

Mineral Commodities Ltd

ACN 008 478 653
ABN 39 008 478 653

40 Murray Road North
Welshpool WA 6106, Australia
PO Box 235, Welshpool DC WA 6986,
Australia
Telephone: 61 8 6253 1100
Facsimile: 61 8 9258 3601
Email: info@mncom.com.au
Web: www.mineralcommodities.com

Quarterly Activities Report For the period ended 31 March 2017



Production Summary	Quarter ended	Quarter ended	Quarter ended	Year to Date	Year to Date
	31-Mar-17	31-Dec-16	31-Mar-16	31-Mar-17	31-Mar-16
Mining					
Tonnes	501,343	537,576	444,888	501,343	444,888
Grade	31.30%	36.28%	51.28%	31.30%	51.28%
- Garnet	22.59%	24.36%	31.81%	22.59%	31.81%
- Ilmenite	6.49%	9.09%	15.05%	6.49%	15.05%
- Zircon	1.28%	1.84%	3.42%	1.28%	3.42%
- Rutile	0.49%	0.53%	0.64%	0.49%	0.64%
- Leucoxene	0.44%	0.46%	0.36%	0.44%	0.36%
GSP / SCP Processing & Production					
Tonnes processed	176,207	201,469	139,424	176,207	139,424
Tonnes produced					
- Garnet concentrate	58,160	61,856	73,353	58,160	73,353
- Ilmenite concentrate	83,171	94,567	24,415	83,171	24,415
- Zircon/Rutile concentrate	6,212	9,717	10,170	6,212	10,170
zircon in concentrate	72.53%	76.85%	71.76%	72.53%	71.76%
rutile in concentrate	16.54%	14.35%	13.75%	16.54%	13.75%
Sales (wmt)					
- Zircon/Rutile concentrate	6,576	9,576	11,908	6,576	11,908
- Ilmenite concentrate	59,111	2,068	0	59,111	0
- Garnet concentrate	168	80,308	0	168	0
Highlights			Corporate and Cash		
- No lost time injuries - First shipments of bulk Ilmenite concentrate during the quarter - Specialised amphibious dredge excavator commissioned March 2017 - Binding Heads of Agreement executed with GMA Group to amend Garnet Offtake Agreement, securing final delivery of garnet concentrate and a minimum US\$60m revenue over next five years			Securities: 405 million shares, 6 million options and 4 million performance rights Cash: Cash as at 31 March 2017 of US\$0.5 million, plus US\$7.9 million in trade and other receivables Debt: Borrowings as at 31 March 2017 of US\$7.0m. US\$0.5 million overdraft facility unutilised as at 31 March 2017		

For enquiries regarding this report please contact:
Mineral Commodities Ltd
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+61 8 6253 1100

SAFETY, ENVIRONMENT AND COMMUNITY

There were no lost time injuries reported for the quarter. The Company has now achieved 1,844,432 hours without any Lost Time Injury ("LTI") since operations commenced in October 2013.

During the quarter, the Company received a visit to Tormin Mine Site from a Parliamentary delegation representing the Honorary Portfolio Committee of the Government of South Africa. The Committee visited several designated mining operations in the Western Cape. The Committee is charged with proactively supporting and assisting mining development in South Africa, more particularly the Western Cape region of South Africa which is considered to be an important underdeveloped mining centre.

The Committee focused on feedback from mine operators relating to hurdles to mining development in the region, including issues and functionality of the Government's 'One Environmental Policy', Social Labour Investment and supporting logistical infrastructure development.

The Company presented its feedback in a one day forum, based on site. The Company articulated to the Committee that the biggest obstacle to development is the time taken for respective permitting commencing from prospecting through to mine development approvals.

In addition, the Company's expansion initiatives were tabled including the upcoming Environmental Management Programme ("EMP") 102 Amendments which will allow for mining of the Northern Beach areas and portions of the on-land strand-line located on the Company owned Geelwal Karoo Farm, and the construction of a downstream value-adding Mineral Separation Plant ("MSP") to produce finished Ilmenite, garnet, zircon and rutile products.

The Committee fully appreciated the importance of the Tormin mine to the local and regional communities in terms of employment and commercial benefit injected into the economy.

The Committee will present a full report to Parliament on its findings. The Company is hopeful that the findings will provide a catalyst for further streamlining of the permitting process as well as support for the importance of mining as a key contributor to the economy of South Africa.

The Company advised in March 2017 that its South African subsidiary Mineral Sands Resources (Pty) Ltd's ("MSR") application to set aside the search and seizure warrant, issued by the Department of Environment Affairs ("DEA") in South Africa, was successful.

In the judgement delivered, the High Court of South Africa (Western Cape Division, Cape Town) declared the said warrant to be invalid and set aside. Judge Rodgers advised that "*MSR has achieved substantial success*" and ordered that the respondents pay MSR's legal costs, including MSR's legal counsels' costs.

The judgement confirms as previously advised, that 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") insofar as the activities relate to mining or prospecting.

It is important to note that no charges have been laid against the Company in relation to the search and seizure warrant and the Company has operated with an unblemished record with no prosecution ever been made against the Company or its officers since its commencement of the Tormin Mine operation in 2013.

Ongoing Social Labour Plan ("SLP") commitments to internships, bursaries, traineeships, apprenticeships continued during the quarter. In addition the Company has identified a new Local Economic Development

("LED") Project in the Matzikama Municipality which will see a revamp of the Numerus High School computer laboratory with new laptops and furniture.

TORMIN – OPERATIONAL PERFORMANCE

Run of Mine ("ROM") production of 501,343 tonnes during the March quarter was achieved, versus budget of 439,908 tonnes. ROM ore grading 31.30% Valuable Heavy Mineral ("VHM") was mined for the quarter, consisting of a garnet grade 22.59%, ilmenite grade 6.49%, zircon grade 1.28% and rutile grade 0.49%.

The above budget tonnage performance of the mining operations continued into the first quarter of 2017.

As reported in the December 2016 quarter, the Company has purchased specialised amphibious excavation equipment which will allow it to mine the previously un-mineable seaward extremities of its current Mining Right resource boundaries. This equipment was delivered, assembled and commissioned in the March quarter on time and under budget. The Company will now commence trialing the equipment in the coming quarter.

Quarterly processing of ROM production through the Primary Beach Concentrators ("PBC") / Tailings Scavenger Plants ("TSP") circuits produced 113,021 tonnes of Heavy Mineral Concentrate ("HMC") for the March quarter, slightly below the budgeted 116,947 HMC tonnes, due to the lower mined grades.

The Garnet Stripping Plant ("GSP") / Secondary Concentrator Plant ("SCP") processed throughput of 176,207 tonnes in the March quarter, which was above budget of 161,541 tonnes.

Zircon/rutile concentrate production for the quarter was 6,212 tonnes versus a budget of 7,060 tonnes. Contained zircon in the concentrate of 72.53% was above budget of 71.17% zircon, whilst rutile was also above budget at 16.54% contained rutile in concentrate.

For the March quarter, ilmenite concentrate production was 83,171 tonnes versus budget of 74,335 tonnes, and garnet concentrate production was 58,160 tonnes versus budget of 48,080 tonnes.

During the quarter, the Company re-treated 42,702 tonnes of previously stockpiled medium grade ilmenite concentrate to extract excess zircon and to upgrade the final ilmenite concentrate product.

The overall production performance for the quarter was pleasing, with the slight HMC production deficit being driven by lower than budgeted mined grade.

Tormin Cash Costs

The following is a summary of unit costs and revenue per tonne produced:

SUMMARY OF UNIT COSTS & REVENUE PER TONNE (US\$)	Mar 2016 Quarter	Jun 2016 Quarter	Sep 2016 Quarter	Dec 2016 Quarter	Mar 2017 Quarter
Unit production cash costs per tonne of final concentrate produced	27.12	32.55	25.70	24.49	30.59
Unit cost of goods sold per tonne of final concentrate sold ⁽¹⁾	260.81	283.73	85.76	59.03	94.19
Unit revenue per tonne of final concentrate sold	588.13	464.39	117.41	101.42	121.45
Revenue : Costs of goods sold ratio	2.26	1.64	1.37	1.72	1.29

Note 1:- Cost of goods sold includes production cash costs, product handling, transport and selling costs, royalties, stock movements, and depreciation and amortisation. Excludes corporate and financing costs.

Production cash costs per tonne of zircon/rutile, ilmenite and garnet concentrates produced for the quarter was US\$30.59/t, compared to a budgeted US\$33.65/t, with the Tormin mine increasing overall final concentrate production whilst maintaining its cash production expenditures at the budget estimate.

Irrespective that the Tormin Mine is experiencing lower mined grades, it is expected that higher plant utilisation and recoveries for the forthcoming June quarter will compensate, resulting in the Company maintaining or lowering unit costs to historical levels.

Cost of goods sold (incorporating production cash costs, product handling, transport and selling costs, royalties, stock movements, and depreciation and amortisation) per tonne of concentrate sold was US\$94.19/t for the quarter, compared to a budgeted US\$97.51/t and prior quarter's US\$59.03/t.

The increase in unit cost of goods sold over the prior quarter is a reflection of a changed product sales mix, with stockpiled garnet sales in the December 2016 quarter being replaced by bulk ilmenite shipments for this quarter, and the consequential higher transport and shipping cost component being incorporated.

Tormin Sales and Marketing

The Company advised in early January 2017 that its South African subsidiary MSR, the entity which owns and operates the Tormin operation, had contracted to sell ilmenite concentrate in Q1 2017.

The commencement of ilmenite concentrate shipping began in February 2017 with an initial bulk shipment of 55,000 tonnes delivered to Chinese customers. A further two shipments totalling 110,000t of Ilmenite concentrate are planned in April / May 2017.

Since commencement of mining operations in 2014, MSR had stockpiled approximately 200,000 tonnes of medium to high grade ilmenite concentrate in anticipation of increased pricing. The Company currently produces circa 20,000 tonnes of ilmenite concentrate per month from its Tormin Operations.

The Company is experiencing strong demand for its ilmenite concentrate due to a combination of the tightening of the global ilmenite supply chain as well as the curtailing of domestic sulphate ilmenite production within China due to environmental and economic cost of production factors. In addition, there has been an increased demand for all downstream finished titanium products.

The Company is also seeing incremental quarter on quarter increases in sales pricing for its high grade non-magnetic zircon/rutile concentrate.

Sales revenue for the March quarter was US\$8.1 million.

Tormin shipments / sales for the March quarter were 6,576 tonnes of zircon/rutile concentrate, 4,111 tonnes of bagged ilmenite concentrate and 55,000 tonnes of bulk ilmenite concentrate. There were no sales of garnet concentrate for the March quarter to the GMA Group ("GMA").

The Company recently announced the execution of a Binding Heads of Agreement ("HOA") with GMA, to amend the existing Life of Mine ("LOM") Offtake Agreement for garnet concentrate with the key aspects of the HOA being:

- GMA have agreed to accept final delivery of a minimum of 210,000 tpa for the LOM.
- In addition, GMA have agreed to increase existing stockpile tonnages for 2017 to 240,000 tonnes, whilst maintaining the future years LOM stockpiling commitment for 210,000 tpa.
- Immediate net cash proceeds of US\$5.2 million to the Company, received within 2 days of HOA execution.

- Furthermore, GMA have agreed to pay for all historically incurred and future stockpile capital and maintenance costs relating to the increased stockpiling capacity required by GMA.
- MRC to provide designated lease areas to stockpile GMA delivered garnet concentrate, and to provide for securitisation over prepaid stockpiled garnet concentrate inventory.

Further details of the HOA are set in the Company's announcement of 26 April 2017.

Revenue per tonne of concentrate sold was US\$121.45/t for the quarter, above the budgeted US\$109.49/t.

The improvement in unit revenue was driven by higher than budget product grades, and a proportionately higher blend of zircon/rutile concentrate in the sales product mix.

The Revenue to Cost of Goods Sold Ratio for the quarter was 1.29 as compared to a budgeted 1.12 and the prior quarter's 1.72. The improvement on budget was a result of higher product grades, production tonnage and an increased proportionate blend of higher priced zircon/rutile concentrate in the sales product mix.

For the forthcoming quarters', the Company is expecting the Revenue to Cost of Goods Sold Ratio to improve towards historical levels as a consequence of:-

- improved ilmenite, rutile and zircon pricing and market conditions that it is experiencing;
- continued shipment of its monthly ilmenite production and drawdown on the Company's current 160,000 tonnes of ilmenite concentrate stockpiled;
- sales of 210,000 tonnes of delivered garnet concentrate to GMA over the course of the year arising from the recently executed HOA with GMA;
- revenue for stockpiling 240,000 tonnes for GMA over the course of the year; and
- maintenance of or improvement in unit production costs, with decreasing mined grades offset by improved plant utilisation and recoveries.

Tormin Resource and Offshore/Onshore Prospecting Activities

The Company released the results of its annual resource update on 27 February 2017. Full details of the update can be reviewed in that release.

In summary, the Inferred resource was downgraded from 2.7 million tonnes to 1.8 million tonnes.

The resource grade of 28.08% HM remained a similar grade to the December 2015 reported resource of 28.01% HM. Approximately 5 million tonnes of material has been mined up until March, 2017. The ROM grade for the March quarter was 31.61% HM, which was above the stated Inferred resource grade recorded.

During the quarter, meetings were held with the Department of Mineral Resources ("DMR") in relation to the granting of Prospecting Rights, and more particularly for the Southern areas which remain under application.

All matters relating to the grant of the Southern Prospecting Rights have now been completed. The Company now awaits the DMR's decision on the granting of the Rights.

As previously reported, in order to protect the tenure of the two Prospecting Rights that were refused by the DEA Appeal decision, new Prospecting Rights Applications were re-lodged over these respective areas. These Prospecting Rights Applications (WC30/5/1/1/2/10261PR over the beaches North of Tormin and WC30/5/1/1/2/10262PR over the farm Geelwal Karoo) were lodged on 22 December 2016.

During the Quarter, full interested and affected party (IAP) consultations commenced on the above two Prospecting Rights Applications.

Progression on the EMP 102 Amendment Applications including the publication of a Background Information Document (“BID”) by the Company’s Independent Environmental Practitioner (“IEP”) SKR Consultants to all interested and affected parties was undertaken during the quarter. This document, whilst not mandatory, is a proactive information consultation document which assists preliminary engagement with all stakeholders.

The Company now is in the final stages for the submission for the EMP 102 Applications to be submitted in April 2017, including the finalisation of a scoping document as prescribed under the relevant legislation.

The Company remains optimistic that the current Mining and Prospecting Rights Applications and the approval process will deliver ongoing opportunities to expand the LOM of the Tormin operation in the near future.

CORPORATE AND BUSINESS DEVELOPMENT

As noted above, the Company executed a Binding Heads of Agreement with GMA subsequent to the quarter end. Negotiations for the HOA took pace during the quarter.

The Board of the Company was pleased to be able to declare the Company’s second successive dividend of AU\$0.012 in respect to the 31 December 2016 financial year.

The declaration was again underpinned by a solid operating performance throughout the 2016 year. The current and forecast cash position of the Company provides for the payment of the dividend (AU\$4,859,299 in total) and further reinforces that returns to shareholders are an important aspect of the Company’s capital management strategy.

The Company continued with its study for an MSP to produce finished Ilmenite, garnet, zircon and rutile products. The current mineral sands pricing strength supports the MSP project, and will allow the Company to extract full value from its existing ilmenite and garnet concentrate stockpiles, which currently total some 750,000 tonnes cumulatively, in addition to significantly value add to its future ilmenite, garnet and zircon/rutile concentrate production by their conversion to finished products.

The Company is actively pursuing business development opportunities. A full time Business Development Manager and project team has been put together to identify industrial mineral / mineral sands opportunities, as well as other core base metal mineral opportunities. Numerous opportunities were assessed during the quarter, with several projects advancing to the next stage of final due diligence.

Cash and Debt

At 31 March 2017 the Company had US\$0.5 million in cash, a decrease from the 31 December 2016 cash being held of US\$2.9 million.

Trade and other receivables at 31 March 2017 were US\$7.9 million, a slight decrease from the 31 December 2016 balance of US\$8.0 million.

At the commencement of the quarter, the Company advised that shareholder loans from two of its largest shareholders, Au Mining Ltd and Regional Management Pty Ltd, totaling approximately US\$1.1 million were repaid in full.

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 now commence 30 days following execution of the HOA as noted above.

The Company's overdraft facility limit has been reduced to US\$0.5 million, and was undrawn as at 31 March 2017.

The Company expects strong positive cashflow generation in forthcoming quarters as it starts to realise the value of continuous ilmenite concentrate shipments and the recommencement of garnet concentrate sales.

Outlook

Sales guidance for the forthcoming quarter is in the order of:-

- 6,000 to 9,000 tonnes of zircon/rutile concentrate;
- a minimum 110,000 tonnes of ilmenite concentrate, and additional sales dependent on timing of shipments;
- 80,000 tonnes of garnet concentrate stockpiled under partial bill and hold arrangements; and
- 125,000 tonnes of garnet concentrate drawn from the stockpile and sold under final delivery arrangements.

The Company is well positioned in a rising global mineral sands market to extract optimised pricing for its full suite of concentrate products.

The Company anticipates a strong financial performance for the 2017 financial year based on current projected commodity pricing, sales and production which will underpin further business development opportunities and shareholder returns.

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 AU\$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.
- 1,000,000 Unlisted Options vested and exercisable at AU\$0.20 on or before 31 March 2018.
- 4,000,000 Performance Rights exercisable on or before 30 May 2019 and vesting upon the closing share price reaching AU\$0.20 and remaining at or above AU\$0.20 for a period of 5 consecutive trading days.

Terms and Explanations

ASX	Australian Stock Exchange
BEE	Black Economic Empowerment
BID	Background Information Document
DEA	Department of Environmental Affairs
DMR	Department of Mineral Resources
DWA	Department of Water Affairs
EIA	Environmental Impact Assessment
EMP	Environmental Management Programme
GMA	GMA Garnet Group
GSP	Garnet Stripping Plant
HDSA	Historically Disadvantaged South Africans
HM	Heavy Mineral
HMC	Heavy Mineral Concentrate
HOA	Heads of Agreement
IEP	Independent Environmental Practitioner
JORC	Joint Ore Reserves Committee
LTJ	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 2016 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	1.8	28.08%	21.9%	5.9%	1.9%	67.6%
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 Quarter	Beneficial Interest
South Africa	Tormin	(WC)30/5/1/1/2/10261 PR	Prospecting	Under Application	NA	100%
	Tormin	(WC) 30/5/1/1/2/10262 PR	Prospecting	Under Application	NA	100%
	Tormin	(WC)30/5/1/2/2/163 MR	Mining	Approved	N/A	100%
	Tormin	(WC) 30/5/1/1/2/10259 PR	Prospecting	Under Application	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	Closed	100%	100%
	Tormin	(WC)30/5/1/1/2/10229 PR	Prospecting	Closed	100%	100%
	Tormin	(WC)30/5/1/1/2/10240 PR	Prospecting	Under Application	100%	100%
South Africa	Xolobeni	EC30/5/1/1/2/6 PR	Prospecting	Closed – Converting to Mining Right	N/A	100%
	Xolobeni - Kwanyana block	EC30/5/1/1/2/10025 PR	Prospecting	Subject to moratorium - Converting to Mining Right	N/A	100%
	Xolobeni	EC30/5/1/1/2/10025 MR	Mining	Subject to moratorium - 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 24 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.