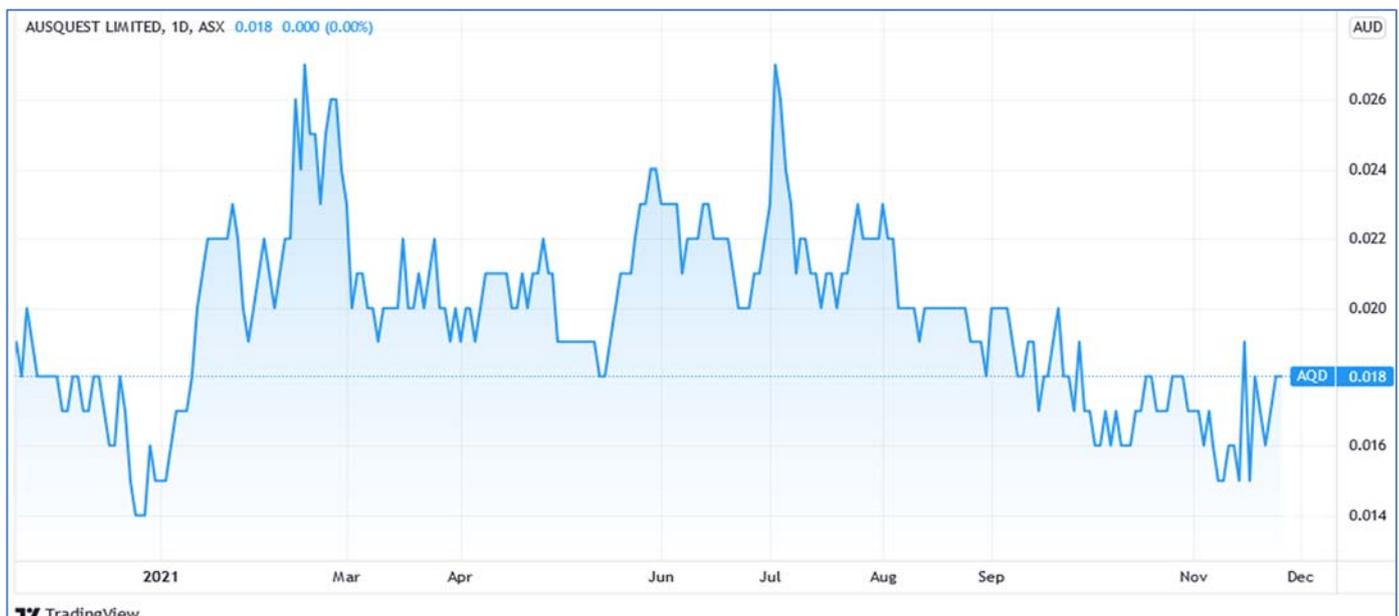


Friday 26th November, 2021

Portfolio Stock Developments

AusQuest - (ASX: AQD, Share Price: \$0.018, Market Cap: \$15m, coverage initiated @ \$0.017 in Sep 2015)



Key Catalyst

AusQuest and South32 agree to extend Strategic Alliance Agreement for a further two years to 31 Dec 2023, in order to continue developing a pipeline of high-potential exploration opportunities.

AQD has remained a mainstay of our coverage universe on the back of its bold exploration ambitions and its success in recruiting 'big brother' joint ventures partners with deep pockets to help fund its exploration activities. AQD's strategy of targeting exclusively Tier-1 exploration prospects has differentiated it from the vast majority of its junior peers, together with the fact that it seeks to minimize equity dilution via its JV farm-outs. AQD has maintained an unique Strategic Alliance Agreement (SAA) with diversified miner South32 (ASX: S32), whereby AQD has developed a pipeline of high-potential exploration opportunities and South32 is funding all exploration activity. The SAA represents an exciting opportunity to work alongside one of the world's most successful diversified miners. Importantly, AQD currently has work programs planned in both Australia and Peru, with plenty of news-flow expected into 2022.

Latest Activity

Strategic Alliance Agreement (SAA) Update

AQD has provided a significant update with respect to the Strategic Alliance Agreement (SAA) that it has maintained with South32 (ASX: S32) since 2017.

Overview

AQD and S32 have agreed to extend the Strategic Alliance Agreement (SAA) that has been operational since February 2017, for a further two years (up to 31st December 2023) in order to continue developing a pipeline of high-potential exploration opportunities in Australia and internationally. Targeted projects include copper, zinc and nickel projects in Australia and Peru and may include other mineralisation styles and jurisdictions as agreed.

Exploration Opportunities offered by AQD and accepted by S32 will continue to be advanced to the drill-ready stage through exploration funding provided by a S32. AQD will continue to manage the initial programs in consultation with S32 to advance each project to drill-ready status as quickly as possible.

Once projects reach the drill-ready stage and become Drill-Ready Opportunities, S32 can elect to earn a 70% interest in each project for a total expenditure of US\$4.5 million, including funds provided to reach the drill-ready stage, and a joint venture may be formed between the parties.

Six of AQD's projects are currently Exploration Opportunities under the SAA (three in Australia and three in Peru), with three of these projects (Hamilton, Balladonia and Los Otros) currently subject to upcoming drilling activity.

AQD is incentivised via a US\$300,000 Bonus Generation Fee in the event that at least two Exploration Opportunities are accepted by S32 in a calendar year. Under the terms of the SAA, AQD receives an administration fee equal to 15% of monies expended on all projects under the SAA.

Details

The SAA between the two companies has been successfully operating since its inception on 17th February 2017 – and has now been extended for a further two years to 31st December 2023, subject to further extension.

The SAA established an innovative framework under which AQD can utilise its extensive expertise to target new deposits and mineral provinces with major ore potential, in order to generate and secure prospective early-stage exploration opportunities which are then offered exclusively to S32. The two companies have developed a strong working relationship over the past five years and will continue to work together to develop a pipeline of high-potential exploration opportunities both in Australia and internationally.

Targeted commodities in Australia, Peru and other agreed jurisdictions include copper, zinc and nickel - with potential for associated gold, silver and lead credits. The possibility of expanding this list of commodities is always open for discussion.

Under the SAA, projects secured by AQD and offered exclusively to and accepted by S32, undergo a staged evaluation process that sees projects classified as either Exploration Opportunities or Drill-Ready Opportunities. If a project is rejected twice by S32, at either the Exploration or Drill-Ready Opportunity stage, it becomes a rejected property and will no longer be the subject of the SAA.

For Exploration Opportunities, work programs and budgets to advance each project to a drill-ready stage are agreed by the parties, with S32 providing the necessary funds to complete the programs. All funding to advance projects to a drill-ready stage form part of the total earn-in expenditure of US\$4.5 million for South32 to acquire a 70% interest in each project.

Once a project is accepted by S32 as a Drill-Ready Opportunity, S32 can elect to earn a 70% interest in the project. AQD must prepare a drill program and budget of at least US\$500,000 in value and following agreement on the program, a joint venture may be established, and a Joint Venture Agreement entered into on the key terms and conditions set out in the SAA. AQD will continue to be the initial operator for each joint venture.

Under the agreed joint venture terms, S32 must contribute a total US\$4.5 million to earn a 70% joint venture interest and can earn an 80% interest in each project by completing a pre-feasibility study.

Six of AQD's projects are currently Exploration Opportunities under the SAA (three in Australia and three in Peru).

- Four have been the subject of initial drill-testing of targets (Balladonia in Western Australia, Hamilton in Queensland, and the Cerro de Fierro and Parcoy projects in Peru) with follow-up drilling to come.
- One will be the subject of a maiden drilling program scheduled for December of this year (Los Otros in Peru); and
- One is being advanced towards drilling (Morrisey in Western Australia).

The SAA also includes an arrangement to incentivise AQD's project generation activities, with S32 agreeing to pay AQD a US\$300,000 Bonus Generation Fee in the event that at least two Exploration Opportunities are accepted by S32 in a calendar year.

AQD will also receive an administration fee equal to 15% of monies expended on all projects under the SAA to help cover company overhead expenses and assist with the ongoing requirements for project generation studies.

Technical Significance

S32 will back the AQD team for a further two-year period under the SAA, which has functioned well since its inception in February 2017.

The extension of the SAA with S32 maintains AQD's recipe for success in terms of recruiting 'big brother' joint ventures partners with deep pockets to fund its exploration activities. This second extension of the SAA is also clear recognition from S32 about the importance of the relationship with AQD and the value it creates for their shareholders.

The agreement is structured to provide AQD with the financial capability to identify and evaluate opportunities, as well as rewarding the company for success along the way. It also represents a strong endorsement of AQD's credentials and technical skills, and is a vindication of the quality and scale of the projects AQD has been able to bring to the table over the past five years.

Other Recent Activity

Morrisey Nickel-Copper-PGE Project

AQD has recently upgraded the exploration potential of its Morrisey Nickel-Copper-PGE Project, located within the Narryer terrane of Western Australia, after receiving highly encouraging results from soil geochemical programs.

Overview

Soil sampling conducted over three previously-reported helicopter-borne electromagnetic (HEM) targets has highlighted the presence of anomalous copper and/or nickel in close proximity to the HEM conductors, significantly upgrading their potential. A total of 698 soil samples were collected on 100m x 50m grids over the three HEM targets, now named the Sandfly, Waterfall and Bilga Rocks prospects.

The HEM responses are thought to reflect sulphide mineralisation within the large magnetic complexes that outline possible intrusive mafic/ultramafic bodies similar to the those that host the Ni-Cu-PGE mineralisation discovered recently by Chalice Mining (ASX: CHN) at the Julimar Project, 90km north of Perth.

Results from the soil sampling program have confirmed the presence of mafic and ultramafic rocks within the targeted magnetic complexes and highlighted anomalous nickel (>60ppm and up to 500ppm Ni) and copper (>50ppm and up to 110ppm Cu) values within the vicinity of the HEM targets. This suggests excellent potential for base metal sulphides to be associated with the EM conductors.

Anomalous nickel and/or copper values found within the magnetic complexes but not associated with the conductors are also of interest as they may reflect the potential for disseminated Ni-Cu-PGE mineralisation within the mafic/ultramafic host rocks. Selected PGE analyses for the anomalous samples have been requested with results pending.

Soil results from the Sandfly prospect also reported anomalous molybdenum (>3.0ppm Mo) and arsenic (>6ppm As) values immediately to the west of the HEM target, suggesting the possibility for other styles of mineralisation (iron-oxide copper-gold (IOCG) and Broken Hill Type BHT) at this prospect. Scattered outcrops of banded iron formations (BIF) in the Sandfly area could support this concept.

Ground EM surveys to optimise drill sites within each of the three prospects have been planned and are expected to be completed within the next six weeks, pending crew availability.

Technical Significance

The Morrissey Project is held under the Strategic Alliance Agreement (SAA) with S32, and covers an area of ~1,200 sq km and extends for a strike length of ~80km along the north-western margin of the Yilgarn Craton, within the high-grade metamorphic Narryer Terrane of WA.

The project was secured to cover magnetic targets indicative of mafic/ultramafic host rocks in a similar tectono-stratigraphic setting to the Julimar (and possibly Nova-Bollinger) discoveries, which highlighted the untested nickel-copper-PGE potential of the new West Yilgarn Ni-Cu-PGE Province.

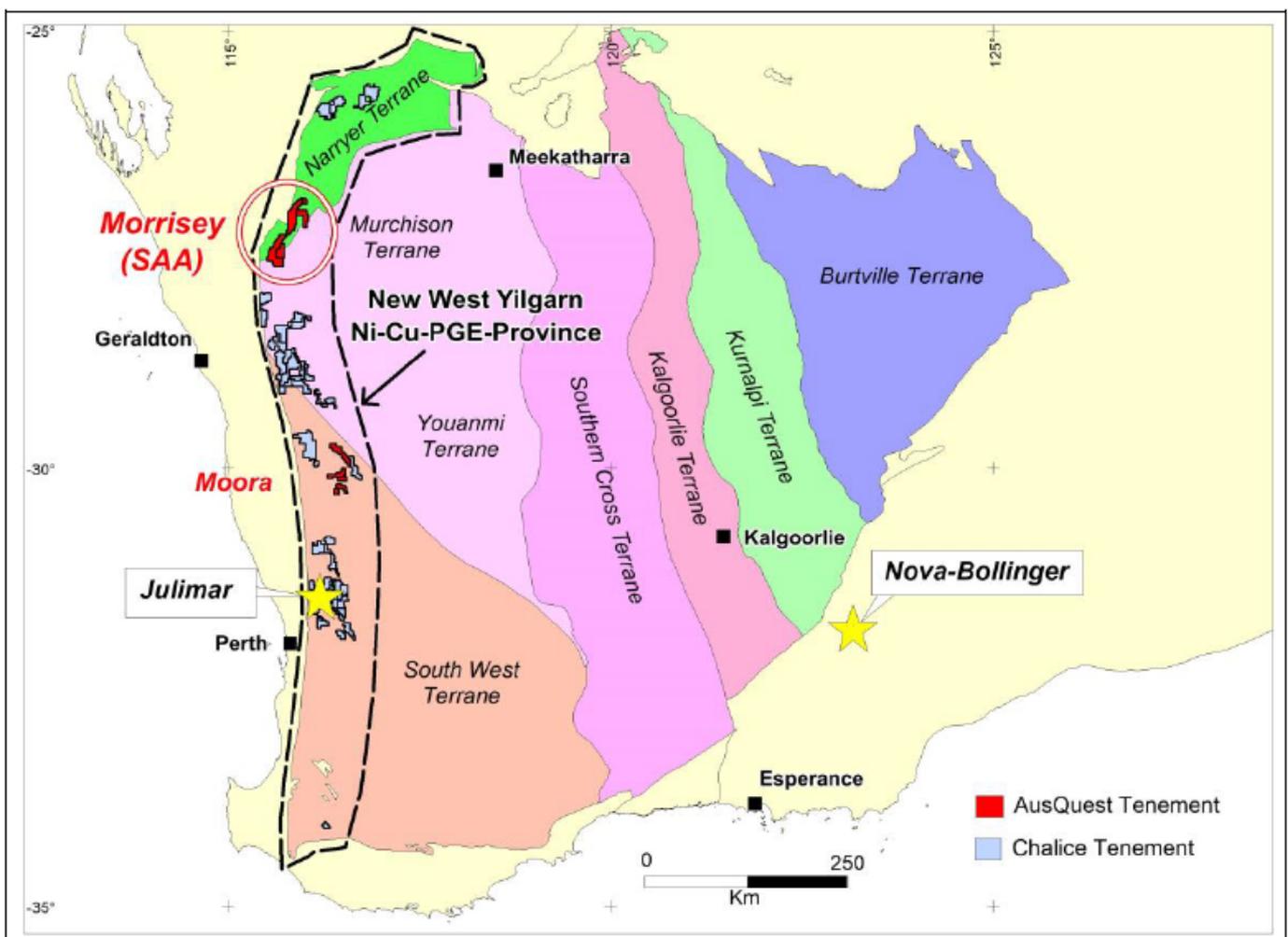


Figure 1: Location of Morrissey Project and newly-defined West Yilgarn Ni-Cu-PGE Province.

Summary

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The agreement is structured to provide AQD with the financial capability to identify and evaluate opportunities, as well as rewarding the company for success along the way. It also represents a strong endorsement of AQD's credentials and technical skills, and is a vindication of the quality and scale of the projects AQD has been able to bring to the table over the past five years.

AQD remains firmly within our coverage Portfolio.

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