



ASX/Media Release – 2 January 2019

# IMPROVING GOLD PRODUCTION, PLACEMENT AND LEADERSHIP RESTRUCTURE

## HIGHLIGHTS

- ~ 96 ounce gold sale completed in December
- Mestre Level 7 development within 10m of completion and access to high-grade mineralised material
- Independent metallurgical review completed indicating improved recoveries are achievable with placement of simple hammer mills in the existing gravity separation process
- Independent Metallurgist to return to Cascavel to oversee implementation of processing circuit upgrades
- Empire Capital Partners appointed as Lead Manager in respect of \$556,200 placement and \$2.5M Placement Facility
- \$556,200 placement completed at an issue price of \$0.007 per new share, together with one free attaching \$0.01 option for every new share issued (with the issue of the options subject to shareholder approval)
- A further \$470,000 of debts to related parties will be converted on the same terms as the placement subject to shareholder approval.
- Board and management restructure initiated with the appointment of Matthew O’Kane as Interim Executive Director and the resignation of Jeremy Gray (previously MD)
- Mr O’Kane to lead a comprehensive financial and operational review to optimise production and cash flows for 2019
- Independent Mining Engineer to be engaged to conduct a detailed review at site of mining operations with key focus on production and throughput

Orinoco Gold Limited (ASX: OGX) (Orinoco or the Company) is pleased to announce that mining over recent weeks has demonstrated the start of an operational turn-around at the Company’s wholly-owned Cascavel Gold Mine in Brazil, leading to successful completion of an approximately 96 ounce monthly gold sale. Furthermore, Orinoco has initiated a management restructure and commenced a comprehensive operational and financial review with the aim of quickly addressing the key issues to optimize production and cash flows for 2019. In addition, the Company completed a \$556,200 placement and entered into a \$2.5 million placement facility.

Newly appointed Interim Executive Director, Matthew O’Kane said *“The larger gold sale for December is an initial step in the right direction and its extremely helpful for the operational review to have information already coming in from independent review work.”*

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### ASX Code

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

### Issued Capital

1,190,902,538 Ordinary Shares  
225,072,116 Listed Options  
64,640,687 Unlisted Options  
91,800,000 Performance Rights  
947,540 Tranche B Convertible  
Notes

He then went on to say, *“Orinoco thanks Mr Gray for his service and the remaining directors and management will be very focused on developing the best plan for 2019 and putting the company on a stronger footing to execute such a plan.”*

## **IMPROVING GOLD PRODUCTION**

Cascavel Gold Mine began an operational turn-around in the month of December 2018. Such production led to a monthly gold sale of approximately 96 ounces, the highest sale since July 2018.

The completion of the final 10 metres of development mining at Mestre Level 7 will allow the commencement of mining of expected high-grade mineralisation from this level, providing additional material to the processing plant. In addition, high-grade mineralisation accessed from Mestre Level 6 in December will continue to provide high-grade plant feed during January, underpinning anticipated higher production. Mining throughput levels are then expected to be maintained going forward.

To assist site based staff, and also to provide recommendations to the Board, an independent mining engineer will be also be sent to site (see below under "Operational and Financial Review" for details).

## **LEADERSHIP RESTRUCTURE**

Having reflected in detail regarding the various operational issues of 2018, and also taking into account the concerns of stakeholders, Orinoco has committed to strengthening the composition of its board and management team to focus on the successful implementation of its production strategy and delivery of a near and longer-term mine plan.

The board has accepted the resignation of Mr Jeremy Gray as Managing Director of the Company, and recently appointed Director, Mr Matthew O’Kane has taken up the role of Interim Executive Director due to his relevant experience in driving turnaround strategies. As interim Executive Director Mr. O’Kane will receive annual compensation of \$A100,000 in addition to the proposed issue, subject to shareholder approval, of 5,000,000 performance rights as detailed in the announcement of his appointment to the Board on 12 December 2018.

The board expects continued evolution of the Orinoco leadership team in early 2019 to ensure the right mix of advanced operational and non-operational skills are available to the company and its projects.

## **OPERATIONAL AND FINANCIAL REVIEW**

A comprehensive operational and financial review, led by Mr O’Kane has been commenced with the aim to optimise Cascavel Gold Mine production and cash flow for 2019, and develop a sustainable longer-term plan for all projects.

As part of the review, an Independent Metallurgist, Mr Rob Riggir, has already attended Cascavel Gold Mine and furnished the company with his findings. The initial primary recommendation is to replace the vertical spindle impactor (**VSI**) in the processing plant with two hammer mills. While the VSI is capable of crushing material to very fine sizes, it is not well suited for use with damp or wet feed, such as the mineralised material at Cascavel. Based on testing conducted at site, Mr. Riggir estimates recoveries have the potential to increase to up to 80% from existing recoveries. As a result, Orinoco proposes to replace the VSI with two 25tph hammer mills (one already at site) to allow processing of up to 200 tonnes per day initially. It should be noted that, Mr Riggir's findings are based on an assumed gold head grade for plant feed material of 4.5g/t and a low proportion of fine gold in the material. Three (3) shifts/day and a six (6) day/week processing operation is planned to achieve these results on a continuous basis.

Further options to increase recoveries with the addition of a flotation circuit, plus a ball mill, can potentially generate

additional increases in recoveries. Tests on the amenability of a sample of mineralised material taken from site for flotation are currently underway in Perth. The results will dictate whether the Company implements these additional recovery options.

Regarding mining at Cascavel Gold Mine, productivity is expected to continue to improve from January / February with the addition of an Atlas Copco ST2G underground loader to the mining fleet, which will be purchased from the Placement proceeds (see below). Furthermore, the development of Mestre Level 7 continues and is now within 10 metres of completion. Once complete, Mestre Level 7 has the potential to provide increased availability of high-grade mineralised material.

To address past issues with mine productivity, Orinoco will be sending an experienced Independent Mining Engineer to Cascavel to assist local management with the development of a revised comprehensive mine plan. The aims of the independent review will be to: (a) address specific recurring issues; and (b) increase production to levels that have the potential to generate meaningful positive cash flows.

In coordination with the metallurgical and mining reviews, Orinoco is conducting a detailed financial review. The aim of the combined operational and financial review is to quickly come up with remedial actions that will lead to a greatly improved operating plan for 2019 and beyond. The Company is 100% focused on trying to achieve meaningful positive operational cash flow for the 2019 calendar year and believes such a target is reasonable based on the information at hand.

## PLACEMENT

Orinoco has appointed Empire Capital Partners (**Empire**) as Lead Manager of an \$556,200 placement at \$0.007 per share with a free attaching option with a 3-year term and \$0.001 strike price (**Placement**). The options will be subject to the receipt of approval of shareholders. Empire has received binding subscription agreements from sophisticated and professional investors for the Placement. A further \$470,000 of debt to related parties will be converted to equity on the same terms as the Placement subject to shareholder approval.

The Company has also entered into a separate agreement with Empire to secure a two-year \$2.5 million equity placement facility (**Facility**). The Facility has been obtained for use on a standby basis, to ensure the continuous funding of the Orinoco's ongoing project development, and in order to fast-track the Company's production and optimisation plans.

The board anticipates that funds from a drawdown of the Facility will be used for:

- a) capital expenditure at the Cascavel Gold Mine; and
- b) general corporate and working capital purposes

Under the Facility, the Company can determine whether or not it will issue a notice requesting a drawdown of the Facility (**Drawdown Notice**), and the amount requested under any Drawdown Notice (subject to having sufficient placement capacity under ASX Listing Rule 7.1). The Facility will be utilised only as and when required by the Company.

The key features of the Facility are summarized in Appendix 1.

## **MAGNA FACILITY**

On January 2nd, 2019, the Company also drew down the second tranche of convertible notes under the convertible note facility provided by MEF I, L.P. and announced to ASX on 31 August 2018. The Company elected to draw down \$US947,540, and these funds have been used to pay down existing debt of the Company. The convertible notes issued are convertible on the terms set out in the announcement on 31 August 2018 and in the notice of meeting released to ASX on 26 October 2018 and approved by Shareholders at the general meeting on 29 November 2018.

## Appendix 1

The key features of the Facility are summarized as follows

- (a) the institutional investor (Subscriber) has agreed, when requested by the Company under a valid Drawdown Notice, to subscribe for fully paid ordinary shares in the capital of the Company (Shares) up to a maximum value of \$2.5 million;
- (b) the Facility is available to the Company for a term of 24 months from the date of execution of a formal agreement;
- (c) the Company is at liberty to request a Drawdown in its discretion in accordance with the Facility Agreement and may only do so where it has capacity under the ASX Listing Rules or prior shareholder approval to enable it to issue shares for each drawdown;
- (d) in exchange for a Drawdown, the Company will issue the Subscriber Shares at a price equal to 90% of the volume weighted average price of Shares traded on ASX in the 15 trading day period immediately following request for a Drawdown by the Company (**Pricing Period**);
- (e) where on a trading day during a Pricing Period:
  - i. 90% of the closing price of Shares is less than \$0.005 (**Threshold Price**);
  - ii. trading in Shares is suspended or halted;
  - iii. the number of Shares traded is less than 25% of the average daily number of Shares traded during the number of trading days specified in the Drawdown Notice;
  - iv. an event occurs which has, or in the Subscriber's opinion, is likely to have, a material adverse effect;the Subscriber may elect to subscribe for 10% less Shares than that number of Shares prescribed by a Drawdown Notice;
- (f) the Subscriber may decline to subscribe for the Shares the subject of a Drawdown Notice if the price of Shares falls below the Threshold Price;
- (g) the Company may terminate the Facility:
  - i. if the price of Shares falls below the Threshold Price; or
  - ii. without cause, by giving written notice and payment of a \$25,000 cancellation fee to the Subscriber; and
- (h) upon execution of the formal agreement, the Company will issue to the Subscriber:
  - i. 31,250,000 Shares (Collateral Shares) in exchange for agreement by the Subscriber to pay the Collateral Payment described below; and
  - ii. 7,812,500 Shares as a commitment fee.
- (i) Within 5 business days of termination of the Facility Agreement, the Subscriber will offer to pay the Company that amount which is equal to the number of Collateral Shares multiplied by 85% of the lowest closing price of Shares (selected by the Subscriber in its discretion) during the period commencing on the date of termination of the Facility (Termination Date), and that date which is 90 days immediately following the Termination Date (Collateral Payment).

-ENDS-

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**Competent Person Statement:**

*The information in this announcement that relates to Exploration Results and geology is based on information compiled by Thiago Vaz Andrade who is a member of the Australasian Institute of Mining and Metallurgy. Thiago Vaz Andrade is an employee of Orinoco Gold Limited and has sufficient experience, which is relevant to the style of mineralization under consideration and to the activity that they are undertaking to qualify as a Competent Person as defined in the 2012 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Mr Thiago Vaz Andrade consents to the inclusion in this announcement of the matters based on the information in the form and context in which it appears.*

*The information in this release that relates to the Exploration Target has been compiled by Mr. Richard Buerger (BSc.). Mr Buerger is a full-time employee of Mining Plus Pty Ltd and has acted as independent consultant on the Exploration Target estimation. Mr. Buerger is a Member of the Australian Institute of Geologists and has sufficient experience with the style of mineralisation, and deposit type under consideration and to the activities undertaken to qualify as Competent Person as defined in the 2012 Edition of the “Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Resources (The JORC Code). Mr. Buerger consents to the inclusion in this report of the contained technical information relating to the Exploration Target estimation in the form and context in which it appears.*

**Forward-Looking Statements:**

*This Announcement includes “forward-looking statements” as that term within the meaning of securities laws of applicable jurisdictions. Forward-looking statements involve known and unknown risks, uncertainties and other factors that are in some cases beyond Orinoco Gold Limited’s control. These forward-looking statements include, but are not limited to, all statements other than statements of historical facts contained in this presentation, including, without limitation, those regarding Orinoco Gold Limited’s future expectations. Readers can identify forward-looking statements by terminology such as “aim,” “anticipate,” “assume,” “believe,” “continue,” “could,” “estimate,” “expect,” “forecast,” “intend,” “may,” “plan,” “potential,” “predict,” “project,” “risk,” “should,” “will” or “would” and other similar expressions. Risks, uncertainties and other factors may cause Orinoco Gold Limited’s actual results, performance, production or achievements to differ materially from those expressed or implied by the forward-looking statements (and from past results, performance or achievements). These factors include, but are not limited to, the failure to complete and commission the mine facilities, processing plant and related infrastructure in the time frame and within estimated costs currently planned; variations in global demand and price for gold materials; fluctuations in exchange rates between the U.S. Dollar, the Brazilian Real and the Australian dollar; the failure of Orinoco Gold Limited’s suppliers, service providers and partners to fulfil their obligations under construction, supply and other agreements; unforeseen geological, physical or meteorological conditions, natural disasters or cyclones; changes in the regulatory environment, industrial disputes, labour shortages, political and other factors; the inability to obtain additional financing, if required, on commercially suitable terms; and global and regional economic conditions. Readers are cautioned not to place undue reliance on forward-looking statements. The information concerning possible production in this announcement is not intended to be a forecast. They are internally generated goals set by the board of directors of Orinoco Gold Limited. The ability of the company to achieve any targets will be largely determined by the company’s ability to secure adequate funding, implement mining plans and resolve logistical issues associated with mining. Although Orinoco Gold Limited believes that its expectations reflected in these forward-looking statements are reasonable, such statements involve risks and uncertainties and no assurance can be given that actual results will be consistent with these forward-looking statements.*