

Mineral Commodities Ltd

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Quarterly Activities Report For the period ended 30 September 2016



Production Summary	Quarter ended 30-Sep-16	Quarter ended 30-Jun-16	Quarter ended 30-Sep-15 ⁽¹⁾	Year to Date 30-Sep-16	Year to Date 30-Sep-15 ⁽¹⁾
Mining					
Tonnes	370,745	454,541	367,040	1,270,174	1,185,861
Grade	45.34%	52.73%	58.10%	50.07%	48.77%
- Garnet	27.39%	33.91%	32.98%	31.27%	28.22%
- Ilmenite	14.39%	14.38%	19.61%	14.62%	15.84%
- Zircon	2.66%	3.36%	4.51%	3.18%	3.92%
- Rutile	0.57%	0.73%	0.63%	0.65%	0.57%
- Leucoxene	0.33%	0.35%	0.37%	0.35%	0.22%
GSP / SCP Processing & Production					
Tonnes processed	176,103	141,861	140,488	457,388	437,595
Tonnes produced					
- Garnet concentrate	64,994	70,599	67,629	208,946	204,601
- Ilmenite concentrate	62,803	29,919	23,573	117,137	85,177
- Zircon/Rutile concentrate	7,450	8,476	10,225	26,096	33,262
zircon in concentrate	79.06%	69.41%	72.86%	73.08%	73.01%
rutile in concentrate	14.11%	11.01%	13.80%	12.96%	13.17%
Sales (wmt)					
- Zircon/Rutile concentrate	7,980	8,944	10,504	28,832	34,918
- Ilmenite concentrate	-	2,002	-	2,002	-
- Garnet concentrate Stockpile	50,000	-	63,513	50,000	292,291
Highlights			Corporate and Cash		
<ul style="list-style-type: none"> Replenishment cycle and effect on grade continues to be assessed First full quarter feed into the TSP and GSP Company enters into MOU with Black Economic Empowerment ("BEE") Partner for the Xolobeni Project, Keysha, to divest the Company's 56% interest in the Xolobeni Mineral Sands Project. Departmental site visits challenged by the Company 			<p>Securities: 405 million shares, 6 million options and 4 million performance rights</p> <p>Cash: Cash as at 30 September 2016 of US\$0.3 million, plus US\$9.3 million in trade and other receivables</p> <p>Debt: Shareholder Loans balance of US\$1.2 million repayable 31 December 2016</p> <p>US\$4.5 million debt facility obtained from GMA Garnet Group ("GMA") to finance the Garnet Stripping Plant ("GSP") fully drawn down</p> <p>US\$1.0 million overdraft facility not utilised</p>		

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Note 1 - includes prior year reconciled mine grades by quarter

SAFETY, ENVIRONMENT AND COMMUNITY

There were no lost time injuries reported for the quarter. The Company has now achieved 1,596,462 hours without a Lost Time Injury ("LTI") since October 2013.

As advised at the start of the quarter, the Company has entered into a Memorandum of Understanding ("MOU") for the Xolobeni Mineral Sands Project ("Xolobeni Project") with its Black Economic Empowerment ("BEE") Partner, Keysha Investments 178 Pty Ltd ("Keysha"), to divest its 56% interest in Transworld Energy and Resources (SA) Pty Ltd ("TEM"), the entity which owns the Xolobeni Project, to Keysha on terms to be agreed between the parties. Further details were included in the June 2016 Quarterly Report.

The Company continues to engage with Keysha, related stakeholders and relevant authorities to facilitate and finalise the sale process. The Company fully supports the ongoing development of the Xolobeni Project and its decision to divest is in no way a reflection of its commitment to its mining interests in South Africa.

The Company operates its Tormin Mining operation under the South African Government's One Environmental System which came into effect on December 8th, 2014. This legislation provides that the Competent Authority for all matters relating to environmental authorisations and compliance of the National Environmental Management Act, 1998 (NEMA) is the Department of Mineral Resources ("DMR").

Despite the legislative and vested authority resting with the DMR and ongoing compliance inspections by the DMR and the Department of Water Affairs ("DWA"), the Company received an unsolicited inspection by the Department of Environmental Affairs ("DEA") during the quarter.

The Company is perplexed by the manner (via search warrant) and the authority on which the DEA relies on to conduct such inspections and moreover, no non-compliance orders or breaches have been issued as a result of the inspection.

The Company has sought legal advice and commenced proceedings to seek a Declaratory Order from the Court confirming the DMR as the Competent Authority.

The Company has enjoyed an unblemished, fully compliant environmental record in relation to its regulatory compliance since its Tormin Mining operation commenced in 2013.

TORMIN – OPERATIONAL PERFORMANCE

Mining

Run of Mine ("ROM") production of 370,745 tonnes during the September quarter was achieved, versus budget of 424,109 tonnes. ROM ore grading 45.34% Valuable Heavy Mineral ("VHM") was mined for the quarter, consisting of a garnet grade 27.39%, ilmenite grade 14.39%, zircon grade 2.66% and rutile grade 0.57%.

ROM Beach Mining production during the quarter was curtailed to allow a rundown of previously stockpiled ROM material and to avail the beach of more replenishment time. Whilst the diminishing ROM grade is becoming evident, the ability to mine higher grade material was further impacted by seasonal weather which limits access to certain portions of the beach.

Historically, mining has been concentrated on re-mining high concentration VHM surface deposition ore blocks which have been continually replenishing. Historically and operationally this has not required the mining of the ore block to full depth to access high grade VHM. Accessing the full depth requires de-watering and a different method which has successfully been undertaken previously.

Mine Plan estimates show that the Company still has approximately 1.9 million tonnes of the original ROM resource which has not yet been mined and sits at a depth of 4-12 meters.

The mining operations will now concentrate on accessing this material and replenish deposition at depth from previously mined ore blocks. Indications suggest that the replenishment cycle also occurs at depth with the heavier minerals migrating and depositing under the lower grade surface VHM.

Processing

Notwithstanding the satisfactory commissioning of the Garnet Stripping Plant ("GSP") on time and on budget, the September operating quarter performance was below budget in terms of overall concentrate production. Whilst all key production throughput KPI's were in line with the target, the production of high value non-mag concentrate was directly related to the fall in ROM mine grade for the quarter.

Quarterly processing of Heavy Mineral Concentrate ("HMC") production through the two Primary Beach Concentrators ("PBCs") produced 106,518 tonnes of HMC for the September quarter, below the budgeted 145,258 tonnes due to lower mined grades.

The September quarter was the first full quarter of material being fed into the Tailings Scavenger Plants ("TSPs"). During the quarter, 317,343 tonnes of PBC tailings were fed into the TSPs to produce a further 51,555 tonnes of HMC.

The Garnet Stripping Plant / Secondary Concentrator Plant ("SCP") processed throughput of 176,103 tonnes in the September quarter, which was slightly below budget.

Zircon/rutile concentrate production for the quarter was 7,450 tonnes versus a budget of 14,145 tonnes. Contained zircon in the concentrate of 79.06% was marginally below budget of 80.0% zircon, whilst rutile was above budget at 14.11% contained rutile in concentrate.

For the September quarter, ilmenite concentrate production was 62,803 tonnes versus budget of 83,156 tonnes, and garnet concentrate production was 64,994 tonnes versus budget of 66,716 tonnes.

During the quarter, testing was done with various blends of ROM material and previously produced and stockpiled ilmenite and garnet concentrates. This was done to assess the capacity and the ability of the GSP / SCP to re-treat these stockpiled ilmenite and garnet concentrates to produce an upgraded Ilmenite concentrate to circa 90% Ilmenite content, and to extract the high value zircon of up to 4.5% and 2.5% contained in the ilmenite and garnet concentrates respectively.

The test was successful and proved that the zircon could be extracted out of the stockpiled ilmenite and garnet concentrates, and that an enhanced ilmenite concentrate containing 90% ilmenite content could be produced.

As a result, the GSP/SCP has been upgraded from 100tph to 140tph to offset lower grade HMC concentrate feed and to allow higher grade density feed resulting from the ilmenite and garnet concentrate blending. This now allows for the GSP/SCP plant to have significant processing flexibility, to enhance the recovery of valuable heavy minerals and to improve final concentrate product volumes, quality, and price.

Cash Costs

Total ex-works mining, processing and site administrative unit cash cost per tonne of zircon/rutile concentrate for the quarter was US\$535/t zircon/rutile concentrate produced, being above budget of US\$283/t zircon/rutile concentrate.

The incremental increase in the unit cost base of zircon/rutile concentrate is a direct result of the quarter's below budget production of zircon/rutile concentrate and a stronger RAND, offset in part by lower site operating costs.

Tormin Sales and Marketing

Sales revenue for the September quarter was US\$6.8 million. Tormin shipments / sales for the September quarter were 7,980 tonnes of zircon/rutile concentrate, and 50,000 tonnes of garnet concentrate delivered to the stockpile.

Q3 sales revenue for zircon/rutile concentrate was impacted by the low levels of production, offset in part by improved pricing for Q3 sales contracts. Zircon pricing continues to improve into Q4 following prior public announcements by large producers regarding incremental pricing increases.

The Company recommenced stockpile sales of garnet concentrate during the quarter, delivering the first 50,000 tonnes of the minimum 210,000 tonnes per annum contracted under the GMA Garnet Group ("GMA") life-of-mine off-take agreement.

The Company currently holds a further 156,000 tonnes of stockpiled garnet concentrate, that is in addition to that sold under bill and hold arrangements to GMA.

The Company continues to sell small containerised ilmenite concentrate tonnages, with contracted sales for Q4. Whilst the Company continues to be in a position to consummate bulk ilmenite concentrate shipments, no sales were made as the prospective pricing did not meet the Company's profit margin requirements, and the Company considers improved pricing will be achieved based on increased titanium concentrate and finished ilmenite demand and pricing globally.



Figure 1: - Tormin minesite depicting stockpiled ilmenite and garnet concentrates in the foreground and processing plant in the background

Further, as stated previously, the Company has also recently commenced the re-processing of its stockpiled ilmenite concentrate to further upgrade the ilmenite concentrate from a 70% Ilmenite content to a 90% Ilmenite content, thus improving marketability and pricing, and also extracting valuable zircon, rutile and garnet currently remaining in the stockpiled ilmenite concentrate.

The Company currently holds in excess of 135,000 tonnes of stockpiled ilmenite concentrate.

Tormin Resource and Offshore/Onshore Prospecting Activities

The planned sampling was further delayed due to the Contractors inability to mobilise. The Company made alternative arrangements with onsite specialised diamond mining contractors, who undertook initial near shore surf zone testing some 30 meters seaward of the low tide mark. This testing was done in the Northern extremities of the deposit which geologically host the lower grade VHM resources.

The Company will now look to mobilise this unit to the high grade Southern Beaches and attempt to conduct surf zone sampling in the known high grade deposition onshore and offshore areas.



Figure 2: - Specialised diamond mining rig utilised for near shore surf zone testing of valuable heavy minerals

In addition, the Company has entered into a contract to test and sample the offshore VHM anomalies which sit behind the wave formation zone.

There is no further update on the prospecting appeal, as previously reported.

CORPORATE

Management continue to assess the effects of the diminishing grade on the Tormin Mine operations. As previously indicated, this will impact on the level of mining that occurs to allow for the beach to more adequately replenish and to analyze the results of such replenishment.

The in-country operating and regulatory environment as eluded to in the front section of this quarterly report highlights the need for the Company to consider jurisdictional diversification. To this end, management continues to assess other projects.

The Company has initiated the next Tormin Mine expansion initiative, being a feasibility study for the design and construction of a Mineral Separation Plant ("MSP") and fresh water concentrate washing circuit to optimise value out of its ilmenite and garnet concentrate production by producing finished ilmenite and garnet products. This process and study will be managed and conducted in the context of securing necessary prospecting and mining right tenure to support this development.

At quarter end, the Company advised that two of its largest shareholders, Au Mining Ltd and Regional Management Pty Ltd, a company associated with Mr Mark Caruso the Executive Chairman and CEO of the Company, have agreed to extend the repayment date of the existing shareholder loans totaling approximately US\$1.2 million to 31 December 2016.

Whilst the Company has alternatives which would provide for the existing loans to be repaid, the extension provides the Company with further time to consider the potential effects of the current dilution in grade being experienced in the replenishment cycle, and the mitigating strategies the Company has to deal with this.

The Company is appreciative of the ongoing support of its two major shareholders. All other terms of the loans remain as those disclosed in the release of 30 May 2014.

Cash and Debt

At 30 September 2016, the Company had US\$0.3 million in cash, a decrease from the 30 June 2016 cash being held of US\$2.8 million.

Trade and other receivables at 30 September 2016 were US\$9.3 million, an increase from the 30 June 2016 balance of US\$8.2 million. The increase is predominately due to delayed receipts of value added tax ("VAT") refunds and diesel rebates from the South African Revenue Service ("SARS"), with a total ZAR 23 million in refunds due at 30 September 2016.

As stated previously, shareholder loans at 30 September 2016 were US\$1.2 million, extended to and repayable 31 December 2016.

The US\$4.5 million loan facility obtained from GMA to finance the GSP is fully drawn. Repayments on and interest charges against the facility will not commence until such time as GMA takes continuous shipment of it's 210,000 tonnes per annum off-take commitment.

The Company currently has available a US\$1.0 million overdraft facility, that was not utilised during the September 2016 quarter.

The Company is also looking to unlock the latent value of some US\$20 million contained in the garnet concentrate stockpile, by investigating stockpile financing options.

Outlook

Sales guidance for the coming quarter is in the order of 8,000 to 10,000 tonnes of zircon/rutile concentrate and 1,000 to 3,000 tonnes of containerised ilmenite concentrate.

The Company is currently assessing delaying further garnet concentrate stockpile sales to GMA until Q1, 2017 when it will obtain improved pricing under contracted bill and hold arrangements.

Securities on Issue

Issued securities at quarter-end comprise:

- 404,941,571 fully paid ordinary shares listed on the ASX.
- 5,000,000 Unlisted Options exercisable at A\$0.20 on or before 30 May 2018 and subject to the following vesting conditions:
 - (i) 3,333,334 vested; and
 - (ii) 1,666,666 vesting on 8 June 2017.
- 1,000,00 Unlisted Options exercisable at A\$0.20 on or before 31 March 2018 and subject to the following vesting conditions:
 - (i) 666,667 vested; and
 - (ii) 333,333 vesting on 31 March 2017.
- 4,000,000 Performance Rights exercisable on or before 30 May 2019 and vesting upon the closing share price reaching \$0.20 and remaining at or above \$0.20 for a period of 5 consecutive trading days. These were issued during towards the end of the quarter.

Terms and Explanations

ASX	Australian Stock Exchange
BEE	Black Economic Empowerment
DEA	Department of Environmental Affairs
DMR	Department of Mineral Resources
DWA	Department of Water Affairs
EIA	Environmental Impact Assessment
EMP	Environmental Management Program
GMA	GMA Garnet Group
GSP	Garnet Stripping Plant
HM	Heavy Mineral
HMC	Heavy Mineral Concentrate
JORC	Joint Ore Reserves Committee
LTI	Lost Time Injury
MOU	Memorandum of Understanding
MRA	Mining Right Application
MSP	Mineral Separation Plant
MSR	Mineral Sands Resources (Pty) Ltd
NEMA	National Environmental Management Authority
NUM	National Union of Mine Workers
PBC	Primary Beach Concentrator
ROM	Run of Mine
SARS	South African Revenue Service
SCP	Secondary Concentrator Plant
SLP	Social Labour Plan
TRIFR	Total Recordable Injury Frequency Rate
TSP	Tailings Scavenger Plant
VAT	Value Added Tax
VHM	Valuable Heavy Mineral
WMT	Wet Metric Tonnes

APPENDIX 1 - RESOURCE STATEMENT

The Tormin and Xolobeni Mineral Resources based on mined material reconciliation as at 31 December 2015 for the Tormin Resource is as follows.

PROJECT	Category	Resource (Million Tonnes)	Total Heavy Mineral (%)	Ilmenite (% in Heavy Mineral)	Zircon (% in Heavy Mineral)	Rutile (% in Heavy Mineral)	Garnet (% in Heavy Mineral)
Tormin	Inferred	2.7	28.01%	24.89%	5.56%	1.97%	66.19%
Xolobeni	Measured	224	5.7%	54.5%			
	Indicated	104	4.1%	53.7%			
	Inferred	18	2.3%	69.6%			
Total Xolobeni		346.0	5.0%	54.0%			
Total MRC		348.7	5.3%	53.8%			

Note:

Individual minerals reported as a percentage of the total heavy mineral concentration.

The Mineral Resource estimations previously reported under JORC 2004 for the Tormin Resource, are re-presented with updated disclosure for JORC 2012.

APPENDIX 2 – LISTING OF TENEMENTS

The following information is provided pursuant to ASX Listing Rules 5.3.3:

Country	Location	Number	Type of Right	Status	Change since last	Beneficial Interest
South Africa	Tormin	(WC)30/5/1/2/2/163 MR	Mining	Approved	N/A	100%
	Tormin	(WC)30/5/1/2/2/162 MR	Mining	Approved	N/A	100%
	Tormin	(WC)30/5/1/1/2/10036 PR	Prospecting	Approved	N/A	100%
	Tormin	(WC)30/5/1/1/2/10199 PR	Prospecting	Approved	N/A	100%
	Tormin	(WC)30/5/1/1/2/10226 PR	Prospecting	Under Application	100	100%
	Tormin	(WC)30/5/1/1/2/10229 PR	Prospecting	Under Application	100	100%
	Tormin	(WC)30/5/1/1/2/10240 PR	Prospecting	Under Application	100	100%
	Xolobeni	EC30/5/1/1/2/6 PR	Prospecting	Converting to Mining Right	N/A	100%
	Xolobeni - Kwanyana block	EC30/5/1/1/2/10025 PR	Prospecting	Converting to Mining Right	N/A	100%
	Xolobeni	EC30/5/1/1/2/10025 MR	Mining	Under Application	100 %	100%

The Company has no interests held in any farm-in or farm-out agreements.

Competent Persons Statement

The information in this announcement which relates to Exploration Results, Mineral Resources or Ore Reserves for **Xolobeni** is based on information compiled by Mr Allen Maynard, who is a Member of the Australian Institute of Geosciences ("AIG"), a Corporate Member of the Australasian Institute of Mining & Metallurgy ("AusIMM") and independent consultant to the Company. Mr Maynard is the Director and principal geologist of Al Maynard & Associates Pty Ltd and has over 35 years' of exploration and mining experience in a variety of mineral deposit styles. Mr Maynard 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 in the 2004 Edition of the "Australasian Code for reporting of Exploration Results, Exploration Targets, Mineral Resources and Ore Reserves" (JORC Code). This information was prepared and first disclosed under the JORC Code 2004. It has not been updated since to comply with the JORC Code 2012 on the basis that the information has not materially changed since it was last reported. Mr Maynard consents to inclusion in the report of the matters based on this information in the form and context in which it appears.

The information in this announcement which relates to Exploration Results, Mineral Resources or Ore Reserves for **Tormin** is based on information compiled by Mr Adriaan du Toit, who is a Member of the AusIMM and an independent consultant to the Company. Mr du Toit is the Director and principal geologist of AEMCO PTY LTD and has over 23 years' of exploration and mining experience in a variety of mineral deposits and styles. Mr du Toit 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 in the 2012 Edition of the JORC Code. The information from Mr du Toit was prepared under the JORC Code 2012 Edition. Mr du Toit consents to inclusion in the report of the matters based on this information.