



## QUARTERLY ACTIVITIES REPORT

### COMPANY INFORMATION

Mustang Resources Ltd  
ABN 34 090 074 785  
Current Shares on Issue:  
298,749,913  
Market Capitalisation  
\$13.14M as at 27 July 2016

### COMPANY DIRECTORS

Ian Daymond : Chairman  
Christiaan Jordaan: Managing Director  
Cobus van Wyk : Director  
Frank Petruzzelli : Director

### STOCK EXCHANGE LISTING

Australian Securities Exchange  
ASX Code: MUS

### CURRENT PROJECTS

#### RUBIES

- Montepuez Ruby Project

#### GRAPHITE

- Balama Graphite Project

Twitter: @Mustang\_Res  
mustangresources.com.au

### 29 July 2016

The Board of Directors of Mustang Resources Ltd (ASX: MUS) ("Mustang" or "the Company") is pleased to provide shareholders with the Company's Quarterly Activities Report for the period ended 30 June 2016.

### MONTEPUEZ RUBY PROJECT

- Phase 1 work program at flagship Montepuez Ruby Project well advanced with pitting activities underway
- Ten Rubies discovered with initial pitting of alluvial targets
- Ruby-bearing gravel layers with large clast-sizes intersected in initial pits - highly encouraging initial results
- Low cost bulk sampling program (Phase 2B of work program) planned to commence in Q3 2016
- Montepuez capex costs significantly reduced by utilising most of existing processing plant and supporting equipment from Save River Diamond Project; all additional capex items have been acquired
- Mustang initially targeting the processing of 600tpd to 1,000tpd focusing on secondary source of ruby mineralisation known to host higher quality rubies in the region
- Exploration Work program being overviewed by Paul Allan (independent CP), a geologist with a 25 year track record and previous experience working for Gemfields PLC

## BALAMA GRAPHITE PROJECT

- Resource definition work program at Balama Graphite Project scheduled for commencement in Q3 2016
- Targeting maiden JORC Indicated and Inferred Resources this calendar year
- Balama Project hosts possible extensions of nearby, world-class graphite deposits held by Metals of Africa (ASX: MTA) and Syrah Resources (ASX: SYR)
- RC drilling program has confirmed wide, high grade intervals of up to 22% Total Graphitic Carbon (TGC)

## CORPORATE HIGHLIGHTS

- Placement of ~\$3 million successfully completed in April with second tranche approved by shareholders at EGM in June 2016
- Additional \$1.2 million raised from strongly supported Share Purchase Plan
- Mustang now well-funded to fast-track development of Montepuez Ruby Project and unlock significant potential value for shareholders

**Mustang Resources Managing Director Christiaan Jordaan commented,** “The Board would like to thank shareholders once again for their ongoing support, particularly through the recently completed and strongly supported capital raising activities.

The Board is very encouraged by the strong level of investor support we received during the quarter, and as a result Mustang now has the financial flexibility to fast track the work program at our flagship Montepuez Project where rubies have been discovered in the initial pitting. Importantly, we believe the commencement of bulk sampling at Montepuez has the potential to unlock significant value for our shareholders.

We are also excited by the exploration plans reported for our Balama graphite project, which is located in a world-class graphite province in Mozambique. The Company’s Balama project has demonstrated tremendous potential upside throughout our work programs to date. It is the Company’s intention to undertake a low-cost resource definition program, aimed at identifying a JORC compliant Resource this calendar year.

We look forward to providing our shareholders with additional operational updates from both Montepuez and Balama over coming months as our dual-focus exploration program is executed.”

## MONTEPUEZ RUBY PROJECT

Mustang made significant progress at the Montepuez Project during the June quarter, with comprehensive desktop studies and fieldwork now complete and initial ruby targets identified for the pitting program which is currently underway. Mustang is targeting commencement of bulk sampling activities in Q3 following successful recovery of rubies from the initial pitting program (refer to ASX Announcement dated 27 July 2016).

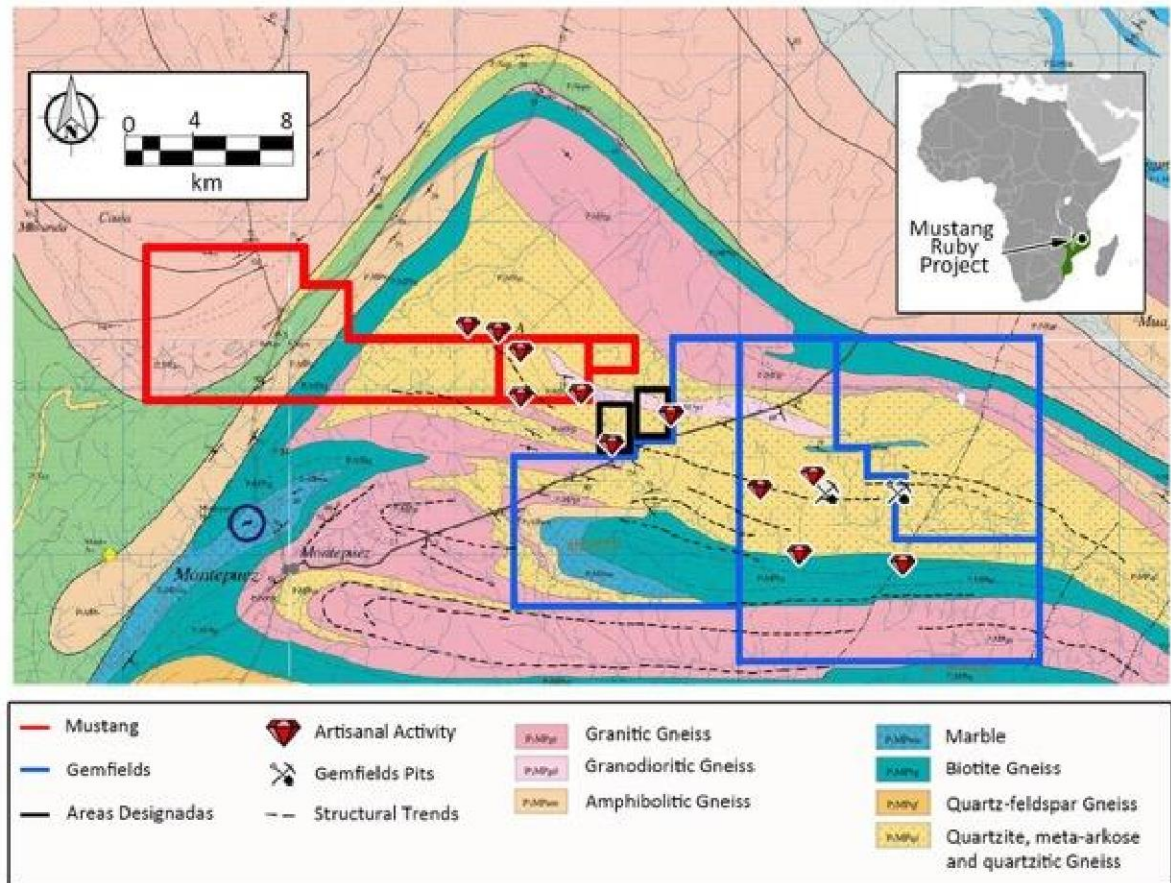
The Company has mobilised critical processing and ancillary equipment, with construction of the processing plant well advanced. Mustang has also extended its exploration base camp at the site and refurbished access roads.

While this work progresses, field work continues with the main objective of delineating bulk sampling targets for the scaling up of the project. With the commencement of bulk sampling, the exploration team will analyse and incorporate gathered data to gain an increased understanding of the region’s geology.

As previously advised, Mustang is pleased to have the services of Mr. Paul Allan as a Competent Person/consultant geologist to manage and oversee the development of the Montepuez Project.



Paul's intimate knowledge of the Montepuez region and his 25 years' experience in multi- commodity geology (including as Consulting Project Geologist for Gemfields PLC) make him a valuable addition to the exploration team.



**Figure 1: Mustang Montepuez Ruby Project**



**Figure 2: Exploration Camp & Small Scale 'Bushman Jig'**





**Figure 3: Some of the Rubies recovered from initial exploration pits**

### MONTEPUEZ TWO-PHASE EXPLORATION WORK PROGRAM

The exploration work program (Refer to **ASX Announcement dated 3 April 2016**) is intended to gather specific geological data regarding the project area including stratigraphy, refining of target regions followed by a full bulk sampling program with the goal of recovering rubies for sale as soon as marketable parcels are available. The data gathered during this program will be utilised to complete a JORC compliant Resource Statement and feasibility study for full scale commercial mining.

Importantly, the alluvial material in which the higher quality rubies are thought to be hosted is relatively shallow, with low-cost extraction techniques able to be implemented at the project.

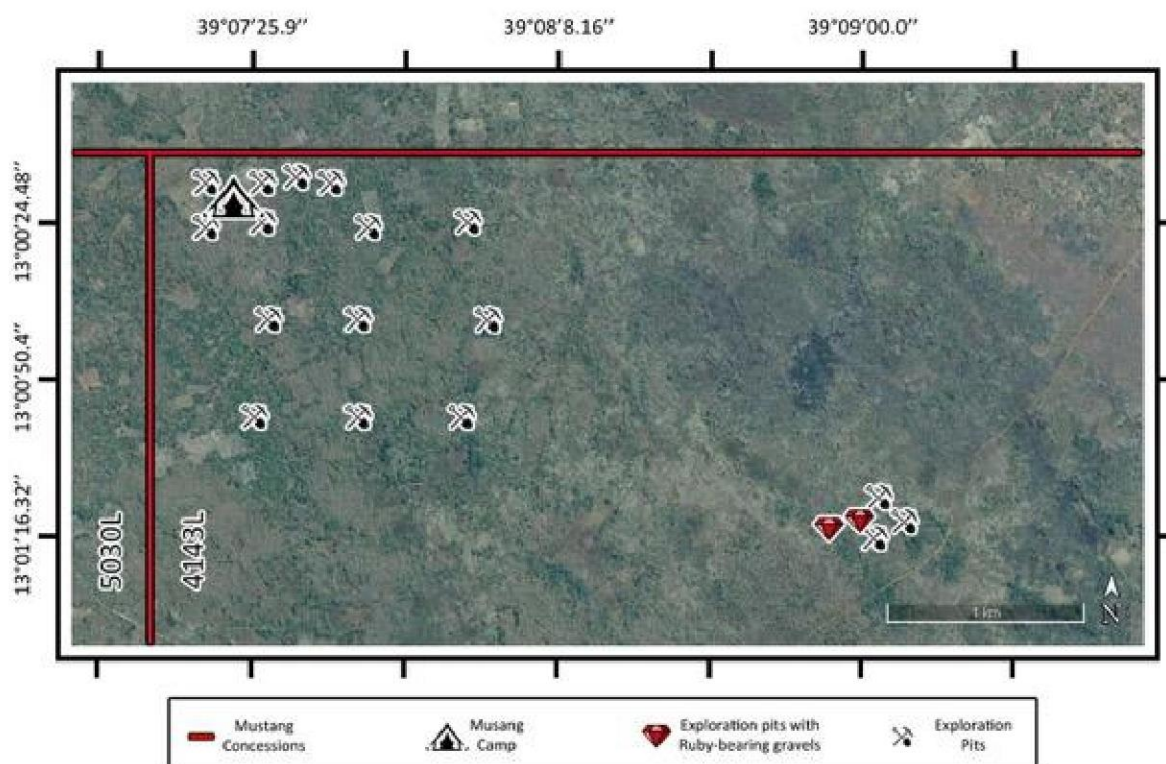
#### **PHASE 1: Completed**

#### **PHASE 2:**

##### **A. Trenching, Pitting & Drilling (Pitting currently underway)**

A preliminary grid of sampling pits has been completed and is set out in Figure 4 below. The targets identified were developed and planned based on Phase 1 work, including geological research, artisanal diggings, similarities identified between the Company's license areas and that of known ruby mineralisation and the regional drainages.

During Phase 2A the geologists will generate a detailed map of the geology and structures present within the primary targets zones to identify optimal bulk sampling sites focusing on secondary ruby mineralisation. A handheld GPS will be used to mark the locations of the sites on the ground.



**Figure 4: Map indicating location of initial pits on Montepuez Ruby Project**

### **B. Bulk Sampling Program**

Bulk sampling is planned to be undertaken in block formation with a 45-ton excavator with a stripping depth of between one metre and up to nine metres depending on the amount of overburden in the sidewalls with a three metre by three metre step formation. Overburden will be stripped and side-cast onto the flank of the sampling pit for later rehabilitation back into the same pit after all the gravel and/or amphibolite material has been removed. The gravel material will be transported to the plant by articulated dump trucks (ADTs).



**Figure 5: Example of Bulk Sampling/Bulk Sampling Process**



Mustang will initially process sampled material through one 16-foot rotary pan operating for one 8 hour shift per day, giving it a 600 ton per day processing capacity. Upon (and subject to) confirming adequate ruby mineralisation the intention is to scale up the processing plant to two 16ft rotary pans, running for two 8 hour shifts with a plant capacity of approximately 2,400 tons per day.

Final ruby recoveries will be done through hand sorting in enclosed glove-boxes under high security. The glove-box has been purchased & fabrication completed. Transportation thereof to site is currently underway. An onsite gemmologist will clean, sort, then class and grade all recovered rubies.

The bulk sampling program is scheduled to commence once the bulk sample targets have been generated and is expected to run for at least 6 months.

### **C. Sale of Marketable Ruby Parcels**

Subject to the success of the Phase 2B bulk sampling operation, the Company intends to sell an initial parcel of representative rubies as soon as reasonably possible in order to gather important information on the market value of its rubies for inclusion in its JORC Resource Statement (Phase 2D).

Mustang is considering various options in respect of the marketing of its rubies. Sales will typically be done through a tender/auction process which will see Mustang retain ownership of the rubies under an agreement which will incorporate a fee for the access to the auction sale process and for other services including heat treatment, grading, and insurance.

### **D. Maiden JORC Resource Statement**

Completion of the planned bulk sampling program and the supporting auger drilling campaign is expected to place the Company in a position to issue a maiden JORC compliant Resource Statement by Q2-2017 but this is subject to the successful & adequate recovery of rubies from the Mustang licenses in the bulk sampling program).

### **E. Initiation of Full Scale Mining**

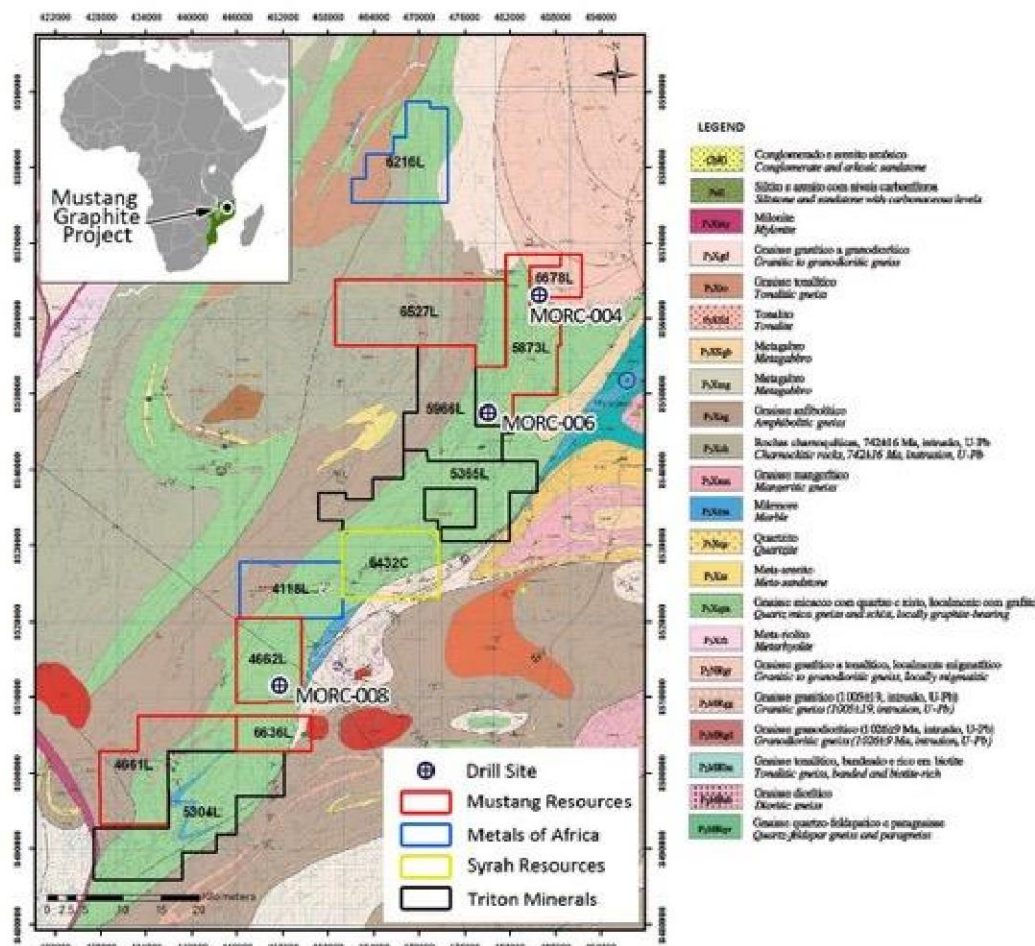
Subject to the positive outcome of Phases 2B to D, the Company will scale up its bulk sampling activities to that of a full-scale commercial gemstone mine. Current planning will see the Company in a position to make an investment decision on scaled up mining by H2-2017. Until this time the intention is to continue bulk sampling activities to generate revenues and gain additional understanding of the resource.

## **BALAMA GRAPHITE PROJECT**

During the June quarter, Mustang also announced to shareholders that it would target the delineation of a high-grade, near surface JORC compliant Resource at the Balama Project this calendar year. Refer to ASX Announcement dated 27 June 2016, to be read together with supplementary announcement dated 18 July 2016. The resource definition work will be undertaken on a small scale budget, and will include engaging with market participants to gauge interest around the formation of future supply agreements.

Mustang's 2015 drill program was designed to test the most promising EM anomalies along strike from the nearby world-class graphite deposits held by Metals of Africa and Syrah Resources. Identification of graphite mineralisation was assisted by the systematic rock chip sampling in 1 metre composite samples. Samples from the drilling program at the Balama Project were submitted to SGS Laboratories in Johannesburg.

Mustang has now received the TGC assay results from the majority of samples, further confirming the existence of large zones of shallow graphitic mineralisation across multiple areas within the Company's concessions. Final assays will be received shortly and then Mustang will make a final decision on the most preferred target license for the next phase of the planned work program (delineation of a maiden JORC Compliant Resource).



**Figure 6: Mustang's Balama Graphite Project, regional geological map depicting the graphitic schist strike through the exploration concessions**

## SAVE RIVER DIAMOND PROJECT

In line with the Board's decision earlier this year to place the Save River Diamond Project on care and maintenance for the next 12-18 months, the Company has decided to terminate (by mutual consent) the existing agreement between Mustang Resources Ltd, Regius Exploration Pty Ltd and Save River Diamonds Pty Ltd for the development of diamond prospecting and exploration license 4969L.

The diamonds discovered to date by Mustang on the Project have all come from license 4525L and results from samples taken on license 4969L have been disappointing. That, together with the delay in Mozambique being admitted to the Kimberley Process as well as the onerous local partner financial requirements for maintaining the interest in license 4969L (a contingent liability for Mustang of between



US\$1 million and US\$1.5 million) has resulted in the Board making this decision together with the other parties to the agreement.

## CORPORATE OVERVIEW

A key milestone for the Mustang during the quarter was the raising of \$3 million (refer to ASX Announcement dated 28 April 2016) in two tranches to fast track the development of the Montepuez Ruby Project. The second tranche of this placement was subject to shareholder approval which was granted at an EGM held on 14 June 2016.

Furthermore, in May, Mustang announced that it had executed binding agreements with its largest shareholder, Lanstead Capital LP to secure a further investment of \$850,000 through the issue of new shares under an equity sharing agreement. This investment was also ratified by shareholders at the EGM held in June.

In addition, the Company was pleased to announce on 21 June 2016 that it had closed its Share Purchase Plan (SPP), which was strongly supported by shareholders. Mustang was greatly encouraged to receive SPP applications of approximately \$1.2 million, well in excess of the \$500,000 targeted.

As a result, Mustang is now well funded in the near term to execute its near-term, low cost bulk sampling strategy at the Montepuez Ruby Project, while also carrying out further resource definition at its Balama Graphite Project.

Importantly, all relevant capex costs in relation to the start-up of bulk sampling at the Montepuez Ruby Project have been accounted for, with a large cost savings coming from the utilisation of existing equipment used at Save River.

During the quarter non-executive Director Mr. Andrew Law informed the Board that he was resigning as a non-executive Director, effective 31 May 2016, in order to pursue other business interests. His resignation means that the number of Directors has reduced from five to four, including the Managing Director. The Board acknowledges Mr. Law's contribution to the Company's development over the last year and wishes him well in his future endeavours.

Managing Director, Christiaan Jordaan, also presented at the Canary Networks events in Sydney and Melbourne in late May, presenting the Mustang investment case to both potential and existing investors. Investor roadshows were also concluded in Hong Kong, London & Europe, and in South Africa in July 2016.

## FOR FURTHER INFORMATION PLEASE CONTACT:

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## COMPETENT PERSON'S STATEMENTS:

Information in this report that relates to the Save River Diamond Project and the Montepuez Ruby Project's Exploration Targets, Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Paul Allan, a Competent Person who is a registered member of the South African Council for Natural Scientific Professions (SACNASP), which is a Recognised Professional Organisation (RPO) included in a list posted on the ASX website. Mr Allan is an independent consultant who was engaged by the company to undertake this work. Mr. Allan has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined by the 2012 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Mr. Allan consents to the inclusion of the data in the form and context in which it appears.

In this report, the information that relates to the Balama Graphite Project's Exploration Targets and Geophysical Exploration Results and analysis, is based on information compiled by Mr Christiaan Mouton or Mr Johan Erasmus, both Competent Persons. Mr Mouton is a registered member of the Australian Institute of Geoscientists and also 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 Mouton is a consultant with Applied Scientific Services and Technology (ASST) which was engaged by the Company to undertake this work. Mr Mouton has sufficient experience in the application of geophysical methods and techniques that is relevant to the exploration of this 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 Mouton consents to the inclusion of the data in the form and context in which it appears.

Mr Erasmus is a registered member of the South African Council for Natural Scientific Professions (SACNASP) which is a Recognised Professional Organisation (RPO) included in a list posted on the ASX website. Mr Erasmus is a consultant of Sumsare Consulting, Witbank, South Africa who was engaged to undertake this work. Mr Erasmus has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined by the 2012 Edition of the Australasian Code for Reporting of Exploration Results. Mr Erasmus consents to the inclusion of the data in the form and context in which it appears.

## FORWARD-LOOKING STATEMENTS:

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





## Appendix 5B

### Mining exploration entity and oil and gas exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10, 01/05/2013

Name of entity

Mustang Resources Limited

ABN

34 090 074 785

Quarter ended ('current quarter')

30 June 2016

### Consolidated statement of cash flows

		Current quarter \$A'000	Year to date (.12. months) \$A'000
<b>Cash flows related to operating activities</b>			
1.1	Receipts from product sales and related debtors		
1.2	Payments for (a) exploration & evaluation	(1,316)	(2,366)
	(b) development	-	(2,509)
	(c) production	-	-
	(d) administration	(532)	(1,477)
1.3	Dividends received		
1.4	Interest and other items of a similar nature received		
1.5	Interest and other costs of finance paid	-	(15)
1.6	Income taxes paid		
1.7	Other (provide details if material)		
<b>Net Operating Cash Flows</b>		<b>(1,848)</b>	<b>(6,367)</b>
<b>Cash flows related to investing activities</b>			
1.8	Payment for purchases of: (a) prospects		
	(b) equity investments	-	(636)
	(c) other fixed assets	(1)	(1)
1.9	Proceeds from sale of: (a) prospects		
	(b) equity investments		
	(c) other fixed assets	258	391
1.10	Loans to other entities		
1.11	Loans repaid by other entities		
1.12	Other (provide details if material)		
<b>Net investing cash flows</b>		<b>257</b>	<b>(246)</b>
1.13	Total operating and investing cash flows (carried forward)	<b>(1,591)</b>	<b>(6,613)</b>

+ See chapter 19 for defined terms.



## Appendix 5B

### Mining exploration entity and oil and gas exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(1,591)	(6,613)
	<b>Cash flows related to financing activities</b>		
1.14	Proceeds from issues of shares, options, etc.	4,222	4,722
1.15	Costs of the Issue	(137)	(203)
1.16	Proceeds from borrowings	-	1,339
1.17	Repayment of borrowings	-	(479)
1.18	Dividends paid		
1.19	Other (provide details if material)		
	<b>Net financing cash flows</b>	4,085	5,379
	<b>Net increase (decrease) in cash held</b>	2,494	(1,234)
1.20	Cash at beginning of quarter/year to date	51	3,712
1.21	Exchange rate adjustments to item 1.20(	(24)	43
1.22	<b>Cash at end of quarter</b>	2,521	2,521

### Payments to directors of the entity, associates of the directors, related entities of the entity and associates of the related entities

	Current quarter \$A'000
1.23 Aggregate amount of payments to the parties included in item 1.2	211
1.24 Aggregate amount of loans to the parties included in item 1.10	-

#### 1.25 Explanation necessary for an understanding of the transactions

Management Fees (according to management agreements), Managing Director's Salary & Non Executive Directors' Fees.

### Non-cash financing and investing activities

#### 2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

The Company entered into a funding agreement with Lanstead Capital LP for AU\$850,000 in May 2015. The Company received \$127,500 (before costs) as payment for Tranche B in June 2016. The Company issued 1,062,500 shares @ AU\$0.04 in respect to the transaction.

#### 2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

Nil

+ See chapter 19 for defined terms.

**Appendix 5B**

**Mining exploration entity and oil and gas exploration entity quarterly report**

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**Financing facilities available**

*Add notes as necessary for an understanding of the position.*

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	0	0
3.2 Credit standby arrangements	0	0

**Estimated cash outflows for next quarter**

	\$A'000
4.1 Exploration and evaluation	770
4.2 Development	-
4.3 Production	-
4.4 Administration	745
<b>Total</b>	<b>1,515</b>

**Reconciliation of cash**

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	2,521	51
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
<b>Total: cash at end of quarter (item 1.22)</b>	<b>2,521</b>	<b>51</b>

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+ See chapter 19 for defined terms.



## Changes in interests in mining tenements and petroleum tenements

	Tenement reference and location	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements and petroleum tenements relinquished, reduced or lapsed			
6.2	Interests in mining tenements and petroleum tenements acquired or increased			

## Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1	<b>Preference securities</b> (description)			
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions			
7.3	<b>*Ordinary securities</b>	298,749,913	234,169,435	
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	142,869,315 Nil	142,869,315 Nil	
7.5	<b>*Convertible debt securities</b> (description)			

+ See chapter 19 for defined terms.

**Appendix 5B**

**Mining exploration entity and oil and gas exploration entity quarterly report**

7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7	<b>Options</b> (description and conversion factor)			<i>Exercise price</i>	<i>Expiry date</i>
	7,140,000	Unlisted Class E Performance Rights Escrowed to 21 May 2016	<i>All Performance Rights convert to fully paid ordinary shares on a 1;1 basis if performance criteria are achieved</i>		31 December 2019
	6,860,000	Unlisted Class E Performance Rights Escrowed to 10 June 2017			31 December 2019
	31,324,181	Listed Options MUSO	\$0.25		30 June 2017
	149,253	Unlisted Options	\$0.2412		10 November 2017
	2,238,806	Unlisted Options	\$0.21		22 May 2017
	500,000	Unlisted Options	\$0.20		31 October 2016
	1,500,000	Unlisted Options	\$0.20		1 December 2016
	8,750,000	Unlisted Options	\$0.25		30 June 2017

+ See chapter 19 for defined terms.



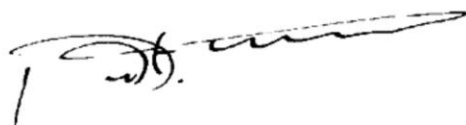
## Appendix 5B

### Mining exploration entity and oil and gas exploration entity quarterly report

7.8	Issued during quarter	8,000,000	Unlisted Options	\$0.15	21 June 2019
		2,000,000	Unlisted Options	\$0.15	31 December 2017
		1,000,000	Unlisted Options	\$0.06	31 December 2017
		2,000,000	Unlisted Options	\$0.06	31 December 2017
		19,000,000	Unlisted Options	\$0.075	21 June 2019
7.9	Exercised during quarter				
7.10	Expired during quarter				
7.11	<b>Debentures</b> (totals only)				
7.12	<b>Unsecured notes</b> (totals only)				

## Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 5).
- 2 This statement does /does not\* (*delete one*) give a true and fair view of the matters disclosed.



Sign here: .....  
(Company secretary)

Date: 29 July 2016

Print name: Robert Marusco

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+ See chapter 19 for defined terms.

## Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The 'Nature of interest' (items 6.1 and 6.2) includes options in respect of interests in mining tenements and petroleum tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement or petroleum tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Financial Reporting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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