# An Emerging Gemstone Miner in Mozambique

MUSTANG
RESOURCES LTD

**Full Year Statutory Accounts**
**30 June 2017**

ABN 34 090 074 785

Annual Report 2017

# CORPORATE DIRECTORY

**DIRECTORS**

Ian Daymond (Non-Executive Chairman)
Christiaan Jordaan (Managing Director)
Cobus van Wyk (Non-Executive Director)
Peter Spiers (Non-Executive Director)

**SECRETARY**

Robert Marusco

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Die Wilgers 0081

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**AUDITORS**

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Perth, Western Australia 6000

**SHARE REGISTRY**

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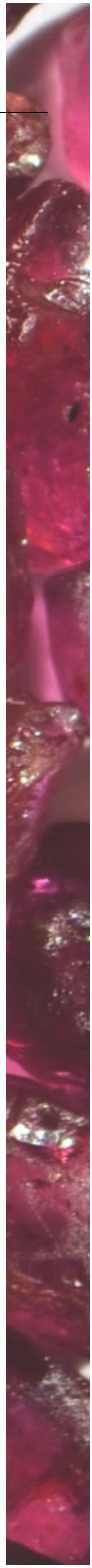
**AUSTRALIAN SECURITIES EXCHANGE CODE** MUS (Ordinary Shares)



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# CHAIRMANS LETTER

29 September 2017

Dear valued Shareholder

I am delighted to report to you on what has been a year of outstanding achievement for Mustang Resources Limited.

**Montepuez Ruby Project**

The past financial year saw Mustang emerge as a significant player in the global ruby market to a point where, at the time of writing, we were preparing for the first public auction of our rubies through a closed bid tender in Port Louis, Mauritius, an integral step in the broader exploration program underway at our Montepuez Ruby Project in Mozambique.

Mustang began the year with construction of the bulk sampling plant at our Montepuez ruby project. At the same time, bulk sampling started and the gravels were being stockpiled.

In light of the strong early progress being made at Montepuez, the Company raised $2.8 million through a share placement at 2.1c in December 2016. These proceeds have been used to accelerate processing volumes and ruby recoveries as part of the bulk sampling exploration program. Drilling has also been ongoing as part of Mustang's parallel strategy to establish a maiden resource at Montepuez.

After over-coming some initial challenges, which related mainly to securing sufficient water supplies, the processing ramp-up has been highly successful, as has been our artisanal mining development program. At the time of writing to you, Mustang had accumulated in excess of 277,000 carats, thereby ensuring it will comfortably exceed its target of 200,000 carats in the planned tender in October this year.

The growth in our rubies on hand coincides with the strong outlook for the ruby market. This was highlighted by the recent takeover of Gemfields, the London-listed ruby miner which is also Mustang's neighbour at Montepuez. This has left Mustang as the only publicly-listed ruby explorer in the world.

Mustang shares the widely-held view that demand for rubies will continue to grow, with the increasing wealth in China helping to drive the market. We are confident that this growth will help underpin prices for our rubies, ensuring we enjoy robust sales and margins and enabling us to capitalise on our rising processing capacity in future years.

**Balama Graphite Project**

While Montepuez has been our key focus over the past year, we have also established the outstanding potential of our 80 per cent-owned Caula Graphite Project in Mozambique. Caula sits along strike from Syrah Resources' advanced Balama graphite project.

The initial beneficiation testwork confirmed that Caula is a Tier-1 project with more than half its graphite classed as jumbo and large flake. The results showed the project has the potential to be a low-cost supplier to the expandable graphite and lithium battery industries. At the time of writing, we were finalising a maiden resource for Caula and preparing to conduct a scoping study.

We believe that the results we have achieved at both our projects over the past year demonstrate their immense potential to create significant value for our shareholders. We are on the cusp of generating strong cashflow from Montepuez while unlocking the true value of Caula through ongoing exploration and testwork.

**Appointment of Non-Executive Director**

During the year, the Company also moved to strengthen its leadership base by the appointment of Peter Spiers as Non-Executive Director in May 2017. Peter is a highly experienced geologist with more than 30 years of international experience in the resources industry spanning exploration, mine development, operations and commercial roles.

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

The combination of Peter's extensive technical skills, project management expertise and commercial experience will be highly valuable to Mustang as it establishes its Montepuez Project in Mozambique as a world-class ruby producer.

# CHAIRMANS LETTER

**Acknowledgements**

I would like to thank former Non-Executive Director Frank Petruzzelli for his contribution to the Board during the year.

Thanks also to Mustang's management team and exploration staff in Mozambique who have worked tirelessly over the past 12 months to achieve key milestones on corporate and operational levels. The key contributions from our professional and technical advisers are also greatly acknowledged.

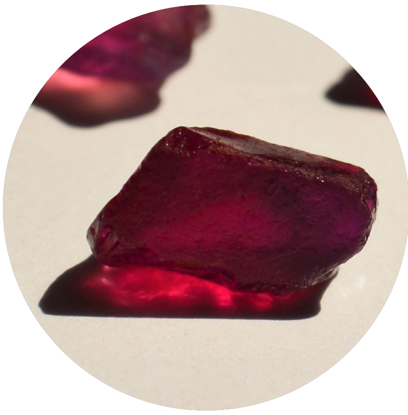
**The Future**

Looking ahead, Mustang is entering an exciting period of growth and transformation as the Company approaches its inaugural ruby tender and to the further growth of the Company following this first tender towards many more in the years ahead. In this regard, I thank shareholders for your support over the past year and the Company looks forward to updating you as we continue to implement our strategies at Montepuez and Caula.

Yours faithfully

Ian C Daymond

Chairman



# Review of Operations

The past financial year was a pivotal period for your Company. In simple terms, Mustang was transformed from an early-stage ruby explorer to being on the cusp of holding the first public tender of its rubies. At the time of writing, the Company had just announced that it had accumulated in excess of 277,000 carats of rubies, thereby comfortably exceeding its target of 200,000 carats in time for the planned closed bid tender in late October 2017.

Mustang started the year in review by announcing that it had recovered 10 rubies from the initial exploration pits at its Montepuez Ruby Project in Mozambique. The trenching program was aimed at delineating targets for the bulk sampling program at Montepuez. The recovery of these rubies was considered highly promising.

The Company's exploration program continued to generate rapid success, with 19 gem quality rubies soon being recovered. The program also confirmed the existence of a secondary ruby deposit.

The bulk sampling program started in October 2016 and quickly recovered 460 carats of high-quality rubies during the commissioning phase. The pilot plant construction at Montepuez was also completed in October.

The bulk sampling program continued to be a strong success with Mustang recovering another 350 carats of high-quality rubies by late November. The ramp-up was impacted by the ongoing challenge of securing adequate water supplies following the dry season in northern Mozambique, but the results were still outstanding. The artisanal mining development program instituted during the year proved to be a great success also.

The decision to relocate the bulk sampling plant to a new location closer to the key Alpha deposit and underground water sources proved an immense success, allowing Mustang to continue ramping up processing capacity.

At the same time, Mustang continued the drilling program at its Caula graphite project in Mozambique, which sits along strike from the world-class Balama graphite project of Syrah Resources, as part of its strategy to establish a JORC resource.

To help fund the aggressive exploration activity at both the ruby and graphite projects, Mustang completed a $2.8 million share placement in December 2016. The placement was led by US institutional investors and strongly supported by sophisticated Australian investors.

Early in the new calendar year, Mustang completed the plant commissioning at the new site and began ramping up capacity. The results showed quickly that the Company could increase processing capacity substantially. This coincided with more strong drilling results from the Caula graphite project.

By February, Mustang had tripled processing rates at Montepuez and the recovery of gem-quality rubies continued to increase. By late March, Mustang's ruby holdings had already grown to 64,000 carats and by late May, the Company declared that it was well on track to meet its goal of accumulating 200,000-carat of rubies in time for its maiden ruby tender in late October 2017.

Mustang's optimism proved well-placed, with the rubies on hand hitting 120,000 carats by the end of the financial year. The rapid growth was due to the successful completion of the upgraded plant commissioning and the discovery of a shallow secondary ruby deposit 3km south of the plant.

This growth has continued to gain pace since the end of the 2017 financial year, reaching 277,000 carats in early September.

Since the end of the financial year, Mustang has also continued to enjoy immense success at Caula graphite project. Caula has now been confirmed as a tier-1 graphite project with more than half its graphite classed as jumbo and large flake. Metallurgical tests produced high-grade concentrates and exceptional recoveries, highlighting the project's strong potential to supply the booming lithium battery industry.

**Corporate**

On 11 July 2016 the Company changed its share registry to Computershare Investor Services Pty Ltd.

On 5 August 2016, the Company raised $1,000,000 by way of the placement of 25,000,000 new shares at 4 cents per share to professional and sophisticated investors.

On 21 November 2016, Mr Frank Petruzzelli resigned as non-executive director of the Company.

On 21 November 2016, all resolutions were approved by a show of hands at the Company's AGM, specifically, the adoption of the FY 2016 Remuneration Report, the re-election of Mr Cobus Van Wyk as a director of the Company, renewal of proportional takeover provisions in the Constitution, appointment of PwC as auditor and the ratification of the prior issue of various shares and options.

On 15 December 2016, the Company raised $2,800,000 by way of the placement of 133,400,000 new shares at 2.1 cents per share to professional and sophisticated investors over two tranches, with tranche 2 for $1,780,000 receiving shareholder approval on 20 January 2017.

On 28 February 2017 the Company announced the acquisition of a 65% stake in a joint venture from related party Regius Resources Group Ltd which holds ruby licence 8245L bordering its exiting Montepuez Ruby Project. Consideration for the acquisition was the issue of 30,000,000 fully paid ordinary shares subject to voluntary escrow for 24 months from 6 June 2017 plus US$100,000 as approved by shareholders on 22 May 2017.

Further on 28 February 2017 the Company raised $5,880,080 by way of the placement of 76,364,687 new shares at 7.7c cents per share to professional and sophisticated investors over two tranches approved by shareholders on 22 May 2017.

On 22 May 2017, all resolutions were approved by a show of hands at the Company's EGM, specifically, the acquisition of a 65% stake in a joint venture from related party Regius Resources Group Ltd which holds ruby licence 8245L, the ratification of prior issues of shares, the placement of tranche 2 shares and approval under Section 195 of the Corporations Act in relation to takeovers.

On 23 May 2017, the Company announced the appointment of Mr Peter Spiers as non-executive director.

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 2017. The financial report was authorised for issue by the Directors on 29 September 2017. 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 LL.B – Non-Executive Director, Chairman (Appointed 30 July 2014)**

Mr Daymond has practised as a solicitor and consultant with more than 35 years as an external or in-house lawyer 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 for 3 years 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 over the past 25 years. He is currently the Honorary Consul in NSW for the Republic of Botswana and a member of the Australia-Africa Minerals & Energy Group which promotes corporate social responsibility principles amongst Australian mining companies with activities in Africa.

During the last three years, Mr Daymond has been a director of Hill End Gold Ltd (ASX: HEG).

**Christiaan Jordaan – Managing Director (Appointed 10 December 2015)**

Mr Jordaan is the former Chief Executive Officer and Co-Founder of Regius Resources Group Ltd, the Mozambican focused mining and exploration company that has been operating in Mozambique since 2004. 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 head office.

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

**Cobus van Wyk – Non-Executive Director (Appointed 10 June 2015)**

Mr van Wyk is the Chief Executive Officer and co-founder of the Regius group of companies, 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.

**Peter Spiers – Non-Executive Director (Appointed 23 May 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.

**Frank Petruzzelli B.Bus (Acc), Non-Executive Director (Appointed 13 July 2015, resigned 21 November 2016)**

Mr Petruzzelli is a principal of MDB Taxation & Business Services Pty Ltd, an Australian accounting firm. He is an accounting and management services specialist and advises ASX listed companies and large private organisations. Mr Petruzzelli holds a Bachelor of Business (Accounting) and is a Fellow of the National Institute of Australia and a Fellow of the Institute of Public Accountants. Mr Petruzzelli was a founding director of the Company and served through to November 2012 and re-joined the board on 13 July 2015. Mr. Petruzzelli resigned on 21 November 2016.

**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 & performance rights of the Company were:

| | Ordinary Shares | Unlisted Performance Rights |
|---|---|---|
| Ian Daymond | 500,000 | - |
| Christiaan Jordaan | 59,725,308 | 6,860,000 |
| Cobus van Wyk | 59,725,308 | 6,860,000 |
| Peter Spiers | - | - |

**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 | 9 | 9 |
| Christiaan Jordaan | 9 | 9 |
| Cobus van Wyk | 9 | 9 |
| Frank Petruzzelli (resigned 21/11/16) | 4 | 5 |
| Peter Spiers (appointed 23/05/17) | 1 | 1 |

**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

The Company continued with development of its new assets, being ruby and graphite exploration projects in Mozambique with a principal focus on the Montepuez Ruby Project.

Significant capital raisings have allowed the Company to acquire a new ruby asset and further strengthen its consolidated statement of financial position.

### Operations

Further exploration success in relation to the Montepuez Ruby Project has seen the Company rapidly advancing the bulk sampling and exploration program. Early success has encouraged the Company to move to invest in the expansion and upgrade of its 1,500tpd bulk sampling plant which necessitated additional capital expenditure, but with rubies already having been recovered in the shallow gravels, the Company is confident of continuing exploration success

The Company is also committed to additional resource definition work on the graphite licences targeting the delineation of a maiden JORC Indicated and Inferred Mineral Resource and the completion of a scoping study shortly thereafter.

### Financial

The consolidated net loss for the Group for the year ended 30 June 2017 was $11,229,405 (2016: $10,282,313).

Total assets increased from $32,302,502 in 2016 to $33,159,059 an increase of 2.65% as a result of acquiring tenements during the year and additional expenditure but offset by impairment on relinquishment of licences, and net assets increased from $30,964,339 to net assets of $31,019,670, an increase of 0.18%.

The Group's working capital changed from $2,240,329 in 2016 to a working capital deficit of $583,066, a reduction of 126% resulting from new capital raised by the Company less exploration expenditure during the course of the 2017 financial year.

During the year the Company raised $8,957,060 (net of costs).

### Going Concern

The Company's 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.

At 30 June 2017 the Group had cash at bank totaling $510,169 and working capital deficit of $583,066 (2016: surplus of $2,240,329).

The Group has significant working capital commitments in the next financial year principally related to the development of the Montepuez Ruby Project and limited further exploration of the Balama Graphite Projects. The Company has prepared cash flow forecasts which demonstrate the likely need for additional funding to provide the necessary development and expansion capital for the Montepuez Ruby Project and exploration of the Balama graphite Projects and working capital for the Company to continue to provide corporate services to the Group. There is uncertainty whether revenue forecast to be generated from the bulk sampling program at the Montepuez Ruby Project will be sufficient to fully fund all these commitments in the required timeframe as these revenues will only be able to be generated from the sale of gemstones at auctions when sufficient volumes of saleable material is available through bulk sampling/trial mining, which is typically twice or three times per calendar year. The Company will, therefore also seek to raise additional debt or where required equity capital to ensure the ongoing development and expansion of the Group's projects and to provide the necessary working capital until such time as the projects are completely self-funding and until sufficient working capital reserves are built up in the consolidated statement of financial position.

The Group's ability to continue as a going concern is dependent upon the generation of sufficient revenue from the Montepuez Ruby project and its ability to raise additional capital. While the directors will be expending their best efforts, the generation of sufficient revenue and the raising of additional capital cannot be assured. The directors are confident that the Montepuez Ruby project development will proceed to plan as well as in their ability to raise additional capital due to the Company successfully raising capital in the past and the market's appetite for future capital raisings.

As a result of the above uncertain events, 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 2017 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.

### Strategy and investments for future performance

The Company's primary focus is the continued development of the Montepuez Ruby Project through steady state production and inventory growth leading up to the Company's inaugural rough ruby auction in Port Louis, Mauritius between 27 and 30 October 2017. Following its inaugural rough ruby sale in October the Company intends to invest in the rapid expansion of activities given significant discoveries of secondary ruby deposits made to date and the strong demand for medium to high quality rubies. It also intends to complete additional resource delineation and scoping study work on the graphite licences in the Balama region of Cabo Delgado, Mozambique with the view of unlocking shareholder value through a potential spin-off listing, joint venture or trade sale of the Tier-1 Caula project.

At present the Montepuez Ruby Project is best classified as an advanced exploration project with unique characteristics given that it is a gemstone project. This means that large bulk samples are required to be excavated and processed in a sufficiently scaled processing plant in order to gather sufficient data to determine long term commercial viability.

The Company has engaged with its geology team lead by Mr Paul Allan (who is the Competent Person for the project) to provide the board with further insight in relation to the path to project development and potential commercialisation.

Mr Allan's report to the board outlines the important steps to be taken to be able to complete a JORC compliant Mineral Resource and feasibility study for the project prior to making the decision to move to commercial production. The key points are as follows:

- Further bulk sampling (excavation and processing of gravels) of prospective areas identified through test pitting and phase 1 auger drilling
- Further auger drilling of areas identified with field mapping, pitting and geophysics. The Company expects that phase 2 auger drilling program to be completed during the 2018 calendar year.
- The sales of representative parcels of rubies recovered to determine average US$/ct values. The first sale of rubies is scheduled for 27 to 30 October 2017 and further follow-up sales are expected during the 2018 calendar year.
- The Company will need to complete JORC Mineral Resource estimations and feasibility studies. This work and studies are planned for late 2018.
- Once studies are completed the Company will need to secure a mining concession for an initial 25 year tenure. This is in progress with a mining concession application lodged over exploration concession 4143L. This exploration permit was at end of tenure and sufficient information was available to apply for the mining concession on work done to date with reasonable probability of further work successfully determining a scale up to long term commercial production.
- The Company will also need to complete a full Environmental Impact Assessment (EIA) and associated licencing.
- Environmental licence and right of use and enjoyment of land ("DUAT") need to be secured within 3 years from grant of a mining concession. Development must start within 24 months after the grant of the environmental licence or the DUAT whichever is the later provided that production must commence within 4 years after the mining concession grant.

### 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 ruby and graphite exploration in Mozambique with a core focus on the production of high quality rubies from its flagship Montepuez Ruby Project.

## 3. RESULTS

The net loss after income tax of the Group for the financial year ended 30 June 2017 totalled $11,229,405 (2016: $10,282,313).

## 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 (2016: $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 2017 was 2.77 (2016: 8.33) 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 |
| 149,253 | Unlisted | $0.2412 | 10/11/2017 |
| 8,000,000 | Unlisted | $0.15 | 14/06/2019 |
| 2,000,000 | Unlisted | $0.09 | 31/12/2017 |
| 1,000,000 | Unlisted | $0.06 | 31/12/2017 |
| 2,000,000 | Unlisted | $0.15 | 31/12/2017 |
| 19,000,000 | Unlisted | $0.075 | 21/06/2019 |
| 7,500,000 | Unlisted | $0.06 | 04/08/2019 |
| 5,922,805 | Unlisted | $0.0273 | 25/01/2020 |
| 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 |
| 38,709,677 | Unlisted | $0.062 | 20/07/2020 |
| 2,181,818 | Unlisted | $0.0715 | 20/07/2020 |

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 licences 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 First Tranche | fully converted to ordinary shares | N/A |
| Convertible Note Second Tranche | 1 | Unlisted |
| Convertible Note Third Tranche | 1 | Unlisted |

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

| Class | Conversion conditions |
|---|---|
| Convertible Note First Tranche | Convertible Notes convertible at the higher of the lowest 1 day VWAP (as published by Bloomberg) during the 20 trading days period ending on the last trading day before the date on which the holder delivers a conversion notice to the Company or $0.005 on or before 25 January 2019 with a face value as follows:<br><br>Note 1: $0 fully converted to ordinary shares |
| Convertible Note Second Tranche | Convertible Notes convertible at the higher of the lowest 1 day VWAP (as published by Bloomberg) during the 20 trading days period ending on the last trading day before the date on which the holder delivers a conversion notice to the Company or $0.005 on or before 25 January 2019 with a face value as follows:<br><br>• Note 2: $800,000 |
| Convertible Note Third Tranche | Convertible Notes convertible at the higher of the lowest 1 day VWAP (as published by Bloomberg) during the 20 trading days period ending on the last trading day before the date on which the holder delivers a conversion notice to the Company or $0.005 on or before 25 January 2019 with a face value as follows:<br><br>• Note 3: $3,000,000 |

## 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 $200,000). 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 2017 after income tax amounted to $11,229,405 (2016: $10,282,313).

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.

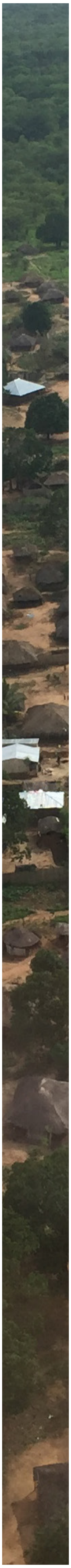
The Company has no policy on executives and directors entering into contracts to hedge their exposure to options or shares granted as part of their remuneration package.

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

The Company received valid proxies of which approximately 91% were 'yes' votes on its Remuneration Report for the financial year ending 30 June 2016. 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.

| | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| Product sales revenue ($) | - | - | 481,753 | 2,948,648 | 3,491,266 |
| Net loss attributable to members of Mustang Resources Limited ($) | 11,229,405 | 10,282,313 | 6,620,704 | 23,444,116 | 5,528,461 |
| Basic EPS (cents) | (2.77) | (8.33) | (29.20) | (832.59) | (4.60) |
| Closing share price as at 30 June | $0.042 | $0.041 | $0.22 | $0.03 | $0.001 |

In 2014 the Company's shares underwent a 25:1 consolidation.
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 July 2014)

Christiaan Jordaan - Managing Director (appointed 1 February 2016)

Frank Petruzzelli - Non-Executive Director (resigned 21 November 2016)

Peter Spiers - Non-Executive Director (appointed 23 May 2017)

Cobus van Wyk - Non-Executive Director (appointed 10 June 2015 as executive director & changed to non-executive director 10 December 2015)

***Details of executives***

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

**Christiaan Jordaan, Managing Director (appointed 1 February 2016)**

- Managing Director fee of $251,850 were paid or payable during the financial year (2016: $104,939).
- The Company entered into an executive service agreement with Mr Jordaan commencing 1 February 2016.
- Starting gross salary of $230,000 p.a. plus statutory superannuation.
- Salary will increase to $275,000 p.a. plus statutory superannuation when market capitalisation of $50m is achieved and maintained or exceeded for at least 6 weeks.
- Salary may increase to $300,000 p.a. plus statutory superannuation when market capitalisation of $85m is achieved and maintained or exceeded for at least 3 months.

**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) | | | | | | | | |
| 2017 | 60,000 | - | 15,000 | 5,700 | - | - | 80,700 | - |
| 2016 | 22,500 | - | 17,500 | 2,375 | - | 20,000 | 62,375 | - |
| Christiaan Jordaan, Managing Director (ii) | | | | | | | | |

## DIRECTORS' REPORT

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 2017 | 230,000 | - | - | 21,850 | - | - | 251,850 | - |
| 2016 | 95,835 | - | - | 9,104 | - | 153,125 | 258,064 | - |
| Cobus van Wyk, Non-Executive Director (iii) | | | | | | | | |
| 2017 | 45,000 | - | - | - | - | - | 45,000 | - |
| 2016 | 116,250 | - | - | - | - | 153,125 | 269,375 | - |
| Peter Spiers, Non-Executive Director (iv) | | | | | | | | |
| 2017 | - | - | - | - | - | - | - | - |
| 2016 | - | - | - | - | - | - | - | - |
| **Previous Directors** | | | | | | | | |
| Frank Petruzzelli, Non-Executive Director | | | | | | | | |
| 2017 | 18,750 | - | - | - | - | - | 18,750 | |
| 2016 | 60,000 | - | - | - | - | 377,808 | 437,808 | - |
| Andrew Law, Non-Executive Director | | | | | | | | |
| 2017 | - | - | - | - | - | - | - | |
| 2016 | 149,785 | - | - | - | - | 45,000 | 194,785 | - |
| Chris Ritchie, Executive Director, CFO & Company Secretary | | | | | | | | |
| 2017 | - | - | - | - | - | - | - | |
| 2016 | 123,068 | - | - | 21,002 | - | - | 144,070 | - |
| **Total 2017** | **353,750** | **-** | **15,000** | **27,550** | **-** | **-** | **396,300** | |
| Total 2016 | 567,438 | - | 17,500 | 32,481 | - | 749,058 | 1,366,477 | - |

(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 $15,000 (excluding GST), due to the ongoing project acquisition program and various capital raising processes.

(ii) Mr Christiaan Jordaan was appointed as managing director on 1 February 2016 by way of an executive services agreement.

In addition, he is a minority shareholder & former director of Regius Resources Group Limited which held various Performance Rights in the Company.

(iii) Mr Cobus van Wyk commenced work on a consulting basis commencing in December 2014. He was appointed as a director on 10 June 2015.

In addition, he is a director of Regius Resources Group Limited which held various Performance Rights in the Company.

(iv) Mr Peter Spiers was appointed a non-executive director on the 23 May 2017 and as at the financial year ended 30 June 2017 no director's fees were paid. Mr Spiers will receive a non-executive director's fee of $48,000 p.a. In addition, the Company will issue Mr Spiers (or his nominated entity), subject to shareholder approval (which the Company intends to seek at its next AGM in November 2017), 10,000,000 (ten million) Unlisted Options to acquire shares in the Company in two tranches and one exercise price:

- Tranche 1, vesting 12 months after date of issue but subject to continuous service and the market capitalisation of the Company reaching at least $100 million for 3 months by 24 April 2019 : 5,000,000 unlisted options exercisable at $0.07 and expiring 3 years from date of issue;

- Tranche 2, vesting 24 months after date of issue but subject to continuous service and the market capitalisation of the Company reaching at least $100 million for 3 months by 24 April 2019: 5,000,000 unlisted options exercisable at $0.07 and expiring 3 years from date of issue.

There was no performance-based remuneration received during the year by directors or management.

## 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.

| 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** | **-** | **-** | **-** | **-** |

| 2016 | Held at 1 July 2015 | Granted | Expired | Exercised / Sold | Other Changes | Held at 30 June 2016 | 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.

There are no options granted as remuneration on issue.

**(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:

| 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 (i) | 29,725,308 | - | 30,000,000 | 59,725,308 |
| Mr C van Wyk (i) | 29,725,308 | - | 30,000,000 | 59,725,308 |
| Mr P Spiers | - | - | - | - |
| **Total** | **59,950,616** | **-** | **60,000,000** | **119,950,616** |

(i) 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 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.

| 2016 | Held at 1 July 2015 | On Exercise of Options | Other changes | Held at 30 June 2016 |
|---|---|---|---|---|
| **Key Management Personnel** | | | | |
| Mr I Daymond | 100,000 | - | 400,000 | 500,000 |
| Mr C Jordaan (i) | 4,900,000 | - | 24,825,308 | 29,725,308 |
| Mr C van Wyk (i) | 4,900,000 | - | 24,825,308 | 29,725,308 |
| Mr P Spiers | - | - | - | - |
| **Total** | **9,900,000** | **-** | **50,050,616** | **59,950,616** |

**(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:

| 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** |

| 2016 | Held at 1 July 2015 | Other changes | Held at 30 June 2016 |
|---|---|---|---|
| **Key Management Personnel** | | | |
| Mr I Daymond | - | - | - |
| Mr C Jordaan (i) | 20,580,000 | (13,720,000) | 6,860,000 |
| Mr C van Wyk (i) | 20,580,000 | (13,720,000) | 6,860,000 |
| Mr F Petruzzelli (ii) | 16,216,792 | (12,016,792) | 4, 200,000 |
| **Total** | **57,376,792** | **(39,456,792)** | **17,920,000** |

(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.

(ii) On 21 November 2016, Mr Frank Petruzzelli resigned as non-executive director of the Company.

### (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 | 2017<br>$ | 2016<br>$ |
|---|---|---|
| **Directors & Executives** | | |
| Mr I Daymond | - | 2,456 |
| Mr C Jordaan | 265,548 (i) | 337,640 |
| Mr C van Wyk | 265,548 (i) | 302,564 |
| Mr P Spiers (appointed 23 May 2017) | - | - |
| Mr F Petruzzelli (resigned 21 Nov 2016) | - | 171,558 |
| **Total** | **531,096** | **814,218** |

(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

On 20 July 2017 the Company announced that it had secured an $8.5m Convertible Note funding package from Arena Investors LLP, a major US institutional investor. Funds can be drawn down in four tranches with the first tranche of $1,700,000 (subject to conversion restrictions) received by the Company on signing the convertible note deed on 24 July 2017 and the second and third tranches of $1,700,000 and $2,550,000 respectively received on the 12 September 2017. The balance will be available in one final draw-down of $2,550,000 over 18 months, subject to shareholder approval which was granted on 1 September 2017.

On 16 August 2017 the Company announced that its maiden ruby auction/tender is scheduled for 27 to 30 October 2017 in Port Louis, Mauritius.

On 8 September 2017 Arena Investors LLP issued a conversion notice and converted $550,000 of the first convertible note to 11,270,491 fully paid ordinary shares in the Company.

On 15 September 2017 Arena Investors LLP issued a conversion notice and converted $1,400,000 of the first convertible note to 28,688,524 fully paid ordinary shares in the Company.

On 19 September 2017 Arena Investors LLP issued a conversion notice and converted the final $50,000 of the first convertible note and $700,000 of the second convertible note to 15,243,902 fully paid ordinary shares in the Company.

## 11. AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is set out on page 24 and forms part of the directors' report for financial year ended 30 June 2017.

## 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 | |
|---|---|---|
| | **2017** | **2016** |
| | **$** | **$** |
| **Corporate Advisory** | | |
| PricewaterhouseCoopers (appointed 18 August 2016) | - | - |
| Grant Thornton Audit Pty Ltd (resigned 18 August 2016) | - | - |

## 13. LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Company is focussing its future development on ruby and graphite exploration & mining in southern Africa and is currently progressing with its ruby bulk sampling program, rough ruby tender sales and further resource delineation of graphite licences in Mozambique.

## 14. ENVIRONMENTAL REGULATIONS & PERFORMANCE

The Group is a party to various exploration and development licences or permits in the countries in which it operates. In most cases, these contracts and licences 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 licences.

## 15. RISK MANAGEMENT

The Company takes a proactive approach to 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.

## 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 $34,335 (2016: $31,116) 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.

**Christiaan Jordaan**
**Managing Director**
**Mustang Resources Limited**

Sydney, 29 September 2017

**Competent Persons' Statement**

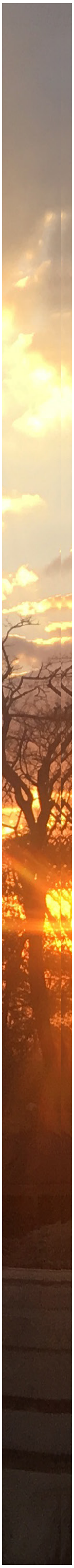
Information in this report that relates to the Montepuez Ruby Project's Exploration Targets, Exploration Results, Mineral Resources and Ore Reserves is based on information compiled by Paul Allan, a Competent Person who is a registered member of the South African Council for Natural Scientific Professions (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 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, I 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 2017 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 2017.

On behalf of the board

**Christiaan Jordaan**
**Managing Director**

29 September 201

## Auditor’s Independence Declaration

As lead auditor for the audit of Mustang Resources Limited for the year ended 30 June 2017, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the 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
29 September 2017

***PricewaterhouseCoopers, ABN 52 780 433 757***
*Brookfield Place, 125 St Georges Terrace, PERTH WA 6000, GPO Box D198, PERTH WA 6840*
*T: +61 8 9238 3000, F: +61 8 9238 3999, www.pwc.com.au*

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

## FOR THE YEAR ENDED 30 JUNE 2017

| | | Consolidated | |
|---|---|---|---|
| | **Notes** | **2017** | **2016** |
| | | **$** | **$** |
| Interest income | | 5,664 | 731 |
| Write off exploration and evaluation | 8 | (8,055,076) | (4,784,279) |
| Administration costs | 2(a) | (2,876,910) | (3,708,395) |
| Fair value loss on financial asset held at fair value through profit or loss | | (170,092) | (1,692,847) |
| Depreciation | | (32,536) | (104,341) |
| Profit/(loss) on sale of assets | | 23,962 | (108,130) |
| Foreign exchange gain | | 70,018 | 17,919 |
| Gain on extinguishment of liability | | - | 292,692 |
| Exploration expenditure | | (239,799) | (154,306) |
| Finance income/(costs) | 2(b) | 45,364 | (41,357) |
| **Loss from continuing operations before income tax expense** | | **(11,229,405)** | **(10,282,313)** |
| Income tax benefit | 3 | - | - |
| **Net loss from continuing operations** | | **(11,229,405)** | **(10,282,313)** |
| **Other comprehensive income** | | | |
| Items that may be reclassified to profit or loss: | | | |
| Foreign currency translation gain/(loss) | | 661,061 | (1,372,837) |
| Other comprehensive gain/(loss) for the period net of tax | | 661,061 | (1,372,837) |
| **Total comprehensive loss for the period** | | **(10,568,344)** | **(11,655,150)** |
| **Loss for the period attributable to:** | | | |
| Non-controlling interest | | (86,841) | (149,616) |
| Owners of the parent | | (11,142,564) | (10,132,697) |
| | | **(11,229,405)** | **(10,282,313)** |
| **Total comprehensive loss for the period is attributable to:** | | | |
| Non-controlling interest | | (85,371) | (149,616) |
| Owners of the parent | | (10,482,973) | (11,505,534) |
| | | **(10,568,344)** | **(11,655,150)** |

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

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

### FOR THE YEAR ENDED 30 JUNE 2017

| | | Consolidated | |
|---|---|---|---|
| | **Notes** | **2017** | **2016** |
| **Loss per share** | | | |
| Continuing operations | | | |
| Basic loss per share (cents per share) | 13 | (2.77) | (8.33) |
| Diluted loss per share (cents per share) | 13 | (2.77) | (8.33) |
| Total | | | |
| Basic loss per share (cents per share) | 13 | (2.77) | (8.33) |
| Diluted loss per share (cents per share) | 13 | (2.77) | (8.33) |

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 2017

| | | Consolidated | |
|---|---|---|---|
| | Notes | 2017 | 2016 |
| | | $ | $ |
| **Current assets** | | | |
| Cash and cash equivalents | 15(b) | 510,169 | 2,173,329 |
| Trade and other receivables | 4 | 549,601 | 652,060 |
| Financial assets held at fair value | 9, 24(e) | 203,986 | 611,041 |
| Prepayments | 5 | 187,457 | 33,497 |
| **Total current assets** | | **1,451,213** | **3,469,927** |
| | | | |
| **Non-current assets** | | | |
| Trade and other receivables | 4 | - | 5,088 |
| Property, plant and equipment | 7 | 1,126,781 | 719,971 |
| Exploration and evaluation assets | 8 | 30,581,065 | 28,107,516 |
| **Total non-current assets** | | **31,707,846** | **28,832,575** |
| **Total assets** | | **33,159,059** | **32,302,502** |
| | | | |
| **Current liabilities** | | | |
| Trade and other payables | 10(a) | 2,009,215 | 1,222,226 |
| Provisions | 11 | 25,064 | 7,372 |
| **Total current liabilities** | | **2,034,279** | **1,229,598** |
| | | | |
| **Non-current liabilities** | | | |
| Provisions | 11 | 105,110 | 108,565 |
| **Total non-current liabilities** | | **105,110** | **108,565** |
| **Total liabilities** | | **2,139,389** | **1,338,163** |
| | | | |
| **Net assets** | | **31,019,670** | **30,964,339** |
| | | | |
| **Equity** | | | |
| Contributed equity | 12 | 155,013,532 | 146,056,472 |
| Reserves | 14 | 13,747,892 | 11,421,686 |
| Accumulated losses | | (141,199,178) | (130,056,614) |
| **Parent interests** | | **27,562,246** | **27,421,544** |
| Non-controlling interests | | 3,457,424 | 3,542,795 |
| **Total equity** | | **31,019,670** | **30,964,339** |

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

MUSTANG RESOURCES LTD

# CONSOLIDATED STATEMENT OF CASH FLOWS

## FOR THE YEAR ENDED 30 JUNE 2017

| | Notes | Consolidated 2017 $ | 2016 $ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers | | - | - |
| Payments to suppliers and employees | | (2,221,152) | (2,915,534) |
| Interest received | | 12,001 | 731 |
| Interest paid | | (660) | (25,168) |
| **Net cash flows used in operating activities** | **15(a)** | **(2,209,811)** | **(2,939,971)** |
| **Cash flows from investing activities** | | | |
| Payments for exploration and evaluation expenditure | | (8,020,527) | (3,513,926) |
| Payments for plant & equipment | | (778,783) | (336,821) |
| Proceeds from sale of plant & equipment | | 198,311 | 482,226 |
| **Net cash flows used in investing activities** | | **(8,600,999)** | **(3,368,521)** |
| **Cash flows from financing activities** | | | |
| Proceeds from the issue of shares and options | | 9,553,979 | 4,345,350 |
| Proceeds from the issue of convertible loans | | - | 642,500 |
| Proceeds from Lanstead Capital LP | | 358,674 | 817,362 |
| Share issue costs | | (607,563) | (449,714) |
| **Net cashflows from financing activities** | | **9,305,090** | **5,355,498** |
| Net decrease in cash and cash equivalents | | (1,505,720) | (952,994) |
| Cash and cash equivalents at the beginning of the year | | 2,173,329 | 3,711,787 |
| Effect of exchange rate changes on cash and cash equivalents | | (157,440) | (585,464) |
| **Cash and cash equivalents at the end of the year** | **15(b)** | **510,169** | **2,173,329** |

Non-cash investing and financing activities are disclosed in Note 15(c).

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

### FOR THE YEAR ENDED 30 JUNE 2017

| 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 2015 | **129,920,396** | **(119,923,917)** | **4,476,897** | **7,508,955** | **256,646** | **22,238,977** | **1,859,077** | **24,098,054** |
| Loss for the period | - | (10, 132,697) | - | - | - | (10,132,697) | (149,616) | (10,282,313) |
| Other comprehensive loss | - | - | - | - | (1,372,837) | (1,372,837) | - | (1,372,837) |
| Total comprehensive gain / (loss) for the period | - | (10,132,697) | - | - | (1,372,837) | (11,505,534) | (149,616) | (11,655,150) |
| Non-controlling interest of subsidiaries acquired | - | - | - | - | - | - | 1,833,334 | 1,833,334 |
| Issue of options | - | - | 552,025 | - | - | 552,025 | - | 552,025 |
| Issue of share capital (net of issue costs) | 16,136,076 | - | - | - | - | 16,136,076 | - | 16,136,076 |
| **Balance at 30 June 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** |
| | | | | | | | | |
| 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 loss | - | - | - | - | 659,591 | 659,591 | 1,470 | 661,061 |
| Total comprehensive gain / (loss) 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** |

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 2017 was authorised for issue in accordance with a resolution of the directors on 29 September 2017. 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 Level 10, 20 Martin Place, Sydney, New South Wales, 2000. The principal activity of Mustang Resources Limited during the financial year was the exploration of rubies, diamonds 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 and financial assets and liabilities (including derivative instruments) - 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*

This standard is applicable to annual reporting periods beginning on or after 1 January 2018 and addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting. The impact is not expected to be material on the Group's financial statements.

*AASB 15 Revenue from Contracts with Customers*

This standard is applicable to annual reporting periods beginning on or after 1 January 2018 and introduces a new framework for accounting for revenue and will replace AASB 118 *Revenue* and AASB 111 *Construction Contracts*. The new standard is based on the principle that revenue is recognised based on the principle of when control over goods and services transfers to a customer. The Group will assess the impact of the new standard closer to the effective date.

*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 Company's 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 $11,229,405 (2016: $10,282,313) and had net cash outflows from operations of $2,209,811 (2016: $2,939,971) for the year ended 30 June 2017. At 30 June 2017 the Group had cash at bank totaling $510,169 and working capital deficit of $583,066 (2016: surplus of $2,240,329).

The Group has significant working capital commitments in the next financial year principally related to the development of the Montepuez Ruby Project and limited further exploration of the Balama Graphite Project. The Company has prepared cash flow forecasts which demonstrate the likely need for additional funding to provide the necessary development and expansion capital for the Montepuez Ruby Project and exploration of the Balama Graphite Project and working capital for the Company to continue to provide corporate services to the Group. There is uncertainty whether revenue forecast to be generated from the bulk sample mining and exploration program at the Montepuez Ruby project will be sufficient to fully fund all these commitments in the required timeframe as these revenues will only be able to be generated from the sale of gemstones at auctions when sufficient volumes of saleable material is available through bulk sampling/trial mining, which is typically twice or three times per calendar year. The Company will, therefore also seek to raise additional debt or where required equity capital to ensure the ongoing development and expansion of the Group's projects and to provide the necessary working capital until such time as the projects are completely self-funding and until sufficient working capital reserves are built up on the consolidated statement of financial position.

The Group's ability to continue as a going concern is dependent upon the generation of sufficient revenue from the Montepuez Ruby Project as well as its ability to raise additional capital. While the directors will be expending their best efforts, the generation of sufficient revenue and the raising of additional capital cannot be assured. The directors are confident that the Montepuez Ruby Project development will proceed to plan as well as in their ability to raise additional capital due to the Company successfully raising capital in the past and the market's appetite for future capital raisings.

As a result of the above uncertain events, 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 2017 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 2017. 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 26. 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.

### (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.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2017

### (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 13).

### (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 it 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.

### *(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

| | 2017 | 2016 |
|---|---|---|
| | $ | $ |
| **(a) Administration costs** | | |
| Consulting fees | 664,139 | 69,559 |
| Employee benefits | 436,264 | 871,179 |
| Defined contribution superannuation | 25,650 | 27,697 |
| Employee benefit / consulting fees expense | 1,126,053 | 968,435 |
| | | |
| Compliance costs | 325,208 | 676,395 |
| Accounting & Audit | 371,522 | 221,973 |
| Legal | 134,966 | 157,575 |
| Travel | 233,780 | 296,535 |
| Rent | 70,028 | 102,766 |
| Marketing | 366,907 | 198,636 |
| Insurance | 56,913 | 92,146 |
| Share based payments | 101,059 | 678,125 |
| Other | 90,474 | 315,809 |
| | **2,876,910** | **3,708,395** |
| **(b) Finance costs** | | |
| Interest (income)/costs | (45,364) | 41,357 |
| | **(45,364)** | **41,357** |

## 3. INCOME TAX

The major components of income tax expense are:

| | Consolidated | |
|---|---|---|
| | 2017 | 2016 |
| | $ | $ |
| **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 | (991,396) | (1,713,818) |
| Deferred tax asset not brought to account | 991,396 | 1,713,818 |
| **Income tax benefit reported in the Consolidated Statement of Profit or Loss and Other Comprehensive Income** | **-** | **-** |

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 | |
|---|---|---|
| | 2017 | 2016 |
| | $ | $ |
| Loss before tax | (11,229,405) | (10,282,313) |
| Prima facie tax receivable at 30% (2016:30%) | (3,368,822) | (3,084,694) |
| Tax effect of: | | |
| Non-deductible expenses | 18,000 | 34,940 |
| Non-deductible share based payments | 30,318 | 203,438 |
| Fair value loss on financial assets held at fair value | 51,028 | 507,854 |
| Tax effect on temporary differences | 991,396 | 1,713,818 |
| Deferred tax asset not brought to account | 2,278,081 | 624,644 |
| Income tax benefit | - | - |

### Deferred income tax

Deferred income tax at 30 June relates to the following:

| | Consolidated | |
|---|---|---|
| | 2017 | 2016 |
| | $ | $ |
| ***Deferred tax assets and (liabilities)*** | | |
| Exploration expenses and Property, Plant & Equipment | (9,512,354) | (8,432,255) |
| Provisions | 39,052 | (115,937) |
| Prepayments | (56,237) | 10,049 |
| Deferred tax assets - carried forward losses | 9,529,539 | 8,538,143 |
| | **-** | **-** |

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 2017.

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 | |
|---|---|---|
| | 2017 | 2016 |
| | $ | $ |
| **Current** | | |
| Trade debtors | - | - |
| | - | - |
| Other receivables [1] | 40,070 | 127,890 |
| GST/VAT Receivable | 506,012 | 136,484 |
| Related parties receivable [2] | - | 109,336 |
| Security deposits | 3,519 | 278,350 |
| | **549,601** | **652,060** |

| | Consolidated | |
|---|---|---|
| | 2017 | 2016 |
| | $ | $ |
| **Non-current** | | |
| Other debtors | - | 5,088 |
| | **-** | **5,088** |

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 Related parties receivable are amounts owing from Regius.

## 5. PREPAYMENTS

| | Consolidated | |
|---|---|---|
| | 2017 | 2016 |
| | $ | $ |
| Corporate advisor prepayments | 171,754 | - |
| Other prepayments | 15,703 | 33,497 |
| | 187,457 | 33,497 |

## 6. INVESTMENTS IN CONTROLLED ENTITIES

| | Country of Incorporation | Percentage of equity Interest held by the Group | |
|---|---|---|---|
| **Investments in subsidiaries** | | 2017 % | 2016 % |
| 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 |

| | Country of Incorporation | Percentage of equity Interest held by the Group | |
|---|---|---|---|
| | | 2017 | 2016 |
| **Investments in Joint Operation** | | % | % |
| Rubeus Mineral Resources S.A (unincorporated joint operation) | MZ | 65 | - |

## 7. PROPERTY, PLANT & EQUIPMENT

### a) Office Equipment

| | Consolidated | |
|---|---|---|
| | 2017 | 2016 |
| | $ | $ |
| Office equipment at cost | 14,785 | 15,908 |
| Accumulated depreciation | (3,828) | (2,652) |
| **Total office equipment** | **10,957** | **13,256** |

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

| | Consolidated | |
|---|---|---|
| | 2017 | 2016 |
| | $ | $ |
| **Office equipment at cost** | | |
| Balance at start of year | 13,256 | 23,331 |
| Disposals | (2,839) | - |
| Movement in carrying value as a result of foreign currency movements | 666 | (8,559) |
| Depreciation | (126) | (1,516) |
| **Balance at end of year** | **10,957** | **13,256** |

### b) Buildings

| | Consolidated | |
|---|---|---|
| | 2017 | 2016 |
| | $ | $ |
| Buildings | 359,982 | - |
| Accumulated depreciation | - | - |
| **Total buildings** | **359,982** | **-** |

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

| | Consolidated | |
|---|---|---|
| | 2017 | 2016 |
| | $ | $ |
| **Buildings** | | |
| Balance at start of year | - | - |
| Additions | 359,982 | - |
| **Balance at end of year** | **359,982** | **-** |

### c) Mining plant & equipment

| | Consolidated | |
|---|---|---|
| | 2017 | 2016 |
| | $ | $ |
| Mining plant & equipment | 1,234,333 | 1,145,296 |
| Accumulated depreciation | (478,491) | (438,581) |
| **Total mining plant & equipment** | **755,842** | **706,715** |

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

| | Consolidated | |
|---|---|---|
| | 2017 | 2016 |
| | $ | $ |
| **Mining plant & equipment** | | |
| Balance at start of year | 706,715 | 1,652,841 |
| Additions | 418,800 | 336,821 |
| Disposals | (171,510) | (590,356) |
| Movement in carrying value as a result of foreign currency movements | 46,255 | (197,743) |
| Depreciation capitalised to exploration & evaluation expenditure | (212,008) | (392,023) |
| Depreciation expense | (32,410) | (102,825) |
| **Balance at end of year** | **755,842** | **706,715** |

### d) Total Property, plant & equipment

| | Consolidated | |
|---|---|---|
| | 2017 | 2016 |
| | $ | $ |
| Total property, plant & equipment | 1,609,100 | 1,161,204 |
| Accumulated depreciation | (482,319) | (441,233) |
| **Total property, plant & equipment** | **1,126,781** | **719,971** |

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

| | Consolidated | |
|---|---|---|
| | 2017 | 2016 |
| | $ | $ |
| **Property, plant & equipment** | | |
| Balance at start of year | 719,971 | 1,676,172 |
| Additions | 778,782 | 336,821 |
| Disposals | (174,349) | (590,356) |
| Movement in carrying value as a result of foreign currency movements | 46,921 | (206,302) |
| Depreciation transferred to exploration & evaluation expenditure | (212,008) | (392,023) |
| Depreciation expense | (32,536) | (104,341) |
| **Balance at end of year** | **1,126,781** | **719,971** |

## 8. EXPLORATION AND EVALUATION ASSETS

**a) Expenditure carried forward in respect of ruby, diamond & graphite areas of interest**

| | Consolidated | |
|---|---|---|
| | **2017** | **2016** |
| | **$** | **$** |
| Exploration and evaluation - at cost | 30,581,065 | 28,107,516 |

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, diamond and graphite interests.

**b) Reconciliation:**

| | Consolidated | |
|---|---|---|
| | **2017** | **2016** |
| | **$** | **$** |
| Carrying amount at beginning of period | 28,107,516 | 21,307,109 |
| Movement in carrying value as a result of foreign currency movements | 841,601 | (293,152) |
| Additions – acquisition exploration and evaluation assets | 1,454,489 | 6,138,555 |
| Additions – capitalised exploration & evaluation costs | 8,020,527 | 3,513,926 |
| Depreciation of property, plant & equipment | 212,008 | 392,023 |
| Non-controlling interest | - | 1,833,334 |
| Write off capitalised exploration and evaluation expenditure | (8,055,076) | (4,784,279) |
| **Carrying amount at end of period** | **30,581,065** | **28,107,516** |

Mustang Resources completed no further work on its interest in Save River Diamonds 4525L and in reassessing this asset no longer considers it of strategic value in light of focused development of the Company's ruby assets. Some minor residual costs were incurred on the Balama Graphite license 6525L. Both Save River Diamonds 4525L and Balama Graphite license 6525L were fully impaired in 2017.

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

| | **Consolidated** | |
|---|---|---|
| | **2017** | **2016** |
| | **$** | **$** |
| Financial asset - current | 203,986 | 611,041 |
| | **203,986** | **611,041** |

**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. The initial fair value of Tranche A (including the initial lump sum payment) was calculated as $1,659,998.

Tranche B of the agreements completed on 2 March 2016 following shareholder approval of the issuance of capital. The initial fair value (including the initial lump sum payment) was calculated as $831,839.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2017

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 has 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 2016, no additional amounts would be receivable under the contract and the fair value of Tranche A and Tranche B has been determined to be $Nil under both the original contract terms and the renegotiated terms. 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 has been determined to be $Nil under both the original contract terms and the renegotiated terms. During the year ended 30 June 2017, the Company received variable payments of $358,674 under the Sharing Agreements for Tranche A, B and C.

A summary of movements in the balance for the year ended 30 June 2017 is summarised below.

| | Tranche A | Tranche B | Tranche C | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| **At 1 July 2015** | - | - | - | - |
| Initial recognition | 1,659,998 | 831,839 | 629,412 | **3,121,250** |
| Cash payments received | (442,362) | (375,000) | - | **(817,362)** |
| Changes in fair value | (1,217,636) | (456,839) | (18,371) | **(1,692,847)** |
| **At 30 June 2016** | **-** | **-** | **611,041** | **611,041** |

| | 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** |

A calculation of the sensitivity of this financial asset to changes in the Company's share price is included in Note 24(e).

## 10. FINANCIAL LIABILITIES

### a) Trade creditors

| | Consolidated | |
|---|---|---|
| | 2017 $ | 2016 $ |
| **Current** | | |
| Trade creditors | 1,548,201 | 820,487 |
| Other creditors | 461,014 | 401,739 |
| **Total** | **2,009,215** | **1,222,226** |

Aggregate amount payable to related parties included in the above:
Directors and director-related entities:
- director-related entity $278,461 (2016: $Nil).

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 | |
|---|---|---|
| | 2017 $ | 2016 $ |
| **Opening balance** | **-** | **-** |
| Issue of convertible notes | - | 642,500 |
| Conversion to shares | - | (642,500) |
| **Closing balance** | - | - |

## 11. PROVISIONS

| | Consolidated | |
|---|---|---|
| | 2017 $ | 2016 $ |
| **Current** | | |
| Employee benefits | 25,064 | 7,372 |
| | **25,064** | **7,372** |
| **Non-Current** | | |
| Restoration costs | 105,110 | 108,565 |
| | **105,110** | **108,565** |
| **Restoration** | | |
| Carrying amount at beginning of period | 108,565 | 105,185 |
| Foreign exchange movement on provision | (3,455) | 3,380 |
| **Carrying amount at end of period** | **105,110** | **108,565** |

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.

## 12. CONTRIBUTED EQUITY

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

| | Consolidated | |
|---|---|---|
| | 2017<br>$ | 2016<br>$ |
| Ordinary shares fully paid | 155,013,532 | 146,056,472 |

### Ordinary shares

Ordinary shares 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

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Number of Shares | $ | Number of Shares | $ |
| Balance at the beginning of the year | 298,749,913 | 146,056,472 | 90,679,097 | 129,920,396 |
| Conversion of convertible notes | - | - | 3,293,445 | 658,689 |
| Equity issued on settlement of acquisitions | 30,000,000 | 1,200,000 | 32,220,556 | 6,444,111 |
| Equity issued in lieu of payment | 1,003,905 | 45,138 | 15,544,315 | 2,189,622 |
| Equity issued for financial assets | - | - | 46,250,000 | 2,763,007 |
| Equity issued for cash | 235,864,618 | 8,606,423 | 107,637,500 | 4,305,500 |
| Equity issued on cancellation of cash performance rights | - | - | 3,125,000 | 625,000 |
| Less transaction costs | - | (894,501) | - | (849,853) |
| **Balance at the end of the year** | **565,618,436** | **155,013,532** | **298,749,913** | **146,056,472** |

## 13. LOSS PER SHARE

### Basic loss per share

The calculation of basic loss per share for the year ended 30 June 2017 was based on the loss attributable to ordinary shareholders of $11,229,405 (2016: $10,282,313) and a weighted average number of ordinary shares outstanding during the year ended 30 June 2017 was 406,102,141 (2016 123,474,776), calculated as follows:

| | Consolidated 2017 $ | Consolidated 2016 $ |
|---|---|---|
| **Weighted average number of ordinary shares** | | |
| Issued ordinary shares at 1 July | 298,749,913 | 90,679,097 |
| Effect of shares issued during the period | 107,352,228 | 32,795,679 |
| Weighted average number of ordinary shares at 30 June | 406,102,141 | 123,474,776 |
| Loss attributable to ordinary shareholders | (11,229,405) | (10,282,313) |
| **Loss per share (cents) overall** | **(2.77)** | **(8.33)** |

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

## 14. RESERVES

| | Consolidated | |
|---|---|---|
| | **2017** | **2016** |
| | **$** | **$** |
| Option reserve | 6,441,048 | 5,028,922 |
| Foreign exchange translation reserve | (456,600) | (1,116,191) |
| Performance rights reserve | 7,763,444 | 7,508,955 |
| **Balance at end of the year** | **13,747,892** | **11,421,686** |

### (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 | |
|---|---|---|
| | **2017** | **2016** |
| | **$** | **$** |
| Balance at the beginning of the year | 5,028,922 | 4,476,897 |
| Exercise of options | (72,850) | - |
| Issue of options | 1,484,976 | 552,205 |
| **Balance at end of the year** | **6,441,048** | **5,028,922** |

*(iii) Movements in options on issue*

| 2017 | Opening Number | Exercised / Lapsed | Closing Number | Exercise Price | Expiry Date | Fair Value at Grant Date $ |
|---|---|---|---|---|---|---|
| **Unquoted options** | | | | | | |
| Balance at the beginning of the year | 149,254 | - | 149,254 | $0.2412 | 10-Nov-17 | 107 |
| | 2,238,806 | 2,238,806 | - | $0.2100 | 22-May-17 | 1,302 |
| | 1,500,000 | 1,500,000 | - | $0.2000 | 01-Dec-16 | 560 |
| | 500,000 | 500,000 | - | $0.2000 | 31-Oct-16 | 167 |
| | 8,750,000 | 8,750,000 | - | $0.25 | 30-Jun-17 | 100,173 |
| | 8,000,000 | - | 8,000,000 | $0.15 | 14-Jun-19 | 74,527 |
| | 2,000,000 | - | 2,000,000 | $0.15 | 31-Dec-17 | 8,028 |
| | 1,000,000 | - | 1,000,000 | $0.06 | 31-Dec-17 | 9,688 |
| | 2,000,000 | - | 2,000,000 | $0.09 | 31-Dec-17 | 13,751 |
| | 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 | 7,500,000 | - | 7,500,000 | $0.06 | 4-Aug-19 | 121,711 |
| Issue of unquoted options to advisors for capital raising | 6,156,933 | 234,128 | 5,922,805 | $0.0273 | 25-Jan-20 | 286,938 |
| Issue of unquoted options to advisors for capital raising | 3,000,000 | - | 3,000,000 | $0.15 | 31-Mar-20 | 31,394 |
| Issue of unquoted options to advisors for capital raising | 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** | **94,712,884** | | | |
| **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 to | Unquoted options issued to | Unquoted options issued to | Unquoted options issued to | 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) date | 15 August 2016 | 24 January 2017 | 21 June 2017 | 21 June 2017 | 15 December 2016 |
| Expiry Date | 4 August 2019 | 25 January 2020 | 31 March 2020 | 31 March 2020 | 25 January 2020 |
| Vesting date | 15 August 2016 | 24 January 2017 | 21 June 2017 | 21 June 2017 | 24 January 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 |

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| 2016 | Number | Exercise Price | Expiry Date | Fair Value at Grant Date $ |
|---|---|---|---|---|
| **Unquoted options** | | | | |
| Balance at the beginning of the year | 149,254 | $0.2412 | 10-Nov-17 | 107 |
| | 2,238,806 | $0.2100 | 22-May-17 | 1,302 |
| | 1,500,000 | $0.2000 | 01-Dec-16 | 560 |
| | 500,000 | $0.2000 | 31-Oct-16 | 167 |
| Issue of unquoted options to Lanstead as part of funding agreement | 8,750,000 | $0.25 | 30-Jun-17 | 100,173 |
| Issue of unquoted options to advisors for capital raising | 8,000,000 | $0.15 | 21-Jun-19 | 74,527 |
| Issue of unquoted options to advisors for capital raising | 2,000,000 | $0.15 | 31-Dec-17 | 8,028 |
| Issue of unquoted options to advisors for capital raising | 1,000,000 | $0.06 | 31-Dec-17 | 9,688 |
| Issue of unquoted options to advisors for capital raising | 2,000,000 | $0.09 | 31-Dec-17 | 13,751 |
| Issue of unquoted options to advisors for capital raising | 19,000,000 | $0.075 | 21-Jun-19 | 253,041 |
| **Total unquoted options at the end of the year** | **45,138,060** | | | |
| **Quoted options** | | | | |
| Balance at the beginning of the year | - | - | - | |
| Issue of options | | | | |
| Issue of options by Options Prospectus[1] | 31,324,181 | $0.25 | 30-Jun-17 | |
| **Total quoted options at the end of the year** | **31,324,181** | | | |

1. The Company issued an Options Prospectus in November 2015 and in return for the issue of options it raised $151,131.

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 to | Unquoted options issued to | Unquoted options issued to |
|---|---|---|---|
| Number of Options | 8,750,000 | 8,000,000 | 2,000,000 |
| Exercise price ($) | 0.25 | 0.15 | 0.15 |
| Valuation (grant) date | 2 March 2016 | 22 June 2016 | 22 June 2016 |
| Expiry Date | 30 June 2017 | 21 June 2019 | 31 December 2017 |
| Vesting date | 2 March 2016 | 22 June 2016 | 22 June 2016 |
| Volatility (%) | 95.1 | 96.7 | 96.7 |
| Value per option | $0.0114 | $0.0093 | $0.0040 |

| Item | Unquoted options issued to | Unquoted options issued to | Unquoted options issued to |
|---|---|---|---|
| Number of Options | 1,000,000 | 2,000,000 | 19,000,000 |
| Exercise price ($) | 0.06 | 0.09 | 0.075 |
| Valuation (grant) date | 22 June 2016 | 22 June 2016 | 22 June 2016 |
| Expiry Date | 31 December 2017 | 31 December 2017 | 21 June 2019 |
| Vesting date | 22 June 2016 | 22 June 2016 | 22 June 2016 |
| Volatility (%) | 96.7 | 96.7 | 96.7 |
| Value per option | $0.0097 | $0.0069 | $0.0133 |

### (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 | |
|---|---|---|
| | **2017 $** | **2016 $** |
| Balance at the beginning of the year | (1,116,191) | 256,646 |
| Currency translation differences | 659,591 | (1,372,837) |
| **Balance at end of the year** | **(456,600)** | **(1,116,191)** |

### (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 | |
|---|---|---|
| | **2017 $** | **2016 $** |
| Balance at the beginning of the year | 7,508,955 | 7,508,955 |
| Amortisation of performance rights | 254,489 | - |
| **Balance at end of the year** | **7,763,444** | **7,508,955** |

| **2017** | **Number** | |
|---|---|---|
| **Unlisted performance rights** | # | |
| Balance at the beginning of the year | 14,000,000 | - |
| **Total unlisted performance rights** | **14,000,000** | **-** |

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2017

| 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 licences on or before 31 December 2019. |

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2017

## 15. CONSOLIDATED STATEMENT OF CASH FLOWS

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

| | Consolidated | |
|---|---|---|
| | 2017<br>$ | 2016<br>$ |
| **Net loss after tax for the period** | **(11,229,405)** | **(10,282,313)** |
| **Add/(less) non-cash items:** | | |
| Write off exploration & development assets | 8,055,076 | 4,784,279 |
| Accrued interest expense | (39,687) | - |
| Fair value loss on financial asset held at fair value through profit or loss | 170,092 | 1,692,847 |
| Share based payments | - | 700,697 |
| Shares issued in lieu of payment | 101,059 | 631,122 |
| Gain on cancellation of loan | - | (292,692) |
| Interest expense paid in shares | - | 16,189 |
| Foreign currency gains | (70,020) | (17,919) |
| Loss/(profit) on sale of assets | (23,962) | 108,130 |
| Depreciation | 32,536 | 104,341 |
| **Net cash used in operating activities before change in assets and liabilities** | **(3,004,311)** | **(2,555,319)** |
| Decrease in receivables | 102,459 | 118,642 |
| Decrease/(increase) in prepayments | (153,960) | 83,112 |
| Decrease/(increase) in other receivables | 5,088 | (4,074) |
| Increase/(decrease) in provisions | 14,237 | (20,840) |
| Increase/(decrease) in payables | 826,676 | (561,492) |
| **Net cash flow used in operating activities** | **(2,209,811)** | **(2,939,971)** |

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

| | | |
|---|---|---|
| **Cash balance comprises:** | | |
| ***Cash at bank*** | | |
| Held in AUD funds | 362,746 | 1,917,427 |
| Held in USD funds | 105,789 | 85,574 |
| Held in ZAR funds | 27,691 | 131,670 |
| Held in MZN funds | 13,943 | 38,658 |
| **Total cash and cash equivalents** | 510,169 | 2,173,329 |

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

| | Consolidated | |
|---|---|---|
| | **2017 $** | **2016 $** |
| Shares issued in settlement of interest on convertible notes | - | 25,168 |
| Shares issued on conversion of convertible notes | - | 642,500 |
| Shares issued on acquisition of exploration project | - | 6,444,111 |
| Options issued on acquisition of Ruby projects | 1,200,000 | - |
| Shares issued to Lanstead | - | 2,783,270 |
| Shares issued on cancellation of cash performance rights | - | 625,000 |
| Options issued to brokers in lieu of payment | 342,859 | 359,036 |
| Options issued to Lanstead | 121,711 | 27,037 |
| **Total** | **1,664,570** | **10,906,122** |

## 16. INTEREST IN EXPLORATION & PROSPECTING LICENCES

At 30 June 2017 the Group was a participant in the following exploration & prospecting licences:

| | Consolidated | |
|---|---|---|
| | **2017 Interest %** | **2016 Interest %** |
| **Diamond Licences** | | |
| 4525L Save River Diamond Project | 51.8% | 51.8% |
| **Graphite Licences** | | |
| 4661L Balama Graphite Project | 60.0% | 60.0% |
| 4662L Balama Graphite Project | 60.0% | 60.0% |
| 5873L Balama Graphite Project* | 60.0% | 75.0% |
| 6363L Balama Graphite Project | 90.0% | 75.0% |
| 6636L Balama Graphite Project | 75.0% | 75.0% |
| 6678L Caula Graphite Project | 80.0% | 80.0% |
| 7560L Balama Graphite Project | 95.0% | 95,0% |
| **Ruby Licences** | | |
| 4143L Montepuez Ruby Project | 60.0% | 60% |
| 4258L Montepuez Ruby Project** | 52.5% | 52.5% |
| 5030L Montepuez Ruby Project | 52.5% | 52.5% |
| 8245L Montepuez Ruby Project*** | 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 licences. The Company's shareholding in each of the licence-specific special purpose companies incorporated in Mozambique is shown in the table above.

The Company owns 75% of Montepuez Minerals Pty Ltd. The Company is a party to the agreements with existing licence holders covering the four licences. The Company's net shareholding (accounting for local Mozambican joint venture shareholders) in each of the licence-specific special purpose companies incorporated in Mozambique is shown in the above table.

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

**4258L: Montepuez Minerals Pty Ltd has a call option to acquire an additional 10% in 4258L Mozambican SPV upon conclusion of the bulk sampling program for US$1 million.

***8245L: On 6 June 2017 the Company concluded the acquisition of a 65% interest in ruby licence 8245L.

## 17. COMMITMENTS

Exploration and Evaluation Commitments

| | Consolidated | |
|---|---|---|
| | 2017<br>$ | 2016<br>$ |
| Less than one year | - | - |
| Between one and five years [1] | 4,206,299 | 2,015,885 |
| More than five years | - | - |
| **Total** | **4,206,299** | **2,015,885** |

1) As part of the acquisition of Montepuez Minerals Pty Ltd, the Company assumed contingent acquisition payments for licence 5030L to the local partner of US$750,000 6 months after bulk sampling startup and US$750,000 12 months after bulk sampling startup. Payment is contingent on the licence being transferred to Mozambican SPV (In process) and the time period only starts upon bulk sampling activities starting on the particular licence area (current bulk sampling focused on deposit on licence 4143L, bulk sampling has not started on 5030L). As part of the acquisition of a 65% interest in ruby licence 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 licence 8245L. Bulk sampling on licence 8245L started in July 2017.

Non-cancellable lease rentals are payable as follows:

| | Consolidated | |
|---|---|---|
| | 2017<br>$ | 2016<br>$ |
| Less than one year | 32,640 | - |
| Between one and five years | 9,858 | - |
| More than five years | - | - |
| **Total** | **42,498** | **-** |

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

## 18. CONTINGENT LIABILITIES

Other than those events disclosed in Note 17 there are no other contingent liabilities (2016: $Nil).

## 19. AUDITORS' REMUNERATION

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

| | Consolidated | |
|---|---|---|
| | 2017<br>$ | 2016<br>$ |
| **Audit or review of the financial reports of the company** | | |
| Audit Services - PricewaterhouseCoopers | 148,650 | 60,000 |
| Audit Services – Grant Thornton | - | 55,073 |
| **Total** | **148,650** | **115,073** |

## 20. KEY MANAGEMENT PERSONNEL REMUNERATION

### Directors and Executives

| | Consolidated | |
|---|---|---|
| | 2017 $ | 2016 $ |
| **DISCLOSURES** | | |
| Short term | 353,750 | 567,438 |
| Additional fees paid to non-executive directors | 15,000 | 17,500 |
| Share based payment options | - | 749,058 |
| Post-employment | 27,550 | 32,481 |
| **Total** | **396,300** | **1,366,477** |

### 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.

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.

In addition, the Company acquired a 65% interest in ruby licence 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 | 2017 $ | 2016 $ |
|---|---|---|
| **Directors & Executives** | | |
| Mr I Daymond | - | 2,456 |
| Mr C Jordaan | 265,548 (i) | 337,640 |
| Mr C van Wyk | 265,548 (i) | 302,564 |
| Mr P Spiers (appointed 23 May 2017) | - | - |
| Mr F Petruzzelli (resigned 21 Nov 2016) | - | 171,558 |

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

## 21. SHARE BASED PAYMENTS

### (a) Recognised share based payments

| | Consolidated | |
|---|---|---|
| | 2017 $ | 2016 $ |
| Shares issued in consideration for cancellation of cash performance rights | - | 625,000 |
| Shares issued on acquisition of Ruby & Graphite projects | - | 6,444,111 |
| Shares issued to settle outstanding directors fees and services | - | 569,122 |
| Shares issued to settle various professional services | - | 138,175 |
| Shares issued on acquisition of Ruby licence 8245L | 1,200,000 | - |

**(b) 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 2016**

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:

| Quoted Options | | | | |
|---|---|---|---|---|
| **Name** | **Amount** | **Expiry Date** | **Exercise Price** | **Vested / Unvested** |
| **Pursuant to Sharing Agreement Facility** | | | | |
| Lanstead Capital LP | 4,500,000 | 30-Jun-2017 | $0.25 | Vested |
| **Pursuant to acquisition and capital raising** | | | | |
| Various unrelated investors - option prospectus | 26,824,181 | 30-Jun-2017 | $0.25 | Vested |

| Unquoted Options | | | | | |
|---|---|---|---|---|---|
| **Name** | **Amount** | **Expiry Date** | **Exercise Price** | **Vested / Unvested** | **Fair Value at Grant Date $** |
| **Pursuant to Sharing Agreement Facility** | | | | | |
| Lanstead Capital LP | 8,750,000 | 30-Jun-2017 | $0.25 | Vested | 100,173 |
| **Pursuant to acquisition and capital raising** | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Zenix Nominees Pty Ltd | 6,000,000 | 21-Jun-2019 | $0.15 | Vested | 55,800 |
| MAPD Nominees Pty Ltd | 2,000,000 | 21-Jun-2019 | $0.15 | Vested | 18,600 |
| HFI Limited | 2,000,000 | 31-Dec-2017 | $0.15 | Vested | 8,000 |
| HFI Limited | 1,000,000 | 31-Dec-2017 | $0.06 | Vested | 9,700 |
| HFI Limited | 2,000,000 | 31-Dec-2017 | $0.09 | Vested | 13,800 |
| Zenix Nominees Pty Ltd | 14,000,000 | 21-Jun-2019 | $0.075 | Vested | 186,200 |
| MAPD Nominees Pty Ltd | 5,000,000 | 21-Jun-2019 | $0.075 | Vested | 66,500 |
| | | | | | |

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

### (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:

| | 2017 No. | 2017 WAEP | 2016 No. | 2016 WAEP |
|---|---|---|---|---|
| Outstanding at the beginning of the year | 76,462,241 | 0.184 | 4,388,060 | 0.207 |
| Granted during the period | 86,356,933 | 0.0463 | 72,074,181 | 0.173 |
| Exercised during the period | (4,996,033) | - | - | - |
| Expired during the period | (44,312,987) | - | - | - |
| **Outstanding at the end of the year** | **113.510,154** | **0.062** | **76,462,241** | **0.184** |
| **Exercisable at the end of the year** | **113,510,154** | **0.062** | **76,462,241** | **0.184** |

### (d) Weighted average remaining contractual life

The weighted average remaining contractual life for the share options outstanding as at 30 June 2017 is 2.31 years (2016: 1.67 years).

### (e) Range of exercise prices

The range of exercise prices for options outstanding at the end of the year was $0.0273 to $0.15. The exercise price of options outstanding at the end of the previous year was $0.20 to $0.2412 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 $0.062 (2016: $0.184).

### (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 14.

## 22. SUBSEQUENT EVENTS

On 20 July 2017 the Company announced that it had secured an $8.5m Convertible Note funding package from Arena Investors LLP, a major US institutional investor. Funds can be drawn down in four tranches with the first tranche of $1,700,000 (subject to conversion restrictions) received by the Company on signing the convertible note deed on the 24 July 2017 and the second and third tranches of $1,700,000 and $2,550,000 respectively received on the 12 September 2017. The balance will be available in one final draw-down of $2,550,000 over 18 months, subject to shareholder approval, which was granted on 1 September 2017.

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.

On 8 September 2017 Arena Investors LLP issued a conversion notice and converted $550,000 of the first convertible note to 11,270,491 fully paid ordinary shares in the Company.

On 15 September 2017 Arena Investors LLP issued a conversion notice and converted $1,400,000 of the first convertible note to 28,688,524 fully paid ordinary shares in the Company.

On 19 September 2017 Arena Investors LLP issued a conversion notice and converted the final $50,000 of the first convertible note and $700,000 of the second convertible note to 15,243,902 fully paid ordinary shares in the Company.

On 27 September 2017 Arena Investors LLP issued a conversion notice and converted $500,000 of the second convertible note to 8,237,232 fully paid ordinary shares in the Company.

On 16 August 2017 the Company announced that its maiden ruby auction/tender is scheduled for 27 to 30 October 2017 in Port Louis, Mauritius.

On 26 September 2017 the Company announced that a small safe of low quality rubies has been stolen along with some portable office equipment. All the items stolen (including the rubies which totalled approximately 19,000 carats) are adequately covered by insurance.

The small portion of rubies stolen were mostly earmarked for auctions to be held after the maiden tender, which will be held over four days from Friday 27 October to Monday 30 October in Port Louis, Mauritius. Despite the theft, the Company's ruby inventory remains comfortably on track to exceed 300,000 carats by the time of the maiden tender next month. None of the larger safes containing a limited number of higher-value rubies were broken into. The Company has a proactive approach of removing stones from site as soon as possible which ensures the vast majority of inventory is located offshore. The larger portion of the ruby inventory is stored in the Company's safe house with minimal quantities left at the mine site at any given time, reducing the security risk.

Tragically, during the incident one of Company's security guards on site died. The Company is working with the local communities, police and the Government to assist in the investigation of this crime. Security at the mine site has been strengthened further since the incident, absolutely prioritising safety for the Company's staff and security for the rubies.

## 23. 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.

## 24. 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 $ |
|---|---|---|---|---|---|
| **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

| Consolidated | Weighted Average Interest rate | Fixed Interest Rate $ | Floating Interest Rate $ | Non-Interest Bearing $ | Total $ |
|---|---|---|---|---|---|
| **2016** | | | | | |
| ***Financial assets*** | | | | | |
| Cash assets * | 1.2% | - | 2,173,329 | - | 2,173,329 |
| Trade and other receivables – current * | - | - | - | 769,094 | 769,094 |
| Security deposits * | 0.5% | - | 5,088 | - | 5,088 |
| | | | **2,178,417** | **769,094** | **2,947,511** |
| ***Financial liabilities*** | | | | | |
| Trade and other payables – current* | - | - | - | 1,222,226 | 1,222,226 |
| | | | **-** | **1,222,226** | **1,222,226** |

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

| Consolidated<br>30 June 2016 | | | | | | |
|---|---|---|---|---|---|---|
| | Carrying amount<br>$ | Contractual cash flows<br>$ | <3 months<br>$ | | | |
| Trade and other payables | 1,222,226 | 1,222,226 | 1,222,226 | - | - | - |
| | **1,222,226** | **1,222,226** | **1,222,226** | **-** | **-** | **-** |

### (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<br>2017 | Financial Assets held at fair value<br>2017 | Profit and Loss<br>2016 | Financial Assets held at fair value<br>2016 |
| Financial assets held at fair value | +0.02 | 127,190 | 127,190 | 308,702 | 308,702 |
| | -0.02 | (120,727) | (120,727) | (293,381) | (293,381) |

*Change in Company share price compared to the 30 June 2017 VWAP of $0.0829

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).

*Available for sale financial assets*

The available 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.

## 25. 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:

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

| 2016 | Africa | Other | Total |
|---|---|---|---|
| | $ | $ | $ |
| Sales revenue | - | - | - |
| Non-current assets | 26,999,641 | - | 26,999,641 |

Other includes Australia, South African and USA.

## 26. PARENT ENTITY INFORMATION

As at, and throughout, the financial year ended 30 June 2017, the parent entity of the Group was Mustang Resources Limited.

| | Parent | |
|---|---|---|
| | **2017** | **2016** |
| | **$** | **$** |
| **Result of the parent entity** | | |
| Loss of the parent entity | (17,541,737) | (11,246,212) |
| **Total comprehensive income of the parent entity** | **(17,541,737)** | **(11,246,212)** |
| **Financial position of the parent entity at year end** | | |
| Current assets | 789,441 | 2,596,374 |
| Non-current assets | 20,493,681 | 25,627,135 |
| **Total assets** | **21,283,122** | **28,223,509** |
| Current liabilities | 777,962 | 801,965 |
| Non-current liabilities | - | - |
| **Total liabilities** | **777,962** | **801,965** |
| **Net assets** | **20,505,160** | **27,421,544** |
| Contributed equity | 155,013,532 | 146,054,615 |

| | | |
|---|---|---|
| Accumulated losses | (148,712,865) | (131,171,128) |
| Option reserve | 6,441,048 | 5,029,102 |
| Performance share reserve | 7,763,445 | 7,508,955 |
| **Total shareholders' equity** | **20,505,160** | **27,421,544** |

# *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 2017 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 2017
- 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
- 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.

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## *Material uncertainty related to going concern*

We draw attention to Note 1(b) in the financial report, which indicates that Group incurred a net loss after tax of $11,229,405 and had net operating cash outflows of $2,209,811 for the year ended 30 June 2017. As a result, the continuing viability of the Group is dependent upon the successful sale of rubies in October 2017 and raising additional funding to meet ongoing expenditure and existing commitments. This condition, 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.

The Group is an emerging gemstone miner with exploration and evaluation assets in Mozambique.


***Materiality***

- For the purpose of our audit we used overall Group materiality of $329,000, 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.

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* |
| --- | --- |
| ***Impairment assessment for capitalised exploration and evaluation assets***<br>*(Refer to note 8) $30.6 million*<br><br>As at 30 June 2017, the Group held capitalised exploration and evaluation assets of $30.6 million.<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, such as whether the mineral resources may be economically viable to mine in the future. | We performed the following audit procedures, amongst others, to identify potential indications of impairment:<br><br>• Considered 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><br>• Enquired of management as to whether there were any licences that had been relinquished.<br><br>• Tested whether the Group retained right of tenure for its exploration licence areas by obtaining licence status records maintained by the relevant government authority in the country in which the licence was issued. |

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| 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 2017 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. | • 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>• Considered other available information, such as press releases made by the Group with the results of exploration campaigns.<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 Chairman's Letter, Directors' Report and the ASX Additional Information included in the Group's annual report for the year ended 30 June 2017 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 14 to 20 of the directors' report for the year ended 30 June 2017.

In our opinion, the remuneration report of Mustang Resources Limited for the year ended 30 June 2017 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

Craig Heatley
Partner

Perth
29 September 2017

## 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 14 September 2017

| | |
|---|---|
| Mr Cobus van Wyk & Mr Christiaan Jordaan (Regius Resources Group Ltd) | 10.21% |

### CLASS OF SHARES AND VOTING RIGHTS

At 14 September 2017 there were 2,632 holders of 584,895,547 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 14 September 2017)

| Range | Total Holders | Units | % Issued Capital |
|---:|---:|---:|---:|
| 1 - 1,000 | 401 | 60,249 | 0.01% |
| 1,001 - 5,000 | 62 | 168,510 | 0.03% |
| 5,001 - 10,000 | 198 | 1,629,350 | 0.28% |
| 10,001 - 100,000 | 1,175 | 52,003,006 | 8.89% |
| 100,001 - Over | 796 | 531,034,432 | 90.79% |
| **Total** | **2,632** | **584,895,547** | **100.00%** |

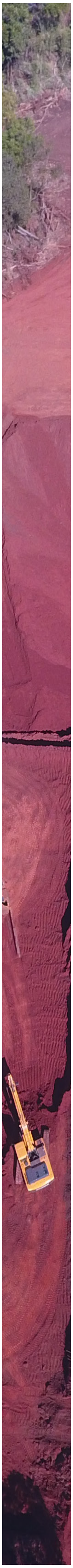
There were 473 shareholders holding less than a marketable parcel at 14 September 2017.

### DISTRIBUTION OF LISTED OPTION HOLDERS (as at 14 September 2017)

| Range | Total Holders | Units | % Issued Capital |
|---:|---:|---:|---:|
| 1 - 1,000 | 1 | 565 | 0.00% |
| 1,001 - 5,000 | 0 | 0 | 0.00% |
| 5,001 - 10,000 | 3 | 27,314 | 0.04% |
| 10,001 - 100,000 | 52 | 2,807,340 | 4.53% |
| 100,001 - Over | 85 | 59,102,876 | 95.42% |
| **Total** | **141** | **61,938,095** | **100.00%** |

There was 1 listed option holder holding less than a marketable parcel at 14 September 2017.

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



**Cash usage**

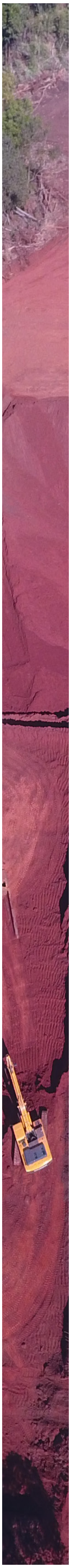
Since the time of listing on ASX, the entity has used its cash resources and assets in a form readily converted to cash that it had at the time of admission to the official list of ASX in a manner which is consistent with its business objectives.

**TWENTY LARGEST SHAREHOLDERS (as at 14 September 2017)**

| | Name of Ordinary Shareholder | Number of Shares Held | Percentage of Shares Held |
|---|---|---|---|
| 1 | Regius Resources Group Ltd | 53,374,028 | 9.13% |
| 2 | Bnp Paribas Nominees Pty Ltd <Global Prime Omni Drp> | 27,479,307 | 4.70% |
| 3 | Mr Navinderjeet Singh | 15,100,000 | 2.58% |
| 4 | Citicorp Nominees Pty Limited | 14,632,942 | 2.50% |
| 5 | Mr Chris Manos + Mrs Pavlina Manos | 10,400,000 | 1.78% |
| 6 | Andium Pty Ltd | 9,090,910 | 1.55% |
| 7 | Willow Bend Station Pty Ltd | 8,835,000 | 1.51% |
| 8 | Andium Pty Ltd | 8,805,630 | 1.51% |
| 9 | HSBC Custody Nominees (Australia) Limited | 8,620,014 | 1.47% |
| 10 | J P Morgan Nominees Australia Limited | 7,443,919 | 1.27% |
| 11 | Elba Investments Pty Ltd <Elba A/C> | 7,300,000 | 1.25% |
| 12 | Regius Resources Group Ltd | 6,351,280 | 1.09% |
| 13 | Comsec Nominees Pty Limited | 5,136,728 | 0.88% |
| 14 | Nordco Australia Pty Ltd | 4,000,000 | 0.68% |
| 15 | Dr Daniel Tillett | 3,773,370 | 0.65% |
| 16 | Ms Maree Jaqui Makrillos | 3,439,234 | 0.59% |
| 17 | Mr Pierre Christian D'argent | 6,351,280 | 1.96% |
| 18 | Mr William Henry Fletcher | 6,163,195 | 1.90% |
| 19 | Cortrev Pty Limited | 3,000,000 | 0.51% |
| 20 | Going Again Pty Ltd <Persevere SMSF A/C> | 3,000,000 | 0.51% |
| | | **206,628,044** | **35.27%** |

**TWENTY LARGEST LISTED OPTION HOLDERS (as at 14 September 2017)**

| | Name of Listed Option Holder | Number of Options Held | Percentage of Options Held |
|---|---|---|---|
| 1 | Andium Pty Ltd | 11,904,763 | 19.22% |
| 2 | Mr Cheng Tong Lei | 3,973,217 | 6.41% |
| 3 | Merrill Lynch (Australia) Nominees Pty Limited <Mlpro A/C> | 2,543,334 | 4.11% |
| 4 | Mr Paul Andrew Armstrong | 2,380,952 | 3.84% |
| 5 | Trevena Enterprises Pty Ltd <Trevena Super Fund A/C> | 2,205,962 | 3.56% |
| 6 | CS Third Nominees Pty Limited <HSBC Cust Nom Au Ltd 13 A/C> | 2,181,886 | 3.52% |
| 7 | A & R Assets Pty Ltd | 1,904,762 | 3.08% |
| 8 | Mr Mahon Terence Newton Jones | 1,495,300 | 2.41% |
| 9 | Mr Robert James McQueen | 1,324,500 | 2.41% |
| 10 | Mr Graeme Kenneth Perkes | 1,250,000 | 2.02% |
| 11 | Mr Edward David Powlett | 1,203,750 | 1.94% |
| 12 | Mr Simon William Tritton <Investment A/C> | 1,055,000 | 1.70% |
| 13 | Mr Sam Sammut & Mrs Lynette Ruby Sammut <Rama S/F A/C> | 1,030,000 | 1.66% |
| 14 | Ms Anne Maree Ryan | 1,000,000 | 1.61% |
| 15 | P G Howarth Pty Ltd | 1,000,000 | 1.61% |
| 16 | Mr Gregory Francis Ryan + Mrs Carolyn Jane Ryan <The Ryan Family S/F A/C> | 1,000,000 | 1.61% |
| 17 | Mr Innes Robert Pearce | 950,000 | 1.53% |
| 18 | Bws Pty Ltd | 750,000 | 1.21% |
| 19 | Mrs Maxene Norah Simmons + Mr Rick Wayne Simmons | 750,000 | 1.21% |
| 20 | Willow Bend Station Pty Ltd | 750,000 | 1.21% |
| | | **40,653,426** | **65.64%** |

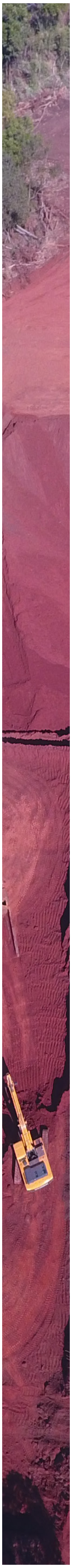


**Unlisted Options**

| Number Issued | Exercise Price | Expiry Date | Number of Holders | Holders in excess of 20% |
|---|---|---|---|---|
| 2,000,000 | $0.09 | 31/12/2017 | 1 | Mr Simon William Tritton <Investment A/C> |
| 2,000,000 | $0.15 | 31/12/2017 | 1 | Mr Simon William Tritton <Investment A/C> |
| 7,500,000 | $0.06 | 04/08/2019 | 1 | Lanstead Capital LP |
| 2,432,572 | $0.0273 | 25/01/2020 | 1 | Jett Capital Advisors |
| 468,468 | $0.0273 | 25/01/2020 | 1 | Slipline Pty Ltd <Warrell Investment A/C> |
| 312,312 | $0.0273 | 25/01/2020 | 1 | Mrs Margot Brandenburg <Brandenburg Investment A/C> |
| 103,719 | $0.0273 | 25/01/2020 | 1 | Mr Simon William Tritton <Investment A/C> |
| 99,330 | $0.0273 | 25/01/2020 | 1 | Mr Thomas Conn |
| 82,698 | $0.0273 | 25/01/2020 | 1 | Paradigm Securities Pty Ltd |
| 69,300 | $0.0273 | 25/01/2020 | 1 | Mr Philip John Cawood |
| 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 |
| 2,181,818 | $0.0715 | 20/07/2020 | 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 |
| 149,253 | $0.2412 | 10/11/2017 | 1 | The Australian Special Opportunities Fund LP |
| 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 |
| 5,000,000 | $0.075 | 21/06/2019 | 1 | MAPD Nominees Pty Ltd |
| 1,000,000 | $0.06 | 31/12/2017 | 1 | Mr William Tritton <Investment A/C> |

**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 2017 Corporate Governance Statement has been released as a separate document and is located on our website.

## Tenement Summary

| Tenement | Interest | Effective Net Interest |
|---|---|---|
| **Save River Diamonds Project** | | |
| 4525L | 51.8% | 51.8% |
| 4969L | 0% | 0% |
| | | |
| **Balama Graphite Project** | | |
| 4661L – JV with licence holder | 60% | 60% |
| 4662L – JV with licence holder | 60% | 60% |
| 5873L – JV with licence holder | 75% | 75% |
| 6527L – JV with licence holder | 75% | 75% |
| 6636L – JV with licence holder | 75% | 75% |
| 6678L – JV with licence holder | 80% | 80% |
| | | |
| **Ruby Licences** | | |
| 4143L Montepuez Ruby Project | 60.0% | 60.0% |
| 4258L Montepuez Ruby Project | 52.5% | 52.5% |
| 5030L Montepuez Ruby Project | 52.5% | 52.5% |
| 8245L Montepuez Ruby Project unincorporated JV | 65% | 0% |