



COMPANY INFORMATION

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

Current Shares on Issue:
 565,618,436

Market Capitalisation:
 \$31M as at 27 July 2017

COMPANY DIRECTORS

Ian Daymond
 Chairman

Christiaan Jordaan
 Managing Director

Cobus van Wyk
 Director

Peter Spiers
 Director

28 July 2017

QUARTERLY ACTIVITIES REPORT FOR THE PERIOD ENDING 30 JUNE 2017

Ruby inventory hits 120,000cts; Bulk sampling confirms new ruby discovery; On-track to accumulate 200,000cts for initial auction in October

Highlights

MONTEPUEZ RUBY PROJECT, MOZAMBIQUE

- Mustang firmly on track for first sale of 200,000cts in October, with inventory reaching 120,000cts at Quarter-end
- 71% increase in ruby inventory over the June Quarter owing in part to the success of the upgraded processing plant at Montepuez, which is expected to achieve full operating capacity by the end of July
- Initial bulk sample confirms significant new ruby discovery on recently acquired licence:
 - Shallow secondary deposit, with initial bulk sample of 5,692m³ delivering 4,445 cts of gem quality rubies
 - Consistent recovery of stones classed in the special/premium category
 - Extensive secondary ruby mineralisation proven over 2,200m strike (open ended)

BALAMA GRAPHITE PROJECT, MOZAMBIQUE

- Subsequent to the end of the quarter metallurgical tests have produced high-grade concentrates (>95% TGC) and exceptional recoveries (96% recovery from fresh rock composite sample) from the Caula Graphite Project
- More than 55% of the fresh graphite assayed has been classed as Jumbo and Large Flake (46% classed as Jumbo and Large Flake for fresh and oxide composites combined)

- Results demonstrate Caula’s potential to be a low-cost supplier to the expandable graphite and lithium ion battery industries

CORPORATE

- Appointment of highly experienced resource industry executive Peter Spiers as a Non-Executive Director
- New broker research issued by Independent Investment Research; Subsequent to the end of the quarter, Hartleys initiated research coverage
- \$0.399m cash on hand at 30 June 2017
- Subsequent to the end of the quarter Mustang secured a \$8.5m funding package from Arena Investors LP a leading institutional investor with more than US\$600m assets under management
- Funding arrangement ensures that Mustang is fully-financed through to its first rough ruby tender of 200,000cts planned for October 2017

Mustang Resources (ASX: MUS) is pleased to provide the following report on its activities during the June Quarter 2017.

MONTEPUEZ RUBY PROJECT, MOZAMBIQUE

Mustang continued to ramp up ruby recoveries at its Montepuez Ruby Project in Mozambique during the Quarter, increasing its ruby inventory by over 70% to approximately 120,000 carats in the reporting period.

Commissioning of the upgraded processing plant at Montepuez was successfully achieved, and a shallow secondary ruby deposit was discovered 3km south-east of the plant.

Mustang’s strong ruby inventory at the end of the Quarter puts it well on track to achieve a 200,000-carat inventory before the planned first closed bid tender in October, which is expected to demonstrate the cashflow potential of the Montepuez Ruby Project.

Work is now underway to select a safe-house facility and tender location. These sites are expected to be finalised by the end of August.

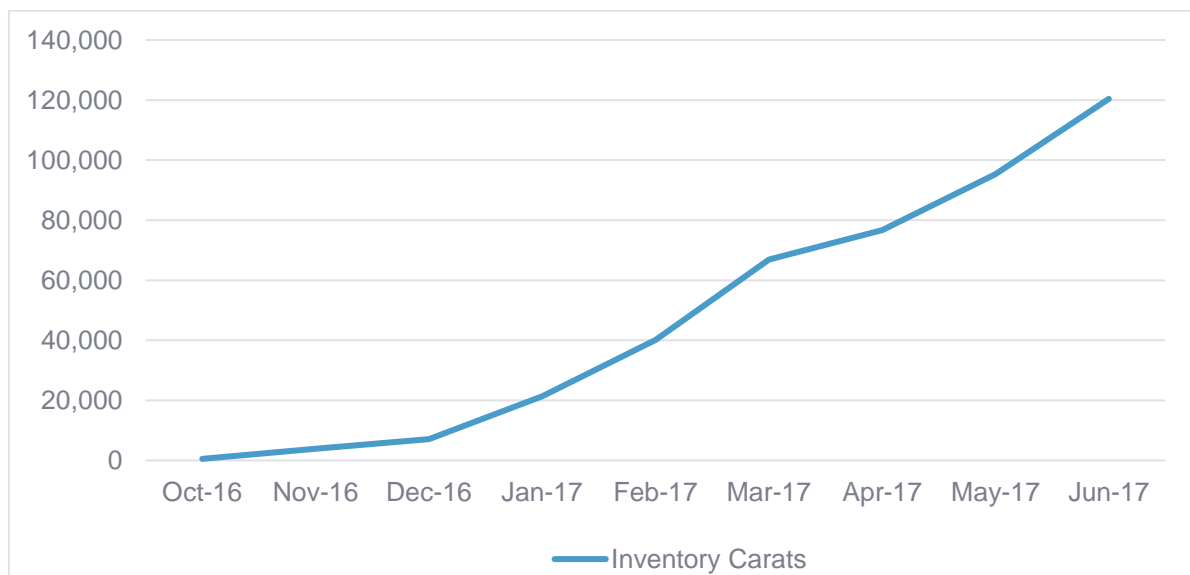


Figure 1. Mustang Ruby Inventory Growth

Implementation of Revised Sales Strategy

Mustang implemented a revised sales strategy for its Montepuez gem-ruby inventory during the Quarter, announcing plans to complete an auction/tender to bulk rough buyers targeted for October 2017.

The sale, which is expected to be for a total of approximately 200,000 carats, has the potential to generate substantial cashflow for Mustang.

Mustang's decision reflects a strategic shift from selling its rubies in both the cut and polished and rough forms to selling them all as rough stones.

The revised strategy, which was adopted after in-depth discussions with key ruby buyers, is in line with the highly successful sales strategy employed by ruby market leader and project neighbour Gemfields (AIM:GEM).

Gemfields' Mozambique rough ruby auctions have yielded total sales of US\$280 million from eight auctions over three years (June 2014 to June 2017), with its first auction held 18 months after the commencement of bulk sampling.

The move will accelerate the generation of substantial cashflow for Mustang from the Montepuez Ruby Project in Mozambique and will also ensure that the Company does not compete with its customers in the sale of cut and polished rubies, an essential pre-requisite for establishing a sustainable sales channel.

Plant Upgrade

The upgraded plant at Montepuez is designed to achieve a feed/throughput rate of 250 tonnes per hour and Mustang intends to initially operate the plant for one seven-hour shift a day. This would enable the Company to achieve or exceed its daily total processing target of 1,500 tonnes, which represents a 580% increase to the throughput rates recorded before the \$1 million plant upgrade was completed. It also means there is scope for further substantial increases in processing rates by operating additional shifts in the future.

The upgrades to the plant are also expected to increase the recovered grades through the introduction of wet jet pumps and a new larger scrubber with strong water jets to break-up all clay boulders and send very clean gravels and stones to the pans.

During the commissioning process, it was found that a larger capacity recycling dam was needed to ensure sustainable water supply for the plant. The water is required to break and wash the clay out of the gravel. The optimised water recycling dam and plant will be fully operational by the end of July, allowing the plant to work at full capacity.

Significant New Secondary Ruby Discovery

The processing of gravels from initial bulk sampling at Mustang's new licence (Mustang: 65% interest), located 3km south-east of the Montepuez plant, is yielding high-quality secondary rubies.

The licence is highly strategic because it borders the Company's existing Montepuez licence areas on one side, and the lucrative ruby project owned by London-listed Gemfields on the other (Figure 2). Importantly, it lies along the SE-NW ruby mineralisation trend, which also transects the adjacent Gemfields licences.

During the quarter, 5,692m³ (8,823 tonnes) was processed from an initial bulk sample from the Company's current focus area to the south east of the processing plant, delivering 4,445.3 cts of rubies, including consistent recovery of high-quality stones larger than 3cts (classified as "Special/Premium Stones").

Furthermore, manual test pitting along strike from the bulk sample pit has confirmed that gravel-hosted secondary ruby mineralisation is extensive with ruby-bearing gravels recorded in test pits over a 2,200m extent (open ended, refer **Figure 3**).

Processing of 4.5 tonnes of gravel from test pits through the Bushman Jigs yielded 10.7 cts of rubies and work is ongoing to map the full size of the secondary ruby deposit(s) in this key target area and beyond.



Figure 2. High-quality rubies from initial processing of 5,692m³ of gravels from recent bulk sampling, including Special/Premium stones

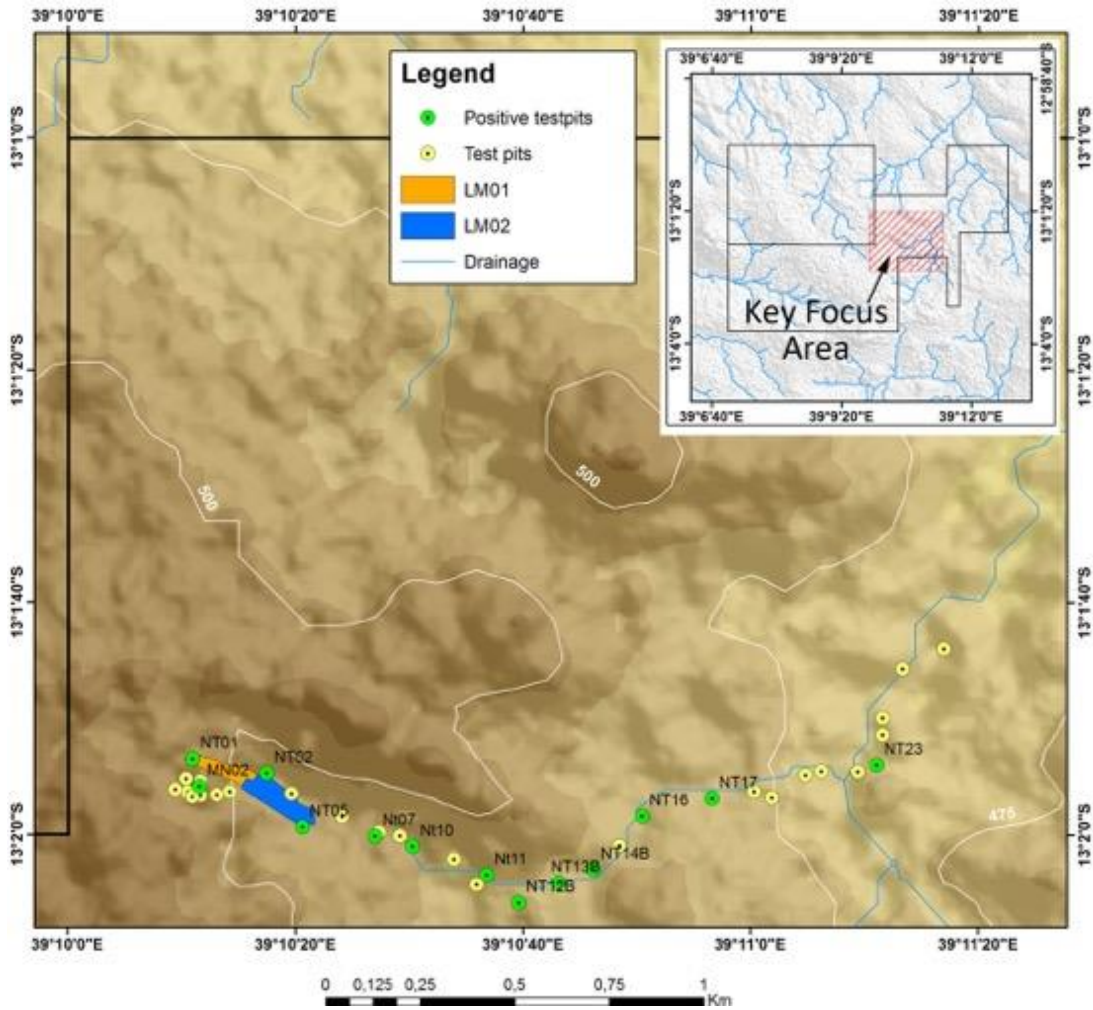


Figure 3. Map of current bulk sampling activity & manual test pits

Auger Drilling Program & Results

The first phase of the auger drilling program was completed during the June Quarter using a 400m by 200m spacing drill grid over several key areas. The main objective of the phase 1 drilling was to assess the distribution, depth and thickness of gravel horizons within high priority target areas to enable continued evaluation of the near-surface gravels utilising Bushman Jigs and the ongoing bulk sampling program.

The auger drilling has demonstrated that licences 4143L and 5030L host extensive gravel deposits that have the potential to generate significant new ruby discoveries. High-priority areas have had additional manual pitting completed within them. The interpreted distribution of gravel horizons greater than 0.5m

thickness and test pits completed to date, including Pit 21 (Alpha), Pit 224, Pit 117 and the Serafina Pit, are shown in **Figure 4** below.

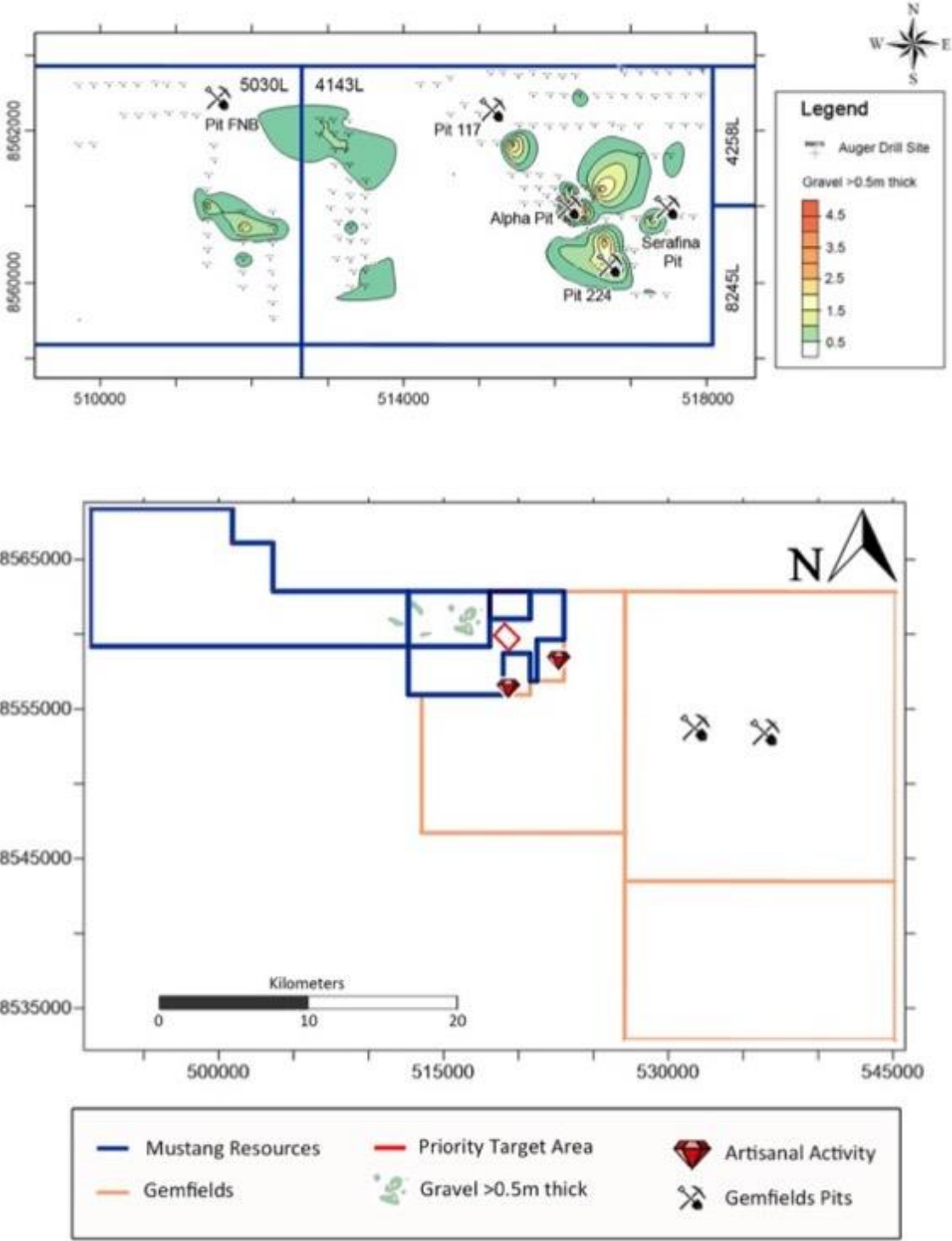


Figure 4. Gravel intercepted during the drilling campaign in relation to the known artisanal activity and Gemfields' pits

Mustang has taken bulk samples from secondary deposits hosted within alluvial/colluvial gravel (Alpha Pit, Pit 117, Pit FNB, Serafina Pit and Pit 224). The gravel beds are poorly sorted with variably rounded to sub-rounded quartz and lithic fragments, clast supported with a red clay, sandy matrix, sitting on or near a highly weathered biotitic gneiss (as seen in **Figure 5**).

To date, the source of the secondary rubies recovered by Mustang has not been discovered.

Further auger drilling and pitting is proposed in areas not covered by the phase 1 drilling targeting both primary and secondary ruby deposits. The results from these ongoing activities will be announced as they come to hand.



Figure 5. Pit 224 (Cut 3 –South Face) and its gravels containing large clasts

BALAMA GRAPHITE PROJECT, MOZAMBIQUE

Subsequent to the end of the Quarter Mustang received strong results from initial beneficiation testwork conducted on both oxide and fresh samples taken from its 80 per cent owned **Caula Graphite Project (Licence 6678L)**.

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

These results are based on non-optimised process testwork with scope for further optimisation through a coarser initial grind size and increased preservation of large and jumbo flakes in the intermediate processing stages.

Samples were compiled from quarter diamond drill core samples collected during the recent resource drilling campaign.

The testwork flowsheet utilised on the fresh sample comprised an initial coarse grind to 0.71 mm, followed by a series of flotation and regrind stages, and achieved an excellent TGC recovery of 96%. The oxide sample achieved a TGC recovery of 87%.

The TGC recoveries of both samples are expected to improve with:

- Further flowsheet optimisation.
- Recycling of intermediate tailings streams during locked cycle testing. Current testwork was carried out under open circuit conditions with reported recoveries excluding graphite from intermediate tailings streams.

High recovery of jumbo and large flake (>180 µm or +80 mesh) was achieved for both the fresh (56%) and oxide (38%) material. Concentrate results for premium flake products are presented in Table 1. Fresh and oxide overall concentrate grades were 95.7% and 95.9% respectively.

| Graphite Product | Size Fraction | Fresh Composite | | | Oxide Composite | | |
|------------------|---------------|-----------------|-------|-------|-----------------|-------|-------|
| | | Mass | TGC | TC | Mass | TGC | TC |
| | µm | % | % | % | % | % | % |
| Jumbo Flake | 300 | 23.8% | 97.90 | 98.00 | 13.2% | 97.20 | 97.50 |
| Large Flake | 180 | 31.2% | 97.26 | 97.46 | 24.6% | 96.19 | 96.69 |
| Medium Flake | 150 | 9.9% | 97.30 | 97.60 | 7.6% | 95.90 | 96.50 |
| Fine Flake | 75 | 22.5% | 96.07 | 96.41 | 43.2% | 94.85 | 95.62 |

Table 1: Concentrates from Fresh and Oxide Grade Composites

The head grades of the samples tested (which are representative of the zones in which they were drilled) are well above the average of other premium flake deposits in the East Africa region. This puts the Caula project in a unique position of hosting both high grade, shallow graphite as well as exceptional flake size distribution, recoveries and concentrate grades.

- Oxide Sample Head Grade = 12.7% TGC
- Fresh Sample Head Grade = 13.3% TGC

Mustang is excited by the prospect of developing a low cost high grade graphite product. The high head grade bodes well for the upcoming scoping study as it indicates that a smaller process plant (lower CAPEX) will be required to generate a similar final product output than other lower grade deposits in the region.

Table 2 below highlights the advantages of the Caula Project against other East African Peers. To have the deposit located in the mining friendly country of Mozambique improves the prospect of developing

| Project | Company | Deposit Location | Resource/ Reserve Grade | Concentrate Grade (%) | Large + Jumbo(Cum.) Flake |
|---------------------|-------------------|------------------|-------------------------|-----------------------|---------------------------|
| Caula (ASX.MUS) | Mustang Resources | Mozambique | TBC | 96 | 46% |
| Balama (ASX.SYR) | Syrah Resources | Mozambique | 16.6% | 95 | 21% |
| Montepuez (ASX.BAT) | Battery Minerals | Mozambique | 8.8% | 96 | 30% |
| Mahenge (ASX.BKT) | BlackRock Mining | Tanzania | 8.7% | 98 | 51% |
| Nachu (ASX.MNS) | Magnis Resources | Tanzania | 5.4% | 98 | 66% |
| Namangale (ASX.VRC) | Volt Resources | Tanzania | 4.9% | 95 | 67% |

this deposit into a mining operation.

Table 2: Testwork Composite Details Peer Comparison

CORPORATE

Appointment of Non-Executive Director

Highly experienced resource industry executive Peter Spiers has been appointed to the Mustang Board as a Non-Executive Director.

Mr Spiers has more than 30 years of international experience in the resources industry spanning exploration, mine development, operations and commercial roles.

He spent 20 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.

New broker research

A new research report on Mustang was issued by Independent Investment Research. A copy of the report is available from the Company’s website, www.mustangresources.com.au > Investor Information > Research Reports.

Cash Position

Mustang finished the Quarter with cash on hand of \$0.399 million. During the quarter, final investments were made in the upgrade of the processing plant and additional funds spent to accelerate phase 1 of the auger drilling campaign. In the coming Quarter spending is scheduled to increase as processing rates from the upgraded processing plant are lifted with the view of maximising the volume of rubies offered for sale in the October 2017 tender.

Subsequent to the end of the Quarter the Company announced that it has secured a A\$8.5 million funding facility under an 18-month term convertible note facility (**Convertible Note Deed**) with a leading US institutional investor, ensuring that it is fully funded through to its upcoming maiden rough ruby tender in October 2017 in a manner which minimises dilution to shareholders.

The Convertible Note Deed, with convertible notes having a face value of A\$10 million, was signed with Arena Investors LP (**Arena**), a US-based institutional investor with more than US\$600 million in assets under management.

Under the terms of the Convertible Note Deed, Arena agreed to invest net A\$8.5 million through an unsecured convertible note facility, to be drawn-down in four tranches as follows:

- \$1.7 million (face value \$2 million) to be received upon signing of the Convertible Note Deed (with notes subject to conversion restrictions);
- A\$1.7 million (face value \$2 million) (subject to shareholder approval with notes subject to conversion restrictions);
- A\$2.55 million (face value \$3 million) (subject to shareholder approval); and
- A\$2.55 million (face value \$3 million) (subject to shareholder approval).

About Arena Investors

Arena is a global investment firm and merchant capital provider that seeks to generate attractive risk-adjusted and uncorrelated returns by investing in a highly diversified portfolio across the entire credit spectrum. Based in New York City, Arena employs a team of 42 professionals and was formed in partnership with The Westaim Corporation, a publicly traded Canadian holding company focused on the financial services industry. See www.arenaco.com.

A notice of meeting will be prepared and despatched to shareholders at the start of August seeking the relevant approvals for entry into the facility.

For and on behalf of the Company.

Christiaan Jordaan
Managing Director

FOR FURTHER INFORMATION, PLEASE CONTACT:

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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 Exploration Targets, Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Mr Johan Erasmus, a Competent Person who is a registered member of the South African Council for Natural Scientific Professions (SACNASP) which is a Recognised Professional Organisation (RPO) included in a list posted on the ASX website. Mr Erasmus is a consultant to Sumsare Consulting, Witbank, South Africa which was engaged to undertake this work. Mr Erasmus has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity

which he is undertaking to qualify as a Competent Person as defined by the 2012 Edition of the Australasian Code for Reporting of Exploration Results. Mr Erasmus consents to the inclusion of the data in the form and context in which it appears.

The information in this release that relates to metallurgical test work is based on information compiled and / or reviewed by Mr Peter Adamini who is a Member of The Australasian Institute of Mining and Metallurgy. Mr Adamini is a full-time employee of Independent Metallurgical Operations (IMO) consulting to Wave International. Mr Adamini consents to the inclusion in the report of the matters based on his information 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

JORC CODE, 2012 EDITION – TABLE 1

Please see Appendix to Ruby Announcement dated 28 June 2017 and Appendix to Graphite Announcement dated 27 July 2017 for full tables.