satisfied for conversion to ordinary shares in the Company, are as follows:

| Class | Non-market vesting conditions |
|---|---|
| E | Upon proving a JORC Compliant Inferred Resource of a minimum of 50 Million tonnes @ >5% total graphitic content, on any of the Balama licenses on or before 31 December 2019. |

Performance Right holders do not have any right, by virtue of the performance right, to participate in any share issue of the Company. All performance rights (if vesting conditions achieved) would convert at a ratio of 1 fully paid ordinary share for every 1 performance right.

As at the date of the report, there were un-issued ordinary shares under a Convertible Note Agreement.

| Class | Number of Notes | Listed / Unlisted |
|---|---|---|
| Convertible Note Tranche 1 | 1,300,000 | Unlisted |
| Convertible Note Tranche 2A | 2,100,000 | Unlisted |
| Convertible Note Tranche 2B | 1,900,000 | Unlisted |

The conversion conditions for the conversion to ordinary shares in the Company are as follows:

| Class | Conversion conditions |
|---|---|
| Convertible Note Tranche 1 | Convertible Notes with a face value of $1.00 and a conversion price equal to the higher of: the lowest one (1) day Volume Weight Average Price (VWAP) as published by Bloomberg selected by Arena over the twenty (20) trading days prior to the conversion of the Convertible Notes and a floor price of $0.018 and a maturity date of 10 July 2019.<br><br>• Note 1: $1,300,000 net of $700,000 converted to ordinary shares |
| Convertible Note Tranche 2A | Convertible Notes with a face value of $1.00 and a conversion price equal to the lowest one (1) day Volume Weight Average Price (VWAP) as published by Bloomberg selected by Arena over the twenty (20) trading days prior to the conversion of the Convertible Notes and a maturity date of 29 October 2019 with a face value as follows:<br><br>• Note 2: $2,100,000 |
| Convertible Note Tranche 2B | Convertible Notes with a face value of $1.00 and a conversion price equal to the lowest one (1) day Volume Weight Average Price (VWAP) as published by Bloomberg selected by Arena over the twenty (20) trading days prior to the conversion of the Convertible Notes and a maturity date of 29 October 2019 with a face value as follows:<br><br>• Note 3: $1,900,000 |

## 8. REMUNERATION REPORT (AUDITED)

This report outlines the remuneration arrangements in place for directors, executives and key management personnel of the Group in accordance with the requirements of the Corporations Act 2001 and its regulations. For the purposes of this report key management personnel (KMP) of the group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent company.

The remuneration report is set out under the following main headings:

A. Principles of compensation
B. Service agreements
C. Details of remuneration
D. Share based compensation

### A. Principles of compensation

The remuneration policy of the company has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the Group's financial results. The board believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best key management personnel and directors to run and manage the Group. The key management personnel of the Company are the executive and non-executive directors, and officers of the parent entity. For the purposes of this report, the term 'executive' encompasses the executive directors and officers of the Group. The Board's policy for determining the nature and amount of remuneration for board members and key management personnel of the Group is as follows:

#### Remuneration structure

In accordance with best practice corporate governance, the structure of non-executive director and executive remuneration is separate and distinct.

#### Fixed remuneration

The remuneration policy, setting the terms and conditions for the executive directors and key management personnel, was developed by the board. All key management personnel are remunerated either as an employee or on a consultancy basis based on services provided by each person. The Board reviews key management personnel packages annually by reference to the Group's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries.

The Board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The Board determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of director fees that can be paid to non-executive directors is subject to approval by shareholders at the annual general meeting (currently $400,000). Fees for non-executive directors are not linked to the performance of the Group.

However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the Company and are able to participate in employee share and option plans that may exist from time to time.

**Variable remuneration – short term incentive (STI)**
There are currently no variable short-term incentives provided to management in the form of an STI or bonus program. The Board is of the opinion that the variable long-term remuneration provided to directors and executives is sufficient to align the interests of management with shareholders.

**Variable remuneration – long term incentive (LTI)**
Currently, this is facilitated through the issue of options to key management personnel to encourage the alignment of personal and shareholder interests. Currently there are no long-term incentives provided to management. The Board as a whole agrees upon an appropriate level of remuneration incentive for each director, which then requires shareholder approval, relative to their involvement in the management of the Group. The main performance criteria of the LTI remuneration is increasing shareholder value through aligning the company with high quality exploration assets, which in turn should increase share price. There are no specific performance hurdles attached to options issued to directors, however, the exercise price of options is set at a level that encourages the directors to focus on share price appreciation. The Company believes this policy will be effective in increasing shareholder wealth. On the resignation of directors, the options issued as remuneration are retained by the relevant party for a period of 21 days, following which if they are unexercised the options terminate. For details of directors and key management personnel interests in options at year end, refer section D.

Executive remuneration is not linked to either long term or short-term performance conditions. The Board will continue to monitor this to ensure that it is appropriate for the Company in future years. Consequently, remuneration of executives is determined with reference to the operations of the Company.

The net loss of the Company for the financial year 30 June 2018 after income tax amounted to $43,251,407 (2017: $11,229,405).

The Board may exercise discretion in relation to approving incentives such as bonuses or options. The policy is designed to attract the highest calibre of key management personnel and reward them for performance that results in long-term growth in shareholder wealth.

The Company has no policy on executives and directors entering into contracts to hedge their exposure to options or shares granted as part of their remuneration package.

**Long Term Incentive Plan (Plan)**
On 24 November 2017 shareholders approved the Mustang Long Term Incentive Plan (the "Plan"). The Plan is intended to assist the Company to attract and retain key staff, whether employees or contractors. The Board believes that grants made to eligible participants under the Plan will provide a powerful tool to underpin the Company's employment and engagement strategy, and that the Plan will:

(a) enable the Company to incentivise and retain existing key management personnel and other eligible participants needed to achieve the Company's business objectives;
(b) enable the Company to recruit, incentivise and retain additional Key Management Personnel and other eligible participants needed to achieve the Company's business objectives;
(c) link the reward of key staff with the achievement of strategic goals and the long-term performance of the Company;
(d) align the financial interest of participants of the Plan with those of shareholders; and
(e) provide incentives to participants of the Plan to focus on superior performance that creates shareholder value.

Following shareholder approval of the Plan the following shares and options were issued to the Plan on behalf of the Key Management Personnel with vesting conditions and expiry dates noted below.

| Key Management Personnel | Role | Shares | Vesting Conditions | Unlisted Options | Vesting Conditions |
|---|---|---|---|---|---|
| Ian Daymond | Non-Executive Chairperson | 1,500,000 | 12 months continuous service to the Company from 24 Nov 2017 | 4,500,000 | 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 with the Options exercisable at $0.0307 with expiry date 15 Jan 2021. |
| Bernard Olivier | Managing Director | - | - | 5,000,000 | 2,500,000 Options issued to the Mustang Long Term Incentive Plan Trust on behalf of Bernard Olivier vesting after 12 months continuous service by Bernard Olivier to the Company with the Options exercisable at $0.0356 with expiry date 13 March 2021.<br><br>2,500,000 Options issued to the Mustang Long Term Incentive Plan Trust vesting 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 with the Options exercisable at $0.0356 with expiry date 13 March 2021. |

The Board considers that the grant of incentive securities is a cost effective and efficient reward for the Company to make to appropriately incentivise continued performance and is consistent with the strategic goals and targets of the Company.

### Voting and comments made at the Company's last Annual General Meeting

The Company received valid proxies of which approximately 80% were 'yes' votes on its Remuneration Report for the financial year ending 30 June 2017. The resolution to approve the Remuneration Report was carried by a show of hands. The Company received no specific feedback on its Remuneration Report at the Annual General Meeting.

### Company performance, shareholder wealth and directors' and executives' remuneration

The remuneration policy has been tailored to increase goal congruence between shareholders and directors and executives. Currently, this is facilitated through the issue of options to directors and executives to encourage the alignment of personal and shareholder interests. The Company believes this policy will be effective in increasing shareholder wealth.

### Shareholder returns

The following table shows the last five years' financial performance against shareholder returns.

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Product sales ($) | - | - | - | 481,753 | 2,948,648 |
| Net loss attributable to members of Mustang Resources Limited ($) | 43,251,407 | 11,229,405 | 10,282,313 | 6,620,704 | 23,444,116 |
| Basic EPS (cents) | (5.78) | (2.77) | (8.33) | (29.20) | (832.59) |
| Closing share price as at 30 June | $0.017 | $0.042 | $0.041 | $0.22 | $0.03 |

In 2015 the Company's shares underwent a 67:1 consolidation.

## B. Service arrangements

***Details of key management personnel***

**Directors**

Ian Daymond - Non-Executive Director (appointed 30 Jul 2014 and Executive Chairman from 13 Nov 2017 to 15 Jan 2018)

Bernard Olivier - Managing Director (appointed 12 Jan 2018)

Cobus van Wyk - Chief Operating Officer (appointed 10 Jun 2015; changed from non-executive director to Chief Operating Officer 15 Jan 2018)

| | |
|---|---|
| Christiaan Jordaan | - Non-Executive Director (resigned as managing director 13 Nov 2017 and appointed non-executive director 13 Nov 2017) |
| Evan Kirby | - Non-Executive Director (appointed 7 Mar 2018) |
| Peter Spiers | - Non-Executive Director (resigned 31 Dec 2017) |

***Details of executives & non-executives***

Remuneration and other terms of employment for the following key management personnel are set out below:

**Bernard Olivier, Managing Director (appointed as Managing Director 12 January 2018)**

- The Company entered into an executive service agreement with Mr Olivier commencing 12 January 2018.
- Starting gross salary of $220,000 p.a. plus 9.5% retirement benefits.
- Salary will increase to $250,000 p.a. plus 9.5% retirement benefits when market capitalisation of $50m is achieved and maintained or exceeded for at least 20 consecutive trading days.
- Salary will increase to $275,000 p.a. plus 9.5% retirement benefits when market capitalisation of $100m is achieved and maintained or exceeded for at least 20 consecutive trading days.
- Salary will increase to $300,000 p.a. plus 9.5% retirement benefits when market capitalisation of $150m is achieved and maintained or exceeded for at least 20 consecutive trading days.
- Benefits include private health insurance premiums.
- Employment agreement can be terminated by Dr Olivier by providing 3 months' notice and the Group can terminate Dr Olivier's employment agreement by providing 3 months' notice to him.
- Termination benefits to Dr Olivier will not exceed and are capped at the average annual base salary he receives from the Group during the last three (3) years of employment or such lesser amount as the Group may be permitted to pay under the ASX Listing Rules.
- Upon termination all options allocated to Dr Olivier under the Company's ESOP will be treated as follows: (a) all options which have vested but are not yet exercised may be exercised within the period of three (3) months from the date of termination; and (b) all options which have not yet vested will immediately lapse and become incapable of exercise.

**Cobus van Wyk, Chief Operations Director (appointed 15 January 2018 from position of non-executive director)**

- Chief Operations Director fee of $117,813 for the period 15 January 2018 to 30 June 2018 was paid or payable during the financial year (2017: $Nil).
- Non-Executive Director fee of $24,000 for the period 1 July 2017 to 15 January 2018.
- The Company entered into an executive service agreement with Mr van Wyk commencing 15 January 2018 which entitles him to a starting gross salary of $230,000 p.a.

**Ian Daymond, Interim Executive Chairman**

- Interim Executive Chairman fee of $75,000 for the period 3 month period November 2017 to January 2018 was paid or payable during the financial year (2017: $Nil).
- For the remainder of the financial year he was paid at the rate of $60,000 p.a. plus $17,500 in additional consulting services (2017: $60,000 plus $15,000 consulting fee).

**Christiaan Jordaan, Managing Director (resigned as Managing Director 13 November 2017 and appointed non-executive director 13 November 2017)**

- Managing Director fee of $161,186 for the period 1 July 2017 to 13 November 2017 was paid or payable during the financial year (2017: $251,850).
- Non-Executive Director fee of $33,248 for the period 13 November 2017 to 30 June 2018.
- Mr Jordaan will receive a non-executive director's fee of $48,000 p.a plus statutory superannuation.

**Evan Kirby, Non-Executive Director (appointed non-executive director 7 March 2018)**

- Mr Kirby will receive a non-executive director's fee of $48,000 p.a plus statutory superannuation.

**Peter Spiers, Non-Executive Director (resigned non-executive director 7 March 2018)**

- Non-Executive Director fee of $30,660 for the period 1 July 2017 to 31 December 2017.

**Retirement benefits**

Other retirement benefits may be provided directly by the Company if approved by shareholders.

## C. Details of Remuneration

The following table sets out remuneration paid to directors and senior executives of the Group during the reporting period.

| | Salary , fees & short term compensated absences $ | Short-term non-monetary benefits $ | Additional fees $ | Post employment super-annuation $ | Termin-ation payments $ | Share- based payments $ | Total $ | Options as % of Total |
|---|---|---|---|---|---|---|---|---|
| **Key Management Personnel – Directors and Executives** | | | | | | | | |
| **Current Directors** | | | | | | | | |
| Ian Daymond, Non-Executive Chairman (i) | | | | | | | | |
| 2018 | 120,000 | - | 17,500 | 11,400 | - | 80,250 | 229,150 | 35 |
| 2017 | 60,000 | - | 15,000 | 5,700 | - | - | 80,700 | - |
| Bernard Olivier, Managing Director (ii) | | | | | | | | |
| 2018 | 89,330 | 3,294 | - | - | - | 43,750 | 136,374 | 32 |
| 2017 | - | - | - | - | - | - | - | - |
| Cobus van Wyk, Non-Executive Director (iii) | | | | | | | | |
| 2018 | 141,813 | - | - | - | - | - | 141,813 | - |
| 2017 | 45,000 | - | - | - | - | - | 45,000 | - |
| Christiaan Jordaan, Non-Executive Director (iv) | | | | | | | | |
| 2018 | 161,186 | 45,111 | 30,000 | 21,175 | 68,750 | - | 326,222 | - |
| 2017 | 230,000 | 30,582 | - | 21,850 | - | - | 282,432 | - |
| Evan Kirby, Non-Executive Director (v) | | | | | | | | |
| 2018 | 16,000 | - | 18,600 | 1,520 | - | - | 36,120 | - |
| 2017 | - | - | - | - | - | - | - | - |
| **Previous Directors** | | | | | | | | |
| Frank Petruzzelli, Non-Executive Director | | | | | | | | |
| 2018 | - | - | - | - | - | - | - | - |
| 2017 | 18,750 | - | - | - | - | - | 18,750 | - |
| Peter Spiers, Non-Executive Director | | | | | | | | |
| 2018 | 28,000 | - | - | 2,660 | - | - | 30,660 | - |
| 2017 | - | - | - | - | - | - | - | - |
| **Total 2018** | **556,329** | **48,405** | **66,100** | **36,755** | **68,750** | **124,000** | **900,339** | |
| Total 2017 | 353,750 | 30,582 | 15,000 | 27,550 | - | - | 426,882 | - |

(i) Mr Ian Daymond commenced as a non-executive director on 30 July 2014. Mr Daymond earned additional consulting fees (in addition to his director's fee) during the year of $17,500 (excluding GST), due to the ongoing project acquisition program and various capital raising processes. In addition, from the 13 November 2017 to 15 January 2018 he acted as interim executive chairman.

In addition, the Company issued Mr Daymond via the Mustang Long Term Incentive Plan Trust (or his nominated entity), following shareholder approval on the 24 November 2017 the following:

- 1,500,000 shares which will vest in Mr Daymond following 12 months continuous service to the Company from 24 November 2017;
- 4,500,000 Options issued to the Mustang Long Term Incentive Plan Trust vesting 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 with the Options exercisable at $0.0307 with expiry date 15 January 2021.

(ii) Mr Bernard Olivier was appointed as managing director on 15 January 2018 by way of an executive service agreement.

In addition, the Company issued Mr Olivier via the Mustang Long Term Incentive Plan Trust (or his nominated entity), following shareholder approval on the 2 March 2018, 5,000,000 (five million) Unlisted Options to acquire shares in the Company as follows:

- 2,500,000 Options issued to the Mustang Long Term Incentive Plan Trust on behalf of Bernard Olivier vesting after 12 months continuous service by Bernard Olivier to the Company with the Options exercisable at $0.0356 with expiry date 13 March 2021;

- 2,500,000 Options issued to the Mustang Long Term Incentive Plan Trust vesting 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 with the Options exercisable at $0.0356 with expiry date 13 March 2021.

Other short term non-monetary benefits include health insurance.

(iii) Mr Cobus van Wyk commenced work on a consulting basis commencing in December 2014. He was appointed as a non-executive director on 10 June 2015. On the 15 January 2018 he became Chief Operating Officer.

In addition, he is a director and chief executive officer of Regius Resources Group Limited which holds shares and various Performance Rights in the Company.

(iv) Mr Christiaan Jordaan was appointed as managing director on 10 December 2015. On the 15 January 2018 he resigned as managing director and became non-executive director and will receive a fee of $48,000 p.a. plus statutory superannuation in that role. Mr Jordaan's managing director fees to the date of his resignation includes a number of elements as follow:

- Managing directors fees in accordance with this executive service agreement of $93,567.

- Upon resignation payment of unused leave entitlements of $37,019.

- Upon resignation a termination payment of $68,750 equal to 3 months' salary based on his salary at the time of resignation of $275,000

- Other short term non-monetary benefits include motor vehicle, motor vehicle insurance and FBT and health insurance.

In Mr Jordaan's Executive Service Agreement it was agreed by the Company that Mr Jordaan would be allocated 1 million share options or performance rights at the 2016 AGM with a 3 year term and a strike price at a 25% premium to the 30 day VWAP. The options where not issued by the Company and in consideration for this the Company agreed to pay Mr Jordaan a once off cash bonus of $30,000.

(v) Mr Evan Kirby was appointed a non-executive director on the 7 March 2018. Mr Evans will receive a non-executive director's fee of $48,000 p.a plus statutory superannuation. Mr Kirby earned additional consulting fees (in addition to his director's fee) during the year of $18,600 (excluding GST), due to the ongoing project metallurgical and assay support work.

During the year, the Company discovered that certain information included in the 2017 Remuneration Report was incorrect in that it did not reflect all motor vehicle payments made on behalf of Mr Jordaan. This has been corrected as per the table below.

| | Salary , fees & short term compensated absences $ | Short-term non-monetary benefits $ | Additional fees $ | Post employment super-annuation $ | Termin-ation payments $ | Share- based payments $ | Total $ | Options as % of Total |
|---|---|---|---|---|---|---|---|---|
| **Key Management Personnel – Director - 2017** | | | | | | | | |
| Christiaan Jordaan, Director | | | | | | | | |
| 2017 | 230,000 | - | - | 21,850 | - | - | 251,850 | - |
| Adjustment | | 30,582 | - | - | - | - | 30,582 | |
| **Restated 2017** | 230,000 | 30,582 | - | 21,850 | - | - | 282,432 | - |

## D. Share based compensation

### (a) Shares issued on exercise of remuneration options

No remuneration options were exercised during the year.

### (b) Option holdings of key management personnel

The movement during the reporting period in the number of options over ordinary shares in Mustang Resources Limited held, directly, indirectly or beneficially, by each director and executive, including their personally-related entities.

| 2018 | Held at 1 July 2017 | Granted | Expired | Exercised / Sold | Other Changes | Held at 30 June 2018 | Exercisable / Vested |
|---|---|---|---|---|---|---|---|
| **Key Management Personnel** | | | | | | | |
| Mr I Daymond | - | 4,500,000 | - | - | - | 4,500,000 | - |
| Mr B Olivier | - | 5,000,000 | - | - | - | 5,000,000 | - |
| Mr C Jordaan | - | - | - | - | - | - | - |
| Mr C van Wyk | - | - | - | - | - | - | - |
| Mr Evan Kirby | - | - | - | - | - | - | - |
| Mr P Spiers | - | - | | | | | |
| **Total** | **-** | **9,500,000** | **-** | **-** | **-** | **9,500,000** | **-** |

| 2017 | Held at 1 July 2016 | Granted | Expired | Exercised / Sold | Other Changes | Held at 30 June 2017 | Exercisable / Vested |
|---|---|---|---|---|---|---|---|
| **Key Management Personnel** | | | | | | | |
| Mr I Daymond | 33,333 | - | 33,333 | - | - | - | - |
| Mr C Jordaan | - | - | - | - | - | - | - |
| Mr C van Wyk | - | - | - | - | - | - | - |
| Mr Peter Spiers | - | - | - | - | - | - | - |
| **Total** | **33,333** | **-** | **33,333** | **-** | **-** | **-** | **-** |

No options were granted since the end of the year. No terms of equity settled share-based payment transactions have been altered or modified during the year. No options were exercised by directors or executives for shares in the Company during the year.

A total of 9,500,000 options granted (via the Mustang Long Term Incentive Plan Trust) as remuneration subject to vesting conditions as outlined in the section entitled Long Term Incentive Plan.

A total of 10,000,000 options, subject to vesting conditions, where approved by shareholders at the Company's AGM on 24 November 2017 to be issued to Mr Peter Spiers via the Mustang Long Term Incentive Plan Trust. Mr Spiers resigned from the Board on the 31 December 2017 and advised the Company that he would not be claiming the shareholder approved options. Accordingly, these options where never issued by the Company.

### (c) Shareholdings of key management personnel

The movement during the reporting period in the number of ordinary shares of Mustang Resources Limited, directly, indirectly or beneficially, by each specified director and specified executive, including their personally-related entities is as follows:

| 2018 | Held at 1 July 2017 | On Exercise of Options | Other changes | Held at 30 June 2018 |
|---|---|---|---|---|
| **Key Management Personnel** | | | | |
| Mr I Daymond (i) | 500,000 | - | 2,000,000 | 2,500,000 |
| Mr B Olivier | - | - | - | - |
| Mr C Jordaan (ii) | 59,725,308 | | 5,565,217 | 65,290,525 |
| Mr C van Wyk (ii) | 59,725,308 | - | 5,565,217 | 65,290,525 |
| Mr E Kirby (iii) | 417,815 | - | - | 417,815 |
| Mr P Spiers | - | - | - | - |
| **Total** | **120,368,431** | **-** | **13,130,434** | **133,498,865** |

| 2017 | Held at 1 July 2016 | On Exercise of Options | Other changes | Held at 30 June 2017 |
|---|---|---|---|---|
| **Key Management Personnel** | | | | |
| Mr I Daymond | 500,000 | - | - | 500,000 |
| Mr C Jordaan (ii) | 29,725,308 | - | 30,000,000 | 59,725,308 |
| Mr C van Wyk (ii) | 29,725,308 | - | 30,000,000 | 59,725,308 |
| Mr P Spiers | - | - | - | - |
| **Total** | **59,950,616** | **-** | **60,000,000** | **119,950,616** |

(i) Includes 1,500,000 shares issued to the Mustang Long Term Incentive Plan Trust.

(ii) Acquired as part of the consideration paid by the Company for acquiring Save River Diamonds Pty Ltd, Sese Diamonds Pty Ltd, Balama Resources Pty Ltd and Montepuez Minerals Pty Ltd to Regius Resources Group Limited in which Mr Jordaan and Mr van Wyk are shareholders. On the 28 March 2018 Regius Resources Group Limited participated in a Non-Renounceable Rights Issue Offer (made to all shareholders of the Company) and acquired an additional 5,565,217 shares at a cost of $128,000. On 6 June 2017 the Company issued 30,000,000 fully paid ordinary shares as approved by shareholders on the 22 May 2017 to Regius Resources Group Ltd as part of the consideration related to acquisition of interest in ruby licence 8242L.

(iii) Mr Kirby held 417,815 shares prior to being appointed as non-executive director.

### (d) Performance Rights holdings of key management personnel

The movement during the reporting period in the number of performance rights of Mustang Resources Limited, directly, indirectly or beneficially, by each specified director and specified executive, including their personally-related entities is as follows:

| 2018 | Held at 1 July 2017 | Other changes | Held at 30 June 2018 |
|---|---|---|---|
| **Key Management Personnel** | | | |
| Mr I Daymond | - | - | - |
| Mr B Olivier | - | - | - |
| Mr C Jordaan (i) | 6,860,000 | - | 6,860,000 |
| Mr C van Wyk (i) | 6,860,000 | - | 6,860,000 |
| Mr E Kirby | - | - | - |
| Mr P Spiers | - | - | - |
| **Total** | **13,720,000** | **-** | **13,720,000** |

| 2017 | Held at 1 July 2016 | Other changes | Held at 30 June 2017 |
|---|---|---|---|
| **Key Management Personnel** | | | |
| Mr I Daymond | - | - | - |
| Mr C Jordaan (i) | 6,860,000 | - | 6,860,000 |
| Mr C van Wyk (i) | 6,860,000 | - | 6,860,000 |
| Mr P Spiers | - | - | - |
| **Total** | **13,720,000** | **-** | **13,720,000** |

(i) Acquired as part of the consideration paid by the Company for acquiring Save River Diamonds Pty Ltd, Sese Diamonds Pty Ltd and Balama Resources Pty Ltd to Regius Resources Group Limited in which Mr Jordaan and Mr van Wyk are shareholders.

**(e) Other transactions and balances with key management personnel**
No loans have been made during the financial period or at the date of this report to any specified directors or specified executives. A number of specified directors and specified executives, or their personally-related entities, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. A number of these entities transacted with the Company in the reporting period. The terms and conditions of those transactions were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to unrelated entities on an arm's length basis.

| Transaction | 2018 $ | 2017 $ |
|---|---|---|
| **Directors & Executives** | | |
| Mr I Daymond | - | - |
| Mr B Olivier | - | - |
| Mr C Jordaan | 265,548 (i) | 265,548 (i) |
| Mr C van Wyk | 265,548 (i) | 265,548 (i) |
| Mr E Kirby | - | - |
| Mr P Spiers | - | - |
| **Total** | **531,096** | **531,096** |

(i) Amortisation for the performance rights Class E previously issued

## 9. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

No significant changes in the Group's state of affairs this year.

## 10. SIGNIFICANT EVENTS AFTER BALANCE DATE

**Fura Gems Inc. Asset Merger Transaction**

On 17 July 2018 the Company announced that it had entered into a merger agreement for its Montepuez ruby assets with TSXV-listed Fura Gems Inc. (TSXV: FURA) for approximately (subject to exchange rate) 10.5 million in shares in Fura.

Under the agreement, the shares will be issued to Mustang in three tranches over 20 months to give Mustang around an 8% stake in Fura, excluding percentage equity dilution from capital raised by Fura. The effect of the agreement is expected to benefit Mustang shareholders by giving them ongoing exposure to the ruby assets and Fura's other ruby and gemstone assets via the shares in Fura.

Fura is a gemstone mining and marketing company which is engaged in the mining, exploration and acquisition of gemstone licenses. Fura is engaged in the exploration of resource properties in Colombia and owns a 76% interest the Coscuez emerald mine in Boyacá, Colombia. Fura is involved in the exploration and mining of rubies in Mozambique through its 80% effective interest in four ruby licenses (4392L, 3868L, 3869L and 6811L).

Fura and its wholly owned subsidiary entered into a merger of ruby assets agreement (the "Merger Agreement") dated 14 July 2018 with Mustang. Pursuant to the Merger Agreement, Fura will acquire controlling ownership in various entities owned by Mustang that hold rights to earn majority interests in 3 mineral concessions (being exploration licence 5030L and mining concessions 8955C and 8921C) in Mozambique as well as ownership of all existing site and ruby processing plant infrastructure (the "Assets").

The consideration payable to Mustang pursuant to the Merger Agreement is for approximately (subject to exchange rate) 10.5 million shares in Fura and shall be payable as outlined below:

- Common shares in the capital of Fura (the "Consideration Shares") with a value equal to $3,333,333 with such Consideration Shares to be issued at CAD$0.50, to be issued on or before 30 November 2018. Subject to exchange rate this will result in approximately 6,470,666 shares in Fura.
- Consideration Shares with a value equal to $3,333,333 with such Fura Shares to be issued at CAD$1.40 to be issued on or before 30 November 2019. Subject to exchange rate this will result in approximately 2,310,952 shares in Fura.
- Consideration Shares with a value equal to $3,333,333, with such Fura Shares to be issued at CAD$1.80 to be issued on or before 30 July 2020. Subject to exchange rate this will result in approximately 1.797.407 shares in Fura.

As at 30 June 2018 these shares were valued at $3.99m taking into account a discount to Fura's share price due to the timing of the receipt of the shares and restrictions on trading the shares as outlined below.

All of the Consideration Shares issued pursuant to the Merger Agreement will be subject to lock-up agreements pursuant to which Mustang shall be restricted from selling or transferring such securities during the twelve months following the issuing of each tranche and a further 12 month period wherein the securities have to be provided to Fura preferentially for orderly placement.

Under the terms of the Agreement Fura has committed to investing $25 million over the next 36 months in its Montepuez ruby licenses' further development, subject to continued exploration success.

Upon closing of the transaction, Fura will acquire Mustang's ruby assets, including its rights to earn interests between 52.5% and 65% in its 3 concessions (2 mining concessions and 1 exploration licence) covering approximately 192 km² (19,223 ha).

Fura has also entered into a concurrent transaction with Regius Resources Group Ltd "Regius" regarding an asset merger for all its ruby interests and associated assets. Mustang directors and shareholders Cobus van Wyk and Christiaan Jordaan are also directors and shareholders of Regius which is a related party. Regius holds rights to earn interests between 70% and 80% in 6 licenses in the Montepuez region covering a total area of 518km2 (51,800ha). Fura is also acquiring Regius's 20% share in Montepuez Minerals Pty Ltd which holds rights to earn majority interests in 2 of the 3 Mustang ruby concessions (5030L and 8921C). On closing Fura will hold rights over a total area of 1,111km2.

The transaction will be completed once the customary conditions precedent have been satisfied, The conditions precedent include the provision of legal opinions concerning the title to the assets being in good standing, as well as approvals from the ASX and the Mozambican Minister of Mineral Resources and Energy. There are no technical due diligence conditions imposed by Fura.

**Arena Investors L.P waiver of terms**

On 15 August 2018 the Company announced that it had obtained key approvals and waivers with Arena Investors L.P ("Arena") in an amendment deed dated 14 August 2018 ("Amendment Deed").

The Company previously announced on 8 January 2018, that Arena, a major institutional investor with more than US$750 million in assets under management on behalf of clients and affiliates, entered into an agreement ("Agreement") with Mustang, whereby it committed to invest $19.95 million into the Company, under a multi-tranche convertible note facility.

On 17 July 2018, the Company entered into a Merger Agreement with Fura noted above for approximately (subject to exchange rate) 10.5 million shares in Fura over three tranches.

Under the amendment deed Arena has provided the required approvals for the Merger Agreement and, importantly, has agreed to waive the 15% termination fee on amounts not drawn under the Agreement. It is therefore now at the discretion of the Company to decide to which extent it wishes to draw on the finance, if at all.

As at 1 August 2018 Arena held a total of $2.5 million (face value) of convertible notes in Mustang, of which $1 million is in Tranche 1 notes issued in January 2018 with an 18-month term and $1.5 million is in Tranche 2A notes issued in July 2018, also with an 18-month term. At the end of these terms, Mustang has the option to repay these convertible notes in cash or in shares at their election. Prior to expiry Arena is able to convert its notes to shares at the higher of the floor price (1.6 cents and 1.8 cents respectively) or the lowest preceding 20 day VWAP.

**Capital Raise**

On 13 August 2018 the Company announced that it had received formal commitments to raise approximately $2.4 million (before costs) via a private placement ("Placement") to professional and sophisticated investors and some of the Company's directors. Of this amount $2.18m was completed through the issue of 158,660,844 million new shares at $0.01374 per share. Of these new shares 138,636,844 where issued under the Company's 7.1 placement capacity and 20,024,000 under the Company's 7.1A placement capacity.

The total amount raised includes a commitment of $220,000 from Mustang's directors with Regius Resources Group Ltd (majority owned by Mustang Chief Operating Officer Cobus van Wyk and non-executive director Christiaan Jordaan) contributing $200,000 for 14,556,040 new shares and the Company's Managing Director Bernard Olivier $20,000 for 1,455,604 new shares. Participation by directors is subject to shareholder approval which is the subject of a general meeting of the Company scheduled for 2 October 2018.

Funds raised pursuant to the Placement will be used principally to further develop the Company's Caula Vanadium-Graphite Project in Mozambique and for general working capital.

The Placement has been made to professional and sophisticated investors in Australia, Hong Kong and the United States, with DJ Carmichael and Jett Capital acted as the lead brokers in respect of the Placement.

The Company will also issue attaching options ("Attaching Options") on a 1:2 basis, exercisable at $0.02, expiring 24 months from issue, which accords with the major Caula 24-month development milestones. The Company will seek quotation of the Attaching Options once issued. It should be noted that the issue of the Attaching Options is conditional on shareholder approval at a General Meeting to be held 2 October 2018.

## 11. AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is set out on page 27 and forms part of the directors' report for financial year ended 30 June 2018.

## 12. NON-AUDIT SERVICES

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Group are important.

Details of the amounts paid or payable to the previous auditor, Grant Thornton, or the current auditor PwC for non-audit services provided during the year are set out below.

The board of Directors has considered the position and is satisfied that the provision of non-audit services is compatible with the general standard that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- All non-audit services were reviewed by the board to ensure that they did not impact the impartiality and objectivity of the auditor; and
- None of the service undermine the general principles relating to auditor independence as set out in APEX 110 Code of Ethics for Professional Accountants.

During the year the following fees were paid or payable for non-audit services provided by the auditor of the parent entity, its related practices and non-related audit firm:

| | Consolidated | |
|---|---|---|
| | 2018 | 2017 |
| | $ | $ |
| **Corporate Advisory** | | |
| PricewaterhouseCoopers | - | - |

## 13. LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Following the Merger Agreement with Fura the Company is focussing its future development vanadium-graphite exploration & mining in Mozambique and is currently progressing with its drilling, logging, sampling and assay work to further the resource delineation of vanadium-graphite licenses as well as conducting various studies including, metallurgical, engineering, geotechnical and associated scoping and feasibility level studies.

## 14. ENVIRONMENTAL REGULATIONS & PERFORMANCE

The Group is a party to various exploration and development licenses or permits in the countries in which it operates. In most cases, these contracts and licenses specify the environmental regulations applicable to ruby, diamond and graphite mining in the respective jurisdiction. The Group aims to ensure that it complies with the identified regulatory requirements in each jurisdiction in which it operates. There have been no significant known breaches of the environmental obligations of the Group's licenses.

## 15. RISK MANAGEMENT

The board is responsible for ensuring that risks, and also opportunities, are identified on a timely basis and that the Group's objectives and activities are aligned with the risks and opportunities identified by the board. The Group believes that it is crucial for all board members to be a part of this process, and as such the board has not established a separate risk management committee.

The board has a number of mechanisms in place to ensure that management objectives and activities are aligned with the risks identified by the board. These include the following;

- Board approval of a strategy plan, which encompasses strategy objectives designed to meet stakeholders needs and manage business risk.
- Implementation of a board approved operating plans and budgets and board monitoring of progress against these budgets

## 16. CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of the Company support and have adhered to the principles of sound corporate governance. The board recognises the recommendations of the Australian Securities Exchange Corporate Governance Council, and considers that the Company is in compliance with those guidelines which are of importance to the commercial operation of a junior listed resources company. During the financial year, shareholders continued to receive the benefit of an efficient and cost-effective corporate governance policy for the Company. Due to the size of the board currently there is no separate audit committee. These matters are considered by the full board.

## 17. PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings. No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the Corporations Act 2001.

## 18. INDEMNIFICATION AND INSURANCE OF OFFICERS

An indemnity agreement has been entered into with each of the directors and company secretary of the Company named earlier in this report. Under the agreement, the Company has agreed to indemnify those officers against any claim or for any expenses or costs which may arise as a result of work performed in their respective capacities. There is no monetary limit to the extent of this indemnity. The Company has paid insurance premiums of $37,466 (2017: $34,335) in respect of directors' and officers' liability and legal expenses insurance contracts, for current directors and officers of the Company.

The insurance premiums relate to costs and expenses incurred in by the relevant officers in defending legal proceedings, whether civil or criminal and whatever the outcome; and other liabilities that may arise from their position, with the exception of conduct involving a wilful breach of duty or improper use of information or position to gain a personal advantage.

This report is made in accordance with a resolution of the directors.

Bernard Olivier

**Bernard Olivier**
**Managing Director**
**Mustang Resources Limited**

Perth, 28 September 2018

**Competent Persons' 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.

Information in this report that relates to the Balama Graphite Project'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 of Sumsare Consulting, Witbank, South Africa who 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.

Information in this report that relates to the metallurgical aspects of the Caula Graphite & Vanadium Project is based on information compiled by Dr. Evan Kirby, a Competent Person who is a registered member of the South African Institute for Mining and Metallurgy (SAIMM), which is a Recognised Professional Organisation (RPO) included in a list posted on the ASX website. Dr Kirby is a Non-Executive Director of the company. Dr Kirby 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. Dr Kirby consents to the inclusion of the data in the form and context in which it appears.

Mustang confirms that it is not aware of any new information or data that materially affects the information included in the original market announcements referenced throughout this announcement and that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed. Mustang confirms that the form and context in which the Competent Person's findings are presented have not been materially modified from the original market announcement.

**Forward-Looking Statements**

This report contains forward-looking statements that are subject to risk factors associated with resources businesses. It is considered that the expectations reflected in these statements are reasonable but they may be affected by a variety of variables and changes in underlying assumptions which could cause actual results or trends to differ materially, including but not limited to: price fluctuations, actual demand, currency fluctuations, drilling and production results, reserve estimates, loss of market, industry competition, environmental risks, physical risks, legislative, fiscal and regulatory developments, economic and financial market conditions in various countries and regions, political risks, project delay or advancement, approvals and cost estimates.

Any references to dollars, cents or $ in this report are to Australian dollar currency, unless otherwise stated.

## DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Mustang Resources Limited, we state that in the opinion of the directors:

1. The financial statements, comprising the consolidated Statement of Profit or Loss and other Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Cash Flows, Consolidated Statement of Changes in Equity and accompanying notes of the Group, are in accordance with the Corporations Act 2001; and

  a) comply with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;

  b) give a true and fair view of the financial position as at 30 June 2018 and of the performance for the year ended on that date of the Group; and

  c) the financial statements and notes also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as disclosed in note 1.

2. In the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

3. This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2018.

On behalf of the Board of Directors

Bernard Olivier

**Bernard Olivier**
**Managing Director**
**Mustang Resources Limited**

**Ian Daymond**
**Chairman**
**Mustang Resources Limited**

28 September 2018

# *Auditor's Independence Declaration*

As lead auditor for the audit of Mustang Resources Limited for the year ended 30 June 2018, 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 audit; and

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

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

Craig Heatley
Partner
PricewaterhouseCoopers

Perth
28 September 2018

***PricewaterhouseCoopers, ABN 52 780 433 757***
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# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

## FOR THE YEAR ENDED 30 JUNE 2018

| | | Consolidated | |
|---|---|---|---|
| | **Notes** | **2018** | **2017** |
| | | **$** | **$** |
| Interest income | | 5,165 | 5,664 |
| Write off of exploration and evaluation | 8(b) | (9,328,467) | (8,055,076) |
| Administration costs | 2(a) | (3,809,282) | (3,116,709) |
| Fair value loss on financial asset held at fair value through profit or loss | | (159,658) | (170,092) |
| Depreciation | | (210,303) | (32,536) |
| Gain on sale of assets | | 20,770 | 23,962 |
| Foreign exchange (loss)/gain | | (241,248) | 70,018 |
| Finance (expense)/income | 2(b) | (6,321,440) | 45,364 |
| **Loss from continuing operations before income tax expense** | | **(20,044,463)** | **(11,229,405)** |
| Income tax expense | 3 | - | - |
| **Net loss from continuing operations** | | **(20,044,463)** | **(11,229,405)** |
| **Net loss from discontinued operations** | 10 | **(23,206,944)** | **-** |
| **Net loss for the period** | | **(43,251,407)** | **(11,229,405)** |
| **Other comprehensive income** | | | |
| Items that may be reclassified to profit or loss: | | | |
| Foreign currency translation (loss)/gain | | (304,933) | 661,061 |
| Other comprehensive (loss)/gain for the period net of tax | | (304,933) | 661,061 |
| **Total comprehensive loss for the period** | | **(43,556,340)** | **(10,568,344)** |

The above consolidated statement should be read in conjunction with the accompanying notes to these financial statements.

MUSTANG RESOURCES LTD

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

## FOR THE YEAR ENDED 30 JUNE 2018

| | | Consolidated | |
|---|---|---|---|
| | Notes | 2018 $ | 2017 $ |
| **Loss from continuing operations for the period attributable to:** | | | |
| Non-controlling interest | | (29) | (86,841) |
| Owners of the parent | | (20,044,434) | (11,142,564) |
| | | **(20,044,463)** | **(11,229,405)** |
| **Loss from discontinued operations for the period attributable to:** | | | |
| Non-controlling interest | | (1,833,332) | - |
| Owners of the parent | | (21,373,612) | - |
| | | **(23,206,944)** | **-** |
| **Loss for the period attributable to:** | | | |
| Non-controlling interest | | (1,833,361) | (86,841) |
| Owners of the parent | | (41,418,046) | (11,142,564) |
| | | **(43,251,407)** | **(11,229,405)** |
| **Total comprehensive loss for the period is attributable to:** | | | |
| Non-controlling interest | | (1,747,991) | (85,371) |
| Owners of the parent | | (41,808,349) | (10,482,973) |
| | | **(43,556,340)** | **(10,568,344)** |
| **Loss per share** | | | |
| Continuing operations | | | |
| Basic loss per share (cents per share) | 14 | (2.68) | (2.77) |
| Diluted loss per share (cents per share) | 14 | (2.68) | (2.77) |
| Discontinued operations | | | |
| Basic loss per share (cents per share) | 14 | (3.10) | - |
| Diluted loss per share (cents per share) | 14 | (3.10) | - |
| Total | | | |
| Basic loss per share (cents per share) | 14 | (5.78) | (2.77) |
| Diluted loss per share (cents per share) | 14 | (5.78) | (2.77) |

The above consolidated statement should be read in conjunction with the accompanying notes to these financial statements.

MUSTANG RESOURCES LTD

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

## AS AT 30 JUNE 2018

| | Notes | Consolidated 2018 $ | 2017 $ |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | 16(b) | 879,394 | 510,169 |
| Trade and other receivables | 4 | 474,882 | 549,601 |
| Financial assets held at fair value | 9, 25(e) | - | 203,986 |
| Held for sale assets | 10 | 3,992,222 | - |
| Prepayments | 5 | 47,118 | 187,457 |
| **Total current assets** | | **5,393,616** | **1,451,213** |
| **Non-current assets** | | | |
| Trade and other receivables | 4 | 1,092,126 | - |
| Property, plant and equipment | 7 | 1,115,559 | 1,126,781 |
| Exploration and evaluation assets | 8 | 7,375,217 | 30,581,065 |
| **Total non-current assets** | | **9,582,902** | **31,707,846** |
| **Total assets** | | **14,976,518** | **33,159,059** |
| **Current liabilities** | | | |
| Trade and other payables | 11(a) | 2,628,541 | 2,009,215 |
| Provisions | 12 | - | 25,064 |
| Interest bearing loans and borrowings | 11(b) | 1,150,000 | - |
| **Total current liabilities** | | **3,778,541** | **2,034,279** |
| **Non-current liabilities** | | | |
| Provisions | 12 | 109,121 | 105,110 |
| **Total non-current liabilities** | | **109,121** | **105,110** |
| **Total liabilities** | | **3,887,662** | **2,139,389** |
| **Net assets** | | **11,088,856** | **31,019,670** |
| **Equity** | | | |
| Contributed equity | 13 | 174,068,894 | 155,013,532 |
| Reserves | 15 | 17,927,753 | 13,747,892 |
| Accumulated losses | | (182,617,224) | (141,199,178) |
| **Parent interests** | | **9,379,423** | **27,562,246** |
| Non-controlling interests | | 1,709,433 | 3,457,424 |
| **Total equity** | | **11,088,856** | **31,019,670** |

The above consolidated statement should be read in conjunction with the accompanying notes to these financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

## FOR THE YEAR ENDED 30 JUNE 2018

| | | Consolidated | |
|---|---|---|---|
| | | 2018 | 2017 |
| | Notes | $ | $ |
| **Cash flows from operating activities** | | | |
| Payments to suppliers and employees | | (3,993,265) | (2,221,152) |
| Interest received | | 5,165 | 12,001 |
| Interest paid | | (975,076) | (660) |
| **Net cash outflows used in operating activities** | **16(a)** | **(4,963,176)** | **(2,209,811)** |
| **Cash flows from investing activities** | | | |
| Payments for exploration and evaluation expenditure | | (12,335,704) | (8,020,527) |
| Payments for plant & equipment | | (764,572) | (778,783) |
| Proceeds from sale of plant & equipment | | 46,181 | 198,311 |
| **Net cash outflows used in investing activities** | | **(13,054,095)** | **(8,600,999)** |
| **Cash inflows from financing activities** | | | |
| Proceeds from the issue of shares and options | | 6,170,661 | 9,553,979 |
| Proceeds from the issue of convertible loans | | 12,395,000 | - |
| Proceeds from Lanstead Capital LP | | 44,328 | 358,674 |
| Share issue costs | | (129,180) | (607,563) |
| **Net cash inflows from financing activities** | | **18,480,809** | **9,305,090** |
| Net increase/(decrease) in cash and cash equivalents | | 463,538 | (1,505,720) |
| Cash and cash equivalents at the beginning of the year | | 510,169 | 2,173,329 |
| Effect of exchange rate changes on cash and cash equivalents | | (94,343) | (157,440) |
| **Cash and cash equivalents at the end of the year** | **16(b)** | **879,394** | **510,169** |

Non-cash investing and financing activities are disclosed in Note 16(c).

The above consolidated statement should be read in conjunction with the accompanying notes to these financial statements.

MUSTANG RESOURCES LTD

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## FOR THE YEAR ENDED 30 JUNE 2018

| Group | Contributed Equity | Accumulated losses | Option Reserve | Performance Rights reserve | Foreign currency translation reserve | Owners of the parent | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|---|
| | $ | $ | $ | | $ | | | $ |
| 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 | - | (11,142,564) | - | - | - | (11,142,564) | (86,841) | (11,229,405) |
| Other comprehensive gain | - | - | - | - | 659,591 | 659,591 | 1,470 | 661,061 |
| Total comprehensive (loss)/gain for the period | - | (11,142,564) | - | - | 659,591 | (10,482,973) | (85,371) | (10,568,344) |
| Issue of options | - | - | 464,570 | - | - | 464,570 | - | 464,570 |
| Issue of share capital (net of issue costs) | 8,957,060 | - | 947,556 | - | - | 9,904,616 | - | 9,904,616 |
| Amortisation of performance rights | - | - | - | 254,489 | - | 254,489 | - | 254,489 |
| **Balance at 30 June 2017** | **155,013,532** | **(141,199,178)** | **6,441,048** | **7,763,444** | **(456,600)** | **27,562,246** | **3,457,424** | **31,019,670** |
| | | | | | | | | |
| 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 | - | (41,418,046) | - | - | - | (41,418,046) | (1,833,361) | (43,251,407) |
| Other comprehensive (loss)/gain | - | - | - | - | (390,303) | (390,303) | 85,370 | (304,933) |
| Total comprehensive loss for the period | - | (41,418,046) | - | - | (390,303) | (41,808,349) | (1,747,991) | (43,556,340) |
| Issue of options | - | - | 4,028,229 | - | - | 4,028,229 | - | 4,028,229 |
| Issue of share capital (net of issue costs) | 19,055,362 | - | - | - | - | 19,055,362 | - | 19,055,362 |
| Amortisation of performance rights | - | - | - | 541,935 | - | 541,935 | - | 541,935 |
| **Balance at 30 June 2018** | **174,068,894** | **(182,617,224)** | **10,469,277** | **8,305,379** | **(846,903)** | **9,379,423** | **1,709,433** | **11,088,856** |

The above consolidated statement should be read in conjunction with the accompanying notes to these financial statements.

# 1. CORPORATE INFORMATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial report of Mustang Resources Limited and its subsidiaries ("the Group") for the year ended 30 June 2018 was authorised for issue in accordance with a resolution of the directors on 28 September 2018. Mustang Resources Limited is a company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange. The address of the registered office is 9 Bowman Street, South Perth, Western Australia, 6151 and its principal place of business is 111 Flinders Street Surry Hills, New South Wales, 2000. The principal activity of Mustang Resources Limited during the financial year was the exploration of rubies, vanadium and graphite in Mozambique.

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements to the extent they have not already been disclosed in the other notes. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group consisting of Mustang Resources Limited and its subsidiaries.

## (a) Significant accounting policies

**Basis of preparation and compliance with IFRS**

The financial statements are general purpose financial statements which have been prepared for a for-profit entity in accordance with Australian Accounting Standards (AASB) (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The consolidated financial report of the Group complies with International Financial Reporting Standards (IFRS) and interpretations adopted by the International Accounting Standards Board (IASB).

**Historical cost convention**

The financial statements have been prepared on a historical cost basis, except for the following:

- available-for-sale financial assets, financial assets and liabilities (including derivative instruments) certain classes of property, plant and equipment and inventory property - measured at fair value.
- assets held for sale - measured at fair value less cost to sell, and
- defined benefit pension plans – plan assets measured at fair value.

**New and amended standards adopted by the Group**

The accounting policies adopted are consistent with those of the previous financial year, other than the adoption of the following standards and amendments; AASB 2014-3 Amendments to Australian Accounting Standard – Accounting for Acquisitions of Interests in Joint Operations; AASB 2014-4 Amendments to Australian Accounting Standard – Clarification of Acceptable Methods of Depreciation and Amortisation; AASB 2015-1 Amendments to Australian Accounting Standard – Annual improvements to Australian Accounting Standards 2012-2014 cycle; and AASB 2015-2 Amendments to Australian Accounting Standard – Disclosure initiative Amendments to AASB 101; which came into effect for the annual reporting period commencing 1 July 2016. The adoption of these standards did not have any significant impact on the current period or any prior period and is not likely to affect future periods.

**New standards and interpretations not yet adopted**

The AASB has issued new and amended accounting standards and interpretations that have mandatory application dates for future reporting periods. The Group have decided against early adoption of these standards. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations most relevant to the Group are set out below:

*AASB 9 Financial Instruments*

*Classification and Measurement*
This standard addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets for annual reporting periods beginning on or after 1 January 2018. The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under AASB 139. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under AASB 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts.

On adoption of AASB 9 the Group has classified its financial assets as measured at amortised cost or fair value depending of business circumstances of those assets and cashflow characteristics. There was no change in the classification or measurement of financial liabilities. Under AASB 9, the Group's financial assets of cash and cash equivalents and trade and other receivables are classified as "financial assets at amortised costs".

At the date of adoption the Group has one investment that comprised the held for sale financial asset. The Group has made an election to classify and subsequently measure this investment at fair value through other comprehensive income ("FVOCI"). This category only includes equity instruments which the Group intends to hold for the foreseeable future and which the Group has elected to so classify upon initial recognition or transition. Equity instruments at FVOCI are not subject to an impairment assessment under AASB 9.

In relation to measurement of financial assets and liabilities, there was no material impact on the Group's financial statements.

*Impairment*
The adoption of AASB 9 has changed the Group's accounting for impairment for financial assets by replacing AASB 139's incurred loss approach with a forward-looking expected credit loss ("ECL") approach. ECL's are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. For trade and other receivables, the Group has applied the standard's simplified approach and has calculated ECL's based on lifetime expected credit losses.

The adoption of the ECL requirements of AASB 9 has not resulted in the recognition of a material impairment allowance for the Group's receivables. Accordingly there was no material impact on the Group's financial statements.

*AASB 15 Revenue from Contracts with Customers*

The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers revenue arising from the sale of goods and the rendering of services and AASB 111 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.
The standard permits either a full retrospective or a modified retrospective approach for the adoption. The Group currently does not recognise any revenue.

*AASB 16 Leases*

This standard is applicable to annual reporting periods beginning on or after 1 January 2019 and introduces a new framework for accounting for leases and will replace AASB 117 *Leases.* The new standard will primarily affect the accounting by lessees and will result in the recognition of almost all leases on the consolidated statement of financial position. The standard removes the current distinction between operating and financing leases and requires the recognition of an asset and a financial liability to pay rentals for almost all lease contracts. The Group will assess the impact of the new standard closer to the effective date.

There are no other standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future periods and on foreseeable future transactions.

## (b) Going Concern

The Group's consolidated financial statements have been prepared on a going concern basis which 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 after tax of $43,251,407 (2017: $11,229,405) and had net cash outflows from operations of $4,963,176 (2017: $2,209,811) for the year ended 30 June 2018. At 30 June 2018 the Group had cash at bank totaling $879,394 and working capital surplus of $1,615,075 (2017: deficit of $583,066).

Based on the Group's cash flow forecast, the Group will require additional funding in the next 12 months to enable the Group to continue its normal business activities and to ensure the realisation of assets and extinguishment of liabilities as and when they fall due, including the further development of the Caula Vanadium-Graphite Project and meeting its annual minimum tenement expenditure commitments.

The continuing viability of the Group and its ability to continue as a going concern and meet its debts and commitments as they fall due are dependent upon:

- the Group's operating cash requirements not exceeding its historical levels
- the Group obtaining shareholder approval to access 5 convertible note tranches of net $2.85 million each, as outlined in Note 10(b), over the next two years
- as a result of the transaction with Fura Gems Inc. (refer to Note 10), the Group significantly reducing its tenement minimum spend commitments with respect to the Montepuez Ruby Project as outlined in Note 17
- the Group raising $2.4 million through a private placement (which settled on 20 August 2018), and
- the directors being successful in obtaining future funding to meet the Group's objectives and payment obligations as and when they fall due by engaging with parties in raising additional capital or issuing debt in which the Group has demonstrated a history of success in this regard.

As a result of the above matters, there exists a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business. The directors are of the opinion that, as at the date of these consolidated financial statements, the Group is a going concern and, as a result, the financial report for the year ended 30 June 2018 does not include any adjustments relating to the recoverability and classification of the recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

## (c) Principles of consolidation

The financial statements consolidate those of the parent entity and its subsidiaries as at 30 June 2018. The parent entity controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary.

All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-Group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a Group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Non-controlling interests, presented as part of equity, represent the portion of a subsidiary's profit or loss and net assets that are not held by the Group. The Group attributes total comprehensive income or loss of subsidiaries between the owners of the parent and the non-controlling interests based on their respective ownership interests.

Investments in subsidiaries held by Mustang Resources Limited are accounted for at cost less impairment charges in the parent entity information in Note 27. Dividends received from subsidiaries are recorded as a component of other revenues in the separate income statement of the parent entity, and do not impact the recorded cost of the investment.

Upon receipt of dividend payments from subsidiaries, the parent entity will assess whether any indicators of impairment of the carrying value of the investment in the subsidiary exist. Where such indicators exist, to the extent that the carrying value of the investment exceeds its recoverable amount, an impairment loss is recognised.

The acquisition of subsidiaries that are carrying on a business are accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values.

The difference between the above items and the fair value of the consideration (including the fair value of any pre-existing investment in the acquiree) is goodwill or a discount on acquisition.

A change in the ownership interest of a subsidiary that does not result in a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interest;
- Derecognises the cumulative translation differences, recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss; and
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss.

If the Group considers that an acquisition is not carrying on a business then the identifiable assets are capitalised as exploration assets in accordance with AASB 6 when no other identifiable assets and liabilities have been identified in the entities acquired at acquisition date. Acquisition costs are calculated based on the fair value of the consideration at the date of purchase.

## (d) Plant and equipment

Mining plant and equipment

Mining plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation

Mining plant and equipment, other than freehold land, is depreciated to its residual values on a straight-line basis to write-off the net cost of each item over its expected useful life as follows:

- Buildings 2.5% to 10% per annum
- Mining plant & equipment 25% per annum
- Motor vehicles 25% per annum
- Office equipment 10% to 25% per annum

Depreciation on property, plant and equipment used for exploration is capitalised.

Impairment

The carrying values of property, plant and equipment are reviewed for impairment at each reporting date, with the recoverable amount being estimated when events or changes in circumstances indicate the carrying value may be impaired. The recoverable amount of plant and equipment is the greater of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value. Impairment exists when the carrying value of an asset or cash-generating unit exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount. For property, plant and equipment, impairment losses are recognised in the consolidated statement of profit or loss and other comprehensive income.

De-recognition

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

## (e) Exploration and evaluation costs

Expenditure on exploration and evaluation is accounted for in accordance with the "area of interest" method. Exploration licence acquisition costs are capitalised and subject to annual impairment assessment or more frequent if there is an indicator of impairment. All exploration and evaluation costs, including general permit activity, geological and geophysical costs and new venture activity costs, are capitalised provided the rights to tenure of the area of interest are current and either:

- The expenditure relates to an exploration discovery that, at balance date, has not reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant activities in relation to the area of interest are continuing; or
- It is expected that the expenditure will be recouped through successful exploitation of the area of interest, or alternatively, by its sale.

Each potential or recognised area of interest is reviewed half yearly to determine whether economic quantities of resources have been found or whether further exploration and evaluation work is underway or planned to support the continued carry forward of capitalised costs. The recoverability of the carrying amount of the exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest. The carrying value of capitalised exploration and evaluation expenditure is assessed for impairment at the cash generating unit level whenever the facts and circumstances suggest that the carrying amount of the asset may exceed its recoverable amount.

A write-off exists when the carrying amount of an asset or cash-generating unit exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount. Any write-off charges are recognised in the consolidated statement of profit or loss and other comprehensive income.

**Pre – Commercial Production Ruby Sales**

Sales proceeds of rubies produced from exploration and development are credited to capitalised exploration and development until the Group achieves commercial production. The Group notes that the Montepuez Ruby Project has been reported as a discontinued operation resulting from transaction with Fura announced subsequent to the end of the reporting period on 17 July 2018 (See section 10 in the Directors Report).

## (f) Impairment of non-financial assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. If any such indication of impairment exists, or when annual impairment testing for an asset is required, the Group makes a formal estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of fair value less costs of disposal and its value in use. It is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or Groups of assets. In such cases, the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognised in the consolidated statement of profit or loss and other comprehensive income.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of recoverable amount, but only if there has been a change in the estimates used to determine the assets recoverable amount and only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash generating unit).

## (g) Provision for restoration

The Group records the present value of the estimated cost of legal and constructive obligations to restore operating locations in the period in which the obligation arises. The nature of restoration activities includes the removal of facilities and restoration of affected areas. Typically, the obligation arises when the asset is installed at the production location. When the liability is initially recorded, the estimated cost is capitalised by increasing the carrying amount. Over time, the liability is increased for the change in the present value based on a risk adjusted pre-tax discount rate appropriate to the risks inherent in the liability. The unwinding of the discount is recorded as an accretion charge within finance costs. The capitalised carrying amount is depreciated over the useful life of the related asset (refer Note 1(d)). Costs incurred that relate to an existing condition caused by past operations, and do not have future economic benefit, are expensed.

## (h) Trade and other receivables

Trade receivables, which generally have 30-90 day terms, are initially recognised at fair value and are subsequently carried at amortised cost less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when there is objective evidence that the Group will not be able to collect the full debt. Bad debts are written off when identified. Objective evidence is defined as when the debt is more than 120 days old. This is a base case scenario, other prevailing circumstances like payment history and payment arrangements may override the 120 day rule.

## (i) Cash and cash equivalents

Cash and short term deposits in the consolidated statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purposes of the consolidated Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, including bank overdrafts.

## (j) Financial assets at fair value through profit or loss

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the consolidated statement of profit or loss and other comprehensive income.

Interest income from financial assets at fair value through profit or loss is included in the net gains/ (losses).

## (k) Trade and other payables

Trade payables and other payables are initially carried at fair value and subsequently at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

## (l) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated Statement of Profit or Loss and other comprehensive income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a pre-tax rate that reflects the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

## (m) Employee entitlements

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability.

### *Wages, salaries, bonus payments, annual leave and sick leave*

Liabilities for wages and salaries, bonus payments, including non-monetary benefits, annual leave and accumulating sick leave due to be settled within 12 months of the reporting date are recognised in current provisions in respect of employees' services up to the reporting date. They are measured at the amounts due to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

### *Long service leave*

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wages and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on high quality corporate bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

## (n) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in the consolidated Statement of Profit or Loss and other comprehensive income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the consolidated Statement of Profit or Loss and other comprehensive income on a straight-line basis over the lease term. Lease incentives are recognised in the consolidated Statement of Profit or Loss and other comprehensive income as an integral part of the lease expense.

## (o) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

***Sales revenue***

Sales revenue is recognised when the significant risks and rewards of ownership have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered passed to the buyer at the time of "delivery of goods to the customer". Delivery of product is under well-defined contracts that define transfer point of ownership.

***Interest***

Revenue is recognised as the interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

## (p) Income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance date.

Deferred income tax is provided on relevant temporary differences at the balance date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences; except:

- When the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or loss nor taxable profit or loss; or
- When the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised; except:

- When the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or loss nor taxable profit or loss; or
- When the deductible temporary difference is associated with investments in subsidiaries, associates and interests in joint ventures, in which case the deferred tax asset is only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the balance date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

## (q) Other taxes

Revenues, expenses and assets are recognised net of the amount of Goods and Services Tax (GST) except:

When the GST incurred on a purchase of goods and services is not recoverable from the taxation authority in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and receivables and payables which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated Statement of Financial Position. Cash flows are included in the consolidated Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

## (r) Contributed equity

Issued and paid up capital is recognised at the fair value of the consideration received by the Group. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the proceeds received.

## (s) Earnings per share ("EPS")

Basic EPS is calculated as net profit or loss attributable to members of the parent entity, adjusted to exclude costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted EPS is calculated as the net profit or loss attributed to members of the parent entity, adjusted for:

- costs of servicing equity (other than dividends);
- the after-tax effect of dividends and interest associated with the dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenue and expenses during the period that would result from the dilution of potential ordinary shares.

Divided by the weighted average number of ordinary shares and dilutive potential ordinary shares; adjusted for any bonus element.

## (t) Foreign currency translation

Both the functional and presentation currency of Mustang Resources Limited is Australian Dollars ($). The Australian subsidiary's functional currency is United States Dollars (US$). Functional currency for foreign operations has been determined based on the requirements of AASB 121 "The Effects of Changes in Foreign Exchange Rates". Each entity in the Group uses its specific functional currency to measure the items included in the financial statements of that entity.

The functional currencies of overseas subsidiaries are United States Dollars (USD), South African Rand (ZAR) or Mozambican Metical (MZN). As at the reporting date the assets and liabilities of these subsidiaries are translated into the presentation currency of Mustang Resources Limited at the rate of exchange ruling at the balance date and their Statement of Profit or Loss and Other Comprehensive Income items are translated at the average exchange rate for the year.

Transactions in foreign currency are initially recorded in the functional currency by applying the exchange ruling at the date of the transaction or the average for the period when translating a large number of transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance date. Non-monetary items that are measured in terms of historic cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items are measured at fair value in a foreign currency are translated using the exchange rate as at the date when fair value was determined.

The exchange differences arising on the translation are taken directly to the foreign currency translation reserve. On disposal of a foreign entity, the exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

## (u) Share based payment transactions

The Group may provide benefits to directors and employees of the Group in the form of equity, whereby directors and employees render services in exchange for options to acquire shares or rights over shares.

The fair value of options granted to employees is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period in which the performance and/or service conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become fully entitled to the award (the vesting date).

The fair value of the options granted is measured using an appropriate model, taking into account the terms and conditions upon which the options were granted. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than (if applicable):

- Non-vesting conditions that do not determine whether the Group receives the services that entitle the employees to receive payment in equity or cash; and
- Conditions that are linked to the price of the shares of Mustang Resources Ltd (market conditions).

The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is due to market conditions not being met.

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the grant date fair value of the award, (ii) the extent to which the vesting period has expired and (iii) for non-market based hurdles the Group's best estimate of the number of equity instruments that will ultimately vest.

No adjustment is made for changes in the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of the fair value at grant date. The consolidated Statement of Profit or Loss and other comprehensive income charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition. If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph. The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share (see note 14).

### (v) Convertible notes

The component of the convertible notes that exhibits characteristics of a liability is recognised as a liability in the consolidated Statement of Financial Position, net of transaction costs. On issuance of the convertible notes, the fair value of the liability component is determined using an estimated market rate for an equivalent non-convertible bond and this amount is carried as a long-term liability on the amortised cost basis until extinguished on conversion or redemption. The increase in the liability due to the passage of time is recognised as a finance cost. Interest on the liability component of the instruments is recognised as an expense in the consolidated Statement of Profit or Loss and other comprehensive income. The increase in the liability due to the passage of time is recognised as a finance cost if material.

### (w) Interests in joint arrangements

#### *Joint operation*

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

Where the Group's activities are conducted through joint operations, the Group recognises its assets (including its share of assets held jointly), its liabilities (including its share of any liabilities incurred jointly), its share of the revenue from the sale of the output by the joint operation and its expenses (including its share of any expenses incurred jointly).

#### *Joint venture*

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Where the Group's activities are conducted through a joint venture, the Group recognises its interests in the joint venture using the equity method.

Under the equity method, the investment in the joint venture is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the joint venture. Goodwill relating to the joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The profit or loss reflects the Group's share of the results of operations of the joint venture. Where there has been a change recognised directly in other comprehensive income or equity of the joint venture, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of profit or loss and other comprehensive income or the consolidated statement of changes in equity, as appropriate.

Unrealised gains and losses resulting from transactions between the Group and the joint venture are eliminated to the extent of the interest in the joint venture.

The share of the joint venture's net profit/ (loss) is shown on the consolidated statement of profit or loss and other comprehensive income. This is the profit/ (loss) attributable to venturers in the joint venture.

The financial statements of the joint venture are prepared for the same reporting period as the venturer. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

## (x) Segment reporting

An operating segment is a component of an Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same Group), whose operating results are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start-up operations which are yet to earn revenues. Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the board of directors.

Operating segments have been identified based on the information provided to the chief operating decision makers – being the executive management team.

The Group aggregates two or more operating segments when they have similar economic characteristics, and the segments are similar in each of the following respects:

- Nature of the products and services,
- Nature of the production processes,
- Type or class of customer for the products and services,
- Methods used to distribute the products or provide the services, and if applicable
- Nature of the regulatory environment

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

Information about other business activities and operating segments that are below the quantitative criteria are combined and disclosed in a separate category for "all other segments".

## (y) Comparative figures

Where necessary, prior year comparatives have been adjusted to be consistent with the classification applied in the current year.

## (z) Critical accounting estimates, assumptions and judgements

Estimates and assumptions are periodically evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Equally, the Group continually employs judgement in the application of its accounting policies.

### *(i) Critical accounting estimates and assumptions*

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

*Write off capitalised exploration and evaluation expenditure*

The future recoverability of capitalised exploration and evaluation expenditure is dependent on a number of factors, including whether the Group decides to exploit the related lease itself or, if not, whether it successfully recovers the related exploration and evaluation asset through sale. Factors that could impact the future recoverability include the level of reserves and resources, future technological changes, which could impact the cost of mining, future legal changes (including changes to environmental restoration obligations) and changes to commodity prices.

To the extent that capitalised exploration and evaluation expenditure is determined not to be recoverable in the future, profits and net assets will be reduced in the period in which this determination is made. In addition, exploration and evaluation expenditure is capitalised if activities in the area of interest have not yet reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable resources. To the extent it is determined in the future that this capitalised expenditure should be written off, profits and net assets will be reduced in the period in which this determination is made.

*Share-based payment transactions*

The Group measures the cost of equity-settled transactions with directors and employees by reference to the fair value of the equity instruments at the date at which they are granted. Equity settled transactions include options and performance rights. The fair value of an option is determined by using an appropriate option-pricing model which incorporates critical estimates such as the volatility of share price and life of the options.

*VAT Receivable*

Judgement is required in determining whether tax assets or liabilities should be recognised on the statement of financial position. VAT receivable, including those arising from VAT paid by the Group in the past, require management to assess the likelihood that the group will generate VAT payable in future periods, in order to utilise recognised VAT receivable. Additionally, future changes in tax laws in jurisdictions in which the group operates could limit the ability of the group to obtain tax deductions in future periods

### *(ii) Critical judgements in applying the Group's accounting policies*

*Exploration and evaluation*

The Group's accounting policy for exploration and evaluation is set out at Note 1(e). The application of this policy necessarily requires management to make certain estimates and assumptions as to future events and circumstances, in particular, the assessment of whether economic quantities of reserves have been or will be found. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised expenditure under our policy, it is determined that the Group is unlikely to recover the expenditure by future exploitation or sale, then the relevant capitalised amount will be written off to the consolidated Statement of Profit or Loss and other comprehensive income.

*Restoration provision*

The Group's accounting policy for restoration provisions is set out at Note 1(g). The application of this policy necessarily requires management to make certain estimates and assumptions as to future events and circumstances, in particular the forecast costs of the restoration and remediation of prospects to their pre-drilling state. Any such estimates and assumptions may change as new information becomes available. Any change in the estimated level of restoration provision will be written off or written back to the consolidated Statement of Profit or Loss and other comprehensive income.

*Financial assets at fair value through profit or loss*

The Group's accounting policy for financial assets at fair value through profit or loss is set out at Note 1(j). The application of this policy necessarily requires management to make certain estimates and assumptions as to future events and circumstances, in particular, the future share price of the company compared to the benchmark price in the sharing agreement. Any such estimates and assumptions may change as new information becomes available.

## 2. EXPENSES AND LOSSES/GAINS

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| **(a) Administration costs** | | |
| Consulting fees | 367,115 | 664,139 |
| Employee benefits | 839,884 | 513,835 |
| Defined contribution superannuation | 38,475 | 25,650 |
| Employee benefit / consulting fees expense | 1,245,474 | 1,203,624 |
| Compliance costs | 222,229 | 325,208 |
| Accounting & Audit | 329,096 | 371,522 |
| Legal | 195,129 | 134,966 |
| Travel | 497,950 | 388,248 |
| Rent | 138,387 | 70,028 |
| Marketing | 510,915 | 366,907 |
| Insurance | 85,047 | 57,766 |
| Share based payments | 459,146 | 101,059 |
| Other | 125,909 | 97,381 |
| | **3,809,282** | **3,116,709** |
| **(b) Finance costs** | | |
| Interest expense/(income) | 5,049 | (45,364) |
| Convertible note finance costs | 6,316,391 | - |
| | **6,321,440** | **(45,364)** |

## 3. INCOME TAX

The major components of income tax expense are:

| | Consolidated | |
|---|---|---|
| | 2018 | 2017 |
| | $ | $ |
| **Consolidated Statement of Profit or Loss and Other Comprehensive Income** | | |
| Current income tax | - | - |
| Current income tax charge | - | - |
| *Deferred income tax* | | |
| Relating to origination and reversal of temporary differences | (7,075,887) | (991,396) |
| Deferred tax asset not brought to account | 7,075,887 | 991,396 |
| **Income tax benefit reported in the Consolidated Statement of Profit or Loss and Other Comprehensive Income** | **-** | **-** |

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2018

The aggregate amount of income tax attributed to the financial period differs from the amount calculated on the loss before tax. The differences are reconciled as follows:

| | Consolidated | |
|---|---|---|
| | 2018 | 2017 |
| | $ | $ |
| Loss before tax | (43,251,407) | (11,229,405) |
| Prima facie tax receivable at 30% (2016:30%) | (12,975,422) | (3,368,822) |
| Tax effect of: | | |
| Non-deductible expenses | 18,000 | 18,000 |
| Non-deductible share based payments | 137,744 | 30,318 |
| Fair value loss on financial assets held at fair value | 47,897 | 51,028 |
| Tax effect on temporary differences | (7,075,887) | 991,396 |
| Deferred tax asset not brought to account | 19,847,668 | 2,278,081 |
| Income tax benefit | - | - |

## Deferred income tax

Deferred income tax at 30 June relates to the following:

| | Consolidated | |
|---|---|---|
| | 2018 | 2017 |
| | $ | $ |
| ***Deferred tax assets and (liabilities)*** | | |
| Exploration expenses & Property, Plant & Equipment | (2,472,252) | (9,512,354) |
| Provisions | 32,736 | 39,052 |
| Prepayments | (14,135) | (56,237) |
| Deferred tax assets - carried forward losses | 2,453,651 | 9,529,539 |
| | - | - |

No deferred tax assets have been recognised in excess of deferred tax liabilities in the consolidated statement of financial position in respect of previous losses.

Mustang Resources Limited and its 100% owned Australian subsidiary have not formed a tax consolidated Group for the year ended 30 June 2018.

The potential deferred tax asset will only be obtained if:

- assessable income is derived of a nature and of amount sufficient to enable the benefit from the deductions to be realised or the benefit can be utilised by the Group in accordance with the income tax laws relevant to an entity within the Group;
- conditions for the deductibility imposed by the laws are complied with; and no changes in tax legislation adversely affect the realisation of the benefit from the deductions.

## 4. TRADE & OTHER RECEIVABLES

| | Consolidated | |
|---|---|---|
| | **2018** | **2017** |
| | **$** | **$** |
| **Current** | | |
| Trade debtors | 278,514 | - |
| | 278,514 | - |
| Other receivables [1] | 85,190 | 40,070 |
| GST/VAT Receivable | 94,375 | 506,012 |
| Security deposits | 16,803 | 3,519 |
| | **474,882** | **549,601** |
| **Non-Current** | | |
| VAT Receivable [2] | 1,092,126 | - |
| | **1,092,126** | **-** |

Terms and conditions relating to the above financial instruments:

1 Other receivables are non-interest bearing and have repayment terms of between 30 and 90 days.
2 VAT is reflected as a non-current receivable The Group is engaged with government tax authorities in Mozambique on a regular basis in relation to its exploration activities in the country. Notwithstanding the Group has discontinued its ruby exploration activities by virtue of its merger agreement with Fura, the Group continues to be activity engaged in Mozambique in the development of its vanadium and graphite assets. Management are confident that VAT tax assets are highly likely to be recovered over the next 12 to 18 months and as such the VAT receivable is reflected as non-current. The Group expects to either receive VAT refunds or that it will generate VAT payable in future periods, in order to utilise recognised VAT receivable.

## 5. PREPAYMENTS

| | Consolidated | |
|---|---|---|
| | **2018** | **2017** |
| | **$** | **$** |
| Corporate advisor prepayments | 16,043 | 171,754 |
| Other prepayments | 31,075 | 15,703 |
| | 47,118 | 187,457 |

## 6. INVESTMENTS IN CONTROLLED ENTITIES

| | Country of Incorporation | Percentage of equity Interest held by the Group | |
|---|---|---|---|
| **Investments in subsidiaries** | | **2018 %** | **2017 %** |
| Golden Gate Resources Ltd | Canada | 100 | 100 |
| GGP Exploration LLC | USA | 100 | 100 |
| Cathie Energy Texas, LLC | USA | 100 | 100 |
| Kindee Oil & Gas Louisiana, LLC | USA | 100 | 100 |
| Kindee Oil & Gas Texas, LLC | USA | 100 | 100 |
| Long Flat Ltd | USA | 100 | 100 |
| Yarras Texas, LLC | USA | 100 | 100 |
| Save River Diamonds Pty Ltd | AUS | 78 | 78 |
| Sese Diamonds Pty Ltd | AUS | 74 | 74 |
| Balama Resources Pty Ltd | AUS | 100 | 100 |
| Montepuez Minerals Pty Ltd | AUS | 75 | 75 |
| Mustang Resources (Pty) Ltd | SA | 100 | 100 |
| Mustang Graphite (Pty) Ltd | SA | 100 | 100 |
| Mustang Resources Lda | MZ | 100 | 100 |
| Mustang Graphite Lda | MZ | 100 | 100 |
| Mozvest Mining Lda | MZ | 53 | 53 |
| Tchuamba Minerais S.A | MZ | 80 | 80 |
| RQL Graphite S.A | MZ | 95 | 95 |
| Montepuez Mineral Resources S.A | MZ | 90 | 90 |
| Mustang Resources Co, Ltd | Thai | 100 | 0 |
| Mustang Resources (Mauritius) Ltd | MZ | 100 | 0 |
| **Investments in Joint Operation** | | **2018 %** | **2017 %** |
| Rubies Mineral Resources S.A (unincorporated joint operation) | MZ | 70 | 70 |
| SLR Mining Lda | MZ | 65 | 65 |
| Cosec Lda | MZ | 60 | 60 |

## 7. PROPERTY, PLANT & EQUIPMENT

### a) Office Equipment

| | Consolidated | |
|---|---|---|
| | 2018 | 2017 |
| | $ | $ |
| Office equipment at cost | 15,335 | 14,785 |
| Accumulated depreciation | (5,806) | (3,828) |
| **Total office equipment** | **9,529** | **10,957** |

Reconciliation of the carrying amounts of office equipment at the beginning and end of the financial year:

| | Consolidated | |
|---|---|---|
| | 2018 | 2017 |
| | $ | $ |
| **Office equipment at cost** | | |
| Balance at start of year | 10,957 | 13,256 |
| Disposals | - | (2,839) |
| Movement in carrying value as a result of foreign currency movements | 299 | 666 |
| Depreciation | (1,727) | (126) |
| **Balance at end of year** | **9,529** | **10,957** |

### b) Buildings

| | Consolidated | |
|---|---|---|
| | 2018 | 2017 |
| | $ | $ |
| Buildings | 373,389 | 359,982 |
| Accumulated depreciation | (74,678) | - |
| **Total buildings** | **298,711** | **359,982** |

Reconciliation of the carrying amounts of buildings at the beginning and end of the financial year:

| | Consolidated | |
|---|---|---|
| | 2018 | 2017 |
| | $ | $ |
| **Buildings** | | |
| Balance at start of year | 359,982 | - |
| Additions | - | 359,982 |
| Movement in carrying value as a result of foreign currency movements | 9,003 | - |
| Depreciation | (70,274) | - |
| **Balance at end of year** | **298,711** | **359,982** |

### c) Mining plant & equipment

| | Consolidated | |
|---|---|---|
| | **2018** | **2017** |
| | **$** | **$** |
| Mining plant & equipment | 1,933,157 | 1,234,333 |
| Accumulated depreciation | (1,125,838) | (478,491) |
| **Total mining plant & equipment** | **807,319** | **755,842** |

Reconciliation of the carrying amounts of mining plant & equipment at the beginning and end of the financial year:

| | Consolidated | |
|---|---|---|
| | **2018** | **2017** |
| | **$** | **$** |
| **Mining plant & equipment** | | |
| Balance at start of year | 755,842 | 706,715 |
| Additions | 744,277 | 418,800 |
| Disposals | (25,411) | (171,510) |
| Movement in carrying value as a result of foreign currency movements | 9,997 | 46,255 |
| Transfer to held for sale asset | (286,940) | - |
| Depreciation capitalised to exploration & evaluation expenditure | (252,144) | (212,008) |
| Depreciation expense | (138,302) | (32,410) |
| **Balance at end of year** | **807,319** | **755,842** |

### d) Total Property, plant & equipment

| | Consolidated | |
|---|---|---|
| | **2018** | **2017** |
| | **$** | **$** |
| Total property, plant & equipment | 2,321,881 | 1,609,100 |
| Accumulated depreciation | (1,206,322) | (482,319) |
| **Total property, plant & equipment** | **1,115,559** | **1,126,781** |

Reconciliation of the carrying amounts of property, plant & equipment at the beginning and end of the financial year:

| | Consolidated | |
|---|---|---|
| | **2018** | **2017** |
| | **$** | **$** |
| **Property, plant & equipment** | | |
| Balance at start of year | 1,126,781 | 719,971 |
| Additions | 744,277 | 778,782 |
| Disposals | (25,411) | (174,349) |
| Movement in carrying value as a result of foreign currency movements | 19,299 | 46,921 |
| Transfer to held for sale asset | (286,940) | - |
| Depreciation transferred to exploration & evaluation expenditure | (252,144) | (212,008) |
| Depreciation expense | (210,303) | (32,536) |
| **Balance at end of year** | **1,115,559** | **1,126,781** |

## 8. EXPLORATION AND EVALUATION ASSETS

**a) Expenditure carried forward in respect of vanadium & graphite areas of interest**

| | Consolidated | |
|---|---|---|
| | **2018** | **2017** |
| | **$** | **$** |
| Exploration and evaluation | 7,375,217 | 30,581,065 |

The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective ruby, vanadium and graphite interests.

**b) Reconciliation:**

| | Consolidated | |
|---|---|---|
| | **2018** | **2017** |
| | **$** | **$** |
| Carrying amount at beginning of period | 30,581,065 | 28,107,516 |
| Movement in carrying value as a result of foreign currency movements | (17,425) | 841,601 |
| Additions – acquisition of exploration and evaluation assets | - | 1,454,489 |
| Additions – capitalised exploration & evaluation costs | 14,599,049 | 8,020,527 |
| Depreciation of property, plant & equipment | 252,144 | 212,008 |
| Sale of rubies net of costs | (1,798,923) | - |
| Transfer to held for sale asset | (26,912,226) | - |
| Write off capitalised exploration and evaluation expenditure | (9,328,467) | (8,055,076) |
| **Carrying amount at end of period** | **7,375,217** | **30,581,065** |

Ruby licenses comprising the Montepuez Ruby Project were impaired down to $3.5m as at 30 June 2018 and reclassified as discontinued operations and asset held for sale by virtue of the Fura transaction agreed 17 July 2018, refer to note 10 & 22. Balama Graphite license 6636L was fully impaired in 2018.

## 9. FINANCIAL ASSETS HELD AT FAIR VALUE THROUGH PROFIT OR LOSS

| | **Consolidated** | |
|---|---|---|
| | **2018**<br>**$** | **2017**<br>**$** |
| Financial asset - current | - | 203,986 |
| | **-** | **203,986** |

**Overview:**

During the course of the 2016 financial year the Company entered into a series of agreements with Lanstead Capital LP (“Lanstead”) to provide ongoing funding.

On 20 November 2015, the Company entered into agreements for a subscription for shares in the Company and Sharing Agreements that linked the amount that would be received for those shares to the Company’s average share price for 5 days prior to the end of the month in each of the 18 months following the issuance. The Subscription Agreement and linked Sharing Agreement is a financial instrument with an embedded derivative linked to the Company’s share price. Management has determined that the entire contract will be accounted for at fair value, with movements recognised through the consolidated statement of profit or loss and other comprehensive income

Tranche A of the Subscription Agreement was completed on 20 November 2015.

Tranche B of the agreements completed on 2 March 2016 following shareholder approval of the issuance of capital.

Based on the share price at 30 June 2017, no additional amounts would be receivable under the contract and the fair value of Tranche A and Tranche B had been determined to be $Nil under both the original contract terms and the renegotiated terms.

On 11 May 2016, the Company entered into a further Subscription Agreement and a Sharing Agreement Transaction, termed Tranche C. The initial fair value (including the initial lump sum payment) was calculated as $629,412. The fair value of Tranche C at 30 June 2017 has been calculated to be $203,986 (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 is likely to reduce the monthly returns received from Lanstead under the equity sharing agreements.

Based on the share price at 30 June 2018, no additional amounts would be receivable under the contract and the fair value of Tranche C has been determined to be $Nil under both the original contract terms and the renegotiated terms. During the year ended 30 June 2018, the Company received no payments under the Sharing Agreements for Tranche A, B. The amount of $44,328 was received under Tranche C.

A summary of movements in the balance for the year ended 30 June 2018 is summarised below.

| | Tranche A | Tranche B | Tranche C | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| **At 1 July 2016** | - | - | 611,041 | 611,041 |
| Initial recognition | - | - | - | - |
| Cash payments received | - | - | (358,674) | **(358,674)** |
| Changes in fair value | - | - | (48,381) | **(48,381)** |
| **At 30 June 2017** | **-** | **-** | **203,986** | **203,986** |

| | Tranche A | Tranche B | Tranche C | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| **At 1 July 2017** | - | - | 203,986 | 203,986 |
| Initial recognition | - | - | - | - |
| Cash payments received | - | - | (44,328) | **(44,328)** |
| Changes in fair value | - | - | (159,658) | **(159,658)** |
| **At 30 June 2018** | **-** | **-** | **-** | **-** |

A calculation of the sensitivity of this financial asset to changes in the Company's share price is included in Note 25(e).

## 10. ASSETS HELD FOR SALE

On 17 July 2018 the Company announced that it had entered into a merger agreement for its Montepuez ruby assets with TSXV-listed Fura Gems Inc. (TSXV: FURA) the considerations for approximately (subject to exchange rate) 10.5 million shares in Fura (See Note 23).

The agreement with Fura was signed on 14 July 2018 and announced to market 17 July 2018 following the approval of Fura, Mustang and Regius boards. Satisfaction of the conditions precedent and completion is expected during Q4 of 2018. The effect of the agreement is that Fura will acquire subsidiary entities Montepuez Minerals Pty Ltd, Ibra Moz S.A and Rubies Resources S.A which in turn hold ruby license 5030L and ruby mining concessions 8955C and 8921C.

The Company has been undertaking ruby exploration activities on this licence and concessions the cost of which has been previously reflected as exploration and evaluation assets reclassified to assets held for sale. The carrying amounts of assets and liabilities for assets held for sale are:

| | Consolidated | |
|---|---|---|
| | **2018**<br>**$** | **2017**<br>**$** |
| **Asset classified as held for sale** | | |
| Exploration and evaluation expenditure asset | 26,912,226 | - |
| Property, plant & equipment | 286,940 | - |
| Impairment of assets classified as held for sale | (23,206,944) | - |
| **Total assets held for sale** | **3,992,222** | **-** |
| **Liabilities with assets classified as held for sale** | | |
| Liabilities | - | - |
| **Total Liabilities held for sale** | **-** | **-** |

**DISCONTINUED OPERATIONS**

| | Consolidated | |
|---|---|---|
| | **2018**<br>**$** | **2017**<br>**$** |
| Impairment of exploration | (22,920,004) | - |
| Impairment of property, plant and equipment | (286,940) | - |
| Loss from discontinued operations before tax | (23,206,944) | - |
| Income tax (expense) / benefit | - | - |
| Loss from discontinued operations attributable to the owner | (21,373,612) | - |
| Loss from discontinued operations attributable to NCI | (1,833,332) | |

Cash flows generated for the reporting periods under review until the disposal are as follows:

| | Consolidated | |
|---|---|---|
| | **2018**<br>**$** | **2017**<br>**$** |
| Operating activities | - | - |
| Investing activities | (11,416,748) | (8,627,189) |
| Cash flows from discontinued operations | (11,416,748) | (8,627,189) |

## 11. FINANCIAL LIABILITIES

### a) Trade creditors

| | Consolidated | |
|---|---|---|
| | **2018 $** | **2017 $** |
| **Current** | | |
| Trade creditors and accruals | 2,045,586 | 1,933,194 |
| Other creditors | 333,021 | 76,021 |
| **Total** | **2,378,607** | **2,009,215** |

Aggregate amount payable to related parties included in the above:
Directors and director-related entities:
- Director-related entity $754,388 (2017: $278,461). Refer note 21 for further details.

Terms and conditions
1) Trade creditors are non-interest bearing and generally on 30 - 60 day terms.
2) Other creditors are non-interest bearing and have no fixed repayment terms.

### b) Interest bearing loans and borrowings

| | Consolidated | |
|---|---|---|
| | **2018 $** | **2017 $** |
| **Opening balance** | **-** | **-** |
| Issue of convertible notes | 12,395,000 | - |
| Interest | 1,705,000 | - |
| Conversion to shares | (12,950,000) | - |
| **Closing balance** | 1,150,000 | - |

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 $8.5 million (face value $10 million) 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 in relation to this $10m facility.

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.

On 8 January 2018 the Group announced that it had secured a further funding package from Arena for net proceeds of $19.95 million ($21 million full face value) in the form of a convertible note facility. These funds are to be drawn down in seven tranches subject to shareholder approval.

On 22 May 2018 Arena and the Company agreed amended terms whereby tranche 2 was split into 2 parts thereby reducing the amount of the end-May 2018 (tranche 2) drawdown of convertible notes from $3.8 million (face value of $4 million) to $1.995 million (face value of $2.1 million tranche 2A) and deferring the balance of the original tranche 2 drawdown of $1.805 million until later in June or July 2018 tranche 2B.

The first tranche of net $1.9 million was received 12 January 2018 and was ratified at the shareholder meeting on 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 amended tranche 2A of net $1.995 million was also approved at shareholder meeting on 2 March 2018 along with shareholder approval for the issue of 41,749,503 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. Tranche 2A payment was be received by the Company on 29 May 2018. Tranche 2B has not been drawn down by the Company as at the date of this Annual Report. 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.

Finance costs of the convertible notes:

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| Convertible note interest | 1,744,956 | - |
| Costs of convertible note | 1,113,073 | - |
| Options issued in connection with convertible note | 3,458,362 | - |
| | **6,316,391** | **-** |

## 12. PROVISIONS

| | Consolidated | |
|---|---|---|
| | 2018<br>$ | 2017<br>$ |
| **Current** | | |
| Employee benefits | - | 25,064 |
| | **-** | **25,064** |
| | | |
| **Non-Current** | | |
| Restoration costs | 109,121 | 105,110 |
| | **109,121** | **105,110** |
| **Restoration** | | |
| Carrying amount at beginning of period | 105,110 | 108,565 |
| Foreign exchange movement on provision | 4,011 | (3,455) |
| **Carrying amount at end of period** | **109,121** | **105,110** |

A provision for restoration is recognised in relation to the exploration and production activities for costs associated with the restoration of the various sites. Estimates of the restoration obligations are based on anticipated technology and legal requirements and future costs. In determining the restoration provision, the Group as assumed no significant changes will occur in the relevant federal and state legislation in relation to restoration in the future.

## 13. CONTRIBUTED EQUITY

### (a) Issued and paid up share capital

| | Consolidated | |
|---|---|---|
| | 2018<br>$ | 2017<br>$ |
| Ordinary shares fully paid | 174,068,894 | 155,013,532 |

### Ordinary shares

Ordinary shares are classified as equity with no par value and have the right to receive dividends as declared and, in the event of winding up the company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company. No dividends were declared during the current year or the prior year.

### (b) Movements in ordinary shares

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Number of Shares | $ | Number of Shares | $ |
| Balance at the beginning of the year | 565,618,436 | 155,013,532 | 298,749,913 | 146,056,472 |
| Conversion of convertible notes | 184,417,861 | 12,989,956 | - | - |
| Equity issued on settlement of acquisitions | - | - | 30,000,000 | 1,200,000 |
| Equity issued in lieu of payment | 9,658,669 | 365,746 | 1,003,905 | 45,138 |
| Equity issued for cash | 132,446,739 | 3,246,665 | 235,864,618 | 8,606,423 |
| Conversion of options | 47,969,603 | 2,923,996 | - | - |
| Less transaction costs | - | (471,001) | - | (894,501) |
| **Balance at the end of the year** | **940,111,308** | **174,068,894** | **565,618,436** | **155,013,532** |

## 14. LOSS PER SHARE

### Basic loss per share

The calculation of basic loss per share for the year ended 30 June 2018 was based on the loss attributable to ordinary shareholders of $37,238,585 (2017: $11,229,405) and a weighted average number of ordinary shares outstanding during the year ended 30 June 2018 was 748,843,101 (2017 406,102,141), calculated as follows:

| | Consolidated | Consolidated |
|---|---|---|
| | 2018 | 2017 |
| **Weighted average number of ordinary shares** | | |
| Issued ordinary shares at 1 July | 565,618,436 | 298,749,913 |
| Effect of shares issued during the period | 183,224,665 | 107,352,228 |
| Weighted average number of ordinary shares at 30 June | 748,843,101 | 406,102,141 |
| Loss attributable to ordinary shareholders from continuing operations | (20,044,463) | (11,229,405) |
| **Loss per share (cents) continuing operations** | **(2.68)** | **(2.77)** |
| Loss attributable to ordinary shareholders | (43,251,407) | (11,229,405) |
| **Loss per share (cents) overall** | **(5.78)** | **(2.77)** |

Potential ordinary shares are not considered dilutive and accordingly diluted earnings per share are the same as basic earnings per share.

## 15. RESERVES

| | Consolidated | |
|---|---|---|
| | **2018** | **2017** |
| | **$** | **$** |
| Option reserve | 10,469,277 | 6,441,048 |
| Foreign exchange translation reserve | (846,903) | (456,600) |
| Performance rights reserve | 8,305,379 | 7,763,444 |
| **Balance at end of the year** | **17,927,753** | **13,747,892** |

### (a) Option reserve

*(i) Nature and purpose of reserve*

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

*(ii) Movements in reserve*

| | Consolidated | |
|---|---|---|
| | **2018** | **2017** |
| | **$** | **$** |
| Balance at the beginning of the year | 6,441,048 | 5,028,922 |
| Exercise of options | - | (72,850) |
| Issue of options | 4,028,229 | 1,484,976 |
| **Balance at end of the year** | **10,469,277** | **6,441,048** |

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2018

*(iii)* *Movements in options on issue*

| 2018 | Grant Date | Opening Number | Exercised/ Lapsed | Closing Number | Exercise Price | Expiry Date | Fair Value at Grant Date $ |
|---|---|---|---|---|---|---|---|
| **Unquoted options** | | | | | | | |
| Balance at the beginning of the year | 1-Jul-14 | 149,254 | (149,254) | - | $0.2412 | 10-Nov-17 | 107 |
| | 22-Jun-16 | 8,000,000 | - | 8,000,000 | $0.15 | 14-Jun-19 | 74,527 |
| | 22-Jun-16 | 2,000,000 | (2,000,000) | - | $0.15 | 31-Dec-17 | 8,028 |
| | 22-Jun-16 | 1,000,000 | (1,000,000) | - | $0.06 | 31-Dec-17 | 9,688 |
| | 22-Jun-16 | 2,000,000 | (2,000,000) | - | $0.09 | 31-Dec-17 | 13,751 |
| | 22-Jun-16 | 19,000,000 | (5,000,000) | 14,000,000 | $0.075 | 21-Jun-19 | 253,041 |
| | 4-Aug-17 | 7,500,000 | - | 7,500,000 | $0.06 | 4-Aug-19 | 121,711 |
| | 25-Jan17 | 5,922,805 | (3,259,926) | 2,662,879 | $0.0273 | 25-Jan-20 | 286,938 |
| | 31-Mar17 | 3,000,000 | - | 3,000,000 | $0.15 | 31-Mar-20 | 31,394 |
| | 31-Mar17 | 3,000,000 | | 3,000,000 | $0.20 | 31-Mar-20 | 24,526 |
| **Issue of options** | | **Issued** | | | | | |
| Issue of unquoted options to advisors for capital raising | 31-Jul-17 | 1,519,559 | - | 1,519,559 | $0.10 | 9-Mar-20 | 26,533 |
| Issue of unquoted options as part of convertible note funding | 20-Jul-17 | 38,709,677 | (38,709,677) | - | $0.062 | 20-Jul-20 | 1,265,942 |
| Issue of unquoted options to advisors for capital raising | 31-Jul-17 | 2,181,818 | - | 2,181,818 | $0.0715 | 20-Jul-20 | 50,902 |
| Issue of unquoted options as part of convertible note funding | 15-Sept-17 | 13,333,333 | - | 13,333,333 | $0.117 | 20-Jul-20 | 680,725 |
| Issue of unquoted options as part of convertible note funding | 12-Oct-17 | 12,765,957 | - | 12,765,957 | $0.1222 | 20-Jul-20 | 678,191 |
| Issue of unquoted options as part of convertible note funding | 15-Sept-17 | 3,333,333 | - | 3,333,333 | $0.117 | 15-Sept-20 | 143,046 |
| Issue of unquoted options to advisors for capital raising | 16-Oct-17 | 1,800,000 | - | 1,800,000 | $0.13 | 16-Oct-20 | 181,957 |
| Issue of unquoted options to advisors for capital raising | 31-Jul-17 | 729,771 | - | 729,771 | $0.0273 | 25-Jan-20 | 24,175 |
| Issue of unquoted options to key management personnel | 15-Jan-18 | 7,500,000 | - | 7,500,000 | $0.037 | 15-Jan-21 | 41,250 |
| Issue of unquoted options to key management personnel | 15-Mar-18 | 5,000,000 | - | 5,000,000 | $0.0356 | 13-Mar-21 | 43,750 |
| Issue of unquoted options as part of convertible note funding | 15-Mar-18 | 25,723,472 | - | 25,723,472 | $0.0323 | 13-Mar-21 | 350,476 |
| Issue of unquoted options as part of convertible note funding | 29-May-18 | 41,749,503 | - | 41,749,503 | $0.0262 | 29-May-21 | 483,027 |
| Issue of unquoted options to advisors for capital raising | 8-Jun-18 | 6,000,000 | - | 6,000,000 | $0.0273 | 22-May-21 | 58,253 |
| **Total unquoted options at the end of the year** | | **211,918,482** | **(52,118,857)** | **159,799,625** | | | |
| **Quoted options** | | | | | | | |
| Balance at the beginning of the year | | 61,938,095 | - | 61,938,095 | $0.035 | 25-Jan-20 | 1,020,406 |
| **Total quoted options at the end of the year** | | **61,938,095** | **-** | **61,938,095** | | | |

Unquoted options issued during the year were valued using the Black Scholes option valuation methodology taking into account the terms and conditions on which the options were granted. Details of the assumptions used in the valuation of these options issued are as follows:

| Item | Unquoted options | Unquoted options | Unquoted options | Unquoted options | Unquoted options |
|---|---|---|---|---|---|
| Number of Options | 1,519,559 | 38,709,677 | 2,181,818 | 13,333,333 | 12,765,957 |
| Exercise price ($) | 0.01 | 0.062 | 0.0715 | 0.117 | 0.1222 |
| Valuation (grant) date | 31 Jul 2017 | 20 Jul 2017 | 31 Jul 2017 | 15 Sept 2017 | 12 Oct 2017 |
| Expiry Date | 9 Mar 2020 | 20 Jul 2020 | 20 Jul 2020 | 20 Jul 2020 | 20 Jul 2020 |
| Vesting date | 31 Jul 2017 | 20 Jul 2017 | 31 Jul 2017 | 15 Sept 2017 | 12 Oct 2017 |
| Volatility (%) | 118.8 | 100.0 | 118.8 | 100.0 | 100.0 |
| Value per option | $0.0175 | $0.0327 | $0.0233 | $0.0511 | $0.0531 |

| Item | Unquoted options | Unquoted options | Unquoted options | Unquoted options | Unquoted options |
|---|---|---|---|---|---|
| Number of Options | 3,333,333 | 1,800,000 | 729,771 | 7,500,000 | Tranche 1- 2,500,000<br>Tranche 2 – 2,500,000 |
| Exercise price ($) | 0.117 | 0.13 | 0.0273 | 0.037 | 0.0356 |
| Valuation (grant) date | 15 Sept 2017 | 16 Oct 2017 | 31 Jul 2017 | 15 Jan 2018 | 15 Mar 2018 |
| Expiry Date | 15 Sept 2020 | 16 Oct 2020 | 25 Jan 2020 | 15 Jan 2021 | 13 Mar 2021 |
| Vesting date | 15 September | 16 October | 31 July 2017 | 15 January | Various |
| Volatility (%) | 116.6 | 116.7 | 118.8 | 100.0 | 100.00 |
| Value per option | $0.0429 | $0.1011 | $0.0331 | $0.0055 | Tranche 1 - $0.0140<br>Tranche 2 - $0.0035 |

| Item | Unquoted options | Unquoted options | Unquoted options |
|---|---|---|---|
| Number of Options | 25,723,472 | 41,749,503 | 6,000,000 |
| Exercise price ($) | 0.0323 | 0.0262 | 0.0273 |
| Valuation (grant) date | 15 Mar 2018 | 29 May 2018 | 8 Jun 2018 |
| Expiry Date | 13 Mar 2021 | 29 May 2021 | 22 May 2021 |
| Vesting date | 15 Mar 2018 | 29 May 2018 | 8 Jun 2018 |
| Volatility (%) | 100.0 | 100.0 | 124.1 |
| Value per option | $0.0136 | $0.0109 | $0.0097 |

| 2017 | Grant Date | Opening Number | Exercised/ Lapsed | Closing Number | Exercise Price | Expiry Date | Fair Value at Grant Date $ |
|---|---|---|---|---|---|---|---|
| **Unquoted options** | | | | | | | |
| Balance at the beginning of the year | 1-Jul-14 | 149,254 | - | 149,254 | $0.2412 | 10-Nov-17 | 107 |
| | 1-Jul-14 | 2,238,806 | (2,238,806) | - | $0.2100 | 22-May-17 | 1,302 |
| | 1-Jul-14 | 1,500,000 | (1,500,000) | - | $0.2000 | 01-Dec-16 | 560 |
| | 1-Jul-14 | 500,000 | (500,000) | - | $0.2000 | 31-Oct-16 | 167 |
| | 2-Mar-16 | 8,750,000 | (8,750,000) | - | $0.25 | 30-Jun-17 | 100,173 |
| | 22-Jun-16 | 8,000,000 | - | 8,000,000 | $0.15 | 14-Jun-19 | 74,527 |
| | 22-Jun-16 | 2,000,000 | - | 2,000,000 | $0.15 | 31-Dec-17 | 8,028 |
| | 22-Jun-16 | 1,000,000 | - | 1,000,000 | $0.06 | 31-Dec-17 | 9,688 |
| | 22-Jun-16 | 2,000,000 | - | 2,000,000 | $0.09 | 31-Dec-17 | 13,751 |
| | 22-Jun-16 | 19,000,000 | - | 19,000,000 | $0.075 | 21-Jun-19 | 253,041 |
| **Issue of options** | | **Issued** | | | | | |
| Issue of unquoted options to Lanstead as part of funding agreement | 4-Aug-17 | 7,500,000 | - | 7,500,000 | $0.06 | 4-Aug-19 | 121,711 |
| Issue of unquoted options to advisors for capital raising | 23-Jan-17 | 6,156,933 | (234,128) | 5,922,805 | $0.0273 | 25-Jan-20 | 286,938 |
| Issue of unquoted options to advisors for capital raising | 31-Mar-17 | 3,000,000 | - | 3,000,000 | $0.15 | 31-Mar-20 | 31,394 |
| Issue of unquoted options to advisors for capital raising | 31-Mar-17 | 3,000,000 | - | 3,000,000 | $0.20 | 31-Mar-20 | 24,526 |
| **Total unquoted options at the end of the year** | | **64,794,993** | **(13,222,934)** | **51,572,059** | | | |
| **Quoted options** | | | | | | | |
| Balance at the beginning of the year | | 31,324,181 | 31,324,181 | - | - | - | |
| **Issue of options** | | | | | | | |
| Issue of options as part of capital raising | | 66,700,000 | 4,761,905 | 61,938,095 | $0.035 | 25-Jan-20 | 1,020,406 |
| **Total quoted options at the end of the year** | | **98,024,181** | **36,086,086** | **61,938,095** | | | |

Both unquoted and quoted options issued during the year were valued using the Black Scholes option valuation methodology taking into account the terms and conditions on which the options were granted. Details of the assumptions used in the valuation of these options issued are as follows:

| Item | Unquoted options issued | Unquoted options issued | Unquoted options | Unquoted options | Quoted options issued |
|---|---|---|---|---|---|
| Number of Options | 7,500,000 | 6,156,933 | 3,000,000 | 3,000,000 | 66,700,000 |
| Exercise price ($) | 0.06 | 0.0273 | 0.15 | 0.20 | 0.035 |
| Valuation (grant) | 15 Aug 2016 | 24 Jan 2017 | 21 Jun 2017 | 21 Jun 2017 | 15 Dec 2016 |
| Expiry Date | 4 Aug 2019 | 25 Jan 2020 | 31 Mar 2020 | 31 Mar 2020 | 25 Jan 2020 |
| Vesting date | 15 Aug 2016 | 24 Jan 2017 | 21 Jun 2017 | 21 Jun 2017 | 24 Jan 2017 |
| Volatility (%) | 107.5 | 122.0 | 120.7 | 120.7 | 122.0 |
| Value per option | $0.0162 | $0.0466 | $0.0105 | $0.0082 | $0.0153 |

### (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*

| | Consolidated | |
|---|---|---|
| | **2018** **$** | **2017** **$** |
| Balance at the beginning of the year | (456,600) | (1,116,191) |
| Currency translation differences | (390,303) | 659,591 |
| **Balance at end of the year** | **(846,903)** | **(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*

| | Consolidated | |
|---|---|---|
| | **2018 $** | **2017 $** |
| Balance at the beginning of the year | 7,763,444 | 7,508,955 |
| Amortisation of performance rights | 541,935 | 254,489 |
| **Balance at end of the year** | **8,305,379** | **7,763,444** |

| **2018** | **Number** | |
|---|---|---|
| **Unlisted performance rights** | # | |
| Balance at the beginning of the year | 14,000,000 | - |
| **Total unlisted performance rights** | **14,000,000** | **-** |

| Class | Non-market vesting condition for conversion to ordinary shares |
|---|---|
| E | Upon proving a JORC Compliant Inferred Mineral Resource of a minimum of 50 Million tonnes @ >5% Total Graphitic Content (TGC), on any of the Balama licenses on or before 31 December 2019. |

## 16. CONSOLIDATED STATEMENT OF CASH FLOWS

### (a) Reconciliation of the net loss after tax to the net cash flows from operations

| | Consolidated | |
|---|---|---|
| | 2018<br>$ | 2017<br>$ |
| **Net loss after tax for the period** | **(43,251,407)** | **(11,229,405)** |
| **Add/(less) non-cash items:** | | |
| Write off of exploration & development assets | 32,248,470 | 8,055,076 |
| Accrued interest expense | - | (39,687) |
| Fair value loss on financial asset held at fair value through profit or loss | 159,658 | 170,092 |
| Share based payments | 85,000 | - |
| Shares issued in lieu of payment | 341,820 | 101,059 |
| Interest expense – convertible loan | 5,346,364 | - |
| Foreign currency gains | 159,174 | (70,020) |
| Gain on sale of assets | (20,770) | (23,962) |
| Impairment of property, plant and equipment | 286,940 | - |
| Depreciation | 210,303 | 32,536 |
| **Net cash used in operating activities before change in assets and liabilities** | **(4,434,448)** | **(3,004,311)** |
| Decrease/(increase) in receivables | (1,017,406) | 102,459 |
| Decrease/(increase) in prepayments | 140,339 | (153,960) |
| Decrease/(increase) in other receivables | - | 5,088 |
| Increase/(decrease) in provisions | (21,053) | 14,237 |
| Increase/(decrease) in payables | 369,392 | 826,676 |
| **Net cash flow used in operating activities** | **(4,963,176)** | **(2,209,811)** |

### (b) Reconciliation of cash and cash equivalents

| | | |
|---|---|---|
| **Cash balance comprises:** | | |
| ***Cash at bank*** | | |
| Held in AUD funds | 100,512 | 362,746 |
| Held in USD funds | 315,246 | 105,789 |
| Held in ZAR funds | 319,293 | 27,691 |
| Held in MUR funds | 24,535 | - |
| Held in MZN funds | 119,808 | 13,943 |
| **Total cash and cash equivalents** | 879,394 | 510,169 |

### (c) Non-cash investing and financing activities

| | Consolidated | |
|---|---|---|
| | 2018<br>$ | 2017<br>$ |
| Options issued in settlement of interest on convertible notes | 3,458,362 | - |
| Shares issued on conversion of convertible notes | 12,989,956 | - |
| Options issued on acquisition of Ruby projects | - | 1,200,000 |
| Shares issued to the Long Term Incentive Plan | 92,500 | - |
| Shares issued in lieu of payment | 273,246 | - |
| Options issued to advisors | 341,820 | 342,859 |
| Options issued to Lanstead | - | 121,711 |
| **Total** | **17,155,884** | **1,664,570** |

## 17. INTEREST IN EXPLORATION & PROSPECTING LICENSES

At 30 June 2018 the Group was a participant in the following exploration & prospecting licenses:

| | Consolidated | |
|---|---|---|
| | 2018<br>Interest % | 2017<br>Interest % |
| **Diamond Licenses** | | |
| 4525L Save River Diamond Project | 51.8% | 51.8% |
| **Graphite Licenses** | | |
| 4661L Balama Graphite Project (relinquished) | 0% | 60.0% |
| 4662L Balama Graphite Project (relinquished) | 0% | 60.0% |
| 5873L Balama Graphite Project[1] | 60.0% | 60.0% |
| 6363L Balama Graphite Project | 90.0% | 90.0% |
| 6636L Balama Graphite Project (relinquished) | 0% | 75.0% |
| 9407C (previously known as 6678L) Caula Graphite Project | 80.0% | 80.0% |
| 7560L Balama Graphite Project | 95.0% | 95.0% |
| **Ruby Licenses** | | |
| 4143L/8921C Montepuez Ruby Project | 60.0% | 60.0% |
| 4392L Montepuez Ruby Project (relinquished) | 0% | - |
| 4258L Montepuez Ruby Project (relinquished) | 0% | 52.5% |
| 5030L Montepuez Ruby Project | 52.5% | 52.5% |
| 8245L/8955C Montepuez Ruby Project[2] | 65.0% | 65.0% |

The Company owns 100% of Balama Resources Pty Ltd. The Company is a party to the agreements with five existing licence holders covering the seven licenses. The Company's shareholding in each of the license-specific special purpose companies incorporated in Mozambique is shown in the table above. During the period under review graphite exploration licenses 4661L, 4662L and 6636L were relinquished.

The Company owns 75% of Montepuez Minerals Pty Ltd. The Company is a party to the agreements with existing license holders covering the four licenses. The Company's net shareholding (accounting for local Mozambican joint venture shareholders) in each of the license-specific special purpose companies incorporated in Mozambique is shown in the above table. During the period under review ruby exploration license 4392L and 4258L were relinquished.

Note 1: 5873L: On 23 March 2017 the Company signed a new joint venture agreement with Cosec Lda, the local partner for license 5873L, whereby the Company acquired the right to earn a 60% initial interest in the license with a call option to acquire a further 15% interest.

Note 2: 8245L: On 6 June 2017 the Company concluded the acquisition of a right to earn a 65% interest in ruby license 8245L. On the 1 March 2018 the Government of Mozambique issued mining concession 8955C over the Prospecting and Exploration Licence 8245L.

## 18. COMMITMENTS

Exploration and Evaluation Commitments

| | Consolidated | |
|---|---|---|
| | 2018<br>$ | 2017<br>$ |
| Less than one year | 193,712[2] | - |
| Between one and five years [1] | 4,200,444 | 4,206,299 |
| More than five years | - | - |
| **Total** | **4,394,156[2]** | **4,206,299** |

Note 1: As part of the acquisition of Montepuez Minerals Pty Ltd, the Company assumed contingent acquisition payments for license 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 license being transferred to Mozambican SPV (In process) and the time period only starts upon bulk sampling activities starting on the particular license area (current bulk sampling focused on deposit on license 4143L, bulk sampling has not started on 5030L). As part of the acquisition of a 65% interest in ruby license 8245L the Company assumed a contingent acquisition payment to the local partner of US$1,500,000 payable upon conclusion of a 18-month bulk sampling program on license 8245L. Bulk sampling on license 8245L started in July 2017.

Note 2: The held for sale commitments are included above. As per contractual agreement of commitments with Fura, they will assume the future commitments of $ 4,276,869 and this will no longer by a commitment of the Company.

Non-cancellable lease rentals are payable as follows:

| | Consolidated | |
|---|---|---|
| | 2018<br>$ | 2017<br>$ |
| Less than one year | 29,416 | 32,640 |
| Between one and five years | 28,768 | 9,858 |
| More than five years | - | - |
| **Total** | **58,184** | **42,498** |

The lease of the office in Maputo, Mozambique is on a monthly tenancy basis.

## 19. CONTINGENT LIABILITIES

There are no contingent liabilities (2017: $Nil).

## 20. AUDITORS' REMUNERATION

Amounts received or due and receivable by the Company's Statutory Auditor for:

| | Consolidated | |
|---|---|---|
| | 2018<br>$ | 2017<br>$ |
| **Audit or review of the financial reports of the company** | | |
| Audit Services - PricewaterhouseCoopers | 93,131 | 148,650 |
| **Total** | **93,131** | **148,650** |

## 21. KEY MANAGEMENT PERSONNEL REMUNERATION AND RELATED PARTY TRANSACTIONS

### Directors and Executives

| | Consolidated | |
|---|---|---|
| | 2018<br>$ | 2017<br>$<br>Restated |
| **DISCLOSURES** | | |
| Short term | 556,329 | 353,750 |
| Short term – non-monetary | 48,405 | 30,582 |
| Additional fees paid to non-executive directors | 66,100 | 15,000 |
| Termination benefits | 68,750 | - |
| Share based payment options | 124,000 | - |
| Post-employment | 36,755 | 27,550 |
| **Total** | **900,339** | **426,882** |

During the year, the Company discovered that certain information included in the 2017 Remuneration Report was incorrect in that it did not reflect all motor vehicle payments made for Mr Jordaan. The correction is reflected above.

### Other transactions and balances with related parties

No loans have been made during the financial period or at the date of this report to any specified directors or specified executives. A number of specified directors and specified executives, or their personally-related entities, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. A number of these entities transacted with the Company in the reporting period. The terms and conditions of those transactions were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to unrelated entities on an arm's length basis.

Mr van Wyk is a director of Regius Resources Group Ltd. Both Mr van Wyk and Mr Jordaan are shareholders in Regius Resources Group Ltd. Regius Resources Group Ltd has a commercial agreement in place with the Company whereby it provides the Company management and technical services for exploration operations in Mozambique.

Regius is a party to the Fura transaction, in exchange for its 20% interest in MMPL its 80% interest in the shares of Rio Buzi Resources Limitada (incorporated in Mozambique), its 80% interest in the shares of RQL Rubies S.A (incorporated in Mozambique) and its rights to earn 100% interest in unincorporated joint ventures in Mozambique licences 6064L,6106L and 8118L the related party entity will receive $3m in cash and 2.18m shares, subject to exchange rates when the Fura transaction closes.

The following transactions occurred with Regius Resources Group Ltd:

| | Consolidated | |
|---|---|---|
| | 2018<br>$ | 2017<br>$ |
| Provision of exploration services | 6,635,379 | 2,253,743 |
| Reimbursement of administration expenses | (60,107) | - |
| **Total** | **6,575,272** | **2,253,743** |

The following balances are outstanding at the end of the reporting period in relation to transactions with related parties:

| | Consolidated | |
|---|---|---|
| | 2018<br>$ | 2017<br>$ |
| Current payables (purchases of goods and services) | | |
| Regius Resources Group Ltd | 754,388 | 278,461 |
| **Total** | **754,388** | **278,461** |

In addition, the Company acquired a 65% interest in ruby license 8245L from Regius Resources Group Ltd via an unincorporated joint venture with consideration being the payment of US$100,000 plus the issue of 30,000,000 fully paid ordinary shares in the Company (subject to 24 month voluntary escrow) which was approved by shareholders on 22 May 2017.

| Transaction | 2018 $ | 2017 $ |
|---|---|---|
| **Directors & Executives** | | |
| Mr I Daymond | - | - |
| Mr B Olivier | - | - |
| Mr C Jordaan | 270,968 (i) | 265,548 (i) |
| Mr C van Wyk | 270,968 (i) | 265,548 (i) |
| Mr E Kirby (appointed 27 May 2018) | - | - |
| Mr P Spiers (resigned 31 Dec 2017) | - | - |

(i) Amortisation for the performance rights class E previously issued

## 22. SHARE BASED PAYMENTS

### (a) Recognised share based payments

| | Consolidated | |
|---|---|---|
| | 2018 $ | 2017 $ |
| Shares issued on conversion of Convertible Notes | 12,989,956 | - |
| Shares issued to Long Term Incentive Plan | 92,500 | - |
| Shares issued to settle various professional services | 273,246 | - |
| Shares issued on acquisition of Ruby licence 8245L | - | 1,200,000 |

### (b) Details of options granted and vested during the year ended 30 June 2018

During the year the Company did not issue any incentive options to directors and executives. Unquoted options where issued to advisors and consultants that assisted the Company in raising capital. No options vested during the year.

During the year the Company granted options to:

| **Unquoted Options** | | | | | |
|---|---|---|---|---|---|
| **Name** | **Amount** | **Expiry Date** | **Exercise Price** | **Vested / Unvested** | **Fair Value at Grant Date $** |
| **Pursuant to convertible note** | | | | | |
| Arena Structured Private Investments (Cayman) LLC | 38,709,677 | 20-Jul-20 | $0.062 | Vested | 1,265,942 |
| Arena Structured Private Investments (Cayman) LLC | 13,333,333 | 20-Jul-20 | $0.117 | Vested | 680,725 |
| Arena Structured Private Investments (Cayman) LLC | 12,765,957 | 20-Jul-20 | $0.1222 | Vested | 678,191 |
| Arena Structured Private Investments (Cayman) LLC | 25,723,472 | 13-Mar-21 | $0.0323 | Vested | 350,476 |
| Arena Structured Private Investments (Cayman) LLC | 41,749,503 | 29-May-21 | $0.0262 | Vested | 483,027 |
| | | | | | |
| **Pursuant to acquisition and capital raising** | | | | | |
| Jett Capital Advisors | 3,333,333 | 15-Sept-20 | $0.117 | Vested | 143,046 |
| Jett Capital Advisors | 1,519,559 | 09-Mar-20 | $0.10 | Vested | 26,533 |
| Jett Capital Advisors | 2,181,818 | 20-Jul-20 | $0.0715 | Vested | 50,902 |
| Jett Capital Advisors | 1,800,000 | 16-Oct-20 | $0.1300 | Vested | 181,957 |
| Jett Capital Advisors | 729,771 | 25-Jan-20 | $0.0273 | Vested | 24,175 |
| Jett Capital Advisors | 6,000,000 | 22-May-21 | $0.0273 | Vested | 58,253 |
| | | | | | |
| **Pursuant to incentive scheme** | | | | | |
| Mustang Incentive Pty Ltd <The Mustang Resource Long Term Incentive Plan A/C> | 7,500,000 | 15-Jan-21 | $0.0370 | Unvested | 41,250 |
| Mustang Incentive Pty Ltd <The Mustang Resource Long Term Incentive Plan A/C> | 5,000,000 | 13-Mar-21 | $0.0356 | Unvested | 43,750 |

Quoted options were issued for cash.
Unquoted options were issued for services and represent fair consideration.

**Details of options granted and vested during the year ended 30 June 2017**

During the year the Company did not issue any incentive options to directors and executives. Unquoted options were issued to advisors and consultants that assisted the Company in raising capital. No options vested during the year.

During the year the Company granted options to:

| Quoted Options | | | | |
|---|---|---|---|---|
| **Name** | **Amount** | **Expiry Date** | **Exercise Price** | **Vested / Unvested** |
| **Pursuant to capital raising** | | | | |
| Various unrelated investors | 66,700,000 | 25-Jan-2020 | $0.035 | Vested |

| Unquoted Options | | | | | |
|---|---|---|---|---|---|
| **Name** | **Amount** | **Expiry Date** | **Exercise Price** | **Vested / Unvested** | **Fair Value at Grant Date $** |
| **Pursuant to Sharing Agreement Facility** | | | | | |
| Lanstead Capital LP | 7,500,000 | 4-Aug-2019 | $0.06 | Vested | 121,711 |
| **Pursuant to capital raising** | | | | | |
| 11 separate advisors | 6,156,933 | 25-Jan-2020 | $0.027 | Vested | 286,939 |
| Union Square Capital Advisors LLC | 3,000,000 | 31-Mar-2020 | $0.150 | Vested | 31,394 |
| Union Square Capital Advisors LLC | 3,000,000 | 31-Mar-2020 | $0.200 | Vested | 24,526 |

**Details of options granted and vested during the year ended 30 June 2018**

**(c) Summaries of options granted**

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options issued during the year:

| | 2018 No. | 2018 WAEP | 2017 No. | 2017 WAEP |
|---|---|---|---|---|
| Outstanding at the beginning of the year | 113,510,154 | 0.062 | 76,462,241 | 0.184 |
| Granted during the period | 160,346,423 | 0.0562 | 86,356,933 | 0.0463 |
| Exercised during the period | (47,969,603) | - | (4,996,033) | - |
| Expired during the period | (4,149,254) | - | (44,312,987) | - |
| **Outstanding at the end of the year** | **221,737,720** | **0.059** | **113.510,154** | **0.062** |
| **Exercisable at the end of the year** | **221,737,720** | **0.059** | **113,510,154** | **0.062** |

**(d) Weighted average remaining contractual life**

The weighted average remaining contractual life for the share options outstanding as at 30 June 2018 is 2 years (2017: 2.31 years).

**(e) Range of exercise prices**

The range of exercise prices for options outstanding at the end of the year was $0.0262 to $0.15. The exercise price of options outstanding at the end of the previous year was $0.0273 to $0.15 Refer to section (c) above for further information in assessing the number and timing of additional shares that may be issued and the cash that may be received upon exercise of the those options.

**(f) Weighted average fair value**

The weighted average fair value price of options issued during the year was $0.021 (2017: $0.062).

**(g) Summary of performance rights granted**

During the year the Company did not issue any performance rights. Details of the non-market vesting conditions for the remaining performance rights are stated in Note 15.

## 23. SUBSEQUENT EVENTS

**Fura Gems Inc Asset Merger Transaction**

On 17 July 2018 the Company announced that it had entered into a merger agreement for its Montepuez ruby assets with TSXV-listed Fura Gems Inc. (TSXV: FURA) for approximately (subject to exchange rate) 10.5 million shares in Fura.

Under the agreement, the shares will be issued to Mustang in three tranches over 20 months to give Mustang around an 8% stake in Fura, excluding percentage equity dilution from capital raised by Fura. The effect of the agreement is expected to benefit Mustang shareholders by giving them ongoing exposure to the ruby assets and Fura's other ruby and gemstone assets via the shares in Fura.

Fura is a gemstone mining and marketing company which is engaged in the mining, exploration and acquisition of gemstone licenses. Fura is engaged in the exploration of resource properties in Colombia and owns a 76% interest the Coscuez emerald mine in Boyacá, Colombia. Fura is involved in the exploration and mining of rubies in Mozambique through its 80% effective interest in four ruby licenses (4392L, 3868L, 3869L and 6811L).

Fura and its wholly owned subsidiary entered into a merger of ruby assets agreement (the "Merger Agreement") dated 14 July 2018 with Mustang. Pursuant to the Merger Agreement, Fura will acquire controlling ownership in various entities owned by Mustang that hold rights to earn majority interests in 3 mineral concessions (being exploration licence 5030L and mining concessions 8955C and 8921C) in Mozambique as well as ownership of all existing site and ruby processing plant infrastructure (the "Assets").

The consideration payable to Mustang pursuant to the Merger Agreement is approximately (subject to exchange rate) 10.5 million in shares in Fura and shall be payable as outlined below:

- Common shares in the capital of Fura (the "Consideration Shares") with a value equal to $3,333,333 with such Consideration Shares to be issued at CAD$0.50, to be issued on or before 30 November 2018. Based on the Canadian exchange rate as at 30 June 2018 the implied number of shares in Fura to be issued to the Company would be 6,470,666.
- Consideration Shares with a value equal to $3,333,333 with such Fura Shares to be issued at CAD$1.40 to be issued on or before 30 November 2019. Based on the Canadian exchange rate as at 30 June 2018 the implied number of shares in Fura to be issued to the Company would be 2,310,952.
- Consideration Shares with a value equal to $3,333,333, with such Fura Shares to be issued at CAD$1.80 to be issued on or before 30 July 2020. Based on the Canadian exchange rate as at 30 June 2018 the implied number of shares in Fura to be issued to the Company would be 1,797,407.

All of the Consideration Shares issued pursuant to the Merger Agreement will be subject to lock-up agreements pursuant to which Mustang shall be restricted from selling or transferring such securities during the twelve months following the issuing of each tranche and a further 12 month period wherein the securities have to be provided to Fura preferentially for orderly placement.

Under the terms of the Agreement Fura has committed to investing $25 million over the next 36 months in its Montepuez ruby licenses' further development, subject to continued exploration success.

Upon closing of the transaction, Fura will acquire Mustang's ruby assets, including its rights to earn interests between 52.5% and 65% in its 3 concessions (2 mining concessions and 1 exploration license) covering approximately 192 km$^2$ (19,223 ha).
Fura has also entered into a concurrent transaction with Regius Resources Group Ltd "Regius" regarding an asset merger for all its ruby interests and associated assets. Mustang directors and shareholders Cobus van Wyk and Christiaan Jordaan are also directors and shareholders of Regius which is a related party. Regius holds rights to earn interests between 70% and 80% in 6 licenses in the Montepuez region covering a total area of 518km2 (51,800ha). Fura is also acquiring Regius's 20% share in Montepuez Minerals Pty Ltd which holds rights to earn majority interests in 2 of the 3 Mustang ruby concessions (5030L and 8921C). On closing Fura will hold rights over a total area of 1,111km2.

The transaction will be completed once the customary conditions precedent have been satisfied, The conditions precedent include the provision of legal opinions concerning the title to the assets being in good standing, as well as approvals from the

ASX, Mustang shareholders (if required) and the Mozambican Minister of Mineral Resources and Energy. There are no technical due diligence conditions imposed by Fura.

**Arena Investors L.P waiver of terms**

On 15 August 2018 the Company announced that it had obtained key approvals and waivers with Arena Investors L.P ("Arena") in an amendment deed dated 14 August 2018 ("Amendment Deed").

The Company previously announced on 8 January 2018, that Arena, a major institutional investor with more than US$750 million in assets under management on behalf of clients and affiliates, entered into an agreement ("Agreement") with Mustang, whereby it committed to invest $19.95 million into the Company, under a multi-tranche convertible note facility.

On 17 July 2018, the Company entered into a Merger Agreement with Fura noted above for $4.5 million in Fura shares over three tranches.

Under the amendment deed Arena has provided the required approvals for the Merger Agreement and, importantly, has agreed to waive the 15% termination fee on amounts not drawn under the Agreement. It is therefore now at the discretion of the Company to decide to which extent it wishes to draw on the finance, if at all.

As at 1 August 2018 Arena held a total of $2.5 million (face value) of convertible notes in Mustang, of which $1 million is in Tranche 1 notes issued in January 2018 with an 18-month term and $1.5 million is in Tranche 2A notes issued in July 2018, also with an 18-month term. At the end of these terms, Mustang has the option to repay these convertible notes in cash or in shares at their election. Prior to expiry Arena is able to convert its notes to shares at the higher of the floor price (1.6 cents and 1.8 cents respectively) or the lowest preceding 20 day VWAP.

**Capital Raise**

On the 13 August 2018 the Company announce that it has received formal commitments to raise approximately $2.4 million (before costs) via private placement ("Placement") to professional and sophisticated investors and some of the Company's directors. Of this amount $2.18m was completed through the issue of 158,660,844 million new shares at $0.01374 per share. Of these new shares 138,636,844 where issued under the Company's 7.1 placement capacity and 20,024,000 under the Company's 7.1A placement capacity.

The total amount raised includes a commitment of $220,000 from Mustang's directors with Regius Resources Group Ltd (majority owned by Mustang Chief Operating Officer Cobus van Wyk and non-executive director Christiaan Jordaan) contributing $200,000 for 14,556,040 new shares and the Company's Managing Director Bernard Olivier $20,000 for 1,455,604 new shares. Participation by directors is subject to shareholder approval which is the subject of a general meeting of the Company scheduled for 2 October 2018.

Funds raised pursuant to the Placement will be used principally to further develop the Company's Caula Vanadium-Graphite Project in Mozambique and for general working capital.

The Placement has been made to professional and sophisticated investors in Australia, Hong Kong and the United States, with DJ Carmichael and Jett Capital acted as the lead brokers in respect of the Placement.

The Company will also issue attaching options ("Attaching Options") on a 1:2 basis, exercisable at $0.02, expiring 24 months from issue, which accords with the major Caula 24-month development milestones. The Company will seek quotation of the Attaching Options once issued. It should be noted that the issue of the Attaching Options is conditional on shareholder approval at a General Meeting to be held 2 October 2018.

## 24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash, trade receivable and payables, and convertible notes. It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken. The main risks arising from the Group's financial instruments are cash flow interest rate risk, liquidity risk, foreign currency risk and credit risk.

Historically, the Group has not implemented strategies to mitigate these financial risks. As the Group's activities were mainly in the USA the majority of funds held were held in US$ to mitigate foreign currency risk. Accordingly, no hedging policies have been put in place. The directors will review this policy during the financial year given that the Company now operates in USD, ZAR (South African Rand) and MZN (Mozambican Metical). Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 1 to the financial statements.

### (a) Interest rate risk

*Cash flow interest rate risk*

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's cash and short-term deposits with a floating interest rate. These financial assets with variable rates expose the Group to cash flow interest rate risk. All other financial assets and liabilities, in the form of receivables and payables are non-interest bearing or bear fixed interest rates (the convertible notes). The Group currently does not engage in any hedging or derivative transactions to manage interest rate risk.

### (b) Foreign currency risk

The Group also has transactional currency exposures. Such exposure arises from sales or purchases by an operating unit in currencies other than the unit's functional currency. The Group currently does not engage in any hedging or derivative transactions to manage foreign currency risk.

### (c) Commodity price risk

Due to the nature of the Group's and parent's principal operations being ruby, diamond and graphite exploration and production the Group and the parent is exposed to the fluctuations in the prices of rubies, diamonds and graphite. Although the Group and parent entity is economically exposed to commodity price risk of the abovementioned inputs, this is not a recognised market risk under the accounting standards as the risk is embedded within normal purchase and sales and are therefore not financial instruments.

### (d) Credit risk

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. There are no significant concentrations of credit risk within the Group. With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents the Group's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. Since the Group trades only with recognised third parties, there is no requirement for collateral.

### (e) Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans if required. The Company does not currently have any bank loans.

## 25. FINANCIAL INSTRUMENTS

### a. Interest rate risk

***Interest rate risk exposures***

The Group's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and liabilities is set out below:

| Consolidated | Weighted Average Interest rate | Fixed Interest Rate $ | Floating Interest Rate $ | Non-Interest Bearing $ | Total $ |
|---|---|---|---|---|---|
| **2018** | | | | | |
| ***Financial assets*** | | | | | |
| Cash assets * | 0.7% | - | 879,394 | - | 879,394 |
| Trade and other receivables – current * | - | - | - | 474,882 | 474,882 |
| Security deposits * | 0.5% | - | 16,803 | - | 16,803 |
| | | | **896,197** | **474,882** | **1,371,079** |
| ***Financial liabilities*** | | | | | |
| Trade and other payables – current* | - | - | - | 2,381,507 | 2,381,507 |
| | | | **-** | **2,381,507** | **2,381,507** |

* Maturing in 1 year or less

| Consolidated | Weighted Average Interest rate | Fixed Interest Rate $ | Floating Interest Rate $ | Non-Interest Bearing $ | Total $ |
|---|---|---|---|---|---|
| **2017** | | | | | |
| ***Financial assets*** | | | | | |
| Cash assets * | 1.2% | - | 510,169 | - | 510,169 |
| Trade and other receivables – current * | - | - | - | 549,601 | 549,601 |
| | | | **510,169** | **549,601** | **1,059,770** |
| ***Financial liabilities*** | | | | | |
| Trade and other payables – current* | - | - | - | 2,009,215 | 2,009,215 |
| | | | **-** | **2,009,215** | **2,009,215** |

* Maturing in 1 year or less

***Sensitivity analysis***

### (a) Interest rate risk

Changes in interest rate have an insignificant effect on the Group's results.

### (b) Foreign currency risk

The Group's exploration and evaluation cash costs are principally denominated in South African Rand and Mozambican Metical. The foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group has transactional currency exposures that arise from sales and purchases in currencies other that the respective functional currencies. It is expected that revenue generated upon the commencement of commercial production will be denominated in US dollars. The Group does not undertake any hedging at this stage, but will continually evaluate the risk.

### (c) Credit risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date in portion to each class of recognised financial asset, is the carrying amount, net of any provisions for doubtful debts, as disclosed in the consolidated statement of financial position and notes to the financial statements.

The Group does not have any material risk exposure to any single debtor or Group of debtors, under financial instruments entered into by it.

### (d) Liquidity risk and capital management

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so as to maintain a strong capital base sufficient to maintain future exploration and development of its projects. Capital is defined as total equity and borrowings, as disclosed in the consolidated Statement of Financial Position. In order to maintain or adjust the capital structure, the Group may return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group's focus has been to raise sufficient funds through equity to fund exploration and evaluation activities.

There were no changes in the Group's approach to capital management during the year. Risk management policies and procedures are established with regular monitoring and reporting. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

The following are the contractual maturities of financial liabilities:

| Consolidated 30 June 2018 | Carrying amount $ | Contractual cash flows $ | <3 months $ | 3-6 mths $ | 6-24 mths $ | >2 years $ |
|---|---|---|---|---|---|---|
| Trade and other payables | 2,378,607 | 2,378,607 | 2,378,607 | - | - | - |
| Interest bearing loans and borrowinings (1) | 1,150,000 | 1,150,000 | - | - | 1,150,000 | |
| | **3,528,607** | **3,528,607** | **2,378,607** | **-** | **1,150,000** | **-** |

(1) The convertible note can be converted to equity at the company's option.

| Consolidated 30 June 2017 | Carrying amount $ | Contractual cash flows $ | <3 months $ | 3-6 mths $ | 6-24 mths $ | >2 years $ |
|---|---|---|---|---|---|---|
| Trade and other payables | 2,009,215 | 2,009,215 | 2,009,215 | - | - | - |
| | **2,009,215** | **2,009,215** | **2,009,215** | **-** | **-** | **-** |

### (e) Fair values

***Methods and assumptions used in determining net fair value***

For financial assets and liabilities, the fair value approximates their carrying value. Accounts receivable, accounts payable, cash and cash equivalents approximates fair value due to their short term nature. The Group has no financial assets where carrying amounts exceed net fair values at balance date.

*Cash and cash equivalents*

The carrying amount is fair value due to the liquid nature of these assets.

*Financial assets held at Fair Value through Profit and Loss*

As a result of the embedded derivative within the Subscription Agreement and Sharing Agreement outlined in Note 9, the financial asset held at fair value will increase or decrease based on the Company's share price at the end of each month during the 5 day VWAP calculation period. A sensitivity is provided below:

| Consolidated | | Effect On: | | Effect On: | |
|---|---|---|---|---|---|
| Risk variable | Sensitivity* | Profit and Loss 2018 | Financial Assets held at fair value 2018 | Profit and Loss 2017 | Financial Assets held at fair value 2017 |
| Financial assets held at fair value | +0.02 | - | - | 127,190 | 127,190 |
| | -0.02 | - | - | (120,727) | (120,727) |

*Change in Company share price compared to the 30 June 2018 VWAP of $0.025

This is a level 2 financial instrument as it is not traded in an active market but its fair value is determined through observable market data (the Company's share price).

*Held for sale financial assets*

The held for sale financial assets have been impaired down to its fair market value therefore there is no difference between the fair value and the carrying value.

## 26. SEGMENT INFORMATION

The Group has identified its operating segments based on the internal management reporting that is reviewed and used by the executive management team (the chief operating decision makers ("CODM") in assessing performance and in determining the allocation of resources.

The Group operates in the rubies, diamond and graphite exploration business in Mozambique and Mauritius (Africa). It has ceased its oil and gas exploration and development in the USA. The financial information reviewed by the CODM is only prepared on a consolidated basis and no discrete financial information is available, hence no business segments and no segment information is presented.

### Group-wide disclosures

**Geographical information**
Revenues and non-current assets by geographical location are as follows:

| 2018 | Africa | Other | Total |
|---|---|---|---|
| | $ | $ | $ |
| Sales revenue | - | - | - |
| Non-current assets | 9,582,902 | - | 9,582,902 |

| 2017 | Africa | Other | Total |
|---|---|---|---|
| | $ | $ | $ |
| Sales revenue | - | - | - |
| Non-current assets | 31,707,846 | - | 31,707,846 |

Other includes Australia, South Africa and USA.

## 27. PARENT ENTITY INFORMATION

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2018

As at, and throughout, the financial year ended 30 June 2018, the parent entity of the Group was Mustang Resources Limited.

| | Parent | |
|---|---|---|
| | **2018** **$** | **2017** **$** |
| **Result of the parent entity** | | |
| Loss of the parent entity | (37,624,584) | (17,541,737) |
| **Total comprehensive income of the parent entity** | **(37,624,584)** | **(17,541,737)** |
| **Financial position of the parent entity at year end** | | |
| Current assets | 4,192,088 | 789,441 |
| Non-current assets | 5,087,753 | 20,493,681 |
| **Total assets** | **9,279,841** | **21,283,122** |
| Current liabilities | 2,773,740 | 777,962 |
| Non-current liabilities | - | - |
| **Total liabilities** | **2,773,740** | **777,962** |
| **Net assets** | **6,506,101** | **20,505,160** |
| Contributed equity | 174,068,894 | 155,013,532 |
| Accumulated losses | (186,337,449) | (148,712,865) |
| Option reserve | 10,469,277 | 6,441,048 |
| Performance share reserve | 8,305,379 | 7,763,445 |
| **Total shareholders' equity** | **6,506,101** | **20,505,160** |

# *Independent auditor's report*

To the members of Mustang Resources Limited

## *Report on the audit of the financial report*

### *Our opinion*

In our opinion:

The accompanying financial report of Mustang Resources Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### ***What we have audited***

The Group financial report comprises:

- the consolidated statement of financial position as at 30 June 2018,
- the consolidated statement of changes in equity for the year then ended,
- the consolidated statement of cash flows for the year then ended,
- the consolidated statement of profit or loss and other comprehensive income for the year then ended,
- the notes to the consolidated financial statements, which include a summary of significant accounting policies, and
- the directors' declaration.

### *Basis for opinion*

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### ***Independence***

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

## *Material uncertainty related to going concern*

We draw attention to Note 1(b) in the financial report, which indicates that the Group incurred a net loss after tax of $43,251,407 and had net operating cash outflows of $4,963,176 for the year ended 30 June 2018. As a result, in order to meet its forecast operating and capital commitments the Group needs to raise additional capital or other funding. These conditions, along with other matters set out in Note 1(b), indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

## *Our audit approach*

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.


### Materiality

- For the purpose of our audit we used overall Group materiality of $149,000 which represents approximately 1% of the Group's total assets.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- As not all of the Group's assets are producing at a commercial level of production, we chose total assets as the materiality benchmark rather than profit before tax. Total assets are more reflective of the Group's size and scale. The use of total assets as a benchmark provides a level of materiality which, in our view, is appropriate for the audit having regard to the expected requirements of users of the Group's financial report.
- We utilised a 1% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds for an entity with assets not producing at a commercial level of production.

### Audit Scope

- Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- The accounting processes are structured around a group finance function at its head office in Perth. We have performed our audit procedures primarily at the Group's Perth head office.

## *Key audit matters*

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context. We communicated the key audit matters to the Board of Directors.

In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

| *Key audit matter* | *How our audit addressed the key audit matter* |
|---|---|
| ***Carrying amount of held for sale assets – Impairment assessment***<br>*(Refer to note 10) $3,992,222*<br><br>At 30 June 2018, the Group deemed its capitalised Ruby exploration and evaluation assets (Ruby assets) as being held for sale as the requirements of Australian Accounting Standards to classified assets as held for sale had been satisfied at 30 June 2018.<br><br>The determination of the fair value less costs to sell (FVLCS) of the Ruby assets which have been classified as held for sale, was a key audit matter because of the judgement related to the valuation and the financial size of the impairment charge incurred to record the assets at fair value.<br><br>The fair value less costs to sell (FVLCS) is the amount that a market participant would pay for the asset or CGU, less costs of sale. | We performed the following procedures, amongst others:<br>• Obtained the Group's conditional sale agreement for the sale of the Ruby Exploration and Evaluation assets (the Ruby assets).<br>• Evaluated whether the Ruby assets were available for immediate sale in their present condition.<br>• Compared the Group's assessment of assets and liabilities identified and classified as held for sale to the underlying accounting records and assessed the completeness of the Group's assessment.<br>• Tested that the assets classified by the Group as held for sale were held at the lower of their carrying amount and FVLCS by obtaining evidence supporting the FVLCS, including the consideration agreed to be paid by Fura Gems Inc.<br>• Assessed the reasonableness of the Group's assumptions made in determining the FVLCS.<br>• Evaluated whether, in view of the requirements of Australian Accounting Standards, the financial reports provided adequate disclosure about the transaction. |
| ***Impairment assessment for capitalised exploration and evaluation assets***<br>*(Refer to note 8) $7,375,217*<br><br>As at 30 June 2018, the Group held capitalised exploration and evaluation assets of $7,375,217.<br><br>Capitalised exploration and evaluation assets are accounted for in accordance with the policy in Note 1(e) to the financial report.<br><br>Judgement is required by the Group to assess whether there were indicators of impairment of the capitalised exploration and evaluation assets, due to the need to make estimates about future events and circumstances, | We performed the following audit procedures, amongst others:<br>• Evaluated the Group's assessment that there had been no indicators of impairment, including inquiries with management and the directors to develop an understanding of the current status and future exploration intentions for the Group's projects.<br>• Tested whether the Group retained right of tenure for all of its exploration licence areas by obtaining licence status records maintained by the relevant government authority in the country in which the |

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| such as whether the mineral resources may be economically viable to mine in the future.<br><br>The carrying value of capitalised exploration and evaluation assets was a key audit matter due to the magnitude of capitalised exploration and evaluation assets recognised in the consolidated statement of financial position as at 30 June 2018, and the risk of impairment of capitalised exploration and evaluation assets should the Group relinquish ownership of certain exploration or mining licenses as it continues to assess future viability. | licence was issued.<br><br>• Considered selected internal and external reports prepared in relation to the exploration licence areas, which included the results of exploration drilling and other activities and the Group's assessment of the likely prospectivity of material licence areas.<br><br>• Tested a sample of current year expenditure against source documents on the exploration licence areas and assessed Group's plans for future expenditure to meet minimum licence requirements.<br>• Where right of tenure in respect of a license was no longer current or had been allowed to lapse, we tested whether the capitalised costs associated with that licence had been written off. |

## Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2018, including the Corporate Directory, Chairman's Letter, Directors' Report and ASX Additional Information, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of the directors for the financial report

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

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

## *Auditor's responsibilities for the audit of the financial report*

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

# *Report on the remuneration report*

## *Our opinion on the remuneration report*

We have audited the remuneration report included in pages 13 to 21 of the directors' report for the year ended 30 June 2018.

In our opinion, the remuneration report of Mustang Resources Limited for the year ended 30 June 2018 complies with section 300A of the *Corporations Act 2001.*

## *Responsibilities*

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of *the Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

PricewaterhouseCoopers

PricewaterhouseCoopers

Craig Heatley
Partner

Perth
28 September 2018

## ASX ADDITIONAL INFORMATION

Mustang Resources Limited shares are listed on the Australian Securities Exchange. The Company's ASX code is MUS for ordinary shares.

### SUBSTANTIAL SHAREHOLDERS (holding not less than 5%) at 7 September 2018

| | |
|---|---|
| Mr Cobus van Wyk & Mr Christiaan Jordaan (Regius Resources Group Ltd) | 5.13% |

**CLASS OF SHARES AND VOTING RIGHTS**

At 7 September 2018 there were 4,034 holders of 1,149,075,094 ordinary fully paid shares of the Company. The voting rights attaching to the ordinary shares are in accordance with the Company's Constitution being that:

a) each shareholder entitled to vote may vote in person or by proxy, attorney or representative;

b) on a show of hands, every person present who is a shareholder or a proxy, attorney or representative of a shareholder has one vote; and

c) on a poll, every person present who is a shareholder or a proxy, attorney or representative of a shareholder shall, in respect of each fully paid share held by them, or in respect of which they are appointed a proxy, attorney or representative, have one vote for the share, but in respect of partly paid shares, have such number of votes as bears the proportion which the paid amount (not credited) is of the total amounts paid and payable (excluding amounts credited).

There are no voting rights attached to the options in the Company. Voting rights will be attached to the unissued ordinary shares when options have been exercised.

**DISTRIBUTION OF SHAREHOLDERS (as at 7 September 2018)**

| Range | Total Holders | Units | % Issued Capital |
|---:|---:|---:|---:|
| 1 - 1,000 | 384 | 52,823 | 0.00% |
| 1,001 - 5,000 | 192 | 642,824 | 0.06% |
| 5,001 - 10,000 | 273 | 2,166,134 | 0.19% |
| 10,001 - 100,000 | 1,829 | 83,234,176 | 7.24% |
| 100,001 - Over | 1,356 | 1,062,979,137 | 92.51% |
| **Total** | **4,034** | **1,149,075,094** | **100.00%** |

There were 2,116 shareholders holding less than a marketable parcel at 7 September 2018.

**DISTRIBUTION OF LISTED OPTION HOLDERS (as at 7 September 2018)**

| Range | Total Holders | Units | % Issued Capital |
|---:|---:|---:|---:|
| 1 - 1,000 | 1 | 1 | 0.00% |
| 1,001 - 5,000 | 2 | 9,560 | 0.02% |
| 5,001 - 10,000 | 3 | 21,671 | 0.03% |
| 10,001 - 100,000 | 68 | 3,980,915 | 6.43% |
| 100,001 - Over | 75 | 57,925,948 | 93.52% |
| **Total** | **149** | **61,938,095** | **100.00%** |

There was 60 listed option holders holding less than a marketable parcel at 7 September 2018.

There is no current on-market buy back taking place.

**Cash usage**

Since the time of listing on ASX, the entity has used its cash resources and assets in a form readily converted to cash that it had at the time of admission to the official list of ASX in a manner which is consistent with its business objectives.

**TWENTY LARGEST SHAREHOLDERS (as at 7 September 2018)**

| | Name of Ordinary Shareholder | Number of Shares Held | Percentage of Shares Held |
|---|---|---|---|
| 1. | Regius Resources Group Ltd | 58,939,245 | 5.13% |
| 2. | BNP Paribas Nominees Pty Ltd <Ib Au Noms Retail Client DRP> | 41,888,101 | 3.65% |
| 3. | J P Morgan Nominees Australia Limited | 27,480,411 | 2.39% |
| 4. | HSBC Custody Nominees (Australia) Limited | 16,771,839 | 1.46% |
| 5. | Stamas Enterprises Pty Ltd | 16,633,522 | 1.45% |
| 6. | Smiley And Tweety Investments Pty Ltd <Missy And Smiley A/C> | 15,025,000 | 1.31% |
| 7. | Mr Bruce Graham | 15,000,000 | 1.31% |
| 8. | Citicorp Nominees Pty Limited | 13,849,091 | 1.21% |
| 9. | Willow Bend Station Pty Ltd | 13,543,750 | 1.18% |
| 10. | New Economy Com Au Nominees Pty Limited <900 Account> | 13,186,472 | 1.15% |
| 11. | Arena Structured Private Investments (Cayman) Llc | 11,447,005 | 1.00% |
| 12. | Mr Julien Andrew Francia <Franciaret Super Fund A/C> | 11,250,000 | 0.98% |
| 13. | Hong Kong Ausino Investment Limited | 10,000,000 | 0.87% |
| 14. | Chifley Portfolios Pty Ltd <David Hannon Retirement A/C> | 9,970,888 | 0.87% |
| 15. | Comsec Nominees Pty Limited | 9,342,374 | 0.81% |
| 16. | Mr Eris Bede O'brien | 8,250,000 | 0.72% |
| 17. | Zero Nominees Pty Ltd | 7,986,836 | 0.70% |
| 18. | Mr Peter Piotr Mackow | 7,800,000 | 0.68% |
| 19. | Euthenia Tyche Pty Ltd | 7,274,871 | 0.63% |
| 20. | Mr Paul Ainsworth | 7,000,000 | 0.61% |
| | | **322,639,405** | **28.11%** |

**TWENTY LARGEST LISTED OPTION HOLDERS (as at 7 September 2018)**

| | Name of Listed Option Holder | Number of Options Held | Percentage of Options Held |
|---|---|---|---|
| 1 | Andium Pty Limited | 11,608,763 | 18.74% |
| 2 | Mr Cheng Tong Lei | 7,339,258 | 11.85% |
| 3 | Willow Bend Station Pty Ltd | 5,175,630 | 8.36% |
| 4 | Mr Alfred Krendl | 3,285,800 | 5.30% |
| 5 | Cs Third Nominees Pty Limited <HSBC Cust Nom Au Ltd 13 A/C> | 1,615,259 | 2.61% |
| 6 | D & R Properties Pty Ltd <Dorian Business A/C> | 1,561,934 | 2.52% |
| 7 | Mr Rodney Alan Webb + Mrs Deirdre Estelle Webb <Rdjb Webb Family Account> | 1,300,000 | 2.10% |
| 8 | Mr Sven Banton | 1,262,000 | 2.04% |
| 9 | Mr Yuan-Hsiang Chung | 1,165,894 | 1.88% |
| 10 | Mr Simon William Tritton <Investment A/C> | 1,055,000 | 1.70% |
| 11 | Mr Gregory Francis Ryan + Mrs Carolyn Jane Ryan <The Ryan Family S/F A/C> | 1,050,000 | 1.70% |
| 12 | Larkdale Pty Ltd | 1,030,000 | 1.66% |
| 13 | Ms Anne Maree Ryan | 1,000,000 | 1.61% |
| 14 | Mr Geoffrey Paul Hadley | 900,000 | 1.45% |
| 15 | Mr Brian Arthur Yeo | 787,000 | 1.27% |
| 16 | Bws Pty Ltd | 750,000 | 1.21% |
| 17 | Mr Tobias Silas Carter | 600,000 | 0.97% |
| 18 | Ms Suzanne Mae Sloan + Miss Sarah Mae Sloan + Mr Lachlan Craig Melrose <SSl Superannuation Fund A/C> | 596,632 | 0.96% |
| 19 | Miss Lan Dai | 562,000 | 0.91% |
| 20 | Jannarn Pty Ltd <Prabhakar Family A/C> | 530,000 | 0.86% |
| | | **43,175,170** | **69.71%** |

### Unlisted Options

| Number Issued | Exercise Price | Expiry Date | Number of Holders | Holders in excess of 20% |
|---|---|---|---|---|
| 7,500,000 | $0.06 | 04/08/2019 | 1 | Lanstead Capital LP |
| 2,432,572 | $0.0273 | 25/01/2020 | 1 | Jett Capital Advisors |
| 103,719 | $0.0273 | 25/01/2020 | 1 | Mr Simon William Tritton <Investment A/C> |
| 82,698 | $0.0273 | 25/01/2020 | 1 | Paradigm Securities Pty Ltd |
| 24,140 | $0.0273 | 25/01/2020 | 1 | Bell Potter Nominees Ltd <BB Nominees A/C> |
| 19,750 | $0.0273 | 25/01/2020 | 1 | Mr Andrew Thomas Gladman |
| 3,000,000 | $0.15 | 31/03/2020 | 1 | Union Square Capital Advisors LLC |
| 3,000,000 | $0.20 | 31/03/2020 | 1 | Union Square Capital Advisors LLC |
| 38,709,677 | $0.062 | 20/07/2020 | 1 | Arena Structured Private Investments (Cayman) LLC |
| 13,333,333 | $0.117 | 20/07/2020 | 1 | Arena Structured Private Investments (Cayman) LLC |
| 12,765,957 | $0.1222 | 20/07/2020 | 1 | Arena Structured Private Investments (Cayman) LLC |
| 25,723,472 | $0.0323 | 13/03/2021 | 1 | Arena Structured Private Investments (Cayman) LLC |
| 41,749,503 | $0.0262 | 29/07/2020 | 1 | Arena Structured Private Investments (Cayman) LLC |
| 2,181,818 | $0.0715 | 20/05/2021 | 1 | Jett Capital Advisors |
| 1,519,559 | $0.10 | 09/03/2020 | 1 | Jett Capital Advisors |
| 729,771 | $0.0273 | 25/01/2020 | 1 | Jett Capital Advisors |
| 3,333,333 | $0.117 | 15/09/2020 | 1 | Jett Capital Advisors |
| 1,800,000 | $0.13 | 16/10/2020 | 1 | Jett Capital Advisors |
| 7,500,000 | $0.0307 | 15/01/2021 | 1 | Mustang Incentive Pty Ltd <The Mustang Resource Long Term Incentive Plan A/C> |
| 5,000,000 | $0.0356 | 13/03/2021 | 1 | Mustang Incentive Pty Ltd <The Mustang Resource Long Term Incentive Plan A/C> |
| 6,000,000 | $0.0273 | 22/05/2021 | 1 | Jett Capital Advisors |
| 6,000,000 | $0.15 | 14/06/2019 | 1 | Zenix Nominees Pty Ltd |
| 2,000,000 | $0.15 | 14/06/2019 | 1 | MAPD Nominees Pty Ltd |
| 14,000,000 | $0.075 | 21/06/2019 | 1 | Zenix Nominees Pty Ltd |

### Unlisted Performance Rights

| Description | On Issue | No of Holders | |
|---|---|---|---|
| Class E | 14,000,000 | 4 | Regius Resources Group Ltd 49% Elba Investments Pty Ltd 30% |

### Corporate Governance Statement

The Company's 2018 Corporate Governance Statement has been released as a separate document and is located on our website at http://www.mustangresources.com.au/irm/content/corporate-governance.aspx?RID=419

### Tenement Summary

| Tenement | Interest | Effective Net Interest |
|---|---|---|
| **Diamond Licence** | | |
| 4525L Save River Diamond Project | 51.8% | 51.8% |
| | | |
| **Balama Graphite Project** | | |
| 5873L – JV with licence holder | 75% | 75% |
| 7560L – JV with licence holder | 95% | 95% |
| 6363L – JV with licence holder | 90% | 90% |
| 9407C – JV with licence holder (changed from 6678L as a result of an application for mine concession) | 80% | 80% |
| | | |
| **Ruby Licences** | | |
| 8245L/8955C Montepuez Ruby Project | 65% | 65% |
| 4143L/8921C Montepuez Ruby Project | 60% | 60% |
| 5030L Montepuez Ruby Project | 52.5% | 52.5% |
| | | |