

Tuesday 5th June, 2018

Portfolio Stock Developments

AusQuest - (ASX: AQD, Share Price: \$0.03, Market Cap: \$16m, coverage initiated @ \$0.017 in Sep 2015 – current gain of 76%)



Key Catalyst

Milestone copper drilling program underway at Chololo Copper Project in Peru, under Strategic Alliance with South32 (ASX: S32)

AQD has been a mainstay of our coverage universe. Firstly, because of its bold exploration ambitions and secondly, due to its success in recruiting joint venture ‘big brothers’ with deep pockets to fund its exploration activities. AQD’s strategy of exclusively targeting Tier 1 exploration discoveries differentiates it from the vast majority of its junior peers, combined with the fact that it minimizes equity dilution.

AQD has most recently revitalised the ‘big brother’ concept via a unique Strategic Alliance Agreement (SAA) with diversified miner South32 (ASX: S32), where it has developed a pipeline of high-potential exploration opportunities, with South32 funding all exploration activity. The SAA with South32 represents an exciting opportunity to work alongside one of the world’s most successful diversified miners.

Latest Activity

Chololo Project Drilling Kicks Off

AQD advised today (Tuesday) that it has commenced its much-anticipated diamond drilling program on its large-scale Chololo Copper Project in southern Peru. As we indicated in our most recent note on AQD on 28th April, the company had just received all requisite permits in order to enable drilling operations to commence. The initial phase of drilling will comprise a total of 10 holes for ~5,000m of diamond drilling.

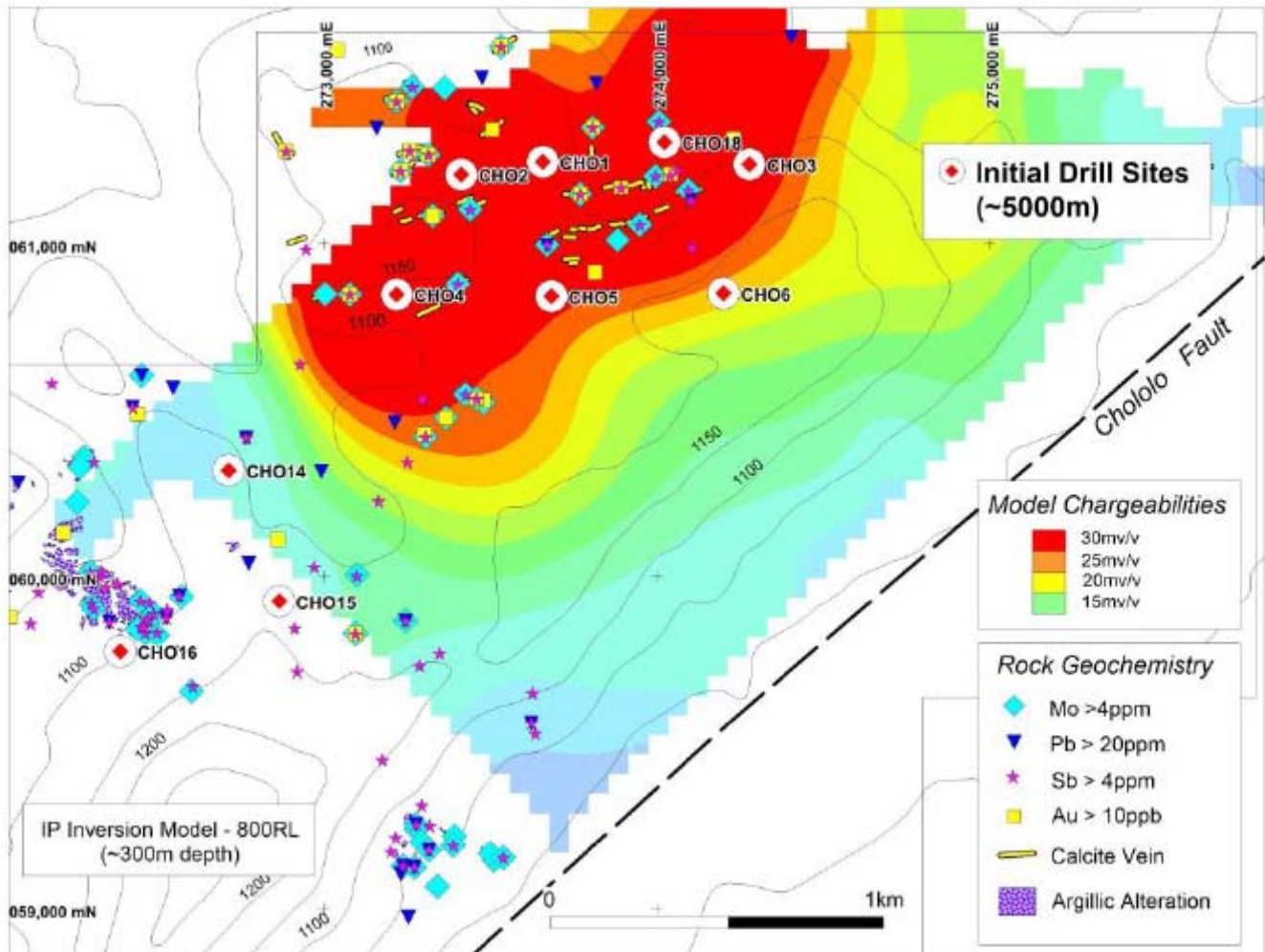


Figure 1: Chololo Porphyry Copper target showing location of the initial drill-holes

Initial drill-hole priorities have been determined by the availability of access and preparation of drill pads. Two drill rigs are currently on site with the first rig drilling at the CH06 target and the second due to commence drilling at site CH018 shortly. All holes are planned to be drilled to at least 500m depth and will take approximately two weeks each to complete. Drill-core logging/processing plus analysis should be available approximately 4-6 weeks after each hole is completed. The full drilling program is expected to take several months to complete and drilling progress will be reported on an ongoing basis.

Technical Significance

The Chololo drilling program is another important step for its Strategic Alliance with South32 and for the company's ongoing exploration programs targeting large-scale copper discoveries in southern Peru. The Chololo drilling program will be the largest undertaken so far under the company's broader Strategic Alliance Agreement (SAA) with South32.

Computer modelling of the IP data has confirmed the large Chololo target size (1.5km x 1.0km) and anomaly strength, suggesting potential for significant amounts of sulphide mineralisation within the source rocks (i.e. a potential 'company-maker').

Project Overview

The Chololo Project is subject to an agreement whereby South32 can earn a 70% interest in the project by spending US\$4 million, with the right to earn an additional 10% interest by completing a Pre-Feasibility Study. AQD will be the operator during the first phase of drilling.

The Chololo Porphyry Copper Prospect is associated with the northeast-trending Chololo Fault (refer to graphic above), which controls the location of other known porphyry copper systems in the area.

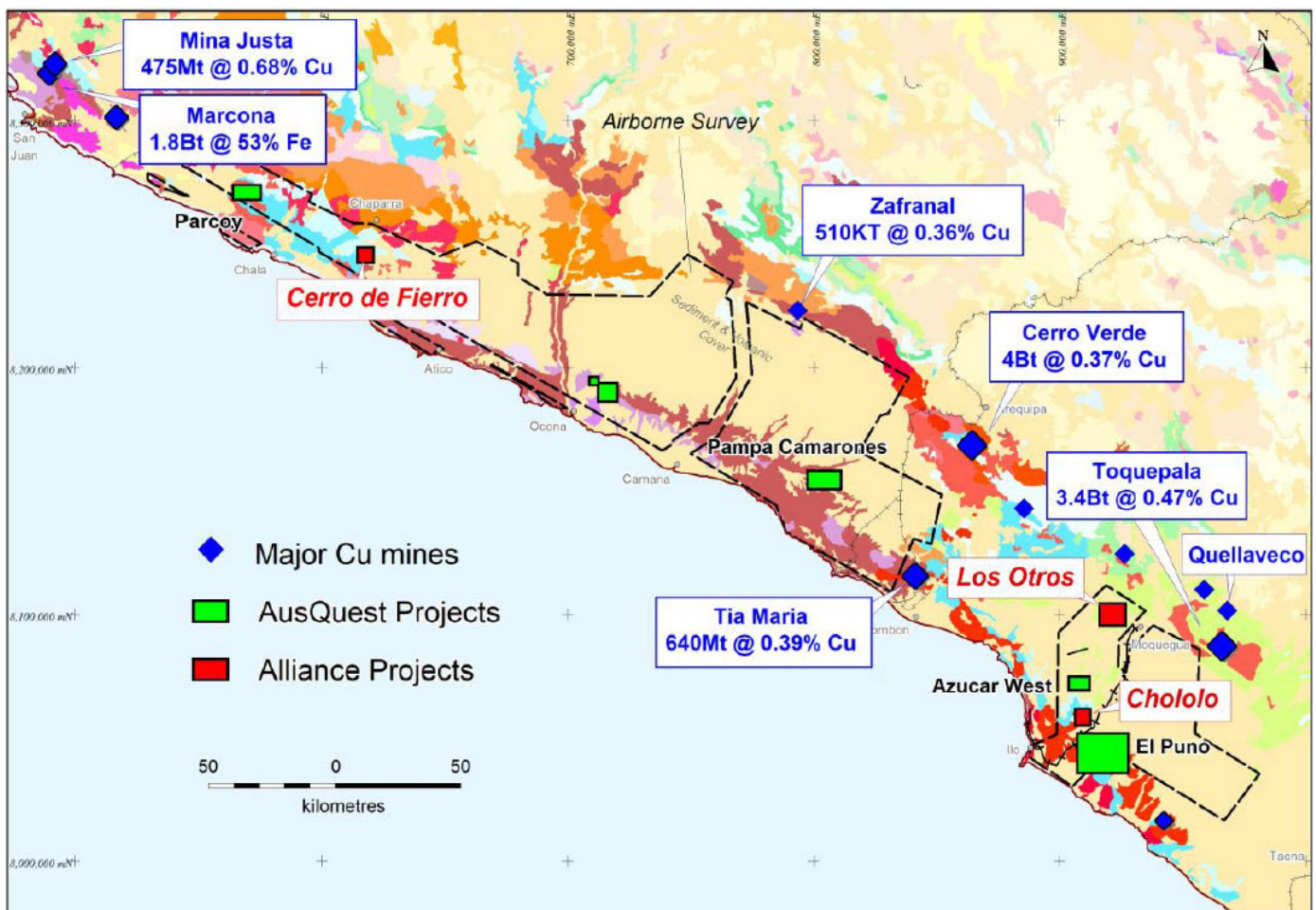


Figure 2: Map showing location of AQD's Peruvian project interests

Detailed geological mapping, rock and soil sampling has identified potential for a buried porphyry copper system in the area, as defined by advanced argillic alteration, anomalous copper (100ppm to 1220ppm), molybdenum (8ppm to 306ppm) and elevated gold values (20ppb to 815ppb). Subsequent IP surveys identified a strong chargeability anomaly thought to reflect a large-scale pyrite (+/- chalcopyrite) halo associated with a buried porphyry copper system. As stated earlier, the IP data has confirmed a large target size (1.5km x 1.0km) and anomaly strength, suggesting potential for significant amounts of sulphide mineralisation within the source rocks.

Other Recent Activity

Additional Funding & Opportunities under South32 SAA

AQD recently advised that funding support for the six existing projects within the Strategic Alliance Agreement (SAA) will continue, whilst funding for an additional four new exploration opportunities has been secured, taking the total number of projects under the SAA to ten,

The new opportunities accepted by South32 have triggered the payment of a second bonus (US\$500,000) to AQD, which will be used for ongoing project generation studies.

Under the terms of the SAA, South32 has exclusive rights to the company's projects by funding selected projects up to the drilling stage, then can elect to spend a further US\$4 million on each project to earn a 70% interest with the right to earn an additional 10% interest by completing Pre-Feasibility Studies.

Technical Significance

It is now estimated that in excess of \$6 million will be provided under the SAA and other agreements during calendar year 2018 to advance AQD's projects, including significant drilling in at least five areas (two in Peru and three in Australia).

In Peru, significant drilling programs are planned for the Chololo (outlined above) and Cerro de Fierro copper projects, whilst in Australia further drilling is planned in Western Australia at the Blue Billy zinc prospect, with initial test drilling to be undertaken at the Balladonia and Jimberlana nickel prospects once all approvals have been received.

Summary

The SAA with South32 represents an exciting opportunity to work alongside one of the world's most successful diversified miners, leveraging AQD's skills as an explorer targeting provincial-scale discovery opportunities. The arrangement provides AQD with the financial capability to identify and evaluate opportunities, as well as providing rewards for success along the way. There are now ten projects that form part of the SAA with South32, a tribute to AQD's technical capabilities in identifying projects of strong interest.

The Chololo drilling program is particularly significant, as it will be the largest undertaken so far under the company's broader Strategic Alliance Agreement (SAA) with South32. Furthermore, the program will be drill-testing targets of such size that are potential company-makers for AQD. We will of course be watching the program very closely and AQD remain held within our Portfolio.



Figure 3: Graphic above compares relative performances of AusQuest v All Ordinaries Index over the past 12 months.

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