



## QUARTERLY ACTIVITIES REPORT

**28 October 2016**

### COMPANY INFORMATION

Mustang Resources Ltd  
ABN 34 090 074 785  
Current Shares on Issue:  
323,749,913  
Market Capitalisation:  
\$11.33M as at 27 October 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

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 September 2016.

### MONTEPUEZ RUBY PROJECT

- 460.43 cts of high quality rubies recovered during the commissioning of the bulk sample mining plant at Montepuez Ruby Project, as reported 26 October 2016
- Initial ruby recoveries are from the 2,683 tonnes of initial material processed as part of the commissioning phase
- Further mining and plant optimisation is ongoing at Montepuez following successful initial commissioning phase
- Recoveries expected to increase in coming months - plant will be ramped up to 350m<sup>3</sup> (525 tonnes) per day capacity in Q4 2016
- Robust initial recoveries demonstrate strong potential for a commercial (high grade and high quality) ruby deposit at Montepuez
- Discovery of secondary ruby deposit (Alpha deposit) which remains open in all directions with near-term drilling program to delineate full extent of ruby mineralisation
- Multiple additional targets with (alluvial/colluvial) ruby mineralisation proven on two additional locations at Montepuez
- Visual assessment by independent gemologist confirmed Mustang's rubies are high-quality and equivalent to other secondary deposits mined in the region
- Alluvially sourced uncut rubies from Mozambique sold for US\$317 to US\$688/ ct average at Gemfields auctions (2014 & 2015)
- Ruby market remains strong with reported cut/polished high quality ruby prices up to US\$35,900/ct

## BALAMA GRAPHITE PROJECT

- Resource definition work program at Balama Graphite Project commenced in October 2016 targeting definition of maiden JORC Indicated and Inferred Resources in Q1 2017
- Five diamond drillholes (out of a total of seven) to be completed on license 6678L with detailed metallurgical analysis to test suitability for use in the Lithium-ion battery & refractory graphite markets
- Balama Project hosts possible extensions of nearby, world-class graphite deposits held by Metals of Africa (ASX: MTA) and Syrah Resources (ASX: SYR)
- Previous RC drilling program has confirmed wide, high grade intervals of up to 22% Total Graphitic Carbon (TGC) on License 6678L

## CORPORATE OVERVIEW

- Raised ~\$1.0 million through a placement of new shares at 4 cents per share in August 2016
- Placement shares represented the shortfall on the placement approved by shareholders on 14 June 2016
- Mustang remains committed to the fast-tracked development of Montepuez Ruby Project and unlocking significant value for shareholders
- Strategic sales and marketing agreements to be finalised prior to sale of first Mustang rubies

**Mustang Resources Managing Director Christiaan Jordaan commented,** *“The September quarter was a highly productive period for Mustang at both a corporate and operational level, highlighted by the commencement of our bulk sampling at the Montepuez Ruby Project in Mozambique.*

*“As reported post quarter end, the Company was very pleased to recover 460.43 carats of high quality rubies from our bulk sampling start-up phase, with recoveries anticipated to increase in the coming months as production is scaled up to circa 350m<sup>3</sup> per day. During a site visit in July 2016 Mr. Vincent Pardieu, an independent gemologist with the GIA (Gemological Institute of America), confirmed Mustang’s rubies are high-quality and equivalent to other secondary deposits mined in the region - a very important distinguishing factor of the Alpha deposit.*

*“Importantly, the Alpha deposit, which is the focus for the current bulk sampling program, remains open in all directions and the preparation of a drilling program is currently being finalised in order to delineate the full extent of ruby mineralisation at the deposit.*

*“The Board is highly encouraged by the recent achievements at Montepuez, and we look forward to providing our shareholders with further updates on both ruby recoveries and the Balama drilling program in the near-term.”*

## MONTEPUEZ RUBY PROJECT

The bulk sampling plant (Figure 1) was fully commissioned during the quarter, and the two 16-ft rotary pans have processed 2,683 tonnes during the commissioning phase up to 24 October 2016 with 460.43 carats recovered (Figure 2). It should be noted that the sample processed to date is not yet representative of the entire deposit and that current grade estimations are therefore only indicative of the overall deposit’s grade. It should also be noted that further mining optimisation is ongoing (thereby increasing the grade) given the high percentage dilutive sand and gangue material that was fed to the plant during this initial commissioning phase.

Work is ongoing to process the maximum volume of gravel from the Alpha deposit stockpile by end of Q4 2016 with the plant ramping up to process up to 350m<sup>3</sup> per day (~525 tonnes per day at specific gravity (SG) of 1.5. Note that SG is lower than previously used in estimations).





**Figure 1. Mustang bulk sampling plant in operation**



**Figure 2. Samples of High-Quality Rubies recovered with bulk sampling plant start-up phase**

### Alpha Pit – Secondary (alluvial / colluvial) Ruby Deposit

The Alpha deposit (“Alpha Pit”) discovered through initial reconnaissance sampling in July 2016 is the current focus of bulk sample mining operations with 8,385m<sup>3</sup> (approx. 12,997 tonnes) of gravels already mined and transported to the plant for stockpiling. The first phase of the pit has reached bedrock at 9.2 metres with an average gravel package of 1.8 metres. The pit is currently being extended to the south-west where the gravel horizon was found at a depth of 14 metres in Exploration (EXPIT) 25 & 11.7metres in EXPIT-22 (Figure 4).

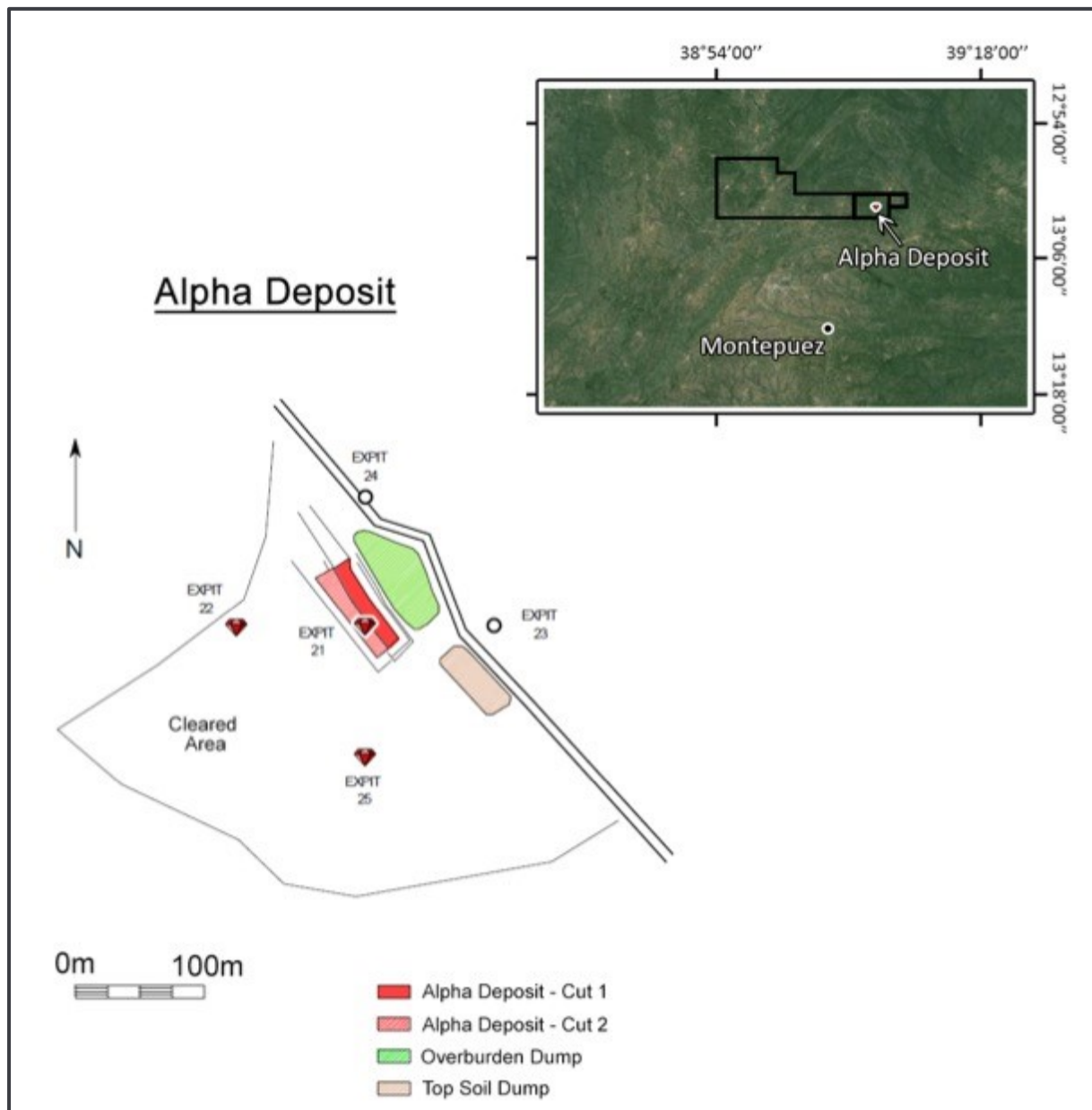
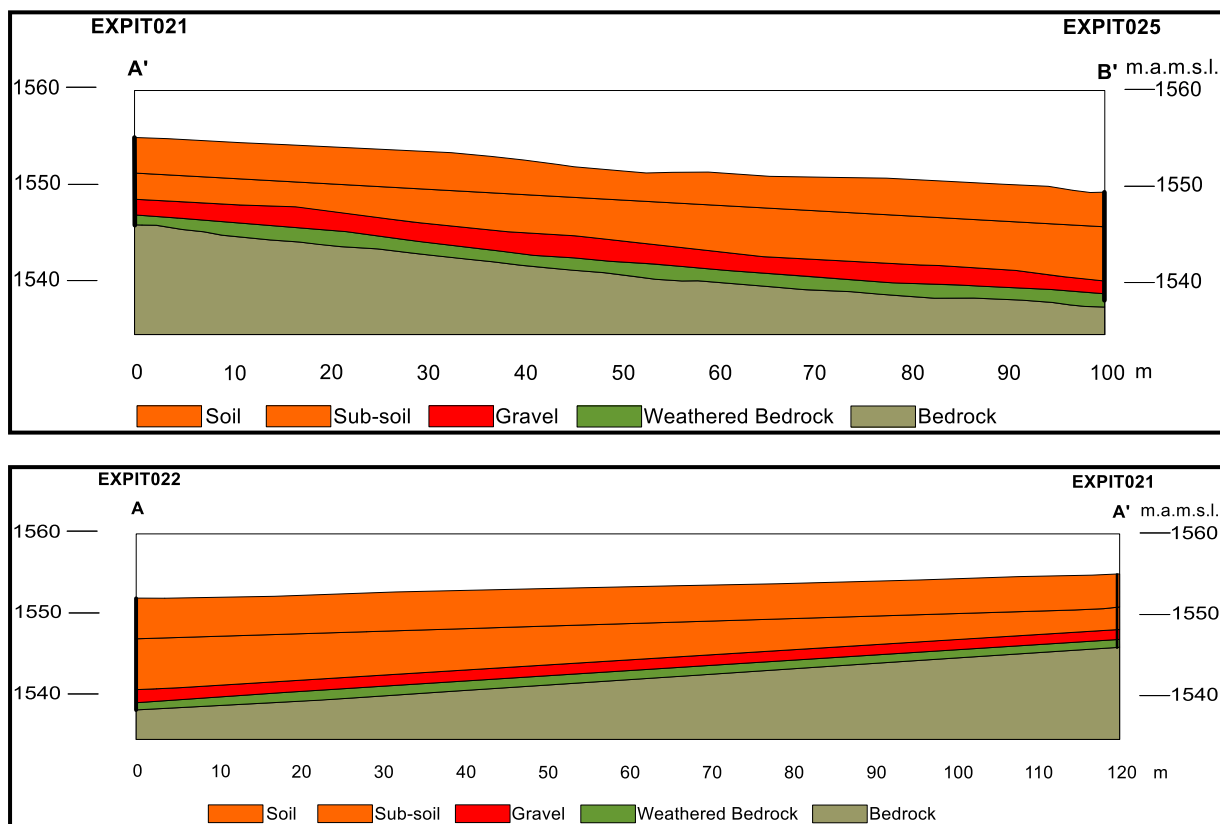


Figure 3. Map of License 4143L showing the Alpha Ruby Deposit



**Figure 4. Cross sections of Alpha Deposit from EXPIT 21 to EXPIT 22 & EXPIT 25**

The Company is currently planning a full auger drilling campaign, starting from the Alpha deposit extending outwards. The purpose of this drilling campaign will be to map the extension of the Alpha deposit and thereafter to also map all the gravel beds within all three of the Mustang concession boundaries. Through the auger drilling the Competent Person will be able to estimate the volume of gravel ore material and following the sale of a sample of rubies recovered from the deposit, the estimation of a JORC Compliant (Inferred) Resource.

### Geology of Alpha Deposit

The gravel horizon consists of poorly sorted, clast supported, quartz clasts ranging up to 15cm in size on average. Most are sub-rounded and fairly spherical. Approximately 10% are > 10cm in size while 75% are between 2 and 10cm (see Figure 6). The gravel horizons are not typically alluvial in character and are more likely the result of colluvial weathering due to gravity. Colluvium is a general name for loose, unconsolidated sediments that have been deposited at the base of hillslopes by either rain-wash, sheet wash, slow continuous downslope creep, or a variable combination of these processes under the influence of gravity.

The gravel-bearing horizon of the first cut of the Alpha deposit has highly variable thickness, ranging from the tens of centimetres to over two metres. The base of the gravel varies substantially over a short distance and is generally parallel to the quart-biotite gneiss bedrock.



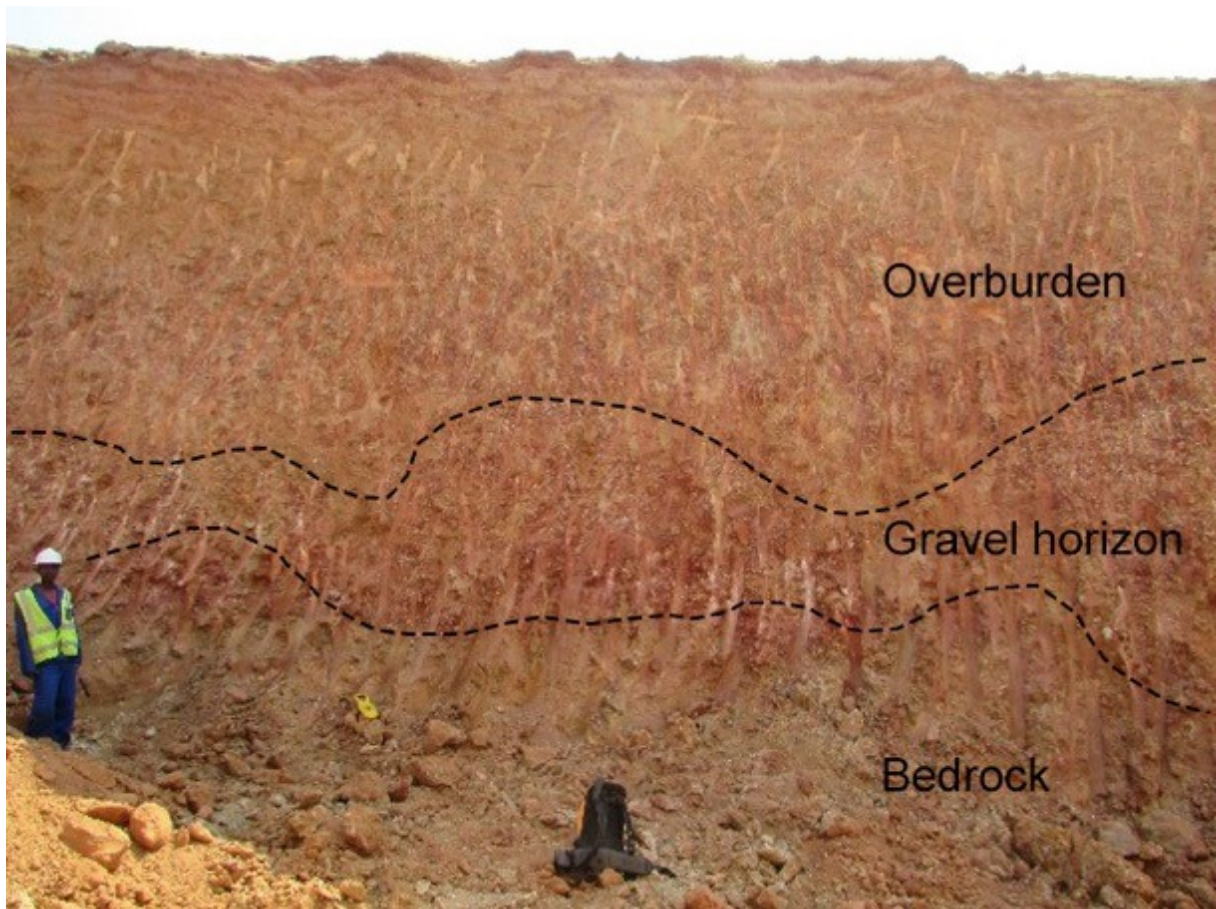


Figure 5. Stratigraphy of Alpha Pit (License 4143L)

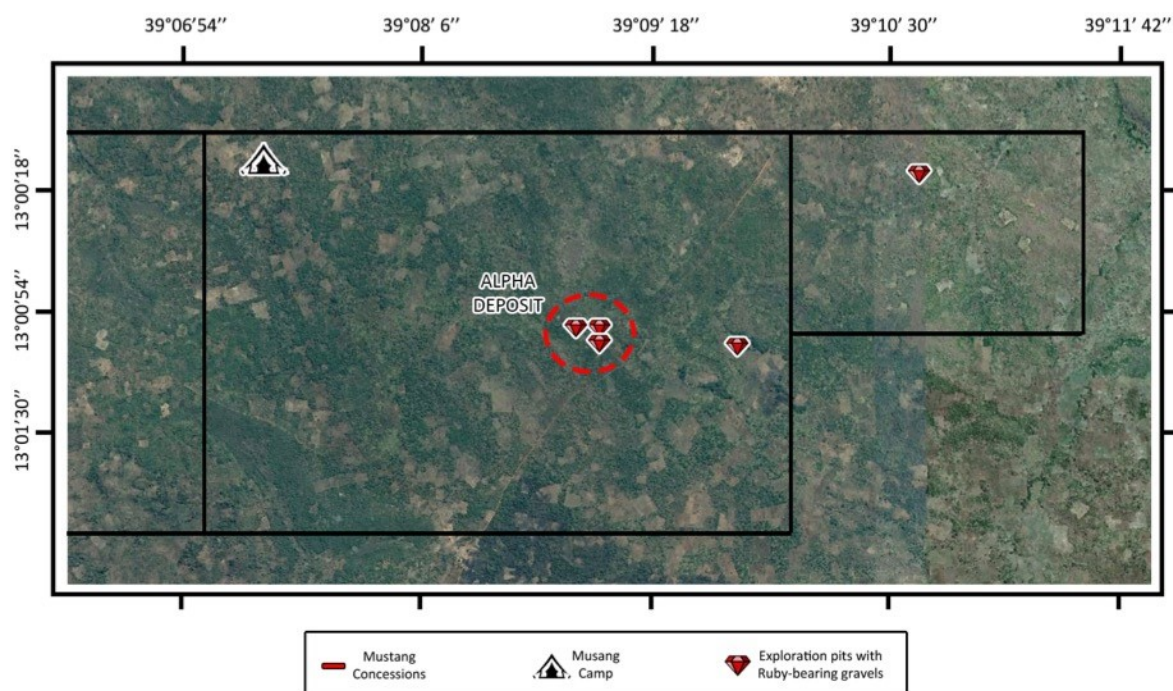


Figure 6. (i.) Excavation of Alpha Pit – depth Dug area up to 9.2m (ii.) Gravel layer in the stock pile (iii.) Gravel clasts of quartzite ranging from 2cm to 8cm in diameter (iv.) Angular quartzite clasts approximately 15 cm in diameter and (v.) Gravel layer (red oxidised material with quartz clasts)

### Additional Ruby Targets & Mineralisation

The Company is pleased to report that ruby mineralisation has also been proven in two further gravel beds on licenses 4258L & 4143L as illustrated in Figure 7 below. These areas will be followed up with further reconnaissance auger drilling and processing of gravels through the Bushman-Jigs to assess the quality of the gravels and rubies.

The Company is confident in the ability of the existing licenses to host significant secondary (alluvial/elluvial/colluvial) deposits with the potential to support long mine lives and work will continue systematically to build a resource base and increase the geological understanding of the Montepuez Ruby Project with the view of delineating a maiden JORC Compliant (Inferred) Resource in 2017.



**Figure 7. Additional ruby mineralisation proven**



### High Quality Mozambican Rough Ruby Market Values

As previously reported, since June 2014 Gemfields PLC has held six rough-ruby auctions in a similar fashion to those for rough diamonds and has achieved auction values ranging from US\$317 to US\$688 per carat for medium to high quality rubies respectively (Gemfields Public Disclosures, Dec 2014 & Dec 2015 Singapore Auction Results).

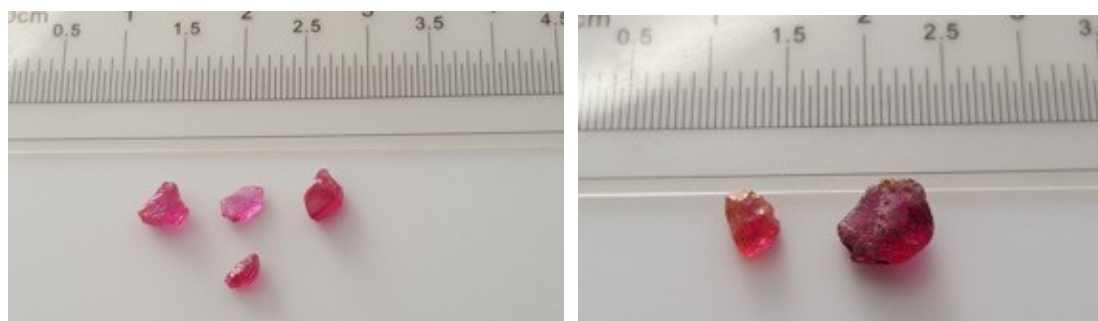


Figure 8. Sample of high quality Rubies recovered from Mustang License 4143L

### Ruby & Coloured Gemstone Market Developments

The ruby market is benefitting from strong production from Gemfields' operations in Mozambique with 10.3 million carats ruby & corundum produced during FY-2016. Scarcity for fine (high quality) material still persists. US demand & market growth for coloured gemstones remains strong whilst a modest softening in Chinese economic growth has impacted jewelry sales in that market. Of increased importance for consumers is the ethical supply of gemstones (including ruby) with assurances of fair labour practices and responsible environmental management & community engagement.

Mustang considers that the growth of discretionary income in China and India and a strong base of luxury goods demand from developed economies over the next 10 years together with a consistent, organised and transparent supply of a wide range of rubies from Mozambique, will contribute to a steady increase in the demand for rubies. Furthermore, the discount factor applied to gem-quality/ "fine" rubies being supplied from non-Burmese sources will also be whittled down by continued marketing efforts by industry participants such as Gemfields and Mustang. At present Burmese (unheated, fine) rubies are still receiving a premium above Mozambique rubies although extensive gemological analysis work done by GIA has shown that premium rubies from Mozambique are comparable to the "pigeon-blood" rubies from Burma.

As can be seen in Table 1 below, pricing for high quality cut rubies at a wholesale level is very robust (Source: Gemworld International Inc. Gemguide Pricing Updates. [www.gemguide.com](http://www.gemguide.com))

Gemguide Ruby Pricing Guide for Good to Extra Fine Rubies. Oct 2016						
Size	Lower Good	Upper Good	Lower Fine	Upper Fine	Lower Extra Fine	Upper Extra Fine
0.020 - 0.099	65- 90	95- 125	140- 280	315- 345	345- 440	440- 750
0.100 - 0.249	95- 155	165- 225	280- 345	375-440	440- 565	565- 815
0.250 - 0.499	150- 200	205- 260	300- 720	840- 1080	1080- 1800	1800- 3000



0.500 - 0.999	445- 660	900- 1140	1360- 1680	1800- 2400	2400- 3720	3720- 4500
1.000 - 1.999	595- 780	1170- 1620	1980- 2400	2640-3600	3600- 4800	6600- 8100
2.000 - 2.999	900- 1170	1740- 2280	3000- 4800	5400- 7200	7200- 10200	10750- 13200
3.000 - 3.999	1455- 2000	3190- 4375	5625- 6625	6750- 8200	10500- 13700	16850- 21000
4.000 - 4.999	1950- 2600	4065- 5525	7200- 9000	10500- 12900	14250- 19200	22600- 26200
5.000 - 7.999	2295- 4160	5785- 7410	9800 12500	13500- 17900	19900- 25700	27625- 35900

<b>Color</b>	Orangey red, red, slightly purplish red, strongly purplish red.
<b>Clarity</b>	TYPE II - usually eye clean with some inclusions under magnification.
<b>Cut</b>	Native cuts usually seen; well-cut stones rarely available in fine qualities.
<b>Carat Weight</b>	Over 8 carats in finer qualities is rare, therefore prices are negotiable
<b>Hardness</b>	9.00
<b>Treatment</b>	Heat, flux healing, filling.
<b>Specific Gravity</b>	4.00
<b>Species</b>	Corundum

**Table 1. Gemguide Ruby Pricing; Good to Extra Fine Rubies. US\$/ ct.**

## BALAMA GRAPHITE PROJECT

Mustang's Balama Project is located in the world-class Cabo Delgado graphite province in Mozambique, and is along strike from both Metals of Africa's (ASX. MTA) graphite projects and Syrah Resources' (ASX. SYR) Balama graphite project respectively.

Mustang is targeting a high-grade, near surface JORC Compliant Resources, at the Balama Project by Q1 2017, and has commenced a seven-hole diamond drilling campaign during the quarter, focused on the highest ranked targets identified with the RC drilling completed in November 2015.

The Company remains confident in the quality of its graphite assets and will continue to assess opportunities to unlock value from these assets to the benefit of its shareholders. The resource definition work is being undertaken on a low-cost budget, and will specifically target the delineation of a JORC Compliant Resource on license 6678L in which Mustang has an 80% interest.

The Company will also be actively engaging in strategic discussions with market participants to explore potential future supply agreements.

## CORPORATE OVERVIEW

The Company remains committed to the fast-tracked development of both its Montepuez Ruby Project and Balama Graphite Project with \$1.679 million cash on hand at the end of the September 2016 quarter.

In August 2016 the Company raised ~\$1.0 million representing the shortfall of the placement approved by shareholders on 14 June 2016.

An initial assessment of rubies from Mustang's Alpha deposit by Mr. Vincent Pardieu, head field gemologist for GIA (Gemological Institute of America), in July 2016 confirmed that Mustang's rubies "are of high quality with some gemstones showing variety of colour, size and clarity". The Company

is therefore confident that the rubies being recovered from the Alpha-deposit on License 4143L will fetch market related prices for high quality Mozambican rubies. However, the exact prices will only be determined after the sale of the first parcels of rubies recovered to date.

Mustang is working to secure strategic marketing arrangements in the near-term for the sale of the Company's first parcel of rubies, and anticipates providing an update to the market on these developments in the near-term.

## FOR FURTHER INFORMATION PLEASE CONTACT:

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## COMPETENT PERSON'S STATEMENTS:

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

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, 01/05/13, 01/09/16

### Name of entity

MUSTANG RESOURCES LIMITED

### ABN

34 090 074 785

### Quarter ended ("current quarter")

30 SEPTEMBER 2016

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (.3.months) \$A'000
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	-	-
1.2 Payments for		
(a) exploration & evaluation	(1,045)	(1,045)
(b) development	-	-
(c) production	-	-
(d) staff costs	(130)	(130)
(e) administration and corporate costs	(594)	(594)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	2	2
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Research and development refunds	-	-
1.8 Other (provide details if material)	-	-
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(1,767)</b>	<b>(1,767)</b>

<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) property, plant and equipment	(90)	(90)
(b) tenements (see item 10)	-	-
(c) investments	-	-
(d) other non-current assets	-	-

<b>Consolidated statement of cash flows</b>		<b>Current quarter \$A'000</b>	<b>Year to date (.3.months) \$A'000</b>
2.2	Proceeds from the disposal of:		
	(a) property, plant and equipment	107	107
	(b) tenements (see item 10)	-	-
	(c) investments	-	-
	(d) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
<b>2.6</b>	<b>Net cash from / (used in) investing activities</b>	<b>17</b>	<b>17</b>

<b>3.</b>	<b>Cash flows from financing activities</b>		
3.1	Proceeds from issues of shares	1,169	1,169
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	-	-
3.4	Transaction costs related to issues of shares, convertible notes or options	(196)	(196)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
<b>3.10</b>	<b>Net cash from / (used in) financing activities</b>	<b>973</b>	<b>973</b>

<b>4.</b>	<b>Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1	Cash and cash equivalents at beginning of period	2,521	2,521
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,767)	(1,767)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	17	17
4.4	Net cash from / (used in) financing activities (item 3.10 above)	973	973
4.5	Effect of movement in exchange rates on cash held	(65)	(65)
<b>4.6</b>	<b>Cash and cash equivalents at end of period</b>	<b>1,679</b>	<b>1,679</b>

5. <b>Reconciliation of cash and cash equivalents</b> at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1    Bank balances	1,679	2,521
5.2    Call deposits	-	-
5.3    Bank overdrafts	-	-
5.4    Other (provide details)	-	-
<b>5.5    Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>1,679</b>	<b>2,521</b>

6. <b>Payments to directors of the entity and their associates</b>	Current quarter \$A'000
6.1    Aggregate amount of payments to these parties included in item 1.2	114
6.2    Aggregate amount of cash flow from loans to these parties included in item 2.3	-
6.3    Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2	

7. <b>Payments to related entities of the entity and their associates</b>	Current quarter \$A'000
7.1    Aggregate amount of payments to these parties included in item 1.2	-
7.2    Aggregate amount of cash flow from loans to these parties included in item 2.3	-
7.3    Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	



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

8.	<b>Financing facilities available</b> <i>Add notes as necessary for an understanding of the position</i>	<b>Total facility amount at quarter end \$A'000</b>	<b>Amount drawn at quarter end \$A'000</b>
8.1	Loan facilities	-	-
8.2	Credit standby arrangements	-	-
8.3	Other (please specify)	-	-
8.4	Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

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9.	<b>Estimated cash outflows for next quarter</b>	<b>\$A'000</b>
9.1	Exploration and evaluation	1,000
9.2	Development	-
9.3	Production	-
9.4	Staff costs	105
9.5	Administration and corporate costs	245
9.6	Other (provide details if material)	-
9.7	<b>Total estimated cash outflows</b>	<b>1,350</b>

10.	<b>Changes in tenements (items 2.1(b) and 2.2(b) above)</b>	<b>Tenement reference and location</b>	<b>Nature of interest</b>	<b>Interest at beginning of quarter</b>	<b>Interest at end of quarter</b>
10.1	Interests in mining tenements and petroleum tenements lapsed, relinquished or reduced				
10.2	Interests in mining tenements and petroleum tenements acquired or increased				

### **Compliance statement**

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.



Sign here: .....  
(Managing Director)

Date: **28 October 2016**

Print name: **Christiaan Jordaan**

### **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 that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, 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. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.