



30 January 2017

## COMPANY INFORMATION

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

Current Shares on Issue:  
457,149,921  
Market Capitalisation:  
\$30.6M as at 27 January 2017

## COMPANY DIRECTORS

Ian Daymond  
Chairman

Christiaan Jordaan  
Managing Director

Cobus van Wyk  
Director

## DECEMBER 2016 QUARTERLY ACTIVITIES REPORT

**Highly successful quarter for Mustang paves way for transformational year in 2017 with ramp-up of production and cash-flow at Montepuez Ruby Project**

### Highlights:

#### MONTEPUEZ RUBY PROJECT, MOZAMBIQUE

- Bulk Sampling Mining Plant successfully moved to a new location adjacent to the Alpha Deposit and significant underground water resources, with plant commissioning completed early in the New Year.
- Production now ramping up to targeted rate of 525 tonnes per day – three times the rate recorded before the plant relocation; working towards implementation of a second shift in Q1-2017.
- Targeted processing rate forecast to increase monthly ruby production substantially.
- First commercial parcel of rubies and corundum totalling 6,221 carats dispatched to US service providers and customers, aimed at gaining expert opinions on the range in potential ruby values and the best marketing strategies to unlock maximum value.
- First sales revenue expected to be recorded in H1-2017.
- Auger drilling commenced January 2017 to map ruby-bearing ore across the project area and to delineate a JORC Resource.

#### BALAMA GRAPHITE PROJECT, MOZAMBIQUE

- 596m of diamond drilling completed, focused on Caula Project (6678L; 80% interest) located in a closed anticline hinge.
- Drilling designed to delineate maiden graphite JORC Resource (H2-2017), with graphite mineralisation identified along strike from world-class development projects.
- Metallurgical testing results and process flowsheet expected in Q2-2017.

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mustangresources.com.au

- Previous drilling intersected high-grade intersections in eight RC holes drilled over extensive SkyTEM anomalies, with intersections of up to 22% TGC.

## CORPORATE

- Completed \$2.8M capital raising through a placement of new shares at 2.1c per share.
- Placement, which was led by US institutional investors and strongly supported by Australian sophisticated investors, was undertaken in two tranches, with the second tranche completed on 25 January 2017.
- Funds raised will primarily be used to scale-up the Montepuez Ruby Project's bulk sampling program, with the Company well-funded to ramp up production volumes rapidly and achieve first ruby sales in H1-2017.
- Resignation of non-executive Director, Mr Frank Petruzzelli, from the Board.

## OVERVIEW

The December 2016 Quarter has been a pivotal period for Mustang Resources (ASX: MUS – “Mustang”) which saw the Company put in place all of the foundations required to unlock the value of its flagship Montepuez Ruby Project in the Cabo Delgado Province of north-eastern Mozambique and become a significant new player in the rapidly growing global coloured gemstone market.

The Montepuez field is already firmly established as what is believed to be the single largest current ruby province in the world, having rapidly risen to prominence over the past four years thanks to the success of Mustang's neighbour at Montepuez, the UK-listed Gemfields (AIM: GEM), which has a market capitalisation of around A\$453 million. Since November 2012 Gemfields has sold US\$225 million of rubies recovered during their bulk sampling.

Mustang has built and commissioned a 75tph processing plant at its Montepuez Ruby Project, with a bulk sampling program commencing in early 2017 and now well underway with production ramping up to the targeted rate of 525 tonnes per day.

Mustang's decision during the December Quarter to relocate the bulk sampling plant to a location immediately adjacent to the recently-discovered Alpha Deposit is expected to enhance the operation's production potential significantly, providing a ready supply of water for the processing plant and enabling the Company to implement a second shift in Q1 of 2017.

Subsequent to the end of the Quarter, Mustang sent its first parcel of rubies and corundum, totalling 6,221cts, to the USA to be further assessed and processed prior to being sold to customers. This parcel will assist the market research team to evaluate the Company's rubies and determine which marketing channel will be the most effective and profitable.

In parallel with the bulk sampling program at Alpha, the Company has also commenced exploration activities to open up new ore sources on its tenements with auger drilling underway targeting additional ruby-bearing gravel zones.

While Mustang's core focus remains on the ramp-up in commercial production and cash flow from the Montepuez Ruby Project, the Company continued to progress its Balama Graphite Project, located in the same region, during the Quarter.

A diamond drilling program was completed focused on the Caula Project (License 6678L: 80% Interest), which is the most advanced prospect and offers the potential for delineation of a maiden graphite JORC Resource in the first half of 2017. Extensive high-grade graphite mineralisation has already been delineated at Balama, which lies within a world-class graphite province which is dominated by the world-class graphite deposit being developed by Syrah Resources (ASX: SYR).

Mustang considers there is a significant opportunity to crystallise value from the Balama Graphite Project, given the rapid growth being experienced in the graphite market as a result of surging demand from the lithium-ion battery sector globally, and particularly in China. Discussions have commenced with potential strategic partners and will continue during the first half of 2017 as metallurgical testwork and process flowsheet work are progressed.

The Company also made significant progress on the corporate front, completing a highly successful \$2.8 million capital raising which has seen the introduction of several leading US institutional investors and was strongly supported by Australian sophisticated investors.

This recently completed capital raising will ensure that Mustang is well-funded to advance the Montepuez Ruby Project through to commercial production and cash flow, whilst allowing it to increase the value of both its ruby and graphite projects through targeted exploration activities.

## MONTEPUENZ RUBY PROJECT, MOZAMBIQUE

*Mustang's flagship Montepuez Ruby Project is located within the Montepuez Complex in the Cabo Delgado Province of Northern Mozambique. The Montepuez Complex is a very unique geological occurrence, wherein widespread, high-grade ruby mineralisation is now known to occur. Mustang's licenses lie along the established NW-SE ruby mineralisation trend which also transects the Gemfields (GEM: LSE) licenses. Extensive ruby mineralisation can also be found immediately to the Southeast of the Mustang licenses, close to the village of Namahaka.*

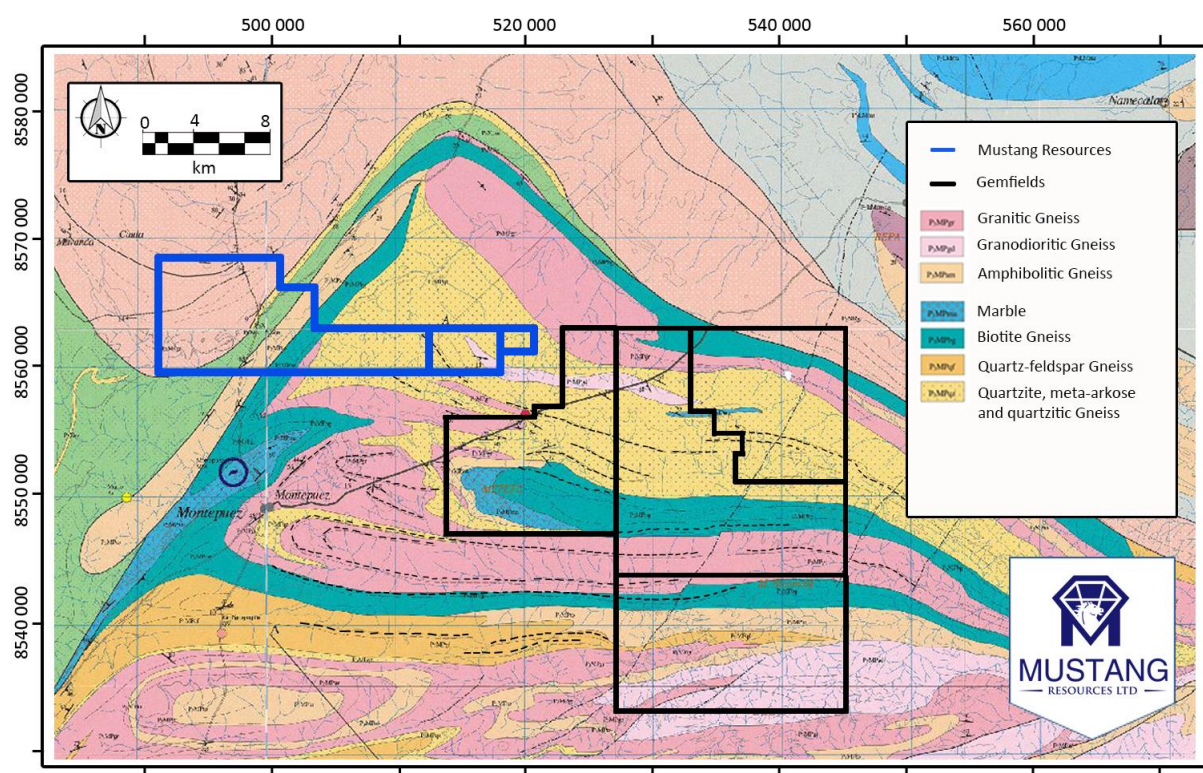


Figure 1. Geological Map of Montepuez Complex ("Wedge-shape") indicating location of Mustang licenses

### Relocation of Bulk Sampling Mining Plant

Following the commencement of bulk sampling at the Montepuez Ruby Project in the September 2016 Quarter, the ramp-up to the targeted processing capacity of 350m<sup>3</sup> (525 tonnes) per day (Run-of-Mine "ROM" of approximately 900 tonnes per day) was hampered in the early part of the December Quarter by temporary challenges related to the clay content of the ruby-bearing gravels and the lack of consistent process water.

The density and amount of clay present in the gravel ore was higher than originally anticipated and resulted in difficulties processing the gravels. This temporarily impeded the upscaling of the processing plant and caused increased water usage.

New jets and stronger water pumps were installed on the scrubber to assist in breaking up the clay and to increase the effectiveness of the plant towards the targeted rotary pan processing capacity.

In addition, Northern Mozambique experienced a long dry season from April to November 2016 which made consistent water supply during the commissioning and ramp-up a challenge for the Mustang operational team and resulted in the plant not being able to achieve its nameplate capacity.

In early November 2016, the Company commenced drilling boreholes for additional process water, which resulted in the discovery of significant water adjacent to the Alpha deposit.

The Company therefore made the decision to move the process plant to a new site established within 400m of the Alpha deposit, substantially reducing the ore haulage distance and mining cost (see Figure

2). Significantly, the relocation of the plant will also allow Mustang to introduce a second shift at the rotary pan processing plant over the next months.

Commissioning of the relocated processing plant was completed early in the New Year, with the plant currently ramping up to the targeted rate of 525 tonnes per day.

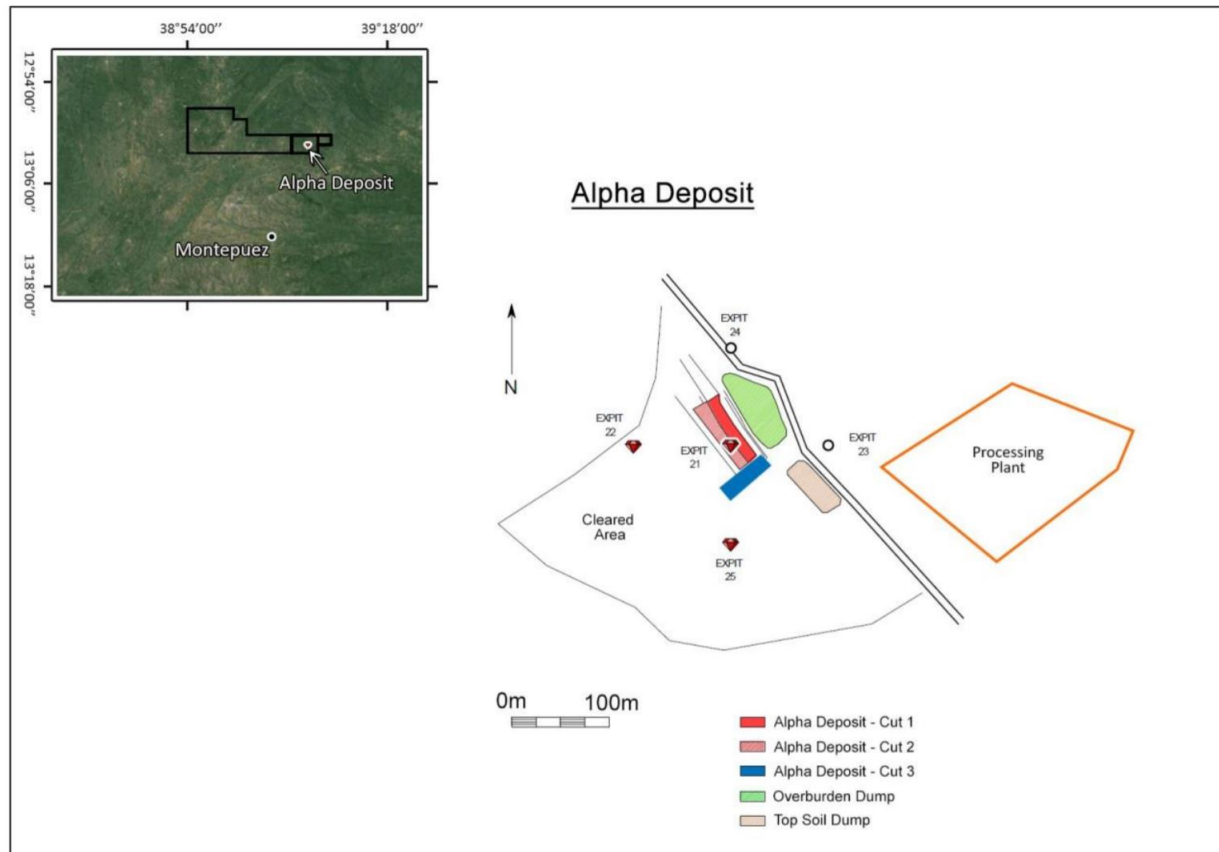


Figure 2. Map of Alpha ruby deposit and new plant location adjacent to the pit

### Production to Date and Exploration Undertaken by Mustang's Prospecting Teams

From the inception of the bulk sampling program to 20 January 2017, 15,585m<sup>3</sup> of ruby-bearing gravel (including the immediate material above and below the gravel contacts) has been mined from the Alpha deposit and stockpiled, of which 7,290.50m<sup>3</sup> (approximately 11,300.28 tonnes) has been processed through the plant resulting in the recovery of 1,638.76cts of high quality ruby.

In addition to these recoveries, Mustang has used prospecting teams to assist in its exploration program and to accelerate the discovery and testing of new areas which can then be followed up with bulk sampling and auger drilling. This strategy has already proven to be highly successful in covering a lot of ground and rapidly testing new areas.

To date, Mustang's prospecting team's work has resulted in the receipt of 13,314.76 carats of ruby and corundum, of which 5,406 carats were included in the 6,221 carat parcel dispatched to the USA (see below).

Mustang considers that an inclusive relationship with local workers is the most sustainable way to engage with the local communities in its areas of operations, and the Company will be continuing to develop and invest actively in a local prospecting program to provide skill formation (mining, health & safety) as well as training. The Company has committed to pay its workers fair salaries. This local community engagement and employment program is controlled and managed by Mustang's management team at site.

### Mustang Ruby Parcel

A parcel of rubies and corundum totalling 6,221cts (which included 815cts of rubies mined by Mustang and 5,406cts received from its prospecting teams) was sent to the USA subsequent to the end of the Quarter to be further assessed and processed prior to being sold to customers.

This parcel will assist the market research team to evaluate the Company's rubies and determine which marketing channel will be the most effective and profitable.



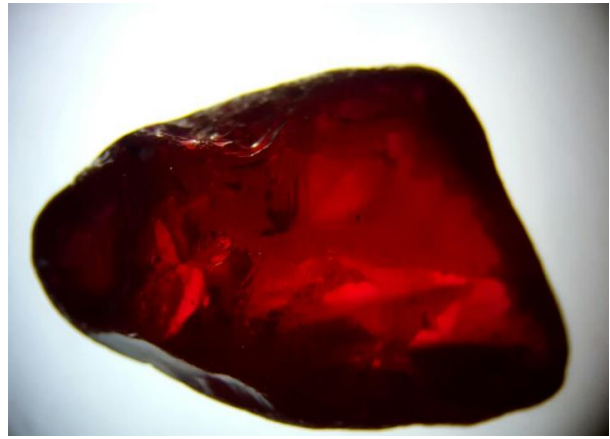
**Figure 3. Portion of the parcel of ruby & corundum (excl. special stones) dispatched to the USA. The parcel contains a good mix of different ruby qualities from lower quality material well suited to heat treatment to gem/facet quality material for the higher end markets.**

### Mustang Special Stones

A parcel of five special stones (Figure 3 below) weighing a total of 76.65cts, including two rare 24ct high quality rubies, will be cut by specialist gemstone cutter Meg Berry. Ms Berry has more than 38 years' experience in the cutting of fine gemstones and is widely acclaimed for her expertise in cutting ruby and other coloured gemstones.

All five stones have been confirmed as suitable for cutting without heat treatment. Typical cutting yields for gem/facet quality ruby from Mozambique can range from 30% to 60% depending on several factors such as the number of inclusions in the stone & the colour saturation. However, one of the most important factors for achieving a high-yield, high-quality final product is the skill of the cutter which can materially influence the value of these high-end stones.





**Figure 4. Photos of Mustang Special Stones delivered in the USA (incl. 2X Rare 24ct Rubies)**

Current asking prices in the US for unenhanced (untreated) Mozambique rubies between 4.00 and 4.99cts is US\$18,425/ct (Lower Fine) to US\$42,000 (Upper Extra Fine). Due to their rarity, wholesale reference prices for unenhanced (cut) Mozambican rubies larger than 5ct are not yet available and are typically negotiated between buyer and seller and prices can increase exponentially as the rubies get larger.

### **Auger Drilling Program – Growth Potential**

An auger drilling campaign commenced in January 2017 to map the ruby-bearing ore across the project area and delineate an initial JORC Resource. The drilling has commenced at the Alpha deposit and will extend outwards. The purpose of this drilling campaign will be to map the extension of the Alpha deposit and thereafter to map all the gravel beds within all three of the Mustang license boundaries.

From initial geological investigations undertaken by Mustang and its independent geologists, the Company is confident that the Montepuez Ruby Project will host significant ruby-bearing gravels sufficient to support a long mine life.

## **COLOURED GEMSTONE MARKET INFORMATION**

### **Significant Recent Ruby Sales**

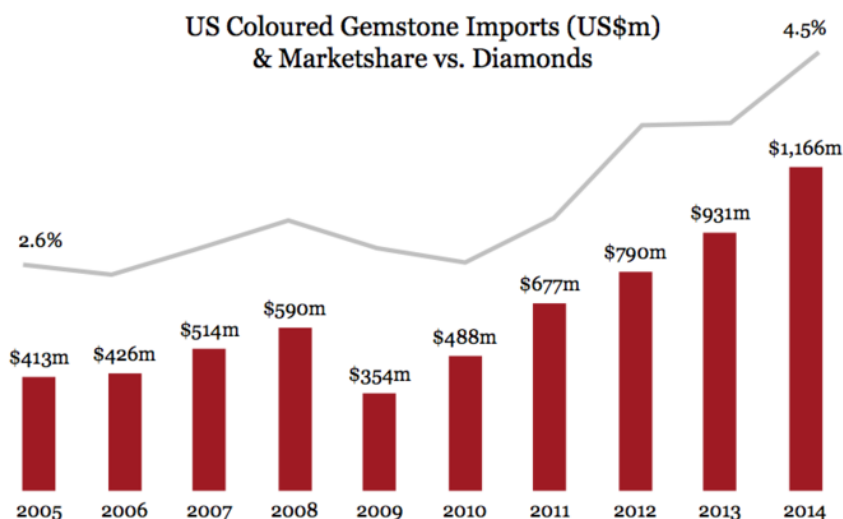
- 10.05ct Ratnaraj Ruby sold for US\$10,000,000 in November 2016 in Hong Kong. Third highest price per carat for a ruby of US\$1,017,557.
- 15.99ct Jubilee Ruby sold for US\$14,165,000 in April 2016. Most expensive coloured gemstone sold in the USA in history.
- 15.04ct Crimson Flame Ruby sold for US\$18,382,385 in December 2015 by Christies in Hong Kong.
- 25.59ct Sunrise Ruby sold for US\$30,335,698 in May 2015 setting the current world record for ruby. Most expensive Cartier jewel ever auctioned.
- 8.62ct Graff Ruby sold for US\$8,372,094 in Nov 2014 at the Sotheby's Geneva auction. Held the record for the highest US\$ per carat value for a brief period up to May 2015.
- 32.08ct Hope Ruby sold for US\$6,736,750 in May 2012.
- Van Cleef & Arpel's 8.24ct Ruby and Diamond Ring sold for US\$4,226,500 in in December 2011 setting a then record. The ring was as a gift by Richard Burton to Elizabeth Taylor and was auctioned as part of her jewellery collection.



**Figure 5. The 8.62ct Graff Ruby (Left) and the 25.50ct Sunrise Ruby (Right)**

China, India and the USA remain the most significant emerald, ruby and sapphire consumer markets with their imports standing at around US\$1.2 billion per country per annum (wholesale/cut stones). This is an increase of ~280% since 2005.

According to the Global Mining Observer, the US coloured gemstone market has grown from the equivalent of 2.6% of the diamond market in 2005 to 4.5% in 2014 with substantial opportunity for further rapid increases (see Figure 4). This growth is expected to be boosted by the activities of AIM-listed Gemfields PLC (ruby & emerald) with the market to be further supported by Mustang (ruby) from 2017 onwards.



**Figure 6. Graph illustrating US Coloured Gemstone Imports and market share versus diamonds.**  
Source: Global Mining Observer, Issue 131 July 2015

According to the most recent Gemfields Annual Report, during 2015 global imports of emerald, ruby & sapphire gemstones reached US\$5.9 billion, representing an increase of 13% compared to the previous year. In the corresponding period, global imports of diamonds decreased by 17% in the same period, from US\$84 billion in 2014 to US\$70 billion.

The US is a major target market for Mustang as it alone imports US\$1.2 billion a year of (cut/processed) ruby, emerald and sapphire (2015). Assuming equal market share with emerald and sapphire, ruby would account for ~US\$400 million of annual imports into the US and equal value in India and China. Initial market engagement by Mustang with US retailers and wholesalers has indicated a substantial unmet demand for ethically-mined, mine to market rubies, further supporting Mustang's immediate focus on the US market.

Mustang considers that further demand growth in all key markets will be greatly assisted by formalisation of the coloured gemstone sector. This involves consistent supply from Mozambique as the largest supply region over the next decades together with an emphasis on ethical mining and supply chains.

## BALAMA GRAPHITE PROJECT, MOZAMBIQUE

*The Balama Graphite Project, consisting of 7 exploration licenses totalling more than 70,000ha, is located along strike from, amongst others, Syrah Resources Ltd (SYR: ASX) – the world's leading graphite development company. Laboratory results of samples taken from the Balama Graphite Project confirm wide (up to 74m) high-grade intervals of up to 22% Total Graphitic Carbon (TGC). Field assessment has also highlighted the potential of large flake sizes, with a 2015 sample analysis showing 57.9% Super Jumbo flakes larger than +1180µm on licence 4662L. High-grade intersections recorded to date suggest likely extensions of nearby world-class graphite deposits.*

A program of 596m of diamond drilling was completed at the Balama Graphite Project during the reporting period, focused on the Caula area (6678L; 80% interest) which is located in a closed anticline hinge.

The drilling program identified graphite mineralisation along strike from world-class development projects.

The drilling is aimed at delineating a graphite JORC Resource at Balama, which is targeted for delivery during the second half of CY 2017.

Results from metallurgical test work and a process flowsheet are also expected in Q2-2017.

Previous drilling at the Balama Project intersected high-grade intersections in eight RC holes drilled over extensive SkyTEM anomalies, with intersections of up to 22% TGC.

The Company intends to update the market with detailed information on the recently completed drilling as soon as all the data has been processed and logs summarised.

## **CORPORATE**

### **Capital Raising**

During the Quarter the Company raised \$2.8 million through an oversubscribed share placement led by US institutional investors in conjunction with Australian sophisticated investors. The placement comprised the issue of 133.4 million new ordinary shares, ranking pari passu with existing holders, at an issue price of 2.1 cents per share ("Placement").

Funds raised pursuant to the Placement will principally be used to develop the Company's Montepuez Ruby Project in Mozambique further, providing the Company with the ability to accelerate production volumes and ruby recoveries, achieve first ruby sales (H1-2017) and aggressively expand the deposit through an auger drilling campaign. Limited further work will also be completed on the Balama Graphite Project.

Jett Capital Advisors LLC in New York and Hartleys Limited in Australia acted as joint lead managers to the Placement.

The Placement was made to institutional, professional and sophisticated investors. The Placement was completed in two tranches with 48.56 million shares (\$1.02 million) issued in the first tranche (Tranche 1). The remaining 84.84 million shares (\$1.78 million) were issued in a second tranche also at \$0.021 per share (Tranche 2), following the receipt of shareholder approval at a general meeting held on 20 January 2017.

In addition, one option (exercise price of \$0.035 and a 3-year term) for every two shares subscribed for and issued under the Placement was issued to subscribers under the Placement.

Settlement of Tranche 1 was completed on 22 December 2016 and settlement of Tranche 2 was completed on 24 January 2017.

### **Unmarketable Share Parcels**

During the Quarter, the Company's share registrar, Computershare, advised that all Share Retention Forms received from holders of less than a marketable parcel have now been collated under the process in relation to unmarketable parcels as announced to the ASX on 30 August 2016 pursuant to ASX Listing Rule 15.13.

A total of 3,826 shareholdings of unmarketable parcels aggregating 1,386,025 shares were subsequently offered for sale through the Company's appointed broker, Hartleys Limited.

The reduction in the number of registered shareholders by more than 3,800 will lead to considerable savings in future administration, printing and postage costs.

### **Resignation of Director**

Mr Frank Petruzzelli tendered his resignation as a non-executive Director of the Company, effective immediately following the Company's AGM on 21 November 2016 for personal reasons. Mr Petruzzelli's business and commercial expertise has been greatly valued by the Company.

His resignation means that the number of Directors has reduced from four to three, which includes the Managing Director.

With the Company's focus on development and production of rubies from the Montepuez Ruby Project in northern Mozambique, the Board will consider the appointment of a new non-executive Director in coming months.

The Board and management of Mustang thank Mr Petruzzelli for his contribution to the Board and to the development of the Company and wish him well for the future.

For and on behalf of the Company.

Christiaan Jordaan

**Managing Director**

## **FOR FURTHER INFORMATION, PLEASE CONTACT:**

### **Managing Director:**

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**+61 (0) 8 9388 1474**

## **COMPETENT PERSON'S 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 Paul Allan, 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 Allan is an independent consultant who was engaged by the company to undertake this work. Mr Allan 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. Mr. Allan 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.

## **FORWARD-LOOKING STATEMENTS:**

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

LICENSE NO.	AREA (KM <sup>2</sup> )	COMMODITY	ISSUE DATE	VALID UNTIL	INTEREST/RIGHT TO EARN INTEREST
4143L	19.2	RUBIES	14-12-2011	14-12-2016#	60%
4258L	4.8	RUBIES	21-07-2011	21-07-2019	52.5% TO 60%
5030L	134	RUBIES	03-09-2013	03-09-2018	52.5%
4661L	147.5	GRAPHITE	11-09-2013	11-09-2018	60%
4662L	94.8	GRAPHITE	01-10-2012	01-10-2017	60%
5873L*	137.8	GRAPHITE	17-11-2014	17-11-2019	60% TO 75%*
6636L	45.7	GRAPHITE	16-07-2014	16-07-2019	75%
6678L	31.9	GRAPHITE	18-03-2014	18-03-2019	80%
6363L	75.79	GRAPHITE	18-11-2015	18-11-2020	90%
7560L	127.92	GRAPHITE	21-06-2016	21-06-2021	95%

# LICENSE EXTENSION APPLICATION SUBMITTED AND LETTER OF COMFORT FROM MINISTRY OF MINES RECEIVED THAT EXTENSION TO 14-12-2019 WILL BE GRANTED.

\* PREVIOUS AGREEMENT CANCELLED AND NEW ONE IN PROCESS OF BEING CONCLUDED. NOTE: LICENSE 5030L CONTINGENT ACQUISITION PAYMENTS TO LOCAL PARTNER OF US\$750,000 6 MONTHS AFTER BULK SAMPLING STARTUP AND US\$750,000 12 MONTHS AFTER BULK SAMPLING STARTUP. CONTINGENT ON LICENSE BEING TRANSFERRED TO MOZAMBICAN SPV (IN PROCESS). AS OF 01/17 BULK SAMPLE ON 5030L NOT YET STARTED. MUSTANG HAS A CALL OPTION TO ACQUIRE ADDITIONAL 10% IN 4258L SPV UPON SUCCESSFUL CONCLUSION OF THE BULK SAMPLING PROGRAM FOR US\$1MILLION