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# Manica and Chepica Update and Placing

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THIS ANNOUNCEMENT CONTAINS INSIDE INFORMATION

Xtract Resources Plc

("Xtract" or "the Company")

Update on Disposal of Manica Gold Project and Chepica Operations  
and Completion of Placing

Xtract Resources (AIM:XTR) provides an update on the disposal of its interest in the Manica Gold Project in Mozambique ("Manica") and other matters and confirms the completion of a placing of 1,538,461,538 new ordinary shares of 0.01p ("Ordinary Shares") at a price of 0.065 pence per share to raise £1 million (before expenses).

## Summary

- Agreement with Auroch Minerals NL ("Auroch") to pay US\$750,000 of the remaining US\$2.5 million relating to the acquisition of Manica in June 2015, on 20 July 2016, principally through a draw-down of £671,000 from the Company's SEDA facility with YA Global Master ("YAGM")
- Agreement with Nexus Capital Limited ("Nexus") and Mineral Technologies International Limited ("MTI") (together the "Purchasers") to amend the terms of the proposed acquisition of Manica by the Purchasers, subject to certain conditions. The revised terms include, *inter alia*, the Purchasers making an initial payment of US\$2 million by 12 August 2016, in return for a reduction in the total cash consideration for the Transaction from US\$17.5 million to US\$15 million (the "Revised Consideration").
- Xtract has completed all studies with regard to the Bankable Feasibility Study ("BFS") at Manica and Venmyn Deloitte is undertaking an independent review of the results, with the BFS expected to be completed in August 2016.
- Raised £1 million through a placing of 1,538,461,538 new Ordinary Shares at 0.065 pence per share, principally to fund ongoing development work at the Chepica gold mine in Chile where the company had deemed it necessary to refurbish the existing crushing plant and construct a new flotation plant that will resolve the issues around producing saleable gold concentrate.

## Manica Disposal

Further to the notification by the Company on 26 May 2016, regarding the proposed disposal of Manica to the Purchasers for a cash consideration of US\$17,500,000 (the "Transaction"), the Company provides an update as to progress with the Transaction and other related matters:

- The Company has now reached agreement with Auroch Minerals NL ("Auroch") with regard to the remaining US\$2.5 million payment relating to the acquisition of Manica in June 2015. The Company will pay Auroch US\$750,000 of the remaining US\$2.5 million on 20 July 2016, principally through a draw-down of £671,000 from the Company's SEDA facility with YAGM.

- The Company has reached agreement with the Purchasers whereby the Purchasers will make an initial payment to Xtract of US\$2.0 million on 12 August 2016 (the "Initial Payment") pursuant to the Transaction, subject to certain conditions which are set out below (the "Conditions"). The Initial Payment will be secured in favour of the Purchasers and is refundable in full in the event that Completion of the Transaction does not occur.
- The Initial Payment and the funds drawn down from the SEDA will enable the Company to make the payment of US\$1.75 million to Auroch on 12 August 2016 in full settlement of the balance due to Auroch pursuant to the acquisition of Manica in June 2015.
- The outstanding conditions of the Transaction include:
  - In order to receive the Initial Payment on 12 August 2016, the Company has agreed to reduce the total cash consideration for the Transaction from US\$17.5 million to US\$15 million.
  - The Initial Payment will be deducted from the Revised Consideration and in the event that the Transaction is completed, the Company will receive the net consideration of US\$12.5 million on Completion, expected to be on or around 1 March 2017. A retention adjustment amount of \$500,000 will be retained by the Purchasers following Completion until the working capital position of Manica at Completion has been calculated and agreed.
  - Under the original terms of the Transaction, Xtract was required to deliver the Bankable Feasibility Study ("BFS") to the purchasers by 30 June 2016 and in the event that Xtract did not deliver the BFS on time, the purchase consideration would be reduced by US\$1 million. The Purchasers have agreed to extend the deadline by which Xtract must deliver the BFS until 31 July 2016. In the event that the BFS is not delivered to the Purchasers by 31 July 2016, the Revised Consideration will be adjusted downwards by US\$1 million. The Company expects to deliver the BFS to the Purchasers in early August and is therefore continuing to negotiate with the Purchasers a further extension to complete the BFS to 31 August 2016.
  - Completion of the Transaction is now subject to *inter alia*: (i) obtaining the necessary regulatory approvals (including approval by the Ministry of Mineral Resources and Energy in Mozambique) by 28 February 2017; 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 the 240<sup>th</sup> day following the date of delivery of the BFS to the Purchasers (the "Due Diligence Period").
  - Gold production at Manica is expected to commence in August 2016 and by way of an amendment to the existing joint venture agreement, all gold produced from the permitted area ("Gold") during the Due Diligence Period shall be owned 20% by Xtract and 80% by MTI. After the Due Diligence Period, if Completion of the Transaction does not occur, all Gold produced shall be owned 40% by Xtract and 60% by MTI. Both parties will bear the operating costs of Manica on a pro rata basis in line with ownership of Gold produced which will be funded from the proceeds of gold sales and should the gold sales not cover costs, the purchasers will cover the operating expenditure and recover such from future gold sales)
  - During this period to 1 March 2017, Xtract's in-house estimates indicate that the plant at Manica could produce around 5koz of Gold in total. At a gold price of US\$1,300 per ounce this equates to approximately US\$6.5 million in revenue. Xtract's in-house estimates indicate that costs would represent approximately 40% of revenue.

#### Chepica Plant Upgrades

After careful due diligence and investigation into the metallurgical problems experienced in the processing plant, whereby it became difficult to produce saleable gold concentrate, the Company has deemed it necessary to refurbish the crushing plant and construct a new modern floatation plant. The total capital required to refurbish the crushing plant is approximately US\$160,000 and the construction of a new floatation plant will cost approximately US\$350,000. The total period to complete refurbishment and construction is estimated at 60 days and during this period the mine will not produce any concentrate. Underground production is proceeding as planned and will continue in order to build a stockpile of approximately 20,000 tons during this period.

In-house due diligence together with work done by independent metallurgical consultants show that once the upgrades are completed the mine could produce gold concentrate (assuming a gold price of US\$1300/oz and tonnage feed of 10,000 tons per month) with a current value of between US\$650,000 to US\$850,000 per month on a forecasted cost structure of US\$280,000 per month.

The capital and operational cost during the period in which the plant is upgraded will be funded from the proceeds of the equity raising.

#### Placing

In order to strengthen Xtract's cash position at this time, the Company has completed a Placing of 1,538,461,538 ordinary shares of 0.01p ("Placing Shares") at a price of 0.065p per Ordinary Share (the "Placing") from new investors.

The proceeds from the Placing will be used principally to fund ongoing development work at the Chepica gold mine in Chile and for general working capital purposes.

#### YAGM SEDA Draw-Down

Xtract has drawn down £671,000 from its existing SEDA with YAGM and has primarily deployed these funds to settle the US\$750,000 payment due to Auroch. In accordance with the terms of the SEDA, which was extended on 9 May 2016 to 31 December 2017, the Company has issued YAGM with 1,032,811,415 new Ordinary Shares (the "YAGM Shares") at a price of 0.065p each.

#### YAGM Loan Facility Draw-Down

In addition to the draw-down from the SEDA facility with YAGM, the Company has also draw-down a further US\$450,000 from its loan facility with YAGM. The funds drawn down will be used to fund the final payments in respect of the BFS and for general working capital purposes. Following the Loan Facility draw-down, the balance stands at US\$2,100,000 with a further US\$1,850,000 available for draw-down.

#### Issue of Shares to Manica Creditors

Under the terms of the Manica acquisition in June 2015, the Company had assumed responsibility to settle US\$1.5 million of Manica project creditors ("Manica Creditors") of which US\$0.78 million remains. The Company has agreed with Manica Creditors that it will issue 600,694,007 new ordinary shares to Manica Creditors in full settlement of this debt (the "Manica Creditor Shares").

#### New Ordinary Shares

Application will be made for the Placing Shares, the YAGM Shares and the Manica Creditor Shares (together, the "New Shares") to be admitted to trading on AIM ("Admission"), with Admission expected to occur on 28 July 2016. On Admission the New Shares will rank *pari passu* with the Company's existing issued Ordinary Shares. Following Admission, the Company will have 12,912,728,545 ordinary shares in issue with voting rights. Xtract does not currently hold any shares in treasury. Accordingly, this figure of 12,912,728,545 Ordinary Shares may be used by shareholders in the Company as the denominator for the calculations by which they will determine if they are required to notify their interest in, or a change in their interest in, the share capital of the Company under the FCA's Disclosure and Transparency Rules.

**Jan Nelson, CEO of Xtract, commented:** "We have restructured the proposed transaction in order to de-risk the Company in relation to its near term requirements. Whilst this has been done under very difficult circumstances and challenging market conditions, we are pleased to have now reached this point where our payments to Auroch will be satisfied in the coming weeks, enabling us to now focus on starting to rebuild value within the Company as we focus on revitalising the plant at Chepica in order to enable the Company to start delivering meaningful production at the mine."

#### Enquiries:

Xtract Resources Plc	Jan Nelson, CEO	+44 (0)20 3416 6471
Cenkos Securities plc	Derrick Lee Beth McKiernan	+44 (0)131 220 6939
Beaufort Securities	Jon Beliss	+44 (0)207 382 8300
St James's Corporate Services	Phil Dexter	+44 (0)20 7796 8647 +44 (0)7798 634398
Gable Communications	Justine James xtract@gablecommunications.com	+44 (0)20 7193 7463 +44 (0) 7525 324431

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