

February 20<sup>th</sup>, 2017  
ASX Release



## Strategic Exploration Alliance with South32

*South32 to fund exploration activities (including drilling) over at least five AusQuest projects as part of a global Strategic Alliance Agreement*

### Key Points:

- AusQuest enters into Strategic Alliance Agreement (SAA) with South32 to develop a pipeline of high-potential exploration opportunities both 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 AusQuest and accepted by South32 will entitle AusQuest to receive an initial payment of US\$250,000 (up to a maximum of US\$500,000) to advance them to a drill-ready stage.
- AusQuest will manage the initial programs in consultation with South32 to advance each project to drill-ready status within 6 months of receiving the initial payments.
- Once projects reach the drill-ready stage and become Drill Ready Opportunities, joint ventures will be formed and South32 can earn a 70% interest in each project for expenditure of US\$4.0M.
- On execution of a JVA AusQuest will receive a second payment equal to US\$500,000 less the initial payment.
- Five of AusQuest's projects already identified by South32 (3 in Australia and 2 in Peru) as being of interest - four accepted as Exploration Opportunities and one (the Blue Billy Project in WA) as a Drill Ready Opportunity subject to a US\$4M farm-in joint venture.
- AusQuest will be incentivised via a US\$500,000 Bonus Generation Fee in the event that at least three Exploration Opportunities are accepted by South32 in a calendar year.
- South32 to provide a US\$1M interest-free unsecured facility to AusQuest over the next 24 months to help fund project generation activities, if required.
- Under the terms of the SAA, AusQuest expects to see a minimum of US\$1.5M injected into the Company to advance the projects already identified by South32 as being of interest.

AusQuest Limited (ASX: AQD; **AusQuest** or **the Company**) is pleased to announce that it has entered into a Strategic Alliance Agreement with diversified global miner South32 (ASX: S32) under which the two companies will work together to develop a pipeline of high-potential exploration opportunities both in Australia and internationally.

The Strategic Alliance Agreement (**SAA**) establishes an innovative framework under which AusQuest will draw on its extensive expertise in targeting new deposits and mineral provinces with major ore potential, to generate and secure prospective early-stage exploration opportunities to be offered exclusively to South32 over a three year time frame, expiring 31 December 2019.

Targeted commodities in Australia, Peru and other agreed jurisdictions include copper, zinc and nickel with possible associated gold, silver and lead credits.

Projects secured by AusQuest and offered exclusively to and accepted by South32, will undergo a staged evaluation process which will see projects classified as either Exploration Opportunities or Drill-Ready Opportunities. If a project is rejected twice by South32, at either the Exploration or Drill-Ready Opportunity stage, it will be classified as a rejected property and will no longer be subject of the SAA.

For Exploration Opportunities, a work program and budget to advance each project to a drill-ready stage will be agreed by the parties and South32 will make payments to AusQuest of at least US\$250,000 per project (up to a maximum of US\$500,000) to fund these programs. Programs costing in excess of US\$500,000 can be undertaken with agreement of the parties, with funding amounts above US\$500,000 reducing the US\$4.0M expenditure required under the Joint Venture Agreement to earn a 70% equity in the project (summary of Joint venture terms attached).

Once a project is accepted by South32 as a Drill-Ready Opportunity, South32 can elect to earn a 70% interest in the project. AusQuest must prepare a drill program and budget and following agreement on the program, a joint venture will be established and a Joint Venture Agreement entered into on the key terms and conditions set out in the SAA.

Upon establishing the joint venture, South32 must pay to AusQuest a second payment being the difference between US\$500,000 and the moneys already contributed by South32 towards advancing the project to drill-ready status.

Under agreed joint venture terms, South32 will contribute US\$4 million of initial funding to earn a 70% share in each joint venture and can earn an 80% interest in each project by completing a pre-feasibility study.

South32 has already identified five AusQuest projects as being of interest (three in Australia and two in Peru). Four have been accepted by South32 as Exploration Opportunities (Jimberlana and Balladonia/Gibson Soak nickel-copper projects in Western Australia, and Chololo and Los Otros porphyry copper prospects in Peru) and one (Blue Billy Project) has been accepted as a Drill-Ready Opportunity and is the subject of a separate Joint Venture Agreement.

A summary of the key terms and conditions of the Blue Billy Joint Venture Agreement (**BBJVA**) is appended to this announcement. AusQuest will be the first operator for the BBJVA.

The SAA also includes an arrangement to incentivise AusQuest's project generation activities, with South32 agreeing to pay AusQuest a US\$500,000 Bonus Generation Fee in the event that at least three Exploration Opportunities are accepted by South32 in a calendar year.

In respect of the Exploration Opportunities already accepted by South32, a Bonus Generation Fee will apply when Joint Venture Agreements are executed for three of these Exploration Opportunities, including the Blue Billy Project.

South32 will also provide AusQuest with a US\$1 million unsecured, interest-free facility for the next 24 months to help fund project generation activities as and when required. This facility is documented in a separate agreement, and includes standard terms and conditions for a facility of this nature. Moneys drawn down from this facility can be repaid during the term of the SAA but in any event must be repaid by the 31<sup>st</sup> December 2019.

Under the terms of the SAA, AusQuest expects to see a minimum of US\$1.5M injected into the Company to advance the projects already identified by South32 as being of interest.

Commenting on the Strategic Alliance Agreement, AusQuest's Managing Director, Mr Graeme Drew, said:

*"This is a unique and exciting opportunity for AusQuest to work alongside one of the world's most successful diversified miners, leveraging our skills as an explorer targeting provincial-scale discovery opportunities. The agreement is structured to give AusQuest the financial capability to identify and evaluate opportunities as well as rewarding the Company for success along the way.*

*This agreement represents a strong endorsement of AusQuest's credentials and technical skills, and is a vindication of the strategy we have pursued for the past decade, and the quality and scale of the projects we have been able to assemble in WA and Peru.*

*The immediate injection of exploration funds across a number of projects in our portfolio will allow us to get on with the job of generating and evaluating prospects, advancing them to drill-ready status which is where the real value will be.*

*We are looking forward to working with South32 to build a quality pipeline of exploration opportunities which we hope will deliver significant benefits for both companies, while also establishing an excellent model for strategic cooperation in the exploration industry to unearth the next generation of discoveries."*



Graeme Drew  
**Managing Director**

#### **COMPETENT PERSON'S STATEMENT**

*The details contained in this report that pertain to exploration results are based upon information compiled by Mr Graeme Drew, a full-time employee of AusQuest Limited. Mr Drew is a Fellow of the Australasian Institute of Mining and Metallurgy (AUSIMM) and has sufficient experience in the activity which he is undertaking to qualify as a Competent Person as defined in the December 2012 edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves" (JORC Code). Mr Drew consents to the inclusion in the report of the matters based upon his information in the form and context in which it appears.*

#### **FORWARD LOOKING STATEMENT**

*This report contains forward looking statements concerning the projects owned by AusQuest Limited. Statements concerning mining reserves and resources may also be deemed to be forward looking statements in that they involve estimates based on specific assumptions. Forward-looking statements are not statements of historical*

*fact and actual events and results may differ materially from those described in the forward looking statements as a result of a variety of risks, uncertainties and other factors. Forward looking statements are based on management's beliefs, opinions and estimates as of the dates the forward looking statements are made and no obligation is assumed to update forward looking statements if these beliefs, opinions and estimates should change or to reflect other future developments.*

### **About South32**

South32 is a globally diversified metals and mining company with operations in Australia, Southern Africa and South America, mining or producing bauxite, alumina, aluminium, energy and metallurgical coal, manganese, nickel, silver, lead and zinc.

South32 listed in May 2015 and their securities trade on the Australian Securities Exchange (ASX), Johannesburg Stock Exchange (JSE), London Stock Exchange (LSE) and the NY American Depositary Receipts Programme under the listing code of S32.

### **About AusQuest**

AusQuest Limited is an exploration company targeting new deposits and mineral provinces with major ore potential with the ability to significantly enhance shareholder wealth.

The company comprises a team of highly experienced geologists and geophysicists with a great breadth of technical and managerial expertise across most mineral commodities. Since listing on the Australian Stock Exchange in November 2003 the company has raised in excess of \$A40 million and has successfully attracted several major companies as both joint venture partners and equity holders.

The fact that the company has achieved "partner of choice" status is a reflection of its innovative yet technically rigorous project-generative skills and its commitment to maximising in-ground expenditure for potential high-value discoveries.

The company is currently exploring within Australia, Peru and Burkina Faso (West Africa) and holds in excess of 2,800 km<sup>2</sup> of exploration title (granted tenements and tenement applications). The company explores for a range of commodities and mineralisation styles including magmatic nickel-copper-platinum group element sulphides, large porphyry copper and iron oxide-copper-gold, lode-style gold and stratabound base metal deposits. Most of the projects are early stage in nature.

## **Summary of the Terms and Conditions of the Blue Billy Joint Venture Agreement (BBJVA)**

The parties have agreed to accept AusQuest's Blue Billy Project in WA as a Drill Ready Opportunity and have executed a joint venture agreement (BBJVA) on the date of execution of the SAA, under which South32 can earn a 70% interest for expenditure of US\$4 million and an 80% interest by completing a pre-feasibility study thereafter. A summary of the key terms and conditions of the BBJVA are provided below:

- During the Initial Funding Period (expenditure of US\$4.0M) South32 will sole-fund all Approved Programs and Budgets to earn a 70% interest in the project.
- If South32 elects to withdraw before completion of the Initial Funding Amount within the Initial Funding Period, they will not earn any equity in the project, but will be granted a 0.5% Net Smelter Royalty (NSR) if they have contributed more than US\$1.5M but less than US\$3.0M and 1.0% NSR if they have contributed more than US\$3.0M but less than US\$4.0M.
- AusQuest will have the right to buy back the NSR at three year intervals from the date South32 withdraws from the agreement, on terms to be negotiated between the parties.
- At the completion of the Initial Funding Period, South32 has 60 days within which to elect to earn a further 10% equity in the project by completing a pre-feasibility study at its sole cost. If South32 fails to make that election, the parties must contribute to future expenditure in the proportions 70:30.
- Once the sole funding by South32 has concluded, standard dilution clauses will apply to Participant(s) who elect and/or fail to contribute to an Approved Program and Budget. If a Participant's share falls below 10% it will be deemed to have withdrawn from the Joint Venture and it will revert to a 2% NSR.
- A management committee consisting of two representatives from each Participant will be established to oversee joint venture operations until the completion of the Initial Funding Period. Thereafter, AusQuest will be entitled to one representative on the committee and South32 to three. Except for decisions requiring unanimity or a 70% threshold vote, decisions of the committee will be by majority vote.
- AusQuest will be the first operator and will continue as operator until the completion of the second drilling program at which time the Participants will elect the next operator.