

AusQuest Limited (AQD) – Initial Coverage @ \$0.017 in Sep 2015

Big-picture explorer with interests in large porphyry copper targets in southern Peru and zinc-nickel-copper in WA, combined with a unique exploration funding arrangement with heavyweight South32 (ASX: S32).

Corporate Details

Status: Advanced Explorer
 Size: Small Cap
 Commodity Exposure: Copper
 Share Price: \$0.032
 12-month Range: \$0.011 - \$0.038
 Shares: 526m, Options: 40m
 Top 20: 47%
 Net Cash: \$3.6m
 Market Value: \$17m



Key Parameters	Rating (✓ out of 5)	Quarterly Statistics
Management Quality	✓✓✓✓✓	Q1 2018 Exploration Spend: \$0.708m
Financial Security	✓✓✓✓✓	Q1 2018 Administration Spend: \$0.232m
Project Quality	✓✓✓✓✓	Exploration Spend 75%, Admin Spend 25%
Exploration / Resource Potential	✓✓✓✓✓	Q2 2017 Forecast Exploration Spend: \$2.5m
Project Security	✓✓✓✓✓	Q3 2017 Forecast Admin. Spend: \$0.185m

AusQuest has always impressed as a company with bold exploration ambitions. It previously held large acreage positions within Western Australia in the search for iron ore and manganese, with the support of its then major shareholder and joint venture partner, US-based Cleveland-Cliffs. The ‘big brother’ concept worked well for AusQuest for a number of years, until a rapid change of fortunes in the iron ore market and plunging profits led Cliffs to an exit of all non-core projects and a cessation of all non-core expenditure.

AusQuest has since successfully revitalised the ‘big brother’ concept via a unique Strategic Alliance Agreement (SAA) with diversified miner South32 (ASX: S32) to develop a pipeline of high-potential exploration opportunities, with South32 funding all exploration activity. AusQuest’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 is fully-funded in this activity – thus minimizing dilution through equity share issues.

The SAA with South32 represents an exciting opportunity to work alongside one of the world’s most successful diversified miners, leveraging AusQuest’s skills as an explorer targeting provincial-scale discovery opportunities. The arrangement gives AusQuest the financial capability to identify and evaluate opportunities, as well as providing rewards for success along the way. There are currently six SAA projects – three in Peru and three in Western Australia – with others currently being evaluated by South32.

Overview

AusQuest's share price has hit a high this month of \$0.038 - its highest level since late 2013 - on the back of the commencement of maiden drilling in Peru as part of its Strategic Alliance Agreement (SAA) with diversified miner South32 (ASX: S32). The company has been a mainstay of our coverage universe, firstly, because of its bold exploration ambitions and secondly, because of its success in recruiting joint venture 'big brothers' with deep pockets to help fund its exploration activities. AusQuest's strategy of exclusively targeting Tier 1 exploration discoveries has differentiated it from the vast majority of its junior peers.

AusQuest 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.

The Chololo Project is the primary project focus at present and it 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. AusQuest is the operator during the first phase of drilling. The Chololo porphyry copper prospect is associated with the northeast-trending Chololo Fault, which controls the location of other known porphyry copper systems in the area.

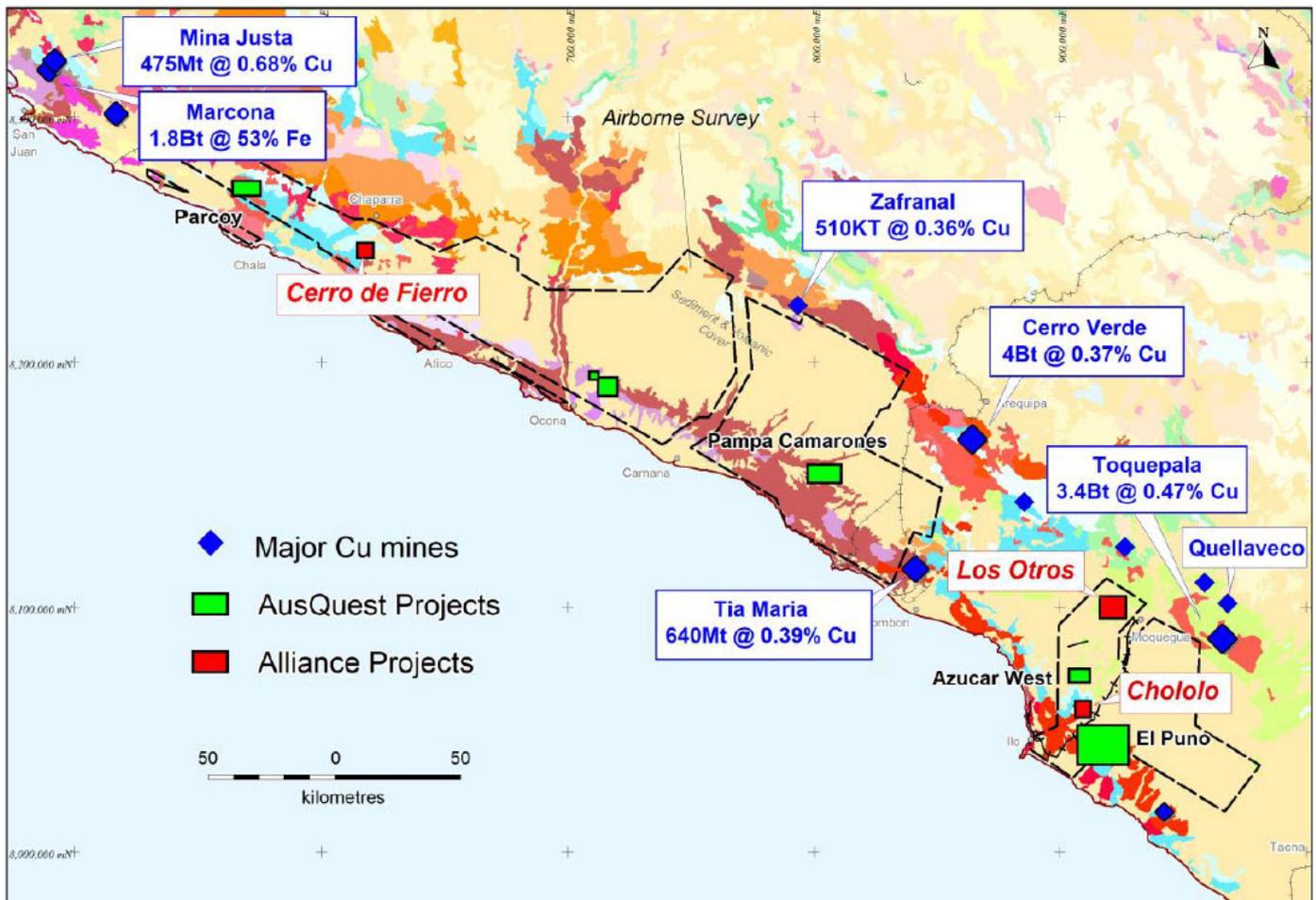


Figure 2: Map showing location of AQR's Peruvian project interests

Latest Activity

Peru Exploration Update

AusQuest advised earlier this month that it had commenced the much-anticipated diamond drilling program on its large-scale Chololo Copper Project in southern Peru. 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.

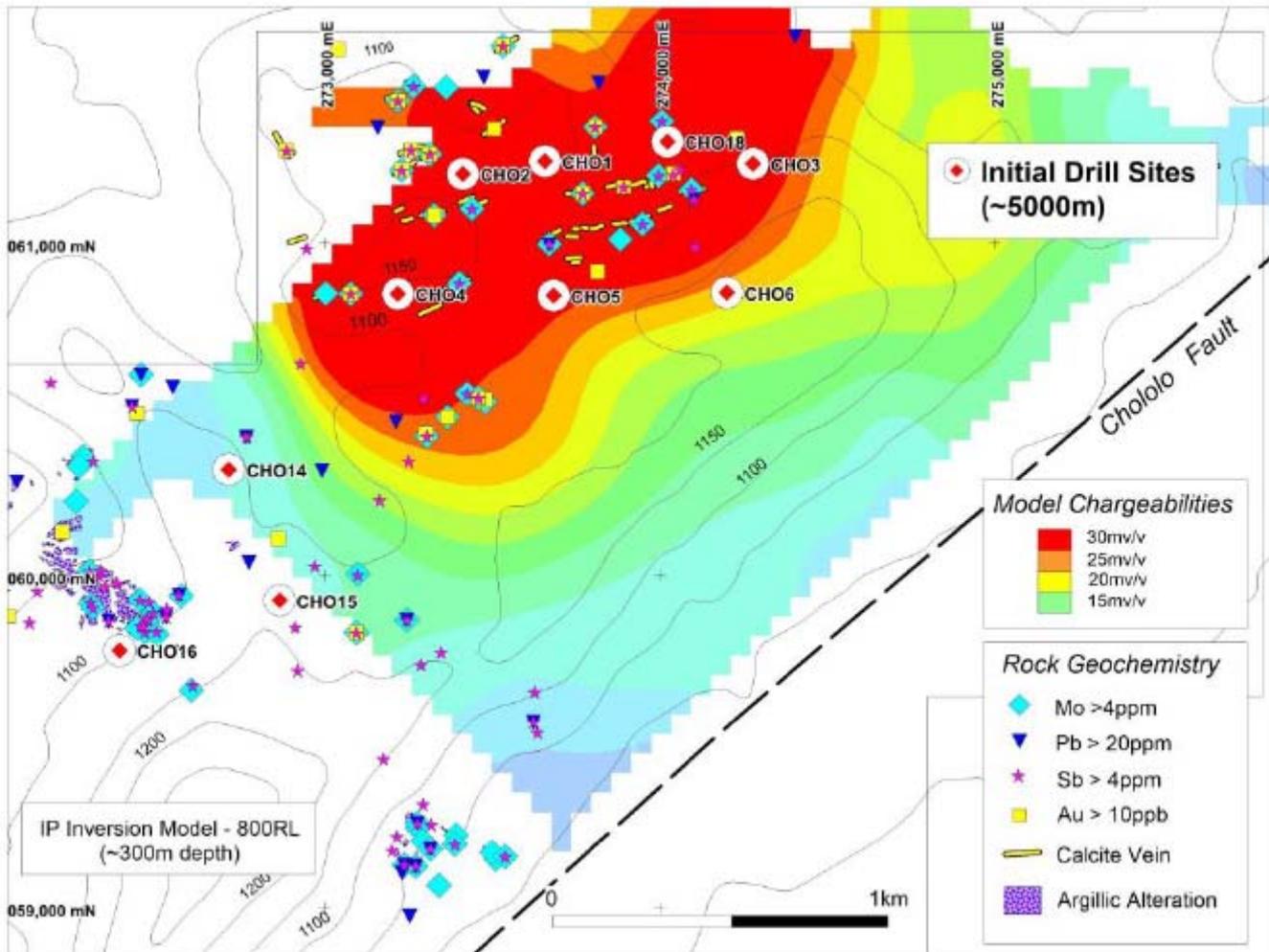


Figure 1: Chololo Porphyry Copper target showing location of the initial drill-holes

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').

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.

Other Recent Activity

Additional Funding & Opportunities under South32 SAA

AusQuest 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

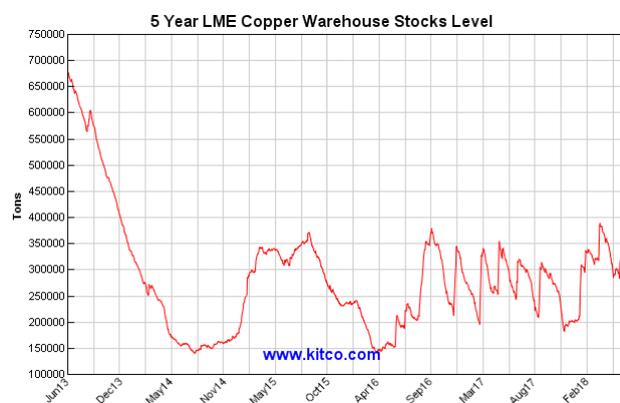
It is now estimated that in excess of \$6 million will be provided under the SAA and other agreements during calendar year 2018 to advance AQD's projects, including significant drilling in at least five areas (two in Peru and three in Australia).

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.

Copper Sector Update

Copper's price performance shows that it's a metal that's effectively been in a bull market since a broader commodity market low that occurred during late 2015/early 2016, coincident with a bottoming of negative sentiment related to a perceived Chinese economic slowdown and a somewhat sluggish world growth picture.

Copper's price recovery has significance too from a broader perspective, because of the metal's value as a barometer of economic health more generally, representing a staple component of construction and infrastructure building. Its gains have coincided with increased optimism about the state of the world economy and more optimistic growth forecasts. As a result, copper's strong track record can be seen in the context of a very healthy performance right across the commodity spectrum.



Demand is being driven by both traditional and new-age applications, whilst the supply-side reflects challenges around a market that's heavily reliant on ageing mines. All of these factors point to a continuation of copper's impressive price performance that had its genesis back in late 2015. Realistically, producers are likely to need a base-case copper price of at least \$3.00/lb and most likely \$3.50/lb in order to maintain production and implement expansions to provide enough supply to satisfy growing world demand.

Summary

The SAA with South32 represents an exciting opportunity to work alongside one of the world's most successful diversified miners, leveraging AusQuest's skills as an explorer targeting provincial-scale discovery opportunities. The arrangement provides AusQuest 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 AusQuest'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 AusQuest. We will be watching the program very closely and AusQuest remain held within our Portfolio.

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