



ASX/Media Release – 18 December 2017

## Corporate and Operations Update

### Focus on Reducing Costs and High-Grade Production

- **Re-Organisation of Board and Senior Management.**
- **Cost cutting overhead and operational costs both in Australia and in Brazil**
- **Focus on high grade gold production.**
- **Completion of \$1.8m Capital Raise to existing and new sophisticated investors.**
- **Performance Rights to be issued to Directors and Senior Management in lieu of directors fees and salaries**

Orinoco Gold Limited (ASX: OGX) (**Orinoco** or the **Company**) is pleased to announce a re-organization of its board and management, cost cutting of its non-mining overhead and a focus back on high grade gold production. The last 12 months have been difficult for Orinoco and its shareholders and the Board is confident this 'Back to Basics' route will show that the Cascavel mine can live up to its initial hopes of becoming one of Latin America's highest grading gold mines.

#### **Board and Management changes**

Brian Thomas (Non-Executive Chairman) and Jonathon Challis (Non-Executive Director) have stepped down. Orinoco would like to thank outgoing Chairman Brian Thomas for his leadership in this difficult transitional phase of the Cascavel commissioning. The Company would also like to acknowledge that Craig Dawson's (Chief Executive Officer) contract has been terminated by the company.

Incoming Managing Director Jeremy Gray will replace Jonathan Challis as an Orinoco board member. The Board would like to thank Mr Challis for his contribution over the last three years. Orinoco's second largest shareholder Joseph Pinto has been appointed interim Non-Executive Chairman.

Mr Richard Crew has been appointed as Chief Operating Officer (COO) and is based in Brazil at Cascavel.

#### **Operational update**

Encouraging results have been returned from milling of eleven one tonne samples recovered through low dilution mining of the reef with grades of between 30 to 149 g/t processed using a pilot hammer mill. A larger 25-30 tonne per hour hammer mill is expected to be commissioned before the end of this year to process the high-grade ore generated from low dilution mining of the Cascavel orebody.

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#### **ASX Code**

**OGX**  
(Ordinary Shares)  
**OGXOC & OGXOD**  
(Listed Options)

#### **Issued Capital**

783,295,119 Ordinary Shares  
254,041,676 Options

Interim Chairman Joseph Pinto commented "This 'Back to Basics' approach is an important step in realising Cascavel's true potential. With the support of Orinoco's largest shareholder AngloGold Ashanti and its many loyal shareholders, Orinoco appears to be on track for profitable low-cost growth. These changes were desperately needed to re-focus the company back onto its 100% owned high-grade gold mine at Cascavel".

### Back to Basics

Whilst the potential of Cascavel has always been exciting, the delivery of ounces has been elusive. Numerous independent experts have visited site over the last 12 months attempting to crack the code as to why visible high grades in the Mestre and Central zones have been unable to translate into low cost ounces. In hindsight, OGX's new management team believes it has been a combination of excessive dilution during mining together with low recoveries from its imported gravity recovery plant that has continued to struggle to recover the fine grade gold component of the ore. Credit here must go to our Mining Manager at Cascavel Mr Richard Crew who started running trials to test different theories to try and find a solution. It appears that he and his team may have found an answer to the problem with gold recoveries at Cascavel. The Company is delighted to promote Mr Crew to COO and to also place him on an incentive package, based on key milestones that form part of the Company's new performance rights scheme.

As part of our 'Back to Basics' approach management is returning to more traditional routes to mill its ore. Tests between the dates of 21/11/17 and 13/12/17 through a small 200kg per hour pilot hammer mill have shown that recovery and grade can dramatically improve when it is not sent to the gravity recovery plant. To date this small hammer mill is achieving recoveries of over 90% and grades ranging between 30-149 grams per tonne of gold (Dore) from eleven one tonne samples taken from eleven different parts of the mine reef as detailed in Table 1. The photo of the 149 grams per tonne sample illustrated in Figure 1, the photo was taken on the 11<sup>th</sup> of December using the pilot hammer mill.

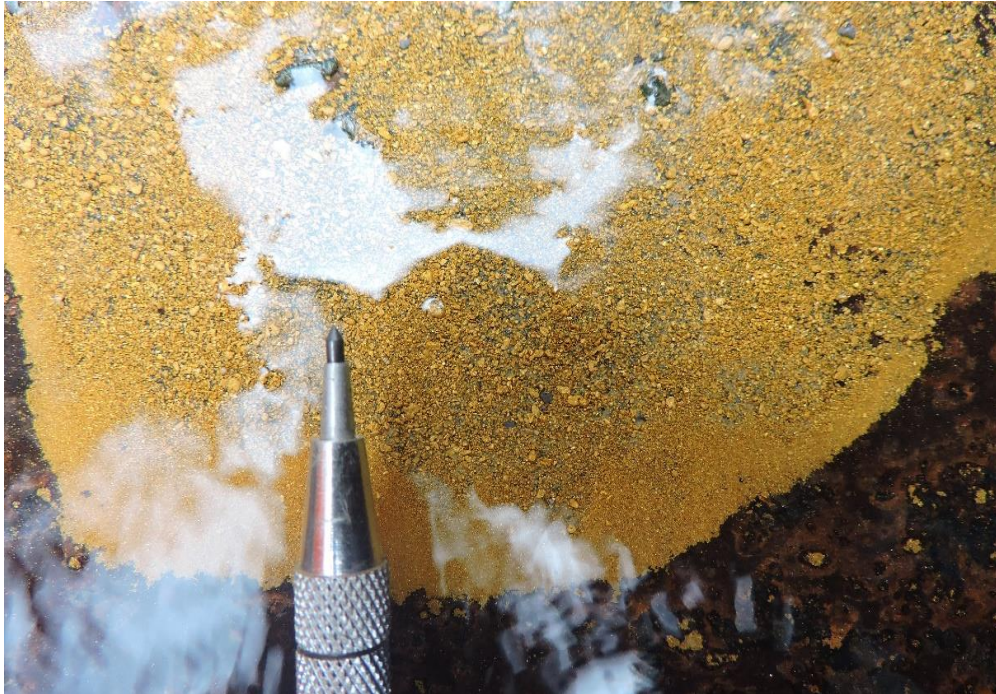


Figure 1. 149.09 grams Au

This compares with the existing imported gravity plant that has been achieving recoveries of 73%-80% and an average head grade of only 1.6-2.1 grams per tonne. In hindsight, blending the high-grade ore with lower grade development and stope ore has proven unsuccessful with the gravity mill and a decision to continue to run the gravity plant with two full shifts with recoveries of only 1.5-2.1 grams per tonne was proving to be uneconomic.

Refer to the ASX release on the 8<sup>th</sup> of December for the Operations Update detailing production for August to November using the gravity mill.

**Table 1 Hammer mill tests**

Date	21/11/17	22/11/17	23/11/17	24/11/17	29/11/17	30/11/17	1/12/17	4/12/17	11/12/17	12/12/17	13/12/17	Totals
Location	RC	MD	MS4	RC2F	RCS1	RC4S	MLO	ML1	ML4S	RC3F	ML4N	
Tonnes processed	0,75	1	1	1	1	1	1	1	1	1	1	<b>10,75</b>
Au (Dore) recovered Grams	30,33	41,06	43,00	33,21	40,08	33,24	42,73	39,37	149,09	38,26	91,02	<b>581,39</b>
Au (Dore) recovered oz's	0,98	1,32	1,38	1,07	1,29	1,07	1,37	1,27	4,79	1,23	2,93	<b>18,69</b>

In summary the total of 10.72 tonnes processed recovered 581.39 grams using the pilot hammer mill with an average grade of 54 g/t. These are very encouraging results and support our 'Back to Basics' approach and focus back on Cascavel.

Due to the success of this small pilot plant management is in the process of acquiring a larger 25-30 tonne per hour hammer mill for a cost of less than AU\$25,000 (Figure 2). We expect this mill will arrive on site next week and be commissioned the week after. Should the results of the larger mill confirm similar outcomes as the pilot plant's results, management plan to purchase a second similar sized hammer mill in January. The payback on the initial investment is expected to be less than one week should grades be similar to Table 1.



**Figure 2. Brazilian made 25-30tph hammer mill**

Although it is still too early to determine if a much larger hammer mill will show similar recoveries as the 200kg per hour pilot plant, the success of these mills in Brazil, suggests that results should still be better than that of the current gravity plant configuration. The mill will batch different ore types providing management with a better understanding of the different grades in the different reefs, stope ore, development ore and the tailings that will be re-processed if economically viable.

Management will review the gravity plant design over the coming months particularly when the final military licence for the onsite laboratory is granted (This is expected by late-January 2018), as this will allow the company to attach leaching tanks at the back end of the mill to recover most of the fine gold currently being lost by the gravity plant.

There are considerable tailings on site that management will consider reprocessing through the hammer mill. It is likely that a lot of gold went to tailings over the last 12 months, and more tests will be carried out.



## Incoming Managing Director

Jeremy Gray has been appointed as Managing Director of Orinoco and will replace Jonathan Challis on the board. Mr Gray commented "I am very excited about this opportunity and working closely with the Board, our team in Brazil and our largest shareholder AngloGold Ashanti. The potential for Cascavel is clear but we must show consistent results of low cost ounces to regain market confidence."

Mr Gray has been involved in mining for 23 years. He started his career at Credit Suisse in Melbourne in 1994 as a Mining Research Associate before moving to London to run the Mining Equity research team at Morgan Stanley. In 2001 he joined Sthenos Capital as a founding partner of a Hedge Fund with focus on Mining and Basic Materials trading. In 2005, Mr Gray returned to Credit Suisse in London to run the Mining team. In January 2009 he joined the world's largest cobalt producer at the time in DRC before it was acquired by ENRC in September 2009.

In 2010, Mr Gray joined Standard Chartered in Hong Kong to run the Mining team and in 2014 he became a founding partner of Chancery Asset Management in Singapore. For the last 3 years he has also worked as a Director of Cartesian Royalty Holdings in Singapore. Mr Gray sits on the boards of Axiom Mining and White Rock Minerals that both trade on the ASX. Mr Gray will be paid a salary of \$100,000 and Performance Rights (below), without a full-time contract or notice period.

## Placement

Orinoco has completed a \$1.8 million (before fees) placing with new and existing sophisticated investors at 2 cents with a 3-cent option with a 2-year expiry. These funds will bolster Orinoco's cash position to \$3.5 million

The raise provides the Company with important funds as it ramps up production of high grade ounces over the coming months and complies with the Cartesian Goldstream Agreement.

The issue of the securities is in accordance with Listing Rules 7.1 and 7.1A and does not require shareholder approval as follows:

7.1 Capacity: 90,000,000 Options and 26,785,276 shares.

7.1A Capacity: 63,214,724 shares.

## Remuneration and Performance Rights

As part of the cost cutting measures, the Board members will lead the way by no longer requiring payment in cash for their remuneration. Remuneration of the Board and the Management team in Perth and Brazil will be largely linked to the issue of performance rights (subject to ASX and shareholder approval) with 3 milestones of production:

- One third vesting when 1,000 ounces is achieved for 2 consecutive months from Cascavel for a total of greater than 2,000 ounces over the 2-month period.
- One third vesting when 1,500 ounces is achieved for 2 consecutive months from Cascavel for a total of greater than 3,000 ounces over the 2-month period.
- One third vesting when 2,000 ounces is achieved for 2 consecutive months from Cascavel for a total of greater than 4,000 ounces over the 2-month period.
- A further 5,000-ounce milestone per month has been set for Mr Richard Crew (COO).

All performance rights will have an escrow period from date of issue, with half of the shares issued on conversion of the rights being escrowed for 6 months and the remaining half will be subject to a 12 months escrow period.

The number of Performance rights to each director is as follows:

**Table 2: Director Performance Rights**

<b>Director</b>	<b>Performance rights</b>
Mr Joseph Pinto	10,000,000 <sup>1</sup>
Mr Terry Topping	5,000,000
Mr Nick Revell	5,000,000
Mr Helcio Guerra	5,000,000
Mr Andrew Allan	5,000,000
Mr Jeremy Gray	30,000,000
<b>Total</b>	<b>60,000,000</b>

<sup>1</sup>5,000,000 Performance rights will be issued as compensation for Mr Pinto’s role a Director and a further 5,000,00 Performance rights will be issued for the position of Chairman.

The Performance Rights will be issued as shares two months after each milestone is achieved. Should the recipient voluntarily leave Orinoco and pursue other opportunities, the unvested portion of those Performance Rights will be cancelled. The COO will be allocated a further incentive of an additional 10,000,000 Performance Rights if Cascavel is running at over 5,000 per month for 4 consecutive months for a combined total of 20,000 ounces over that 4-month period.

If Orinoco becomes a takeover target via a corporate transaction before all or any of the milestones have been achieved, then the recipients of the performance rights will receive 100% of their allocated Performance Rights within 7 days of the announced transaction.

### **Corporate Office**

The Perth office and its overhead will be downsized under the leadership of Chief Financial Officer Albert Longo and the focus will be on the ramp up of the Cascavel mine led by Mr Richard Crew, to achieve sustainable production for the group.

### **Summary**

Management is focused on turning the Cascavel operation around with the new direction being taken. With a focus on cost reductions and a streamlining of the board and management reporting lines, Orinoco will be leaner as it aims towards sustainable and profitable production in 2018. The company will begin regular monthly reporting of its output by tonnes, grade, recoveries and ounces once the larger hammer mill is installed and operational. Should this 'Back to basics' approach show results then management hope to open up new sources of ore feed in Cascavel and add a second and possibly third hammer mill next year to set Orinoco on an aggressive sustainable growth path.

**-ENDS-**

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**Forward-Looking Statements:**

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