



[Xtract Resources plc](#) - XTR

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("Xtract" or "the Company")

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Xtract Resources Plc (AIM: XTR) announces that it has entered into a conditional sale and purchase agreement (the "Agreement") to sell the Manica Gold project in Mozambique to Nexus Capital Limited ("Nexus") and Mineral Technologies International Limited ("MTI") (together the "Purchasers") for a cash consideration of US\$17,500,000. Under the Agreement, Xtract will sell its 100% interest in Explorator Limitada ("Explorator"), the entity which holds title to the Manica mining licence 3990C (the "Manica Licence") to the Purchasers at completion.

Background to and reasons for the Transaction

The Manica Licence holds gold deposits (both hard rock and alluvial) which the Company has been progressing towards production since June 2015. It is expected that a Bankable Feasibility Study ("BFS"), assessing the viability of developing and mining a hard rock gold deposit identified within the Manica Licence, will be completed in Q2 2016, with mine construction planned to commence in Q4 2016 and first production in Q4 2017. Mining of the alluvial gold deposit is planned for Q3 2016.

The Board recognises that these projects at Manica are not without risk and all existing and new projects are reviewed on an ongoing basis to ensure the execution, financial, economic, geographical and funding risks to the Company are commensurate with potential returns.

As previously notified, the Company has been exploring project financing options for Manica and it is clear from this process that the significant capital requirement, expected to be approximately US\$35 million in start up costs, would be highly likely to result in material dilution for Xtract's shareholders.

When the Board received an offer from the Purchasers to acquire the Manica Licence it considered the alternative options available to the Company and concluded that it would be in the best interests of shareholders to dispose of the Manica Licence (through the disposal of Explorator) at this time as it would:

- Secure a 40% return on its investment in the Manica Licence in under 12 months
- Deliver a strong return without taking exposure of significant risks to the Company's overall financial position
- Avoid material dilution to existing shareholders by removing funding requirement
- Enable Xtract to focus on the Chepica mine in Chile (the Company's principle, producing asset)
- Strengthen the Company's balance sheet
- Obtain cash to invest in high return projects, which are currently being evaluated, delivering in the shorter term

Jan Nelson, CEO of Xtract, said: "The Board carried out a detailed strategic review on receipt of the proposal from MTI and Nexus and we believe that the value we have added to the projects at Manica has been recognised by the offer. An uplift in value of 40% in such a short time is testament to the work of the team at Xtract. The Board has recognised the substantial dilution which shareholders would have had to bear and has elected to sell Manica at this stage in order to strengthen the Company's balance sheet and focus on higher return targets which may realise shareholder value over a much shorter period."

Terms of the Transaction

Under the terms of the Agreement and upon Completion, the Group will dispose of its 100% interest in Explorator to the Purchasers for a total cash consideration of US\$17.5 million on a '*cash free - debt free*' basis, and the Consideration is subject to adjustment, under certain conditions.

The Agreement is subject to *inter alia*: (i) obtaining the necessary corporate and regulatory approvals (including approval by the Ministry of Mineral Resources and Energy in Mozambique); and (ii) satisfactory completion by the Purchasers of all financial, legal, technical, operational, commercial, regulatory and tax due diligence (including due diligence on the sovereign, political and economic status of Mozambique) by 31 August 2016.

The Agreement requires Xtract to deliver a BFS to MTI before 30 June 2016. In the event that Xtract does not deliver the BFS by 30 June 2016, the purchase consideration will be reduced by US\$1 million.

In the event that the Transaction does not proceed to Completion for any reason, the Group will continue to maintain its ownership of the Manica Licence and work will continue on the mine at Fair Bride and the Alluvial Gold JV Project, in accordance with the existing project timelines.

Description of Manica

The Company announced on 29 June 2015 that it had raised capital which would be used to acquire 100% of the Manica Licence from Auroch Minerals NL ("Auroch"), for a total consideration of US\$12.5 million. Final approval under the Mozambique Mining Act from the Mozambican mining authorities was granted and the acquisition completed in March 2016.

The Manica Licence is located in the Manica Province of Mozambique and has a total area of c.42km sq. Since acquiring the Manica Licence, the Company has undertaken significant development work in order to upgrade the gold resource and has continued work towards completion of a BFS.

The work carried out to date at the Manica Licence has led to completion of an independent technical report which confirmed that, during the Company's ownership of the Manica Licence, the resource at Fair Bride has increased by 36% to 1.257Moz at a cut-off of 1g/t.

Alluvial Gold JV Project

In October 2015 the Company announced that it had entered into a joint venture ("JV") agreement with MTI to mine the alluvial gold deposit at the Manica Licence, as a project separate to the hard rock gold deposit on which a BFS is being completed. In May 2016 the Company announced that it had re-negotiated the existing agreement with MTI regarding the alluvial gold deposit at Manica and it now expected that first production will commence in Q3 2016 as part of a trial mining programme near the Fair Bride prospect. A total bulk sample of c.16,000 tons would be taken and, subject to permitting, production would be increased to 850,000 tons of alluvial material per month during the following six months.

Chepica Gold Mine

The Company's operating asset is the Chepica gold and copper mine in Chile ("Chepica"), which is currently in production and targeting to mill 30,000t in Q2 of 2016.

Use of Proceeds

Following Completion, the Company will receive the Consideration of US\$17.5 million, from which it will settle certain outstanding payments due to Auroch in respect of the acquisition of the Manica Licence and the tax liability relating to the Transaction. Following these payments, the Company expects to have remaining cash proceeds of approximately US\$12 million, which it intends to apply to operational activities, where appropriate, and to generate attractive returns for its shareholders. The availability of cash will enable the Company to explore new opportunities at a time when the Board believes that the mining sector is set for a recovery in the medium term.

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