

Wednesday 8<sup>th</sup> August, 2018

### Portfolio Stock Developments

**AusQuest** - (ASX: AQD, Share Price: \$0.022, Market Cap: \$12m, coverage initiated @ \$0.017 in Sep 2015 – current gain of 29%)



### Key Catalyst

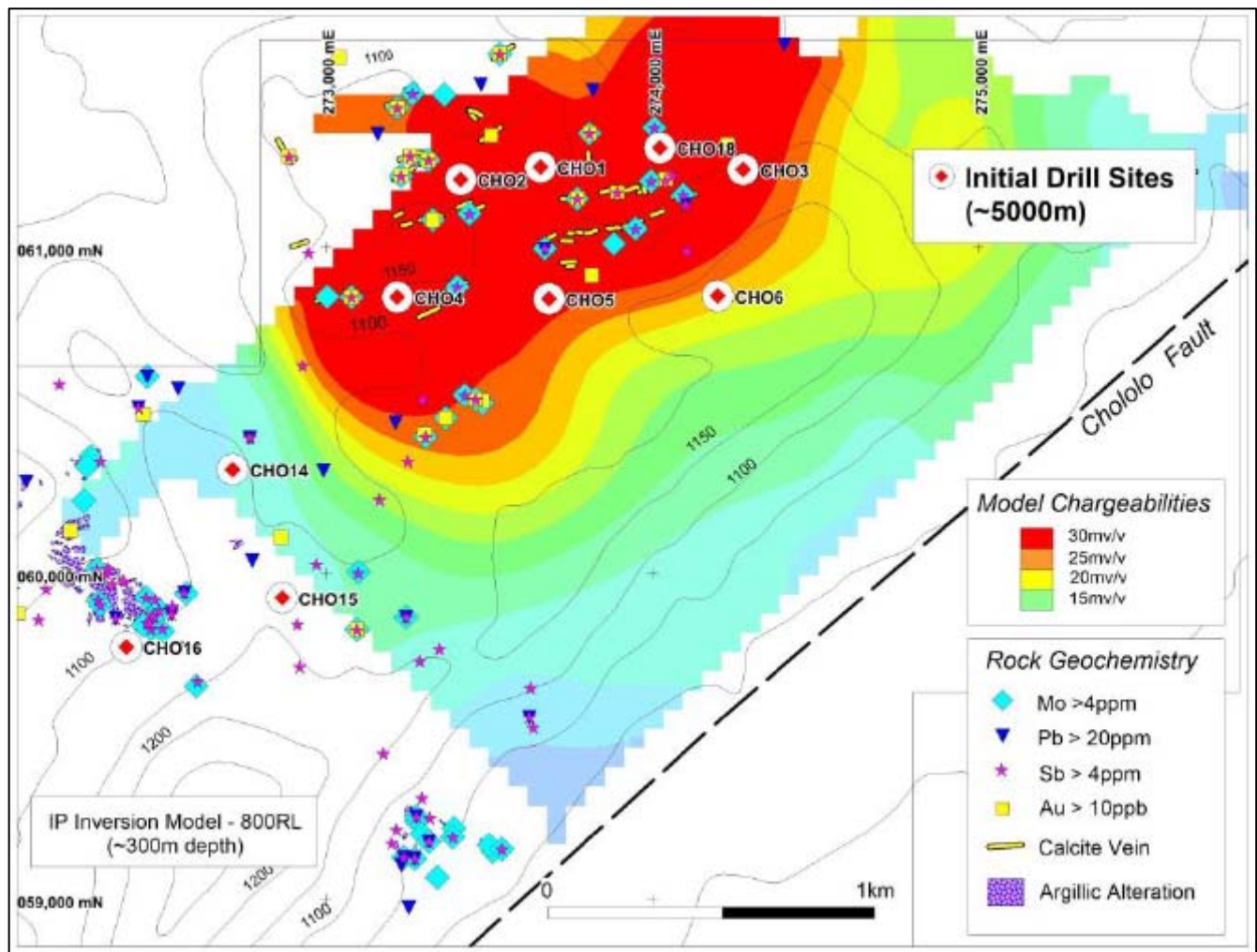
***Milestone copper drilling program underway at Chololo Copper Project in Peru under Strategic Alliance with South32 (ASX: S32), with 3,400m of 5,000m drilling completed with initial holes indicating proximity to a potentially mineralised porphyry copper system.***

AQD has been a mainstay of our coverage universe - because of its bold exploration ambitions and 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 through its JV farm-outs. 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 Update

In our most recent coverage of AQD on 5<sup>th</sup> June we advised that AQD's much-anticipated diamond drilling program had commenced at its large-scale Chololo Copper Project in southern Peru. The initial phase of drilling will comprise a total of 10 holes for ~5,000m of diamond drilling. Two drill rigs are currently in operation, with each hole to be nominally drilled to at least 500m depth.



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

Encouragingly, AQD has provided its initial drilling program update – indicating that it has made good early progress, with seven out of ten drill-holes completed (~3,400m) and assay data from the first two drill-holes (CHO01 and CHO02) received.

Drilling of the IP target zone (CHO01, 02, 03, 05) intersected abundant pyrite (trace chalcopyrite) within the host volcanoclastic sequence, with both blebby and vein pyrite implying a possible hydrothermal source (porphyry system). Assay data from drill-holes CHO01 and CHO02 supports the presence of a nearby porphyry system with broad zones (>100m) of highly anomalous pathfinder elements (100-

1,500ppm Pb, 400-6,220ppm Zn, 50-750ppm As, 10-100ppm Mo, 1000-4,750ppm Mn, 20-65ppm Sb and 5-20ppm Se) overprinting the host volcanoclastics.

South of the IP zone, drilling (CHO04 and CHO06) appears to be more proximal to a porphyry source with CHO06 intersecting a broad zone (>200m) of strongly altered (pyrite-sericite-chlorite) diorite porphyry intrusion. Traces of copper (chalcopyrite) are evident in the core and appear to increase with depth through this zone (assays awaited). Further drilling in this area (CHO09) is in progress.

### Technical Significance

*This initial wide-spaced drilling (~600m) has intersected alteration considered to be proximal to a potentially mineralised porphyry copper system. Whilst commercial-grade mineralisation wasn't encountered in the first two holes that have been assayed, these initial results nevertheless support the potential for a buried porphyry copper system within the prospect area. The remaining three drill-holes (~1,600m) and assessment of all assay and geological data should help to locate the main mineralised core of the inferred buried porphyry.*

### Next Steps

The drilling program is now expected to be completed around the end of August 2018, with processing and logging of drill-core and final assay data expected to be available approximately four weeks after completion of the program. A full assessment of the drilling data will be undertaken once all data have been received.

### **Project Overview**

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

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 below), which controls the location of other known porphyry copper systems in the area. 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 conducted prior to the commencement of drilling, has identified potential for a buried porphyry copper system in the area. This was 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.



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

## Other Recent Activity

### **Additional Funding & Opportunities under South32 SAA**

AQR 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 triggered the payment of a second bonus (US\$500,000) to AQR, which will be used for ongoing project generation studies. 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 AQR'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 (previously 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 maiden drill results from Chololo need to be viewed in their proper context and are therefore quite encouraging. Whilst not immediately returning ore grade mineralisation (which was unlikely to be the case anyhow), these early results are strong pathfinder indications that reinforce the potential for porphyry copper mineralisation at Chololo. As AQD's understanding grows with each drill-hole, the company will increasingly hope to focus on areas that should host the potentially mineralised core of the porphyry.***

***The market's reaction to the results in terms of a sell-off from AQD's recent high of \$0.03 just a few days ago to \$0.022 now, is therefore a significant overreaction in my view. We look forward to the completion of the remaining three drill-holes and the release of assay results from the remaining eight holes. AQD remains held within our coverage Portfolio.***

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