

# CHALLENGER EXPLORATION LIMITED

## ACN 123 591 382



Robert Willes  
Director  
15 May 2019

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## PROSPECTUS

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For an offer of 166,666,667 Shares at an issue price of \$0.03 per Share to raise \$5,000,000 (**Public Offer**).

**The Prospectus also contains the following Additional Offers:**

- (a) the issue of the Consideration Securities to the Vendors (or their nominee(s)), as follows (together, the **Vendor Offer**):
  - (i) 180,000,000 Consideration Shares;
  - (ii) 78,444,444 Consideration Options; and
  - (iii) 120,000,000 Consideration Performance Shares.
- (b) the issue of 10,000,000 Shares to the Third-Party Lenders (or their nominee(s)) (**Third-Party Lender Offer**); and
- (c) the issue of 6,000,000 Shares to the Joint Lead Managers (or their nominees) (**Advisor Offer**).

Completion of the Offers is conditional upon satisfaction of the Conditions, which are detailed further in Section 6.6. No Securities will be issued pursuant to this Prospectus until such time as the Conditions are satisfied.

Other than in respect of the Additional Offers, this Prospectus in respect of the Public Offer is a re-compliance prospectus for the purposes of satisfying Chapters 1 and 2 of the ASX Listing Rules and to satisfy ASX requirements for re-admission to the Official List following a change in nature and scale of the Company's activities.

**Lead Managers:**

Baillieu Limited	Peloton Capital Pty Ltd
AFSL No. 245421	AFSL No. 406040

**IMPORTANT INFORMATION**

This is an important document that should be read in its entirety. If you do not understand it you should consult your professional advisers without delay.

**The Securities offered by this Prospectus should be considered highly speculative.**

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## TABLE OF CONTENTS

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1.	CORPORATE DIRECTORY .....	1
2.	IMPORTANT NOTICE .....	2
3.	KEY OFFER INFORMATION.....	7
4.	LETTER FROM PROPOSED MANAGING DIRECTOR .....	8
5.	INVESTMENT OVERVIEW .....	9
6.	DETAILS OF THE OFFERS .....	17
7.	OVERVIEW OF THE COMPANY AND THE PROPOSED ACQUISITION .....	25
8.	AEP AND PROJECTS OVERVIEW.....	27
9.	RISK FACTORS .....	35
10.	INDEPENDENT GEOLOGIST'S REPORT.....	43
11.	FINANCIAL INFORMATION.....	108
12.	INDEPENDENT LIMITED ASSURANCE REPORT .....	126
13.	SOLICITORS REPORT ON TITLE - BASTIAS YACANTE ABOGADOS (HUALILAN PROJECT – ARGENTINA) .....	132
14.	SOLICITORS REPORT ON TITLE - TOBAR SPINGBARN ZVS (EL GUAYABO PROJECT - ECUADOR).....	171
15.	BOARD AND MANAGEMENT INTERESTS.....	188
16.	CORPORATE GOVERNANCE.....	193
17.	MATERIAL AGREEMENTS.....	197
18.	ADDITIONAL INFORMATION .....	202
19.	DIRECTORS' AND PROPOSED DIRECTOR AUTHORISATION.....	221
20.	GLOSSARY .....	222

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## 1. CORPORATE DIRECTORY

### Directors<sup>1</sup>

Michael John Fry  
*Non-Executive Chairman*

Robert Anthony Willes  
*Managing Director*

Clinton Charles Carey  
*Non-Executive Director*

### Proposed Directors<sup>1</sup>

Fletcher Quinn  
*Non-Executive Chairman*

Scott Funston  
*CFO and Finance Director*

Kris Knauer  
*CEO and Managing Director*

### Company Secretary

Robert Edward Lees

### Proposed Company Secretary

Scott Funston

### Current and Proposed ASX Code

CEL

### Joint Lead Managers

Baillieu Limited  
Level 26, 360 Collins Street  
Melbourne VIC 3000

Peloton Capital Pty Ltd  
Level 5, 56 Pitt Street  
Sydney NSW 2000

### Registered Office

Suite 302, Level 3  
17 Castlereagh Street  
Sydney NSW 2000

Telephone: 02 9299 9580

Website: [www.challengerex.com](http://www.challengerex.com)

### Independent Geologist

SRK Consulting (Australasia) Pty Ltd  
Level 17, 44 Market Street  
Sydney NSW 2000

### Investigating Accountant and Auditor

HLB Mann Judd  
Level 4, 130 Stirling Street  
Perth WA 6000

### Solicitors reporting on Title

Hualilan Project - Argentina  
Bastías Yacante Abogados  
Av. Ignacio de la Roza 861 (o) 1°D  
5400 San Juan, Argentina

El Guayabo Project - Ecuador  
Tobar Spingarn ZVS  
Av.12 De Octubre N26-97 Y Lincoln, Edificio  
Torre 1492, Oficina 1505

### Solicitors to the Offer

Steinepreis Paganin  
Level 4, The Read Buildings  
16 Milligan Street  
Perth WA 6000

### Share Registry<sup>2</sup>

Security Transfer Australia Pty Ltd  
770 Canning Highway  
Applecross WA 6153

Telephone: 1300 992 916

<sup>1</sup> It is intended that each of the Directors will resign on settlement of the Proposed Acquisition and the Proposed Directors will be appointed with effect from Settlement of the Proposed Acquisition.

<sup>2</sup> This entity has been included for information purposes only. They have not been involved in the preparation of this Prospectus.

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## **2. IMPORTANT NOTICE**

### **2.1 Change in nature and scale of activities and re-compliance with Chapters 1 and 2 of the ASX Listing Rules**

At the General Meeting of the Company held on 29 April 2019 (**General Meeting**), Shareholders approved a change to the nature and scale of its activities in addition to a number of other transactions contemplated by the Proposed Acquisition (**Resolutions**). Details of the Resolutions are set out in Section 7.3.

The Company's Securities have been suspended from trading on ASX since 7 August 2018 and will remain suspended until the Company has re-complied with Chapters 1 and 2 of the ASX Listing Rules and satisfied the ASX requirements for re-admission to the Official List following a change to the nature and scale of the Company's activities.

There is a risk that the Company may not be able to meet the requirements of ASX for re-admission to the Official List. In the event the Conditions (defined below) are not satisfied, or the Company does not receive conditional approval for re-admission to the Official List then the Company will not proceed with the Offers and will repay all application monies received (without interest).

### **2.2 General**

This Prospectus is dated 15 May 2019 and was lodged with the ASIC on that date. The ASIC, the ASX and their respective officers take no responsibility for the contents of this Prospectus or the merits of the investment to which this Prospectus relates.

No Securities may be issued on the basis of this Prospectus later than 13 months after the date of this Prospectus.

No person is authorised to give information or to make any representation in connection with this Prospectus, which is not contained in the Prospectus. Any information or representation not so contained may not be relied on as having been authorised by the Company in connection with this Prospectus.

It is important that you read this Prospectus in its entirety and seek professional advice where necessary. The Securities the subject of this Prospectus should be considered highly speculative.

### **2.3 Exposure Period**

This Prospectus will be circulated during the Exposure Period. The purpose of the Exposure Period is to enable this Prospectus to be examined by market participants prior to the raising of funds. You should be aware that this examination may result in the identification of deficiencies in this Prospectus and, in those circumstances, any application that has been received may need to be dealt with in accordance with section 724 of the Corporations Act. Applications for Securities under this Prospectus will not be processed by the Company until after the expiry of the Exposure Period. No preference will be conferred on applications lodged prior to the expiry of the Exposure Period.

### **2.4 Applicants Outside Australia and New Zealand**

This Prospectus does not, and is not intended to, constitute an offer in any place or jurisdiction, or to any person to whom, it would not be lawful to make such an offer or to issue this Prospectus. The distribution of this Prospectus in jurisdictions



outside Australia and New Zealand may be restricted by law and persons who come into possession of this Prospectus should seek advice on and observe any of these restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

No action has been taken to register or qualify the Shares or otherwise permit a public offering of the Shares the subject of this Prospectus in any jurisdiction outside Australia and New Zealand. Applicants who are resident in countries other than Australia and New Zealand should consult their professional advisers as to whether any governmental or other consents are required or whether any other formalities need to be considered and followed.

If you are outside Australia and or New Zealand it is your responsibility to obtain all necessary approvals for the issue of the Shares pursuant to this Prospectus. The return of a completed Application Form will be taken by the Company to constitute a representation and warranty by you that all relevant approvals have been obtained.

## **2.5 Notice to New Zealand Investors**

The Public Offer to New Zealand investors is a regulated offer made under Australian and New Zealand law. In Australia, this is Chapter 8 of the Corporations Act and Regulations. In New Zealand, this is subpart 6 of Part 9 of the Financial Markets Conduct Act 2013 and Part 9 of the Financial Markets Conduct Regulations 2014.

The Public Offer and the content of this Prospectus is principally governed by Australian rather than New Zealand law. In Australia, the Corporations Act 2001 (Aust) and the regulations made under that Act set out how the Public Offer must be made.

There are differences in how financial products are regulated under Australian law. For example, the disclosure of fees for managed investment schemes is different under the Australian regime. The rights, remedies, and compensation arrangements available to New Zealand investors in Australian financial products may differ from the rights, remedies, and compensation arrangements for New Zealand financial products.

Both the Australian and New Zealand financial markets regulators have enforcement responsibilities in relation to the Public Offer. If you need to make a complaint about the Public Offer, please contact the Financial Markets Authority, New Zealand (<http://www.fma.govt.nz>). The Australian and New Zealand regulators will work together to settle your complaint.

The taxation treatment of Australian financial products is not the same as for New Zealand financial products.

If you are uncertain about whether this investment is appropriate for you, you should seek the advice of an appropriately qualified financial adviser.

The Public Offer may involve a currency exchange risk. The currency for the financial products is not New Zealand dollars. The value of the financial products will go up or down according to changes in the exchange rate between that currency and New Zealand dollars. These changes may be significant.

If you expect the financial products to pay any amounts in a currency that is not New Zealand dollars, you may incur significant fees in having the funds credited to a bank account in New Zealand in New Zealand dollars.

If the financial products are able to be traded on a financial product market and you wish to trade the financial products through that market, you will have to make arrangements for a participant in that market to sell the financial products on your behalf. If the financial products market does not operate in New Zealand, the way in which the market operates, the regulation of participants in that market, and the information available to you about the financial products and trading may differ from financial products markets that operate in New Zealand.

## **2.6 Investment Advice**

This Prospectus does not provide investment advice and has been prepared without taking account of your financial objectives, financial situation or particular needs (including financial or taxation issues). You should seek professional investment advice before subscribing for Shares under this Prospectus.

## **2.7 Electronic Prospectus**

A copy of this Prospectus can be downloaded from the website of the Company at [www.challengerex.com](http://www.challengerex.com). If you are accessing the electronic version of this Prospectus for the purpose of making an investment in the Company, you must be an Australian resident and must only access this Prospectus from within Australia.

The Corporations Act prohibits any person passing onto another person an Application Form unless it is attached to a hard copy of this Prospectus or it accompanies the complete and unaltered version of this Prospectus. You may obtain a hard copy of this Prospectus free of charge by contacting the Company.

The Company reserves the right not to accept an Application Form from a person if it has reason to believe that when that person was given access to the electronic Application Form, it was not provided together with the electronic Prospectus and any relevant supplementary or replacement prospectus or any of those documents were incomplete or altered.

No document or information included on our website is incorporated by reference into this Prospectus.

## **2.8 Historical Foreign Estimates of Resource Estimates**

This Prospectus includes references to and relies on historical, foreign resource estimates in support of historical exploration results and the estimates. The estimates are historical, foreign estimates and are not reported in accordance with the JORC Code. A Competent Person has not completed sufficient work to classify the estimates as Mineral Resources in accordance with the guidelines of the JORC Code. It is uncertain that following evaluation and/or further exploration work would enable the estimates to be reported as a Mineral Resource estimate in accordance with the JORC Code.

## **2.9 Competent Persons Statements**

The information contained in this Prospectus relating to exploration results and mineral resources were previously announced to ASX by the Company on 25 February 2019 in an announcement titled "Challenger to Acquire Rights to Two South American Gold/Copper Projects Located in Argentina and Ecuador" (**Previous Announcement**) with the written consent of Mr John King who is a full-time employee of JRK Consulting Pty Ltd in relation to the exploration results and the mineral resource for the Hualilan and El Guayabo Projects (the **Competent Persons**). Mr King is a member of the Mining and Metallurgical Society of America

and a senior fellow of the Society for Economic Geologists in the USA. This is a Recognised Professional Organisation (**RPO**) under the Joint Ore Reserves Committee (**JORC**) Code.

The Company is not aware of any new information or data that materially affects the information included in the Previous Announcement. The Company confirms the material assumptions and technical parameters underpinning the mineral resource estimates in the Previous Announcement continue to apply and have not materially changed. The Company also confirms that the form and context in which the Competent Person's findings are presented have not been materially modified.

## **2.10 Forwarding-looking statements**

This Prospectus contains forward-looking statements which are identified by words such as 'may', 'could', 'believes', 'estimates', 'targets', 'expects', or 'intends' and other similar words that involve risks and uncertainties.

These statements are based on an assessment of present economic and operating conditions, and on a number of assumptions regarding future events and actions that, as at the date of this Prospectus, are expected to take place.

Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties, assumptions and other important factors, many of which are beyond the control of our Company, the Directors and our management.

We cannot and do not give any assurance that the results, performance or achievements expressed or implied by the forward-looking statements contained in this Prospectus will actually occur and investors are cautioned not to place undue reliance on these forward-looking statements.

We have no intention to update or revise forward-looking statements, or to publish prospective financial information in the future, regardless of whether new information, future events or any other factors affect the information contained in this Prospectus, except where required by law.

These forward-looking statements are subject to various risk factors that could cause our actual results to differ materially from the results expressed or anticipated in these statements. These risk factors are set out in Section 9.

## **2.11 Photographs and Diagrams**

Photographs used in this Prospectus which do not have descriptions are for illustration only and should not be interpreted to mean that any person shown endorses the Prospectus or its contents or that the assets shown in them are owned by the Company. Diagrams used in this Prospectus are illustrative only and may not be drawn to scale.

## **2.12 Defined terms**

Unless the contrary intention appears or the context otherwise requires, words and phrases contained in this Prospectus have the same meaning and interpretation as given in the Corporations Act and capitalised terms have the meaning given in the Glossary in Section 20.

## **2.13 Time**

All references to time in this Prospectus are references to Australian Western Standard Time.

## **2.14 Speculative Investment**

You should read this document in its entirety and, if in any doubt, consult your professional advisers before deciding whether to apply for Shares. There are risks associated with an investment in the Company and the Shares offered under this Prospectus must be regarded as a speculative investment. The Shares offered under this Prospectus carry no guarantee with respect to return on capital investment, payment of dividends or the future value of the Shares.

Prospective investors should carefully consider whether the Securities offered pursuant to this Prospectus are an appropriate investment for them in light of their personal circumstances, including their financial and taxation position.

Refer to Section 9 for details relating to risk factors.

## **2.15 Miscellaneous**

All financial amounts contained in this Prospectus are expressed as Australian currency unless otherwise stated. Conversions may not reconcile due to rounding. All references to '\$' is a reference to Australian dollars.

## **2.16 Statement of Past Performance**

This Prospectus includes information regarding past performance. Investors should be aware that past performance should not be relied upon as being indicative of future performance. This is particularly the case in relation to the Company and its intentions for Hualilan and El Guayabo.

## **2.17 Enquiries**

If you are in any doubt as to how to deal with any of the matters raised in this Prospectus, you should consult your broker or legal, financial or other professional adviser without delay. Should you have any questions about the Public Offer or how to accept the Offers, please call the Company Secretary, Robert Lees on + 61 2 9299 9580.

### 3. KEY OFFER INFORMATION

#### 3.1 Key Dates – Indicative Timetable

Event	Date <sup>1</sup>
Lodgement of Prospectus with the ASIC	15 May 2019
Closing Date of the Offers	24 May 2019
Settlement of the Proposed Acquisition <sup>2</sup>	3 June 2019
Issue of Securities under the Offers	3 June 2019
Despatch of holding statements	5 June 2019
Expected date for reinstatement to quotation on ASX	7 June 2019

**Notes:**

1. The above dates are indicative only and may change without notice. The Company reserves the right to extend the Closing Dates (or one or more of them) or close the Offers (or one or more of them) early without prior notice. The Company also reserves the right not to proceed with any of the Offers at any time before the issue of Securities to Applicants.
2. The above date for settlement of the Proposed Acquisition is a good faith estimate by the Directors and Proposed Directors and may be extended.

#### 3.2 Key Statistics of the Offers

	Total
Shares on issue as at date of this Prospectus	77,893,459
Public Offer price per Share	\$0.03
Public Offer	166,666,667
Third-Party Lender Offer <sup>1</sup>	10,000,000
Vendor Offer <sup>2</sup>	180,000,000
Advisor Offer	6,000,000
Conversion of the AEP Loan Facility #2 <sup>3</sup>	25,000,000
<b>Total number of Shares on issue following completion of the Offers and settlement of the Proposed Acquisition<sup>4</sup></b>	<b>465,560,126</b>

**Notes:**

1. 10,000,000 Shares to be issued to the Third-Party Lenders (or their nominee(s)) in consideration for the conversion of the Third-Party Loan. Refer to Section 6.4.
2. Comprising the Consideration Shares issued as part of the Vendor Offer (this does not include the Consideration Options and the Consideration Performance Shares that the Company is proposing to issue under the Vendor Offer. Refer to Section 6.3 for details.
3. To be issued on conversion of the AEP Loan Facility #2.
4. Assuming no additional Shares are issued (and does not include the proposed issue of the Earn-In Shares that are proposed to be issued (subject to achieving certain milestones)), no Performance Shares are converted into Shares and no Options are converted into Shares.

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#### 4. LETTER FROM PROPOSED MANAGING DIRECTOR

Dear Investor

On behalf of the Directors and Proposed Directors of Challenger Exploration Limited (**Challenger** or the **Company**), it gives me great pleasure to invite you to increase your existing shareholding or to become a shareholder in the Company (**Challenger** or **Company**).

Challenger proposes to become a listed copper and gold explorer focussed on the Hualilan Project (**Hualilan Project**) in Argentina and the El Guayabo Project (**El Guayabo Project**) in Ecuador. Upon Settlement, the Company (through various contractual arrangements) will own rights to earn in to 75% of the Hualilan Project and 100% of the El Guayabo Project.

The Hualilan Project is a skarn and manto gold silver deposit associated with a porphyry intrusive. It has extensive historical drilling within excess of 150 drill-holes dating back to the 1970s. There has been limited historical production reported despite having in excess of 6km of underground workings reported. The property was last explored by La Mancha Resources, a Toronto Stock Exchange listed company, in 2006. La Mancha's work resulted in NI43-101 (non-JORC) resource estimates that remain open in most directions. Exploration by La Mancha attempted to assess the continuity of mineralisation across the property, but this has yet to be tested by systematic drilling.

El Guayabo is a breccia and porphyry gold / copper project. It was last drilled by Newmont Mining Corporation Limited and Odin Mining and Exploration Limited in 1995 and 1997 targeting gold in hydrothermal breccias. The drilling to date has demonstrated potential to host significant copper and associated gold and silver mineralisation. Drilling has returned a number of intersections of greater than 100m of intrusion related breccia and vein hosted mineralisation. The El Guayabo Project has multiple targets including breccia hosted mineralisation, an extensive flat lying late stage vein system and an underlying porphyry system target.

Additionally, the Company intends to continue to pursue its application for shale gas exploration rights in South Africa.

This Prospectus is seeking to raise \$5,000,000 through an offer of 166,666,667 Shares at an issue price of \$0.03 per Share (**Public Offer**).

Funds raised under the Public Offer will primarily be used to complete work programmes at the Projects and for working capital purposes.

The Company has assembled an experienced management team which is well qualified to exploit the potential of the Projects. The Proposed Directors have significant expertise and experience in the exploring, developing and mining of minerals internationally and in financing and managing ASX listed companies. The Proposed Directors will aim to ensure that funds raised through the Public Offer are utilised in a cost-effective manner to advance objectives at the Projects.

I look forward to your support as a shareholder and sharing in what we believe are exciting times ahead for the Company. Before you make your investment decision, I urge you to read this Prospectus in its entirety, including the risk factors described at Section 9, and seek professional advice if required.

Yours sincerely



**MR KRIS KNAUER**  
**PROPOSED CEO AND MANAGING DIRECTOR**

## 5. INVESTMENT OVERVIEW

This Section is a summary only and is not intended to provide full information for investors intending to apply for Securities offered pursuant to this Prospectus. This Prospectus should be read and considered in its entirety.

Item	Summary	Further information
<b>A. Company</b>		
Who is the issuer of this Prospectus?	Challenger Exploration Limited (ACN 123 591 382) (ASX: CEL) ( <b>Company</b> or <b>CEL</b> ).	
Who is Challenger?	<p>The Company was incorporated on 23 January 2007 and listed on ASX on 5 November 2007.</p> <p>Since April 2010, the Company has been pursuing a shale gas project in the Karoo Basin in South Africa. The Company's Securities have been suspended from trading on ASX since 7 August 2018 and will remain suspended until the ASX approves the Company's re-compliance with the admission requirements of Chapters 1 and 2 of the ASX Listing Rules.</p>	Section 7.1
<b>B. The Acquisition</b>		
What is the Proposed Acquisition?	The Company entered into the Acquisition Agreement to acquire 100% of the issued share capital in AEP, completion of which is inter-conditional with the completion of the Public Offer.	Sections 6.6
Who is AEP?	AEP is an Australian private company established specifically to acquire interests in and rights to the El Guayabo Project in Ecuador and the Hualilan Project in Argentina (together, the <b>Projects</b> ).	Section 8.2
What are the Key terms of the Acquisition Agreement?	Refer to Section 17.2 for a summary of the key terms of the Acquisition Agreement.	Section 17.2
What approvals were obtained at the General Meeting?	Refer to Section 7.3 for a summary of the resolutions approved at the General Meeting.	Section 7.3

Item	Summary	Further information
What is the proposed business plan?	<p>Following completion of the Proposed Acquisition, the Company intends to focus on the exploration and development of the Projects in Argentina and Ecuador and where considered appropriate, review and source new opportunities.</p> <p>Should the proposed exploration and development on the Projects not be successful, the Company will consider possible sale, joint venture or relinquishment opportunities.</p>	Section 8.4
What is the proposed work programs for the Projects?	The proposed work programs in place for the Projects are summarised in Part 4 of the Independent Geologist's Report in Section 10.	Section 10
<b>C. Key Advantages and Key Risks</b>		
What are the key advantages of an investment in the Company?	<p>The Directors and Proposed Directors are of the view that an investment in the Company provides the following non-exhaustive list of advantages:</p> <ul style="list-style-type: none"> <li>(a) have an interest in projects located in copper and gold mining regions that have a proven copper and gold production track record;</li> <li>(b) be part of a well-defined exploration strategy that will seek to maximise the value of the projects; and</li> <li>(c) be represented by a new board and management team that has strong technical and commercial background in the mining industry.</li> </ul>	
What are the key risks of an investment in the Company?	<p>The business, assets and operations of the Company, including after completion of the Proposed Acquisition, are subject to certain risk factors that have the potential to influence the operating and financial performance of the Company in the future. These risks can impact on the value of an investment in the Securities of the Company.</p> <p>The Board (including the Proposed Directors) will endeavour to manage these risks by carefully planning its activities and implementing risk control measures. Some of the risks are, however, highly unpredictable and the extent to which the Board can effectively manage them may, in certain circumstances, be limited.</p>	Section 9



Item	Summary	Further information
	<p>Based on the information available, a non-exhaustive list of the key risk factors affecting the Company are as follows:</p> <ul style="list-style-type: none"> <li>(a) Completion risk;</li> <li>(b) Counterparty risks and earn-in risks;</li> <li>(c) Re-compliance with Chapters 1 and 2 of the ASX Listing Rules;</li> <li>(d) Risks associated with operating in Ecuador and Argentina;</li> <li>(e) Risks associated with obtaining and maintaining necessary licences and permits;</li> <li>(f) Additional requirements for capital; and</li> <li>(g) Mineral exploration.</li> </ul>	
<b>E. Directors and Key Management Personnel</b>		
Who are the Directors and Proposed Directors?	<p>It is proposed that upon Settlement:</p> <ul style="list-style-type: none"> <li>(a) Mr Kris Knauer, Mr Fletcher Quinn and Mr Scott Funston will be appointed to the Board; and</li> <li>(b) Mr Michael Fry, Mr Robert Willes and Mr Clinton Carey will resign from the Board.</li> </ul> <p>The profiles of each of the Directors and Proposed Directors are set out in Section 15.1.</p>	Section 15.1
What are the significant interests of the Directors and the Proposed Directors in the Company?	<p>Each Director and Proposed Director's interest in the Company is set out in Section 15.2.</p> <p>The Proposed Directors have interests in the Additional Offers, as follows:</p> <ul style="list-style-type: none"> <li>(a) Mr Knauer, or an entity associated with Mr Knauer will receive securities: <ul style="list-style-type: none"> <li>(i) under the Vendor Offer; and</li> <li>(ii) under the Third-Party Lender Offer.</li> </ul> </li> <li>(b) Mr Funston, or an entity associated with Mr Funston will receive Securities: <ul style="list-style-type: none"> <li>(i) under the Vendor Offer.</li> </ul> </li> <li>(c) Mr Fletcher, or an entity associated with Mr Fletcher will receive Securities: <ul style="list-style-type: none"> <li>(i) under the Third-Party Lender Offer.</li> </ul> </li> </ul>	Section 15.2.

Item	Summary	Further information
<b>F. Financial Information</b>		
How has the Company been performing?	The audited consolidated statements of financial position for the Company for the years ending 30 June 2017 and 2018, and the six months ended 31 December 2018 are set out in Section 11.	Section 11
How has AEP been performing?	The audited consolidated statements of financial position for the AEP Group for the period ended 31 December 2018 is set out in Section 11.	Section 11
<b>G. Offers</b>		
What is being offered under the Public Offer?	<p>The Public Offer is an offer of a minimum of 166,666,667 Shares at an issue price of \$0.03 per Share to raise a minimum of \$5,000,000 (before costs).</p> <p>The purpose of the Public Offer is to:</p> <ul style="list-style-type: none"> <li>(a) position the Company to seek to achieve the objectives set out below in Section 6.12;</li> <li>(b) to meet the requirements of the ASX and satisfy Chapters 1 and 2 of the ASX Listing Rules; and</li> <li>(c) satisfy a condition precedent to the Acquisition Agreement.</li> </ul>	Sections 6.1 and 6.12
What is being offered and what is the purposes of the Additional Offers?	<p>This Prospectus also contains an offer of:</p> <ul style="list-style-type: none"> <li>(a) 180,000,000 Consideration Shares, 78,444,444 Consideration Options and 120,000,000 Consideration Performance Shares (together, the <b>Consideration Securities</b>), pursuant to the Vendor Offer;</li> <li>(b) 10,000,000 Shares to the Third-Party Lenders (or their nominee(s)) pursuant to the Third-Party Lender Offer; and</li> <li>(c) 6,000,000 Shares to the Lead Managers (or their nominee(s)) pursuant to the Advisor Offer,</li> </ul> <p>(together, the <b>Additional Offers</b>).</p> <p>The purpose of the Additional Offers is to remove the need for an additional disclosure document to be issued under the Additional Offers or upon exercise of Options and Performance Shares under the Additional Offers.</p> <p>The Additional Offers are made to the Vendor, the Third-Party Lender and the Lead Managers respectively (or their nominees).</p>	Sections 6.2, 6.3, 6.4, and 6.5

Item	Summary	Further information
	You should not complete an Application Form in relation to an Additional Offer unless specifically directed to do so by the Company.	
Is the Public Offer underwritten?	The Public Offer is not underwritten.	Section 6.8
Who are the Lead Managers to the Public Offer?	<p>The Company has appointed Baillieu Limited and Peloton Capital Pty Ltd as joint lead managers (together, the <b>Joint Lead Managers</b>) to the Public Offer. The Joint Lead Managers will receive a fee of 5% (excluding GST) of the total amount raised under the Public Offer and will each receive 3,000,000 Shares.</p> <p>Some or all the fees payable to the Lead Managers under the JLM Mandates may be required to be passed on to other brokers or advisers who assist with the Public Offer.</p> <p>In addition to fees set out above, Peloton will receive 7,000,000 Options (<b>Peloton Options</b>). Refer to Section 18.5 for details of the full terms and conditions of the Peloton Options.</p> <p>Refer to Section 17.4 for a summary of the terms and conditions of the JLM Mandates.</p> <p>The fees payable to the Joint Lead Managers were negotiated on an arm's length basis. Baillieu and its directors do not currently hold any Shares in the Company. Peloton and its directors currently hold 3,125,000 ordinary fully paid shares in the capital of AEP (<b>AEP Shares</b>).</p> <p>The Joint Lead Managers (including directors) may apply for Shares under the Public Offer.</p>	Section 17.4.
What will the Company's capital structure look like after completion of the Offer and the Proposed Acquisition?	Refer to Section 6.13 for a pro forma capital structure of the Company on Settlement.	Section 6.13

Item	Summary	Further information
What are the terms of the Securities offered under the Offers?	<p>The terms of the Securities offered under this Prospectus are detailed in this Prospectus as follows:</p> <ul style="list-style-type: none"> <li>(a) Shares, including Shares offered under the Public Offer, the Vendor Offer, the Advisor Offer and the Third-Party Lender Offer, in Section 18.2;</li> <li>(b) Consideration Options, in Section 18.3;</li> <li>(c) Peloton Options, in Section 18.5; and</li> <li>(d) Consideration Performance Shares, in Section 18.6.</li> </ul>	Sections 18.2, 18.3, 18.5, and 18.6.
Will any Securities be subject to escrow?	<p>Subject to the Company re-complying with Chapters 1 and 2 of the ASX Listing Rules and completing the Offers, certain Shares on issue (including certain Securities issued under the Additional Offers) may be classified by ASX as restricted securities and will be required to be held in escrow for up to 24 months from the date of Official Quotation.</p> <p>The Company confirms its 'free float' (the percentage of the Shares that are not restricted and are held by shareholders who are not related parties (or their associates) of the Company) at the time of reinstatement will be not less than 20% in compliance with ASX Listing Rule 1.1 Condition 7.</p> <p>During the period in which these Securities are prohibited from being transferred, trading in Shares may be less liquid which may impact on the ability of a Shareholder to dispose of his or her Shares in a timely manner.</p>	Sections 6.11 and 6.15
Will the Shares offered under the Offers be quoted?	Application for quotation of all Shares to be issued under the Offers will be made to ASX no later than 7 days after the date of this Prospectus.	Sections 6.11 and 6.21
What are the key dates of the Offers?	The key dates of the Offers are set out in the indicative timetable in Section 3.	Section 3
What is the minimum investment size under the Public Offer?	Applications under the Public Offer must be for a minimum of \$2,000 worth of Shares (66,667 Shares) and thereafter, in multiples of \$500 worth of Shares (16,667 Shares).	Section 6.10

Item	Summary	Further information
Are there any conditions to the Offers?	<p>The Offers are conditional on:</p> <ul style="list-style-type: none"> <li>(a) the Company raising the minimum subscription amount of \$5,000,000 under the Public Offer;</li> <li>(b) the Acquisition Agreement becoming unconditional; and</li> <li>(c) ASX conditional approval to re-admit the Securities to Official Quotation,</li> </ul> <p>(together, the <b>Conditions</b>).</p> <p>If any of these Conditions are not satisfied, the Proposed Acquisition and the Offers will not proceed.</p>	Section 6.6
<b>H. Use of funds</b>		
How will the proceeds of the Public Offer be used?	<p>The Public Offer proceeds and the Company's existing cash reserves will be used for:</p> <ul style="list-style-type: none"> <li>(a) exploration expenditure on the Projects;</li> <li>(b) expenses of the Public Offer;</li> <li>(c) repayment of current liabilities; and</li> <li>(d) working capital and corporate administration expenses of the Company</li> </ul> <p>further details of which are set out in Section 6.17 and in the Independent Limited Assurance Report set out in Section 12.</p>	Sections 6.17 and 12
Will the Company be adequately funded after completion of the Public Offer?	<p>The Directors and Proposed Directors are satisfied that on completion of the Public Offer, the Company will have sufficient working capital to carry out its objectives as stated in this Prospectus.</p>	Section 6.17
<b>I. Additional information</b>		
Is there any brokerage, commission or duty payable by applicants?	<p>No brokerage, commission or duty is payable by Applicants on the acquisition of Securities under the Offers.</p>	

Item	Summary	Further information
What are the tax implications of investing in Securities?	<p>Holders of Shares may be subject to Australian tax on dividends and possibly capital gains tax on a future disposal of Shares subscribed for under this Prospectus.</p> <p>The tax consequences of any investment in Shares will depend upon an investor's particular circumstances. Applicants should obtain their own tax advice prior to deciding whether to subscribe for Securities offered under this Prospectus.</p>	
What are the corporate governance principles and policies of the Company?	<p>To the extent applicable, in light of the Company's size and nature, the Company has adopted <i>The Corporate Governance Principles and Recommendations (3rd Edition)</i> as published by ASX Corporate Governance Council (<b>Recommendations</b>).</p> <p>The Company's main corporate governance policies and practices as at the date of this Prospectus are outlined in Section 16.</p> <p>In addition, the Company's full Corporate Governance Plan is available from the Company's website (<a href="http://www.challengerex.com">www.challengerex.com</a>)</p> <p>Prior to re-admission to the ASX, the Company will announce its main corporate governance policies and practices and the Company's compliance and departures from the Recommendations.</p>	Section 16
Where can I find more information?	<p>(a) By speaking to your sharebroker, solicitor, accountant or other independent professional adviser.</p> <p>(b) By contacting the Company Secretary on +61 2 9299 9580.</p>	

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## **6. DETAILS OF THE OFFERS**

### **6.1 The Public Offer**

Pursuant to this Prospectus, the Company invites applications for 166,666,667 Shares at an issue price of \$0.03 per Share to raise \$5,000,000 (**Public Offer**).

The Shares offered under the Public Offer will rank equally with the existing Shares on issue. A summary of the material rights and liabilities attaching to the Shares is set out in Section 18.2.

### **6.2 Additional Offers**

The Company is also undertaking the Additional Offers, described below. The Additional Offers are being made under this Prospectus to remove the need for an additional disclosure document to be issued upon the sale of any Securities (including the sale of Shares issued on conversion) that are issued under the Additional Offers.

### **6.3 Vendor Offer**

This Prospectus includes the offer of the Consideration Securities, comprising:

- (a) 180,000,000 Consideration Shares;
- (b) 78,444,444 Consideration Options; and
- (c) 120,000,000 Consideration Performance Shares,

to the Vendor (or their nominee(s)) pursuant to the Acquisition Agreement in consideration for the Proposed Acquisition by the Company of 100% of the issue capital of AEP.

The Consideration Shares offered under the Vendor Offer will rank equally with the existing Shares on issue other than in respect of any escrow imposed by the ASX. A summary of the material rights and liabilities attaching to the Consideration Shares, the Consideration Options and the Consideration Performance Shares is set out in Sections 18.2, 18.3 and 18.6 respectively.

Only the Vendor (or its nominee(s)) may apply under the Vendor Offer. A personalised Application Form in relation to the Vendor Offer will be issued to the Vendor together with a copy of this Prospectus.

The Consideration Securities under the Vendor Offer are expected to be restricted from trading for certain periods in accordance with the ASX Listing Rules. Prior to the issue of the Consideration Securities to the Vendor (or its nominee(s)) under the Vendor Offer the Vendor (or its nominee(s)) will be required to enter into a restriction agreement in respect of the number of Consideration Securities and the time period determined by ASX.

Prior to the Securities commencing trading on ASX, the Company will announce full details (quantity and duration) of applicable escrow.

## 6.4 Third-Party Lender Offer

The Prospectus includes an offer of 10,000,000 Shares to be issued to the Third-Party Lenders (or their nominee(s)) in consideration for the conversion of outstanding loans totalling \$300,000 (**Third-Party Loan**).

Following the approval by Shareholders at the General Meeting, the Third-Party Loans will convert at a deemed issue price of \$0.03 per Share on completion of the Proposed Acquisition. Refer to Section 17.10 for a summary of the terms and conditions of the loan agreements which details how these Third-Party Loan's will be dealt with in the event Settlement does not occur.

The Shares offered under the Third-Party Lender Offer will rank equally with the existing Shares on issue other than in respect of any escrow imposed by the ASX. A summary of the material rights and liabilities attaching to the Shares is set out in Section 18.2.

Only the Third-Party Lenders (or its nominee(s)) may apply under the Third-Party Lender Offer. A personalised Application form in respect of the Third-Party Lender Offer will be issued to the Third-Party Lender together with a copy of this Prospectus.

Application for quotation of the Shares issued under the Third-Party Lender Offer that will not be subject to escrow in accordance with the ASX Listing Rules will be applied for will be made to ASX no later than 7 days after the date of this Prospectus. See Section 6.21 for more details.

## 6.5 Advisor Offer

This Prospectus includes an offer of 6,000,000 Shares to be issued to the Joint Lead Managers (or their nominee(s)) in consideration for services provided in relation to the Public Offer (**Advisor Offer**).

The Shares offered under the Advisor Offer will rank equally with the existing Shares on issue other than in respect of any escrow imposed by the ASX. A summary of the material rights and liabilities attaching to the Shares is set out in Section 18.2.

Only the Joint Lead Managers (or their nominee(s)) may apply under the Advisor Offer. A personalised Application Form in relation to the Advisor Offer will be issued to the Joint Lead Managers together with a copy of this Prospectus.

It is expected that 100% of the Shares issued under the Advisor Offer will be restricted for 24 months from the date of commencement of official quotation of the Securities following completion of the Proposed Acquisition. Prior to the issue of Shares to the Joint Lead Managers (or their nominee(s)) under the Advisor Offer the Joint Lead Managers (or their nominee(s)) will be required to enter into a restriction agreement in respect of the number of Shares and time period determined by ASX.

## 6.6 Conditions to the Offers

The Offers are conditional on the Acquisition Agreement becoming unconditional which will require the Minimum Subscription to be obtained (**Conditions**). Refer to Section 17.2(b) for a list of the condition precedent to completion under the Acquisition Agreement.



In the event the Conditions are not satisfied, the Offers will not proceed, and no securities will be issued pursuant to this Prospectus. If this occurs, Applicants will be refunded their Application monies without interest in accordance with the Corporations Act.

#### **6.7 Minimum subscription**

The minimum amount which must be raised under the Public Offer is \$5,000,000 (**Minimum Subscription**). If the Minimum Subscription has not been raised within 4 months after the date of this Prospectus, the Company will not issue any Shares and will repay all application monies for the Shares within the time prescribed under the Corporations Act, without interest.

#### **6.8 Not underwritten**

The Offer is not underwritten.

#### **6.9 Joint Lead Managers**

The Company has appointed Baillieu Limited and Peloton Capital Pty Ltd as joint lead managers to the Public Offer (**Joint Lead Managers**).

The terms of the JLM Mandates are summarised in Section 17.4.

#### **6.10 Minimum application amount**

Applications under the Public Offer must be for a minimum of \$2,000 worth of Shares (66,667 Shares) and thereafter, in multiples of \$500 worth of Shares (16,667 Shares).

#### **6.11 Quotation and trading**

Application for quotation of the Securities issued under the Offers will be made to ASX no later than 7 days after the date of this Prospectus. See Section 6.1 for further details.

No Shares issued pursuant to the Public Offer will be subject to any escrow requirement by the ASX.

#### **6.12 Purpose of the Public Offer**

The primary purpose of the Public Offer is to assist the Company to meet the re-admission requirements of ASX under Chapters 1 and 2 of the ASX Listing Rules (see Section 7.4 for further details).

The Company intends on applying the funds raised under the Public Offer along with its current cash reserves in the manner detailed in Section 6.17.

#### **6.13 Capital Structure**

The capital structure of the Company following completion of the Offers (assuming full subscription) is summarised below:

	Shares	Options	Performance Shares	Performance Rights
Current	77,893,459	6,950,000 <sup>7</sup>	-	800,000 <sup>9</sup>
Public Offer <sup>2</sup>	166,666,667	-	-	
Vendor Offer <sup>3</sup>	180,000,000	78,444,444	120,000,000	-
Third-Party Lender Offer <sup>4</sup>	10,000,000	-	-	-
Advisor Offer <sup>5</sup>	6,000,000	-	-	-
Grant of Options to Peloton <sup>6</sup>	-	7,000,000	-	-
Conversion of AEP Loan Facility #2 <sup>7</sup>	25,000,000	-	-	-
<b>TOTAL<sup>10</sup></b>	<b>465,560,126</b>	<b>92,394,444<sup>8</sup></b>	<b>120,000,000</b>	<b>Nil<sup>9</sup></b>

**Notes:**

1. Refer to Section 11 of this Prospectus for further details.
2. Refer to Section 6.1 for details.
3. Refer to Section 6.3 for details.
4. Refer to Section 6.4 for details.
5. Refer to Section 6.5 for details.
6. To be issued pursuant to the lead manager mandate between the Company and Peloton summarised in Section 17.4. Refer to Section 18.5 for the full terms and conditions of the Peloton Options.
7. Refer to Section 17.9 for details.
8. This does not include the proposed issued of 2,200,000 Options to IRX Advisors Pty Ltd (**IRX**) (or their nominee(/s)) pursuant to a non-binding agreement entered into by AEP and IRX.
9. Existing Performance Rights held by Mr Robert Willes. The Performance Rights will lapse on Settlement.
10. The above table does not include the proposed issue of the Deferred Consideration Shares comprising 245,000,001 Shares to be issued in accordance with the terms and conditions of the Farm-In Agreements. The Company has obtained a waiver from ASX Listing Rule 7.3.2 to allow it to issue the Deferred Consideration Shares over a five-year period commencing from the date of reinstatement of the Company's securities to official quotation.

## 6.14 Substantial Shareholders

As at the date of this Prospectus, the following Shareholders hold 5% or more of the total number of Shares on issue:

Shareholder	Shares	%
LQ Super Pty Ltd <LQ Superfund A/C> <sup>1</sup>	8,661,970	11.12%
Mrs Marilyn Helena Brown <WWB Investments P/L S/F A/C>	5,816,831	7.47%

**Notes:**

1. This is an entity associated with Fletcher Quinn, a Proposed Director of the Company.

On completion of the Proposed Acquisition and the Offers (assuming Minimum Subscription under the Offer), the following Shareholders are expected to hold 5% or more of the total number of Shares on issue:

Shareholder	Shares	%
Moneybung Pty Ltd <sup>1</sup>	42,170,333	9.06%

**Notes:**

1. This is an entity associated with Kris Knauer, a Proposed Director of the Company.

## 6.15 Restricted Securities

Subject to the Company re-complying with Chapters 1 and 2 of the ASX Listing Rules and completing the Offer, certain Securities on issue (including the Consideration Shares and Consideration Options) may be classified by ASX as restricted securities and will be required to be held in escrow for up to 24 months from the date of Official Quotation.

During the period in which these Securities are prohibited from being transferred, trading in Shares may be less liquid which may impact on the ability of a Shareholder to dispose of his or her Shares in a timely manner.

The Company will announce to the ASX full details (quantity and duration) of the Securities required to be held in escrow prior to the Company's listed securities being reinstated to trading on ASX (which reinstatement is subject to ASX's discretion and approval).

## 6.16 Top 20 Shareholders

The Company will announce to the ASX details of its top 20 Shareholders following completion of the Offer and prior to the Securities re-commencing trading on ASX.

## 6.17 Use of Funds

The Company intends to apply funds raised from the Public Offer, together with existing cash reserves, in the next two years following re-admission to the Official List of the ASX (for the purpose of satisfying ASX's requirements for re-listing following a significant change to the nature and scale of the Company's activities) as follows:

Funds available	Minimum Subscription (\$) (\$5,000,000)	Percentage of Funds %
Existing cash reserves <sup>1</sup>	325,822	6.1
Funds raised from the Public Offer	5,000,000	93.9
<b>Total</b>	<b>\$5,325,822</b>	<b>100%</b>
<b>Allocation of funds</b>		
El Guayabo Project <sup>2</sup>	2,110,000	39.6
Hualilan Project <sup>2</sup>	1,430,000	26.9
Expenses of the Offers <sup>3</sup>	397,007	7.5
Repayment of Abrocard Loan	444,000	8.34
Working capital and corporate administration <sup>4</sup>	944,815	17.74
<b>TOTAL</b>	<b>\$5,325,822</b>	<b>100%</b>

**Notes:**

- 1 Refer to Section 11 of this Prospectus for further details.
- 2 Refer to the Independent Geologist's Report in Section 10.
3. Refer to Section 18.12 for further details in relation to the expense of the Public Offer.
4. This includes corporate overheads, audit fees, rent and general administration costs.

The above table is a statement of current intentions as of the date of lodgement of this Prospectus with the ASIC. As with any budget, intervening events and new circumstances have the potential to affect the ultimate way funds will be applied. The Directors and Proposed Directors reserve the right to alter the way funds are applied on this basis.

Actual expenditure may differ significantly from the above estimates due to a change in market conditions, the development of new opportunities and other factors (including the risk factors outlined in Section 9).

The Directors and Proposed Directors believe that the funds raised from the Public Offer, combined with existing funds will provide the Company with sufficient working capital at anticipated expenditure levels to achieve its objectives set out in this Prospectus.

## **6.18 Taxation**

The acquisition and disposal of Shares will have tax consequences, which will differ depending on the individual financial affairs of each investor.

It is not possible to provide a comprehensive summary of the possible taxation positions of all potential applicants. As such, all potential investors in the Company are urged to obtain independent financial advice about the consequences of acquiring Shares from a taxation viewpoint and generally.

To the maximum extent permitted by law, CEL, its officers and each of their respective advisors accept no liability and responsibility with respect to the taxation consequences of subscribing for Shares under this Prospectus.

## **6.19 Applications**

Applications for Shares under the Offers must be made using the relevant Application Form. By completing an Application Form, you will be taken to have declared that all details and statements made by you are complete and accurate and that you have personally received the Application Form together with a complete and unaltered copy of the Prospectus.

Completed Application Forms must be mailed or delivered to the address set out on the Application Form, with sufficient time to be received by or on behalf of the Company by **no later than 5:00pm (WST) on the Public Offer Closing Date**, which is currently scheduled to occur on 24 May 2019.

Applications under the Offers must be accompanied by payment in full in Australian currency by cheque in accordance with the instructions set out in the Application Form.

The Company reserves the right to close the Offers early.

If you require assistance in completing an Application Form, please contact the Company Secretary on +61 2 9299 9580.

## **6.20 Allocation Policy**

The Company retains an absolute discretion to allocate Shares under the Public Offer and reserves the right, in its absolute discretion, to allot to an Applicant a lesser number of Shares than the number for which the Applicant applies or to reject an Application Form. If the number of Shares allotted is fewer than the number applied for, surplus Application money will be refunded without interest as soon as practicable after the Closing Date.

No Applicant under the Public Offer has any assurance of being allocated all or any Shares applied for. The allocation of Shares by Directors and Proposed will be influenced by the following factors:

- (a) the number of Shares applied for;
- (b) the overall level of demand for the Public Offer;
- (c) the desire for spread of investors, including institutional investors; and
- (d) the desire for an informed and active market for trading Shares following completion of the Public Offer.

The Company will not be liable to any person not allocated Shares or not allocated the full amount applied for.

The Company's decision on the number of Shares to be allocated to an Applicant under the Public Offer will be final.

## **6.21 ASX listing**

The Company will apply for Official Quotation by ASX of all Shares issued under this Prospectus within 7 days after the date of this Prospectus. However, Applicants should be aware that ASX will not commence Official Quotation of any Shares until the Company has re-complied with Chapters 1 and 2 of the ASX Listing Rules and has received the approval of ASX to be re-admitted to the Official List (see Section 7.4). As such, the Shares may not be able to be traded for some time after the close of the Public Offer.

If the Shares are not admitted to Official Quotation by ASX before the expiration of 3 months after the date of this Prospectus, or such period as varied by the ASIC, or if ASX otherwise rejects the Company's application for re-admission to the Official List (see Section 7.4), the Company will not issue any Securities under the Offers and will repay all application monies for the Securities within the time prescribed under the Corporations Act, without interest. In those circumstances the Company will not proceed with the Proposed Acquisition.

The fact that ASX may grant Official Quotation to the Shares is not to be taken in any way as an indication of the merits of the Company or the Shares now offered for subscription.

## **6.22 Clearing House Electronic Sub-Register System and Issuer Sponsorship**

The Company participates in the Clearing House Electronic Sub-Register System (**CHESS**). ASX Settlement Pty Ltd, a wholly owned subsidiary of ASX, operates CHESS. Investors who do not wish to participate through CHESS will be issuer sponsored by the Company.

Electronic sub-registers mean that the Company will not be issuing certificates to investors. Instead, investors will be provided with holding statements (similar to a bank account statement) that set out the number of Shares issued to them under this Prospectus. The holding statements will also advise holders of their holder identification number (if the holder is broker sponsored) or security holder reference number (if the holder is issuer sponsored) and explain, for future reference, the sale and purchase procedures under CHESS and issuer sponsorship.

Electronic sub-registers also mean ownership of Shares can be transferred without having to rely upon paper documentation. Further, monthly statements will be provided to holders if there have been any changes in their security holding in the Company during the preceding month. Shareholders may request a holding statement at any other time, however a charge may be made for such additional statements.

## **6.23 Enquiries**

If you have any queries in relation to the Offers, please contact Robert Lees, the Company Secretary on +61 2 9299 9580.

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## 7. OVERVIEW OF THE COMPANY AND THE PROPOSED ACQUISITION

### 7.1 The Company

The Company is an Australian public company incorporated on 23 January 2007, which listed on ASX on 5 November 2007.

In April 2010, the Company acquired an application for shale gas exploration rights in the Karoo Basin in South Africa through the acquisition of acquisition Bundu Gas and Oil Exploration Pty Ltd (**Bundu**). Since 2013, the primary focus of the Company has been to pursue its shale gas interests in South Africa.

On 3 August 2018 the Company requested a trading halt of its securities from ASX pursuant to ASX Listing Rule 17.1. On 7 August 2018 ASX advised that the Company's securities would be suspended from quotation, following receipt of an announcement regarding a transaction that could result in a change to the nature and scale of its activities. The Company's securities have remained suspended since that date and ASX has confirmed the securities will not be reinstated to Official Quotation until the Company has recompiled with Chapters 1 and 2 of the ASX Listing Rules and is re-admitted by ASX to the Official List.

### 7.2 Proposed Acquisition

On 25 February 2019, the Company announced to ASX that it had entered into the Acquisition Agreement to acquire 100% of the issued share capital of AEP (**Proposed Acquisition**).

AEP has the rights to earn in to 75% of the Hualilan Project in Argentina and 100% of the El Guayabo Project in Ecuador (the **Projects**).

The key terms of the Acquisition Agreement are set out in Section 17.2.

### 7.3 Resolutions approved by Shareholders

The Shareholders, during the General Meeting, approved the following resolutions:

- (a) Resolution 1 - significant change to the nature and scale of the Company's activities due to the Proposed Acquisition and resulting change in the nature and scale of its activities in accordance with ASX Listing Rule 11.1.2;
- (b) Resolution 2 - a consolidation of the issued capital of the Company so that the authorised and issued capital of the Company be consolidated on the basis that every five (5) Shares be consolidated into one (1) Share – this Consolidation took effect on 9 May 2019;
- (c) Resolution 3 - issue the Consideration Securities as consideration for the all of the issued capital in AEP on the terms and conditions set out in the Acquisition Agreement;
- (d) Resolution 4 - the issue of 166,666,667 Shares under the Public Offer;
- (e) Resolution 5 – issue 10,000,000 Shares to the Third-Party Lenders (or their nominee/s) on conversion of the Third-Party Loan;
- (f) Resolution 6 – issue 6,000,000 Shares to the Lead Managers (or their nominee/s);

- (g) Resolution 7 - election of Kris Knauer as a director of the Company with effect from Settlement;
  - (h) Resolution 8 - election of Fletcher Quinn as a director of the Company with effect from Settlement;
  - (i) Resolution 9 – election of Scott Funston as a director of the Company with effect from Settlement;
  - (j) Resolution 10 – issue the Deferred Consideration Securities, subject to satisfaction of certain milestones set out in the Farm-In Agreements. Refer to Parts 7 – 10 of the Solicitors Report on Title in Section 13 for a summary of the terms and conditions of the Hualilan Earn-In Agreement and Part 5 if the Solicitors Report on Title for a summary of the terms and conditions of the El Guayabo Farm-In Agreement;
  - (k) Resolution 11 – change of the name of the Company to “Challenger Exploration Limited” – this change of name took effect on 29 April 2019;
  - (l) Resolution 12 – the adoption of the Performance Rights Plan (**PRP**);
  - (m) Resolution 13 – the adoption of the Employee Share Option Plan (**ESOP**);
  - (n) Resolution 14 – issue 25,000,000 Shares on conversion of the AEP Loan Facility #2; and
  - (o) Resolution 15 – the adoption of a new constitution (**Constitution**),
- (the **Resolutions**).

#### **7.4 Suspension and Re-admission to the Official List of ASX**

As the Company is currently focussed on oil and gas exploration, the Proposed Acquisition, if successfully completed, will represent a significant change in the nature and scale of the Company's operations to an exploration and mining company. In addition to the Shareholder approvals obtained at the General Meeting and set out in Section 7.3, the Company will need to re-comply with the admission requirements set out in Chapters 1 and 2 of the ASX Listing Rules, including satisfaction of ASX's conditions precedent to reinstatement.

Some of the key requirements of Chapters 1 and 2 of the Listing Rules are:

- (a) the Company must satisfy the shareholder spread requirements relating to the minimum number of Shareholders and the minimum value of the shareholdings of those Shareholders; and
- (b) the Company must satisfy the “assets test” as set out in ASX Listing Rule 1.3.

It is expected that completion of the Public Offer as set out in this Prospectus will enable the Company to satisfy the above requirements.

Applicants should be aware that ASX will not re-admit or admit any Shares to Official Quotation until the Company re-complies with Chapters 1 and 2 of the Listing Rules and is re-admitted by ASX to the Official List. In the event that the Company does not receive conditional approval for re-admission to the Official List, the Company will not proceed with the Offers and will repay all Application monies received by it in connection with this Prospectus (without interest).



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## **8. AEP AND PROJECTS OVERVIEW**

### **8.1 General**

This Section 8 contains a summary of the Projects. Investors should ensure they read the Independent Geologist's Report in Section 10 for further detail on the Projects and the proposed work programs. Investors should also ensure that they read the Solicitors Title Report in Section 13 for further details on the Hualilan Project and the Solicitors Title Report in Section 14 for further details on the El Guayabo Project.

### **8.2 Background**

The Company entered into a binding term sheet for the acquisition of 100% of the issued capital in AEP Corporation Pty Limited (**AEP**) from the AEP Shareholders (**Acquisition Agreement**) (**Proposed Acquisition**). Refer to Section 17.2 for details.

AEP is an Australian private company established specifically to acquire the Projects.

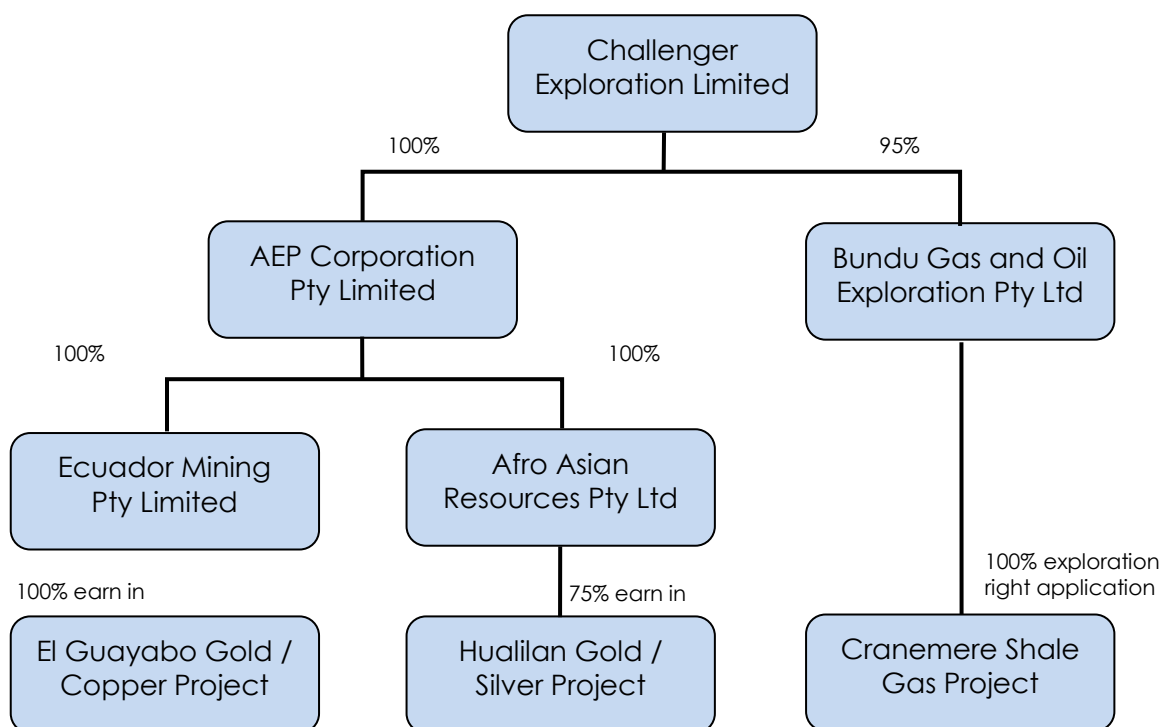
Since the date of incorporation, the AEP Group has raised approximately \$3,740,000, with the majority of these funds expended and or allocated, as applicable, on:

- (a) the advancement of work programs for the Projects;
- (b) to support corporate overheads of the Company; and
- (c) the provision of loan funds to the Company.

AEP's interests in the Projects are via its wholly own subsidiaries as detailed in Section 8.3.

### **8.3 Corporate Structure**

Assuming completion of the Proposed Acquisition, the corporate group structure of the Company and its wholly owned subsidiaries is set out below.



Name	Place and date of registration	Comments
Challenger Exploration Limited (ACN 123 591 382) <b>(Company)</b>	Australia 23 January 2007	The Company at the date of this Prospectus. If the Proposed Acquisition completes, AEP will become a wholly owned subsidiary of the Company and the Company will become the ultimate parent company of the AEP Group.
AEP Corporation Pty Limited (ACN 627 617 976) <b>(AEP)</b>	Australia 19 July 2018	Holds 100% of the issued capital in EMP and AAR.
Ecuador Mining Pty Limited (ACN 626 075 367) <b>(EMP)</b>	Australia 10 May 2018	Holds the rights to earn 100% of the El Guayabo mining concession (Code. No. 225) located in Torata and Bellamaría, El Oro, Ecuador.
Afro-Asian Resources Pty Limited (ACN 142 265 049) <b>(AAR)</b>	Australia 25 February 2010	Holds the rights to earn 75% of the Divisadero N° 1, Flor de Hualilán, Pereyra y Aciar, Rosas y Navarro o Bicolor, Sentazon, Muchilera, Magnata, La Toro N° 10, Puntilla, Pique de

Name	Place and date of registration	Comments
		Ortega, Descubridora, Pardo, Sanchez and Andacollo Minas (or mining leases); the Demasía a la Mina Toro and Demasía a la Mina Pizarro, and Josefina Exploration licence application in Argentina which form the Hualilan Project.
Bundu Gas and Oil Exploration (Pty) Ltd ( <b>Bundu</b> )	South Africa 4 December 2007	The Company holds 95% of the issued capital of Bundu, with the remaining 5% held by its Black Economic Empowerment partner, Donald Ncube via the Nkululeko Trust. Bundu is the applicant for the shale gas exploration right for the Cranemere Shale Gas Project.

#### 8.4 Objectives and Strategies

Following completion of the Proposed Acquisition the primary objectives of the Company will be:

- (a) El Guayabo program - is to define targets for a drilling program the Directors and Proposed Directors expect to commence during the current calendar year ended 31 December 2019; and
- (b) Hualilan – redefine the scope of Hualilan to better determine the best means of development to seek to achieve early cash-flows.

#### 8.5 Overview of the Projects

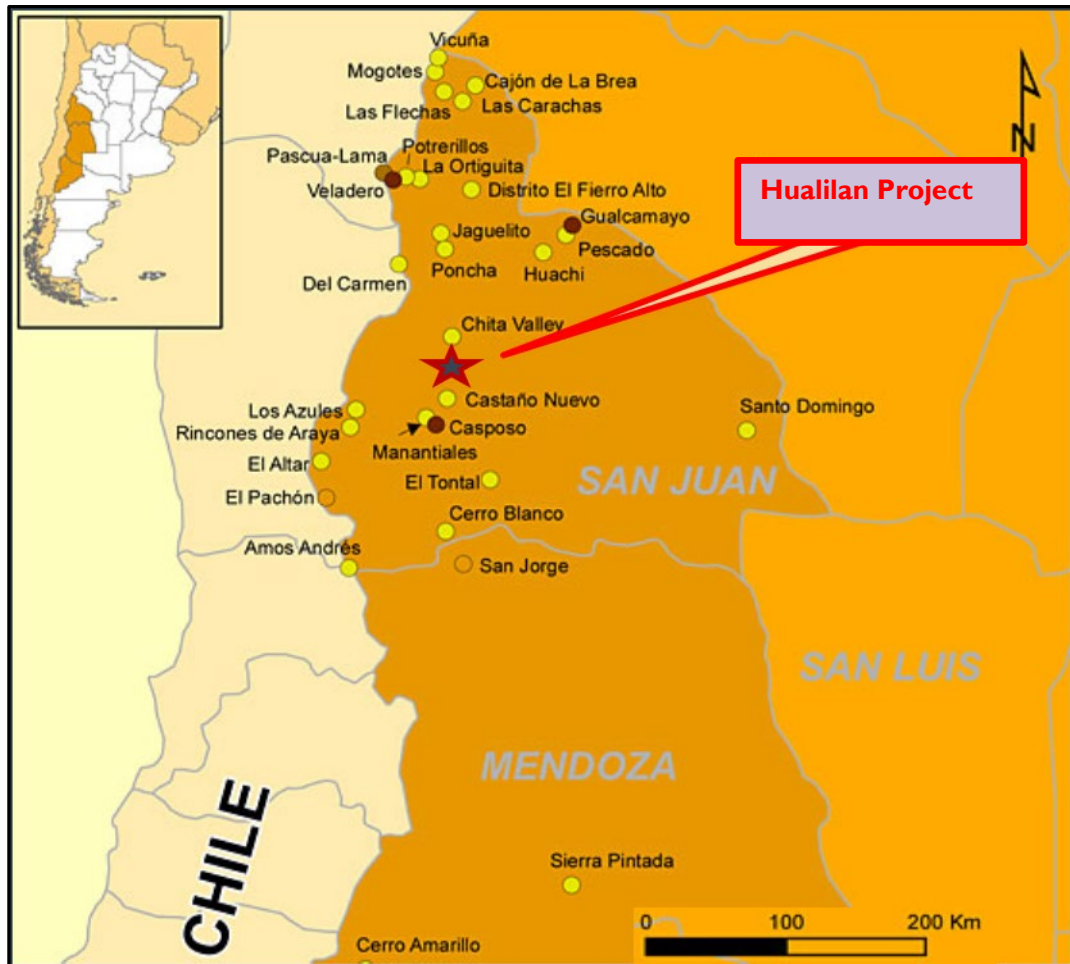
##### Hualilan Overview

Hualilan is a skarn and manto gold silver deposit associated with a porphyry intrusive. It has extensive historical drilling within excess of 150 drill-holes dating back to the 1970s. There has been limited historical production reported despite having in excess of 6km of underground workings reported. The property was last explored by La Mancha Resources, a Toronto Stock Exchange listed company, in 2006. La Mancha's work resulted in NI43-101 (non-JORC) resource estimates that remain open in most directions. Exploration by La Mancha attempted to assess the continuity of mineralisation across the property, but this has yet to be tested by systematic drilling.

The Hualilan Project hosts a gold-zinc skarn deposit located approximately 120 km north-northwest of San Juan, the capital of San Juan Province in north-western Argentina. The project is located at an elevation of approximately 1,700m. The climate is moderate and dry with rain most common from December to January.

The area is sparsely populated, vegetation is thin, and geology is well exposed at surface. Field operations are possible year-round.

The Hualilan Project is accessible via sealed roads to within 500 metres of the licence and then by a series of unsealed roads around the licence. The closest town on the power grid is approximately 40 km to the north of the Cerro Sur Project.



Source - AEP Internal Company Report" Hualilan Project Review March 2019"

#### Location of Hualilan Project in Argentina

Gold and base metal mineralisation has been identified at 19 sites over a 4 km strike length in two zones Cerro Norte and Cerro Sur (together historically known as the Hualilan Project), separated by a late east-west striking fault.

The Hualilan Project consists of a contractual arrangements to acquire:

- (a) eight mining leases in the Cerro Sur area, each measuring some 300 m by 200 m (6 ha) for a total of 0.48 km<sup>2</sup>, together with an additional Demencia;
- (b) seven mining leases in the Cerro Norte area, each measuring some 300 m by 200 m (6 ha) for a total of 0.42 km<sup>2</sup>, together with two additional Demencia; and
- (c) an exploration licence application covering the surrounding 26sq kms.

Intermittent sampling dating back over 500 years has produced a great deal of data including sampling data, geologic maps, reports, trenching data, underground workings, drill hole results, geophysical surveys, mineralisation estimates plus property examinations and detailed studies by several geologists although no work has been completed since 2006.

There is 6 km of underground workings that pass through mineralised zones. Records of the underground geology and sampling are currently being compiled and digitised, as are sample data, geological mapping, trench and adit exposures, and drill hole results. Geophysical surveys exist but have largely yet to be checked, located and digitised.

Drilling on Hualilan (Cerro Sur and Cerro Norte combined) extends to over 150 drill holes.

### El Guayabo Overview

The El Guayabo Project is a breccia and porphyry gold / copper project. It was last drilled by Newmont Mining Corporation Limited and Odin Mining and Exploration Limited in 1995 and 1997 targeting gold in hydrothermal breccias. The drilling to date has demonstrated potential to host significant copper and associated gold and silver mineralisation. Drilling has returned a number of intersections of greater than 100m of intrusion related breccia and vein hosted mineralisation. The El Guayabo Project has multiple targets including breccia hosted mineralisation, an extensive flat lying late stage vein system and an underlying porphyry system target.

El Guayabo is situated in El Oro Province, in southern Ecuador. El Guayabo is located 36 km SE of the provincial capital, Machala which is located on the coast. El Oro Province is named after the historically important gold production which was a significant contributor to the provincial economy. El Guayabo lies in the central to north-central part of the Portovelo-Zaruma gold mining district within the Cangrejos Zaruma intrusive belt.

Access to El Guayabo is possible from the town of Santa Rosa by paved road (18 km) and gravel road (5 km). The "El Guayabo" exploration licence encompasses an area of 280 hectares.



*Source - ARCOM database April 2019*

#### **Location of the El Guayabo Project in southern Ecuador**

Previous exploration was completed by Newmont Mining Corporation and Odin Mining and Exploration Ltd. Geological mapping, as well as soil and rock chip sampling surveys have all been undertaken with 5274 pit and, outcrop samples taken by Newmont currently being compiled. The results of this sampling indicates widespread copper enrichment in rock chips over the eastern and western parts of the licence and widespread gold in rockchips, particularly over the Gold Block, Copper Block and NW parts of the exploration licence.

A total of 33 drill holes (for 7490m) have been completed at the El Guayabo Project by Newmont Mining Corporation and Odin Mining and Exploration Ltd. Drill logs for all holes have been compiled, including logs for lithology, core recovery, samples, assay and magnetic susceptibility.

For further information on the Projects, please refer to the Independent Geologist's Report in Section 10.

### **8.6 Farm-in Agreement – Hualilan**

AEP holds a 100% interest in Afro Asian Resources Pty Ltd (**AAR**), which has a binding farm-in agreement with Golden Mining S.R.L. (**GML**) and Golden Mining SA (**GMA**). GML is the current holder of mining concessions in Argentina at Cerro Sur and a surrounding exploration concession. GML has also entered into an agreement with the holder of additional adjacent mining concessions at Cerro Norte, to acquire those concessions. Collectively, the Cerro Sur and Cerro Norte concessions are known as the Hualilan Project.

The Hualilan Farm-In Agreement provides AEP a right to acquire up to 75% of the Hualilan Project, subject to certain earn-in requirements summarised in Parts 7 – 10 of the Solicitors Report on Title in Section 13.

## **8.7 Farm-in Agreement – El Guayabo**

EMP entered into a farm-in agreement with Torata Mining Resources TMR S.A. (**Torata**), a company duly incorporated and registered under the laws of Ecuador, having its principal offices in Buenavista 2619 y Av. Bolívar, La Providencia, Machala, El Oro, Ecuador, the current owner of the property comprising El Guayabo (**El Guayabo Farm-In Agreement**) pursuant to which EMP can acquire 100% of El Guayabo.

In addition to the 19.9% interest currently held, AEP has satisfied the requirements of El Guayabo Farm-In Agreement, being the expenditure of \$2,000,000 (having expended \$2,685,595.87 as at the date of this Prospectus) by the date that is no later than 23 months from Reinstatement to move from a 19.9% interest to a 36% interest. The Directors and Proposed Directors have confirmed that as at the date of this Prospectus, the proposed subsidiary that is to hold the increased interest in the El Guayabo Project is in the process of being incorporated with the interest to be assigned following incorporation.

The El Guayabo Farm-In Agreement is a staged farm-in agreement and provides EMP a right to acquire up to 100% of the El Guayabo project, subject to certain earn-in requirements summarised in Part 5 of the Solicitors Report on Title in Section 14.

The El Guayabo Farm-In Agreement includes mechanisms aimed to ensure security for EMP of its interest in El Guayabo comprising several agreements put in place following detailed Ecuador based legal advice. Refer to the Solicitors Title Report on the El Guayabo Project set out in Section 14 for further details.

## **8.8 Business Model and Proposed Work Programmes**

Whilst the Company will continue to pursue its application for shale gas exploration rights in South Africa, the Company considers that the Projects have significant exploration and discovery potential. Upon Settlement of the Proposed Acquisition the Company plans to actively explore the Projects and where appropriate, review and source new project opportunities.

Should the proposed exploration on the Projects not be successful, the Company will consider possible sale, joint venture or relinquishment.

The Company's business model for the first two (2) years is based on the proposed work programmes in place for each of the Projects. The Company understands that AEP's proposed work programs for the Projects, which are expected to commence in the second half of the 2019 calendar year, aim to:

- (a) Hualilan Project – redefine the scope of the Hualilan Project to determine possible development options; and
- (b) El Guayabo Project – define targets for a drilling program.

Refer to Part 4 of the Independent Geologist's Report in Section 10 for further details of the proposed work programs for each of the Projects.



## **8.9 Funding**

It is anticipated that the funding for the Company for the two years following re-admission to the Official List of ASX will be met by the offer of Shares pursuant to the Public Offer under this Prospectus and by the Company's existing cash reserves (see Section 6.17 for further details). As and when further funds are required, either for existing or future prospects, the Company will consider both raising additional capital from the issue of securities and/or from debt funding. There is no guarantee that additional funding will be available.

## **8.10 Financial Information**

### **(a) Historical financial information**

The Financial Information contained in Section 11 sets out:

- (i) the audited Statement of Financial Position of the Company as at 31 December 2018;
- (ii) the audited Statement of Financial Position of AEP as at 31 December 2018; and
- (iii) the reviewed pro-forma Statement of Financial Position of the Company (after Settlement of the Proposed Acquisition) as at 31 December 2018.

Investors are urged to read the Independent Limited Assurance Report set out in Section 12 in full.

The full financial statements for the Company for its financial year ended 30 June 2018, which includes the notes to the financial statements, can be found from CEL's ASX announcements platform on [www.asx.com.au](http://www.asx.com.au).

### **(b) Forecast**

The Directors and Proposed Directors have considered the matters set out in ASIC Regulatory Guide 170 and believe that they do not have a reasonable basis to forecast future earnings on the basis that the operations of the Company are inherently uncertain. Any forecast or projection information would contain such a broad range of potential outcomes and possibilities that it is not possible to prepare a reliable best estimate forecast or projection.

## **8.11 Dividend Policy**

The Company does not expect to declare any dividends in the short term.

Any future determination as to the payment of dividends by the Company will be at the discretion of the Board and will depend on the availability of distributable earnings and operating results and financial condition of the Company, future capital requirements and general business and other factors considered relevant by the Board. No assurance in relation to the future payment of dividends or franking credits attaching to dividends can be given by the Company.



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## **9. RISK FACTORS**

### **9.1 General**

The business, assets and operations of the Company, including upon Settlement, are subject to certain risk factors that have the potential to influence the operating and financial performance of the Company in the future. These risks can impact on the value of an investment in the securities of the Company.

The Directors and Proposed Directors aim to manage these risks by carefully planning the activities of the Company and implementing risk control measures. Some of the risks are, however, highly unpredictable and the extent to which they can effectively manage them is limited.

There are risks which relate directly to the Company and AEP's business. Set out below are specific risks that the Company and AEP may be exposed to. The risks identified in this Section 9, or other risk factors, may have a material impact on the financial performance of the Company and the market price of the Company's Securities.

The summary of risks that follows is not intended to be exhaustive and this Prospectus does not take into account the personal circumstances, financial position or investment requirements of any particular person. There may be additional risks and uncertainties that the Company is unaware of or that the Company currently considers to be immaterial, which may affect the Company, AEP and their related entities and consequently, Applicants.

### **9.2 Key Risks**

The key risks associated with an investment in the Company as set out in Part C of the Investment Overview of this Prospectus and are summarised below:

#### **(a) Completion Risk**

Pursuant to the Acquisition Agreement the Company has agreed to acquire 100% of the issued capital of AEP. Settlement is subject to the fulfilment of the Conditions, set out in Section 6.6. There is a risk these conditions may not be fulfilled in a reasonable timeframe, or at all, in which case the Proposed Acquisition will not proceed.

If the Proposed Acquisition does not proceed, the Company will have incurred costs relating to advisors and other third parties without any tangible benefit having been received by the Company. It should be noted that if the Proposed Acquisition does not proceed the loan advance provided by AEP will be repayable through an issue of Shares which will result in dilution effects for Shareholders.

#### **(b) Counterparty and Earn-In Risks**

AEP's rights and interests in the Projects are via the Farm-In Agreements. The earn-in nature of the Farm-In Agreements result in an inherent risk for the Company, in that in the future, having expended money on the Projects, the Company may elect not to pursue the Projects, for reasons which may include changes in commodity prices and, or, an assessment of the results of its exploration activities.

Furthermore, the Farm-In Agreements expose the Company to risks associated with the potential for disputes between the counterparties.

This could lead to delays, increases in costs, disputes and, or, litigation. There can be no assurance that the Company would be successful in seeking remedies or enforcement of its rights through legal actions should such disputes occur.

(c) **Re-Compliance with Chapters 1 and 2 of the ASX Listing Rules**

As detailed in Section 7.4 the Proposed Acquisition constitutes a significant change in the nature and scale of the Company's activities and the Company is required to re-comply with Chapters 1 and 2 of the ASX Listing Rules in order to be reinstated to the Official List of the ASX.

There is a risk that the Company may not be able to meet the requirements of the ASX for re-quotation of its Securities on the ASX. Settlement will not occur until such time as those requirements are met, if at all.

(d) **Risks Associated with operating in Ecuador and/or Argentina**

Upon Settlement, the Company's key assets will include its licences. The Company's proposed operations will be subject to receiving and maintaining licences and permits from appropriate governmental authorities and or third parties. There can be no assurance that delays will not occur in connection with obtaining all necessary renewals of licences/permits for existing operations, additional licences/permits for any new potential changes to operations, or additional permits associated with new legislation. Prior to any development on any of its projects, the Company must receive licences/permits from appropriate Governmental authorities. There is no certainty AEP will obtain or continue to hold all licences/permits necessary to develop or operate at any one or more of the Projects.

(e) **Licences**

The Company's proposed operations will be subject to receiving and maintaining licences and permits from appropriate governmental authorities and or third parties. There can be no assurance that delays will not occur in connection with obtaining all necessary renewals of licences and/or permits for existing operations, additional licences and/or permits for any new potential changes to operations, or additional permits associated with new legislation. Prior to any development on any of its projects, the Company must receive licences and/or permits from appropriate governmental authorities. There is no certainty AEP will obtain or continue to hold all licences and/or permits necessary to develop or operate at any particular project.

(f) **Additional requirements for capital**

The funds raised under the Public Offer are considered sufficient to meet the immediate business objectives of the Company. Additional funding may be required in the event the costs exceed the Company's estimates and to effectively implement its business and operation plans in the future to take advantage of the opportunities for acquisitions or other business opportunities and to meet any unanticipated liabilities or expenses which the Company may incur may depend in part on its ability to raise additional funds.

The Company may seek to raise further funds through equity or debt financing or other means. Failure to obtain sufficient financing for the Company's activities and future projects may result in delay and indefinite postponement of development. There can be no assurance that additional finance will be available when needed or, if available, the terms of the financing might not be favourable to the Company and might involve substantial dilution to Shareholders.

(g) **Minerals Exploration.**

In addition to the above, there are other risks inherent in the conduct of a mineral exploration business to which the Company will be exposed upon completion of the Proposed Acquisition:

- (i) risks associated with the inherently speculative nature of minerals exploration;
- (ii) land access risks;
- (iii) environmental risks;
- (iv) risk associated with the availability of suitably qualified personnel;
- (v) operational risks; and
- (vi) risks associated with the availability of future capital required to fund development.

### 9.3 Specific Risks

(a) **Co-existence**

Pursuant to the terms and conditions of the Farm-in Agreements, the Company has contractual rights and obligations in relation to the co-existence, exploration and potentially mining on the El Guayabo Project. The Company has the right to do such prospecting, exploration, development, drilling and/or other mining work thereon and thereunder as the Company in its sole discretion may determine advisable and including, without limitation the removal of ores, minerals and metals from the El Guayabo Concession but only for testing purposes. The Company is required to use all reasonable efforts to coordinate with the operator in order to avoid interference with the day to day activities of the existing mine operators.

There is a risk that the Company may not be able to complete all of its preferred exploration programmes in accordance with proposed timetables, or at all, as a result of a conflict with the exploration activities of the registered holder of the El Guayabo Concession.

(b) **Exploration risks**

Subject to completion of the Proposed Acquisition, the Tenements that the Company will have rights to exploit will be at various stages of exploration. There can be no assurance that exploration of the Tenements, or any other tenements that may be acquired in the future, will result in the discovery of an economic ore deposit. Even if an apparently viable deposit is identified, there is no guarantee that it can

be economically exploited or that capital will be able to be obtained to advance the project towards a development decision.

The future exploration activities of the Company may be affected by a range of factors including activities of parties with overlapping tenure, geological conditions, limitations on activities due to seasonal weather patterns or adverse weather conditions, unanticipated operational and technical difficulties, difficulties in commissioning and operating plant and equipment, mechanical failure or plant breakdown, unanticipated metallurgical problems which may affect extraction costs, industrial and environmental accidents, industrial disputes, unexpected shortages and increases in the costs of consumables, spare parts, plant, equipment and staff, native title process, changing government regulations and many other factors beyond the control of the Company.

The success of the Company will also depend upon the Company being able to maintain title to the mineral exploration licences comprising the Projects and obtaining all required approvals for their contemplated activities. In the event that exploration programmes prove to be unsuccessful this could lead to a diminution in the value of the Projects, a reduction in the cash reserves of the Company and possible relinquishment of one or more of the mineral exploration licences comprising the Projects.

(c) **Exploration costs**

The exploration costs of the Company as summarised in the Independent Geologist's Report in Section 10 and are based on certain assumptions with respect to the method and timing of exploration. By their nature, these estimates and assumptions are subject to significant uncertainty, and accordingly, the actual costs may materially differ from the estimates and assumptions. Accordingly, no assurance can be given that the cost estimates and the underlying assumptions will be realised in practice, which may materially and adversely impact the Company's viability.

(d) **Environmental**

The operations and proposed activities of the Company are subject to State and Federal laws and regulations concerning the environment. As with most exploration projects and mining operations, the Company's activities are expected to have an impact on the environment, particularly if advanced exploration or mine development proceeds. It is the Company's intention to conduct its activities to the highest standard of environmental obligation, including compliance with all environmental laws.

Mining operations have inherent risks and liabilities associated with safety and damage to the environment and the disposal of waste products occurring as a result of mineral exploration and production. The occurrence of any such safety or environmental incident could delay production or increase production costs. Events, such as unpredictable rainfall or bushfires may impact on the Company's ongoing compliance with environmental legislation, regulations and licences. Significant liabilities could be imposed on the Company for damages, clean-up costs or penalties in the event of certain discharges into the environment, environmental damage caused by previous operations or non-compliance with environmental laws or regulations.

The disposal of mining and process waste and mine water discharge are under constant legislative scrutiny and regulation. There is a risk that environmental laws and regulations become more onerous making the Company's operations more expensive.

Approvals are required for land clearing and for ground disturbing activities. Delays in obtaining such approvals can result in the delay to anticipated exploration programmes or mining activities.

(e) **Mine development**

Possible future development of mining operations at the Projects is dependent on a number of factors including, but not limited to, the acquisition and/or delineation of economically recoverable mineralisation, favourable geological conditions, receiving the necessary approvals from all relevant authorities and parties, seasonal weather patterns, unanticipated technical and operational difficulties encountered in extraction and production activities, mechanical failure of operating plant and equipment, shortages or increases in the price of consumables, spare parts and plant and equipment, cost overruns, access to the required level of funding and contracting risk from third parties providing essential services.

If the Company commences production on any of the Projects, its operations may be disrupted by a variety of risks and hazards which are beyond the control of the Company. No assurance can be given that the Company will achieve commercial viability through the development of the Projects.

The risks associated with the development of a mine will be considered in full should the Projects reach that stage and will be managed with ongoing consideration of stakeholder interests.

(f) **Resource estimates**

The Company does not presently have any JORC Code compliant resources on the tenements in which it is earning an interest. In the event a resource is delineated this would be an estimate only. An estimate is an expression of judgement based on knowledge, experience and industry practice. Estimates which were valid when originally calculated may alter significantly when new information or techniques become available. In addition, by their very nature, resource estimates are imprecise and depend to some extent on interpretations, which may prove to be inaccurate. As further information becomes available through additional fieldwork and analysis, the estimates are likely to change. This may result in alterations to development and mining plans which may, in turn, adversely affect the Company's operations.

(g) **Liquidity Risk**

The Directors and Proposed Directors anticipate that the Consideration Securities to be issued to the Vendors (or their nominee(s)) under the Vendor Offer will likely be subject to escrow in accordance with Chapter 9 of the ASX Listing Rules.

The escrow of the Consideration Securities may result in an increased liquidity risk as a large portion of the issued capital of the Company will be subject to restrictions in accordance with the Listing Rules and will not be able to be traded freely for a period of time.

(h) **Dilution Risk**

At the date of this Prospectus, the Company has 77,893,459 Shares on issue. The Company is proposing to issue a significant number of securities in connection with the Proposed Acquisition, including the Consideration Securities to the Vendors under the Vendor Offer summarised in Section 6.3 and Shares to participants under the Public Offer.

Refer to Section 6.13 for a summary of the total number of Securities on issue assuming Settlement and the associated transaction set out in this Prospectus occur on 21 May 2019. Based on the assumptions set out in Section 6.13 existing Shareholders will retain approximately 14.3% of the Company's issued Share capital.

(i) **Karoo Basin Permit**

The Company's focus has previously been securing the grant to its subsidiary, Bundu Gas & Oil Exploration Pty Ltd (**Bundu**), of a South African petroleum exploration right in the Karoo Basin applied for by Bundu in 2010. While the Company expects this Permit to be granted in due course, if the Permit is not granted on acceptable terms, or at all, this may adversely affect the Company's prospects.

(j) **Black Economic Empowerment and Social Development**

The Company must comply and remain compliant with all relevant legislation and regulation including the Mineral and Petroleum Resources Development Act (**MPRDA**), the South African Mining Charter (**Charter**), the Mining Codes and the black economic empowerment participation requirements and the approved social and labour plan (noting that the relevant legislation and regulation is currently the subject of proposed change) in order to acquire, develop or maintain exploration and production rights in respect of its shale gas application in South Africa. Any failure to satisfy and to continue to satisfy the black economic empowerment requirements of the MPRDA, the Charter, the approved social and labour plan, all relevant legislation and regulation and/or the Mining Codes (and any variation thereto) could jeopardise any rights held and impede the Company's ability to acquire, develop or maintain any additional exploration and production rights in South Africa.

## **9.4 General risks**

(a) **Reliance on Key Management**

The responsibility of overseeing the day-to-day operations and the strategic management of the Company depends substantially on its senior management and its key personnel. There can be no assurance given that there will be no detrimental impact on the Company if one or more of these employees cease their employment.

(b) **Litigation risks**

The Company is exposed to possible litigation risks including native title claims, tenure disputes, environmental claims, occupational health and safety claims and employee claims. Further, the Company may be involved in disputes with other parties in the future which may result in litigation. Any such claim or dispute if proven, may impact adversely on the Company's operations, financial performance and financial position. The Company is not currently engaged in any litigation.

(c) **Market conditions**

Share market conditions may affect the value of the Company's quoted securities regardless of the Company's operating performance. Share market conditions are affected by many factors such as:

- (i) general economic and political outlook;
- (ii) introduction of tax reform or other new legislation;
- (iii) interest rates and inflation rates;
- (iv) changes in investor sentiment toward particular market sectors;
- (v) the demand for, and supply of, capital; and
- (vi) terrorism or other hostilities.

The market price of securities can fall as well as rise and may be subject to varied and unpredictable influences on the market for equities in general and technology stocks in particular. Neither the Company nor the Directors warrant the future performance of the Company or any return on an investment in the Company.

(d) **Commodity Price Volatility and Exchange Rate Risks**

If the Company achieves success leading to mineral or oil and/or gas production, the revenue it will derive through the sale of commodities exposes the potential income of the Company to commodity price and exchange rate risks. Commodity prices fluctuate and are affected by many factors beyond the control of the Company. Such factors include supply and demand fluctuations for precious and base metals, and oil and gas technological advancements, forward selling activities and other macro-economic factors.

## **9.5 Investment speculative**

The above list of risk factors ought not to be taken as exhaustive of the risks faced by the Company or by investors in the Company. The above factors, and others not specifically referred to above, may in the future materially affect the financial performance of the Company and the value of the Securities offered under this Prospectus.

Therefore, the Securities to be issued pursuant to this Prospectus carry no guarantee with respect to the payment of dividends, returns of capital or the market value of those Securities.

Potential investors should consider that investment in the Company is highly speculative and should consult their professional advisers before deciding whether to apply for Securities pursuant to this Prospectus.



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**10. INDEPENDENT GEOLOGIST'S REPORT**

# Independent Geologist's Report on the Mineral Assets of Challenger Exploration Limited

Prepared for

**Challenger Exploration Limited**



Prepared by



SRK Consulting (Australasia) Pty Ltd

CEL001

May 2019

# **Independent Geologist's Report on the Mineral Assets of Challenger Exploration Limited**

## **Challenger Exploration Limited**

Level 17, 500 Collins Street  
Melbourne VIC 3000

## **SRK Consulting (Australasia) Pty Ltd**

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**SRK Project Number: CEL001**

**May 2019**

### **Compiled by**

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Associate Consultant

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### **Author:**

Stuart Munroe

15 May 2019

The Directors  
Challenger Exploration Limited  
Level 17, 500 Collins Street  
Melbourne VIC 3000

Dear Directors

### **Challenger Exploration Limited – Independent Geologist's Report**

At your request (agreement signed 9 July 2018), SRK Consulting (Australasia) Pty Ltd (SRK) has prepared an Independent Geologist's Report (IGR) on certain Mineral Assets located in Argentina and Ecuador as held by AEP Corporation Pty Ltd (AEP). SRK understands that Challenger Exploration Limited, formerly Challenger Energy Limited (Challenger or the Company) has entered a binding term sheet relating to the acquisition of a 100% interest in the issued capital in AEP (the Proposed Transaction). Furthermore, SRK understands that this report will be included in a Prospectus dated and lodged on or about 15 May 2019 to assist in complying with the requirements of the Australian Securities Exchange (ASX) Listing Rules and for an offer of up to 166,666,667 shares at an issue price of A\$0.03 per share to raise \$5,000,000 (Public Offer).

As outlined in Challenger's announcement to the ASX on 25 February 2019, the key mineral assets held by AEP to be considered in this report comprise:

- the right to earn up to a 100% interest in the El Guayabo breccia and porphyry gold-copper project located in El Oro Province of southern Ecuador
- the right to earn up to a 75% interest in the Hualilan high grade gold-silver project located in San Juan Province of northwestern Argentina.

Collectively, these projects are known as the "Mineral Assets" throughout this report.

The objective of this report is to (1) provide an overview of the geological setting of the Mineral Assets; (2) present for each project a geological description; (3) outline the recent exploration work undertaken on each project; and (4) comment on the exploration potential of the project areas.

This report has been prepared in accordance with the ASX Listing Rules. Under these rules, reporting in accordance with the guidelines of the JORC Code (2012) and VALMIN Code (2015) mineral reporting codes (as defined here within) is required.

The report was compiled by Dr Stuart Munroe, BSc (Hons), PhD (Structural Geology), GDip (AppFin&Inv), MAusIMM. Dr Munroe is a full-time employee of SRK and has sufficient experience which is relevant to the style of mineralisation and type of deposits under consideration to qualify as Competent Person as defined in the 2012 Edition of the JORC Code. Dr Munroe consents to the inclusion of this report in Challenger's acquisition proposal based on this information in the form and context in which it appears.

### **Information basis of this report**

For the preparation of this report, Challenger has made available all relevant information held by the Company. SRK has supplemented this information, where necessary, with information from its own geological databases or information available within the public domain. The principal sources of information are included in a reference list at the end of the report. The report includes information available up to the date of this report. Challenger has stated that all information provided may be presented in the report and that none of the information is regarded as being confidential.

## Legal matters

SRK notes that it is not qualified to make legal representations with regards to the ownership and legal standing of the Mineral Assets that are the subject of this report. SRK has not attempted to confirm the legal status of the tenements with respect to acquisition or joint venture agreements, native title, local heritage or potential environmental or land access restrictions. Instead, SRK has relied on information provided by Challenger. SRK has prepared this report on the understanding that all the tenements of Challenger are currently in good standing or pending and that there is no cause to doubt the eventual granting of any tenement applications.

## Statement of SRK independence

Neither SRK nor any of the author of this report have any material present or contingent interest in the outcome of this report, nor do they have any pecuniary or other interest that could be reasonably regarded as being capable of affecting their independence or that of SRK.

SRK is qualified to provide such reports for the purposes of inclusion in public company documents. The Effective Date of the report is 1 April 2019.

SRK has no beneficial interest in the outcome of the technical assessment informing this report being capable of affecting its independence.

## Consulting fees

SRK's estimated fee for completing this report is based on its normal professional daily rates plus reimbursement of incidental expenses. The fees are agreed based on the complexity of the assignment, SRK's knowledge of the assets and availability of data. The fee payable to SRK for this engagement exclusive of expenses is estimated at approximately A\$50,130. The payment of this professional fee is not contingent upon the outcome of the Prospectus.

## Warranties and indemnities

Challenger has warranted, in writing to SRK, that full disclosure has been made of all material information and that, to the best of its knowledge and understanding, such information is complete, accurate and true. As recommended by the VALMIN Code, Challenger has provided SRK with an indemnity under which SRK is to be compensated for any liability and/or any additional work or expenditure resulting from any additional work required:

- which results from SRK's reliance on information provided by Challenger or from Challenger not providing material information; or
- which relates to any consequential extension workload through queries, questions or public hearings arising from this report.

## Consent

SRK has given and has not withdrawn its written consent for the report to be used in a proposal to shareholders to acquire the Mineral Assets, including publication on Challenger's company website and to the inclusion of statements made by SRK and to the references of its name in other documents pertaining to Challenger's proposal. SRK provides this consent on the basis that the technical assessments expressed in the Summary and in the individual sections of this report be considered with, and not independently of, the information set out in the complete report and the Cover Letter.

SRK confirms that to the best of its knowledge and belief (having taken all reasonable care to ensure that such is the case), the information contained in the report is in accordance with the facts and does not omit anything likely to affect the import of such information.

SRK confirms that nothing has come to its attention to indicate any material change to what is stated in the report.

Yours faithfully

For and on behalf of **SRK Consulting (Australasia) Pty Ltd**

A handwritten signature in black ink, reading "Stuart Munroe". The signature is written in a cursive style with a horizontal line underneath the name.

Dr Stuart Munroe, *BSc(Hons), PhD, GDip (AppFin&Inv), MAusIMM*  
Principal Consultant (Project Evaluation)

# Table of Contents

Table of Contents .....	v
Disclaimer.....	viii
Glossary and List of Abbreviations .....	ix
Executive Summary .....	xii
<b>1 Introduction .....</b>	<b>1</b>
1.1 Background .....	1
1.2 Reporting compliance, reporting standard and reliance .....	2
1.2.1 Reporting compliance.....	2
1.2.2 Reliance on SRK .....	3
1.3 Base technical information, effective date and publication date .....	3
1.4 Verification and validation .....	3
1.5 Limitation, reliance on information, declaration, consent and cautionary statements .....	4
1.5.1 Limitations .....	4
1.5.2 Reliance on information.....	4
1.5.3 Declaration .....	5
1.6 Indemnities provided by the Company.....	5
1.7 Qualifications of Consultants and Competent Persons .....	5
<b>2 El Guayabo Project.....</b>	<b>7</b>
2.1 Project setting .....	7
2.1.1 Topography, elevation and vegetation .....	8
2.1.2 Climate and length of operating season.....	8
2.2 Project tenure.....	8
2.2.1 Agreements .....	9
2.3 Geological setting.....	9
2.3.1 Porphyry copper-gold deposits .....	10
2.3.2 Regional geology.....	11
2.3.3 Local geology .....	12
2.3.4 Mineralisation .....	14
2.4 Project history .....	18
2.5 Conclusions.....	21
<b>3 Hualilan Project .....</b>	<b>23</b>
3.1 Project setting .....	23
3.1.1 Location and access.....	23
3.1.2 Topography, elevation and vegetation .....	24
3.1.3 Climate and length of operating season.....	24
3.2 Project tenure.....	24
3.2.1 Agreements .....	27

3.3 Geological setting.....	27
3.3.1 Manto/ skarn zinc-lead (gold-copper-silver) deposits .....	27
3.3.2 Regional geology.....	28
3.3.3 Local geology .....	28
3.3.4 Mineralisation .....	30
3.4 Project history .....	31
3.4.1 Previous production.....	31
3.4.2 Historical, foreign resource estimates .....	41
3.4.3 Metallurgical testwork.....	42
3.5 Conclusion .....	43
<b>4 Proposed Exploration Programs.....</b>	<b>44</b>
4.1 El Guayabo Project .....	44
4.2 Hualilan Project .....	44
4.3 Proposed exploration budget .....	45
<b>5 References .....</b>	<b>47</b>

## List of Tables

Table 1-1: Summary of responsibilities of key contributors .....	6
Table 2-1: Mining concessions that comprise the El Guayabo Project.....	8
Table 2-2: Drill holes completed at EL Guayabo by previous explorers .....	20
Table 2-3: Significant drill intersections at El Guayabo as previously reported by Challenger.....	21
Table 3-1: Granted mining leases ( <i>Minas Otorgadas</i> ) at the Hualilan Project.....	26
Table 3-2: Mining Lease extensions ( <i>Demasías</i> ) at the Hualilan Project.....	26
Table 3-3: Exploration licence application surrounding the <i>Minas</i> and <i>Demasías</i> at the Hualilan Project .....	26
Table 3-4: Drill collars for RC holes completed by Compañía Minera Aguilar S.A. ....	33
Table 3-5: Drill collars for RC holes completed by Plata Mining Ltd (Monarch) .....	33
Table 3-6: Drill collars for RC holes completed by CMEC .....	34
Table 3-7: Drill collars for diamond drill holes completed by CMEC .....	35
Table 3-8: Drill collars for diamond drill holes completed by La Mancha.....	37
Table 3-9: Significant drill intersections at the Hualilan Project previously reported by Challenger .....	39
Table 3-10: La Mancha Resources 2003 foreign resource estimate for the Hualilan Project.....	41
Table 3-11: La Mancha Resources 2006 foreign resource estimate for the Hualilan Project (excluding the Magnata Vein) .....	41
Table 3-12: Summary of the samples for metallurgical testwork .....	43
Table 4-1: Proposed use funds from the capital raising.....	45



# List of Figures

Figure 1-1:	Corporate structure of AEP .....	1
Figure 2-1:	Location of the El Guayabo Project in Ecuador .....	7
Figure 2-2:	Regional geology of the Cangrejos Zaruma intrusive belt in the El Guayabo Project area .....	10
Figure 2-3:	Section through the porphyry intrusions with interpretation at depth for the El Guayabo Project .....	11
Figure 2-4:	Image of total magnetic intensity (normalised reduced to the pole) interpreted circular intrusive centre .....	12
Figure 2-5:	Drill core of schist from JHD09 at 43.6–48.5 m which has been overprinted by late fault movement at silicification .....	12
Figure 2-6:	Silicified quartz-feldspar porphyry intrusion overprinted by quartz veins and quartz-chalcopyrite-pyrrhotite .....	13
Figure 2-7:	Angular to rounded fragments of intrusion and quartz vein in a breccia with a dark coloured matrix, previously described as quartz-tourmaline-rich .....	13
Figure 2-8:	Mapped and interpreted surface geology for El Guayabo and neighboring concessions .....	14
Figure 2-9:	Location of key mineralised areas and exploration camp in the El Guayabo concession (green boundary) .....	15
Figure 2-10:	Intrusive breccia in an underground exposure from the Gold Block overprinted by steeply dipping quartz veins and a later shallowly dipping quartz-pyrite-arsenopyrite vein .....	16
Figure 2-11:	Quartz-arsenopyrite-pyrite vein overprinting earlier quartz veins in silicified feldspar porphyry intrusion .....	17
Figure 2-12:	Underground exposure of the Ecuaba vein shear zone (fault) dipping shallowly to the northeast in the western part of the concession .....	18
Figure 2-13:	Plan of the El Guayabo concession showing drill holes, location of mapped intrusive breccia and contours of rock chip sample gold values .....	19
Figure 3-1:	Location of the Hualilan Project and local geology .....	23
Figure 3-2:	Steep slopes of the Hualilan Hills rising above the gently east-dipping valley floors .....	24
Figure 3-3:	Location of the Cerro Sur, Cerro Norte and exploration licence application at the Hualilan Project .....	25
Figure 3-4:	Schematic diagram of manto-style mineralisation in carbonate rocks .....	28
Figure 3-5:	West-dipping contact between Ordovician San Juan Formation limestone and siltstone of the Silurian Tucunoco Group .....	29
Figure 3-6:	Dacitic intrusion in the Cerro Sur zone .....	30
Figure 3-7:	Massive sulphide (partially oxidised) with quartz from the Sentazon mine, Cerro Sur .....	31
Figure 3-8:	Hualilan Mine processing site and support building ruins from production in the 1870s .....	32
Figure 3-9:	Section through the Cerro Sur area at Hualilan from the CMEC drilling .....	37

## Disclaimer

The opinions expressed in this report have been based on the information supplied to SRK Consulting (Australasia) Pty Ltd (SRK) by Challenger Exploration Limited (Challenger or the Company). The opinions in this report are provided in response to a specific request from Challenger to do so. SRK has exercised all due care in reviewing the supplied information. While SRK has compared key supplied data with expected values, the accuracy of the results and conclusions from the review are entirely reliant on the accuracy and completeness of the supplied data. SRK does not accept responsibility for any errors or omissions in the supplied information and does not accept any consequential liability arising from commercial decisions or actions resulting from them. Opinions presented in this report apply to the site conditions and features as they existed at the time of SRK's investigations, and those reasonably foreseeable. These opinions do not necessarily apply to conditions and features that may arise after the date of this report, about which SRK had no prior knowledge nor had the opportunity to evaluate.

## Glossary and List of Abbreviations

Term	Meaning
Ag	Chemical symbol for silver
AIG	Australia Institute of Geoscientists
Albite	A sodic plagioclase feldspar mineral ( $\text{NaAlSi}_3\text{O}_8$ )
ASL	Above sea level
As	Chemical symbol for arsenic
ASX	Australian Securities Exchange
AusIMM	Australasian Institute of Mining and Metallurgy
Au	gold
Breccia	Fragmented rock
Calc-alkaline	A group of igneous rocks, common in volcanic arcs, high in calcium and potassium
Chalcocite	A copper-sulphide mineral ( $\text{Cu}_2\text{S}$ )
Chalcopyrite	A copper-iron-sulphide mineral ( $\text{CuFeS}_2$ )
Chert	A sedimentary rock composed of microcrystalline or cryptocrystalline quartz
conglomerate	a coarse-grained clastic sedimentary rock that is composed of rounded to sub-angular clasts
Cu	Chemical symbol for copper
Devonian	A period of geological time from 419.2 Ma to 358.9 Ma
Dacite	An igneous, volcanic rock with a porphyritic texture and is intermediate in composition between andesite and rhyolite
Diamond Drill (DD)	diamond core drilling
Dyke	A narrow tabular intrusive rock body
Epithermal	Warm ground waters at shallow depth (<2 km) under conditions in the lower ranges of temperature and pressure
Fault	A fracture in earth materials, along which the opposite sides has been displaced parallel to the plane of the movement
Felsic	A group of minerals including feldspar, feldspathoids, quartz, and muscovite
g/t	grams per tonne
Geophysics	The study of the Earth using quantitative physical methods to measure its electrical conductivity, gravitational and magnetic fields
Granite	An acid intrusive rock
Granodiorite	A type of granitic rock with abundant feldspar
Hydrothermal breccia	A breccia formed by explosion of superheated water migrating from depth to the surface
Hydrothermal Fluid	Upward flowing fluids originating from igneous or metamorphic geological events
Induced Polarisation (IP) survey	Geophysical survey method to measure the electrical property of rocks in the Earth
Intrusive	An igneous rock formed entirely within the Earth's crust
Jasper	An aggregate of microgranular quartz or chalcedony and other mineral phases that is produced from contact metamorphism and hydrothermal solution
JORC Code	Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves
K	Chemical symbol for potassium

Term	Meaning
km	kilometre
Limestone	A sedimentary rock composed mainly of skeletal fragments of marine organisms
Lutite	Shale (A fine-grained sedimentary rock composed of mud that is a mix of flakes of clay minerals and silt-sized particles)
m	metre
m ASL	Metres above sea level
Ma	Million years
Magnetite	A mineral of iron oxide, $\text{Fe}_3\text{O}_4$ , that often occurs with magnesium, zinc, and manganese and is an important ore of iron
Metamorphic rock	A rock altered by temperature and pressure within the earth
Mineral Resource	A Mineral Resource is a concentration or occurrence of solid material of economic interest in or on the Earth's crust in such form, grade (or quality) and quantity that there is reasonable prospect for eventual economic extraction. The location, quantity, grade (or quality), continuity and other geological characteristics of a Mineral Resource are known, estimated or interpreted from specific geological evidence and knowledge including sampling. Mineral Resources are sub-divided in order of increasing geological confidence into Inferred, Indicated and Measured categories.
Mineralisation	Geological occurrence of mineral of potential economic interest
Miocene	An epoch from about 23 to 5.3 million years ago
Mo	Chemical symbol for Molybdenum
Mt	million tonnes
Na	Chemical symbol for sodium
Oxidation	Process of change in the rock mineral assemblage due to the action of surface-derived groundwater and air
Palaeozoic	An Era in geological time from 542 to 251.9 million years ago
PEA	Preliminary Economic Assessment prepared in accordance with Canadian National Instrument 43-101
Permian	A period of geological time from 298.9 Ma to 251.9 Ma
Pb	Chemical symbol for lead
Phyric	A rock containing coarse crystals (phenocrysts) identifiable with the naked eye
ppb	parts per billion
ppm	parts per million
Porphyry	An intermediate or acid igneous rock of fine-grained size, with some larger crystals, usually feldspar, scattered in the finer-grained groundmass
Potassic	Chemical alteration of a rock by hydrothermal and other fluids which results in the formation of potassium minerals
Proterozoic	A geological time period from 2.5 billion years ago to 542 million years ago
Pyrite	A mineral of iron sulphide ( $\text{FeS}_2$ )
QA/QC	The combination of quality assurance, the process or set of processes used to measure and assure the quality of a product, and quality control, the process of ensuring products and services meet consumer expectations
Quartz	A silicon mineral $\text{SiO}_2$
Quartz-vein	Planar occurrences of quartz infilling fractures in the rock at a late stage of metamorphic activity and formed from hydrothermal fluid deposition
RC	Reverse circulation

<b>Term</b>	<b>Meaning</b>
Sample	The removal of a small amount of rock pertaining to the deposit, which is used to estimate the grade of the deposit and other geological parameters.
Sandstone	A clastic sedimentary rock composed mainly of sand-sized mineral particles or rock fragments
Schist	A medium-grade metamorphic rock with grains in a preferred orientation. It is defined by having more than 50% platy and elongated minerals
Sedimentary	Rock formed at or near the surface by accumulation of detrital rock or precipitated from solution at atmospheric temperature and pressure
Sericite	A mineral composed of fine-grained white mica
Shale	A fine-grained sedimentary rock composed of mud that is a mix of flakes of clay minerals and silt-sized particles
Shear zone	Structural deformation of rock by shearing stress under brittle-ductile or ductile conditions at depths in high pressure metamorphic zones
Silicified	A rock altered by addition of quartz
Sill	A narrow tabular intrusive rock body that is parallel to primary foliation (bedding)
Siltstone	A fine-grained granular sedimentary rock
Silurian	A period of geological time from 443.8 Ma to 419.2 Ma
Skarn	Metamorphic rocks that form by the combined processes of heating from nearby intrusions and hydrothermal alteration created by the same intrusions
SRK	SRK Consulting (Australasia) Pty Ltd
Tenement / Concession	A general term for a Prospective, Exploration and/or Mining Lease.
Tertiary	A period of geological time (1.5 million years ago to 65.5 million years ago)
tpa	tonnes per annum
VALMIN Code	Australasian Code for Public Reporting of Technical Assessments and Valuations of Mineral Assets
Volcanic	Formed by or associated with a volcano
Zn	Chemical symbol for zinc

## Executive Summary

At the request of Challenger Exploration Limited (Challenger or the Company), SRK Consulting (Australasia) Pty Ltd (SRK) has prepared an Independent Geologist's Report (IGR) on two exploration projects (the El Guayabo Project in Ecuador and the Hualilan Project in Argentina), here referred to as the Mineral Assets.

It is SRK's understanding that this report will be used in a Prospectus dated and lodged on or about 15 May 2019, which includes a proposal to acquire the Mineral Assets subject to shareholder approval and for an offer of up to 166,666,667 shares at an issue price of A\$0.03 per share to raise A\$5,000,000 (Public Offer).

### Mineral assets

Challenger proposes to acquire a 100% interest in the issued capital of AEP Corporation Pty Ltd (AEP).

The proposed projects held through AEP are detailed in the following subsections.

#### El Guayabo Project

AEP holds a 100% interest in Ecuador Mining Pty Limited (EMP). EMP has entered into a farm-in agreement to acquire up to 100% interest in the El Guayabo mining concession from Torata Mining Resources TMR S.A. (TMR), a company incorporated and registered in Ecuador. EMP has earned an initial 19.9% interest in the El Guayabo Project and can acquire up to 100% via a staged farm-in agreement subject to terms outlined in an ASX release by Challenger on 25 February 2019. The terms include a minimum exploration expenditure of A\$2 million, in the first year to go to 35% and an additional A\$3 million, over four years from June 2018 to move to 51%.

#### Hualilan Project

AEP holds a 100% interest in Afro Asian Resources Pty Ltd (AAR), which has a binding farm-in agreement with Golden Mining S.R.L. (GML), a company incorporated and registered in Argentina. GML is the current holder of mining concessions in Argentina at Cerro Sur and a surrounding exploration concession. GML has also entered into an agreement with the holder of additional adjacent mining concessions at Cerro Norte, to acquire those concessions. Collectively, the Cerro Sur and Cerro Norte concessions are known as the Hualilan Project.

The farm-in agreement provides AEP to a right to acquire up to 75% of the Hualilan Project subject to terms outlined in an ASX release by Challenger (5 February 2019), including an initial A\$1 million expenditure on the Hualilan Project and completion of a Definitive Feasibility Study within five years to move from 25% to 75% interest in the Hualilan Project.

#### El Guayabo Project

The El Guayabo Project is located in El Oro Province in southern Ecuador, 55 km by road, from the coastal provincial capital of Machala and 20 km from Santa Rosa. Regular daily flights from Quito (Capital of Ecuador) arrive at Santa Rosa international airport.

The El Guayabo mining concession encompasses an area of 281 hectares (2.8 km<sup>2</sup>).

TMR currently has mining tribute agreements with multiple small-scale mining groups on the El Guayabo concession to extract a maximum of 300 tonnes per day (tpd) across the concession. Currently, the main production area is on the Ecuaba Fault (vein) where ore is being extracted from up to four underground levels. Ore is transported by small tonnage trucks to nearby processing facilities. Other smaller tribute mining operations are evident on the concession.

There are no royalty agreements on the concession other than the statutory Ecuadorian Government royalties.

The El Guayabo Project is located in the central to north-central part of the Portovelo-Zaruma gold mining district within the late Oligocene to Early Miocene aged Cangrejos Zaruma intrusive belt, which is prospective for porphyry-hosted copper, gold, silver and molybdenum deposits. The intrusions range in age from 40 Ma to 10 Ma, suggesting a long-lived intrusive complex as is the case for much of western South America (Chile – Peru – Bolivia).

The El Guayabo Project is located approximately 10 km southeast of the third party owned Cangrejos porphyry copper-gold deposit and approximately 20 km northwest of the third party owned Zaruma porphyry deposit.

Within the El Guayabo Project, the following key rock types have been recognised:

- Porphyry intrusions, typically with quartz and feldspar phenocrysts
- Intrusive-related breccia which is most commonly matrix supported, with clasts composed of the metamorphic host rock, intrusions and pre-existing mineralisation and earlier breccias which have been re-brecciated. The breccia may be mineralised or unmineralised. Ten mineralised breccias have been identified at surface, in workings or drill holes within the licence and immediate surrounds.

Copper and gold mineralisation has been found in the following settings:

- Steeply plunging composite intrusive breccias
- Quartz veins and veinlets, including fault-controlled (shear zone hosted) veins
- Disseminated pyrite and pyrrhotite in the intrusions and in the metamorphic host rock near the intrusions.

A large proportion of the previous exploration completed at El Guayabo was undertaken by Odin Mining and Exploration Ltd (Odin) and Newmont Mining Corporation (Newmont) in joint venture with Odin from 1992 to 1994.

Newmont and Odin completed a 33-hole diamond drill campaign for a total of 7,605 m drilled. In addition, geological mapping and soil and rock chip sampling surveys were completed. Newmont conducted an airborne magnetic geophysical survey over the property in 2000. Kinross Gold Corporation (Kinross) was active in the district from 2006 to 2009 under a joint venture farm-in agreement with Odin. Kinross also completed a program of geological mapping and soil and rock geochemical sampling.

In SRK's opinion, the El Guayabo Project remains prospective for porphyry-related copper, gold and silver mineralisation across the concession in the following settings:

- Matrix to intrusive breccia
- Vein systems overprinting intrusive-related breccia and porphyry intrusions
- Fault breccia and fault-hosted veins.

Typically, not all of the breccia and fault zones contains ore-grade mineralisation in intrusive-related mineral systems; however, a single deposit typically has multiple mineralising events. Despite the extended exploration history, past drilling and tribute mining at El Guayabo, the following are among areas in the concession that have yet to be drill tested:

- Soil and rock chip geochemical anomalies in the centre of the concession, south of the Gold Block and north of the Copper Block
- Extensions to the Gold Block and Copper Block

- Strike, depth and parallel fault extensions of the Ecuaba Fault/ vein
- Soil/ rock chip geochemical anomalies to the northeast of the Ecuaba Fault that may be a source for the fault-controlled mineralisation.

A proposed exploration program at the El Guayabo Project initially aims to identify and priorities drilling targets. The proposed exploration program involves the following:

- Systematic mapping and channel geochemical sampling of more than 1 km of existing workings
- Sampling of additional breccia bodies at surface
- Multi-element re-assay of approximately 1,100 m of quarter-core drilled by previous explorers
- 3D geophysical surveys covering 16 km<sup>2</sup>; only widely spaced airborne magnetics has previously been completed over the El Guayabo Project
- Soil geochemistry and mobile metal ion geochemical surveys covering 16 km<sup>2</sup>
- Further drill testing.

In SRK's opinion, the proposed exploration program is well suited to the style of mineralisation and the stage of exploration at the El Guayabo Project. It is expected that results of some of the proposed exploration will be available in the first half of 2019.

## Hualilan Project

The Hualilan Project is located approximately 120 km north-northwest of San Juan, the capital of San Juan Province in northwestern Argentina. The Project is accessible via sealed roads to within 500 m of the licence and then by a series of unsealed roads around the mining leases and exploration licence application.

The Hualilan Project is a gold, zinc, silver and copper-bearing manto/ skarn located on a series of *Minas* (mining leases) and *Demasías* (mining lease extensions), surrounded by an exploration licence application.

Gold and base metal mineralisation has been identified at 19 sites over a 4 km strike length in two zones – Cerro Norte and Cerro Sur.

The mining leases and the exploration licence application that make up the Hualilan Project are not subject to any royalties other than the statutory government royalties. There are currently no mining or mining agreements in place.

Hualilan is located within the Central Pre-Cordillera, to the east of the main Cordillera and the Andes mountains. The area is a fold and thrust belt of lower Palaeozoic back-arc basin shallow marine and terrestrial sedimentary rock with minor volcanic and intrusive rocks. Porphyry rocks with dacitic and tonalitic composition range in age from 13 Ma to 5 Ma.

The area is flanked to the north, west and south by a diversity of mineral deposits from large tonnage copper and/ or gold porphyries, skarn, manto, Carlin-style replacement, epithermal, vein- and breccia-hosted deposits.

The Hualilan mineralisation is a manto style of mineralisation. Manto is a replacement or distal skarn mineralisation which has been described in many locations in South America and Central America. Manto deposits typically contain elevated Cu, Pb, Zn, Au, Ag, Mo, Bi and Sb. Mineralisation may be parallel to stratigraphy (mantos), in shoots within the plane of bedding and in veins.

The main host unit to mineralisation at Hualilan is the Ordovician aged San Juan Limestone, which is overlain by the Silurian aged Tucunuco Formation, composed of conglomerate, sandstone and shale. Intermittent production from the Hualilan Project under Spanish administration occurred from 1561 until 1840. During this period, 19 different excavations were worked on the property.



In 1872, new equipment, including an amalgamation circuit, was installed. However, it was not possible to treat sulphides and this led to mine closure. In 1875, an English company, Argentina, re-opened the operation and installed additional equipment incorporating a two-furnace roaster circuit to treat the sulphide ore. The company processed a reported 80 tonnes per day. A cyanidation plant installed in 1914 to treat tailings was upgraded in 1955.

The total historical production would not have exceeded 150 kt (Jenks, 2004).

Modern exploration restarted at the Hualilan Project in 1984, when Compañía Minera Aguilar S.A. (Aguilar) completed an exploration program concentrating on Cerro Norte, including 16 reverse circulation (RC) drill holes for a total of 2,040 m.

In 1995, Plata Mining Ltd (Plata) commissioned a work program at Cerro Norte, including a further 13 RC drill holes for a total of 1,193 m.

In 1998, a Chilean consulting firm (EPROM) conducted detailed exploration of the property for Plata. Exploration included seven bulk metallurgical samples. A 320 m long, 4 m by 4 m production decline was driven by Plata beneath the Main Manto at Cerro Norte.

Compañía Minera El Colorado SA (CMEC) assumed active management of the project in 1999, including RC drilling (19 holes totalling 1,598 m), metallurgical testing resource and reserve estimation and mining studies.

In addition to the RC drilling, 107 diamond drill holes (total of 12,384 m) have been completed from 1999 to 2005. CMEC drilled 60 diamond drill holes in 1999–2000 for a total of 4,907.3 m and La Mancha Resources Inc. (La Mancha) drilled a further 47 diamond holes for a total of 7,477 m in 2003–2005. No drilling or significant exploration has been completed at the Hualilan Project since that time. The past drill data, sampling, assay and available QA/QC is currently being compiled into a drill hole database.

There are multiple historical resource estimates for the Hualilan Project, none of which comply with reporting according to the JORC Code (2012). A non-JORC Code Foreign Resource Estimate was completed by La Mancha Resources in 2003 and updated in 2006. The 2006 update did not include the east–west mineralised Magnata Vein despite the known mineralisation in the Magnata Vein being drilled on a 25 m by 50 m spacing.

The source of the Foreign Resource Estimates are resource reports prepared for La Mancha Resources presented in Canadian National Instrument NI 43-101 Technical Reports dated 12 April 2003 and 30 November 2006.

The Foreign Resource Estimates are relevant and material to Challenger as they demonstrate that the Hualilan Project has the potential to be economically viable.

In SRK's opinion, the Hualilan Project is prospective for extensions to the existing skarn and manto gold, silver (zinc, copper, lead) mineralisation that has been partially mined. The exploration proposed by Challenger for the Hualilan Project aims to organise the vast amount of existing exploration and trial mining data from the Hualilan Project with the objective of updating the Foreign Resource Estimate and reporting according to the JORC Code (2012). The objective of the exploration is to undertake a Preliminary Economic Assessment (PEA) and to identify extensions to the mineral system that could improve the economics of the Hualilan Project.

The proposed work program includes:

- Digitising all historical data, including approximately 150 drill holes, shallow open pit data, underground development and numerous phases of underground mapping to undertake a detailed interpretation of known mineralised zones; this work is proceeding at the date of this report

- Investigate further drilling requirements to upgrade the resource and report to JORC Code (2012) standard; complete twin drill holes to confirm the geology, alteration and mineralisation; check previous assays and validate previous data as required
- Field mapping, structural interpretation and alteration mapping using high resolution satellite data to better target extensions of known mineralisation
- Further metallurgical testwork.

In SRK's opinion, the proposed exploration program is well suited to the style of mineralisation and the stage of exploration at the Hualilan Project.

### Proposed budget

The proposed use of funds raised from the Public Offer in support of the proposed exploration programs at the El Guayabo and Hualilan projects is shown in Table ES-1.

**Table ES-1: Proposed use funds from the capital raising**

Project	Description	Year 1 (A\$)	Year 2 (A\$)
<b>El Guayabo</b>	Mapping, sampling, re-logging	490,000	320,000
	Geophysics (Note: \$0.55 million paid prior to IPO)	50,000	Contingent
	Drill testing <sup>(#1)</sup>	730,000	Contingent
	Site management	350,000	170,000
	<b>Subtotal - El Guayabo</b>	<b>1,620,000</b>	<b>490,000</b>
<b>Hualilan</b>	Mapping and sampling	210,000	160,000
	Drill testing <sup>(#2)</sup>	330,000	Contingent
	PEA (including resource estimation and preliminary metallurgical testwork)	350,000	Contingent
	Site management	240,000	140,000
	<b>Subtotal - Hualilan</b>	<b>1,130,000</b>	<b>300,000</b>
<b>Corporate</b>	Working capital, administration, contingency	550,334	512,659
	Expenses of the offer	397,007	-
	<b>Subtotal - Corporate</b>	<b>947,341</b>	<b>512,659</b>
<b>Total</b>		<b>3,697,341</b>	<b>1,302,659</b>

Notes:

IPO = Initial Placement Offering

#1: The initial 2,000 m drilling program at El Guayabo is contingent on the results of the geophysics program.

#2: The second 1,000 m drilling program at Hualilan is contingent on results of the initial 1,000 m program.

In SRK's opinion, the use of funds is consistent with the objectives of the exploration and the proposed work program. SRK cautions that the proposed program for Year 2 is dependent on the result achieved in Year 1 and thus may differ from that presented.

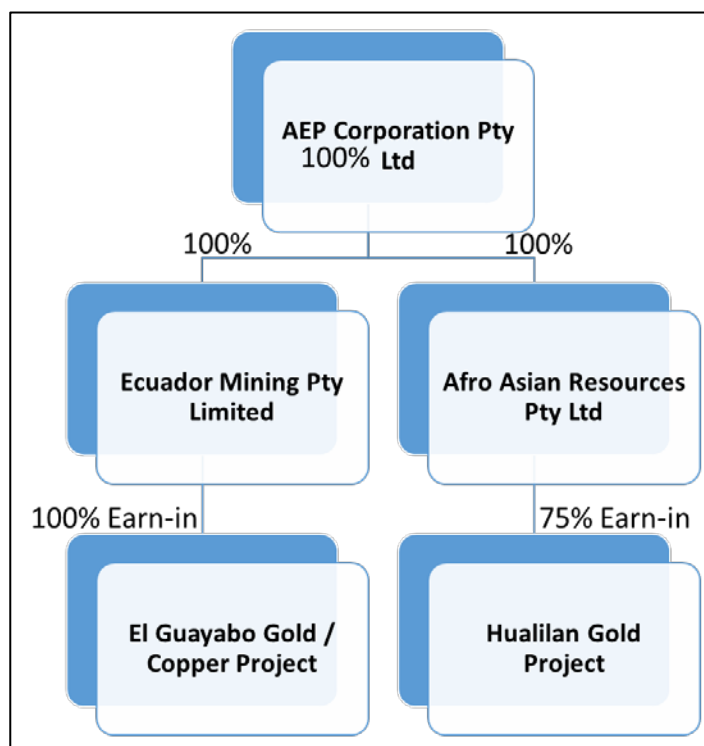
# 1 Introduction

This Independent Geologist's Report (IGR) has been prepared by SRK Consulting (Australasia) Pty Ltd (SRK) at the request of Challenger Exploration Limited (Challenger). It is intended to inform shareholders of the technical merits and planned forward exploration program associated with the El Guayabo copper-gold porphyry project in El Oro Province in southern Ecuador and the Hualilan gold-silver project of San Juan Province in northwestern Argentina.

## 1.1 Background

Challenger Exploration Limited (ACN 123 591 382) (formerly Challenger Energy Limited, formerly Sunset Energy Limited) is listed on the Australian Securities Exchange (ASX) with ticker code CEL and is domiciled in Melbourne, Victoria. The Company was incorporated on 23 January 2007 and admitted to the Official List of ASX Limited on 5 November 2007 as an oil and gas exploration company focused on energy assets in the United States of America. More recently, Challenger has focused on development of a world-class shale gas play in the Karoo Basin in South Africa and has also sought to identify assets that will add value while maintaining a balanced risk profile.

As announced to the ASX on 25 February 2019, Challenger proposes to acquire all the issued capital in AEP Corporation Pty Ltd (AEP), an Australian private company incorporated in Belmont, New South Wales on 19 July 2018. AEP's current corporate structure is shown in Figure 1-1.



**Figure 1-1: Corporate structure of AEP**

AEP's Mineral Assets to be acquired under the Proposed Transaction are summarised in the following subsections.

### El Guayabo Project

AEP holds a 100% interest in Ecuador Mining Pty Limited (EMP), an unlisted Australian company registered on 10 May 2018 with mineral interests in Ecuador.

EMP has entered into a farm-in agreement to acquire up to a 100% interest in the El Guayabo mining concession from Torata Mining Resources TMR S.A. (TMR), an Ecuadorian registered company with its offices in Buenavista 2619 y Av. Bolivar, La Providencia, Machala, El Oro, Ecuador, the current owner of the El Guayabo Project. EMP has earned an initial 19.9% interest in the El Guayabo Project and may acquire up to 100% interest via a staged farm-in agreement with the following milestones:

- Stage 1: Expenditure of A\$2 million by 15 June 2020 (approximately 1 year after relisting) to earn a 35% interest in the El Guayabo Project
- Stage 2: Expenditure of an additional A\$3 million by 1 June 2022 to increase its interest in the El Guayabo Project to 51%
- Stage 3: At any time on or before 15 December 2022, and at the sole discretion of EMP (being controlled by the Board of Challenger), issue 180 million ordinary shares in Challenger to Torata S.A. to acquire the residual 49% interest in the El Guayabo Project. These shares will be subject to necessary regulatory and shareholder approval.

### **Hualilan Project**

AEP holds a 100% interest in Afro Asian Resources Pty Ltd (AAR), an unlisted Australian company registered on 25 February 2010 with mineral interests in Argentina.

AAR has entered into a binding farm-in agreement with Golden Mining S.R.L. (GML), an Argentinian company. GML is the current holder of Cerro Sur mining concessions and has also entered into an agreement with the current holders of the Cerro Norte mining concessions. Collectively, the Cerro Sur and Cerro Norte concessions are known as the Hualilan Project.

The farm-in agreement provides AEP with the right to acquire up to a 75% interest in the Hualilan Project subject to the following milestones:

At Cerro Sur (including a 26 km<sup>2</sup> exploration licence surrounding the projects):

- Minimum expenditure of A\$1 million (combined on Cerro Sur and Cerro Norte) and the issue of 6.667 million Challenger shares no later than 1 July 2020 to acquire an initial 25% interest in the Project
- A milestone payment of 1.667 million Challenger shares due on 22 June 2019
- Completion of a Definitive Feasibility Study within five years to move from 25% to 75% interest in the Project.

At Cerro Norte:

- A payment of 1.667 million Challenger shares to Cerro Sur owners for assignment of Cerro Norte farm-in due no later than one month after re-listing on the ASX
- Minimum expenditure of A\$1 million and the issue of 5 million Challenger shares no later than 1 February 2021 to acquire a 25% interest in the Project
- Completion of a Definitive Feasibility Study within five years and the issue of 50 million Challenger shares to move from 25% to 75% interest in the Project.

## **1.2 Reporting compliance, reporting standard and reliance**

### **1.2.1 Reporting compliance**

This report has been prepared to the standard of, and is considered by SRK to be, a Technical Assessment Report under the guidelines of the *2015 edition of the Australasian Code for the Public Reporting of Technical Assessments and Valuations of Mineral Assets* (the VALMIN Code).

The VALMIN Code incorporates the *2012 edition of the Australasian Code for the Reporting of Exploration Results, Mineral Resources and Ore Reserves as published by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia* (the JORC Code).

As per Clause 19 of the JORC Code (*for significant projects the reporting of all criteria of sections 1, 2 and 3 of Table 1 on an 'if not, why not' basis is required, preferably as an appendix*). Challenger has previously published a JORC Code (2012) Table 1 as part of an ASX release of 25 February 2019.

### 1.2.2 Reliance on SRK

SRK is responsible for this report and declares that it has taken all reasonable care to ensure that the information contained in the report is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

SRK considers that its opinion must be considered as a whole and that selecting portions of the analysis or factors considered by it, without considering all factors and analyses together, could create a misleading view of the process underlying the opinions presented in this report. The preparation of a report is a complex process and does not lend itself to partial analysis or summary.

SRK has no obligation or undertaking to advise any person of any development in relation to the Mineral Assets which comes to its attention after the date of this report or to review, revise or update the report or opinion in respect of any such development occurring after the date of this report and its 'no material change' statement.

## 1.3 Base technical information, effective date and publication date

The base technical information date, and the Effective Date of the report is 1 April 2019 (the Effective Date). The technical information has been prepared as at the Effective Date. As at the publication date of this report, SRK is not aware that any material change has occurred since the Effective Date. This includes, inter alia, no material changes to the technical information as reported in this report.

## 1.4 Verification and validation

This report is dependent on technical, financial and legal input. In respect of the technical information as provided by the Company and taken in good faith by SRK, and other than where expressly stated, any figures presented have not been independently verified by means of re-calculation. However, SRK has conducted a review and assessment of all material technical issues likely to influence the technical information included in this report, which included the following:

- SRK reviewed the historical data made available by the Company in respect of the Mineral Assets
- Dr Stuart Munroe visited the El Guayabo Project on 25–27 August 2018 to inspect the style of mineralisation
- Dr Munroe also visited the Cerro Sur and Cerro Norte Projects on 29 August 2018 inspect the style of mineralisation present within the Project
- SRK made enquiries of Challenger, AEP and Mineral Asset vendors' key project and head office personnel, contractors and consultants between June 2018 and April 2019.

Accordingly, Challenger and AEP have provided technical data (geological information, assay information, exploration programs) to SRK for the purpose of this review and inclusion in the report. SRK confirms that it has performed all necessary validation and verification procedures deemed necessary and/ or appropriate by SRK in order to place an appropriate level of reliance on such technical information.

## **1.5 Limitation, reliance on information, declaration, consent and cautionary statements**

### **1.5.1 Limitations**

The technical information supplied to SRK relies on assumptions regarding certain forward-looking statements. These forward-looking statements are estimates and involve a number of risks and uncertainties that could cause actual results to differ materially. The projections as presented and discussed herein have been proposed by Challenger's management and cannot be assured. They are necessarily based on economic assumptions, many of which are beyond the control of the Company. Future cashflows and profits derived from such forecasts are inherently uncertain and actual results may be significantly more or less favourable. Unless otherwise expressly stated all the opinions and conclusions expressed in this report are those of SRK.

### **1.5.2 Reliance on information**

SRK has relied upon the accuracy and completeness of technical, financial and legal information and data furnished by or through Challenger.

Challenger has confirmed to SRK that, to its knowledge, the information provided by it (when provided) was complete and not incorrect or misleading in any material respect. SRK has no reason to believe that any material facts have been withheld. While SRK has exercised all due care in reviewing the supplied information, SRK does not accept responsibility for finding any errors or omissions contained therein and disclaims liability for any consequences of such errors or omissions.

SRK has not undertaken any accounting, financial or legal due diligence of the Mineral Assets or the associated company structures and the comments and opinions contained in this report are restricted to technical and economic aspects associated with the Mineral Assets. Where aspects of legal issues, marketing, commercial and financing matters, insurance, land titles and usage agreements, and any other agreements and/or contracts Challenger may have entered into are covered in this report, SRK has relied on information provided by the Client. SRK has not researched property title or mineral rights for the concession area and expresses no opinion as to the ownership status of the property.

This report includes technical information, which requires subsequent calculations to derive subtotals, totals and weighted averages. Such calculations may involve a degree of rounding and consequently introduce an error. Where such errors occur, SRK does not consider them to be material.

In this report, SRK refers to and relies on a market release to the ASX by CEL, on 25 February 2019, which includes information on historical, foreign resource estimates and provides a JORC Code Table 1 in support of historical exploration results and the estimates. The estimates are historical, foreign estimates and are not reported in accordance with the JORC Code. A Competent Person has not completed sufficient work to classify the estimates as Mineral Resources in accordance with the guidelines of the JORC Code. It is uncertain whether further exploration work would enable the estimates to be reportable as a Mineral Resource estimate in accordance with the JORC Code.

### **Financial Reliance**

In considering all financial aspects relating to the Mineral Assets, SRK has placed reliance on Challenger that all statutory and regulatory payments [and those due to other third parties] as may be necessary to execute the proposed acquisition and exploration programs is appropriate as at the Effective Date (defined in Section 1.3).

## **Legal Reliance**

In consideration of all legal aspects relating to Challenger's Mineral Assets, SRK has placed reliance on the representations of the Company that the following are correct as of the Effective Date (defined in Section 1.3) and remain correct until the Publication Date (defined below):

- The Company Directors are not aware of any legal proceedings that may have any influence on the rights to explore, develop and mine the minerals present within and associated with the Mineral Assets.
- The legal owners of all mineral and surface rights have been verified.
- No significant legal issue exists which would affect the likely viability of the exploration and production licences as reported herein.

### **1.5.3 Declaration**

Neither SRK nor the persons (as identified in Section 1.7) responsible for authoring this report, nor any Directors of SRK have at the date of this report, nor have had within the previous two years, any shareholding in the Company, the Mineral Assets, or any other economic or beneficial interest (present or contingent) in any of the assets being reported on. SRK is not a group, holding or associated company of the Company. None of SRK's partners or officers are officers or proposed officers of any group, holding or associated company of the Company.

Further, no person involved in the preparation of this report is an officer, employee or proposed officer of the Company or any group, holding or associated company of the Company. Consequently, SRK, the authors and the Directors of SRK consider themselves to be independent of the Company, its directors, senior management and technical consultants.

SRK will receive a fee of A\$50,130 for the preparation of this report in accordance with normal professional consulting practices. This fee is not dependent on the findings of this report or the success of the proposed acquisition and SRK will receive no other benefit for the preparation of this report. Neither SRK nor any of the authors have any pecuniary or other interests that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Mineral Assets.

## **1.6 Indemnities provided by the Company**

Challenger has warranted, in writing to SRK, that full disclosure has been made of all material information and that, to the best of its knowledge and understanding, such information is complete, accurate and true. As recommended by the VALMIN Code, Challenger has provided SRK with an indemnity under which SRK is to be compensated for any liability and/or any additional work or expenditure resulting from any additional work required:

- which results from SRK's reliance on information provided by Challenger or from Challenger not providing material information; or
- which relates to any consequential extension workload through queries, questions or public hearings arising from this report.

## **1.7 Qualifications of Consultants and Competent Persons**

The SRK Group comprises over 1,500 staff, offering expertise in a wide range of mining and resource engineering disciplines with 45 offices located on six continents. The SRK Group prides itself on its independence and objectivity in providing clients with resources and advice to assist them in making crucial judgment decisions. For SRK this is assured by the fact that it holds no equity in either client companies/ subsidiaries or mineral assets.

SRK has a demonstrated track record in undertaking independent assessments of resources and reserves, project evaluations and audits, Competent Person's Reports, Mineral Resource and Ore Reserve Compliance Audits, Independent Valuation Reports and independent feasibility evaluations to bankable standards on behalf of exploration and mining companies and financial institutions worldwide. SRK has also worked with a large number of major international mining companies and their projects, providing mining industry consultancy service inputs. SRK also has specific experience in commissions of this nature.

This report has been prepared based on a technical and economic review by a team of consultants sourced from SRK's offices in Australia. These consultants have extensive experience in the mining and metals sector and are members in good standing of appropriate professional institutions. The consultants comprise specialists in the fields of geology and resource estimation and project evaluation (hereinafter the "Technical Disciplines").

The Competent Person who undertook the site visits to the Mineral Assets, has overall responsibility for the report and has reviewed the mineral exploration aspects of the project portfolio as reported by Challenger is Dr Stuart Munroe, BSc (Hons), PhD (Structural Geology), GradDip AppFin&Inv, MAusIMM(CP), who is a full-time employee of SRK. Dr Munroe is a Member of the AusIMM. Dr Munroe has over 20 years' experience in the mining and metals industry and qualifies as a Competent Person as defined in the JORC Code (2012).

The Competent Person who has peer reviewed this report is Mr Jeames McKibben, BSc (Hons), MBA, MAusIMM(CP), MAIG, MRICS (Registered Valuer and Chartered Valuation Surveyor), who is a Principal Consultant at SRK's Brisbane office. He is a current member of the VALMIN Code Review Committee. Mr McKibben has 25 years' experience in the mining and metals industry and also has been involved in the preparation of numerous Independent Geologist's Reports comprising technical evaluations of various mineral assets internationally during the past 15 years, which is relevant to the activity which he is undertaking to qualify as a Competent Person as defined in the JORC Code (2012).

Table 1-1 provides a summary of the key report contributors.

**Table 1-1: Summary of responsibilities of key contributors**

Competent Persons					
Competent Person	Position/ Company	Responsibility	Independent of Challenger	Date of last site visits	Professional designation
Stuart Munroe	Principal Consultant (Project Evaluation)/ SRK Consulting (Australasia) Pty Ltd	Overall Report	Yes	August 2018	BSc(Hons), PhD, GDip AppFin&Inv, MAusIMM,
Jeames McKibben	Principal Consultant (Project Evaluation)/ SRK Consulting (Australasia) Pty Ltd	Peer Review	Yes	None	BSc(Hons), MBA, MAusIMM(CP), MAIG, MRICS



## 2 El Guayabo Project

### 2.1 Project setting

The El Guayabo Project is situated in El Oro Province in southern Ecuador (Figure 2-1). El Oro Province is named after the historically important gold production which has previously been a significant contributor to the provincial economy. The El Guayabo Project is centred at a latitude of 3° 34.5' S and a longitude of 7° 52.2' W.

The El Guayabo Project is located 55 km by sealed road, south of the port city of Machala. Machala is the provincial capital of El Oro Province and Ecuador's fourth largest city with a population of 250,000. The regional farming centre of Santa Rosa is located approximately 20 km from the El Guayabo Project. Regular daily flights from Quito (Capital of Ecuador) arrive at Santa Rosa international airport. Puerto Bolivar, a major deep-water port, is located 9 km west of Machala. The port has the potential to facilitate the exportation of concentrate and importation of equipment for the Project.

Basic goods and services for the early stages of exploration and mining can be sourced from Santa Rosa and Machala. A field camp, core logging and core preparation facility, core and sample storage facility, cooking and basic living quarters are located on the property.



**Figure 2-1: Location of the El Guayabo Project in Ecuador**

Source: AEP.

### 2.1.1 Topography, elevation and vegetation

El Guayabo is located in the foothills of the Andes Mountain range. The Project elevation ranges from approximately 580 m to 1,160 m ASL. Generally, the land is steep and level ground is found only where excavated and on hill tops. The vegetation is characterised by tropical rainforest except where it has been cleared for crops.

### 2.1.2 Climate and length of operating season

El Guyabao is in the tropics at a latitude of approximately 3.5° south but has a tropical temperate climate owing to the location on the western, seaward side of the Andes and the moderate altitude. Annual rainfall is typically 1,400 mm with heavier rainfall from December to April. During the peak of the wet season, travel on four-wheel drive tracks and on walking tracks may be difficult, although it is expected that exploration, development and mining can occur through all seasons.

## 2.2 Project tenure

The El Guayabo mining concession encompasses an area of 281 hectares (2.8 km<sup>2</sup>). Details of the concession are shown in Table 2-1.

**Table 2-1: Mining concessions that comprise the El Guayabo Project**

Name	Number	Status	Grant date	Expiry date *	Area (ha)	Annual rent (US\$)	Expenditure commitment (US\$)
El Guayabo	COD225	Granted	19/05/2010	14/10/2031	281	36,811	Nil

Source: AEP.

Note: \* Mining concessions in Ecuador have renewal rights for a further 20 years beyond the expiry date.

Ownership of minerals and non-renewable natural resources in Ecuador are vested with the State. El Guayabo COD225 is a small-medium scale mining concession. The concession holder has the right to explore, exploit, process and sell any metallic minerals within the concession.

A mining concession is granted for up to 25 years in Ecuador and may be transferred with prior authorisation of the State mining authorities. A mining concession may be renewed upon application to the Mining Ministry.

Mining concession holders have an obligation to:

- Pay annual mining conservation patent fees
- Obtain administrative authorisations prior to commencing activities
- Submit annual exploration reports and investment plans
- Obtain an environmental licence prior to commencing activities
- Ensure at least 80% of the workforce is Ecuadorian
- Train personnel
- Submit biannual production reports
- Pay mining royalties to the State (as set out below)
- Comply with an environmental management plan
- Comply with the regulatory and the mining title duties and obligations
- Maintain information regarding operations.

When a project is considered by the State to be a large-scale mining operation (defined as either in excess of 1,000 tonnes of mined material per day for underground operations and/or in excess of

2,000 tonnes per day for open pit operations), prior to the commencement of the exploitation phase, the concessionaire must first sign an exploitation contract with the Ecuadorian Government. This contract pertains to all minerals located in the concession area and establishes the formal legal framework for development, construction and operation of mining projects.

Concession holders are required to pay tax and royalties as outlined below:

- Income tax at the rate of 37% of net income which is made up of 22% income tax, 12% state tax and 3% tax to employees. Value added tax (VAT) of 12% is payable on goods purchased and services rendered. Mineral exporters are able to recover VAT as of 1 January 2018.
- Royalties for large-scale mining at a rate of not less than 3% and not higher than 8% of the sale revenues of the principal and secondary minerals. Royalties are calculated on the gross income, less refining and transport costs.
- Windfall profit tax which is currently being reviewed by the Government of Ecuador and may be overturned. Currently, the windfall profit tax is levied at a rate of 50% payable only 48 months after pre-production investments in the mining project have been recuperated. To calculate the windfall profit tax, metal prices are equal to their 10-year rolling average plus one standard deviation.
- Municipal Patent which is calculated according to the concession holder's assets with US\$5,000 being the maximum annual tax able to be levied.
- Annual Municipal Tax and Superintendency of Companies which is paid at the rate of 0.25% of the value of the concession holder's assets.

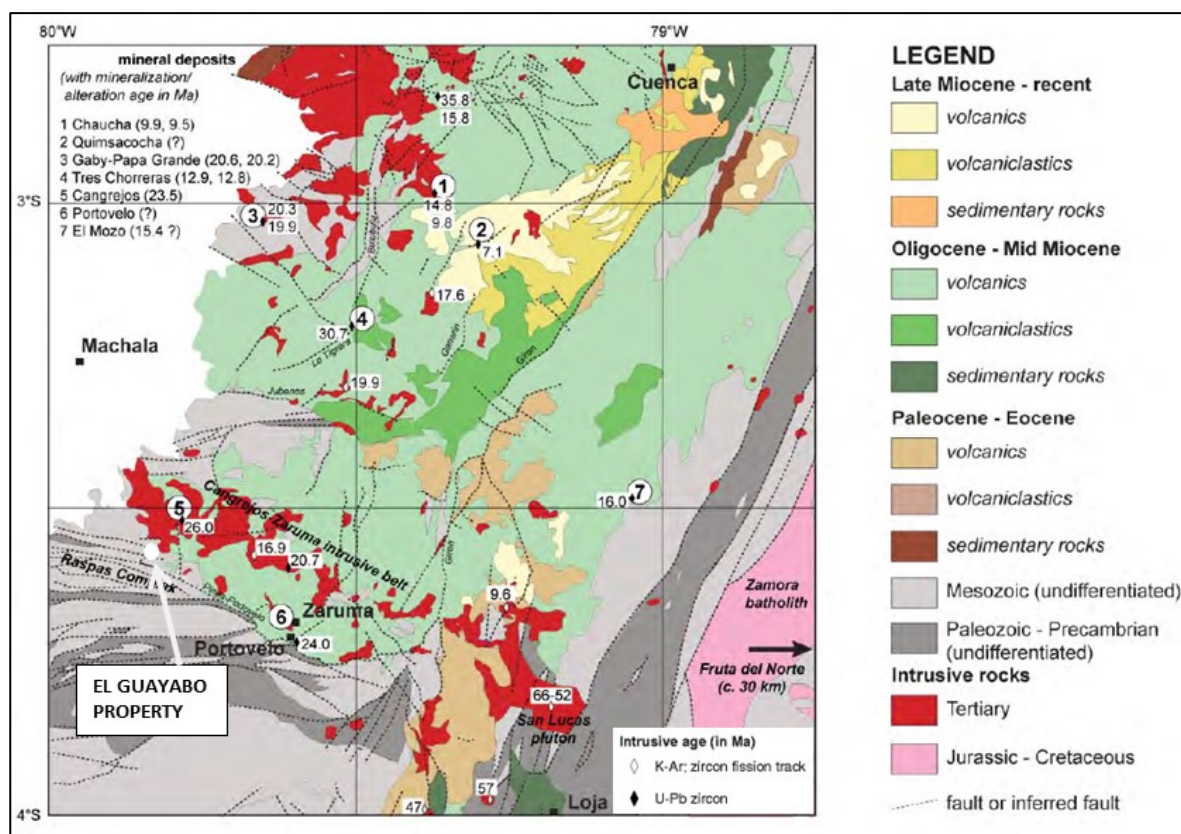
### 2.2.1 Agreements

TMR currently has mining tribute agreements with multiple small-scale mining groups on the El Guayabo concession to extract a combined total of no more than 300 tonnes per day across the concession. Currently, the main production area is at the Ecuaba Fault (vein) in the central-western part of the concession, where copper-gold bearing ore is extracted by these tribute miner groups from up to four underground levels. Ore is transported by small tonnage trucks to nearby processing facilities. Other smaller tribute mining operations are evident on the concession. Production from the tribute mining is recorded by TMR. SRK has not reviewed the tribute mining agreements or verified production records or sample assay grades.

There are no royalty agreements on the concession other than the statutory Ecuadorian Government royalties.

## 2.3 Geological setting

The El Guayabo Project is located at the western end of the late Oligocene to Early Miocene aged Cangrejos Zaruma intermediate alkaline intrusive belt, which is controlled by a northwest-striking fault zone (Figure 2-2). The intrusions range in age from 40 Ma to 10 Ma, suggesting a long-lived intrusive complex as is the case for much of western South America (Chile – Peru – Bolivia). The intrusions in the belt are commonly overprinted by late porphyry dykes and intrusion breccia, suggesting deeper, evolving magmatic systems are feeding shallower systems.



**Figure 2-2: Regional geology of the Cangrejos Zaruma intrusive belt in the El Guayabo Project area**

Source: After Schutte et al., 2012.

### 2.3.1 Porphyry copper-gold deposits

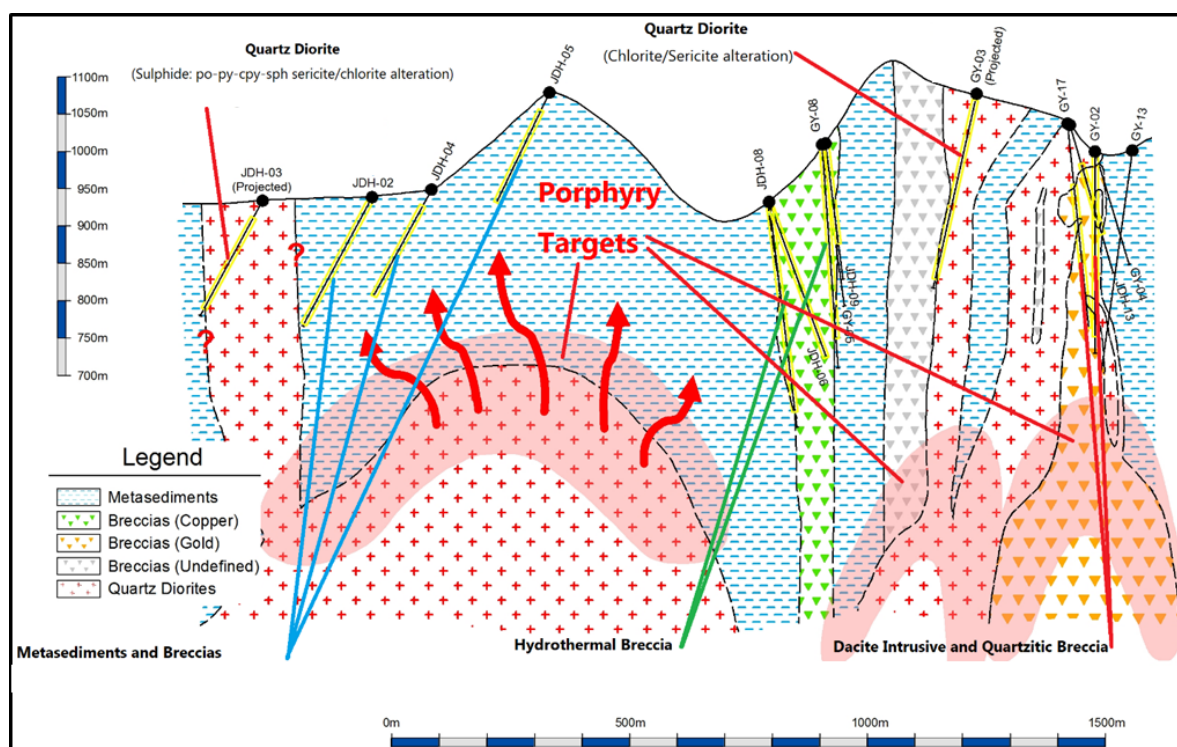
Porphyry copper-gold deposits are generally of low metal tenor (commonly <1% Cu and <1 g/t Au) but may form large-tonnage bulk mineable resources and hence potentially represent high-value mineralised systems.

Porphyry copper-gold deposits are interpreted to have formed at relatively deep (1 to 2 km) crustal levels in association with small felsic intrusive bodies or stocks as interpreted for El Guayabo in Figure 2-3. Mineralisation commonly occurs around smaller intrusions that develop from larger magmatic masses at depth. Higher grade mineralisation is commonly associated with repeated emplacement of porphyritic intrusions. Formation of stocks of brecciated intrusion and host rock may form adjacent to and at shallower levels than the porphyry stocks.

Chalcopyrite–chalcocite–bornite–pyrite–gold mineral assemblages typical of porphyry systems may be hosted by vein stockwork and sheeted quartz veins, or as fracture coatings, and as breccia fill. The highest grades are commonly close to the intrusion margin and often extend into the country rocks. Weathering of sulphide-rich porphyries may generate acidic groundwater that leach copper from upper levels of the system to subsequently replace sulphides near and below the base of oxidation to form underlying chalcocite enrichment blankets of higher (1%–2% Cu) metal grades. Copper and gold concentrate separately during weathering and oxidation (secondary) processes. Secondary gold enrichment occurs at near-surface settings, close to and above the base of oxidation.

Gold-rich porphyry and breccia-hosted deposits commonly form in association with highly alkaline intrusions (high potassium and sodium contents) at shallower crustal levels than copper-rich porphyry deposits.





**Figure 2-3: Section through the porphyry intrusions with interpretation at depth for the El Guayabo Project**

Source: AEP.

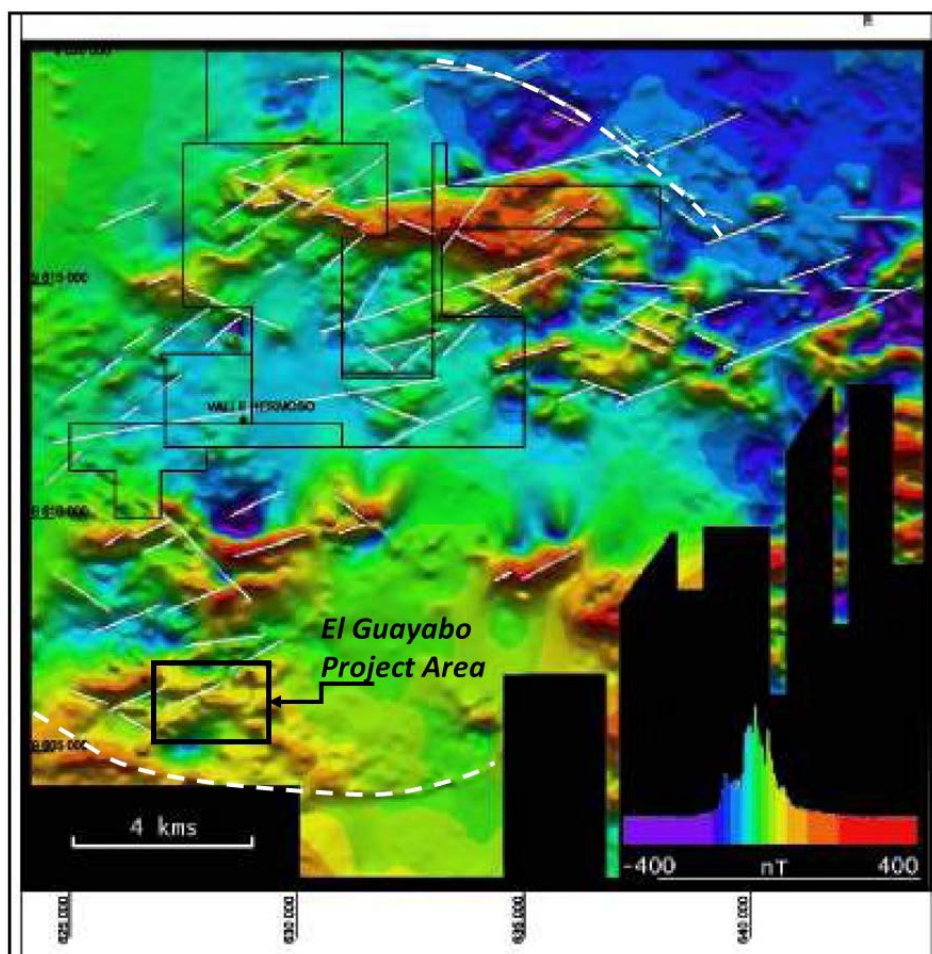
### 2.3.2 Regional geology

At El Guayabo, the host rocks to the intrusive complex is a greenschist facies metamorphic basement of Proterozoic to Palaeozoic age. The intrusive complex is of a similar age to a volcanic sequence which is exposed near the Project. A regional, northwest-striking fault zone lies to the southwest of the Project and is interpreted to represent a bounding structure for the volcanic basin and a regional control on the location of the Oligocene–Miocene intrusions in the region.

The El Guayabo Project is located approximately 10 km southeast of the third-party owned Cangrejos Project and approximately 20 km northwest of the third-party owned Zaruma Prospect.

The Cangrejos Prospect is a gold-copper-silver, porphyry deposit associated with a sequence of breccias and porphyritic dioritic intrusions. The deposit has multiple breccias and mineralisation stages. The currently defined Canadian National Instrument (NI) 43-101 Inferred Mineral Resource for the Cangrejos Prospect is 408 Mt at 0.65 g/t Au, 0.11% Cu and 0.6 g/t Ag (0.35 g/t Au equivalent cut-off, Lumina Gold Corporation, 6 November 2017).

The Cangrejos deposit is located on the northern edge of a large magnetic geophysical anomaly (Figure 2-4), which is interpreted by the project owners to represent an intrusion at depth below the deposit that may be genetically associated with the intrusions and mineralisation at Cangrejos. TMR interprets El Guayabo to be located near the southern edge of the same intrusion, suggesting it may also be related to the deep intrusion and offer similar mineralisation potential.



**Figure 2-4: Image of total magnetic intensity (normalised reduced to the pole) interpreted circular intrusive centre**

Source: Newmont Mining Corporation, 2000 (in Odin Mining and Exploration Limited, Cangrejos Technical Report, 1 December 2010).

Note: Warmer colours in the magnetic image indicate higher residual magnetic field.

### 2.3.3 Local geology

The metamorphic rocks at El Guayabo predominantly comprise schist with a moderately to steeply dipping foliation (Figure 2-5). The metamorphic rocks are the dominant rock type on the concession but in general are poorly exposed. The drill core is not oriented so the orientation of the foliation and deformation within the metamorphic rocks is not mapped in the mineralised areas.



**Figure 2-5: Drill core of schist from JHD09 at 43.6–48.5 m which has been overprinted by late fault movement at silicification**

Source: SRK site visit 25 August 2018.



Within the Project, the following key rock types have been recognised:

- Felsic intrusive bodies, typically with quartz and feldspar phenocrysts (porphyry intrusions) described in the core logs as quartz diorite and dacite (Figure 2-6)
- Intrusive-related breccia which is most commonly matrix supported, with clasts composed of the metamorphic host rock, intrusions and pre-existing mineralisation and earlier breccias, which have been re-brecciated (Figure 2-7). At least 10 mineralised breccias have been identified at surface, in workings or drill holes within the licence and immediate surrounds. Some of the breccias contain quartz and tourmaline, indicating they are at least partially intrusive-related. There may be up to twenty intrusive breccias (John King, pers comm, 20 July 2018).

The geology at surface and projected to surface from drilling and underground (mine) exposures is shown in Figure 2-8.



**Figure 2-6: Silicified quartz-feldspar porphyry intrusion overprinted by quartz veins and quartz-chalcopyrite-pyrrhotite**

Source: SRK site visit 25 August 2018.

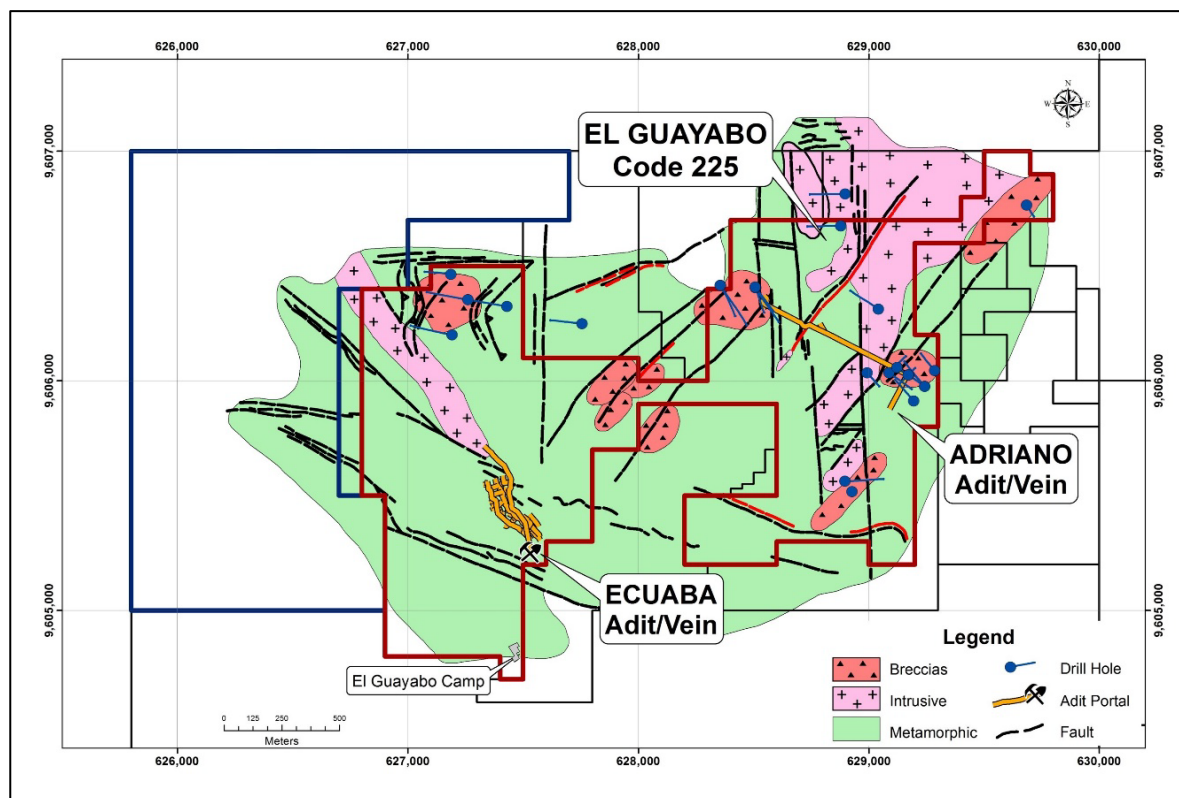
Note: Drill core from GY02 at 163.4 m, drilled at the Gold Block.



**Figure 2-7: Angular to rounded fragments of intrusion and quartz vein in a breccia with a dark coloured matrix, previously described as quartz-tourmaline-rich**

Source: SRK site visit 25 August 2018.

Note: Drill core from JDH12 at 35.2 m.



**Figure 2-8: Mapped and interpreted surface geology for El Guayabo and neighboring concessions**

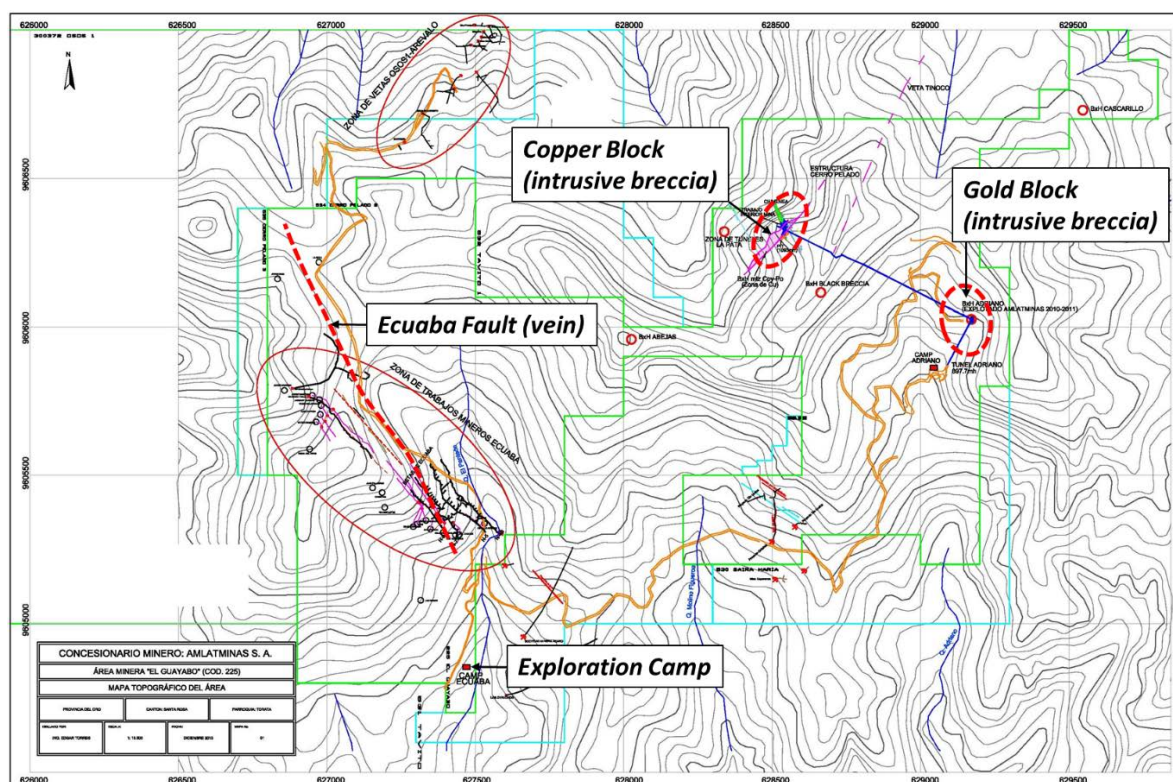
Source: AEP after Newmont Mining

### 2.3.4 Mineralisation

Copper and gold mineralisation occurs in the following geological settings:

- Steeply plunging composite intrusive breccias
- Quartz veins and veinlets, including fault-controlled (hosted in shear zones) veins
- Association with disseminated pyrite and pyrrhotite in the intrusions and in the metamorphic host rock near the intrusions.





**Figure 2-9: Location of key mineralised areas and exploration camp in the El Guayabo concession (green boundary)**

Source: AEP.

Re-logging of drill core from 10 holes in the Gold Block and the Copper Block by an expert in porphyry copper systems was completed in 2018. The re-logging and interpretation concluded that the known mineralisation is related to magmatic-hydrothermal brecciation with later vein overprints. An early potassic alteration phase is overprinted by quartz + sericite alteration.

The intrusive breccias are steeply plunging. Where they are mineralised, sulphide (pyrite, pyrrhotite, chalcopyrite) + quartz + sericite occurs in quartz veins and as a matrix to local brecciation. Quartz and sericite alteration is common around the veins and mineralised breccia.

There are two mineralised breccia bodies in the northeastern part of the concession that have previously mined under a tribute agreement – the Bloque de Cobre (Copper Block) and Bloque de Oro (Gold Block), both accessible from a single adit, Adriado's Adit (Figure 2-9). These two breccias have been exploited by the tribute miners following drilling by previous explorers; however, the previous mining volumes remain to be determined and the stopes have not been surveyed. The breccias are located along faults in two principal directions – north-northeast and west-northwest, suggesting their location may be partly influenced by these two fault orientations. Previous tribute mining has extracted the higher-grade core from these two breccias. There is a remnant lower-grade halo (undetermined grade) around both mined breccias. Other mineralised breccias have been mapped at surface, which remain poorly drilled or undrilled, and there is potential for additional breccia bodies to be discovered on the concession.

The Gold Block breccia contains mineralisation in the matrix to the breccia (Figure 2-6) and also in later veins (Figure 2-10). Early-stage breccia is angular to sub-rounded, matrix-supported (quartz and albite) with a variable clast size. Higher gold grades are associated with a later vuggy breccia, with steeply dipping quartz veins and later pyrite-arsenopyrite-quartz veins (Figure 2-10 and Figure 2-11).



The Copper Block contains the early-stage chalcopyrite-chalcocite-pyrite mineralisation in the matrix to the breccia. Alteration is dominated by quartz, magnetite and rare white or pink albite or K-feldspar and magnetite.



**Figure 2-10: Intrusive breccia in an underground exposure from the Gold Block overprinted by steeply dipping quartz veins and a later shallowly dipping quartz-pyrite-arsenopyrite vein**

Source: SRK site visit 26 August 2018.

Note: Intrusive breccia in an underground exposure from the Gold Block location shown in Figure 2-9.



**Figure 2-11: Quartz-arsenopyrite-pyrite vein overprinting earlier quartz veins in silicified feldspar porphyry intrusion**

Source: SRK site visit 25 August 2018.

Note: Core from GY13 at 139.2 m.

In addition to the intrusive breccia, high-grade gold is hosted along a northwest-striking shear zone at the Ecuaba vein in the western part of the concession. The Ecuaba vein is currently being exploited by a tribute mining team over a strike extent of approximately 500 m to a depth of 150 m below surface. The vein appears to extend a further 500 m along strike to the northwest towards the edge of the concession (Figure 2-9).

The Ecuaba vein contains quartz, pyrite, arsenopyrite with lesser chalcopyrite and gold. The vein's mineral assemblage is similar to the late-stage veins observed in the Gold Block and Copper Block (Figure 2-11). The vein has been strongly deformed by a fault zone that trends parallel to the vein and is well exposed in the underground workings (Figure 2-12). Fragments of the vein are hosted in silicified fault gouge. These veins were being mined by tribute miners at the time of SRK's site visit.

The similarity of the mineral assemblage between the Ecuaba vein, the Copper Block and Gold Block suggests a common or similar hydrothermal fluid source. This interpretation increases the potential for breccia-hosted mineralisation in the western part of the concession. The first five drill holes completed by Newmont Mining Corporation (Newmont) targeted a breccia and veining north of the Ecuaba vein. All five holes were terminated before reaching the Ecuaba Fault but intersected a breccia with low-grade gold mineralisation over significant intervals, including 77.3 m at 0.5 g/t Au from 146.8 m downhole depth in JDH03 (Table 2-3). All holes were only assayed for gold. No further follow-up of these holes has been carried out by subsequent explorers.





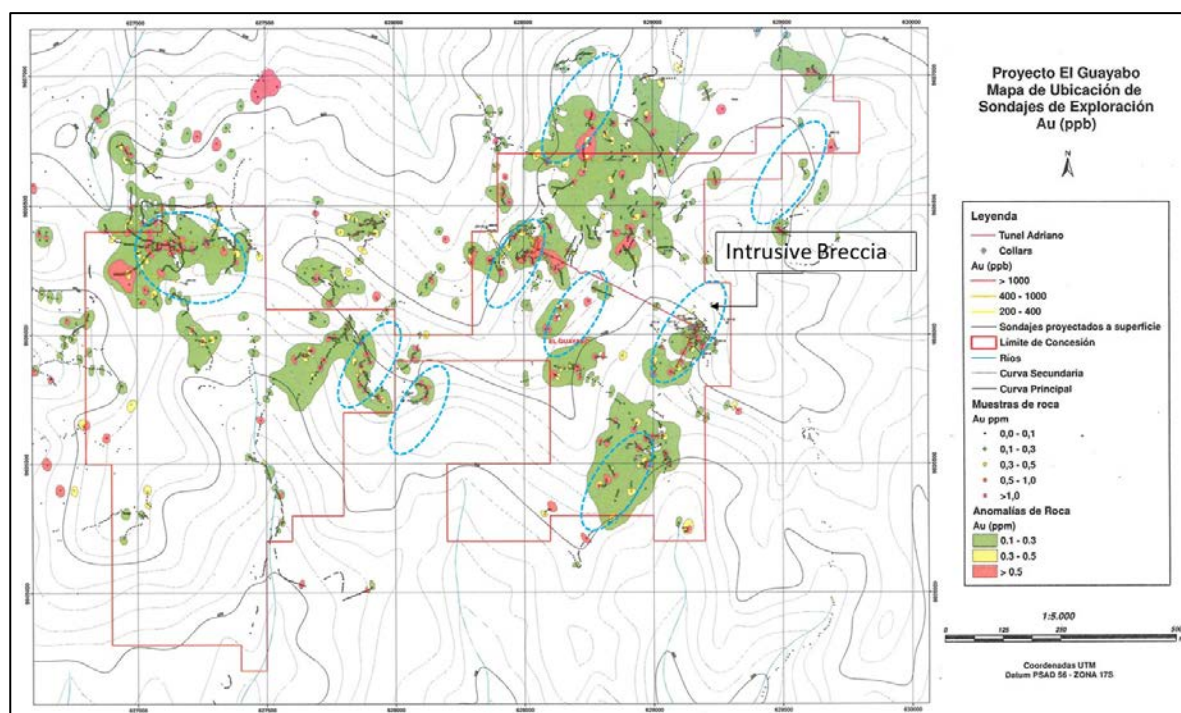
**Figure 2-12: Underground exposure of the Ecuaba vein shear zone (fault) dipping shallowly to the northeast in the western part of the concession**

Source: SRK site visit 26 August 2018.

## 2.4 Project history

Most of the previous exploration completed at El Guayabo was undertaken by the Odin Mining and Exploration Ltd (Odin) and Newmont in joint venture between 1992 and 1994.

Between 1992 and 1994, the joint venture completed geological mapping and soil and rock chip geochemical sampling surveys and encountered widespread copper and gold enrichment across the concession area. Soil and rock chip sample data were compiled into spreadsheets for analysis and to guide future exploration (Figure 2-13). Many of the gold and copper geochemical anomalies identified at surface remain to be drill tested.



**Figure 2-13: Plan of the El Guayabo concession showing drill holes, location of mapped intrusive breccia and contours of rock chip sample gold values**

Source: EMPL based on Newmont and Odin sampling; mineralised breccia location from Carlos Moncayo (pers comm, 23 July 2018).

During the period 1992 to 1994, Newmont and Odin also completed a 33-hole DD campaign for a total of 7,605 m drilled.

Newmont drilled 14 DD holes (JDH-001–JDH-014) in an initial drilling campaign. The samples from the first five holes were analysed for gold only. Chalcopyrite was logged in the drill core, but the core was not assayed for copper. One of these holes (JDH05) is drilled outside the current exploration licence. Samples from the remaining nine holes were analysed for Au, Ag, Cu, Zn, Pb and As.

Odin drilled a further 19 holes (DDHGY01–DDHGY19) with samples analysed for Au (screen fire and fire assay), Ag, Cu, Zn, Pb, As and Mo.

A summary of the drilling specifications is shown in Table 2-2. The majority of the drill core is stored on site and available for re-logging and re-sampling. Geological logs for all holes have been prepared and are available for review. The records for lithology, core recovery, samples, assay and magnetic susceptibility are being compiled. A complete drill hole data base with sample quality assurance and quality control (QA/QC) has yet to be compiled into a digital database. Significant intercepts from drill samples are shown in Table 2-3.

**Table 2-2: Drill holes completed at EL Guayabo by previous explorers**

Hole ID	East (m)	North (m)	Elevation (m ASL)	Direction (° Grid North)	Dip (°)	Depth (m)	Company	Core Stored
JDH01	627,186	9,606,463	933	280	-60	236.89	Newmont	No
JDH02	627,260	9,606,353	922	280	-45	257.62	Newmont	No
JDH03	627,192	9,606,200	953	280	-45	260.97	Newmont	No
JDH04	627,430	9,606,324	934	280	-45	219.00	Newmont	No
JDH05*	627,756	9,606,249	1,066	280	-45	210.37	Newmont	No
JDH06	628,356	9,606,416	912	150	-45	302.74	Newmont	Yes
JDH07	628,356	9,606,416	912	150	-75	105.79	Newmont	Yes
JDH08	628,356	9,606,416	912	150	-60	352.74	Newmont	Yes
JDH09	628,507	9,606,408	990	150	-45	256.70	Newmont	Yes
JDH10*	628,898	9,606,814	986	270	-45	221.64	Newmont	Yes
JDH11	628,879	9,606,674	1,082	270	-45	217.99	Newmont	Yes
JDH12	629,685	9,606,765	993	150	-60	124.08	Newmont	Yes
JDH13	629,123	9,606,058	1,021	125	-60	239.33	Newmont	Yes
JDH14	628,897	9,605,563	853	090	-45	239.32	Newmont	Yes
DDHGY01	628,928	9,605,517	839	360	-90	249.20	Odin	Yes
DDHGY02	629,171	9,606,026	983	360	-90	272.90	Odin	Yes
DDHGY03	629,042	9,606,313	1,063	305	-60	295.94	Odin	Yes
DDHGY04	629,172	9,606,025	983	125	-60	172.21	Odin	Yes
DDHGY05	628,509	9,606,405	990	145	-60	258.27	Odin	Yes
DDHGY06	629,171	9,606,026	983	305	-60	101.94	Odin	Yes
DDHGY07	629,171	9,606,026	983	305	-75	127.00	Odin	Yes
DDHGY08	628,509	9,606,406	990	145	-75	312.32	Odin	Yes
DDHGY09	629,171	9,606,026	983	045	-75	166.25	Odin	Yes
DDHGY10	629,171	9,606,025	983	225	-75	194.47	Odin	Yes
DDHGY11	628,508	9,606,405	990	160	-60	241.57	Odin	Yes
DDHGY12	629,087	9,606,036	997	125	-60	255.70	Odin	Yes
DDHGY13	629,242	9,605,975	997	320	-65	340.86	Odin	Yes
DDHGY14	629,242	9,605,976	997	320	-75	309.14	Odin	Yes
DDHGY15	629,195	9,605,912	977	320	-60	251.07	Odin	Yes
DDHGY16	629,286	9,606,044	1,037	320	-60	195.73	Odin	Yes
DDHGY17	629,122	9,606,059	1,021	125	-82	280.04	Odin	Yes
DDHGY18	628,993	9,606,035	977	140	-60	160.35	Odin	Yes
DDHGY19	629,087	9,606,035	997	045	-53	175.41	Odin	Yes
<b>Total</b>						<b>7,605.55</b>		

Notes:

Grid is UTM, Datum PSAD56, zone 17S. ASL = above sea level.

\*JDH05 and JDH10 are drilled outside the El Guayabo concession.

**Table 2-3: Significant drill intersections at El Guayabo as previously reported by Challenger**

Hole ID	From (m)	Interval (m)	Au (g/t)	Cu (%)	Ag (g/t)
JDH-003	120.4	134.2	0.4	No assay	No assay
JDH-006	164.8	116.2	0.6	0.40	8.9
JDH-007	39.7	44.8	0.3	0.04	1.4
JDH-009	10.3	111.7	0.7	0.58	14.6
JDH-013	89.9	65.0	1.4	0.06	2.8
JDH-014	26.96	48.7	0.4	0.10	5.2
JDH-014	128.52	46.8	0.5	0.08	3.3
GGY-001	139	110.2	0.4	0.06	1.1
GGY-002	9.7	156.3	2.6	0.16	9.7
GGY-002	114	52.0	1.3	0.18	3.3
GGY-005	12	150.0	0.4	0.30	11.0
GGY-005	14	40.0	0.6	0.60	25.5
GGY-007	0.9	40.1	1.1	0.04	2.6
GGY-008	16	255.0	0.1	0.24	6.5
GGY-008	235	36.0	0.4	0.50	11.5
GGY-010	0	69.0	1.6	0.03	2.3
GGY-011	14	215.0	0.2	0.36	9.6
GGY-011	14	83.0	0.2	0.50	14.9
GGY-011	202	27.0	0.4	0.80	15.2
GGY-017	69	115.0	0.5	0.03	2.1

Sources: ASX release, 25 February 2019, supported by JORC Code Table 1 included in that release.

Notes: Cut-off grade of 0.5 g/t Au equivalent (calculated using a price of US\$1,300/oz Au, US\$15/oz Ag and US\$3/lb Cu). Some intersections in the Copper Block and Gold Block have been mined under tribute agreements. The volumes mined have yet to be surveyed.

An airborne magnetic geophysical survey was conducted over the property by Newmont in 2000. Kinross Gold Corporation (Kinross) was active in the district from 2006 to 2009 under a joint venture farm-in agreement with Odin. Kinross also completed a program of geological mapping and soil and rock chip geochemical sampling which is yet to be compiled and re-analysed.

## 2.5 Conclusions

In SRK's opinion, the El Guayabo Project remains prospective for porphyry-related copper + gold + silver mineralisation across the concession in association with the following:

- Matrix to intrusive breccia
- Vein systems overprinting intrusive-related breccia and porphyry (intermediate alkaline, quartz + feldspar phytic) intrusions
- Fault breccia and fault-hosted veins.

Typically, as with the majority of intrusive-related mineral systems, not all of the breccia and fault zones contain ore-grade mineralisation; however, a single deposit typically has multiple mineralising events. Specific stages in the evolution of the mineral system are responsible for the bulk of the metal deposition. Despite the extended exploration history, past drilling and tribute mining at El Guayabo, some areas in the concession have yet to be drill tested.

This includes:

- 1 Strike, depth and parallel fault extensions of the Ecuaba fault/ vein.
- 2 Soil/ rock chip geochemical anomalies to the northeast of the Ecuaba Fault that may be a source for the fault-controlled mineralisation.
- 3 Soil and rock chip geochemical anomalies in the centre of the concession, south of the Gold Block and north of the Copper Block.
- 4 Down-dip extensions to the Gold Block and Copper Block.



### 3 Hualilan Project

The Hualilan Project is a gold-zinc-silver-copper manto/skarn project located on a series of *Minas* (mining leases) and *Demasias* (mining lease extensions), surrounded by an exploration licence application in San Juan Province, Argentina.

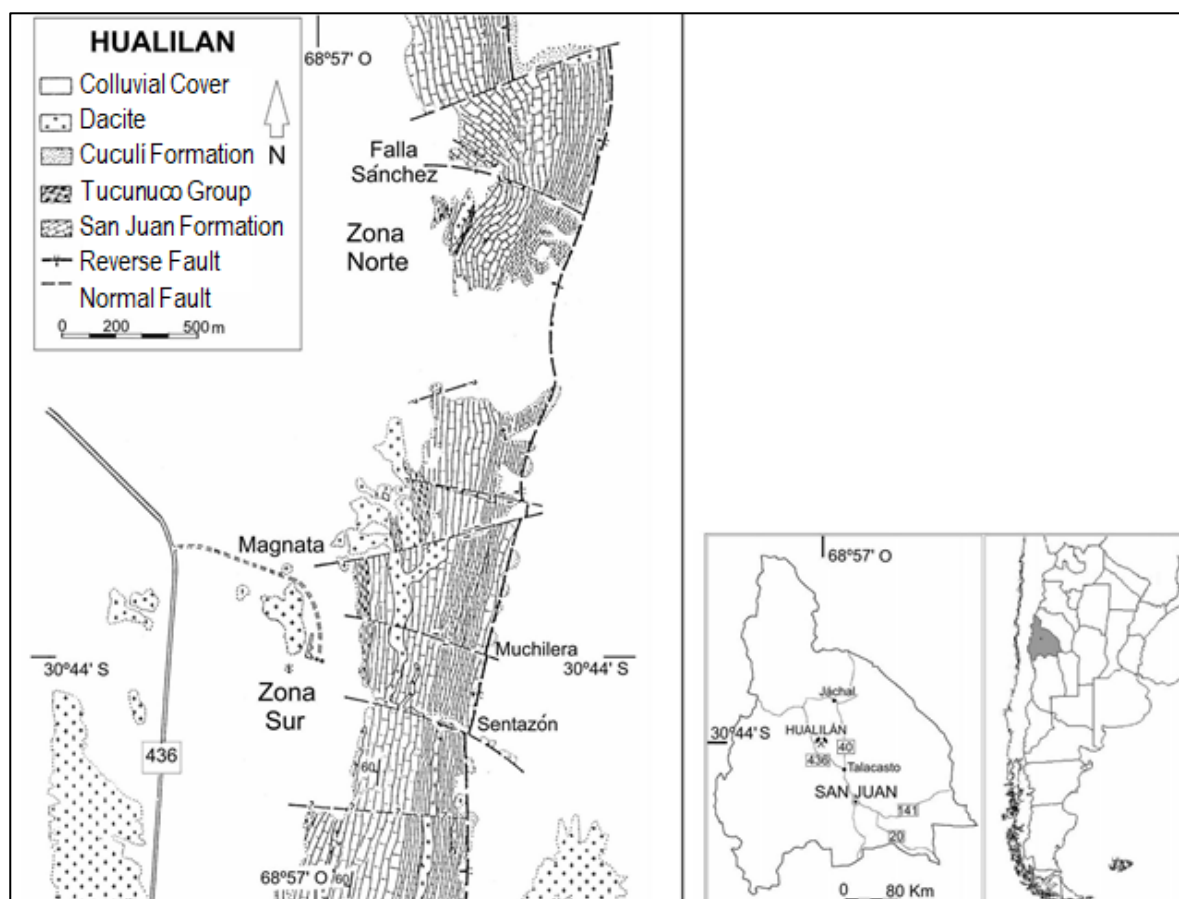
Gold and base metal mineralisation has been identified at 19 sites over a 4 km strike length in two zones, the Cerro Norte and Cerro Sur.

#### 3.1 Project setting

##### 3.1.1 Location and access

The Hualilan Project is located at 30° 44.2' S and 68° 57.2" W, approximately 120 km north-northwest of San Juan, the capital of San Juan Province in northwestern Argentina (Figure 3-1) in the eastern foothills of the Andes. There are no population settlements near the Hualilan Project.

The Hualilan Project is accessible via sealed roads to within 500 m of the licence and then by a series of unsealed roads around the project area. From San Juan city, access is to the north via Talacasto on national route 40 for 57 km, then northwesterly via Provincial Route 436 for an additional 63 km. The closest town on the power grid is approximately 40 km further to the north at Bella Vista.



**Figure 3-1: Location of the Hualilan Project and local geology**

Source: Bengochea and Mas (2006).

### 3.1.2 Topography, elevation and vegetation

The Hualilan Project has a basin and range style topography, with a range of steep north-striking hills and gently dipping valley floors (Figure 3-2). The average elevation of the plains at the base of the hills is 1,720 m ASL with relief in the order of 210 m above the plain.

Soils are infertile and generally alkaline due to the exposed limestone and calcareous sedimentary rocks. The soil supports sparse growth of grass, cactus, thorny bushes and other hardy species.



**Figure 3-2: Steep slopes of the Hualilan Hills rising above the gently east-dipping valley floors**

Source: AEP

### 3.1.3 Climate and length of operating season

The climate is dry, and the area is classified as desert. The area is sparsely populated, vegetation is thin, and geology is well exposed at surface. Rain is most common from December to January, and field operations are possible year-round. Average rainfall is between 100 mm and 200 mm per annum. Average temperatures range between 16°C and 18°C with minimum temperatures to -10°C (June and July) and maximum temperatures to 40°C (December and January). There are no permanent water bodies or courses, although there are alluvial channels draining from the west which pass through the Hualilan Project area.

Groundwater is evident in a number of the old workings on the *Minas*. The water table appears to be approximately 20–40 m below surface on the plains.

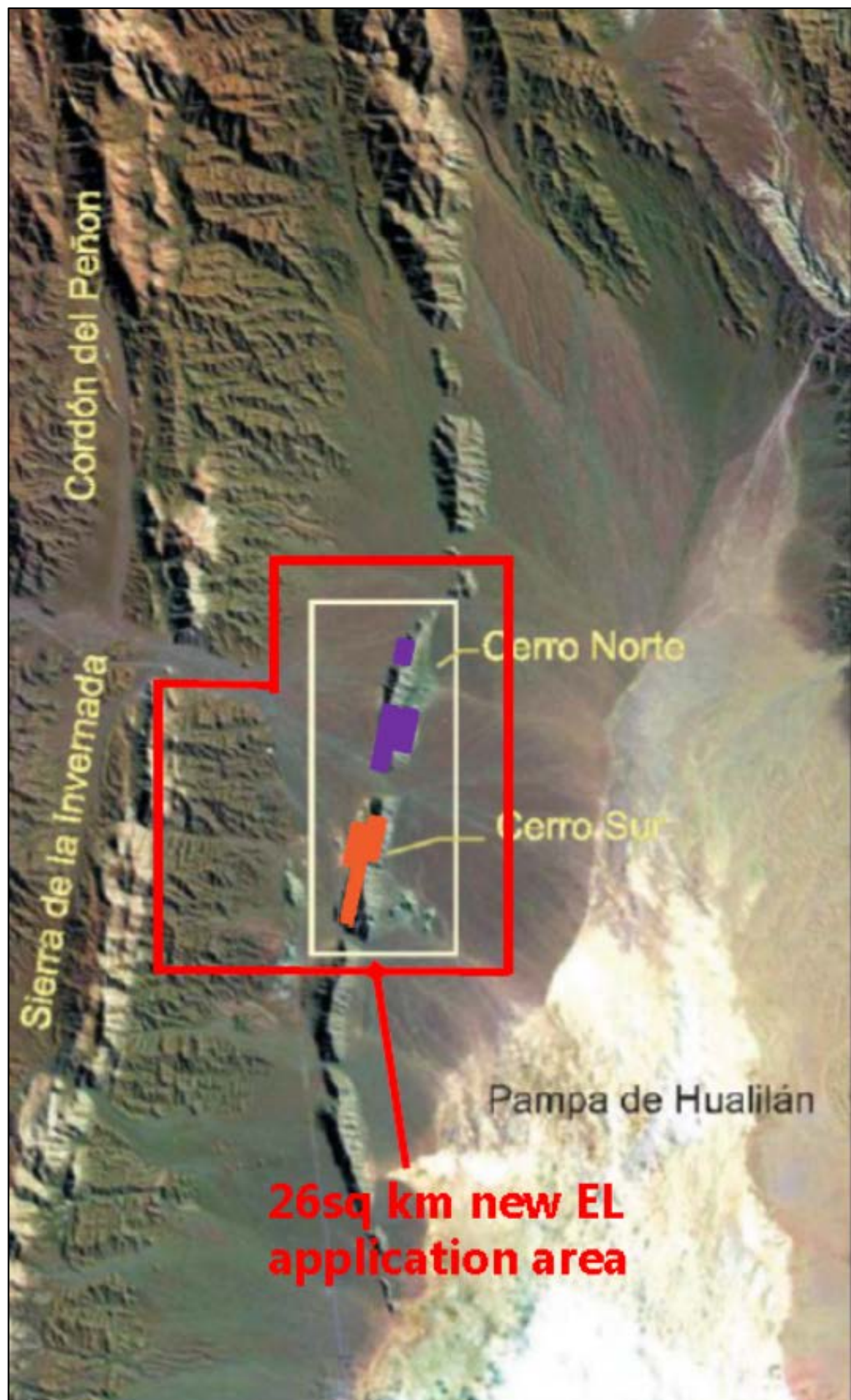
Prevailing winds are from the north or the south. The northern wind can be strong and is dominant from September to December, is hot and can generate dense dust clouds. The southern wind is cold, but relatively weak.

## 3.2 Project tenure

The Hualilan Project consists of 15 mining leases (*Minas Otorgadas*), consisting of eight mining leases at Cerro Sur held by GML and seven mining leases at Cerro Norte over which GML holds farm-in rights (Table 2-1). There are also two mining lease extensions (*Demasias*) that are deemed too small



to be held as *Minas* in their own right (Table 3-2) and one exploration licence application (*Cateos*) held by GML (Table 3-3). The relative location of the *Minas* and *Cateos* is shown in Figure 3-3.



**Figure 3-3: Location of the Cerro Sur, Cerro Norte and exploration licence application at the Hualilán Project**

Source: AEP.

**Table 3-1: Granted mining leases (*Minas Otorgadas*) at the Hualilan Project**

Name	Number	Current Owner	Status	Grant date	Area (ha)	Annual rent (US\$)
<b>Cerro Sur</b>						
Divisadero	5448-M-1960	Golden Mining S.R.L.	Granted	30/04/2015	6	8
Flor de Hualilan	5448-M-1960	Golden Mining S.R.L.	Granted	30/04/2015	6	8
Pereyra y Aciar	5448-M-1960	Golden Mining S.R.L.	Granted	30/04/2015	6	8
Bicolor	5448-M-1960	Golden Mining S.R.L.	Granted	30/04/2015	6	8
Sentazon	5448-M-1960	Golden Mining S.R.L.	Granted	30/04/2015	6	8
Muchilera	5448-M-1960	Golden Mining S.R.L.	Granted	30/04/2015	6	8
Magnata	5448-M-1960	Golden Mining S.R.L.	Granted	30/04/2015	6	8
Pizarro	5448-M-1960	Golden Mining S.R.L.	Granted	30/04/2015	6	8
<b>Cerro Norte</b>						
La Toro	5448-M-1960	CIA GPL S.R.L.	Granted	30/04/2015	6	8
La Puntilla	5448-M-1960	CIA GPL S.R.L.	Granted	30/04/2015	6	8
Pique de Ortega	5448-M-1960	CIA GPL S.R.L.	Granted	30/04/2015	6	8
Descrubidora	5448-M-1960	CIA GPL S.R.L.	Granted	30/04/2015	6	8
Pardo	5448-M-1960	CIA GPL S.R.L.	Granted	30/04/2015	6	8
Sanchez	5448-M-1960	CIA GPL S.R.L.	Granted	30/04/2015	6	8
Andacollo	5448-M-1960	CIA GPL S.R.L.	Granted	30/04/2015	6	8

Source: Golden Mining S.R.L.

Note: Annual rent is AR\$320. No expiry date. There is no set minimum expenditure commitment for the *Minas*.**Table 3-2: Mining Lease extensions (*Demasias*) at the Hualilan Project**

Name	Number	Current Owner	Status	Grant date	Area (ha)	Annual rent (US\$)
<b>Cerro Sur</b>						
North of "Pizarro" Mine	195-152-C-1981	Golden Mining S.R.L.	Granted	05/12/2014	1.9	8
<b>Cerro Norte</b>						
South of "La Toro" Mine	195-152-C-1981	CIA GPL S.R.L.	Granted	05/12/2014	1.9	8

Source: Golden Mining S.R.L.

Note: Annual rent is AR\$320. *Demasias* have no expiry date and no expenditure commitment.**Table 3-3: Exploration licence application surrounding the *Minas* and *Demasias* at the Hualilan Project**

Name	Number	Status	Grant Date	Expiry Date *	Area (ha)	Annual Rent (US\$)	5 year Expenditure Commitment (US\$) *
Josefina	30.591.654	Pending	-	-	2,570	-	5,405,000

Source: Golden Mining S.R.L.

Note: \* Expenditure commitment on granting is Year 1 US\$255,000, Year 2 US\$650,000, Year 3 US\$1,500,000, Year 4 and Year 5 US\$3,000,000.

Ownership of minerals and non-renewable natural resources in Argentina is vested with the State. Jurisdiction of mining natural resources is administered by the provinces. Hualilan is located in San Juan Province where the *Código de Procedimientos Mineros de San Juan* LEY N° 7199 (MPC) is complementary to the federal mining code and covers the procedural aspects associated with mineral exploration and mining.

*Minas* (mining leases, Table 3-1) differ from *Cateos* (exploration licences) in that they are real property, governed by the same principles of common property. *Minas* are licensed for an unlimited time period, as long as the owners comply with the administrative rules of maintenance outlined by the Code. The owners of the *Minas* must:

- Pay an annual fee as shown in Table 3-1
- Invest a minimum amount of capital
- Complete of a reasonable level of exploitation.

*Demasias* (Table 3-2) are any parcels of land between two or more demarkated *Minas* where a regular 200 m by 300 m (0.06 km<sup>2</sup>) lease block cannot be formed. The right to acquire ownership of these *Demasias* is exclusively the right of the adjacent *Mina* owners.

State tax is levied on net profit with an allowable 100% deduction exploration, exploitation and development costs. VAT is levied at 21% with return of a fiscal credit for the VAT where levied on exploration investments, 12 months after expenditures took place.

A provincial royalty not exceeding 3% of value at the mine of the extracted mineral.

Effective from 1 January 2019, a temporary export tax (effective until 31 December 2020) at a rate of 12% on all goods exported from the country was imposed by Presidential Decree, capped at four Argentinian pesos (ARS4) per US dollar of the corresponding tax value or official free on-board (FOB) price.

### 3.2.1 Agreements

The mining leases and the exploration licence application comprising the Hualilan Project are not subject to any royalties other than the statutory government royalties. There is currently no mining or mining agreements in place on the Hualilan leases.

## 3.3 Geological setting

Hualilan is located within the Central Pre-Cordillera, to the east of the main Cordillera and the Andes Mountains. The area is a fold and thrust belt incorporating shallow marine and terrestrial sedimentary rocks of a lower Palaeozoic back-arc basin with minor volcanic and intrusive rocks. Porphyry intrusive rocks with dacitic and tonalitic composition range in age from 13 Ma to 5 Ma.

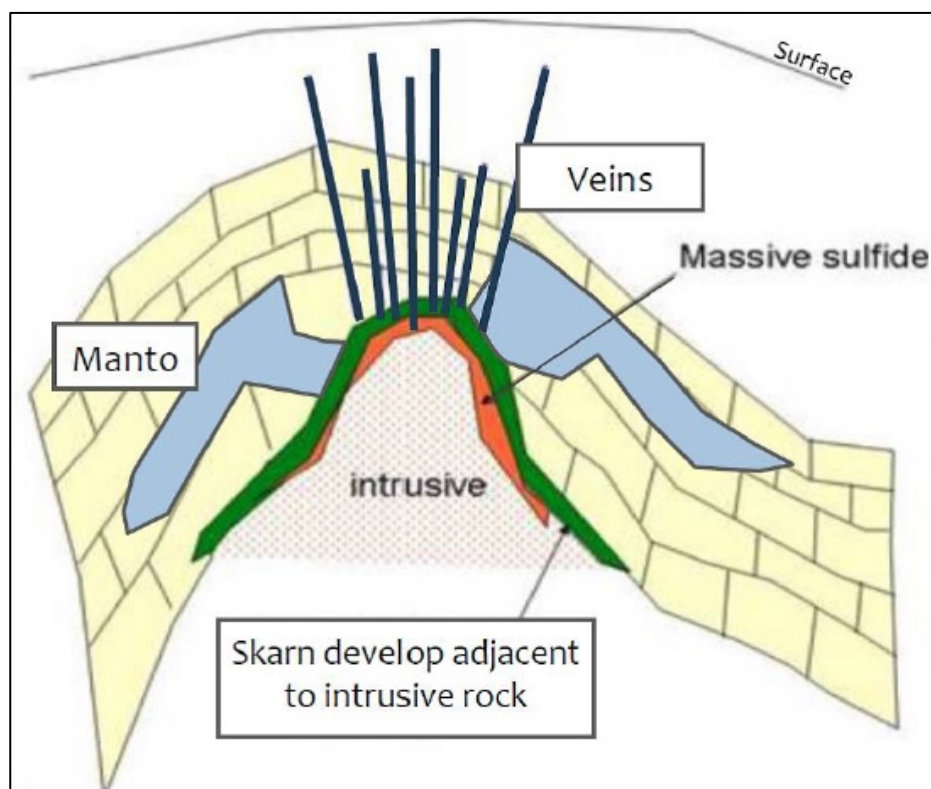
The area is flanked to the north, west and south by a diversity of mineral deposits from large tonnage copper and/ or gold porphyries, skarn, manto and Carlin-style replacement deposits and epithermal deposits, as well as vein and breccia-hosted deposits.

### 3.3.1 Manto/ skarn zinc-lead (gold-copper-silver) deposits

The term “manto” is derived from the Spanish word for “mantle” (or blanket) to describe a style of replacement or distal skarn mineralisation (Table 3-4) which has been described in many locations in South America and Central America. Manto deposits are typically developed as hydrothermal replacement of carbonate-rich, limestone, sandstone, shale units and so are typically formed parallel to stratigraphy. Manto deposits are typically remote from any obvious heat source or intrusion that may have been related to mineralisation and so these deposits are typically considered to the distal

from intrusions. Alteration around manto deposits typically consists of carbonate dissolution (cavities) and addition of silica (jasperoid) and alteration of the host rock to calc-silicate mineral assemblages (epidote, amphibole, garnet and pyroxene).

Manto deposits typically contain elevated Cu, Pb, Zn, Au, Ag, Mo, Bi and Sb. Mineralisation may be parallel to stratigraphy (mantos) or in shoots within the plane of bedding and in veins that are hosted by and replace limestone, dolomite, or other sedimentary rocks. A given district or mine may contain a single deposit or a series of deposits aligned along structural features such as fractures, joints, fold limbs or bedding that controlled the fluid movement during mineralisation.



**Figure 3-4: Schematic diagram of manto-style mineralisation in carbonate rocks**

Source: Inca Minerals Ltd, Breakaway Research note 28 June 2016.

### 3.3.2 Regional geology

The main host unit to currently defined mineralisation at Hualilan is the Ordovician aged San Juan Limestone, which is overlain by the Silurian aged Tucunuco Formation. The upper part of the Ordovician limestone contains a chert unit, which has attracted bedding parallel fault movement by virtue of the competency contrast between the limestone and chert. The Tucunuco Formation is a conglomerate, sandstone and shale sequence. The host rocks strike north and dip west at 25°–70°. The sequence is folded and there is evidence of thrust faulting. The folding and thrusting are interpreted to have begun in the Silurian to mid-Devonian age and was again folded from late Devonian through late Permian.

The host rocks are intruded, post-folding, by calc-alkaline dactitic stocks, sills and dykes.

### 3.3.3 Local geology

The Hualilan Project is divided into the Cerro Norte and Cerro Sur areas, separated by a topographic low which may represent an east-northeast-striking fault zone. The topographic low extends for approximately 400 m along strike and separates Cerro Norte from Cerro Sur.



The San Juan Formation Limestone is a predominantly massive detrital sequence that is responsible for the distinctive north-striking Hualilan Hills. A west-dipping thrust fault on the east side of the hills marks the surface contact of the of San Juan Formation with Tertiary age sedimentary rocks to the east. The thickness of the limestone is not known due to the thrust faulting. The upper 240 m of the limestone is exposed at the property. Faulting parallel to bedding was observed at Cerro Sur. The bedding parallel faults have provided pathways for porphyry sills and hydrothermal fluids during mineralisation. The upper part of the limestone is a 20–40 m section that contains black chert as nodules, discontinuous layers and lenses.

Conformably overlying the San Juan Formation limestone is the Silurian Tucunoco Group comprising a thin conglomerate at the base followed upward by siltstone and sandstone (Figure 3-5).



**Figure 3-5: West-dipping contact between Ordovician San Juan Formation limestone and siltstone of the Silurian Tucunoco Group**

Mid-Miocene aged felsic intrusions occur as small stocks, dykes and sills which are commonly recessive in the valley areas west and east of the Hualilan Hills and within the San Juan Formation limestone. The intrusions are dacitic porphyry intrusions with plagioclase feldspar, potassium feldspar, quartz, hornblende, and biotite (Figure 3-6). Most of the dacitic porphyry occurs in the Cerro Sur area.



**Figure 3-6: Dacitic intrusion in the Cerro Sur zone**

The depth of surface oxidation (weathering) ranges from 25 m to 50 m below surface and is dependent on fault and fracture location, being deeper around the fault zones.

### 3.3.4 Mineralisation

Most of the mineralisation present within the Hualilan Project is contained in four mining areas. The Magnata, Muchilera and Sentazon zones occur in the Cerro Sur zone and the Manto Principal occurs in the Cerro Norte zone, although gold and base metal mineralisation has been identified at 19 sites over a 4 km strike length at Cerro Norte and Cerro Sur. Mineralisation occurs in all rock types, but it preferentially replaces limestone and fault zones.

Mineralisation occurs in the following geological settings:

- Steeply dipping, fault-hosted quartz veins striking east-northeast
- Bedding-parallel manto replacement deposits striking north and dipping at 30°–70° to the west
- Quartz veins striking north near intrusion – limestone contacts.

The veins have thicknesses of 1 to 4 m and contain sulphides. The mineralisation commonly contains quartz, actinolite, magnetite, pyrite, pyrrhotite, chalcopyrite, sphalerite and galena. Gold occurs in native form, in tellurides (hessite) and as inclusions with pyrite and chalcopyrite (Figure 3-7).

The intersection between the bedding-parallel mineralisation and the east-striking cross veins seems to be important in localising thicker zones of mineralisation.





**Figure 3-7: Massive sulphide (partially oxidised) with quartz from the Sentazon mine, Cerro Sur**

A detailed study of hydrothermal fluid inclusions trapped in the dacitic intrusions has shown that two hydrothermal fluids were responsible for mineralisation (Bengochea and Mas, 2006):

- 1 A high salinity (12 wt% NaCl) fluid at temperatures over 300°C is responsible for the primary sulphide mineralisation, calc-silicate alteration, clay (illite) and adularia mineralisation.
- 2 A lower temperature, lower salinity fluid (4.5 wt% NaCl), more intense in the northern parts of the deposit is thought responsible for hydrothermal oxidation of the primary mineralisation, formation of silica (jasperoid) veins and retrograde alteration of primary calc-silicate alteration.

The higher salinity fluid may have evolved from a magmatic source distal to the deposit and the lower salinity fluid likely represents evolution to a mixed groundwater and magmatic fluid towards the end of the mineralisation.

## 3.4 Project history

### 3.4.1 Previous production

The Hualilan mineralisation may have been exploited during pre-colonial times, although there are no records. Intermittent production occurred from 1561 until 1840 under Spanish administration. During this period, 19 different excavations were worked on the property.

An English company attempted production without success in 1863. In 1872, production was boosted following the installation of new equipment including an amalgamation circuit. The mining suffered from an inability to treat sulphides resulting in mine closure.

In 1875, an English company, Argentina, re-opened the operation and installed additional equipment incorporating a two-furnace roaster circuit to treat the sulphide ore. The company processed a reported 80 tonnes per day and employed a workforce of 160 people. Most of the haulages and underground workings, as well as the stone buildings and foundations date to this period (Figure 3-8).

A cyanidation plant was installed to treat tailings in 1914. The operation also selectively mined oxide material originating from the previous operations. A further attempt to process tails material by cyanidation occurred in 1947.

In 1955, a Merrill-Crowe cyanidation circuit was installed and treated 6–7 kt of ore from underground, 2–3 kt of stockpiled ore and 1 kt of tails.

In the 1960s, Aluvion S.R.L. worked the third level of one of the Cerro Norte workings, but had limited success.

Total historical production would not have exceeded 150 kt (Jenks, 2004).



**Figure 3-8: Hualilan Mine processing site and support building ruins from production in the 1870s**

Source: SRK site visit, 29 August 2018.

Modern exploration started at Hualilan in 1984, when Compañía Minera Aguilar S.A. (Aguilar) completed an exploration program concentrating on Cerro Norte.

From 1984 to 1990, Lixivia S.A. (Lixivia) treated tailings from historical workings and mined ore from the easily accessible areas of Cerro Norte. An unknown volume of material was processed by a cyanidation and carbon-in-leach plant. Pre-strip development for open pit mining was undertaken, along with exploration pitting and trenching.

In 1990, Lixivia formed Alulix S.A. (Alulix) to bring the Cerro Norte into production. Work included surveying and geology mapping at surface and underground, channel sampling of mineralised zones (over 200 samples), geophysical surveying and 2,040 m of drilling across 16 RC holes (Table 3-4). Most of the work was contracted to Aguilar.

**Table 3-4: Drill collars for RC holes completed by Compañía Minera Aguilar S.A.**

Hole ID	Type	East (m)	North (m)	Elevation (m ASL)	Direction (° Grid North)	Dip (°)	Depth (m)	Date
AG01	RC	2,504,908.0	6,602,132.3	1,807.6	000	-90	84.5	Jan-84
AG02	RC	2,504,846.5	6,602,041.1	1,803.4	112	-70	60.0	Jan-84
AG03	RC	2,504,794.5	6,601,925.6	1,803.1	080	-55	110.0	Jan-84
AG04	RC	2,504,797.1	6,602,065.5	1,806.6	000	-90	168.0	Jan-84
AG05	RC	2,504,843.5	6,601,820.3	1,798.1	000	-90	121.8	Jan-84
AG06	RC	2,504,781.9	6,601,922.8	1,803.8	000	-90	182.2	Jan-84
AG07	RC	2,504,826.3	6,601,731.0	1,796.9	000	-90	111.5	Jan-84
AG08	RC	2,504,469.8	6,600,673.7	1,779.7	090	-57	80.2	Jan-84
AG09	RC	2,504,455.7	6,600,458.5	1,772.6	000	-90	139.7	Jan-84
AG10	RC	2,504,415.5	6,600,263.9	1,767.7	000	-90	200.8	Jan-84
AG11	RC	2,504,464.8	6,600,566.5	1,775.9	000	-90	141.0	Jan-84
AG12	RC	2,504,847.6	6,602,161.7	1,808.8	000	-90	171.4	Jan-84
AG13	RC	2,504,773.6	6,601,731.3	1,798.7	000	-90	159.5	Jan-84
AG14	RC	2,504,774.7	6,601,818.8	1,801.2	000	-90	150.2	Jan-84
AG15	RC	2,504,770.7	6,601,631.4	1,796.7	000	-90	91.3	Jan-84
AG16	RC	2,504,429.5	6,600,665.8	1,779.8	000	-90	68.8	Jan-84
<b>Total</b>							<b>2,040.8</b>	

Source: Golden Mining S.R.L. Drill collars are located in WGS84, UTM zone 19S.

In 1993, Compañía Minera El Colorado S.A. (CMEC) entered into a purchase option agreement with Alulix. Plata Mining Ltd (Plats), a company listed on the Alberta Stock Exchange, optioned the project from CMEC. In 1995, Plata commissioned an exploration work program at Cerro Norte which was completed by Watts, Griffis & McOuat. Exploration activities included surface mapping, channel sampling of surface trenches and underground workings, 13 RC drill holes for a total of 1,193 m, gold assays of more than 1,500 samples and reporting. Also, in the 1990s, Aerodat Inc. conducted an airborne magnetic, resistivity, electromagnetic and radiometric geophysical survey for Monarch Resources Ltd (Monarch), covering an area of 90 km<sup>2</sup> which includes the Hualilan Project.

**Table 3-5: Drill collars for RC holes completed by Plata Mining Ltd (Monarch)**

Hole_ID	Type	East (m)	North (m)	Elevation (m ASL)	Direction (° Grid North)	Dip (°)	Depth (m)	Date
MG01	RC	2,504,825.5	6,602,755.4	1,800.0	100	-60	51.0	Jan-95
MG01A	RC	2,504,810.5	6,602,755.4	1,800.0	100	-60	116.0	Jan-95
MG02	RC	2,504,835.5	6,602,805.4	1,800.0	100	-60	90.0	Jan-95
MG03	RC	2,504,853.5	6,602,880.4	1,795.0	100	-60	102.0	Jan-95
MG04	RC	2,504,843.5	6,602,975.4	1,800.0	100	-60	120.0	Jan-95
MG05	RC	2,506,130.5	6,605,055.4	1,750.0	85	-60	96.0	Jan-95
MG06	RC	2,506,005.5	6,605,115.4	1,750.0	100	-60	90.0	Jan-95
MG07	RC	2,506,100.5	6,605,015.4	1,750.0	100	-60	96.0	Jan-95
MG08	RC	2,505,300.5	6,603,070.4	1,740.0	95	-70	66.0	Jan-95
MG09	RC	2,505,285.5	6,603,015.4	1,740.0	0	-90	102.0	Jan-95
MG10	RC	2,505,025.5	6,600,225.4	1,724.0	100	-60	120.0	Jan-95
MG11	RC	2,503,380.5	6,598,560.5	1,740.0	100	-60	78.0	Jan-95
MG12	RC	2,503,270.5	6,597,820.5	1,740.0	100	-60	66.0	Jan-95
<b>Total</b>							<b>1,193.0</b>	

Source: Golden Mining S.R.L. Drill collars are located in WGS84, UTM zone 19S.



In 1998, a Chilean consulting firm, EPROM, conducted detailed exploration of the property for Plata. Exploration included surface geological and structural mapping at 1:10,000 and 1:1,000 scales, underground mapping at 1:500 and 1:800 scales, systematic 3 m interval rock chip channel sampling of many of the known mineralised areas at Cerro Norte, newly discovered structures and adjacent zones as well as the tailings. In total, 585 samples were collected and assayed. Seven bulk metallurgical samples were also collected and analysed at the CIMM Tecnologías y Servicios S.A. (CIMM) laboratory in Chile. EPROM also undertook resource and reserve estimations using a polygonal method. A 320 m long, 4 × 4 m production decline was driven by Plata beneath the Main Manto at Cerro Norte. Two drifts (15 m and 25 m) were excavated from the main decline.

CMEC assumed active management of the Hualilan Project in 1999. CMEC's objective was to better estimate reserves and bring the property into production. To that end, an aggressive program of exploration was completed which included induced polarisation (IP), ground magnetic and electromagnetic geophysical surveys, RC drilling (19 holes for a total of 1,598 m), metallurgical testing of material at Lakefield Laboratories (cyanidation) and CIMM Laboratories (flotation), resource and reserve estimation and mining studies.

**Table 3-6: Drill collars for RC holes completed by CMEC**

Hole ID	Type	East (m)	North (m)	Elevation (m ASL)	Direction (° Grid North)	Dip (°)	Depth (m)	Date
Hua01	RC	2,504,845.3	6,602,041.2	1,809.7	117	-50	60.0	1999
Hua02	RC	2,504,889.5	6,602,081.1	1,809.7	125	-55	45.0	1999
Hua03	RC	2,505,003.3	6,602,158.6	1,810.7	000	-90	100.0	1999
Hua04	RC	2,504,873.3	6,602,169.1	1,809.7	000	-90	100.0	1999
Hua05	RC	2,505,003.2	6,602,152.6	1,810.7	180	-60	100.0	1999
Hua06	RC	2,505,003.3	6,602,161.6	1,810.7	360	-60	100.0	1999
Hua07	RC	2,504,967.7	6,602,153.2	1,810.2	000	-90	100.0	1999
Hua08	RC	2,504,973.2	6,602,153.7	1,810.2	000	-90	13.0	1999
Hua09	RC	2,504,940.7	6,602,150.3	1,809.7	180	-60	100.0	1999
Hua10	RC	2,504,941.8	6,602,156.8	1,809.7	360	-60	100.0	1999
Hua11	RC	2,504,913.3	6,602,167.4	1,809.7	360	-60	88.0	1999
Hua12	RC	2,504,912.8	6,602,165.9	1,809.7	000	-90	100.0	1999
Hua13	RC	2,504,912.3	6,602,156.9	1,809.7	180	-60	90.0	1999
Hua14	RC	2,504,854.3	6,602,168.2	1,809.7	360	-60	100.0	1999
Hua15	RC	2,504,854.8	6,602,166.2	1,809.7	117	-60	100.0	1999
Hua16	RC	2,504,834.2	6,601,877.8	1,800.7	000	-90	100.0	1999
Hua17	RC	2,504,865.9	6,602,449.8	1,814.1	90	-50	42.0	1999
Hua20	RC	2,504,004.1	6,600,846.4	1,792.7	000	-90	106.0	1999
Hua21	RC	2,504,552.9	6,600,795.0	1,793.9	000	-90	54.0	1999
<b>Total</b>							<b>1,598.0</b>	

Source: Golden Mining S.R.L. Drill collars are located in WGS84, UTM zone 19S.

A total length of 6 km of underground workings passes through mineralised zones. The development is most extensive at the Cerro Norte between the Pique Ortega shaft and the Dona Justa workings which is a strike length of approximately 1 km. Development extends for approximately 100 m vertically with the deposit dipping northwest at 30°–50°. Other workings at Cerro Sur are less well mapped and sampled but are likely to be as well developed in the oxide (weathered) zone nearer surface. Records of the underground geology and sampling that do exist, are currently being check-located and digitised.

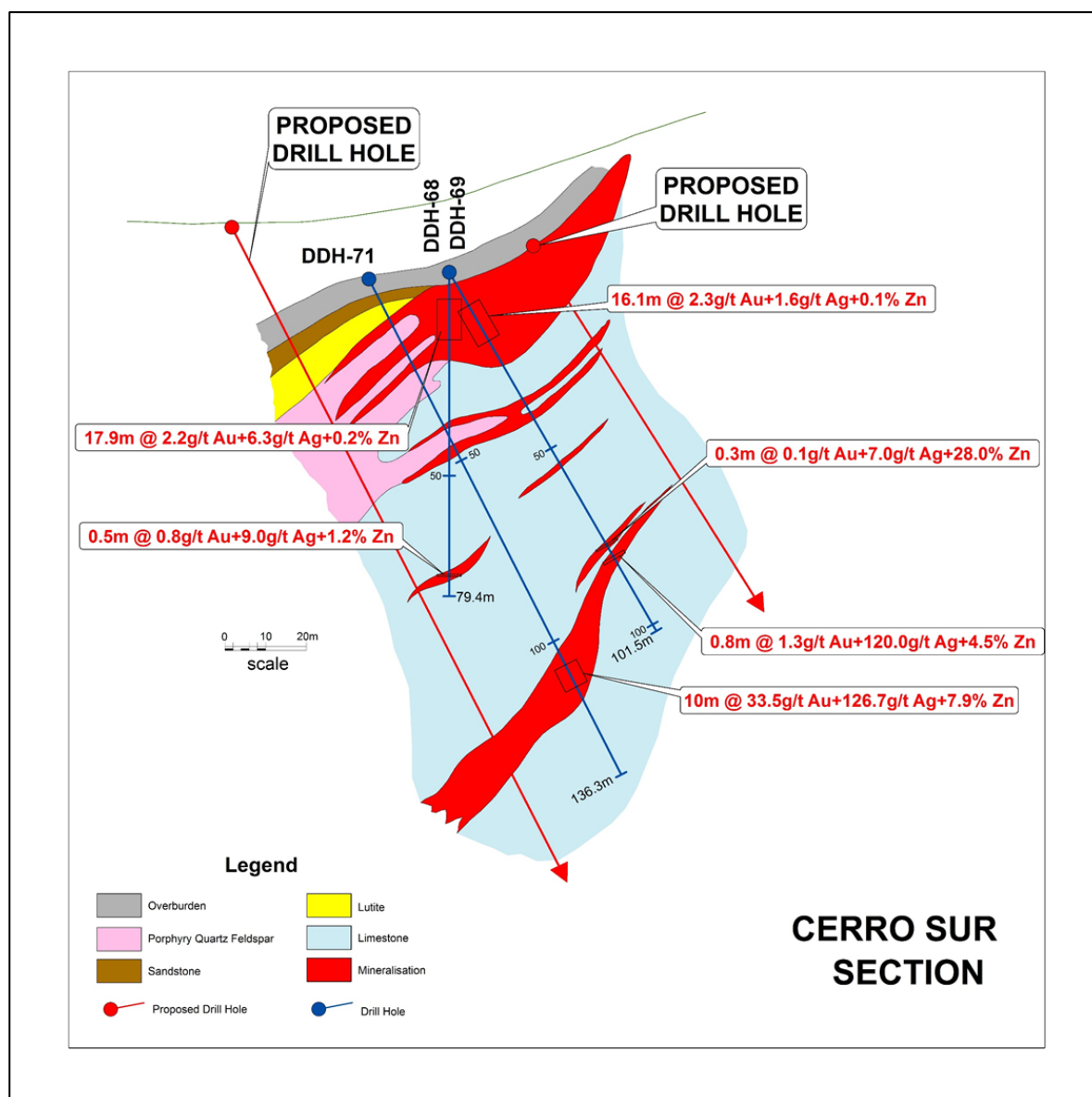
In addition to the RC drilling, 107 diamond holes for total of 12,384 m were completed between 1999 and 2005. CMEC drilled 60 diamond holes in 1999–2000 for a total of 4,907.3 m (Table 3-7) and La Mancha Resources Inc. (La Mancha) drilled a further 47 diamond holes (total of 7,477 m) in 2003–2005 (Table 3-8). A section through the Cerro Sur deposit generated from the CMEC drilling is shown in Figure 3-9. No drilling or significant exploration has been completed at the Hualilan Project since that time. The previous drill data, sampling, assay and QA/QC is currently being compiled into a drill hole database.

**Table 3-7: Drill collars for diamond drill holes completed by CMEC**

Hole ID	Type	East (m)	North (m)	Elevation (m ASL)	Direction (° Grid North)	Dip (°)	Depth (m)	Date
DDH20	DDH	2,504,977.3	6,602,133.3	1,804.8	116	-54	49.1	1999-00
DDH21	DDH	2,504,978.3	6,602,118.3	1,804.8	000	-90	88.6	1999-00
DDH22	DDH	2,504,762.9	6,601,587.1	1,769.8	116	-65	66.0	1999-00
DDH23	DDH	2,504,920.4	6,601,994.3	1,767.9	000	-90	58.8	1999-00
DDH24	DDH	2,504,821.0	6,601,938.8	1,802.0	116	-80	100.3	1999-00
DDH25	DDH	2,504,862.6	6,601,964.5	1,803.7	116	-74	49.2	1999-00
DDH26	DDH	2,504,920.4	6,601,975.3	1,795.0	312	-60	80.3	1999-00
DDH27	DDH	2,504,752.7	6,601,565.1	1,806.6	116	-60	43.2	1999-00
DDH28	DDH	2,505,003.6	6,602,174.3	1,806.6	116	-50	41.7	1999-00
DDH29	DDH	2,504,964.1	6,602,136.6	1,810.0	350	-52	113.5	1999-00
DDH30	DDH	2,505,004.1	6,602,156.3	1,809.3	059	-85	62.1	1999-00
DDH31	DDH	2,504,897.6	6,602,112.7	1,808.1	116	-75	41.4	1999-00
DDH32	DDH	2,504,939.4	6,602,139.2	1,809.1	350	-51	100.7	1999-00
DDH33	DDH	2,504,939.4	6,602,139.2	1,809.1	350	-65	62.9	1999-00
DDH34	DDH	2,504,826.5	6,601,920.2	1,801.3	116	-70	69.4	1999-00
DDH35	DDH	2,505,003.9	6,602,156.7	1,808.8	310	-85	174.6	1999-00
DDH36	DDH	2,504,637.5	6,600,777.3	1,799.9	330	-50	45.5	1999-00
DDH37	DDH	2,504,826.5	6,601,920.2	1,809.4	000	-90	121.0	1999-00
DDH38	DDH	2,504,820.8	6,601,912.2	1,801.1	116	-75	67.7	1999-00
DDH39	DDH	2,504,820.8	6,601,912.2	1,801.1	116	-81	90.7	1999-00
DDH40	DDH	2,504,832.3	6,601,928.1	1,801.7	116	-70	85.7	1999-00
DDH41	DDH	2,504,837.8	6,601,937.5	1,801.6	116	-70	64.2	1999-00
DDH42	DDH	2,504,829.2	6,601,952.5	1,801.8	116	-60	65.1	1999-00
DDH43	DDH	2,504,829.2	6,601,952.5	1,801.8	116	-70	70.8	1999-00
DDH44	DDH	2,504,811.3	6,601,895.1	1,802.0	116	-60	102.2	1999-00
DDH45	DDH	2,504,811.3	6,601,895.1	1,802.0	116	-83	95.3	1999-00
DDH46	DDH	2,504,884.4	6,601,976.3	1,805.9	116	-45	71.6	1999-00
DDH47	DDH	2,504,884.4	6,601,976.3	1,805.9	116	-65	71.0	1999-00
DDH48	DDH	2,504,866.9	6,601,962.7	1,803.1	116	-47	30.7	1999-00
DDH49	DDH	2,504,866.9	6,601,962.7	1,803.1	116	-72	41.9	1999-00
DDH50	DDH	2,504,821.4	6,601,913.9	1,801.1	116	-77	87.5	1999-00
DDH51	DDH	2,504,821.4	6,601,913.9	1,801.1	116	-80	87.5	1999-00
DDH52	DDH	2,504,825.5	6,601,901.1	1,800.9	116	-83	74.0	1999-00
DDH53	DDH	2,504,504.1	6,600,714.0	1,788.7	090	-62	85.7	1999-00
DDH54	DDH	2,504,504.1	6,600,714.0	1,788.7	090	-45	69.1	1999-00

Hole ID	Type	East (m)	North (m)	Elevation (m ASL)	Direction (° Grid North)	Dip (°)	Depth (m)	Date
DDH55	DDH	2,504,997.9	6,602,163.5	1,808.6	360	-53	63.1	1999-00
DDH56	DDH	2,504,943.1	6,602,171.3	1,810.5	360	-75	50.6	1999-00
DDH57	DDH	2,504,943.1	6,602,171.3	1,810.5	000	-90	66.2	1999-00
DDH58	DDH	2,504,970.3	6,602,153.3	1,809.1	360	-71	62.0	1999-00
DDH59	DDH	2,504,970.3	6,602,153.3	1,809.1	000	-90	66.3	1999-00
DDH60	DDH	2,504,997.9	6,602,162.5	1,809.0	360	-67	59.9	1999-00
DDH61	DDH	2,504,997.9	6,602,162.5	1,809.0	000	-90	58.1	1999-00
DDH62	DDH	2,504,751.4	6,601,602.6	1,789.2	170	-45	68.4	1999-00
DDH63	DDH	2,504,751.4	6,601,602.6	1,789.2	170	-70	131.5	1999-00
DDH64	DDH	2,504,776.3	6,601,596.9	1,789.1	170	-45	66.7	1999-00
DDH65	DDH	2,504,552.7	6,600,792.0	1,793.8	194	-45	124.8	1999-00
DDH66	DDH	2,504,552.7	6,600,792.0	1,793.8	194	-57	117.0	1999-00
DDH67	DDH	2,504,552.7	6,600,792.0	1,793.8	194	-66	126.1	1999-00
DDH68	DDH	2,504,623.9	6,600,779.0	1,800.7	000	-90	79.5	1999-00
DDH69	DDH	2,504,623.9	6,600,779.0	1,800.7	194	-60	101.5	1999-00
DDH70	DDH	2,504,595.5	6,600,797.7	1,798.1	190	-81	128.0	1999-00
DDH71	DDH	2,504,631.6	6,600,797.4	1,799.0	194	-63	136.3	1999-00
DDH72	DDH	2,504,547.2	6,600,764.1	1,799.6	194	-45	75.6	1999-00
DDH73	DDH	2,504,593.4	6,600,766.5	1,807.5	190	-57	70.8	1999-00
DDH74	DDH	2,504,598.2	6,600,831.8	1,795.3	190	-62	190.9	1999-00
DDH75	DDH	2,504,731.2	6,600,784.7	1,821.4	194	-45	40.2	1999-00
DDH76	DDH	2,504,731.2	6,600,784.7	1,821.4	180	-60	138.7	1999-00
DDH77	DDH	2,504,734.1	6,600,785.0	1,821.6	000	-90	85.6	1999-00
DDH78	DDH	2,504,731.2	6,600,784.7	1,821.4	180	-75	132.9	1999-00
DDH79	DDH	2,504,721.6	6,600,790.1	1,820.4	060	-70	38.6	1999-00
<b>Total</b>							<b>4,907.3</b>	

Source: Golden Mining S.R.L. Drill collars are located in WGS84, UTM zone 19S.



**Figure 3-9: Section through the Cerro Sur area at Hualilan from the CMEC drilling**

Source: AEP.

**Table 3-8: Drill collars for diamond drill holes completed by La Mancha**

Hole ID	Type	East (m)	North (m)	Elevation (m ASL)	Direction (° Grid North)	Dip (°)	Depth (m)
03HD01A	DDH	2,504,627.8	6,600,800.1	1,798.4	180	-60	130.2
03HD02	DDH	2,504,457.9	6,600,747.8	1,782.9	180	-60	130.5
03HD03	DDH	2,504,480.1	6,600,448.6	1,774.0	360	-45	100.2
04HD04	DDH	2,504,436.6	6,600,439.3	1,773.4	360	-60	104.6
04HD05	DDH	2,504,420.9	6,600,256.8	1,769.5	110	-68	122.6
04HD06	DDH	2,504,428.6	6,600,236.6	1,768.1	110	-68	136.0
04HD07	DDH	2,504,415.7	6,600,277.7	1,769.0	100	-63	108.2
04HD08	DDH	2,504,826.5	6,601,920.2	1,801.3	116	-70	70.0
04HD09	DDH	2,504,832.3	6,601,928.1	1,801.7	116	-70	75.9
04HD10	DDH	2,504,648.5	6,600,788.9	1,801.5	205	-60	120.0

Hole ID	Type	East (m)	North (m)	Elevation (m ASL)	Direction (° Grid North)	Dip (°)	Depth (m)
04HD11	DDH	2,504,462.0	6,600,428.3	1,773.6	075	-62	95.1
04HD12	DDH	2,504,449.3	6,600,648.9	1,779.6	360	-60	77.4
04HD13	DDH	2,504,434.5	6,600,646.6	1,779.7	360	-60	74.0
04HD14	DDH	2,504,461.1	6,600,748.4	1,783.1	180	-70	130.6
04HD15	DDH	2,504,449.9	6,600,646.2	1,779.6	360	-64	160.0
04HD16C	DDH	2,504,457.1	6,600,311.7	1,770.3	195	-65	225.5
04HD17	DDH	2,504,417.5	6,600,256.6	1,769.5	110	-72	213.2
04HD18	DDH	2,504,528.5	6,600,792.0	1,791.9	170	-50	140.7
04HD19	DDH	2,504,648.5	6,600,788.9	1,801.5	205	-77	120.0
04HD20	DDH	2,504,648.5	6,600,788.9	1,801.5	205	-80	120.0
04HD21	DDH	2,504,648.5	6,600,788.9	1,801.5	205	-60	120.0
04HD23	DDH	2,504,441.0	6,600,456.0	1,772.5	075	-82	499.7
04HD24	DDH	2,504,389.0	6,600,252.0	1,766.5	090	-81	188.2
04HD25	DDH	2,504,456.0	6,600,294.0	1,768.5	155	-84	500.8
04HD26	DDH	2,504,424.0	6,600,409.0	1,771.5	180	-69	464.9
04HD27	DDH	2,504,461.0	6,600,428.0	1,773.0	100	-45	60.0
04HD28	DDH	2,504,461.0	6,600,428.0	1,773.0	100	-60	63.7
04HD29	DDH	2,504,438.0	6,600,087.0	1,764.5	108	-45	265.0
04HD30	DDH	2,504,421.0	6,600,044.0	1,764.0	108	-45	128.2
04HD31	DDH	2,504,687.0	6,601,326.0	1,794.0	045	-60	242.9
04HD32	DDH	2,504,828.0	6,601,916.0	1,801.3	116	-70	68.4
05HD33	DDH	2,505,410.0	6,601,983.0	1,765.0	000	-60	81.4
05HD34	DDH	2,505,451.0	6,602,079.0	1,763.0	273	-60	269.0
05HD35	DDH	2,504,905.0	6,601,689.0	1,794.0	140	-65	350.0
05HD36	DDH	2,504,880.0	6,601,860.0	1,802.0	295	-70	130.0
05HD37	DDH	2,504,866.0	6,601,888.0	1,797.0	295	-70	130.0
05HD38	DDH	2,504,838.0	6,601,937.0	1,796.0	115	-70	70.0
05HD39	DDH	2,504,964.0	6,602,128.0	1,814.0	030	-70	217.5
05HD40	DDH	2,504,964.0	6,602,128.0	1,814.0	030	-50	150.0
05HD41	DDH	2,504,931.0	6,602,125.0	1,812.0	022	-60	142.5
05HD42	DDH	2,504,552.7	6,600,791.5	1,797.0	194	-57	120.0
05HD43	DDH	2,504,552.7	6,600,791.5	1,797.0	194	-45	95.5
05HD44	DDH	2,504,603.0	6,600,799.0	1,798.0	190	-61.5	130.5
05HD45	DDH	2,504,362.0	6,600,710.0	1,767.0	088	-60	121.5
05HD46	DDH	2,504,405.0	6,600,282.0	1,766.0	090	-75	130.7
05HD47	DDH	2,504,212.0	6,599,177.0	1,729.0	065	-45	181.5
05HD48	DDH	2,504,160.0	6,599,164.0	1,728.0	065	-60	100.7
<b>Total</b>							<b>7,477.0</b>

Source: Golden Mining S.R.L. Drill collars are located in WGS84, UTM zone 19S.



A number of significant gold grade intersections have been reported from the drilling (Table 3-9). Higher gold grades evident in the drilling are generally supported by elevated Ag and Zn. Most intersections are relatively narrow, which is consistent with the bedding parallel replacement in permeable units and bedding parallel faults observed in the workings and at surface. Wider intersections are likely to be related to the intersection of faults where both structures are mineralised.

**Table 3-9: Significant drill intersections at the Hualilan Project previously reported by Challenger**

Hole ID	From (m)	Interval (m)	Au (g/t)	Ag (g/t)	Zn (%)
AG16	38.6	1.2	0.1	28.6	1.7
MG10	108.0	3.0	1.3	No assay	No assay
DDH36	24.7	9.3	1.6	46.3	1.2
DDH53	17.3	1.4	1.0	1.7	0.00
DDH53	24.0	8.9	3.7	239.5	0.03
DDH53	35.7	3.9	3.9	87.8	0.06
DDH53	41.0	3.0	2.6	7.6	0.20
DDH54	20.0	1.1	1.2	0.7	0.00
DDH54	31.1	8.3	3.9	32.1	0.80
DDH65	62.0	8.2	11.0	60.6	1.2
DDH65	82.0	1.0	1.8	33.4	0.30
DDH66	83.1	7.2	23.7	42.9	2.4
DDH66	87.9	2.4	69.9	114.4	2.2
DDH66	104.9	2.8	1.8	29.0	0.10
DDH67	98.7	1.3	0.2	7.8	1.3
DDH68	4.0	17.9	2.2	6.3	0.20
DDH68	73.7	0.5	0.8	9.0	1.2
DDH69	4.0	16.1	2.3	1.6	0.10
DDH69	76.9	0.3	0.1	7.0	28.0
DDH69	79.7	0.8	1.3	120.0	4.5
DDH70	84.0	7.0	5.2	13.5	0.70
DDH71	11.0	2.0	0.5	218.0	0.06
DDH71	39.9	1.0	1.3	6.0	0.03
DDH71	45.5	1.1	0.4	22.8	0.60
DDH71	104.0	10.0	33.5	126.7	7.9
DDH72	26.0	11.7	3.8	14.1	1.3
DDH72	52.7	6.3	1.5	30.4	0.04
DDH73	62.5	3.5	0.5	15.6	0.60
DDH74	119.9	0.5	7.3	98.5	2.6
DDH76	61.3	0.7	4.0	11.1	0.50
DDH76	74.4	4.0	0.8	8.8	0.30
DDH76	84.8	1.2	1.4	10.9	2.0
DDH78	109.1	0.7	1.1	13.4	1.9
03HD01A	90.1	1.7	2.1	37.4	2.4
03HD03	55.0	2.4	2.5	25.6	2.3
04HD05	80.3	2.0	0.9	42.7	0.02
04HD05	97.5	1.8	1.9	35.0	0.04

Hole ID	From (m)	Interval (m)	Au (g/t)	Ag (g/t)	Zn (%)
04HD05	102.0	1.0	1.3	42.1	0.01
04HD05	106.0	1.0	0.7	28.0	0.05
04HD05	108.0	5.6	2.8	19.9	1.2
04HD06	65.4	1.2	46.6	846.0	0.50
04HD06	75.0	1.0	1.0	2.9	0.01
04HD06	104.5	7.6	1.8	5.0	1.2
04HD06	115.1	0.9	16.4	23.1	7.7
04HD07	98.3	2.2	1.4	32.5	0.90
04HD10	44.3	0.2	3.9	81.5	5.6
04HD10	55.5	0.5	1.3	11.5	0.46
04HD10	78.6	1.7	4.8	93.7	2.4
04HD11	28.0	1.0	0.1	9.3	1.4
04HD12	49.3	0.7	1.5	16.1	0.10
04HD13	61.5	1.0	0.8	7.9	0.20
04HD15	103.7	0.3	1.7	32.9	0.80
04HD16C	107.5	6.8	8.6	117.1	9.1
04HD16C	111.8	2.5	7.6	75.6	11.5
04HD16C	144.9	1.9	9.1	31.2	5.5
04HD16C	171.1	0.4	0.5	9.4	1.7
04HD17	134.9	0.7	2.5	14.3	4.1
04HD17	139.1	0.5	10.5	9.4	0.20
04HD17	199.6	0.2	0.8	3.5	5.9
04HD17	202.1	1.9	4.5	1.5	0.70
04HD20	43.2	1.8	0.9	83.9	0.20
04HD21	70.1	0.2	4.8	60.6	6.4
04HD21	141.1	0.6	12.9	105.0	4.8
04HD24	72.0	2.0	2.5	3.2	0.04
04HD24	83.0	2.0	3.1	25.3	0.04
04HD24	94.0	4.2	0.7	21.2	0.10
04HD25	92.0	1.7	2.4	51.5	6.3
04HD26	21.7	2.3	1.5	32.5	3.0
04HD28	42.8	0.4	1.9	4.5	0.10
04HD29	37.0	1.0	0.1	112.0	0.01
05HD42	90.5	1.0	1.9	6.1	0.03
05HD42	115.0	3.0	29.0	103.1	0.20
05HD43	69.0	1.0	1.8	2.3	0.01
05HD43	81.0	3.0	2.8	51.5	0.50
05HD43	90.7	2.3	1.4	29.6	0.30
05HD44	87.5	1.1	3.8	3.4	0.01
05HD44	91.2	1.4	0.0	3.6	2.8

Source: ASX release, 25 February 2019, supported by JORC Code Table 1 included in that release..

Notes: Cut-off grade of 1.0 g/t Au equivalent (calculated using a price of US\$1,300/oz for Au, \$15/oz for Ag and \$2,500/t. for Zn).

Assay data for some drill holes has yet to be found.

It is expected that drilling sample batches would have included standard reference samples and blanks. Check assays are also likely to have been completed. Identifying and compiling the QA/QC samples to assist in validating the results of drilling is currently being carried out for the Hualilan Project.

### 3.4.2 Historical, foreign resource estimates

There are multiple historic resource estimates for the Hualilan Project, none of which comply with the prevalent reporting standards according to the JORC Code (either 2004 or 2012).

In its ASX announcement dated 25 February 2019, Challenger announced a Foreign Resource Estimate which was completed by La Mancha Resources in 2003 and updated in 2006, but which does not meet the requirements for reporting under the JORC Code (2004). The foreign estimates are relevant and material to Challenger as they demonstrate that the Hualilan Project has the potential to be economically viable. The 2003 resource estimate is summarised in Table 3-10.

**Table 3-10: La Mancha Resources 2003 foreign resource estimate for the Hualilan Project**

Category	Tonnes (kt)	Gold grade (g/t)	Contained gold (koz)
Measured	218	14.2	100
Indicated	226	14.6	106
<b>Total of Measured &amp; Indicated</b>	<b>445</b>	<b>14.4</b>	<b>206</b>
Inferred	977	13.4	421
<b>Total of Measured, Indicated &amp; Inferred</b>	<b>1,421</b>	<b>13.7</b>	<b>627</b>

Source: La Mancha Resources Toronto Stock Exchange Release dated 14 May 2003 - Independent Report on Gold Resource Estimate. Rounding errors may be present. Troy ounces (oz) tabled here.

The 2006 update to the estimate did not include the east-west mineralised Magnata Vein despite the known mineralisation in the Magnata Vein being drilled on a 25 m by 50 m spacing. The 2003 estimate attributed approximately half of its Measured and Indicated tonnage to the Magnata Vein. The 2006 estimate also included arbitrary tonnage reduction factors of 25% for the Indicated category and 50% for the Inferred category. The La Mancha 2006 resource is summarised in Table 3-11.

**Table 3-11: La Mancha Resources 2006 foreign resource estimate for the Hualilan Project (excluding the Magnata Vein)**

Category	Tonnes (kt)	Gold grade (g/t)	Contained gold (koz)	Silver grade (g/t)	Contained silver (koz)	Zinc grade (%)	Contained zinc (kt)
Measured	163	12.7	67	52	275	2.5	4.1
Indicated	51	12.5	20	37	60	2.6	1.3
<b>Total of Measured &amp; Indicated</b>	<b>214</b>	<b>12.7</b>	<b>87</b>	<b>49</b>	<b>336</b>	<b>2.5</b>	<b>5.4</b>
Inferred	214	11.7	81	46	319	2.3	4.9
<b>Total of Measured, Indicated &amp; Inferred</b>	<b>428</b>	<b>12.2</b>	<b>168</b>	<b>48</b>	<b>655</b>	<b>2.4</b>	<b>10.3</b>

Source: La Mancha Resources Toronto Stock Exchange Release dated 7 April 2007 - Interim Financials. Rounding errors may be present. Troy ounces (oz) tabled here.

The source of the foreign estimates are resource reports prepared for La Mancha Resources presented in NI 43-101 Technical Reports dated 12 April 2003 and 30 November 2006. More recent estimates are not available.

The estimates are historical, foreign estimates and are not reported in accordance with the JORC Code. A Competent Person has not completed sufficient work to classify the estimates as Mineral Resources in accordance with the JORC Code. It is uncertain whether further exploration work would enable the estimates to be reportable as a Mineral Resource estimate in accordance with the JORC Code.

The 2006 foreign estimate used four categories of mineralisation namely Measured, Indicated, Inferred and Potential. The Measured, Indicated and Inferred categories are generally similar to the same categories of mineralisation defined in Appendix 5 (JORC Code). In addition to the available drilling, the Foreign Resource estimates use detailed underground channel sampling collected by EPROM, CMEC and La Mancha Resources to guide the estimation. The estimation technique uses a longitudinal section polygonal method, with individual blocks representing weighted averages of sampled underground and/ or drill intersections with zones of influence halfway to adjacent holes. The volume of the blocks were calculated using AutoCAD directly from the longitudinal sections. Overlying assumptions included a reduction of the calculated grade in each resource block by a factor of 10% to account for possible errors in the analyses.

Challenger proposes to undertake further work in order to bring these Foreign estimates in line with the reporting requirements of the JORC Code (2012).

In SRK's opinion, the 2003 Mineral Resource classification and results appropriately reflect the deposit and the current level of risk associated with the Hualilan Project to date. In addition, a La Mancha Resources Toronto Stock Exchange release of 14 May 2003 describes the historical data supporting the resource estimated with such data described as "both detailed and reliable".

The available assay data correlates well with the geology observed in the field and the geology logged in the drill core.

To verify the Foreign Resource estimates, Challenger intends to design and exploration program to include the following:

- Twinning of previously drilled core holes to compare geology, alteration, structure and assay values
- Additional sample accuracy and precision validation as required (field duplicates, standard reference material, blanks, duplicate assays)
- Detailed interpretation of known mineralised zones
- Geostatistical assessment to determine if an updated estimation from existing data is possible
- Investigate future drilling requirements to upgrade both the historical resource estimate
- Structural interpretation
- Metallurgical testwork
- Complete a resource estimate in accordance to JORC Code (2012) reporting requirements.

### **3.4.3 Metallurgical testwork**

Four bulk samples were collected by CMEC and submitted to Lakefield Research (CIMM Laboratories) in Santiago, Chile in 1999. Sample M-4 is an RC drill sample composite. There are no details regarding the location or drill holes from which the samples were obtained.

**Table 3-12: Summary of the samples for metallurgical testwork**

Sample	Au (g/t)	Ag (g/t)	Zn (%)	Pb (%)	Cu (%)	Fe (%)	S (%)
M-1: Oxidised	9.3	80	4.3	0.82	0.12	10.5	3.4
M-2: Primary (unoxidised)	19.1	95	5.3	0.21	0.21	14.7	9.4
M-3: Silicified (oxidised)	8.1	50	2.7	0.61	0.23	7.2	0.8
M-4: High Sulphide (unoxidised)	21.0	17	1.4	0.11	0.03	20.9	8.5

Source: CIMM.

Applying a joint process of rougher flotation (20 to 30 minutes) and Knelson concentration of the tailings of the flotation to the oxide and sulphide composites, the global gold recovery to a concentrate is approximately 80%. Flotation had a higher recovery for gold from the sulphide (unoxidised) samples. Zinc recovery was generally low.

Further floatation testwork may need to be considered to optimise recoveries of various sulphide minerals.

Additional testwork at the CIMM Laboratories in 1999 by bottle roll and column cyanidation of six composite samples was also done to determine if the Hualilan material could be successfully processed by heap leaching. None of the details regarding the location of the samples are documented. Two fragment sizes of 3/8 inches (9.5 mm) and 3/4 inches (19 mm) were produced and tested. The testwork indicated gold recovery of approximately 40% for gold and 32% for silver regardless of particle size in a 48-hour bottle roll test. A 70-day column test resulted in 31% recovery for gold and 11% recovery for silver. Consumption of cyanide was reported as high. The results suggest that heap leaching of the Hualilan mineralisation would be unviable.

Further testwork of sulphide-dominant material may be required to identify options for future processing. Production of a sulphide concentrate, transport and off-site beneficiation needs to be considered.

### 3.5 Conclusion

In SRK's opinion, the Hualilan Project is prospective for extensions to the existing skarn and manto gold, silver (zinc, copper, lead) mineralisation that has been partially mined. The existing mine and drill hole data, once verified, would be useful for estimating a resource and drill testing extensions.

Hualilan is prospective for the following:

- Au-Zn-Cu skarn mineralisation close to intrusions
- Manto limestone replacement Au-Ag
- Fault and vein-hosted mesothermal quartz sulphide-Au-Ag.

## 4 Proposed Exploration Programs

### 4.1 El Guayabo Project

Challenger's proposed exploration program at the El Guayabo Project initially aims to identify and prioritise drilling targets. The exploration program that has been proposed involves the following:

- Channel sampling of the adits, including Adriado's Adit, the Ecuaba Vein workings and other artisanal workings. It is estimated that there is more than 1 km of underground development that provides good exposure of the geology, alteration and mineralisation, which has not yet been systematically mapped and sampled.
- Sampling of additional breccia bodies at surface. To date, two of the 10 known breccias have been systematically defined and properly sampled.
- Re-assay of approximately 1,100 m of quarter-core drilled by previous explorers. In addition to validating previous assay results (six elements only), a 40-element assay suite will be collected to improve vectoring on the porphyry and breccia targets.
- Undertake a 3D magnetotelluric (MT) geophysical survey (with IP lines) covering 16 km<sup>2</sup>. Only widely spaced airborne magnetic geophysical surveying has previously been completed over the El Guayabo Project. The MT survey commenced on 9 February 2019 and is being undertaken by Quantec Geoscience, a global geophysical survey acquisition company. Two lines of direct current resistivity, IP (chargeability) data acquisition will also be collected. The survey has been designed to image the existing breccia bodies (and their depth extensions), new breccia bodies, and to define porphyry targets to a depth of 1.5 km.
- Undertake soil geochemistry and mobile metal ion (MMI) survey covering 16 km<sup>2</sup>. This survey is currently in progress.
- Drill testing and evaluation of results.

In SRK's opinion, the proposed exploration program is well suited to the style of mineralisation and the stage of exploration at the El Guayabo Project. It is expected that results of some of the proposed exploration will be available in the first half of 2019.

### 4.2 Hualilan Project

The exploration proposed for the Hualilan Project aims to organise the vast amount of existing exploration and trial mining data from the project with the objective of updating the Foreign Resource estimate and reporting according to the JORC Code (2012). Following that, the objective is to undertake a PEA and identify extensions to the mineral system that could improve the economics of the Hualilan Project. The proposed work includes:

- Digitising into an operating database, all historical data, including approximately 150 drill holes, shallow open pit data, underground development and numerous phases of underground mapping; this work is proceeding at the date of this report.
- Undertaking a detailed interpretation of known mineralised zones; this work is proceeding at the date of this report.
- Investigating further drilling requirements to upgrade both the unclassified mineralisation and mineralisation in the existing historical resources to meet JORC Code (2012) reporting requirements. Complete twin drill holes to confirm the geology, alteration and mineralisation, check previous assays and validate previous data as required.
- Field mapping, structural interpretation and alteration mapping using high resolution satellite data to better target extensions of known mineralisation.

- Undertaking a geostatistical assessment and update the status of the Foreign Resource Estimate by completing a resource re-estimation.
- Undertaking further metallurgical testwork.

In SRK's opinion, the proposed exploration program is well suited to the style of mineralisation and the stage of exploration at the Hualilan Project.

### 4.3 Proposed exploration budget

The proposed use of funds from the Public Offer in support of the proposed exploration programs at the El Guayabo and Hualilan projects is shown in Table 4-1.

**Table 4-1: Proposed use funds from the capital raising**

Project	Description	Year 1 (A\$)	Year 2 (A\$)
El Guayabo	Mapping, sampling, re-logging	490,000	320,000
	Geophysics (Note: \$0.55 million paid prior to IPO)	50,000	Contingent
	Drill testing <sup>(#1)</sup>	730,000	Contingent
	Site management	350,000	170,000
	<b>Subtotal - El Guayabo</b>	<b>1,620,000</b>	<b>490,000</b>
Hualilan	Mapping and sampling	210,000	160,000
	Drill testing <sup>(#2)</sup>	330,000	Contingent
	PEA (including resource estimation and preliminary metallurgical testwork)	350,000	Contingent
	Site management	240,000	140,000
	<b>Subtotal - Hualilan</b>	<b>1,130,000</b>	<b>300,000</b>
Corporate	Working capital, administration, contingency	550,334	512,659
	Expenses of the offer	397,007	-
	<b>Subtotal - Corporate</b>	<b>947,341</b>	<b>512,659</b>
<b>Total</b>		<b>3,697,341</b>	<b>1,302,659</b>

Notes:

#1: The initial 2,000 m drilling program at El Guayabo is contingent on the results of the geophysics program.

#2: The second 1,000 m drilling program at Hualilan is contingent on results from the initial 1,000 m program.

In SRK's opinion, the use of funds is consistent with the El Guayabo and the Hualilan exploration objectives and the proposed work programs. SRK cautions that the Year 2 work programs are dependent on the results achieved in Year 1 and may be different to that initially proposed.



Project Number: CEL001  
Report Title: Independent Geologist's Report on El Guayabo Project and  
Hualilan Project

**Compiled by**



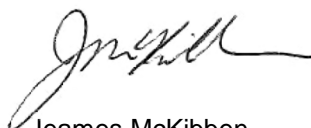
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Jeames McKibben  
Principal Consultant

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## 11. FINANCIAL INFORMATION

### 11.1 Introduction

The Prospectus contains a Vendor Offer in relation to the acquisition of 100% of the issued capital of AEP. The acquisition of AEP by the Company has the features of a reverse acquisition under Australian Accounting Standard AASB 3 "Business Combinations", notwithstanding the Company being the legal parent of the group. Consequently, the financial information presented in this Section contains information in relation to both the Company and AEP.

The financial information contained in this Section includes:

Challenger Group - historical:

- (a) summary statutory audited historical consolidated Statement of Financial Position at 30 June 2017 and 30 June 2018 and statutory audited historical consolidated Statement of Profit or Loss and Other Comprehensive Income and Statement of Cash Flows for the years ended 30 June 2017 and 30 June 2018;
- (b) summary statutory reviewed historical consolidated Statement of Financial Position at 31 December 2018 and statutory reviewed historical consolidated Statement of Profit or Loss and Other Comprehensive Income and Statement of Cash Flows for the six months ended 31 December 2018; and
- (c) summary unaudited historical consolidated Statement of Financial Position at 31 March 2019 and unaudited historical consolidated Statement of Profit or Loss and Other Comprehensive Income and Statement of Cash Flows for the nine months ended 31 March 2019.

AEP Group – historical:

- (a) summary audited historical consolidated Statement of Financial Position at 31 December 2018 and audited historical consolidated Statement of Profit or Loss and Other Comprehensive Income and Statement of Cash Flows for the period from the date of incorporation, 19 July 2018 to 31 December 2018; and
- (b) summary unaudited historical consolidated Statement of Financial Position at 31 March 2019 and unaudited historical consolidated Statement of Profit or Loss and Other Comprehensive Income and Statement of Cash Flows for the period from the date of incorporation, 19 July 2018 to 31 March 2019.

(together referred to as the **Historical Financial Information**).

Pro forma:

- (d) pro forma consolidated Statement of Financial Position at 31 March 2019 of the Group, comprising the Challenger Group and the AEP Group after adopting reverse acquisition principles as outlined above, and supporting notes which include the post reporting date transactions and pro forma adjustments;

(referred to as the **Pro Forma Financial Information**).

All amounts disclosed in this Section are presented in Australian dollars.

## **11.2 Basis of preparation of the Historical Financial Information**

The Historical Financial Information included in this Section 11 has been prepared in accordance with the recognition and measurement principles of Australian Accounting Standards (including the Australian Accounting Interpretations) adopted by the Australian Accounting Standards Board and the Corporations Act. The Historical Financial Information is presented in an abbreviated form insofar as it does not include all the presentation, disclosures, statements or comparative information as required by Australian Accounting Standards applicable to annual or interim financial reports prepared in accordance with the Corporations Act. Significant accounting policies applied to the Historical Financial Information are set out in Note 6 of this Section under the heading 'Significant Accounting Policies'.

The Historical Financial Information has been reviewed and reported on by HLB Mann Judd as set out in the Independent Limited Assurance Report in Section 12. Investors should note the scope and limitations of the Independent Limited Assurance Report.

The Historical Financial Information has been prepared for the purpose of the Offers.

The financial information of the Challenger Group that relates to the periods from 1 July 2016 to 30 June 2017, and 1 July 2017 to 30 June 2018, has been extracted from the financial statements of the Challenger Group which were audited by HLB Mann Judd. Unmodified audit opinions were issued for these periods with disclosure of material uncertainties in relation to going concern.

The financial information of the Challenger Group that relates to the six months ended 31 December 2018, has been extracted from the financial statements of the Challenger Group which were reviewed by HLB Mann Judd. An unmodified review conclusion was issued for this period with disclosure of a material uncertainty in relation to going concern.

The financial information of the AEP Group that relates to the period from the date of incorporation, 19 July 2018 to 31 December 2018, has been extracted from the financial statements of the AEP Group which were audited by PKF. An unmodified audit opinion was issued for this period with disclosure of a material uncertainty in relation to going concern as well as an emphasis of matter in relation to the financial statements being special purpose financial statements.

The financial information of the Challenger Group and the AEP Group that relates to the periods from 1 July 2018 to 31 March 2019 and 19 July 2018 to 31 March 2019 respectively, has been extracted from the unaudited financial records of the Challenger Group and the AEP Group. This financial information was reviewed by HLB Mann Judd as set out in the Independent Limited Assurance Report in Section 12.

The information set out in this Section and the Company's selected financial information should be read together with:

- (a) the risk factors described in Section 9;
- (b) the Use of Funds described in Section 6.17;
- (c) the indicative capital structure described in Section 6.13;

- (d) the Independent Limited Assurance Report on the Historical Financial Information set out in Section 12; and
- (e) the other information contained in this Prospectus.

Investors should also note that historical results are not a guarantee of future performance.

### 11.3 Statutory Historical Consolidated Statement of Profit or Loss and Other Comprehensive Income

The table below presents the Historical Statement of Profit or Loss and Other Comprehensive Income.

#### Challenger Group:

	Audited Consolidated 12 months to 30 June 2017 \$	Audited Consolidated 12 months to 30 June 2018 \$	Reviewed Consolidated Six months to 31 December 2018 \$	Unaudited Consolidated Nine months to 31 March 2019 \$
<b>Interest income</b>	5,367	1,111	149	300
<b>Other income</b>	337	437	-	46
<b>Expenses</b>				
Administration and travel expenses	(51,908)	(56,812)	(9,138)	(20,257)
Employee benefits expense/reversal	(495,000)	295,000	(19,500)	(43,500)
Consultants fees	(22,548)	(21,779)	(1,870)	(51,421)
Share based payment expense/reversal	(32,738)	32,738	-	-
Legal and compliance expenses	(222,628)	(236,170)	(115,418)	(214,887)
Exploration expenses	(32,918)	-	(37,786)	-
Other expenses	(10)	(3,305)	(15,101)	(17,697)
<b>Profit/(loss) before income tax</b>	<b>(852,046)</b>	<b>11,219</b>	<b>(198,664)</b>	<b>(347,416)</b>
Income tax expense	-	-	-	-
<b>Profit/(loss) after tax for the period</b>	<b>(852,046)</b>	<b>11,219</b>	<b>(198,664)</b>	<b>(347,416)</b>
<b>Other comprehensive income</b>				
<i>Items that may be reclassified to profit or loss</i>				
Exchange differences on translation of foreign operations	2,678	1,705	(12)	(413)
<b>Other comprehensive income/(loss) for the period, net of tax</b>	<b>2,678</b>	<b>1,705</b>	<b>(12)</b>	<b>(413)</b>
<b>Total comprehensive income/(loss) for the period</b>	<b>(849,368)</b>	<b>12,924</b>	<b>(198,676)</b>	<b>(347,829)</b>

AEP Group:

	Audited Consolidated 19 July 2018 to 31 December 2018 \$	Unaudited Consolidated 19 July 2018 to 31 March 2019 \$
<b>Interest income</b>	14	28
<b>Other income – capital gain</b>	300,000	300,000
<b>Expenses</b>		
Administration expenses	(597)	(28,791)
Consultants fees	(38,740)	(69,940)
Legal and compliance expenses	(51,386)	(100,120)
<b>Profit before income tax</b>	<b>209,291</b>	<b>101,177</b>
Income tax expense	(47,025)	(47,025)
<b>Profit after tax for the period</b>	<b>162,264</b>	<b>54,152</b>
<b>Other comprehensive income</b>	-	-
<b>Other comprehensive income for the period, net of tax</b>	-	-
<b>Total comprehensive income for the period</b>	<b>162,264</b>	<b>54,152</b>

#### 11.4 Statutory Historical Consolidated Statement of Cash Flows

The table below presents the Historical Statement of Cash Flows.

Challenger Group:

	Audited Consolidated 12 months to 30 June 2017 \$	Audited Consolidated 12 months to 30 June 2018 \$	Reviewed Consolidated Six months to 31 December 2018 \$	Unaudited Consolidated Nine months to 31 March 2019 \$
<b>Cash flows from operating activities</b>				
Payments to suppliers and employees	(526,224)	(542,343)	(214,948)	(273,330)
Interest received	4,631	4,236	231	231
<b>Net cash flows used in operating activities</b>	<b>(521,593)</b>	<b>(538,107)</b>	<b>(214,717)</b>	<b>(273,099)</b>
<b>Cash flows from investing activities</b>				
Deposits refunded	-	25,000	-	-
<b>Net cash flows provided by investing activities</b>	<b>-</b>	<b>25,000</b>	<b>-</b>	<b>-</b>

**Cash flows from financing activities**

Proceeds from unsecured loans	-	275,000	225,000	325,000
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**Net cash flows provided by financing activities**

-	<b>275,000</b>	<b>225,000</b>	<b>325,000</b>
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Net (decrease) / increase in cash held	(521,593)	(238,107)	10,283	51,901
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Cash at the beginning of the period	850,913	331,144	92,914	92,914
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Foreign currency translation	1,824	(123)	8	-
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<b>Cash at the end of the period</b>	<b>331,144</b>	<b>92,914</b>	<b>103,205</b>	<b>144,815</b>
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AEP Group:

	Audited Consolidated 19 July 2018 to 31 December 2018 \$	Unaudited Consolidated 19 July 2018 to 31 March 2019 \$
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**Cash flows from operating activities**

Interest Received	14	-
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Payments to suppliers and employees	(98,426)	(208,197)
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<b>Net cash flows used in operating activities</b>	<b>(98,412)</b>	<b>(208,197)</b>
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**Cash flows from investing activities**

Payments for exploration	(1,016,699)	(1,910,656)
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Payment for subsidiaries, net of cash acquired	1,002	1,002
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Loans advanced	(200,000)	(300,000)
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<b>Net cash flows provided by investing activities</b>	<b>(1,215,697)</b>	<b>(2,209,654)</b>
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**Cash flows from financing activities**

Proceeds from share issues	2,004,136	2,004,136
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Loans received	-	594,722
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<b>Net cash flows provided by financing activities</b>	<b>2,004,136</b>	<b>2,598,858</b>
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Net increase in cash held	690,027	181,005
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Cash at the beginning of the period	2	2
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<b>Cash at the end of the period</b>	<b>690,029</b>	<b>181,007</b>
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## 11.5 Statutory Historical Consolidated Statement of Financial Position

The table below presents the Historical Consolidated Statement of Financial Position.

### Challenger Group:

	Audited Consolidated 30 June 2017 \$	Audited Consolidated 30 June 2018 \$	Reviewed Consolidated 31 December 2018 \$	Unaudited Consolidated 31 March 2019 \$
<b>Current assets</b>				
Cash and cash equivalents	331,144	92,914	103,205	144,815
Trade and other receivables	6,685	11,934	5,524	13,086
Prepayments	12,286	16,171	17,270	7,018
Other financial assets	32,895	4,810	4,810	-
<b>Total current assets</b>	<b>383,010</b>	<b>125,829</b>	<b>130,809</b>	<b>164,919</b>
<b>Total assets</b>	<b>383,010</b>	<b>125,829</b>	<b>130,809</b>	<b>164,919</b>
<b>Current liabilities</b>				
Trade and other payables	810,777	298,410	268,013	351,015
Borrowings - other	-	275,000	286,543	286,543
Borrowings - AEP	-	-	200,000	300,000
<b>Total current liabilities</b>	<b>810,777</b>	<b>573,410</b>	<b>754,556</b>	<b>937,558</b>
<b>Total liabilities</b>	<b>810,777</b>	<b>573,410</b>	<b>754,556</b>	<b>937,558</b>
<b>Net liabilities</b>	<b>(427,767)</b>	<b>(447,581)</b>	<b>(623,747)</b>	<b>(772,639)</b>
<b>Equity</b>				
Issued capital	32,017,355	32,017,355	32,017,355	32,017,355
Reserves	2,630,156	2,597,739	2,620,087	2,619,675
Accumulated losses	(34,991,072)	(34,979,080)	(35,177,421)	(35,325,921)
<b>Equity attributable to owners of the parent</b>	<b>(343,561)</b>	<b>(363,986)</b>	<b>(539,979)</b>	<b>(688,891)</b>
<b>Non-controlling interest</b>	<b>(84,206)</b>	<b>(83,595)</b>	<b>(83,768)</b>	<b>(83,748)</b>
<b>Total equity/(deficiency)</b>	<b>(427,767)</b>	<b>(447,581)</b>	<b>(623,747)</b>	<b>(772,639)</b>

AEP Group:

	Audited Consolidated 31 December 2018 \$	Unaudited Consolidated 31 March 2019 \$
<b>Current assets</b>		
Cash and cash equivalents	690,029	181,007
Loan - Challenger	200,000	300,000
<b>Total current assets</b>	<b>890,029</b>	<b>481,007</b>
<b>Non-current assets</b>		
Exploration and evaluation expenditure	1,581,461	2,475,418
<b>Total non-current assets</b>	<b>1,581,461</b>	<b>2,475,418</b>
<b>Total assets</b>	<b>2,471,490</b>	<b>2,956,425</b>
<b>Current liabilities</b>		
Other payables	1,002	1,002
Borrowings	1,673	594,722
<b>Total current liabilities</b>	<b>2,675</b>	<b>595,724</b>
<b>Non-current liabilities</b>		
Deferred tax liabilities	47,025	47,025
<b>Total non-current liabilities</b>	<b>47,025</b>	<b>47,025</b>
<b>Total liabilities</b>	<b>49,700</b>	<b>642,749</b>
<b>Net assets</b>	<b>2,421,790</b>	<b>2,313,676</b>
<b>Equity</b>		
Issued capital	2,258,740	2,258,740
Reserves	784	784
Retained earnings	162,266	54,152
<b>Total equity</b>	<b>2,421,790</b>	<b>2,313,676</b>

## 11.6 Pro Forma Consolidated Statement of Financial Position

The table below sets out the post reporting date transactions and pro forma adjustments that have been incorporated into the Statement of Financial Position as at 31 December 2018.

There have been no material transactions in the Company or AEP subsequent to 31 December 2018 up to 31 March 2019 and up to the date of authorisation of this Prospectus. There have been no material transactions in the Company or AEP subsequent to 31 March 2019 and up to the date of authorisation of this Prospectus. The pro forma adjustments reflect the impact of the Offers as if they had occurred at 31 March 2019.

		Unaudited Challenger Consolidated	Unaudited AEP Consolidated	Pro Forma Consolidated post-reverse acquisition	Pro forma adjustments	Pro Forma Consolidated
		31 March 2019	31 March 2019	31 March 2019 <sup>1</sup>		31 March 2019
	Notes	\$	\$	\$	\$	\$
<b>Current assets</b>						
Cash and cash equivalents	1	144,815	181,007	325,822	4,158,993	4,484,815
Trade and other receivables		13,086	-	13,086	-	13,086
Loan – Challenger		-	300,000	-	-	-
Prepayments		7,018	-	7,018	-	7,018
<b>Total current assets</b>		<b>164,919</b>	<b>481,007</b>	<b>345,926</b>	<b>4,158,993</b>	<b>4,504,919</b>
<b>Non-current assets</b>						
Deferred exploration and evaluation expenditure	2	-	2,475,418	2,475,418	599,278	3,074,696
<b>Total non-current assets</b>		<b>-</b>	<b>2,475,418</b>	<b>2,475,418</b>	<b>599,278</b>	<b>3,074,696</b>
<b>Total assets</b>		<b>164,919</b>	<b>2,956,425</b>	<b>2,821,344</b>	<b>4,758,271</b>	<b>7,579,615</b>
<b>Current liabilities</b>						
Trade and other payables		351,015	1,002	352,018	-	352,018
Borrowings - other	3	286,543	594,722	881,265	(881,265)	-
Borrowings - AEP		300,000	-	-	-	-
<b>Total current liabilities</b>		<b>937,558</b>	<b>595,724</b>	<b>1,233,283</b>	<b>(881,265)</b>	<b>352,018</b>
<b>Non-current liabilities</b>						
Deferred tax liabilities		-	47,025	47,025	-	47,025
<b>Total non-current liabilities</b>		<b>-</b>	<b>47,025</b>	<b>47,025</b>	<b>-</b>	<b>47,025</b>
<b>Total liabilities</b>		<b>937,558</b>	<b>642,749</b>	<b>1,280,308</b>	<b>(881,265)</b>	<b>399,043</b>
<b>Net assets/(liabilities)</b>		<b>(772,639)</b>	<b>2,313,676</b>	<b>1,541,036</b>	<b>5,639,536</b>	<b>7,180,572</b>
<b>Equity</b>						
Issued capital	4	32,017,355	2,258,740	7,371,788	5,652,993	13,024,781
Reserves		2,619,675	784	784	-	784
Retained earnings/(accumulated losses)	5	(35,325,921)	54,152	(5,831,536)	(13,457)	(5,844,993)
<b>Equity attributable to owners of parent</b>		<b>(688,891)</b>	<b>2,313,676</b>	<b>1,541,036</b>	<b>5,639,536</b>	<b>7,180,572</b>
<b>Non-controlling interest</b>		<b>(83,748)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total equity/(deficiency)</b>		<b>(772,639)</b>	<b>2,313,676</b>	<b>1,541,036</b>	<b>5,689,536</b>	<b>7,180,572</b>

The Pro Forma Statement of Financial Position is provided for illustrative purposes only and is not represented as being necessarily indicative of the Company's view of the Group's future financial position.

<sup>1</sup> Refer to Section 11.7 below for an explanation of the reverse acquisition accounting principles in relation to the acquisition of AEP.

## **11.7 Reverse Acquisition**

The Pro Forma Consolidated post-reverse acquisition balances in Section 11.6 represent the effects of the acquisition of 100% of the issued capital of AEP. Consideration for this acquisition will comprise the following:

- the issue of 180,000,000 post-consolidation shares in the Company;
- the issue of 78,444,444 post-consolidation options in the Company. These options are exercisable at \$0.04 on or before 30 June 2022 and have been valued using a Black & Scholes option pricing model at \$0.0082 per option; and
- the issue of 120,000,000 post-consolidation performance shares which will convert to ordinary shares on the achievement of certain milestones.

## **11.8 Pro Forma Adjustments**

The following transactions contemplated in this Prospectus (other than the acquisition of 100% of the issued capital of AEP as set out in Section 11.7) which are to take place on or before the completion of the Offers, referred to as the pro forma adjustments, are presented as if they, together with the Offers, had occurred on or before 31 March 2019 and are set out below:

- (a) the minimum issue of 166,666,667 Shares, at \$0.03 per Share, amounting to \$5,000,000 under the Public Offer;
- (b) Consolidation of Capital to 1 share for every 5 shares issued;
- (c) the issue of 10,000,000 fully paid ordinary shares in the Company to various lenders in satisfaction of funds loaned to the Company;
- (d) the incurring of a further \$155,278 in exploration and evaluation expenditure by AEP funded by the AEP Loan Facility to take the facility balance to \$750,000, and the issue of 25,000,000 fully paid ordinary shares in the Company to the AEP Loan Facility Lenders in satisfaction of this balance;
- (e) the issue of 6,000,000 fully paid ordinary shares in the Company to the lead managers of the Public Offer in consideration of lead manager services. These shares have been valued at the Public Offer price of \$0.03 per share and the expense of \$180,000 has been included as an expense of the Offers and applied against Issued Capital;
- (f) a loan on arms length terms from a non-related party to AEP for \$444,000 to pay for incurred exploration expenditure between 31 March 2019 and the date of this prospectus, and the repayment of this amount from the proceeds of the Public Offer; and
- (g) total cash expenses associated with the Offers (including broking, legal, accounting and administrative fees as well as printing, advertising and other expenses) are estimated to be \$397,007 based on the Minimum

Subscription (exclusive of GST). The entire amount of \$397,007 is being capitalised against issued capital. A full breakdown of the costs of the Offers costs is as follows:

Item of expenditure	\$
ASIC fees	3,206
ASX fees	79,607
Legal fees	30,000
Investigating Accountant's Fees	10,000
Legal Tenement Reports	15,000
Lead Manager fees	250,000
Printing, Distribution and Miscellaneous	9,194
<b>Total</b>	<b>397,007</b>

#### *Recognition of a deferred tax asset*

A deferred tax asset has not been recognised in relation to the capitalised Offer costs due to the uncertainty surrounding the flow of economic benefits in future periods.

#### **Note 1 – Cash and cash equivalents**

The reviewed pro forma cash and cash equivalents have been set out below:

	Pro forma adjustment	Minimum Subscription \$
Cash and cash equivalents at 31 March 2019 - AEP		181,007
Challenger cash on reverse acquisition		144,815
		325,822
<i>Pro forma adjustments:</i>		
Proceeds from Shares issued under the Offer	(a)	5,000,000
Repayment of loan	(f)	(444,000)
Offer costs	(g)	(397,007)
<b>Pro forma cash and cash equivalents</b>		<b>4,484,815</b>

#### **Note 2 – Deferred exploration & evaluation expenditure**

Deferred exploration and evaluation expenditure consists of the issue of Vendor Shares as part consideration for the Acquisitions. The reviewed pro forma deferred exploration and evaluation expenditure has been set out below:

	Pro forma adjustment	Minimum Subscription \$
Deferred exploration & evaluation expenditure at 31 March 2019 - AEP		2,475,418
<i>Pro forma adjustments:</i>		
Additional expenditure incurred by AEP	(d) & (f)	599,278
<b>Pro forma deferred exploration &amp; evaluation expenditure</b>		<b>3,074,696</b>

### Note 3 – Borrowings - other

Borrowings – other consist of various loans from shareholders. The reviewed pro forma borrowings - other has been set out below:

	Pro forma adjustment	Minimum Subscription \$
Borrowings - other at 31 March 2019 - AEP		594,722
Challenger borrowings on reverse acquisition		286,543
		881,265
<i>Pro forma adjustments:</i>		
Additional exploration and evaluation expenditure incurred by AEP	(d) & (f)	599,278
Repayment of borrowings	(f)	(444,000)
Shares issued in repayment of AEP Loan Facility	(d)	(750,000)
Shares issued in repayment of borrowings from various lenders	(c)	(286,543)
<b>Pro forma borrowings - other</b>		<b>-</b>

### Note 4 – Share capital

Share capital consists of issued capital. The reviewed pro forma issued capital has been set out below:

	Pro forma adjustment	Minimum Subscription \$
Issued capital at 31 March 2019 - AEP		2,258,740
Challenger share capital at 31 March 2019		32,017,355
Elimination of historical value of Challenger		(32,017,355)
Shares issued to acquire AEP		5,113,048

		7,371,788
<i>Pro forma adjustments:</i>		
Proceeds from Shares issued under the Offer	(a)	5,000,000
Conversion of loans from various lenders	(c)	300,000
Conversion of AEP Loan Facility	(d)	750,000
Offer costs	(g)	(397,007)
<b>Pro forma issued capital</b>		<b>13,024,781</b>

	<b>Pro forma adjustment</b>	<b>Minimum Subscription No.</b>
Number of shares on issue at 31 March 2019 - AEP		180,000,000
Elimination of historical number of AEP shares		(180,000,000)
Existing post-consolidation Challenger shares		77,893,459
		77,893,459
<i>Pro forma adjustments:</i>		
Proceeds from Shares issued under the Offer	(a)	166,666,667
Issue of Consideration Shares for AEP		180,000,000
Conversion of loans from various lenders	(c)	10,000,000
Conversion of AEP Loan Facility	(d)	25,000,000
Shares issued to lead manager	(e)	6,000,000
<b>Pro forma number of shares on issue</b>		<b>465,560,126</b>

In addition, as part of the Offers, AEP shareholders will receive 78,444,444 Consideration Options and 120,000,000 Consideration Performance Shares.

The Options will be exercisable at \$0.04 each on or before 30 June 2022 and have been valued using a Black & Scholes option pricing model at \$0.0082 per option, for a total value of \$641,190.

The Performance Shares are subject to conversion milestones. Refer to Section 18.6 for further details. The Performance Shares will convert to ordinary shares on the achievement of certain milestones. It is considered probable that the milestone for the 60,000,000 Class A Performance Shares will be achieved, and as a result, the value of this tranche based on a value of \$0.03 per share (total value of \$1,800,000) has been incorporated into the reverse acquisition accounting for the acquisition of AEP.



## Note 5 – Retained earnings/Accumulated losses

The reviewed pro forma retained earnings/accumulated losses have been calculated as follows:

	Pro forma adjustment	Minimum Subscription \$
Retained earnings at 31 March 2019 - AEP		54,152
Reverse acquisition transaction – listing premium on acquisition		(5,885,688)
		(5,831,536)
<i>Pro forma transactions:</i>		
Finance cost of loans previously accounted for as convertible loans	(c)	(13,457)
<b>Pro forma accumulated losses</b>		<b>(5,844,993)</b>

## Note 6 - Significant Accounting Policies

### (h) Basis of preparation

The Historical Financial Information has been prepared in accordance with the recognition and measurement principles of Australian Accounting Standards, and other authoritative pronouncements of the Australian Accounting Standards Board.

The financial information has been prepared on an accruals basis and is based on historical cost.

### (i) Going concern

The Historical Financial Information has been prepared on the basis of accounting principles applicable to a going concern which assumes the commercial realisation of the future potential of the Group's assets and the discharge of its liabilities in the normal course of business.

### (j) Basis of consolidation

The consolidated financial statements incorporate the assets, liabilities and results of the Company and its subsidiaries as at 31 March 2019.

The Company and its subsidiaries are referred to in this Section as the Group. The financial statements of the subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Control is achieved when the Company:

- (i) has power over the investee;
- (ii) is exposed, or has rights, to variable returns from its involvement in with the investee; and
- (iii) has the ability in its power to affect its returns.

The Company will reassess whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements listed above.

Changes in the Group's ownership interest in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in subsidiaries. Any difference between the amount paid by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between:

- (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest; and
- (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.

All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit and loss or transferred to another category of equity as specified/permitted by the applicable AASBs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under AASB 9, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

#### Reverse acquisition accounting:

The acquisition of AEP by the Company has the features of a reverse acquisition under Australian Accounting Standard AASB 3 "*Business Combinations*", notwithstanding the Company being the legal parent of the group. Consequently, the historical financial information presented in the proforma Consolidated Statement of Financial Position as at 31 March 2019 is based on the unaudited historical financial information of AEP.

The acquisition of AEP by the Company is outside the scope of AASB 3 as the accounting acquiree does not constitute a business as defined by this Standard. In this instance, the principles of reverse acquisition accounting are applied to determine the accounting acquirer but the transactions are accounted for as share-based payments by the accounting acquirer for the net identifiable assets of the accounting acquiree in accordance with AASB 2 "*Share-based Payment*".

The legal structure of the group subsequent to the acquisition of AEP will be that the Company will remain as the legal parent entity. However, the principles of reverse acquisition accounting are applicable where the owners of the acquired entity (in this case, AEP) obtain control of the acquiring entity (in this case, the Company) as a result of the combination of the two groups.

Under reverse acquisition accounting, the consolidated financial statements are issued under the name of the legal parent (the Company) but are a continuation of the financial statements of the legal subsidiary (AEP), with the assets and liabilities of the legal subsidiary being recognised and measured at their pre-combination carrying amounts rather than their fair values.

(k) **Income tax**

The income tax expense (benefit) comprises current income tax expense (benefit) and deferred tax expense (benefit). Current and deferred income tax expense (benefit) is charged or credited directly to other comprehensive income instead of the profit or loss when the tax relates to items that are credited or charged directly to other comprehensive income.

(l) **Current tax**

Current income tax expense (benefit) charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities / (assets) are therefore measured at the amounts expected to be paid to / (recovered from) the relevant taxation authority. Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur.

(m) **Deferred tax**

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances as well as unused tax losses. Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

(n) **Deferred exploration and evaluation expenditure**

Exploration and evaluation expenditures in relation to each separate area of interest are recognised as an exploration and evaluation asset in the period in which they are incurred where the following conditions are satisfied:

- (i) the rights to tenure of the area of interest are current; and
- (ii) at least one of the following conditions is also met:
  - (A) the exploration and evaluation expenditures are expected to be recouped through successful development and exploitation of the area of interest, or alternatively, by its sale; or
  - (B) exploration and evaluation activities in the area of interest have not at the balance date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation costs are carried forward only if the rights to tenure of the area of interest are current and either:

- (i) they are expected to be recouped through successful development and exploitation of the area of interest or;
- (ii) the activities in the area of interest at the reporting date have not reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest, are continuing.

Accumulated acquisition costs in relation to an abandoned area are written off in full to the statement of profit or loss and other comprehensive income in the period in which the decision to abandon the area is made.

The carrying values of acquisition costs are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Where a decision has been made to proceed with development in respect of an area of interest the relevant exploration and evaluation asset is tested for impairment and the balance is then reclassified to development.

(o) **Cash and cash equivalents**

For the purpose of the statement of cash flows, cash and cash equivalents represent short term, highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

(p) **Trade and other payables**

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial period which are unpaid. Due to their short-term nature they are measured at the amortised cost and not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

(q) **Provisions**

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

When the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

(r) **Employee benefits**

*Wages and salaries, annual leave and long leave*

Liabilities accruing to employees in respect of wages and salaries, annual leave, long service leave and sick leave expected to be settled within 12 months of the balance date are recognised in other payables in respect of employees' services up to the balance date.

They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

Liabilities accruing to employees in respect of wages and salaries, annual leave, long service leave and sick leave not expected to be settled within 12 months of the balance date are recognised in non-current other payables in respect of employees' services up to the balance date. They are measured as the present value of the estimated future outflows to be made by the Company.

(s) **Equity and reserves**

Share capital represents the fair value of the shares that have been issued. Any transaction costs associated with the issuing of shares are deducted from share capital, net of any related income tax benefits.

(t) **Goods and services tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST. Cash flows are presented in the statement of cash flows on a gross basis, except for the GST components of investing and financing activities, which are disclosed as operating cash flows.

**Note 7 – Deferred consideration for Earn-In Agreements**

The subsidiaries of AEP have entered into binding Farmin Agreements with various parties pursuant to which those companies can earn-in to the Hualilan and El Guayabo Projects. A total of 245,000,001 ordinary share in the Company could be issued in order to achieve a 75% interest in the Hualilan Project and a 49% interest in the El Guayabo Project as set out in Section 8.5.





15 May 2019

The Board of Directors  
Challenger Exploration Limited  
Suite 302, Level 3  
17 Castlereagh Street  
SYDNEY NSW 2000

Dear Sirs

**INDEPENDENT LIMITED ASSURANCE REPORT ON THE HISTORICAL FINANCIAL INFORMATION AND THE PRO FORMA HISTORICAL FINANCIAL INFORMATION OF CHALLENGER EXPLORATION LIMITED**

**Introduction**

This Independent Limited Assurance Report ("Report") has been prepared for inclusion in a prospectus to be dated on or about 15 May 2019 ("Prospectus") and issued by Challenger Exploration Limited ("Challenger" or "the Company") in relation to the Company's proposed re-compliance on the Australian Securities Exchange ("ASX"). The Prospectus comprises an offer of up to 166,666,667 fully paid ordinary shares at an issue price of \$0.03 per share to raise up to \$5,000,000 (before costs). The Prospectus also contains an offer of Consideration Securities comprising 180,000,000 Consideration Shares, 78,444,444 Consideration Options and 120,000,000 Consideration Performance Shares, to be issued to the shareholders of AEP Corporation Pty Ltd; an offer for the issue of up to 10,000,000 shares to the Third Party Lenders; and an offer for the issue of 6,000,000 Shares to the lead managers or their nominees. These offers together are referred to in this Report as "the Offers".

This Report has been included in the Prospectus to assist potential investors and their financial advisers to make an assessment of the financial position and performance of Challenger. All amounts are expressed in Australian dollars and expressions defined in the Prospectus have the same meaning in this Report.

This Report does not address the rights attaching to the Shares to be issued in accordance with the Offers, nor the risks associated with accepting the Offers. HLB Mann Judd ("HLB") has not been requested to consider the prospects for Challenger, nor the merits and risks associated with becoming a shareholder, and accordingly has not done so, nor purports to do so. HLB has not made and will not make any recommendation, through the issue of this Report, to potential investors of the Company, as to the merits of the Offers and takes no responsibility for any matter or omission in the Prospectus other than the responsibility for this Report. Further declarations are set out in Section 8 of this Report.

**Structure of Report**

This Report has been divided into the following sections:

1. Background information;
2. Scope of Report;
3. Directors' Responsibility;
4. Our Responsibility;
5. Conclusions;
6. Restriction on Use;
7. Liability; and
8. Declarations.

**[hlb.com.au](http://hlb.com.au)**

**HLB Mann Judd (WA Partnership) ABN 22 193 232 714**

Level 4, 130 Stirling Street, Perth WA 6000 / PO Box 8124 Perth BC WA 6849

**T:** +61 (0)8 9227 7500 **E:** [mailbox@hlbwa.com.au](mailto:mailbox@hlbwa.com.au)

Liability limited by a scheme approved under Professional Standards Legislation.

## 1. Background Information

The Company was registered in Australia on 23 January 2007 and admitted to the Official List of ASX Limited on 5 November 2007 as an oil and gas exploration company focused on energy assets in the USA. In recent years, the Company has been pursuing opportunities with a focus on oil and gas exploration and production.

The Company's listed securities have been suspended since 7 August 2018. The Company obtained shareholder approval for the Acquisitions and also various other matters as set out in Section 6 of the Prospectus. The Company will then seek to satisfy Chapters 1 and 2 of the official rules of ASX in order to have the suspension lifted.

The Acquisitions and proposed capital raising contemplated by the Prospectus will allow the Company to carry out the exploration programs on the El Guayabo and Hualilan Projects, which are the subject of the Acquisitions.

Further details of the projects are set out in Section 8 of the Prospectus, as well as the Independent Geologist's Report in Section 10 of the Prospectus.

The intended use of the funds raised by the issue of shares under the Prospectus is set out in Section 6.17 of the Prospectus.

## 2. Scope of Report

You have requested HLB to report on the Financial Information below as set out in Section 11 of the Prospectus. The Prospectus contains a Vendor Offer in relation to the acquisition of 100% of the issued capital of AEP. The acquisition of AEP by the Company has the features of a reverse acquisition under Australian Accounting Standard AASB 3 "*Business Combinations*", notwithstanding the Company being the legal parent of the group. Consequently, the financial information presented in this Section contains information in relation to both the Company and AEP.

### ***Historical Financial Information***

The Historical Financial Information, as set out in the Prospectus, comprises:

#### *Challenger Group – historical:*

- Summary statutory audited historical consolidated Statement of Financial Position at 30 June 2017 and 30 June 2018 and statutory audited historical consolidated Statement of Profit or Loss and Other Comprehensive Income and Statement of Cash Flows for the years ended 30 June 2017 and 30 June 2018;
- Summary statutory reviewed historical consolidated Statement of Financial Position at 31 December 2018 and statutory reviewed historical consolidated Statement of Profit or Loss and Other Comprehensive Income and Statement of Cash Flows for the six months ended 31 December 2018; and
- Summary unaudited historical consolidated Statement of Financial Position at 31 March 2019 and unaudited historical consolidated Statement of Profit or Loss and Other Comprehensive Income and Statement of Cash Flows for the nine months ended 31 March 2019.

#### *AEP Group - historical*

- Summary audited historical consolidated Statement of Financial Position at 31 December 2018 and audited historical consolidated Statement of Profit or Loss and Other Comprehensive Income and Statement of Cash Flows for the period from the date of incorporation, 19 July 2018 to 31 December 2018; and
- Summary unaudited historical consolidated Statement of Financial Position at 31 March 2019 and unaudited historical consolidated Statement of Profit or Loss and Other Comprehensive Income and Statement of Cash Flows for the period from the date of incorporation, 19 July 2018 to 31 March 2019.

- 3 -

The financial information of the Challenger Group that relates to the periods from 1 July 2016 to 30 June 2017, and 1 July 2017 to 30 June 2018, has been extracted from the financial statements of the Challenger Group which were audited by HLB. Unmodified audit opinions were issued for these periods with disclosure of material uncertainties in relation to going concern.

The financial information of the Challenger Group that relates to the six months ended 31 December 2018, has been extracted from the financial statements of the Challenger Group which were reviewed by HLB. An unmodified review conclusion was issued for this period with disclosure of a material uncertainty in relation to going concern.

The financial information of the AEP Group that relates to the period from 19 July 2018 to 31 December 2018, has been extracted from the financial statements of the AEP Group which were audited by PKF. An unmodified audit opinion was issued for this period with disclosure of a material uncertainty in relation to going concern as well as an emphasis of matter in relation to the financial statements being special purpose financial statements.

The financial information of the Challenger Group and the AEP Group that relates to the periods from 1 July 2018 to 31 March 2019 and 19 July 2018 to 31 March 2019 respectively, has been extracted from the unaudited financial records of the Challenger Group and the AEP Group. This financial information was reviewed by HLB for the purposes of this Report.

### ***Pro forma Financial Information***

The Pro forma Financial Information, as set out in the Prospectus, comprises:

- Pro forma consolidated Statement of Financial Position at 31 March 2019 of the Group, comprising the Challenger Group and the AEP Group after adopting reverse acquisition principles as outlined above, and supporting notes which include the post reporting date transactions and pro forma adjustments.

The stated basis of preparation is the recognition and measurement principles contained in Australian Accounting Standards applied to the Financial Information and the events or transactions to which the Pro forma Transactions relate, as if those events or transactions had occurred as at 31 March 2019. Due to its nature, the Pro forma Financial Information does not represent the Company's actual or prospective financial position, financial performance or cash flows.

The Historical Financial Information and the Pro forma Financial Information are presented in an abbreviated form insofar as they do not include all of the presentation and disclosures required by Australian Accounting Standards and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in Australia in accordance with the *Corporations Act 2001*.

This Report has been prepared for inclusion in the Prospectus. HLB disclaims any assumption of responsibility for any reliance on this Report or on the Financial Information to which this Report relates for any purpose other than the purposes for which it was prepared. This Report should be read in conjunction with the Prospectus.

### **3. Directors' Responsibility**

The Directors of the Company are responsible for the preparation and presentation of the Financial Information. The Directors are also responsible for the determination of the pro forma adjustments set out in Section 11 of the Prospectus under the heading "Pro Forma adjustments" and the basis of preparation of the Financial Information.

This responsibility also includes compliance with applicable laws and regulations and for such internal controls as the Directors determine necessary to enable the preparation of the Financial Information that is free from material misstatement.

#### 4. Our Responsibility

Our responsibility is to express a limited assurance conclusion on the Financial Information based on the procedures performed and evidence we have obtained. Our engagement was conducted in accordance with Australian Auditing Standards applicable to assurance engagements. Specifically, our review was carried out in accordance with Standards on Assurance Engagements ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information* and ASAE 3420 *Assurance Engagements to Report on the Compilation of Pro forma Historical Financial Information* and included such enquiries and procedures which we considered necessary for the purposes of this Report. Our procedures consisted of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and review procedures applied to the accounting records in support of the Financial Information.

The procedures undertaken by HLB in our role as Investigating Accountant were substantially less in scope than that of an audit examination conducted in accordance with Australian Auditing Standards. A review of this nature provides less assurance than an audit and, accordingly, we do not express an audit opinion on the Financial Information.

In relation to the information presented in this Report:

- a) support by another person, corporation or an unrelated entity has not been assumed;
- b) the amounts shown in respect of assets do not purport to be the amounts that would have been realised if the assets were sold at the date of this Report; and

#### 5. Conclusions

Based on our review, which was not an audit, nothing has come to our attention which causes us to believe that the Financial Information of the Company as described in Section 11 of the Prospectus does not present fairly in all material respects:

- a) the historical statements of financial position of the Company as at 31 March 2019, 31 December 2018, 30 June 2018 and 30 June 2017;
- b) the historical statements of profit or loss and other comprehensive income and statements of cash flows of the Company for the nine months ended 31 March 2019, six months ended 31 December 2018 and the years ended 30 June 2018 and 30 June 2017;
- c) the historical statements of financial position of the AEP Group as at 31 March 2019 and 31 December 2018;
- d) the historical statements of profit or loss and other comprehensive income and statements of cash flows of the AEP Group for the period from the date of incorporation, 19 July 2018 to 31 March 2019 and the period from the date of incorporation, 19 July 2018 to 31 December 2018;
- e) the pro forma historical statement of financial position of the Company as at 31 March 2019; and
- f) the pro forma adjustments set out under the heading "Pro Forma Adjustments" in Section 11 of the Prospectus, which are a reasonable basis for the pro forma statement of financial position as at 31 March 2019;

in accordance with the measurement and recognition requirements (but not all of the presentation and disclosure requirements) of applicable Australian Accounting Standards and other mandatory professional reporting requirements.

## **6. Restriction on Use**

Without modifying our conclusion, we draw attention to Section 11 of the Prospectus, which describes the purpose of the Financial Information, being for inclusion in the Prospectus. As a result, the Financial Information may not be suitable for use for another purpose.


## **7. Liability**

The liability of HLB is limited to the inclusion of this Report in the Prospectus. HLB makes no representation regarding, and has no liability for, any other statements or other material in, or omissions from, the Prospectus.

## **8. Declarations**

- a) HLB will be paid its usual professional fee based on time involvement, for the preparation of this Report and review of the Financial Information.
- b) Apart from the aforementioned fee, neither HLB, nor any of its associates will receive any other benefits, either directly or indirectly, for or in connection with the preparation of this Report.
- c) Neither HLB, nor any of its employees or associated persons has any interest in Challenger or AEP or the promotion of the Company.
- d) The audit and assurance practice of HLB Mann Judd acts as the current auditor of Challenger.
- e) Unless specifically referred to in this Report, or elsewhere in the Prospectus, HLB was not involved in the preparation of any other part of the Prospectus and did not cause the issue of any other part of the Prospectus. Accordingly, HLB makes no representations or warranties as to the completeness or accuracy of the information contained in any other part of the Prospectus.
- f) HLB has consented to the inclusion of this Report in the Prospectus in the form and context in which it appears.

Yours faithfully  
**HLB Mann Judd**



**L Di Giallonardo**  
**Partner**

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**13. SOLICITORS REPORT ON TITLE - BASTIAS YACANTE ABOGADOS (HUALILAN PROJECT  
– ARGENTINA)**

City of San Juan, May 15, 2019

**To:** Challenger Exploration Limited  
Level 3, Suite 301, 17 Castlereagh Street  
Sydney NSW 2000  
Australia

**Attn:** Mr Robert Willes

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Dear Sirs

We act as Argentinian Counsel to Afro-Asian Resources Pty Limited ("AAR").

We note that Challenger Exploration Limited ("**CEL**") has entered into an agreement to acquire AEP Corporation Pty Limited, ACN 627 617 976 ("**AEP**") and its wholly owned subsidiary AAR. Golden Mining SRL ("**GML**") is the current holder of the concessions constituting the Cerro Sur Project. Compañía GPL SRL ("**GPL**") is the current holder of the concessions constituting the Cerro Norte Project. Golden Mining S.A. ("**GMSA**") has entered into a farmin agreement with the current holders of the Cerro Norte project on February 22<sup>nd</sup>, 2019. AAR has entered into a binding Farmin Agreement with GML and GMSA through which AAR has the right to earn 75% of both the Cerro Sur and Cerro Norte projects which comprise the Hualilán Project, located in the province of San Juan, Argentina.

As such counsel and at your request we hereby provide you with a legal opinion (the "Legal Opinion") on the items depicted herein below:

- a) Incorporation, ownership and good standing of GML, GMSA and GPL
- b) Existence, status and enforceability of the;
  - a. Farmin Agreement and Shareholders Agreement between GML, GML Founding Shareholders, Foxrock and AAR covering the Cerro Sur Project, dated April 25<sup>th</sup>, 2019
  - b. Farmin Agreement and Shareholders Agreement between GMSA, GMSA Founding Shareholders and AAR covering the Cerro Norte Project, dated April 25<sup>th</sup>, 2019.
  - c. Farmin Agreement between GMSA and the owners of the Cerro Norte Project, dated February 22<sup>nd</sup>, 2019
- c) Ownership and good standing of the "mining rights" listed in Section 5

This legal opinion is being delivered pursuant to your requirement and is given for the purposes of the forthcoming public offering of shares that CEL intends to conduct on the Australian Stock Exchange, and with the purpose of being included in the Prospectus be lodged, dated on or about 15 May 2019 in connection thereto.

An introductory summary of the main applicable provisions set forth under the AMC and other applicable laws, in connection with mining property in Argentina described in Section 12.



## 1. **DEFINITIONS**

Unless the context otherwise requires, in this Legal Opinion the following terms shall have the meanings set out below:

“**AMC**” means the Argentinean Mining Code.

“**ASX**” means ASX Limited (CNA 008 624 691) or the finance market operated by it as the context requires

“**CEL**” means Challenger Exploration Limited (ACN 123 591 382), the entity proposing to be readmitted to the Official List of the ASX

“**AEP**” means AEP Corporation Pty Limited

“**AAR**” means Afro-Asian Resources Pty Limited, a company incorporated under the Corporations Act 2001 and is taken to be registered in New South Wales, Australia

“**GML**” means Golden Mining SRL, a company incorporated before the Public Registry of la Rioja under the number 1771/1778, Book 67, on September 25<sup>th</sup> 2013 and governed by the laws of Argentina

“**GML Founding Shareholders**” means Golden Mining SRL current shareholders, being Sergio Rotondo and Elías Sahad

“**GMSA**” means Golden Mining SA, a company incorporated before the Public Registry of San Juan under the N° 2594 of the *Sociedades Anónimas* Book, on April 9<sup>th</sup>, 2019 and governed by the laws of Argentina

“**GMSA Founding Shareholders**” means Golden Mining SA current shareholders, being Messrs. Sergio Rotondo and Hernán Celorrio

“**GPL**” means Compañía GPL SRL, a company incorporated before the Public Registry of San Juan under the number 4325 of the *Sociedades de Responsabilidad Limitada* Book, on February 23<sup>rd</sup>, 2010.

“**GPL Shareholders**” means Compañía GPL SRL current shareholders, being Messrs. Ernesto Mario Giorgi, Guillermo Enrique Preisz, Vicente Enrique Leiva and Ernesto Videla

“**EIA**” means Environmental Impact Assessment

“**EIS**” Environmental Impact Statement

“**CNP**” means the Cerro Norte Project

“**CSP**” means the Cerro Sur Project

“**FAS1**” means the Farmin Agreement and Shareholders Agreement covering the Cerro Sur Project, dated April 25<sup>th</sup>, 2019

“**FAS2**” means the Farmin Agreement and Shareholders Agreement covering the Cerro Norte Project, dated April 25<sup>th</sup>, 2019

“**Foxrock**” means Foxrock Investments Limited

“**FA1**” means the Farmin Agreement between GML, GML Shareholders, Foxrock, GMSA and AAR, covering the CNP and CSP dated November 10<sup>th</sup>, 2018

“**HOA1**” means the Heads of Agreement covering CSP between GML, GML Founding Shareholders, Foxrock and AAR, dated March 22, 2018

“**LOI**” means the Letter of Intent covering CNP, between GMSA, GPL and GPL Shareholders dated November 6<sup>th</sup> 2018

“**FCNP**” means the Farmin Agreement on the Cerro Norte Project between GPL, GPL Shareholders and GMSA, dated February 22<sup>nd</sup>, 2019

“**Definitive Agreements**” comprise those agreements set out in Section 6.3, items (i) to (iii)

## **2. SOURCES**

We have based our Legal Opinion in the following:

- (a) Review of the following original mining files, during our on-site confirmatory due diligence conducted at the Mining Ministry of the Province of San Juan, Argentina on February 19<sup>th</sup>, 2019: *Grupo Minero Hualilán 1* (Divisadero, Flor de Hualilán, Pereyra Aciar, Bicolor, Sentazón, Muchilera, Magnata, Pizarro and Demasía at north of “Pizarro” Mine); *Grupo Minero Hualilán 2* (La Toro, La Puntilla, Pique de Ortega, Descubridora, Pardo, Sánchez and Demasía at South of “Toro” Mine) and Andacollo
- (c) Original good standing certificate dated November 21<sup>st</sup>, 2018, issued by the Notary of the Mining Ministry of the Province of San Juan, in connection with Andacollo
- (d) Original good standing certificate dated November 21<sup>st</sup>, 2018, issued by the Notary of the Mining Ministry of the Province of San Juan, in connection with Puntilla, Pique de Ortega, Descubridora, Pardo, Sanchez, La Toro, Demasía at South of Toro Mine
- (e) Original good standing certificate dated November 20, 2018, issued by the Notary of the Mining Ministry of the Province of San Juan, in connection with Divisadero 1, Flor de Hualilán, Pereyra y Aciar, Rosas y Navarro o Bicolor, Sentazón, Muchilera, Magnata, Pizarro and Demasía at North of Pizarro Mine
- (f) Review of the original file of the evidence of registration of GPL before the Public Registry of Commerce, during our on-site confirmatory due diligence conducted at Public Registry of Commerce of the Province of San Juan on November 7<sup>th</sup>, 2018
- (g) Review of the original file of the application to register the last GPL’s Cuotas Sociales assignment before the Public Registry of Commerce, during our on-site confirmatory due diligence conducted at Public Registry of Commerce of the Province of San Juan on March 13<sup>th</sup>, 2019
- (h) Review of the original EIA mining file for exploration stage of “Hualilán” Project No. 1100.598-G-16, during our on-site confirmatory due diligence conducted at the Mining Policy of the Mining Ministry of the Province of San Juan, Argentina on February 1<sup>st</sup>, 2019
- (i) Copy of the constitution of new legal domicile, dated February 4<sup>th</sup>, 2019, submitted to file No. 1100.598-G-16, made available to us by GML
- (j) Copy of the notification sent by Mining Authority to GML referred to the EIA for exploration stage of “Hualilán” Project No. 1100.598-G-16, dated February 12<sup>th</sup>, 2019, made available to us by GML
- (k) Copy of the application for an extension to comply with the requirements of the Mining Authority, dated February 15<sup>th</sup>, 2019, submitted to file No. 1100.598-G-16, made available to us by GML

- (l) Review of the original EIA mining file for exploration stage of "Doña Justa" Project No. 1100.0053-C-09, during our on-site confirmatory due diligence conducted at the Mining Ministry of the Province of San Juan, Argentina on April 4<sup>th</sup>, 2019
- (m) Copy of the Social Contract of GML, dated July 2<sup>nd</sup>, 2013 with evidence of registration before the Public Registry of La Rioja under the number 1771/1778, Book 67, on September 25<sup>th</sup> 2013, made available to us by GML
- (n) Copy of the Resolution of June 6<sup>th</sup>, 2018, issued by the Judge of the Public Registry of the Province of La Rioja in File No. 13.495-LG-AÑO-2017 entitled "Golden Mining SRL - Registration of Assignment of Quotas and New Manager " registered before the Public Registry of La Rioja under the number 1447/1490, Book 72 on June 28<sup>th</sup> 2018, made available to us by GML
- (o) Original Public Deed No. 11, dated January 23<sup>rd</sup>, 2019, passed before the public notary Gabriel Jonathan Buznick (Registry No. 364), of the City of Buenos Aires, Argentina, with evidence of registration of GMSA before the Public Registry of San Juan under the N° 2594, on April 9<sup>th</sup> 2019, made available to us by GMSA.
- (p) Review of original copies of the Legal Agreements described in section 6.1 and 6.2 of this Legal Opinion, exception made by the agreements described below in paragraph (q)
- (q) Review of copy of the Head of Agreements described in section 6.1. paragraph i. and ii.

### **3. QUALIFICATIONS**

- 3.1** We are attorneys admitted and licensed to practice law in the City of San Juan, Argentina. This Legal Opinion is restricted to matters related to the laws of Argentina and we are expressing no opinion as to the effect of the laws of any other jurisdiction. For any and all purposes, this Legal Opinion shall be governed by and construed in accordance with the law of Argentina exclusively.
- 3.2** In rendering the opinion hereto, we have assumed without any investigation on our part:
  - (a) The authenticity, genuineness, completeness and accuracy of all documents submitted to us as originals and the conformity to the originals of all documents submitted to us as copies;
  - (b) That the making and performance of each of the documents is within the power and authority of, and each of the documents has been duly authorized, executed and delivered by each party thereto, as the case may be (as to whom we make no such assumption);
  - (c) The veracity of certain factual matters upon information obtained from public officials, officers and other sources believed by us to be responsible;
  - (d) That the signatures on all documents examined by us are genuine; and
  - (e) That verbally provided information and explanations were true, correct, complete and not misleading.

- (g) Whenever our opinion with respect to the existence or absence of facts or circumstances is qualified by the phrase “to our knowledge”, it is intended to indicate that no information has come to our attention that would give us actual knowledge of the existence of such facts or circumstances. However, we have not undertaken any special or independent investigation to determine the existence or absence of such facts or circumstances, and no inference as to our knowledge of the existence of such facts or circumstances should be drawn merely from this report.

- 3.3** No opinion is rendered regarding measurements, technical data or graphic information related to the mining properties referred to herein, neither to the completeness and content of the environmental information submitted
- 3.4** We express no opinion on accounting confirmatory information and tax support documents.
- 3.5** We express no opinion or assurances upon filings made by the titleholder which are pending of resolution, would finally obtain a favorable resolution.

#### **4. CORPORATE GML, GMSA and GPL**

##### **4.4 Corporate GML**

- a) **Incorporation:** Golden Mining SRL is a corporation (“Sociedad de Responsabilidad Limitada”) duly incorporated and in governed by the laws of Argentina, pursuant to Social Contract, dated July 2<sup>nd</sup>, 2013.
- b) **Registration:** GML is registered in Argentina, before the Public Registry of la Rioja under the number 1771/1778, Book 67, on September 25<sup>th</sup> 2013.
- c) **Corporate Purpose:** GML corporate purpose is mining, industrial, service, commercial and financial activities.
- d) **Shareholders:** The following are GML’s shareholders and their respective ownership in the capital stock represented by 100 social quotas of four hundred Argentine Pesos (AR\$ 400) and one vote each, in accordance with the Resolution of June 6, 2018, issued by the Judge of the Public Registry of the Province of La Rioja in File No. 13.495-LG-AÑO-2017 entitled "Golden Mining SRL - Registration of Assignment of Quotas and New Manager " registered before the Public Registry of la Rioja under the number 1447/1490, Book 72 on June 28<sup>th</sup> 2018:

	<b>Shareholders</b>	<b>Ownership</b>	<b>%</b>
1	Sergio Damián Rotondo (Argentine ID 30.591.654)	51	51%

2	Elias Sahad (Argentine ID 33.749.515)	49	49%
	Total of shares	100	100%

- e) **Governance**: Mr. Sergio Rotondo is the Manager of GML since August 16<sup>th</sup>, 2017 in accordance with said Resolution of June 6, 2018, issued by the Judge of the Public Registry of the Province of La Rioja in File No. 13.495-LG-AÑO-2017. In accordance with the provisions of the Social Contract, the manager has a term of office of 4 years and may be re-elected.

## 4.2 Corporate GMSA

a) **Incorporation**: Golden Mining SA is a corporation ("Sociedad Anónima") duly incorporated and in governed by the laws of Argentina, pursuant to Public Deed No. 11, dated January 23<sup>rd</sup>, 2019, passed before the public notary Gabriel Jonathan Buznick (Registry No. 364), of the City of Buenos Aires, Argentina.

b) **Registration**: GMSA is registered in Argentina, before the Public Registry of San Juan under the N° 2594 of the *Sociedades Anónimas* Book, on April 9<sup>th</sup>, 2019.

c) **Corporate Purpose**: GMSA corporate purpose is the exploration and exploitation of mineral resources.

d) **Shareholders**: The following are GMSA's shareholders and their respective ownership in the capital stock represented by 1,000 ordinary nominative non endorsable shares of One Hundred Argentine Pesos (AR\$ 100) and one vote each:

	Shareholders	Ownership	%
1	Sergio Damián Rotondo (Argentine ID 30.591.654)	900	90%
2	Atanasio Hernán Celorio (Argentine ID 4.415.058)	100	10%
	Total of social quotas	100	100%

- e) **Governance**: The following are the current members of the Board of Directors and their respective positions:

#	Position	Name
1	Director (President)	Sergio Damián Rotondo (Argentine ID 30.591.654)
2	Alternate Director	Atanasio Hernán Celorio (Argentine ID 4.415.058)

## 4.2 Corporate Compañía GPL SRL

a) **Incorporation:** Compañía GPL SRL is a corporation (“Sociedad de Responsabilidad Limitada”) duly incorporated and in governed by the laws of Argentina, pursuant to Social Contract, dated July 31<sup>st</sup>, 2008.

b) **Registration:** GPL is registered in Argentina, before the Public Registry of San Juan under the number 4325 of the *Sociedades de Responsabilidad Limitada* Book, on February 23<sup>rd</sup> 2010.

c) **Corporate Purpose:** GPL corporate purpose is mining, agribusiness, tourism and construction activities

d) **Shareholders:** The following are GPL’s shareholders and their respective ownership in the capital stock represented by 10,000 social quotas of Ten Argentine Pesos (AR\$ 10) and one vote each:

	Shareholders	Ownership	%
1	Mario Ernesto Giorgi (Argentine ID 12.032.347)	3,908	39.08 %
2	Guillermo Enrique Preisz (Argentine ID 5.848.530)	3,562	35.62 %
3	Vicente Enrique Leiva (Argentine ID 12.373.747)	1,530	15.30%
4	Ernesto Videla (Argentine ID 10.030.079)	1,000	10%
	Total of social quotas	10,000	100%

e) **Governance:** Mario Ernesto Giorgi is the current Manager of GPL.

## 5. **LIST AND INFORMATION OF THE MINING RIGHTS**

CNP and CSP comprises several mining rights. For reasons of clarity, these projects will be analyzed separately together with their respective EIAs:

### (a) **Cerro Sur Project Mining Rights**

Mine	File No	Concession	Surveyed	(Has)	Claims	Titleholder
Divisadero Nº 1	5448-M-60	Granted	Yes	6 has.	1	Golden Mining SRL
Flor de Hualilán	5448-M-60	Granted	Yes	6 has.	1	Golden Mining SRL
Pereyra y Aciar	5448-M-60	Granted	Yes	6 has.	1	Golden Mining SRL
Rosas y Navarro o Bicolor	5448-M-60	Granted	Yes	6 has.	1	Golden Mining SRL

<b>Sentazon</b>	5448-M-60	Granted	Yes	6 has.	1	Golden Mining SRL
<b>Muchilera</b>	5448-M-60	Granted	Yes	6 has.	1	Golden Mining SRL
<b>Magnata</b>	5448-M-60	Granted	Yes	6 has.	1	Golden Mining SRL
<b>Pizarro</b>	5448-M-60	Granted	Yes	6 has.	1	Golden Mining SRL
<b>Demasía a la Mina Pizarro</b>	195.152-C-81	Granted	Yes	1.9 has.	1	Golden Mining SRL
<b>Josefina</b>	1124204-G-18	Application	No	2,692 has	27	Golden Mining SRL
<b>EIA for Hualilán Project</b>	1100.598-G-16	Under evaluation	---	---	---	Golden Mining SRL

**(b) Cerro Norte Project Mining Rights**

<b>Mine</b>	<b>File No</b>	<b>Concession</b>	<b>Surveyed</b>	<b>(Has)</b>	<b>Claims</b>	<b>Titleholder</b>
<b>La Toro N° 10</b>	5448-M-60	Granted	Yes	6 has	1	Compañía GPL SRL
<b>Puntilla</b>	5448-M-60	Granted	Yes	6 has	1	Compañía GPL SRL
<b>Pique de Ortega</b>	5448-M-60	Granted	Yes	6 has	1	Compañía GPL SRL
<b>Descubridora</b>	5448-M-60	Granted	Yes	6 has	1	Compañía GPL SRL
<b>Pardo</b>	5448-M-60	Granted	Yes	6 has	1	Compañía GPL SRL
<b>Sanchez</b>	5448-M-60	Granted	Yes	6 has	1	Compañía GPL SRL
<b>Andacollo</b>	5448-M-60	Granted	Yes	6 has	1	Compañía GPL SRL
<b>Demasía a la Mina Toro</b>	195.152-C-81	Granted	Yes	1.9 has	1	Compañía GPL SRL
<b>EIA for “Doña Justa” Project</b>	1100.0053-C-09	Under evaluation	---	---	---	Compañía GPL SRL

**6. SUMMARY OF LEGAL AGREEMENTS**

**6.1** AAR has entered into the following legal agreement to acquire the right to earn 75% of the CNP and CSP:

- i. Heads of Agreement, covering CSP between GML, GML Founding Shareholders, Foxrock and AAR, dated March 22, 2018 (HOA1);
- ii. Farmin Agreement, covering the CSP and CNP between GML, GML Shareholders, Foxrock, GMSA and AAR, dated November 10<sup>th</sup>, 2018 (FA1);
- iii. Farmin Agreement and Shareholders Agreement, covering the CSP between GML, GML Founding Shareholders, Foxrock and AAR, dated April 25<sup>th</sup>, 2019 (FAS1); and
- iv. Farmin Agreement and Shareholders Agreement, covering the CNP between GMSA, GMSA Founding Shareholders and AAR, dated April 25<sup>th</sup>, 2019 (FAS2).

**6.2** GMSA has entered into the following agreements covering the CNP:

- i. Letter of Intent on the CNP between GPL, GPL Shareholders and GMSA dated November 6<sup>th</sup>, 2018 (LOI); and  
Farmin Agreement on the CNP between GPL, GPL Shareholders and GMSA, dated February 22<sup>nd</sup>, 2019 (FCNP). This FCNP replaced the LOI.

**6.3** As the HOA1, , FA1 and LOI have been replaced by Definitive Agreements, this report has evaluated the following agreements:

- i. FAS1, which replaced the earlier agreements over the CSP, that is to say HOA1 and FA1
- ii. FAS2, which replaced the earlier agreement covering the CNP, that is to say FA1
- iii. FCNP, which replaced the LOI
- iv. A summary has also been provided of the initial HOA1

**7. FARMIN AGREEMENT AND SHAREHOLDERS AGREEMENT COVERING THE CERRO SUR PROJECT (FAS1)**

This Farmin Agreement ("FAS1") has been entered into force on April 25<sup>th</sup>, 2019 by and between:

- Golden Mining SRL as the registered holder and beneficial owner of the Tenements (**GML**);
- Sergio Rotondo and Elías Sahad (**Founding Shareholders**);
- Foxrock Investments Limited (**Foxrock**); and
- Afro Asian Resources Pty Limited (**AAR**)

The list of properties under this Farmin Agreement for the Cerro South Project is as follows (the "Tenements"):

Mine	File No	Concession	Surveyed	(Has)	Claims	Titleholder
<b>Divisadero N° 1</b>	5448-M-60	Granted	Yes	6 has	1	Golden Mining SRL
<b>Flor de Hualilán</b>	5448-M-60	Granted	Yes	6 has	1	Golden Mining SRL



<b>Pereyra y Aciar</b>	5448-M-60	Granted	Yes	6 has	1	Golden Mining SRL
<b>Rosas y Navarro o Bicolor</b>	5448-M-60	Granted	Yes	6 has	1	Golden Mining SRL
<b>Sentazon</b>	5448-M-60	Granted	Yes	6 has	1	Golden Mining SRL
<b>Muchilera</b>	5448-M-60	Granted	Yes	6 has	1	Golden Mining SRL
<b>Magnata</b>	5448-M-60	Granted	Yes	6 has	1	Golden Mining SRL
<b>Pizarro</b>	5448-M-60	Granted	Yes	6 has	1	Golden Mining SRL
<b>Demasía a la Mina Pizarro</b>	195.152-C-81	Granted	Yes	1.9 has	1	Golden Mining SRL
<b>Josefina</b>	1124204-G-18	Application	No	2,692 has	27	Golden Mining SRL

**Objective:** pursuant to this agreement the Founding Shareholders and AAR (“Venturers”) shall associate in an incorporated joint venture undertaken through GML for the purpose of exploring, developing and, if warranted, mining the Tenements.

**Commencement of Joint Venture:** Joint Venture shall commence on the date upon which the last of the parties sign this FAS1 or Re-admission Date, whichever is the earlier (“Commencement Date”), at which time the Shareholders Agreement will also be signed and as of which date the respective Joint Venture Interests:

- Founding Shareholders: 100%
- AAR: Nil%.

**Farmin Key Commercial Terms:** In consideration of this association and the rights granted by the Founding Shareholders to AAR under this FAS1, no later than 1 month after the date that CEL has its shares re-admitted to quotation after it has announced the transaction the subject of the FAS1, AAR shall:

- (i) cause the entity listed on the Australian Securities Exchange to which AAR has assigned its rights under this FAS1 and which entity has assumed the obligations under this FAS1 to issue to the Founding Shareholders or their nominee/s a total of 1,666,667 fully paid ordinary shares in the capital of CEL

The acquisition of a 75% Joint Venture Interest by AAR shall proceed in accordance with the following schedule:

- (a) For the acquisition of 25% Joint Venture Interest (First Earning Period), AAR has to:
  - (i) incur in Joint Venture Expenditure of \$1,000,000 excluding GST (First Earn-in Amount), and
  - (ii) issued or caused CEL to issue 6,666,667 shares to the Founding Shareholders or their nominee/s
 So that at the relevant Acquisition Date, the Joint Venture Interests of the

Venturers shall be:

- Founding Shareholders: 75%
- AAR: 25%

- (b) For the acquisition of 75% Joint Venture Interest (Second Earning Period), AAR has to:
- (i) incur in Joint Venture Expenditure of an additional minimum amount of \$1,000,000 (total of \$2,000,000) excluding GST (Second Earn-in Amount); and
  - (ii) complete a Definitive Feasibility Study. AAR shall be deemed to have acquired a further 50% Joint Venture Interest

So that at the relevant Acquisition Date, the Joint Venture Interests of the Venturers shall be:

- Founding Shareholders: 24%
- AAR: 75%
- Foxrock 1%

The Earned interest includes a 1% interest which AAR is holding in trust on behalf of Foxrock. This 1% interest is free carried up until the completion of the second earn in period.

Manager: from the Commencement Date, AAR will be the first Manager of the Joint Venture. During the First Earning Period and the Second Earning Period (if applicable), the Manager shall conduct Joint Venture Operations in its absolute discretion and shall not be subject to any directions by the non-managing Venturers but shall consult with the non-managing Venturers on a quarterly basis as to the nature and contents of the Manager's programmes and budgets relating to the Joint Venture Operations. With effect from the completion of the Earning Periods, the Manager shall conduct Joint Venture Operations in accordance with programmes and budgets and decisions approved by or made by the Operating Committee.

Shareholder Agreement: The Shareholders Agreement will govern the relationship between the Parties to the Agreement insofar as it relates to the operations of the Joint Venture

Assignment: Subject to the right of AAR to assign its rights to CEL (and for CEL to assume AAR's obligations), a Venturer may not assign all or part of its Joint Venture Interest other than in accordance with the Shareholders Agreement. Where an assignment of a Joint Venture Interest is made, such assignment will have no force or effect whatsoever until such time as the assignee has entered into a covenant with the other Venturers binding it to observe and perform all the terms and conditions of this FAS1.

Remaining Interest: The parties shall have a 45-day period to mutually agree on the acquisition price for the remaining interest held in the Joint Venture by the Founding Shareholders by CEL. This acquisition price can be a mixture of cash and/or shares in CEL as mutually agreed by the parties.

## **8. FARMIN AGREEMENT AND SHAREHOLDERS AGREEMENT COVERING THE CERRO NORTE PROJECT (FAS2)**

This Farmin Agreement ("FAS2") has been entered into force on April 25<sup>th</sup>, 2019 by and between:

- Golden Mining SA (GMSA);

- Sergio Rotondo and Hernan Celorrio (Founding Shareholders); and
- Afro Asian Resources Pty Limited (AAR)

The list of properties under this FAS2 for the Cerro Norte Project is as follows:

Mine	File No	Concession	Surveyed	(Has)	Claims	Titleholder
<b>La Toro N° 10</b>	5448-M-60	Granted	Yes	6 has	1	Compañía GPL SRL
<b>Puntilla</b>	5448-M-60	Granted	Yes	6 has	1	Compañía GPL SRL
<b>Pique de Ortega</b>	5448-M-60	Granted	Yes	6 has	1	Compañía GPL SRL
<b>Descubridora</b>	5448-M-60	Granted	Yes	6 has	1	Compañía GPL SRL
<b>Pardo</b>	5448-M-60	Granted	Yes	6 has	1	Compañía GPL SRL
<b>Sanchez</b>	5448-M-60	Granted	Yes	6 has	1	Compañía GPL SRL
<b>Andacollo</b>	5448-M-60	Granted	Yes	6 has	1	Compañía GPL SRL
<b>Demasia a la Mina Toro</b>	195.152-C-81	Granted	Yes	1.9 has	1	Compañía GPL SRL

Objective: pursuant to this agreement GMSA agreed to assign the FCNP to AAR or to CEL.

Farmin Key Commercial Terms: In consideration of this assignment AAR shall:

- issue or cause CEL entity to issue 1,666,667 fully paid ordinary shares in the capital of CEL to GMSA or its nominees no later than 1 month after the date that the ASX Listed entity has its shares re-admitted to quotation after it has announced the transaction the subject of this FAS2; and
- assume all of the obligations of GMSA under the FCNP; and
- retain GMSA as operator up until the completion of the acquisition by AAR of the 25% Joint Venture Interest ("First Earning period") for a fixed fee of \$150,000, paid as follows: 1) \$35,000 on April 30, 2019; 2) \$35,000 on June 30, 2019 and; 3) \$80,000 and 5,000,000 CEL on the date of the assignment of the 25% of GMSA to AAR.

Manager: from the Commencement Date, AAR will be the first Manager of the Joint Venture under the FCNP. During the First Earning Period and the Second Earning Period (if applicable), the Manager shall conduct Joint Venture Operations in its absolute discretion and shall not be subject to any directions by the non-managing Venturers but shall consult with the non-managing Venturers on a quarterly basis as to the nature and contents of the Manager's programs and budgets relating to the Joint Venture Operations. With effect from the completion of the Earning Periods, the Manager shall conduct Joint Venture Operations in accordance with programs and budgets and decisions approved by or made by the Operating Committee.

Shareholder Agreement: The Shareholders Agreement will govern the relationship between the Parties to the Agreement insofar as it relates to the operations of the Joint Venture

Assignment: Subject to the right of AAR to assign its rights to CEL (and for CEL to assume AAR's obligations), a Venturer may not assign all or part of its Joint Venture Interest other than in accordance with the Shareholders Agreement. Where an assignment of a Joint Venture Interest is made, such assignment will have no force or effect whatsoever until such time as the assignee has entered into a covenant with the other Venturers binding it to observe and perform all the terms and conditions of this agreement.

Remaining Interest: The parties shall have a 45-day period to mutually agree on the acquisition price for the remaining interest held in the Joint Venture by the Founding Shareholders by CEL. This acquisition price can be a mixture of cash and/or shares in CEL as mutually agreed by the parties.

## **9. FARMIN AGREEMENT BETWEEN GMSA AND THE OWNERS OF CERRO NORTE (FCNP)**

On February 22<sup>nd</sup>, 2019, the following parties entered into a Farmin Agreement by and between:

- Messrs. Ernesto Mario Giorgi, Guillermo Enrique Preisz, Vicente Enrique Leiva and Ernesto Videla as the **Founding Shareholders**;
- GPL as the **Owner** of the Mining Properties of CNP and;
- GMSA as the **Farminee**,

Objective: pursuant to this agreement the Owner agreed to grant the Farminee the exclusivity right to purchase 75% of the Owner's shares ("Social Quotas") and the exclusivity right to allow and authorize the Farminee to explore the Mining Properties of CNP. The Founding Shareholders during the stage of exploration and verification of reserves must collaborate with the Farminee in the recovery and evaluation of historical and present data as all other matters necessary to be able to conclude this stage

Farmin Key Commercial Terms: The acquisition of the Owner's 75% shares by the Farminee shall proceed in accordance with the following schedule:

- (a) Acquisition of 25% of the Social Quotas, owned by Mr. Guillermo Preisz
  - (i) Farminee has to incur in exploration expenditures of a minimum amount of \$1,000,000 on both projects, CNP and CSP combined; and
  - (ii) Issue or cause to be issued five (5) million CEL Shares to Mr. Guillermo Preisz.
- (b) Acquisition of 75% of the Social Quotas, owned by the Founding Shareholders
  - (i) Farminee has to incur exploration expenditures of an additional \$1,000,000 in both projects combined (CNP and CSP);
  - (ii) Complete a Definitive Feasibility Study;
  - (iii) Issue or cause to be issued five (5) million CEL Shares with the share price used to calculate the value being the higher of the weighted average share price in the 20 Trading Days preceding their issue or US\$ 0.09 to the Founding Shareholders; and

- (iv) At the signature of the Letter of Intent, pay to the Founding Shareholders USD 20,000 amount which has already been paid and collected by Owner
- (v) The owners agreed to assist GMSA with ongoing exploration, the recovery and evaluation of historical data and all other matters to maintain the Cerro Norte project in good standing and advance exploration during the farm in. GMSA will retain the owners as consultants to undertake these services with the following consulting fees payable in accordance with the schedule below:
  - 1) At the signature of the Farmin Agreement, USD 80,000 amount for consulting services during the initial 12 months of the agreement which has already been paid and collected by Owner
  - 2) USD 100,000, for consulting services payable to Owner on February 22<sup>nd</sup> to cover consulting services provided during the 12 month period for each year of the farmin agreement remains in force.

Time of the Farmin Agreement: The duration of the Farmin Agreement will be sixty (60) calendar months from the Commencement Date.

Definitive Feasibility Study: means a Feasibility Study that is of a standard suitable to be submitted to a financial institution as the basis for lending of funds for the development and operation of the mining activities contemplated in the study and is capable of supporting a Decision to Mine.

A Shareholders Agreement: will govern the relationship between the parties from the moment that Farminnee has acquired 75% of the Social Quotas, with the minimum agreements established in the Farmin Agreement.

## **10. AGREEMENT WITHIN THE FOLLOWING PARTIES (HOA1):**

This Head of Agreement ("HOA1") has been entered into force on March 22<sup>nd</sup>, 2018 by and between:

- Golden Mining SRL (**GML**);
- Sergio Rotondo and Elías Sahad (under sections 6.1 to 6.5. and together, the **Principals**);
- Foxrock Investments Limited (**Foxrock**).
- Afro Asian Resources Pty Limited (**AAR**)

### **10.1. Mining Properties Involved (Cerro Sur Project)**

The list of properties under this HOA1 is as follows:

Mine	File No	Concession	(Has)	Titleholder
<b>Divisadero N° 1</b>	5448-M-60	Granted	6 has	Golden Mining SRL
<b>Flor de Hualilán</b>	5448-M-60	Granted	6 has	Golden Mining SRL

<b>Pereyra y Aciar</b>	5448-M-60	Granted	6 has	Golden Mining SRL
<b>Rosas y Navarro o Bicolor</b>	5448-M-60	Granted	6 has	Golden Mining SRL
<b>Sentazon</b>	5448-M-60	Granted	6 has	Golden Mining SRL
<b>Muchilera</b>	5448-M-60	Granted	6 has.	Golden Mining SRL
<b>Magnata</b>	5448-M-60	Granted	6 has	Golden Mining SRL
<b>Pizarro</b>	5448-M-60	Granted	6 has	Golden Mining SRL
<b>Demasia a la Mina Pizarro</b>	195.152-C-81	Granted	1.9 has	Golden Mining SRL

## 10.2. Option Fees

AAR shall complete the following payments as Option Fees to conduct the legal Due Diligence on the GML's mining properties:

- Further Option Fee (payment of \$25,000) to extend 90 days the Due Diligence Date (completed);
- Final Option Fee (payment of \$50,000) 365 days after the Further option FEE to complete the Option FEE (pending)

## 10.3. Key Commercial Terms

10.3.1. GM will grant to AAR the rights to:

- (a) exclusively conduct activities on the Permits for the Earn-in Period; and
- (b) earn up to an 80% interest in the Earn-in-Area by:
  - i. Making a US\$75,000 payment to GM;
  - ii. Funding the DFS Expenditure;
  - iii. Completing the DFS

10.3.2. The parties agree, for the avoidance of doubt, that:

- (a) AAR will earn the 80% interest in the project upon completion of a DFS;
- (b) GML and the principals will maintain a 20% interest in the project free carried until the completion of a DFS;
  - i. Should AAR or CEL be able to acquire the Cerro Norte project on terms acceptable at the sole discretion of AAR or CEL GML and the Principals will maintain a 25% interest in the project free carried until the completion of a DFS.

- ii. AAR will hold a 1% free carried interest in the project in trust for Foxrock

**10.4.** Upon the completion of a Definitive Feasibility Study in relation to the mining properties that comprises the Cerro Sur Project:

- (a) GML and the Principals and Foxrock grants a right to AAR (or a nominee of AAR) to acquire their respective interests on such terms to be agreed by the parties; or
- (b) GML and the Principals and Foxrock may elect to convert their interest to a lesser interest which shall be free carried into production.
- (c) If any of GML, the Principals, or Foxrock elect to convert their interest to a lesser interest, which shall be free carried into production, then they irrevocably undertake to pledge this interest as collateral for the purposes of acquiring project finance.

**11. OPINION**

Based on (a) the applicable legislation that governs the mining property in Argentina and (b) the documentation provided to us, and subject to the qualifications and assumptions detailed hereto, we are of the opinion that:

**11.1. Corporate**

**11.1.1. GML**

- (i) GML has been duly incorporated in accordance with the laws of Argentina, it legally exists and is in good standing condition
- (ii) Mr. Sergio Damián Rotondo (Argentine ID 30.591.654) and Mr. Elias Sahad (Argentine ID 33.749.515) are the sole registered shareholders of 100% of the capital stock of GML.

**11.1.2. GMSA**

- (i) GMSA has been duly incorporated in accordance with the laws of Argentina, it legally exists and is in good standing condition
- (ii) Mr. Sergio Damián Rotondo (Argentine ID 30.591.654) and Mr. Atanasio Hernán Celorrio (Argentine ID 4.415.058) are the sole registered shareholders of 100% of the capital stock of GMSA.

**11.1.3. GPL**

- (i) GPL has been duly incorporated in accordance with the laws of Argentina, it legally exists and is in good standing condition
- (ii) Mr. Mario Ernesto Giorgi (Argentine ID 12.032.347), Guillermo Enrique Preisz (Argentine ID 5.848.530), Vicente Enrique Leiva (Argentine ID 12.373.747) and Ernesto Videla (Argentine ID 10.030.079) are the sole registered shareholders of 100% of the capital stock of GPL
- (iii) Shareholders shall conclude the registration of the Social Quotas assignment to Mr.

Ernesto Videla.

## **11.2. Legal Agreements**

### **11.2.1. Farmin and Shareholders Agreement CSP – AAR, GML, the Founding Shareholders, and Foxrock (FAS1)**

- (i) The FAS1 constitutes a valid and binding agreement but only to the Parties. The FAS1 is in good standing, and all obligations thereunder are enforceable against the parties thereto.

### **11.2.2. Farmin and Shareholders Agreement CNP– AAR, GMSA and the Principals (FAS2)**

- (i) The FAS2 constitutes a valid and binding agreement but only to the Parties. The FAS2 is in good standing, and all obligations thereunder are enforceable against the parties thereto.

### **11.2.3. Farmin Agreement – GMSA and the owners of the Cerro Norte Project (FCNP)**

- (i) The Farmin Agreement constitutes a valid and binding agreement, is in good standing, and all obligations thereunder are enforceable against the parties thereto. Notwithstanding the above referred, we strongly suggest registering a SPV in Argentina in order to related GMSA with the foreign company will finance GMSA (i.e. AAR or any other validly limited company in Australia). For matter of financing the project, it will be needed to proceed with related companies' structure instead of GMSA being totally independent from AAR or the SPV appointed in Australia for conducting business in Argentina. We also clarify that subject to the Argentine Business Corporation Law ("ABCL"), no corporation party (rather than individuals) can held any share of legal registered companies in Argentina unless such SPVs is dully registered before and in accordance with the ABCL.

### **11.2.4. Heads of Agreement over the Cerro Sur Project on March 22, 2018 ("HOA 1")**

- (i) The Head of Agreement constitutes a valid and binding agreement but only to the Parties. We strongly suggest completing the fulfillment of Argentine law, such agreement shall be executed in Spanish or Spanish – English columns (dully translated by an official translator) and dully certified by a competent notary. Therefore, a copy shall be executed in Australia before a competent notary depending on the laws of where the agreement shall be executed, and same shall apply to the copy/ies executed thereafter in Argentina. We can also conclude that other than the needed completion of the "formalization" of this legal document as stated above, the HOA 1 is in good standing, and all obligations thereunder are enforceable against the parties thereto.

## **11.3. Mining Rights**

### **(1) South Hualilán Project**

#### **11.3.1. Divisadero N° 1**



**Legal Status:** In due process

**Project:** CSP

**Extension:** 6 Has (1 tenement)

**Registration:** Registered at No. 54, F° 222 of the Mining Register No. 19

**Location:** Ullúm, San Juan

**Mineral:** Au - Ag

**Current Owner:** Golden Mining S.R.L.

**Legal Labour:** Performed

**Legal Survey:** Performed during PASMA Project. Approved and registered at No. 165, F° 167 of the Legal Survey Register No. 32

**Working and investment plan:** Pending

**Activation and Reactivation Plan:** Handed in on August 9, 2016

**Canon:** Paid until 1<sup>st</sup> semester 2019

**Environmental Impact Assessment:** Under evaluation (File No. 1100.598-G-2016)

**Surface and landowner:** Mario Gino Leonardi

It can be confirmed that GML is the exclusive applicant and that the exploitation right is in due process. Upon fulfilling with the administrative process, the applicant will get the final title in due time. There are no canon payments debts, encumbrances, mortgages or liens pending on the mining property under analysis.

#### **11.3.2. Flor De Hualilán**

**Legal Status:** In due process

**Project:** CSP

**Extension:** 6 Has (1 tenement)

**Registration:** Registered at No. 53, F° 221 of the Mining Register No. 19

**Location:** Ullum, San Juan

**Mineral:** Au - Ag

**Current Owner:** Golden Mining S.R.L.

**Legal Labour:** Performed

**Legal Survey:** Performed during PASMA Project. Approved and registered at No. 165, F° 167 of the Legal Survey Register No. 32

**Working and investment plan:** Pending

**Activation and Reactivation Plan:** Handed in on August 9, 2016

**Canon:** Paid until 1<sup>st</sup> semester 2019

**Environmental Impact Assessment:** Under evaluation (File No. 1100.598-G-2016)

**Surface and landowner:** Mario Gino Leonardi

It can be confirmed that GML is the exclusive applicant and that the exploitation right is in due process. Upon fulfilling with the administrative process, the applicant will get the final title in due time. There are no canon payments debts, encumbrances, mortgages or liens pending on the mining property under analysis. .

#### **11.3.3. Pereyra Aciar**

**Legal Status:** In due process

**Project:** CSP

**Extension:** 6 Has (1 tenement)

**Registration:** Registered at No. 36, F° 29 of the Mining Register No. 08

**Location:** Ullum, San Juan

**Mineral:** Au - Ag

**Current Owner:** Golden Mining S.R.L.

**Legal Labour:** Performed

**Legal Survey:** Performed during PASMA Project. Approved and registered at No. 165, F° 167 of the Legal Survey Register No. 32

**Working and investment plan:** Pending compliance

**Activation and Reactivation Plan:** Handed in on August 9, 2016

**Canon:** Paid until 1<sup>st</sup> semester 2019

**Environmental Impact Assessment:** Under evaluation (File No. 1100.598-G-2016)

**Surface and landowner:** Mario Gino Leonardi

It can be confirmed that GML is the exclusive applicant and that the exploitation right is in due process. Upon fulfilling with the administrative process, the applicant will get the final title in due time. There are no canon payments debts, encumbrances, mortgages or liens pending on the mining property under analysis.

#### **11.3.4. Rosas y Navarro or Bicolor**

**Legal Status:** In due process

**Project:** CSP

**Extension:** 6 Has (1 tenement)

**Registration:** Registered at No. 18, F° 25 of the Mining Register No. 10

**Location:** Ullum, San Juan

**Mineral:** Au

**Current Owner:** Golden Mining S.R.L.

**Legal Labour:** Performed

**Legal Survey:** Performed during PASMA Project. Approved and registered at No. 165, F° 167 of the Legal Survey Register No. 32

**Working and investment plan:** Pending

**Activation and Reactivation Plan:** Handed in on August 9, 2016

**Canon:** Paid until 1<sup>st</sup> semester 2019

**Environmental Impact Assessment:** Under evaluation (File No. 1100.598-G-2016)

**Surface and landowner:** Mario Gino Leonardi

It can be confirmed that GML is the exclusive applicant and that the exploitation right is in due process. Upon fulfilling with the administrative process, the applicant will get the final title in due time. There are no canon payments debts, encumbrances, mortgages or liens pending on the mining property under analysis. .

#### **11.3.5. Sentazón**

**Legal Status:** In due process

**Project:** CSP

**Extension:** 6 Has (1 tenement)

**Registration:** Registered at No. 18, F° 25 of the Mining Register No. 10

**Location:** Ullum, San Juan  
**Mineral:** Au - Zn  
**Current Owner:** Golden Mining S.R.L.  
**Legal Labour:** Performed  
**Legal Survey:** Performed during PASMA Project. Approved and registered at No. 165, F° 167 of the Legal Survey Register No. 32  
**Working and investment plan:** Pending  
**Activation and Reactivation Plan:** Handed in on August 9, 2016  
**Canon:** Paid until 1<sup>st</sup> semester 2019  
**Environmental Impact Assessment:** Under evaluation (File No. 1100.598-G-2016)  
**Surface and landowner:** Mario Gino Leonardi

It can be confirmed that GML is the exclusive applicant and that the exploitation right is in due process. Upon fulfilling with the administrative process, the applicant will get the final title in due time. There are no canon payments debts, encumbrances, mortgages or liens pending on the mining property under analysis. .

#### 11.3.6. Muchilera

**Legal Status:** In due process  
**Project:** CSP  
**Extension:** 6 Has (1 tenement)  
**Registration:** Registered at No. 38, F° 34 of the Mining Register No. 08  
**Location:** Ullum, San Juan  
**Mineral:** Au - Ag  
**Current Owner:** Golden Mining S.R.L.  
**Legal Labour:** Performed  
**Legal Survey:** Performed during PASMA Project. Approved and registered at No. 165, F° 167 of the Legal Survey Register No. 32  
**Working and investment plan:** Pending  
**Activation and Reactivation Plan:** Handed in on August 9, 2016  
**Canon:** Paid until 1<sup>st</sup> semester 2019  
**Environmental Impact Assessment:** Under evaluation (File No. 1100.598-G-2016)  
**Surface and landowner:** Mario Gino Leonardi

It can be confirmed that GML is the exclusive applicant and that the exploitation right is in due process. Upon fulfilling with the administrative process, the applicant will get the final title in due time. There are no canon payments debts, encumbrances, mortgages or liens pending on the mining property under analysis. .

#### 11.3.7. Magnata

**Legal Status:** In due process  
**Project:** CSP  
**Extension:** 6 Has (1 tenement)  
**Registration:** Registered at No. 12, F° 15 of the Mining Register No. 10  
**Location:** Ullum, San Juan  
**Mineral:** Au - Zn

**Current Owner:** Golden Mining S.R.L.

**Legal Labour:** Performed

**Legal Survey:** Performed during PASMA Project. Approved and registered at No. 165, F° 167 of the Legal Survey Register No. 32

**Working and investment plan:** Pending

**Activation and Reactivation Plan:** Handed in on August 9, 2016

**Canon:** Paid until 1<sup>st</sup> semester 2019

**Environmental Impact Assessment:** Under evaluation (File No. 1100.598-G-2016)

**Surface and landowner:** Mario Gino Leonardi

It can be confirmed that GML is the exclusive applicant and that the exploitation right is in due process. Upon fulfilling with the administrative process, the applicant will get the final title in due time. There are no canon payments debts, encumbrances, mortgages or liens pending on the mining property under analysis. .

#### **11.3.8. Pizarro**

**Legal Status:** In due process

**Project:** CSP

**Extension:** 6 Has (1 tenement)

**Registration:** Registered at No. 13, F° 16 of the Mining Register No. 10

**Location:** Ullum, San Juan

**Mineral:** Au – Ag

**Current Owner:** Golden Mining S.R.L.

**Legal Labour:** Performed

**Legal Survey:** Performed during PASMA Project. Approved and registered at No. 165, F° 167 of the Legal Survey Register No. 32

**Working and investment plan:** Pending

**Activation and Reactivation Plan:** Handed in on August 9, 2016

**Canon:** Paid until 1<sup>st</sup> semester 2019

**Environmental Impact Assessment:** Under evaluation (File No. 1100.598-G-2016)

**Surface and landowner:** Mario Gino Leonardi

It can be confirmed that GML is the exclusive applicant and that the exploitation right is in due process. Upon fulfilling with the administrative process, the applicant will get the final title in due time. There are no canon payments debts, encumbrances, mortgages or liens pending on the mining property under analysis. .

#### **11.3.9. Demasia at North of “Pizarro”**

**Legal Status:** In due process

**Project:** CSP

**Extension:** 1.9 Has

**Application Date:** December 29, 1981

**Registration:** Registered at No. 133, F° 411 of the Mining Register No. 42

**Location:** Ullúm, Province of San Juan

**Mineral:** Au - Ag

**Current Owner:** Golden Mining SRL

**Legal Labour:** Performed

**Legal Survey:** Performed during PASMA Project. Approved and registered at No. 98, F° 118 of the Legal Survey Register No. 37

**Working and investment plan:** N/A

**Activation and Reactivation Plan:** Handed in on April 27, 2016

**Canon:** Paid until 1<sup>st</sup> semester 2019

**Environmental Impact Assessment:** Under evaluation (File No. 1100.598-G-2016)

**Surface and land owner:** Mario Gino Leonardi

It can be confirmed that GML is the exclusive applicant and that the *Demasía* is in due process. Upon fulfilling with the administrative process, the applicant will get the final title in due time. There are no canon payments debts, encumbrances, mortgages or liens pending on the mining property under analysis. .

**11.3.10.        Josefina (File No. 1124.2014-G-2018)**

**Legal Status:** Application in a preliminary stage of the process

**Project:** CSP

**Extension:** 2,962 Has

**Application Date:** May 28<sup>th</sup>, 2018

**Registration:** Not registered yet

**Location:** Ullúm, Province of San Juan

**Mineral:** Au - Ag

**Current Owner:** Golden Mining SRL

**Legal Labour:** since it is not registered, no obligation due on this regard

**Legal Survey:** since it is not registered, no obligation due on this regard

**Working and investment plan:** since it is not registered, no obligation due on this regard

**Canon:** since it is not registered, no obligation due on this regard **Environmental**

**Impact Assessment:** since it is not registered, no obligation due on this regard

**Surface and land owner:** Unknown

It can be confirmed that GML is the exclusive applicant and that this mining right is in a preliminary stage of the process. Mining Authority shall issue a resolution about some situations of overlapping to continue with the administrative process.

**11.3.11.        EIA Mining Group Hualilán I (File No.1100.598-G-16)**

**Legal Status:** EIA under evaluation

**Project:** CSP

**Tenements:** Mining Group Hualilán 1, File No. 156.932-C-73 (Divisadero, Flor de Hualilán, Pereyra Acíar, Bicolor, Sentazón, Muchilera, Magnata, Pizarro) and Demasía (File No. 195.152-C-81)

**Location:** Department of Ullúm, Province of San Juan.

**Applicant:** Golden Mining SRL

17/08/2016    GML handed in an Environmental Impact Assessment for exploration stage

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28/11/2016	The Provincial Environmental Authority evaluated the EIA and issued a report requiring GM to comply with certain conditions, including among others, to obtain a permission from the Undersecretary of Culture of the Province of San Juan (Provincial Law 746-F)
20/12/2016	Mining Authority sent notification to GML to communicate the conditions required by the Provincial Environmental Authority
06/01/2017	Mr Armando Sánchez on behalf of GML answered the notification. On regard the permission from the Undersecretary of Culture of the Province of San Juan said that the mining concessions are prior to Law 746-F; that Mining Authority had not informed GML of the existence of said law and that this law has not been regulated
03/05/2017	Mining Authority required to GML to submit a plan to close all open works and collapse all works that represents a danger to the community in general because they have been declared as a Protected Area of Multiple Use and Cultural and Natural Heritage of San Juan (Law 7560/2004)
09/06/2017	Mining Authority intimated again GML to submit said plan because they have not received any presentation after intimation dated 27/04/2017
01/08/2017	Mining Authority intimated again GML to submit said plan
03/11/2017	Mining Authority carried out an inspection on the project and informed that: a) they entered by a road that does not have restricted access because there were no gate or other type of enclosure; b) they were accompanied by the technical representative of GM SRL, Mr. Armando Sanchez; c) sectors and tasks with high risk of danger for occasional visitors were observed; and d) the mining work were in sight and without any sign or obstacle that prohibit entry into them. For the points indicated below, GML shall: <ul style="list-style-type: none"> <li>1) Georeferencing and surveying all open works that generate danger for visitors and present it within 7 days</li> <li>2) Put signals and prevent the entry to any person outside the company</li> <li>3) The works are within the Protected Area of Hualilán Mines, regulated by Law 746-F</li> </ul>
01/08/2017	Mining Authority required GML to comply with the tasks indicated in the inspection dated 03/11/2017
19/04/2018	Mining Authority carried out a new inspection on the project and informed that GML did not comply with the requirements made by the Authority in the previous inspection dated 03/11/2017
04/02/2019	GML constituted new legal address for notifications
12/02/2019	Mining Authority notified a new inspection at the project date February 25 <sup>th</sup> , 2019 and required to comply with requirements set for at inspection dated 03/11/2017 in 15 days
15/02/2019	GML applied for an extension of 60 days to comply the requirements made by notification dated February 12 <sup>th</sup> , 2019

We have confirmed that this EIA is completing with the proceeding settled by law for getting the approval resolution or DIA. Mining Authority shall issue a resolution about the extension of the terms asked by GML to comply with the outstanding duties.

(2) **North Hualilán Project**

**11.4.1. La Toro No. 10**

**Legal Status:** In due process

**Project:** CNP

**Extension:** 6 Has (1 tenement)

**Registration:** Registered at No. 38, F° 34 of the Mining Register No. 8

**Location:** Ullum, San Juan

**Mineral:** Au – Ag

**Current Owner:** Compañía GPL S.R.L.

**Legal Labour:** Performed

**Legal Survey:** Performed during PASMA Project. Approved and registered at No. 37, F° 112 of the Legal Survey Register No. 25

**Working and investment plan:** Pending

**Activation and Reactivation Plan:** Handed in on April 27, 2016

**Canon:** Paid until 1<sup>st</sup> semester 2019

**Environmental Impact Assessment:** Approved by Res. No. 190 for exploration activities. Update under evaluation (File No. 1100.0053-C-09)

**Surface and landowner:** Mario Gino Leonardi

It can be confirmed that GPL is the exclusive applicant and that the exploitation right is in due process. Upon fulfilling with the administrative process, the applicant will get the final title in due time. There are no canon payments debts, encumbrances, mortgages or liens pending on the mining property under analysis. .

**11.4.2. Puntilla**

**Legal Status:** In due process

**Project:** CNP

**Extension:** 6 Has (1 tenement)

**Registration:** Registered at No. 16 F° 22 of the Mining Register No. 10

**Location:** Ullum, San Juan

**Mineral:** Au, Ag

**Current Owner:** Compañía GPL S.R.L.

**Legal Labour:** Performed

**Legal Survey:** Performed during PASMA Project. Approved and registered at No. 37, F° 112 of the Legal Survey Register No. 25

**Working and investment plan:** Pending

**Activation and Reactivation Plan:** Handed in on April 27, 2016

**Canon:** Paid until 1<sup>st</sup> semester 2019

**Environmental Impact Assessment:** Approved by Res. No. 190 for exploration activities. Update under evaluation (File No. 1100.0053-C-09)

**Surface and landowner:** Mario Gino Leonardi

It can be confirmed that GPL is the exclusive applicant and that the exploitation right is in due process. Upon fulfilling with the administrative process, the applicant will get the final title in due time. There are no canon payments debts, encumbrances, mortgages

or liens pending on the mining property under analysis. .

#### **11.4.3. Pique De Ortega**

**Legal Status:** In due process

**Project:** CNP

**Extension:** 6 Has (1 tenement)

**Registration:** Registered at No. 17 F° 24 of the Mining Register No. 10

**Location:** Ullum, San Juan

**Mineral:** Au, Ag

**Current Owner:** Compañía GPL S.R.L.

**Legal Labour:** Performed

**Legal Survey:** Performed during PASMA Project. Approved and registered at No. 37, F° 112 of the Legal Survey Register No. 25

**Working and investment plan:** Pending

**Activation and Reactivation Plan:** Handed in on April 27, 2016

**Canon:** Paid until 1<sup>st</sup> semester 2019

**Environmental Impact Assessment:** Approved by Res. No. 190 for exploration activities. Update under evaluation (File No. 1100.0053-C-09)

**Surface and landowner:** Mario Gino Leonardi

It can be confirmed that GPL is the exclusive applicant and that the exploitation right is in due process. Upon fulfilling with the administrative process, the applicant will get the final title in due time. There are no canon payments debts, encumbrances, mortgages or liens pending on the mining property under analysis. .

#### **11.4.4. Descubridora**

**Legal Status:** In due process

**Project:** CNP

**Extension:** 6 Has (1 tenement)

**Registration:** Registered at No. 38 F° 34 of the Mining Register No. 8

**Location:** Ullum, San Juan

**Mineral:** Au, Ag

**Current Owner:** Compañía GPL S.R.L.

**Legal Labour:** Performed

**Legal Survey:** Performed during PASMA Project. Approved and registered at No. 37, F° 112 of the Legal Survey Register No. 25

**Working and investment plan:** Pending

**Activation and Reactivation Plan:** Handed in on April 27, 2016

**Canon:** Paid until 1<sup>st</sup> semester 2019

**Environmental Impact Assessment:** Approved by Res. No. 190 for exploration activities. Update under evaluation (File No. 1100.0053-C-09)

**Surface and landowner:** Mario Gino Leonardi

It can be confirmed that GPL is the exclusive applicant and that the exploitation right is in due process. Upon fulfilling with the administrative process, the applicant will get the final title in due time. There are no canon payments debts, encumbrances, mortgages or liens pending on the mining property under analysis. .



#### 11.4.5. Pardo

**Legal Status:** In due process

**Project:** CNP

**Extension:** 6 Has (1 tenement)

**Registration:** Registered at No. 14 F° 18 of the Mining Register No. 18

**Location:** Ullum, San Juan

**Mineral:** Au, Ag

**Current Owner:** Compañía GPL S.R.L.

**Legal Labour:** Performed

**Legal Survey:** Performed during PASMA Project. Approved and registered at No. 37, F° 112 of the Legal Survey Register No. 25

**Working and investment plan:** Pending

**Activation and Reactivation Plan:** Handed in on April 27, 2016

**Canon:** Paid until 1<sup>st</sup> semester 2019

**Environmental Impact Assessment:** Approved by Res. No. 190 for exploration activities. Update under evaluation (File No. 1100.0053-C-09)

**Surface and landowner:** Mario Gino Leonardi

It can be confirmed that GPL is the exclusive applicant and that the exploitation right is in due process. Upon fulfilling with the administrative process, the applicant will get the final title in due time. There are no canon payments debts, encumbrances, mortgages or liens pending on the mining property under analysis. .

#### 11.4.6. Sánchez

**Legal Status:** In due process

**Project:** CNP

**Extension:** 6 Has (1 tenement)

**Registration:** Registered at No. 10 F° 15 of the Mining Register No. 20

**Location:** Ullum, San Juan

**Mineral:** Au, Ag

**Current Owner:** Compañía GPL S.R.L.

**Legal Labour:** Performed

**Legal Survey:** Performed during PASMA Project. Approved and registered at No. 37, F° 112 of the Legal Survey Register No. 25

**Working and investment plan:** Pending

**Activation and Reactivation Plan:** Handed in on April 27, 2016

**Canon:** Paid until 1<sup>st</sup> semester 2019

**Environmental Impact Assessment:** Approved by Res. No. 190 for exploration activities. Update under evaluation (File No. 1100.0053-C-09)

**Surface and landowner:** Mario Gino Leonardi

It can be confirmed that GPL is the exclusive applicant and that the exploitation right is in due process. Upon fulfilling with the administrative process, the applicant will get the final title in due time. There are no canon payments debts, encumbrances, mortgages or liens pending on the mining property under analysis. .

#### 11.4.7. Andacollo

**Legal Status:** In due process

**Project:** CNP

**Extension:** 6 Has

**Registration:** Registered at No. 38 F° 34 of the Mining Register No. 8

**Location:** Ullum, San Juan

**Mineral:** Au - Ag

**Current Owner:** Compañía GPL S.R.L.

**Legal Labour:** Performed

**Legal Survey:** Performed during PASMA Project. Approved and registered at No. 98, F° 118 of the Legal Survey Register No. 37

**Working and investment plan:** Pending

**Activation and Reactivation Plan:** Handed in on April 27, 2016

**Canon:** Paid until 1<sup>st</sup> semester 2019

**Environmental Impact Assessment:** Approved by Res. No. 190 for exploration activities. Update under evaluation (File No. 1100.0053-C-09)

**Surface and landowner:** Mario Gino Leonardi

It can be confirmed that GPL is the exclusive applicant and that the exploitation right is in due process. Upon fulfilling with the administrative process, the applicant will get the final title in due time. There are no canon payments debts, encumbrances, mortgages or liens pending on the mining property under analysis.

#### 11.4.8. Demasía at North of "Toro" Mine

**Legal Status:** In due process

**Project:** North Hualilán

**Extension:** 1.9 Has

**Application Date:** December 29, 1981

**Registration:** Registered at No. 133, F° 411 of the Mining Register No. 42

**Location:** Ullúm, Province of San Juan

**Mineral:** Au – Ag

**Current Owner:** Golden Mining SRL

**Legal Labour:** Performed

**Legal Survey:** Performed during PASMA Project. Approved and registered at No. 98, F° 118 of the Legal Survey Register No. 37

**Working and investment plan:** N/A

**Activation and Reactivation Plan:** Handed in on April 27, 2016

**Canon:** Paid until 1<sup>st</sup> semester 2019

**Environmental Impact Assessment:** Under evaluation (File No. 1100.598-G-2016)

**Surface and land owner:** Mario Gino Leonardi

It can be confirmed that GPL is the exclusive applicant and that the *Demasía* is in due process. Upon fulfilling with the administrative process, the applicant will get the final title in due time. There are no canon payments debts, encumbrances, mortgages or liens pending on the mining property under analysis. .

**11.4.9. EIA Mining Group Hualilán II (File No. 1100.0053-C-09)**

**Legal Status:** 1<sup>st</sup> EIA update *under evaluation*

**Project:** Doña Justa

**Tenements:** Mining Group Hualilán 2, File No. 156.931-C-73 (Toro, La Puntilla, Pique de Ortega, La Descubridora, Pardo, Sánchez) and Andacollo Mine (File No. 5448-M-60)

**Location:** Department of Ullúm, Province of San Juan.

**Applicant:** Compañía GPL SRL

25/02/2009	GPL handed in Environmental Impact Assessment for exploration stage
12/08/2010	Mining Authority approved EIA for exploration stage by Res. No 190, subject to certain recommendations and conditions, including among others: <ul style="list-style-type: none"> <li>- Obtain permission from the Undersecretary of Culture of the Province of San Juan</li> <li>- Communicate the Mining Authority the start of the field works</li> <li>- Obtain all the sectoral permits for exploration works</li> <li>- Update the EIA within two following years</li> </ul>
12/08/2010	Mining Authority carried out an inspection on the project. It indicated that there were generally good conditions of order and that there were previous drillings that were well marked, covered and identified
17/08/2012	GPL notified the start of exploration works, which consisted in obtaining surface mineral samples for metallurgical testing. GPL also presented the EIA update, reporting the compliance status of the recommendations and conditions of Res. No. 190
09/10/2012	Mining Authority carried out an inspection on the project and verified that no residues of any nature were found in the area. In general, good environmental conditions were observed
27/10/2014	Mining Authority carried out an inspection on the project and confirmed that the statement made by GPL on 17/08/2012 is correct, except for two points: a) that there was no evidence of recent works in the area and b) that there is an environmental liability of old data consisting of roads, mining works not closed, old buildings and mining waste
28/11/2017	The Environmental Mining Authority evaluated the update handed in by GPL and suggested approving the EIA and issuing the approving resolution with the same conditions and recommendations as the previous one plus the following one: When GPL obtains funding to explore, it must present, prior to the start of the field work, a report that contains: amount to invest, works to be performed, location of the camp, environmental impact foreseen in the field works and environmental monitoring, recomposition and remediation
22/11/2018	GPL submitted a presentation answering the requested by the Mining Police and informed that they took the following measures: a) closed the deep holes with poles and wires and signalled them; b) closed access to the project; c) closed access to horizontal mining works; d) signalled vertical mining work and states that they will close with wire in a short time. GPL accompanied photographic record

- 30/11/2018 The Legal Adviser suggests that the Environmental Mining Authority should evaluate again the update submitted by GPL due to the time since that presentation
- 28/01/2019 The Director of Mining Environmental Assessment informed that GPL must:
- Obtain the permission of the Ministry of Culture of San Juan
  - Indicate the amount of investments scheduled to carry out the works described in the EIA and the work scheduled before the start of the exploration activities
  - Present the bi-annual update of the EIA
  - Obtain the relevant sectorial authorizations
- Likewise, the Director indicated that GPL has not documented a properly exploration stage and that from the inspections carried out in the field, it is concluded that there is inactivity of exploratory activities. He suggested that the Legal Adviser shall indicate the measures to be taken

We have confirmed that this EIA is completing with the proceeding settled by law for getting the approval resolution or Declaration of Environmental Impact of the first update of the EIA. Prior to any field work, applicant shall submit a report that contains: amount to invest, works to be performed, present the bi-annual update of the EIA that shall be duly approved by the Mining Authority of San Juan province, Argentina.

To conclude, we can confirm that all of the Mining Rights that comprises the *South* and *North* Hualilán project are in good standing situation and that there is no associated risk with these mining concessions. Furthermore, we can confirm that we have requested and obtained the good standing's certificate issued by the Mining Authority on November 20, 2018, which officially attest the good standing situation of such Mining Rights.

## **12. SUMMARY OF ARGENTINIAN MINING LAW**

We include herein below a summarized reference to some basic constitutional concepts as well as a general comprehensive overview of the Argentine mining regime, relevant to construe the findings depicted in this Legal Opinion.

### **12.1. Governmental System in the Republic of Argentina**

Argentina is a federal republic consisting of twenty-three autonomous provinces and the Autonomous City of Buenos Aires, organized under a national constitution similar to that of the United States of America.

Argentina's national government is organized into three separate branches. The executive branch is headed by a democratically elected President. The President and Vice-president are elected on the same ticket by popular vote for four-year terms. The National Congress is comprised of a bicameral legislature: The House of Deputies and the Senate. Both, Deputies and Senators are also democratically elected. The judicial branch is led by the National Supreme Court of Justice, which is comprised of five justices appointed by the President subject to Senate approval. Beneath the Supreme Court is a hierarchy of federal courts.

Each of the provinces has its own government and courts, the organization of which mirrors the federal system. The National Constitution establishes that each of the provinces determines their own local institutions by which they will be governed. The national government may not intervene in the election of their governors, legislators and other provincial officers. Each province also enacts its own provincial constitution.

Argentina's Constitution divides the respective jurisdictions of the national and provincial governments by empowering the provinces to delegate to the national legislature the authority to enact laws of national scope concerning civil, commercial, and other matters, such as mining. It is important to note, however, that federal action on an issue does not necessarily preempt concurrent action on the provincial level. Some powers (referred to as concurrent powers) can be exercised by both the national government and the provincial governments. On the other hand, it should also be noted that: (i) the national government is not empowered to exercise any of the powers reserved by the provinces, which have not been delegated to the federal authorities; and (ii) the provinces are not empowered to exercise the powers delegated by them to the federal government. In this sense, they cannot enact laws dealing with commerce, inland or foreign navigation, establish provincial customs, coin money, establish banks with power to issue money without the prior authorization from the National Congress, enact civil, commercial, criminal or mining codes, enact special laws regarding citizenship and naturalization, or any other power expressly or implicitly delegated to the national government. As a result, the provinces may enact their own specific provisions, but only with respect to issues concerning their reserved or concurrent powers.

Finally, please note that Argentina is a civil law country, meaning that its courts rely on laws, mostly compiled in codes, rather than on precedent established in prior judicial decisions.

## **12.2. General Introduction to the Argentinean Mining Regime**

Mining regulations in Argentina are mainly established under the AMC, although regulation in such regard may also be found in local laws and certain special federal laws, such as the Mining Investment Law 24,196, as amended by Law 25,161.

Specifically, the AMC governs the rights, obligations and procedures referring to the exploration, exploitation and use of mineral substances. These regulations create the legal framework that governs the relationship between the State and miner (through an exploration permit or a mining concession); and between the miner and third parties.

In general terms, mining properties are governed by the same principles of common ownership. However, and although they have the nature of a real estate property, mining properties form a different property from the land in which they are located.

Any individual or legal entity with capacity to legally purchase and own a real estate property may purchase and own a mine. The ownership of a mine is acquired through a legal concession granted for unlimited time and subject to the compliance of certain maintenance conditions (mainly related to the payment of mining fees and the implementation of an investment plan). In this sense, it can be said that the mining property is always in jeopardy of being revoked by failure in the fulfillment of these conditions.

The provinces are -according to our National Constitution- the original owners of the natural resources existing within their territories, but they are not allowed to exploit such resources directly. Therefore, the provinces have to grant to those individuals / legal entities interested in mining exploration and exploitation, the so called right of “mining property” by means of a legal concession.

Taking into account the rights acknowledged by the AMC, mines are divided into three (3) different categories:

- 1st.** Mines which surface land is an accessory and belong exclusively to the State and which may only be tapped or exploited under a legal concession granted by the relevant provincial authority. Mines of the first category include: (i) The following metal substances: gold, silver, platinum, mercury, copper, iron, lead, tin, zinc, nickel, cobalt, manganese, aluminum, lithium and potassium, among others; (ii) Fuels such as: coal, brown coal and solid hydrocarbons; (iii) Arsenic, quartz, feldspar, mica, pear spar, limestone, bearing phosphates, Sulphur and borates; (iv) Precious stones; and (v) Endogenous steam.
- 2nd.** Mines which, based on their importance are preferentially licensed to the surface landowner; and mines which, as a result of the conditions of deposits, are used on a shared basis. Mines of the second category include: (i) Metallic sand and precious stones which are found in the river beds, flowing waters and diggings; (ii) Burrows and tailing of former mining works, provided such borrows and tailings remain unprotected, as well as burrows and tailings of abandoned or open-pit mining facilities, provided they are not recovered by their owner; (iii) saltpetre, salt and peat; (iv) Any such metal which is not included in the first category; and (v) Different types of mineral earths.
- 3rd.** Mines which belong solely to the surface landowner and which cannot be exploited by anybody without the owner’s consent; except in case of public benefit or good. Mines of the third category comprise deposits of mineral stone and materials, which are used for construction and ornamentation.

From a different standpoint the categories of mineral substances foreseen by the AMC can be summarized as follows:

- Those that belong to the States and not to the surface landowner (i.e. mines corresponding to the first and second categories); and
- Those that belong to the owner of the surface land in which they are located.

### **12.3. Mining Rights. Granting Process**

Find next a brief review of the main provisions that rule the granting and existence of mining rights of the first and second category of minerals, in accordance with the AMC.

Do note that all these provisions shall be complemented with the local procedural rules and the administrative case law of the mining granting authority.

### **12.3.1. Exploration Permits**

Any individual or legal entity may apply for an exclusive permit to explore a certain area during the time and to the extent provided by the AMC. The exploration permit is granted on an exclusive basis and is opposable to any individual or legal entity.

During the life term of an exploration permit, its holder has the exclusive right to apply for and obtain the granting of one or more mining exploitation concessions within the areas covered by such.

Any discovery by a third party without the explorer's prior consent within the area of the permit, shall belong to the explorer from the date of submission of the permit's application. Such provision reinforces the priority rights that an exploration permit grants, notwithstanding the fact, that the holder of the exploration permit may waive its priority in the area in favor of a third party discoverer.

### **12.3.2. Exploitation Concession ("Mina")**

Mines are acquired by means of a legal concession granted by the relevant mining authority under the provisions of the AMC. Mining exploitation concessions are granted on: (i) mine discoveries; and (ii) vacant mines on account of expired licenses.

### **12.3.3. Statement of Discovery**

To obtain a mining concession, the discoverer must submit a written application to the mining authority (a Statement of Discovery), enclosing a sample of the mineral and stating, among other things: (i) the name, status and address of the discoverer (and associated discoverers, if any); (ii) the name to be given to the mine; (iii) the site of the discovery; (iv) the name and type of mineral of adjacent mines; and (v) who the owner of the surface land is.

The discoverer must also indicate an area not exceeding twice the maximum possible extension of an exploitation concession, within which the exploration works shall be conducted and mining "Claims" ("Pertenencias") shall be confined to. This area shall include the discovery site and will remain unavailable until the survey is duly approved and authorized. When filing the application, it is customary to make reference to the exploration permit within which such discovery is encompassed, so that any overlap with existing rights is already anticipated.

The Notary of Mines shall indicate in each of the copies of the application, the day and time of application. Furthermore, the Notary of Mines shall certify if there is any other petition or record in relation to the same area or deposit and, if applicable, the applicant shall be duly notified. One of the counterparts of the application shall be returned to the discoverer, and the other one shall be kept by the Notary of Mines for the administrative mining file.

Then, the application shall be chronologically and consecutively numbered and the mining cadastral register authorities shall immediately consider such application in order to determine whether it refers or not to a free area. Then, the Notary of Mines shall issue a discovery report based on the information provided by the Mining Cadastral Registry. With this report, the Mining Authority -if applicable- will order the registration of the discovery and the publication

legal notices.

#### **12.3.4. Survey and demarcation**

Any area of land within which boundaries the holder of a mining concession is allowed to conduct exploration works is called a claim ("Claim").

Each Claim of disseminated deposits of first category's minerals, where the mineralization is evenly distributed and allows large-scale exploitation by non-selective methods, will be of one hundred (100) hectares.

By virtue of a petition in writing duly submitted by the interested party, Claims shall be surveyed and demarcated. Both, the request of survey filed in writing by the applicant, and the Mining Authority's resolution in such regard must be published in the Official Gazette and notified to the owners of adjacent mines, if known. If no opposition is filed, or finally settled those which have been filed, the Mining Authority shall order the survey.

Once the survey and demarcation has been performed, the Mining Authority shall order the registration of the Claims before the relevant registry, and a copy evidencing such registration shall be provided to the applicant as a definitive title of ownership.

After the completion of this proceeding, the holder of the exploitation concession owns all the in-place deposits within the boundaries of such Claim, no matter the mineral substance therein contained. That notwithstanding, the concessionaire shall, for record purposes, be obliged to report to the Mining Authority the finding of any substance different from the ones listed in the record and registration of his/her mine and, as the case may be, reflect any consequent effect on the royalty and the investment of capital.

#### **12.3.5. Concession Conditions**

The mining property, though perpetual in nature, is subject to the fulfilment of certain specific conditions or obligations known as "Amparo Minero", consistent, basically in: the payment of a mining fee; and the fulfilment of an investment plan.

- (i) **Mining Fee:** The AMC establishes the obligation of the titleholder to pay an annual fee per Claim, which is to be periodically fixed as required by National law; and foresees that the concession shall terminate ipso facto, due to lack of payment of the annual fee, following two (2) months of expiration date.

The applicable fee for minerals corresponding to the first category is AR\$ 320 per Claim or measurement unit. In case of disseminated deposits of first category's minerals (100 Hectares' Claims) will be ten times the regular mining fee (this meaning a fee of AR\$ 3,200 per claim).

The mining fee shall accrue from the date of registration of the statement of discovery, provided that such fee shall be paid in advance and in equal parts in two (2) semesters, which shall expire on December 31st and June 30th every year, and any fraction of a period of six (6) months shall be considered as a full period of six (6) months.

Section 224 of the AMC also states that discoverers shall be exempted, for a three



(3) year period, from paying the mining fee in connection with those mining properties that they are awarded.

- (ii) **Investments Plan:** Within one (1) year from the date of request of survey (and despite the fact that the mining property has been surveyed or not), the applicant/concessionaire must submit to the Mining Authority an estimate of the plan and amount of capital investment that it intends to perform in connection with: (i) the execution of mining works; (ii) the construction of camps, buildings, roads and other related works; and (iii) the acquisition of machinery, stations, parts and equipment, indicating its production or treatment capacity.

The investment for a particular mining property cannot be less than three hundred (300) times the annual fee that corresponds to such mining property according to its category and number of Claims provided that such investment shall be fully completed within five (5) years from its filing.

It is also required that an amount not lower than twenty percent (20%) of the estimated aggregate amount is invested in each of the first two (2) years.

Furthermore, within a term of three (3) months following the expiration of each annual period, a sworn statement on the compliance status of the investments must be submitted to the Mining Authority.

#### ***12.3.6. Termination of the Concession***

Although the concessionaire has full proprietorship right on the granted mining property, at any time thereafter the mining concession may be terminated by the State upon the occurrence of any of the legal causes set forth in the AMC.

In this regard, the AMC provides that the mining concession shall be terminated upon the following events:

- (i) Failure to pay the mining fee;
- (ii) Failure to comply with the investments plan; and
- (iii) Inactivity of the mine.

Please note that these items do not have all the same origin and effect. In this regard, compliance with the obligations under (i) and (ii) are the two essential commitments that a mining concessionaire has to comply with in accordance with the AMC's structure of rights and obligations. These two obligations are considered by the AMC as the "Amparo Minero" conditions (old Spanish word related to the mining work). The non-compliance with such provides for the termination of the concession by the Mining Authority.

Regarding (i), Section 216 of the AMC sets forth that the concession terminates if failure to comply with the annual payment of the mining fee is not cured within two (2) months of the due date. The Mining Authority shall notify the concessionaire of such situation.

In connection with (ii), Sections 217 and 218 of the AMC refer to this matter. As stated above, the concessionaire is requested to file with the Mining Authority an investment plan for the mine. Purpose of such is to evidence the investment intentions on the mine, and such investment plan shall have to be approved by the Mining Authority and monitored for its

compliance. The concession can therefore, be in general terms cancelled or become void (declared “caduca”) if no plan is filed or if such is not complied with. The AMC provides the concessionaire with the right to cure the referred non-compliances.

Regarding concessionaire’s right to cure non-compliances related to the investment plan, the AMC provides, under Section 218, for different curing periods, depending on the type of non-compliance:

- There is a period of thirty (30) days to be counted as of the notice provided by the Mining Authority which applies when (a) the estimated investments do not fulfil the purpose indicated by the concessionaire; (b) the investments are below the parameters set forth by the AMC; (c) no presentation of estimated investments is made and (d) no sworn statements related to (c) are made.
- With respect to the second category of curing rights, there is a period of fifteen (15) days to be counted as of notice provided by the Mining Authority, which applies when: (a) the statements made regarding the investment plan are false or untrue; (b) the estimated and stated investments are not made; (c) amendments reducing the investments are made by the concessionaire without prior notice to the authority; (d) certain assets are removed from the concession and thereby the investments already stated are reduced or negatively affected in this way.

With regards to (iii), according to Section 225 of the AMC, when a mining property has been inactive for more than four (4) years, the Mining Authority may require the submission of a Plan for Activation or Reactivation within six (6) months, under penalty of declaring the concession expired. Once the Reactivation Plan has been filed, the concessionaire must comply with each of its stages within the period specified therein. The whole plan shall be completed in five (5) years, under penalty of revocation of the mining right.

In Addition to the above-referred situations of mining concession’s termination, a reference should also be made regarding abandonment. Section 226 of the AMC sets forth that if the concessionaire elects to legally abandon the mine, the concession shall be cancelled (declared caduca) and thereafter granted to a third party only once the Mining Authority approves the abandonment, provided that in the meantime the concessionaire will remain as the responsible party for the mine.

#### **12.3.7. Vacant Mine**

According to Section 219 of the AMC, when a mining concession is cancelled, the mining rights return to the State and the mine is declared and registered as vacant. Once a mining property is registered as vacant, any third party may apply for its concession. If the former concession has been cancelled for failure in paying the mining fee, the applicant shall pay any amounts due, when submitting the application form. If such payment is not evidenced, the application will be rejected. The new concessionaire will step in the position of the former concessionaire, and will continue the procedure of the mining file according to its status. The new concessionaire will have a one-year-term to comply or complete, as applicable, the obligations referred to the committed investment plan.

#### **12.4. Granting Authority**

Depending on the regulation of each Province, the relevant mining authority of each jurisdiction may either be a Mining Department / Direction / Ministry (“Dirección / Departamento / Ministerio de Minería”) or a Mining Court (“Juzgado de Minas”). The first one are body of the provincial executive branch, and its main authority is generally vested on the Mining Director or Minister. The Mining Court belongs to the provincial judiciary organization, and its authority is vested on the Judge of Mines.

In the Province of San Juan, the granting authority and mining authority is of executive nature and vested in the Minister of Mining depending on the provincial executive power.

## **12.5. Mining Investments Law Regime**

As of 1992 the Argentinean Government decided to promote investments in the mining sector. In this sense, Law 24,196 (as amended), which is commonly referred to as the “Mining Investments Law” provides for important tax benefits and has proven to be very relevant and useful for developing mining projects, especially large scale ones.

We briefly describe herein below some of the main features and/or benefits of the law:

### **12.5.1. Tax Stability**

This means that companies covered by these regulations may not have their overall tax obligations, as determined at the time of presentation, affected by reason of tax modifications, regardless of their denomination and whether they have been made at a national, provincial or municipal level (provided Provinces and Municipalities have adhered to this law). The Province of San Juan as most of the provinces has adhered to this law (San Juan’s provincial Law 459-M).

Exchange and customs duties regulations are likewise included in the law (except for exchange rate, reimbursements and refunding of taxes as a result of exports which are governed by different specific laws). The value added tax has been excluded from tax stability.

Stability shall be in force over a thirty (30) year period, as from the date of filing of the feasibility report. Any alteration to the tax stability benefit shall entitle the damaged registered persons/entities to file claims before the national and provincial authorities (as applicable), such persons having the right to request co-participation funds to be withheld in such amount as it would be necessary to return all overpaid amounts to the damaged party.

The National Mining Secretary shall issue a certificate stating all national, provincial and municipal taxes, contributions and rates applicable to the project as are in force at the time of filing of the feasibility report. Such information shall also be forwarded to the respective tax authorities.

There are specific provisions regarding income tax treatment in terms of benefits for the registered companies under this regime.

### **12.5.2. Royalties**

Provinces who adhere to these regulations may not charge royalties over 3% on the pithead value (valor “boca mina”) of the mineral obtained. As stated below most of the provinces have adhered to this law and, therefore, they would not be entitled to receive royalties in an amount over 3% of the pithead value. In addition, the provinces have their particular royalties’ regulation and can set specific rules within the referred to percentage.

## **12.6. Mining Environmental Regime**

Protection of the environment and preservation of natural and cultural heritage within the scope of mining activity are subject: (i) to the specific regulations of the AMC -as amended by National Law 24,585 of Environmental Protection for Mining Activity-; (ii) to those federal laws and regulations enacted with general character by the National Government; and also (iii) to all relevant provincial law and/or regulation in force in the jurisdictions where the mining properties are located.

As for mining activity specifically, National Law 24,585 provides that prior to the commencement of any activity comprehended within the scope of the Complementary Title of the Environmental Protection for Mining Activity of the AMC, an Environmental Impact Assessment (“EIA”) shall be submitted to the Enforcement Authority that, as set forth under such legislation, is the authority that each Province determines within the scope of its jurisdiction. The filed EIA, should then be assessed with a technical, scientific and legal-administrative process of analysis and valuation, through which its components, doubts and omissions should be identified, related and ranked, in accordance with policies, judgments and parameters assumed by the Enforcement Authority.

Once assessment of the EIA has concluded, the Enforcement Authority shall issue the Environmental Impact Statement (“EIS”) which is the final document of the assessment, containing the terms under which the activity shall be performed in connection with the environment, the community and the authority.

The Enforcement Authority shall have a sixty (60) business day’s term counted as of the date of the filing of the EIA to expressly pronounce for the approval or rejection of the EIR. Within this term, upon grounded decision, the Enforcement Authority can also request the responsible party to complete the EIA if its content is deemed insufficient.

The EIS shall be updated every two (2) years -maximum- through the filing of a new report containing the results of executed environmental actions, as well as the new facts that have been generated.

National Law 24,585 also makes all persons performing mining activities liable, of every environmental damage caused due to the un-fulfillment of its regulations, whether the damage is caused directly or by his/her employees, or by contractors or subcontractors, or if caused by risk or defect associated to a thing in itself. The owner of a mining right is jointly liable in the same cases for the damage caused by persons authorized by him/her for the exercise of such right. Moreover, and notwithstanding administrative and criminal sanctions that may correspond, anyone causing present or residual damage to the environmental heritage, shall be obliged to mitigate, rehabilitate, restore or recompose it, as may correspond.

## 12.7. Other Regulatory Regimes That Impact Mining Activities

We finally highlight the following two regimes to keep also in mind:

- Border Zone restrictions: There is a regulation that affects and restricts the ownership and acquisition of properties in border zone or areas (this is geographically defined) by foreigners or foreign companies. However, there is an exceptional regime for mining activities that excludes the application of this regime to mining rights
- Rural Lands: This piece of legislation enacted by the end of 2011 restricts the ownership and transfer of rural Rural Lands: This piece of legislation enacted by the end of 2011 restricts the ownership and transfer of rural lands by foreigners and foreign companies. A system of quotas in each province and municipalities has been created in order to control and limit the access of foreigners to the ownership of land in the country

Please do not hesitate to contact us for any question.

Sincerely yours,



Hugo Emilio Bastías

### **BY Abogados**

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**14. SOLICITORS REPORT ON TITLE - TOBAR SPINGBARN ZVS (EL GUAYABO PROJECT - ECUADOR)**



# Memo

**To:** Mr. Robert Willes

**CHALLENGER EXPLORATION LIMITED**  
Level 3, Suite 301, 17 Castlereagh Street  
Sydney NSW 2000  
Australia

**From:** Dr. César Zumárraga

**TOBAR ZVS C.L.**  
Av. 12 de Octubre y Abraham Lincoln,  
Edificio Torre 1492, Of. 1505  
Quito - Ecuador

**Purpose:** LEGAL OPINION ON MINING RIGHTS – EL GUAYABO MINING CONCESSION

**Date:** May 15<sup>th</sup>, 2019

Dear Sir,

We act as Ecuadorian Counsel to Ecuador Mining Pty Limited (“EMP” or the “Client”).

EMP, which is a wholly owned subsidiary of AEP Corporation Pty Limited (ACN 627 617 976) (“AEP”), has entered into a farmin agreement under which it can acquire up to one hundred percent (100%) of the El Guayabo mining concession from Torata Mining Resources TMR S.A. (“TMR”). Under the farmin agreement EMP has already earned an initial 19.9% interest in the project.

It is our understanding that AEP has entered into an agreement with Challenger Exploration Limited (“CEL”), under which CEL is to acquire AEP.



As such counsel of EMP and at the Client's request we hereby provide you with a legal opinion (the "**Legal Opinion**") on the items depicted herein below:

1. Incorporation, ownership and good standing of TMR.
2. Existence, status and enforceability of the:
  - a. Farmin agreement between EMP and TMR.
  - b. Pledge Agreement between EMP and TMR.
  - c. Irrevocable Promise Agreement between EMP and TMR.
3. Ownership and good standing of the Mining Concession.

This Legal Opinion is being delivered pursuant to the Client's requirement and is given for the purposes of the forthcoming public offering of shares that CEL intends to conduct on the Australian Stock Exchange, and with the purpose of it being included in the prospectus that CEL shall present in connection thereto.

We enclose as Schedule 1 hereto an introductory summary of the main applicable provisions set forth under the Ecuadorian Mining Law and other applicable laws, in connection with mining property in the Republic of Ecuador.

## **1. DEFINITIONS**

- 1.1. Unless the context otherwise requires, in this Legal Opinion the following terms shall have the meaning set out below when written with an initial capital letter:

<b>AEP</b>	Means AEP Corporation Pty Limited (ACN 627 617 976).
<b>ARCOM</b>	Means the Mining Regulation and Control Agency.
<b>ASX</b>	Means the Australian Stock Exchange.
<b>CEL</b>	Means Challenger Exploration Limited.
<b>Client</b>	Means Ecuador Mining Pty.
<b>EMP</b>	Means Ecuador Mining Pty.
<b>Farmin Agreement</b>	Means the farmin agreement in place between EMP and TMR over the Mining Concession.





<b>Mining Concession</b>	Means the mining concession El Guayabo (Code. No. 225) located in Torata and Bellamaría, El Oro, Ecuador.
<b>Novation Agreement</b>	Means the novation agreement executed between EMP, PSA and TMR, under which TMR replaced and substituted PSA under the Farmin Agreement.
<b>PSA</b>	Means Planbeoro S.A.
<b>TMR</b>	Means Torata Mining Resources TMR S.A.

## **2. QUALIFICATIONS**

- 2.1. We are attorneys admitted and licensed to practice law in the Republic of Ecuador. This Legal Opinion is restricted to matters related to the laws of the Republic of Ecuador, and we are expressing no opinion as the effects of the laws of any other jurisdiction. For any and all purposes, this Legal Opinion shall be governed by and construed in accordance with the laws of the Republic of Ecuador.
- 2.2. In rendering this opinion hereto, we have assumed without any further investigation or confirmation from our side:
- (a) The conformity to the originals of all documents submitted to us as copies.
  - (b) That the execution and performance of each and all documents are within the power and authority of, and each of the documents has been duly authorized, executed and delivered by each party thereto, as the case may be (as to whom we make no assumptions).
  - (c) The veracity of certain factual matters upon information obtained from public officials, officers and legal counsels of TMR and other sources are considered as true and attached to the truth.
  - (d) That the signatures on all documents examined by us are genuine.
  - (e) That verbally provided information and explanations were true, correct, complete and not misleading.



- (f) Whenever our opinion with respect to the existence or absence of facts or circumstances is qualified by the phrase “to our knowledge”, it is intended to indicate that no information has come to our attention that would give us actual knowledge of the existence of such facts or circumstances. However, it must be noted that we have not undertaken any special or independent investigation to determine the existence or absence of such facts or circumstances, and no inference as to our knowledge of the existence of such facts or circumstances should be drawn merely from this report.

- 2.3. No opinion has been rendered regarding measurements, technical data or graphic information related to the Mining Concession, neither to the completeness and content of the environmental information submitted.
- 2.4. We express no opinion on accounting confirmatory information and tax status.

### **3. CORPORATE – Torata Mining Resources TMR S.A.**

#### **3.1. Incorporation.**

Torata Mining Resources TMR S.A. is a corporation (sociedad anónima) duly incorporated and existing under the laws of the Republic of Ecuador, pursuant to the Public Deed dated October 26<sup>th</sup>, 2018, executed before Notary Public No. 4 of Machala, Ecuador.

#### **3.2. Registration.**

Torata Mining Resources TMR S.A. is registered in the Republic of Ecuador, before the Machala Mercantile Registry, dated November 9<sup>th</sup>, 2018, under registry No. 4928, and thus has legal existence.

#### **3.3. Corporate Purpose.**

Torata Mining Resources TMR S.A. has been incorporated with the sole purpose of executing exploration and production of mineral resources.

#### **3.4. Shareholders.**

The following are the shareholders of Torata Mining Resources TMR S.A.:

No.	Name	Nationality	Share Capital (USD)	%
1	DA SILVA ALHEIRO	PORTUGAL	700.00	



	JOAO PAULO			70%
2	DUEÑAS CONDO MARÍA GRACIA	ECUADOR	300.00	30%

The share capital of Torata Mining Resources TMR S.A. is US \$1,000.00 divided in 1,000 ordinary shares of US \$ 1.00 each.

### 3.5. Governance.

Torata Mining Resources TMR S.A. is governed by the Board of Shareholders and is administered by the following officers:

Name	Position	Date of Appointment	Nationality
MATA CHIRIBOGA PAULO ROBERTO	General Manager	October 26 <sup>th</sup> , 2018	Ecuador
DUEÑAS CONDO MARÍA GRACIA	President	October 26 <sup>th</sup> , 2018	Ecuador

## 4. LIST AND INFORMATION OF THE MINING RIGHTS

4.1. The details of the Mining Concession are as follow:

Mining Concession	Code No.	Surface Area	Mining Registry Date	Term of the Concession*		
				Years	Months	Days
EL GUAYABO	225	281 he.	May 19 <sup>th</sup> , 2010	21	5	28

*\* The term of the Mining Concession must be calculated from May 19<sup>th</sup>, 2010.*

4.2. On October 1<sup>st</sup>, 2001 the Ecuadorian Government, through the Ministry of Non-Renewable Natural Resources, granted to Mr. Rudolf Jahoda the mining rights over the Mining Concession.

4.3. On July 18<sup>th</sup>, 2007 the Mining Concession was legally transferred from Mr. Rudolf





Jahoda to the company Amlatminas S.A.

- 4.4. On April 27<sup>th</sup>, 2010 following the enactment of the current Mining Law, the Ministry of Non-Renewable Natural Resources replaced and substituted the title of the Mining Concession. Under this new title the term of the concession was defined on 21 years, 5 months and 28 days from May 19<sup>th</sup>, 2010.
- 4.5. On October 17<sup>th</sup>, 2017 the Mining Concession was legally transferred from Amlatminas S.A. to Planbeoro S.A.
- 4.6. On January 24<sup>th</sup>, 2019 the Mining Concession was legally transferred from Planbeoro S.A. to Torata Mining Resources TMR S.A.

## **5. FARMIN AGREEMENT BETWEEN EMP AND TMR**

- 5.1. On November 28<sup>th</sup> 2018, EMP entered into a farmin agreement with Planbeoro S.A. (“PSA”) with regards to the Mining Concession. The farmin agreement is governed by the laws of the Republic of Ecuador.
- 5.2. Under the farmin agreement PSA granted EMP the exclusive and irrevocable right to acquire all of PSA’s rights, title and interest in, and to, the Mining Concession (the “**Farmin Agreement**”).
- 5.3. Under the terms of the Farmin Agreement, EMP has the right to acquire a one hundred percent (100%) interest in the Mining Concession, free and clear of all claims, liens and encumbrances, subject to EMP complying with the following:
  - (a) EMP acquired a nineteen-point nine percent (19.9%) interest in the Mining Concession following the payment of US\$450,000 which was paid on the basis that it be used for the sole purpose of restarting mining operations in the Ecuaba Adit.
  - (b) EMP shall acquire an additional sixteen-point one percent (16.1%) interest, for a cumulative total interest of 36% against the expenditure of A\$2,000,000. This payment shall be made by EMP within the 23 months following the relisting date of CEL to the Official List of the ASX. Under the Farmin Agreement the relisting date has been agreed as such date when CEL shares have been readmitted to quotation on the ASX.
  - (c) EMP shall acquire an additional sixteen per cent (16%) interest against the execution of additional expenditure of US\$3,000,000.
  - (d) EMP shall acquire a final forty-eight percent (48%) interest against the



issuance of 180,000,000 shares in CEL, subject to necessary regulatory approval and approval by the shareholders of CEL.

- 5.4. On November 15<sup>th</sup>, 2018, at the formal request of PSA, EMP authorized PSA to transfer the rights in the Mining Concession to a new corporate vehicle called Torata Mining Resources S.A. The authorization to transfer the rights was subjected to TMR assuming all of PSA's rights and obligations under the Farmin Agreement.
- 5.5. On December 28<sup>th</sup>, 2019 the ARCOM authorized the transfer of the Mining Concession from PSA to TMR. The authorization was granted under Resolution No. MERNNR-CZS-2018-0020-RM.
- 5.6. The transfer of the Mining Concession was registered before the Mining Register of ARCOM on January 24<sup>th</sup>, 2019. Thus, on such date TMR became the legal owner and title holder of the Mining Concession.
- 5.7. On the same date, January 24<sup>th</sup>, 2019 EMP, TMR and PSA executed a novation agreement.
- 5.8. Under the novation agreement TMR replaced and substituted PSA in all the rights, obligations, risks and responsibilities under the Farmin Agreement (the "**Novation Agreement**"). Moreover, under the Novation Agreement, PSA became jointly and severally liable to EMP with regards to the obligations it acquired under the Farmin Agreement.
- 5.9. In order ensure the compliance of its obligations under the Farmin Agreement, TMR and EMP executed to additional agreements: a pledge agreement and an irrevocable promise agreement. Both agreements are governed by the laws of the Republic of Ecuador.
- 5.10. On March 12<sup>th</sup>, 2019 TMR and EMP executed an irrevocable promise agreement before Notary Public (the "**Irrevocable Promise Agreement**"). The Irrevocable Promise Agreement was registered before the ARCOM on April 11<sup>th</sup>, 2019.
- 5.11. Under the Irrevocable Promise Agreement TMR is obliged to transfer the Mining Concession to EMP to the extent that EMP complies with its obligations under the Farmin Agreement.
- 5.12. On March 7<sup>th</sup>, 2019 TMR and EMP executed a pledge agreement before Notary Public (the "**Pledge Agreement**"). The Pledge Agreement was registered before the ARCOM on March 27, 2019.
- 5.13. Under the Pledge Agreement, TMR has granted to EMP a security interest in the





mineral substances of the Mining Concession and all moveable assets on, or related to, the Mining Concession, in order to secure the performance of TMR's obligations under the Farmin Agreement and the Irrevocable Promise Agreement.

## **6. LEGAL OPINION**

### **6.1. Corporate**

- (a) Torata Mining Resources TMR S.A., is a company duly incorporated under the laws of the Republic of Ecuador.
- (b) At the date of this Legal Opinion, Torata Mining Resources TMR S.A., legally exist and is in good standing condition before the Superintendence of Companies of the Republic of Ecuador.
- (c) Mr. Da Silva Alheiro Joao Paulo (Portugal) and Mss. Dueñas Condo María Gracia (Ecuador) are the sole registered shareholders of the share capital of Torata Mining Resources TMR S.A.

### **6.2. Mining Concession**

- (a) Following the review of the documents provided by the TMR and the registers kept by the ARCOM, we can confirm that at the date of this Legal Opinion, TMR is the title holder of the Mining Concession.
- (b) The Mining Concession was registered in the mining register of Machala branch of the ARCOM. Such registration shows that the Mining Concession is valid and is not subject to any liens or encumbrances, other than the Pledge Agreement and the Irrevocable Promise Agreement granted by TMR on behalf of EMP.
- (c) In compliance with the Ecuadorian Mining Law enacted in 2009, the title of the Mining Concession was replaced on April 27, 2010.
- (d) The mining title grants TMR an exclusive right to perform activities, including, mining, exploration, exploitation and processing of minerals over the area previously covered by the prior title.
- (e) The Mining Concession was qualified according to the Ecuadorian Mining Law under the small-scale mining regime on March 29, 2012. The aforementioned resolution was duly registered in the mining register of ARCOM on May 17, 2012.



- (f) Pursuant to such small-scale mining qualification, in the Mining Concession it is possible to simultaneously carry out exploration and exploitation activities, without considering the mining phases of the general mining regime.
- (g) So long that TMR maintains in good standing the environmental license and the use of water permits exploration drilling activities may be executed without the need of an additional approval.
- (h) Regarding annual regulatory obligations, TMR has timely complied with all of its obligations to pay the conservation patent fees and to submit annual exploration reports. Regarding the annual payment of patent fees, TMR executed the payment before March 31 in accordance with the Ecuadorian Mining Law. It is our understanding that TMR shall notify the ARCOM with such payment during the first week of April.

#### 6.3. Environmental Issues

- (a) The Environmental Ministry issued an environmental license for exploitation activities on 2015 in relation to the Concession. We do not make any declarations regarding the status of validity/compliance of such environmental license since we have not been performed an environmental audit within the concession.
- (b) On 25 March, 2019 the ARCOM issued a resolution in which ordered the temporary suspension of small-scale mining activities in the Concession due to the inappropriate use and treatment of water. EMP's surface exploration activities have not been affected by the temporary suspension.
- (c) Provided that TMR complies with the remediation plan and remove the circumstances that gave way to the breach, the ARCOM shall lift the suspension on the mining activities.
- (d) It is our understanding that the approximate cost for the implementation of a remediation plan is US\$220,000.00 and that EMP has agreed to finance the costs under the Farmin Agreement.

#### 6.4. Farmin Agreement

- (a) The Farmin Agreement constitutes a valid and binding agreement under the laws of the Republic of Ecuador. At the date of this Legal Opinion, the Farmin Agreement is in good standing and all obligations thereunder are enforceable between EMP and TMR.



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- (b) The Novation Agreement constitutes a valid and binding agreement under the laws of the Republic of Ecuador. At the date of this Legal Opinion, the Novation Agreement is in good standing and all obligations thereunder are enforceable between EMP, TMR and PSA.
- (c) The Irrevocable Promise Agreement constitutes a valid and binding agreement under the laws of the Republic of Ecuador. At the date of this Legal Opinion, the Farmin Agreement is in good standing and all obligations thereunder are enforceable between EMP and TMR.
- (d) The Pledge Agreement constitutes a valid and binding agreement the laws of the Republic of Ecuador. At the date of this Legal Opinion, the Farmin Agreement is in good standing and all obligations thereunder are enforceable between EMP and TMR.

Sincerely,

A handwritten signature in blue ink, appearing to be "César Zumárraga", written over a horizontal line.

Dr. César Zumárraga



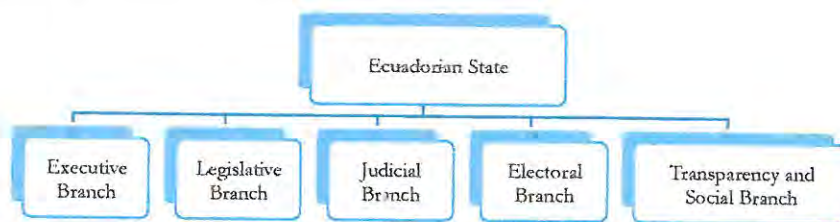
## SCHEDULE 1

### MINING LEGAL FRAMEWORK IN ECUADOR

#### A. POLITICAL-ADMINISTRATIVE AND TERRITORIAL STRUCTURE OF THE ECUADORIAN STATE AND GOVERNMENT LEVELS

##### 1. Political-Administrative Structure of the Ecuadorian State

- 1.1. The Ecuadorian State is a unitary State which means that, as a general principle, the public power is granted and executed through the Central Government.
- 1.2. For political-administrative purposes the Ecuadorian State has adopted the following structure of division of powers:



- 1.3. The administration of the State is executed through the Executive Power which acts through the Central Government. In turn, the Central Government is represented by the President of Ecuador which is the main authority. The President may delegate some of its legal attributions on its Ministers of State, which in turn are authorities appointed by the President himself.
  - 1.4. This political-administrative structure is recognized and defined in the Constitution of the Republic of Ecuador (the “**Constitution**”).
- ##### 2. Territorial Structure and Competencies regime of the Ecuadorian State
- 2.1. Notwithstanding the unitary character of the Ecuadorian State, the Constitution mandates that Ecuador shall be ruled or governed in a decentralized manner. For this purpose, the Ecuadorian State has adopted the following territorial structure:



- 2.2. The Constitution provides that for the administration and ruling of each of the Regions, Provinces and Municipalities, there shall exist a Decentralized Autonomous Government.
- 2.3. Thus, in addition from the Central Government, each region has a Decentralized Autonomous Regional Government, each Province has a Decentralized Autonomous Provincial Government and each Municipality has a Decentralized Autonomous Municipal Government.
- 2.4. Each and every one of this government levels has specific and exclusive attributions and competencies defined in the Constitution.
- 2.5. According to article 261 of the Constitution, the Central Government has exclusive attributions, amongst others, over energy, mineral resources, oil and gas, water, biodiversity and forest. Moreover, non-renewable natural resources, such as mineral resources, are defined as strategic sectors under the Constitution and have a differential treatment.
3. Strategic Sectors (mineral resources)
  - 3.1. In Ecuador the Ecuadorian State owns all mineral and non-renewable natural resources located within the national territory and thus the State has reserved the right to administer, regulate, control and manage such strategic sectors.
  - 3.2. The administration of the mineral resources is made by the Non-Renewable Natural Resources Ministry. This organ has the competency to define and direct the mining policies that shall govern the mining industry in Ecuador.
  - 3.3. The regulation and control of the mineral resources is made by the ARCOM. Environmental activities executed with relation to mining resources are made directly by the Environmental Ministry.
  - 3.4. The management, understood as the operational activities, is made by the ENAMI EP. The ENAMI EP is a state-owned company created and





controlled by the Central Government with the purpose of executing mining activities in Ecuador.

- 3.5. Notwithstanding the aforementioned, the Constitution provides that the management of natural resources, including mineral resources, can be delegated by the Ecuadorian State to private parties by way of granting a title on a mining concession for a term of 25 years.

## **B. ECUADORIAN MINING LEGAL REGIME**

### **4. Legal Regime**

- 4.1. Although the Constitution has defined the mineral resources and non-renewable natural resources as strategic sectors and has defined the general principles for its regulation, the Ecuadorian Mining Law is the main legal and regulatory body for mining activities in Ecuador.
- 4.2. The Mining Law provides that the exploration and exploitation of mineral resources shall be made by national or foreign, public or private, natural or legal persons, that have previously obtained a mining right from the Government through a mining concession.
- 4.3. A person interested in obtaining a mining concession for mineral resources must manifest its interest through a public auction process before the Non-Renewable Natural Resources Ministry. This public auction process is duly regulated by the Ecuadorian Mining Law and its regulations.
- 4.4. The mining concession is an administrative act that emanates from the Government, acting through the Non-Renewable Natural Resources Ministry, and which is represented in a mining title. The mining title constitutes a personal right that may be transferrable by the title-holder to a third-party subject to a prior authorization from the Non-Renewable Natural Resources Ministry.
- 4.5. The mining title grants to its holder the exclusive right to prospect, explore, exploit, benefit, merge, refine, market and sell any and all mineral substances that may exist and be obtained in the mining concession.
- 4.6. The mining title has a term of 25-years which can be extended for additional terms of 25-years provided that the title-holder has fulfilled its legal obligations. During the initial term, in large-scale and medium-scale mining regimes the mining title is divided in the following phases:



- up to four years of initial exploration;
- up to four years of advanced exploration; and
- up to two years of economic evaluation of the deposit, which can be extended for an additional two-year period.

4.7. Prior to the start of mining activities, the mining concessionaire must comply with the following:

- Obtain an environmental license from the Environmental Ministry.
- Obtain an authorization from the National Water Secretariat with regards to potential affectation of water sources.

## 5. Mining Regimes

5.1. According to the Ecuadorian Mining Law there are 4 mining regimes: large-scale mining, medium-scale mining, small-scale mining and artisanal mining.

5.2. It is considered as artisanal mining for metallic mineral resources the mining activities that go up to 10 tones in underground mining and up to 120 cubic meters in alluvial mining.

5.3. It is considered as small-scale mining for metallic mineral resources the mining activities that go up to 300 tones in underground mining, up to 1,000 tones in open-pit mining and up to 1,500 cubic meters in alluvial mining

5.4. It is considered as medium-scale mining for metallic mineral resources the mining activities that go between 301–1,000 tones in underground mining, 1,001–2,000 tones in open-pit mining and 1,501–3,000 cubic meters in alluvial mining.

5.5. It is considered as large-scale mining for metallic mineral resources the mining activities that exceed the thresholds determined for medium-scale mining. In the case of large-scale mining the Ecuadorian Mining Law provides that prior to starting the exploitation activities the title-holder must execute an exploitation agreement with the Non-Renewable Natural Resources Ministry.

## 6. General Duties, Royalties and Taxes

6.1. The Constitution provides that the Government is entitled to receive a share of the benefits resulting from the exploitation of non-renewable natural resources, which is not to be less than that received by the concessionaire carrying out the exploitation activities. The Ecuadorian Mining Law more





specifically establishes that the Government's share consists of various duties, taxes and royalties, including annual patent fees, income tax, valued added tax, fifteen per cent of the concessionaire's profits to be distributed among the employees and windfall profit tax in the case of large-scale mining and royalties depending of the category of the mining title.

6.2. More specifically, mining concessionaires have a number of financial obligations under the Ecuadorian Mining Law, including the requirement to pay annual conservation patent fees, except in the artisanal mining regime. The conservation patent fees payable for concessions are calculated as follows:

- For small-scale mining a sum equivalent to 2 per cent of the minimum wage<sup>1</sup>, multiplied by the number of hectares in the concession.
- For medium-scale mining: a sum equivalent to 2.5 per cent of the minimum wage, multiplied by the number of hectares in the concession and regardless of the mining phase; and
- For large-scale mining:
  - initial exploration phase: a sum equivalent to 2.5 per cent of the current minimum wage, multiplied by the number of hectares in the concession;
  - advanced exploration phase: a sum equivalent to 5 per cent of the current minimum wage, multiplied by the number of hectares in the concession; and
  - exploitation phase: a sum equivalent to 10 per cent of the current minimum wage, multiplied by the number of hectares.

6.3. In addition, mining concessionaires are required to pay additional fees for the use of water. These fees are set out in the Law for the Use of Water and its regulations. Moreover, the Environmental Ministry sets additional fees with regards to the environmental license.

6.4. The Ecuadorian Mining Law provides that during the exploitation stage, mining concessionaires must pay a royalty depending on the mining regime. Artisanal miners do not have to pay any royalty at all. Small-scale mining is required to pay a royalty equivalent to 3 per cent of the sales of the principal and secondary minerals. Medium-scale mining is required to pay a royalty equivalent to 4 per cent of the sales of the principal and secondary minerals. And large-scale mining is required to pay a royalty not less than 5 per cent

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<sup>1</sup> The minimum wage for 2019 has been set in US \$394,00.



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and not higher than 8 per cent of the sales of the principal and secondary minerals. The mining regulations provide for more detail, stating that the royalty is calculated on the gross income, less refining and transport costs.

END OF DOCUMENT

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## 15. BOARD AND MANAGEMENT INTERESTS

### 15.1 General

As at the date of this Prospectus, the Board comprises the following:

- (a) **Robert Willes** – B.Arts (Hons)  
*Managing Director*

Mr Robert Willes has an honours degree in Geography from Durham University in the UK and has completed executive education programs at Harvard Business School in the USA and Cambridge University in the UK. Robert has held a number of senior roles in BP including General Manager of the North West Shelf LNG Project, overall accountability for BP's interests in the Browse LNG and Greater Gorgon LNG Projects, and for business development activities in Asia Pacific. More recently, Robert was Chief Executive Officer of Eureka Energy Limited. He is a Graduate of the Australian Institute of Company Directors, a member of the Association of International Petroleum Negotiators, and was formerly a director of the Australian Petroleum Production and Exploration Association (APPEA). Robert is a Non-Executive director of Buru Energy Limited.

- (b) **Clinton Carey** – B.Com (Fin, Econ.)  
*Non-Executive Director*

Mr Carey has over 25 years management and Director level experience in listed companies specializing in mining, oil and gas and technology. Mr Carey was a director of Roper River Resources Limited when it completed a reverse takeover of Webjet Limited. He has worked for mining companies in Russia, Brazil, Canada, Australia and England.

- (c) **Michael Fry** – B.Com  
*Non-Executive Chairman*

*Mr Michael Fry holds a Bachelor of Commerce degree from the University of Western Australia, is a Fellow of Financial Services Institute of Australasia, and is a past member of the Australian Securities Exchange ("ASX"). Michael has extensive experience in capital markets and corporate treasury management specialising in the identification of commodity, currency and interest rate risk and the implementation of risk management strategies.*

Following Settlement, it is proposed that Mr Robert Willes, Mr Clinton Carey and Mr Michael Fry will each resign as Directors, and Mr Kris Knauer and Mr Scott Funston and Mr Fletcher Quinn will be appointed to the Board.

Biographies for Messrs Knauer, Funston and Quinn are set out below.

- (a) **Mr Kris Knauer** – B.ASc. (Geological and Earth Sciences, Geosciences)  
*Proposed Chief Executive Officer and Managing Director*

Mr Knauer started his career as an exploration geologist before moving into investment banking, initially as a mining analyst. He is an experienced listed company CEO. He led the listing of a package of copper/gold assets in Saudi Arabia to create Citadel Resources (ASX: CGG) becoming the Managing Director for the first 18 months. Citadel completed a DFS on the Jabal Sayid copper project in Saudi Arabia prior to being taken

over for \$1 billion. In the past 5 years Mr Knauer was also a Director of Medibio (ASX: MEB) where he resigned as a Director on 13 October 2017.

- (b) **Mr Fletcher Quinn**  
*Proposed Non-Executive Chairman*

Mr Quinn has over 35 years' experience in venture capital, corporate finance and investment banking including extensive experience with both listed and unlisted companies, including public company development, management and governance. Mr Quinn was the foundation chairman for ASX entities Citadel Resources and Sirocco Resources.

- (c) **Mr Scott Funston** – B.Bus, CA  
*Proposed Chief Financial Officer, Finance Director and Company Secretary*

Mr Funston is a qualified Chartered Accountant and Company Secretary with nearly 20 years' experience in the mining industry and the accounting profession. Mr Funston is a member of Member of the Institute of Chartered Secretaries and Administrators. His expertise is financial management, regulatory compliance and corporate advice. Mr Funston possesses a strong knowledge of the Australian Securities Exchange requirements and has assisted a number of resources companies operating throughout Australia, South America, Asia, USA and Canada with financial accounting, stock exchange compliance and regulatory activities. Mr Funston has performed roles as an executive director, non-executive director, chief financial officer and company secretary for numerous ASX listed companies.

## 15.2 Interests of Directors and Proposed Directors

Other than as disclosed in this Prospectus, no Director or Proposed Director holds at the date of this Prospectus, or has held in the 2 years prior to the date of this Prospectus, an interest in:

- (a) the formation or promotion of the Company;
- (b) property acquired or proposed to be acquired by the Company in connection with its formation or promotion, or in connection with the Offers; or
- (c) the Offers,

and no amount (whether in cash, Shares or otherwise) has been paid or agreed to be paid, nor has any benefit been given or agreed to be given, to a Director or Proposed Director for services in connection with the formation or promotion of the Company or the Offers, or to induce them to become, or qualify as, a Director.

### Security Holdings

Directors are not required under the Constitution to hold any Shares.

The tables below set out the relevant interests of the Directors and Proposed Directors in the securities of the Company upon completion of the Offers:



## Current Interests

Director/ Director	Proposed	Shares	Options	Performance Rights
Clinton Carey		50,000	Nil	Nil
Robert Willes		533,334	Nil	800,000 <sup>2</sup>
Michael Fry		366,593	Nil	Nil
Kris Knauer		2,887,000	880,000	Nil
Fletcher Quinn		8,661,970	500,000 <sup>7</sup>	Nil
Scott Funston		Nil	Nil	Nil

## Proposed Interests

Director/ Director	Proposed	Shares	Options	Performance Rights/Performance Shares
Clinton Carey		50,000 <sup>1</sup>	Nil	Nil
Robert Willes		533,334 <sup>1</sup>	Nil	Nil <sup>2</sup>
Michael Fry		366,593 <sup>1</sup>	Nil	Nil
Kris Knauer		42,170,333 <sup>3</sup>	9,734,167 <sup>4</sup>	37,000,000 <sup>5</sup>
Fletcher Quinn		10,280,816 <sup>6</sup>	500,000 <sup>7</sup>	Nil
Scott Funston		3,666,667 <sup>8</sup>	2,000,000 <sup>9</sup>	Nil

### Notes:

- Existing Shares held as at the date of this Prospectus.
- Existing Performance Rights held as at the date of this Prospectus that will lapse on Settlement.
- Comprising 2,887,000 Shares held as at the date of this Prospectus, 30,950,000 Shares to be issued pursuant to the Vendor Offer and 8,333,333 Shares to be issued pursuant to the Third-Party Lender Offer set out in Section 6.4 on the terms and conditions set out in Section 18.2.
- Comprising 880,000,000 Existing Options held as at the date of this Prospectus and 8,854,167 Consideration Options to be issued pursuant to the Vendor Offer set out in Section 6.3. The full terms and conditions of the Existing Options and Consideration Options are set out in Sections 18.4 and 18.3 respectively.
- Comprising 18,500,000 Performance A Shares and 18,500,000 Performance B Shares to be issued pursuant to the Vendor Offer set out in Section 6.3. The full terms and conditions of the Consideration Performance Shares are set out in Section 18.6.
- Comprising 8,661,970 Existing Shares and 1,666,667 Shares to be issued pursuant to the Third-Party Lender Offer set out in Section 6.3.
- Comprising Existing Options held as at the date of this Prospectus. The full terms and conditions of the Existing Options are set out in Section 18.4.
- Comprising 3,666,667 Shares to be issued pursuant to the Vendor Offer set out in Section 6.3 on the terms and conditions set out in Section 18.2.
- Comprising 2,000,000 Consideration Options to be issued pursuant to the Vendor Offer set out in Section 6.3. The full terms and conditions of the Consideration Options are set out in Section 18.3.

## Remuneration

In accordance with the Company's Constitution the aggregate remuneration for all non-executive directors must not exceed \$500,000 per annum.

The remuneration of any executive director that may be appointed to the Board will be fixed by the Board and may be paid by way of fixed salary or consultancy fee. The remuneration of the Directors must not be increased except pursuant to a resolution passed at a general meeting of the Company where notice of the proposed increase has been given to Shareholders in the notice convening the meeting.

Details of the Directors' and Proposed Directors' remuneration for the previous completed, current and next financial year (on an annualised basis) are set out in the table below:

Director/ Proposed Director	Actual remuneration for year ended 30 June 2018	Actual and proposed remuneration for the financial year ended 30 June 2019	Proposed remuneration for the financial year ended 30 June 2020
Michael Fry	\$55,000	\$Nil	\$Nil
Robert Willes <sup>1</sup>	\$318,750	\$20,000	\$100,000 <sup>1</sup>
Clinton Carey	\$57,167	\$Nil	\$Nil
Kris Knauer	\$Nil <sup>3</sup>	\$20,000 <sup>2</sup>	\$240,000 <sup>4</sup>
Scott Funston	\$Nil <sup>3</sup>	\$12,500 <sup>2</sup>	\$150,000 <sup>4</sup>
Fletcher Quinn	\$Nil <sup>3</sup>	\$3,000 <sup>2</sup>	\$36,000 <sup>5</sup>

**Notes:**

1. The Company proposes to enter into a consultancy agreement with Mr Willes upon Settlement pursuant to which Mr Willes will be responsible for all aspects of the progressing the Company's Karoo Basin Permit application. It is proposed that the agreement will be for a three (3) year term at a rate of \$100,000 per year and otherwise contains arm's length terms for an arrangement of this nature.
2. This assumes a commencement date of 1 June 2019 and receipt of a pro-rata amount of their respective proposed annual remuneration.
3. To be appointed upon Settlement. Therefore, no Proposed Director received remuneration from the Company for the year ended 30 June 2018.
4. A summary of the material terms of the agreements in place with Mr Knauer and Mr Funston are set out in Sections 17.5 and 17.6, respectively.
5. A summary of the material terms of Mr Quinn's appointment is set out in Section 17.7.

### 15.3 Director participation in the Public Offer

None of the Directors or Proposed Directors intend on participating in the Public Offer.

### 15.4 Company Policy for related party arrangements

The Company's policy in respect of related party arrangements is:

- (a) a Director with a material personal interest in a matter is required to give notice to the other Directors before such a matter is considered by the Board; and
- (b) for the Board to consider such a matter, the Director who has a material personal interest is not present while the matter is being considered at the meeting and does not vote on the matter.

## **15.5 Agreements with Directors, Proposed Directors and related parties**

The Company and or AEP, are parties to the following agreements with Directors and Proposed Directors:

- (a) agreements with Mr Knauer and Mr Funston summarised in Sections 17.5 and 17.6, respectively;
- (b) non-executive director appointment letter with Mr Quinn summarised in Section 17.7.
- (c) Acquisition Agreement summarised in Section 17.2;
- (d) Third-Party Loan Facility Agreement summarised in Section 17.10; and
- (e) AEP Loan Facility #2 Agreement summarised in Section 17.9.

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## 16. CORPORATE GOVERNANCE

### 16.1 ASX Corporate Governance Council Principles and Recommendations

Our Company has adopted comprehensive systems of control and accountability as the basis for the administration of corporate governance. The Board is committed to administering the policies and procedures with openness and integrity, pursuing the true spirit of corporate governance commensurate with the Company's needs.

To the extent applicable, commensurate with the Company's size and nature, the Company has adopted *The Corporate Governance Principles and Recommendations (3rd Edition)* as published by ASX Corporate Governance Council (**Recommendations**).

The Board seeks, where appropriate, to provide accountability levels that meet or exceed the Recommendations.

The Company's current and intended corporate governance policies and practices are outlined below and further details on the Company's corporate governance procedures, policies and practices can be obtained from the Company Website at <http://challengerex.com>.

### 16.2 Board of Directors

The Board is responsible for corporate governance of the Company. The Board develops strategies for the Company, reviews strategic objectives and monitors performance against those objectives. The goals of the corporate governance processes are to:

- (a) maintain and increase Shareholder value;
- (b) ensure a prudential and ethical basis for the Company's conduct and activities; and
- (c) ensure compliance with the Company's legal and regulatory objectives.

Consistent with these goals, the Board is responsible for setting the strategic direction of the Company and for overseeing and monitoring its businesses and affairs. Directors are accountable to the shareholders for the Company's performance. The Board's overriding objective is to increase shareholder value within an appropriate framework that protects the rights and enhances the interests of all shareholders, whilst ensuring that the Company is properly managed. Directors must fulfil their fiduciary obligations to shareholders but will also take into consideration the interests of other stakeholders in the Company, including employees, customers, creditors and others with a legitimate interest in the Company's affairs.

The Board reviews and approves the Company's business plans and guiding policies. Day to day management of the Company's affairs and implementation of its strategy and policy initiatives are delegated to the Managing Director and by him to other senior executives. For guidance, the Board has also developed a broad set of policies describing an employee code and standards of conduct, how to deal with conflicts of interest, disclosure to the investment community, shareholder communication strategy and performance evaluation of the Board.

The primary functions of the Board include:

- (a) setting overall goals for the Company;
- (b) approving strategies, objectives and plans for the Company's businesses to achieve these goals;
- (c) ensuring that business risks are identified and approving systems and controls to manage those risks and monitor compliance;
- (d) approving the Company's major human resources policies and overseeing the development strategies for senior and high performing executives;
- (e) approving financial plans and annual budgets;
- (f) monitoring executive management and business performance in the implementation and achievement of strategic and business objectives;
- (g) approving key management recommendations (such as major capital expenditure, acquisitions, divestments, restructuring and funding);
- (h) appointing and removing the Managing Director and ratifying the appointment and removal of executives reporting directly to the Managing Director (senior executives);
- (i) reporting to shareholders on the Company's strategic direction and performance including constructive engagement in the development, execution and modification of the Company's strategies;
- (j) overseeing the management of occupational health and safety and environmental performance;
- (k) determining that satisfactory arrangements are in place for auditing the Company's financial affairs;
- (l) meeting statutory and regulatory requirements and overseeing the way in which the business risks and the assets of the Company are managed.

### **16.3 Composition of the Board**

Election of the Proposed Board members is substantially the province of the Shareholders in general meeting. However, subject thereto, the Company is committed to the following principles:

- (a) the Board is to comprise Directors with a blend of skills, experience and attributes appropriate for the Company and its business; and
- (b) the principal criterion for the appointment of new Directors is their ability to add value to the Company and its business.

Following Settlement, the Board is proposed to consist of three (3) members. The Proposed Board will adopt a Nominations Committee Charter, but not formally adopt a Nominations and Remuneration Committee. The Proposed Directors consider that the Company is currently not of a size, nor are its affairs of such complexity as to justify the formation of a Nomination and Remuneration Committee. The responsibilities of a Nomination and Remuneration Committee will be carried out by the Board.

Where a casual vacancy arises during the year, the Board has procedures to select the most suitable candidate with the appropriate experience and expertise to ensure a balanced and effective Board. Any Director appointed during the year to fill a casual vacancy or as an addition to the current Board, holds office until the next general meeting and is then eligible for re-election by the Shareholders.

#### **16.4 Identification and management of risk**

The Proposed Board will establish a risk management committee which will be responsible for overseeing the risk management function. The risk management committee will be responsible for ensuring the risks and opportunities are identified on a timely basis. To achieve this, the risk management committee will implement a risk system which allows for the monthly monitoring of identified risk areas and performance against the activities to minimise or control these identified risks.

#### **16.5 Ethical standards**

The Board is committed to the establishment and maintenance of appropriate ethical standards.

#### **16.6 Independent professional advice**

Subject to the Chairman's approval (not to be unreasonably withheld), the Directors, at the Company's expense, may obtain independent professional advice on issues arising in the course of their duties.

#### **16.7 Remuneration arrangements**

The total maximum remuneration of Non-Executive Directors is initially set by the Constitution and subsequent variation is by ordinary resolution of Shareholders in general meeting in accordance with the Constitution, the Corporations Act and the ASX Listing Rules, as applicable. The determination of Non-Executive Directors' remuneration within that maximum will be made by the Board having regard to the inputs and value to the Company of the respective contributions by each Non-Executive Director. The current amount is subject to shareholder approval at general meeting on 29 April 2019, which outlines the amount to be set at an amount not to exceed \$500,000 per annum.

Directors are also entitled to be paid reasonable travelling, hotel and other expenses incurred by them respectively in or about the performance of their duties as Directors.

The Board reviews and approves the remuneration policy to enable the Company to attract and retain Directors who will create value for Shareholders having consideration to the amount considered to be commensurate for a company of its size and level of activity as well as the relevant Directors' time, commitment and responsibility.

#### **16.8 Trading policy**

The Board has adopted a policy that sets out the guidelines on the sale and purchase of securities in the Company by its key management personnel (i.e. Directors and, if applicable, any employees reporting directly to the Managing Director). The policy generally provides that written notification to the Chairman (or in the case of the Chairman, the Managing Director) must be satisfied prior to trading.

## **16.9 External audit**

The Company in general meetings is responsible for the appointment of the external auditors of the Company, and the Board from time to time will review the scope, performance and fees of those external auditors.

## **16.10 Audit committee**

The Company will not have a separate audit committee until such time as the Board is of a sufficient size and structure, and the Company's operations are of a sufficient magnitude for a separate committee to be of benefit to the Company. In the meantime, the full Board will carry out the duties that would ordinarily be assigned to that committee under the written terms of reference for that committee, including but not limited to, monitoring and reviewing any matters of significance affecting financial reporting and compliance, the integrity of the financial reporting of the Company, the Company's internal financial control system and risk management systems and the external audit function.

## **16.11 Diversity Policy**

The Board has adopted a diversity policy which provides a framework for the Company to achieve, amongst other things, a diverse and skilled workforce, a workplace culture characterised by inclusive practices and behaviours for the benefit of all staff, improved employment and career development opportunities for women and a work environment that values and utilises the contributions of employees with diverse backgrounds, experiences and perspectives.

## **16.12 Departures from Recommendations**

Following re-admission to the Official List of ASX, the Company will be required to report any departures from the Recommendations in its annual financial report.

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## 17. MATERIAL AGREEMENTS

### 17.1 Background

Set out below is a summary of certain contracts to which the Company and, or, AEP, is a party and which the Directors and Proposed Directors have identified as material to the Company or are of such a nature that an investor may wish to have details of particulars of them when making an assessment of whether to apply for Shares.

### 17.2 Acquisition Agreement

On 19 March 2019, the Company and AEP entered into a binding terms sheet (**Acquisition Agreement**) pursuant to which the Company agreed to purchase 100% of the outstanding capital of AEP (**Proposed Acquisition**).

The key terms of the Acquisition Agreement are set out below:

- (a) **(Equity Consideration):** Upon Settlement under the Acquisition Agreement, the Company will issue the Consideration Securities to the Vendors.
- (b) **(Conditions):** Completion of the Proposed Acquisition is conditional upon the satisfaction or waiver of all of the following conditions precedent:
  - (i) the Company obtaining all the necessary regulatory approvals;
  - (ii) receipt of conditional approval to re-admit the Company to the Official List of the ASX, subject to re-compliance with Chapters 1 and 2 of the Listing Rules;
  - (iii) the Company raising the Minimum Subscription; and
  - (iv) no material adverse changes to CEL's or AEP's financial position
- (c) **(Loan Facility):** AEP agrees to advance the Company a Loan Facility of up to \$500,000 (**AEP Loan Facility #1**) to be drawn down to fund additional operating and working capital required in order to complete the Proposed Acquisition. In the event the Proposed Acquisition does not complete this amount will be converted into 10,000,000 Shares. In the event the transaction completes the AEP Loan Facility #1 will not be repayable in Shares and will instead, on Settlement, form an intercompany cash loan.
- (d) **(Board):** On and from Settlement Kris Knauer, Scott Funston and Fletcher Quinn will be appointed to the Board, and Robert Willes, Michael Fry and Clinton Carey will resign.

Proposed Directors, Kris Knauer and Scott Funston are shareholders of AEP and will receive the Consideration Securities set out in Section 15.2.

### 17.3 Farm-in Agreements

For further details of the material agreements in place in relation to the Hualilan Project, refer to Parts 6 – 10 of the Solicitors Report on Title in Section 13.

For further details of the material agreements in place in relation to the El Guayabo Project, refer to Part 5 of the Solicitors Report on Title in Section 14.



## 17.4 Lead Manager Mandates

The Company has entered into a mandate letter with each of Baillieu Limited (**Baillieu**) (**Baillieu Mandate**) and Peloton Capital Limited (**Peloton**) (**Peloton Mandate**) pursuant to which Baillieu and Peloton (together, the **Joint Lead Managers**) have agreed to act as Joint Lead Managers to the Public Offer (**JLM Mandates**).

The Company has agreed to pay the Joint Lead Managers the following fees to be shared by the Joint Lead Managers on an equal basis (unless agreed otherwise):

- (a) a capital raising fee of 5% (exclusive of GST) of the total amount raised under the Public Offer (**Selling Fee**); and
  - (b) a success fee of 6,000,000 Shares (**Success Equity Fee**),
- (together, the **Fees**).

The Company has also agreed to pay Peloton a corporate management fee of 7,000,000 Options, exercisable at \$0.04, expiring 3 years after the date of issue (**Peloton Options**). The full terms and conditions of the Peloton Options are set out in Section 18.5.

The Baillieu Mandate entitles Baillieu to be reimbursed up to \$15,000 (plus GST) for legal costs it incurs appointing its own legal adviser for any aspect of the Public Offer.

The Joint Lead Managers are also entitled to reimbursement of their reasonable expenses incurred in respect of the Public Offer.

The Baillieu Mandate may be terminated:

- (a) by the Company upon 15 business days' notice in writing at any time before Baillieu has extended an offer to an investor to subscribe for Shares under the Public Offer; or
- (b) by Baillieu at any time by written notice to the Company before completion if an event takes place and Baillieu reasonably believes such event:
  - (i) is reasonably likely to have a material adverse effect on the outcome of the capital raising or the aftermarket for the Company's Shares;
  - (ii) is reasonably likely to have a material adverse effect on the condition, trading or financial position, performance, profits and losses, results, business or operations of the Company; or
  - (iii) has given rise to, or could give rise to, a contravention by Baillieu of, or Baillieu being involved in a contravention of, the Corporations Act or any other applicable law or regulation.

In the event of a material breach, the Peloton Mandate may be terminated by either the Company or Peloton if:

- (a) the non-defaulting party provides written notice to the defaulting party setting out the reasons why the defaulting party has materially defaulted; and
- (b) the defaulting party has not remedied the breach within 10 business days of the date of the written notice.

The JLM Mandates contain other standard indemnities, terms and conditions expected to be included in mandates of this nature.

## 17.5 CEO and Managing Director Agreement - Kris Knauer

AEP and Kris Knauer (**Executive**) entered into an agreement on 5 May 2019 pursuant to which Mr Knauer was appointed as managing director of AEP. The Company, AEP and Mr Knauer, have subsequently agreed, that upon Settlement of the Proposed Acquisition, the Company will assume the obligations of AEP under the agreement, the material terms and conditions of the agreement are set out below:

- (a) (**Commencement Date**): The date of the Company's re-admission to the Official List.
- (b) (**Term**): Two (2) years from the Commencement Date or until validly terminated.
- (c) (**Remuneration**): Mr Knauer will receive a base salary of \$240,000 per annum (excluding superannuation).
- (d) (**Incentives**): Mr Knauer is eligible to receive Securities under the Company's Employee Share Option Plan and Performance Rights Plan.
- (e) (**Accrued Entitlements**): All entitlements that have accrued to Mr Knauer prior to the date of this agreement will be honoured by the Company.
- (f) (**Termination**): The Company may terminate the agreement by providing six (6) months' written notice.
- (g) (**Expenses**): Mr Knauer is entitled to reimbursement for all reasonable travelling expenses, accommodation and general expenses incurred in the performance of his duties under the agreement.

## 17.6 CFO and Finance Directors Agreement - Scott Funston

AEP and Scott Funston (**Executive**) entered into an agreement pursuant to which Mr Funston was appointed as company secretary, chief financial officer and finance director of AEP. The Company, AEP and Mr Funston, have subsequently agreed, that upon Settlement the Company will assume the obligations of AEP under the agreement, the material terms and conditions of the agreement are set out below:

- (a) (**Position**): Company Secretary, Chief Financial Officer and Finance Director
- (b) (**Commencement Date**): One (1) day after the Company's re-admission to the Official List.
- (c) (**Term**): Two (2) years from the Commencement Date or until validly terminated.

- (d) **(Remuneration)**: Mr Funston will receive a base salary of \$150,000 per annum (excluding superannuation).
- (e) **(Incentives)**: Mr Funston is eligible to receive Securities under the Company's Employee Share Option Plan and Performance Rights Plan.
- (f) **(Accrued Entitlements)**: All entitlements that have accrued to Mr Funston prior to the date of this agreement will be honoured by the Company.
- (g) **(Termination)**: The agreement may be terminated by either party by providing three (3) months written notice.
- (h) **(Expenses)**: Mr Funston is entitled to reimbursement for all reasonable travelling expenses, accommodation and general expenses incurred in the performance of his duties under the agreement.

## 17.7 Non-Executive Director Appointment Letter – Fletcher Quinn

The Company is proposing to enter into a non-executive director appointment letter with Mr Quinn pursuant to which Mr Quinn is to be appointed as Non-Executive Chairman of the Company. The material terms which have been agreed by Mr Quinn and the Company and will be included in the proposed appointment letter are set out below:

- (a) **(Fees)**: director fees of \$36,000 per annum are payable by the Company;
- (b) **(Term)**: the term of Mr Quinn's appointment will be subject to provisions of the Constitution and the ASX Listing Rules relating to retirement by rotation and re-election of directors and will automatically cease at the end of any meeting at which Mr Quinn is not re-elected as a Director.

The appointment letter will otherwise contain terms and conditions that are considered standard for agreements of this nature.

## 17.8 Deeds of indemnity, insurance and access

The Company has entered into deeds of indemnity, insurance and access with each of the Directors (**Deeds**). Under the Deeds, the Company agrees to indemnify each officer to the extent permitted by the *Corporations Act* against any liability arising as a result of the officer acting as an officer of the Company or a related body corporate (subject to customary exceptions). The Company is also required to maintain insurance policies for the benefit of the relevant officer and must also allow the officers to inspect board papers and other documents provided to the Board in certain circumstances.

The Company proposes to enter into deeds of indemnity, insurance and access with each of its Proposed Directors following their appointments.

## 17.9 AEP Loan Facility #2 - AEP Corporation Pty Limited

Pursuant to the Acquisition Agreement, the founders of AEP have agreed to provide a \$750,000 loan facility to AEP to, amongst other things, assist in funding the Company's re-admission to the Official List (**AEP Loan Facility #2**).

AEP raised the funds for the AEP Loan Facility #2 by entering into share sale letters with a number of lenders (**Lenders**), on identical terms (**Share Sale Letter**). The AEP Loan Facility #2 has been drawn down in full and will be repaid by conversion, converting at a conversion price of \$0.03 per Share, into 25,000,000 Shares.

The AEP Loan Facility #2 is interest free and unsecured.

#### **17.10 Third-Party Loan Facility**

The Company entered into two (2) loan facility agreements each with entities associated with Proposed Directors, Mr Kris Knauer and or Mr Fletcher Quinn (together, the **Third-Party Loans**). The parties to each of the Third-Party loans have subsequently entered into letter agreements whereby the Company and each of the lenders have agreed to vary the terms of the Third-Party Loans.

The Third-Party Loans are unsecured. One of the Third-Party Loans is interest free, and the other accrues interest at a rate of 5% per annum from the date the funds are advanced. The Company has drawn down both facilities in full, a total of \$300,000. The Third-Party Loans will convert on the Closing Date of the Public Offer at a conversion price of \$0.03 per Share.

In the event that the Company does not successfully close its Public Offer, the Third-Party Lenders will apply for a placement of Shares in the Company at 80% of the 5-day VWAP of the Company's Shares for 50% of the Third-Party Loan amount in full satisfaction of the Third-Party Loans.

#### **17.11 Loan Facility Agreement - Abrocard Pty Ltd**

AEP and its wholly owned subsidiaries, AAR and ECM (together, the **Borrowers**) entered into a loan facility agreement with Abrocard Pty Ltd (**Abrocard**) on 1 April 2019 pursuant to which the Borrowers can borrow a maximum of \$500,000 (**Abrocard Loan**) (**Abrocard Loan Facility Agreement**). To date, \$444,000 has been drawn down on the facility. The Abrocard Loan is interest free and repayable in cash within 12 months of initial drawdown.

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## **18. ADDITIONAL INFORMATION**

### **18.1 Litigation**

As at the date of this Prospectus, neither our Company or AEP or any of their respective subsidiaries are involved in any material legal proceedings and the Directors are not aware of any legal proceedings pending or threatened against the Company or AEP or any of their respective subsidiaries.

Notwithstanding the above, environmental and activist groups may seek to protest against or frustrate the Company's activities, including through the courts. Environmental activist groups such as Treasure the Karoo Action Group (TKAG) and AfriForum have expressed concern over applications submitted in respect of shale gas exploration in the Karoo Basin of the Republic of South Africa, including the application submitted by Bundu. These groups have publicly threatened to institute legal challenge to the granting of applications for the exploration of shale gas and have challenged the Regulations for Petroleum Exploration and Production 2015 (the "Technical Regulations") that cover technical details relating to exploration and production of petroleum through hydraulic fracturing, with the result that they were set aside by order of the Eastern Cape High Court in October 2017. It has been reported that the High Court in Pretoria has dismissed a similar application, and that the Department of Mineral Resources has appealed the decision of the Eastern Cape High Court. It is the Company's view that it has followed due process with the regulator and would defend any legal challenge to the granting of the Permit.

### **18.2 Rights and liabilities attaching to Shares (including Shares to be issued under the Public Offer)**

The following is a summary of the more significant rights and liabilities attaching to Shares being offered pursuant to this Prospectus. This summary is not exhaustive and does not constitute a definitive statement of the rights and liabilities of Shareholders. To obtain such a statement, persons should seek independent legal advice.

Full details of the rights and liabilities attaching to Shares are set out in the Constitution, a copy of which is available for inspection at the Company's registered office during normal business hours.

#### **(a) General meetings**

Shareholders are entitled to be present in person, or by proxy, attorney or representative to attend and vote at general meetings of the Company.

Shareholders may requisition meetings in accordance with section 249D of the Corporations Act and the Constitution of the Company.

#### **(b) Voting rights**

Subject to any rights or restrictions for the time being attached to any class or classes of shares, at general meetings of Shareholders or classes of shareholders:

- (i) each Shareholder entitled to vote may vote in person or by proxy, attorney or representative;

- (ii) on a show of hands, every person present who is a Shareholder or a proxy, attorney or representative of a Shareholder has one vote; and
- (iii) on a poll, every person present who is a Shareholder or a proxy, attorney or representative of a Shareholder shall, in respect of each fully paid Share held by him, or in respect of which he is appointed a proxy, attorney or representative, have one vote for each Share held, but in respect of partly paid shares shall have such number of votes as bears the same proportion to the total of such Shares registered in the Shareholder's name as the amount paid (not credited) bears to the total amounts paid and payable (excluding amounts credited).

(c) **Dividend rights**

Subject to the rights of any preference Shareholders and to the rights of the holders of any shares created or raised under any special arrangement as to dividend, the Directors may from time to time declare a dividend to be paid to the Shareholders entitled to the dividend which shall be payable on all Shares according to the proportion that the amount paid (not credited) is of the total amounts paid and payable (excluding amounts credited) in respect of such Shares.

The Directors may from time to time pay to the Shareholders any interim dividends as they may determine. No dividend shall carry interest as against the Company. The Directors may set aside out of the profits of the Company any amounts that they may determine as reserves, to be applied at the discretion of the Directors, for any purpose for which the profits of the Company may be properly applied.

Subject to the ASX Listing Rules and the Corporations Act, the Company may, by resolution of the Directors, implement a dividend reinvestment plan on such terms and conditions as the Directors think fit.

(d) **Winding-up**

If the Company is wound up, the liquidator may, with the authority of a special resolution, divide among the shareholders in kind the whole or any part of the property of the Company, and may for that purpose set such value as he considers fair upon any property to be so divided, and may determine how the division is to be carried out as between the Shareholders or different classes of Shareholders.

(e) **Shareholder liability**

As the Shares under the Prospectus are fully paid shares, they will not be subject to any calls for money by the Directors and will therefore not become liable for forfeiture.

(f) **Transfer of Shares**

Generally, Shares in the Company are freely transferable, subject to formal requirements, the registration of the transfer not resulting in a contravention of or failure to observe the provisions of a law of Australia and the transfer not being in breach of the Corporations Act or the ASX Listing Rules.

(g) **Future increase in capital**

The issue of any new Shares is under the control of the Board of the Company as appointed from time to time. Subject to restrictions on the issue or grant of Securities contained in the ASX Listing Rules, the Constitution and the Corporations Act (and without affecting any special right previously conferred on the holder of an existing Share or class of shares), the Directors may issue Shares and other Securities as they shall, in their absolute discretion, determine.

(h) **Variation of rights**

Under section 246B of the Corporations Act, the Company may, with the sanction of a special resolution passed at a meeting of Shareholders vary or abrogate the rights attaching to Shares.

If at any time the share capital is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class) may be varied or abrogated with the consent in writing of the holders of three quarters of the issued shares of that class, or if authorised by a special resolution passed at a separate meeting of the holders of the shares of that class.

(i) **Alteration of Constitution**

In accordance with the Corporations Act, the Constitution can only be amended by a special resolution passed by at least three quarters of votes validly cast for Shares at the general meeting. In addition, at least 28 days written notice specifying the intention to propose the resolution as a special resolution must be given.

### 18.3 **Terms of Consideration Options**

(a) **Entitlement**

Each Option entitles the holder to subscribe for one Share upon exercise of the Option.

(b) **Exercise Price**

Subject to as set out in (i), the amount payable upon exercise of each Option will be \$0.04 (**Exercise Price**).

(c) **Expiry Date**

Each Option will expire at 5:00 pm (WST) on 30 June 2022 (**Expiry Date**). An Option not exercised before the Expiry Date will automatically lapse on the Expiry Date.

(d) **Exercise Period**

The Options are exercisable at any time on or prior to the Expiry Date (**Exercise Period**).

(e) **Notice of Exercise**

The Options may be exercised during the Exercise Period by notice in writing to the Company in the manner specified on the Option certificate (**Notice of Exercise**) and payment of the Exercise Price for each Option being exercised in Australian currency by electronic funds transfer or other means of payment acceptable to the Company.

(f) **Exercise Date**

A Notice of Exercise is only effective on and from the later of the date of receipt of the Notice of Exercise and the date of receipt of the payment of the Exercise Price for each Option being exercised in cleared funds (**Exercise Date**).

(g) **Timing of issue of Shares on exercise**

Within 15 Business Days after the Exercise Date, the Company will:

- (i) issue the number of Shares required under these terms and conditions in respect of the number of Options specified in the Notice of Exercise and for which cleared funds have been received by the Company;
- (ii) if required, give ASX a notice that complies with section 708A(5)(e) of the Corporations Act, or, if the Company is unable to issue such a notice, lodge with ASIC a prospectus prepared in accordance with the Corporations Act and do all such things necessary to satisfy section 708A(11) of the Corporations Act to ensure that an offer for sale of the Shares does not require disclosure to investors; and
- (iii) if admitted to the official list of ASX at the time, apply for official quotation on ASX of Shares issued pursuant to the exercise of the Options.

If a notice delivered for any reason is not effective to ensure that an offer for sale of the Shares does not require disclosure to investors, the Company must, no later than 20 Business Days after becoming aware of such notice being ineffective, lodge with ASIC a prospectus prepared in accordance with the Corporations Act and do all such things necessary to satisfy section 708A(11) of the Corporations Act to ensure that an offer for sale of the Shares does not require disclosure to investors.

(h) **Shares issued on exercise**

Shares issued on exercise of the Options rank equally with the then issued shares of the Company.

(i) **Reconstruction of capital**

If at any time the issued capital of the Company is reconstructed, all rights of an Optionholder are to be changed in a manner consistent with the Corporations Act and the ASX Listing Rules at the time of the reconstruction.



(j) **Participation in new issues**

There are no participation rights or entitlements inherent in the Options and holders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Options without exercising the Options.

(k) **Change in exercise price**

An Option does not confer the right to a change in Exercise Price or a change in the number of underlying securities over which the Option can be exercised.

(l) **Transferability**

The Options are transferable subject to any restriction or escrow arrangements imposed by ASX or under applicable Australian securities laws.

## **18.4 Terms of Existing Options**

(a) **Entitlement**

Each Option entitles the holder to subscribe for one Share upon exercise of the Option.

(b) **Exercise Price**

Subject to paragraph (i), the amount payable upon exercise of each Option will be \$0.25 (**Exercise Price**).

(c) **Expiry Date**

Each Option will expire at 5:00 pm (WST) on 30 June 2020, in relation to the Existing Options (**Expiry Date**). An Option not exercised before the Expiry Date will automatically lapse on the Expiry Date.

(d) **Exercise Period**

The Options are exercisable at any time on or prior to the Expiry Date (**Exercise Period**).

(e) **Notice of Exercise**

The Options may be exercised during the Exercise Period by notice in writing to the Company in the manner specified on the Option certificate (**Notice of Exercise**) and payment of the Exercise Price for each Option being exercised in Australian currency by electronic funds transfer or other means of payment acceptable to the Company.

(f) **Exercise Date**

A Notice of Exercise is only effective on and from the later of the date of receipt of the Notice of Exercise and the date of receipt of the payment of the Exercise Price for each Option being exercised in cleared funds (**Exercise Date**).

(g) **Timing of issue of Shares on exercise**

Within 15 Business Days after the Exercise Date, the Company will:

- (i) issue the number of Shares required under these terms and conditions in respect of the number of Options specified in the Notice of Exercise and for which cleared funds have been received by the Company;
- (ii) if required, give ASX a notice that complies with section 708A(5)(e) of the Corporations Act, or, if the Company is unable to issue such a notice, lodge with ASIC a prospectus prepared in accordance with the Corporations Act and do all such things necessary to satisfy section 708A(11) of the Corporations Act to ensure that an offer for sale of the Shares does not require disclosure to investors; and
- (iii) if admitted to the official list of ASX at the time, apply for official quotation on ASX of Shares issued pursuant to the exercise of the Options.

If a notice delivered under (g)(ii) for any reason is not effective to ensure that an offer for sale of the Shares does not require disclosure to investors, the Company must, no later than 20 Business Days after becoming aware of such notice being ineffective, lodge with ASIC a prospectus prepared in accordance with the Corporations Act and do all such things necessary to satisfy section 708A(11) of the Corporations Act to ensure that an offer for sale of the Shares does not require disclosure to investors.

(h) **Shares issued on exercise**

Shares issued on exercise of the Options rank equally with the then issued shares of the Company.

(i) **Reconstruction of capital**

If at any time the issued capital of the Company is reconstructed, all rights of an Optionholder are to be changed in a manner consistent with the Corporations Act and the ASX Listing Rules at the time of the reconstruction.

(j) **Participation in new issues**

There are no participation rights or entitlements inherent in the Options and holders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Options without exercising the Options.

(k) **Change in exercise price**

An Option does not confer the right to a change in Exercise Price or a change in the number of underlying securities over which the Option can be exercised.

(l) **Transferability**

The Options are transferable subject to any restriction or escrow arrangements imposed by ASX or under applicable Australian securities laws.

**18.5 Terms of Peloton Options**

(a) **Entitlement**

Each Option entitles the holder to subscribe for one Share upon exercise of the Option.

(b) **Exercise Price**

Subject to paragraph (i), the amount payable upon exercise of each Option will be \$0.04 (**Exercise Price**).

(c) **Expiry Date**

Each Option will expire at 5:00 pm (WST) on 30 June 2022, in relation to the Existing Options (**Expiry Date**). An Option not exercised before the Expiry Date will automatically lapse on the Expiry Date.

(d) **Exercise Period**

The Options are exercisable at any time on or prior to the Expiry Date (**Exercise Period**).

(e) **Notice of Exercise**

The Options may be exercised during the Exercise Period by notice in writing to the Company in the manner specified on the Option certificate (**Notice of Exercise**) and payment of the Exercise Price for each Option being exercised in Australian currency by electronic funds transfer or other means of payment acceptable to the Company.

(f) **Exercise Date**

A Notice of Exercise is only effective on and from the later of the date of receipt of the Notice of Exercise and the date of receipt of the payment of the Exercise Price for each Option being exercised in cleared funds (**Exercise Date**).

(g) **Timing of issue of Shares on exercise**

Within 15 Business Days after the Exercise Date, the Company will:

- (i) issue the number of Shares required under these terms and conditions in respect of the number of Options specified in the Notice of Exercise and for which cleared funds have been received by the Company;
- (ii) if required, give ASX a notice that complies with section 708A(5)(e) of the Corporations Act, or, if the Company is unable to issue such a notice, lodge with ASIC a prospectus prepared in accordance with the Corporations Act and do all such things necessary to satisfy section 708A(11) of the Corporations Act to

ensure that an offer for sale of the Shares does not require disclosure to investors; and

- (iii) if admitted to the official list of ASX at the time, apply for official quotation on ASX of Shares issued pursuant to the exercise of the Options.

If a notice delivered under 18.4(g)(ii) for any reason is not effective to ensure that an offer for sale of the Shares does not require disclosure to investors, the Company must, no later than 20 Business Days after becoming aware of such notice being ineffective, lodge with ASIC a prospectus prepared in accordance with the Corporations Act and do all such things necessary to satisfy section 708A(11) of the Corporations Act to ensure that an offer for sale of the Shares does not require disclosure to investors.

(h) **Shares issued on exercise**

Shares issued on exercise of the Options rank equally with the then issued shares of the Company.

(i) **Reconstruction of capital**

If at any time the issued capital of the Company is reconstructed, all rights of an Optionholder are to be changed in a manner consistent with the Corporations Act and the ASX Listing Rules at the time of the reconstruction.

(j) **Participation in new issues**

There are no participation rights or entitlements inherent in the Options and holders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Options without exercising the Options.

(k) **Change in exercise price**

An Option does not confer the right to a change in Exercise Price or a change in the number of underlying securities over which the Option can be exercised.

(l) **Transferability**

The Options are transferable subject to any restriction or escrow arrangements imposed by ASX or under applicable Australian securities laws.

## **18.6 Terms of Consideration Performance Shares**

- (a) **(Performance Shares):** Each Performance Share is a share in the capital of Company.
- (b) **(General Meetings):** The Performance Shares shall confer on the holder **(Holder)** the right to receive notices of general meetings and financial reports and accounts of the Company that are circulated to Shareholders. Holders have the right to attend general meetings of the Company.

- (c) **(No Voting Rights):** The Performance Shares do not entitle the Holder to vote on any resolutions proposed at a general meeting of the Company, subject to any voting rights under the Corporations Act 2001 (Cth) or the ASX Listing Rules where such rights cannot be excluded by these terms.
- (d) **(No Dividend Rights):** The Performance Shares do not entitle the Holder to any dividends.
- (e) **(No Rights on Winding Up):** Upon winding up of the Company, the Performance Shares may not participate in the surplus profits or assets of the Company.
- (f) **(Transfer of Performance Shares):** The Performance Shares are not transferable.
- (g) **(Reorganisation of Capital):** In the event that the issued capital of the Company is reconstructed, all rights of a Holder of Performance Shares will be changed to the extent necessary to comply with the ASX Listing Rules at the time of reorganisation provided that, subject to compliance with the ASX Listing Rules, following such reorganisation the economic and other rights of the Holder are not diminished or terminated.
- (h) **(Application to ASX):** The Performance Shares will not be quoted on ASX. Upon conversion of the Performance Shares into Shares in accordance with these terms, the Company must, within seven (7) days after the conversion, apply for and use its best efforts to obtain the official quotation on ASX of the Shares issued from the conversion.
- (i) **(Participation in Entitlements and Bonus Issues):** Subject always to the rights under item (g) (Reorganisation of Capital), Holders of Performance Shares will not be entitled to participate in new issues of capital offered to holders of Shares such as bonus issues and entitlement issues.
- (j) **(Amendments required by ASX):** The terms of the Performance Shares may be amended as necessary by the Company's board in order to comply with the ASX Listing Rules, or any directions of ASX regarding the terms provided that, subject to compliance with the ASX Listing Rules, following such amendment, the economic and other rights of the Holder are not diminished or terminated.
- (k) **(No Other Rights):** The Performance Shares give the Holders no rights other than those expressly provided by these terms and those provided at law where such rights at law cannot be excluded by these terms.

### Conversion of Performance Shares

- (a) **(Milestones):** The Performance Shares will, convert upon the satisfaction of the following milestones:
  - (i) **(Class A):** A JORC Compliant Mineral Resource Estimate of at least Inferred category on either Project of the following:
    - (A) a minimum 500,000 ounces of gold (AU) or Gold Equivalent (in accordance with clause 50 of the JORC Code) at a minimum grade of 6 grams per tonne Gold Equivalent; or

- (B) a minimum 1,500,000 ounces of gold (AU) or Gold Equivalent (in accordance with clause 50 of the JORC Code) at a minimum grade of 2.0 grams per tonne Gold Equivalent; or
  - (C) a minimum 3,000,000 ounces of gold (AU) or Gold Equivalent (in accordance with clause 50 of the JORC Code) at a minimum grade of 1.0 grams per tonne Gold Equivalent;
- (ii) **(Class B):** The Class B Performance Shares held by the holder will convert into an equal number of Shares upon the Company:
- (A) Completion and announcement by CEL (subject to the provision of information allowable at the time of completion) of a positive Scoping Study (as defined in the JORC Code) on either Project by an independent third-party expert which evidences an internal rate of return of US Ten Year Bond Rate plus 10% (using publicly available industry assumptions, including deliverable spot commodity / mineral prices, which are independently verifiable) provided that the total cumulative EBITDA over the project life is over US\$50m,

(each referred to as a **Milestone**).

- (b) **(Conversion on change of control)** Notwithstanding the relevant Milestone has not been satisfied, upon the occurrence of either:
- (i) a takeover bid under Chapter 6 of the Corporations Act 2001 (Cth) having been made in respect of the Company having received acceptances for more than 50% of the Company's shares on issue and being declared unconditional by the bidder; or
  - (ii) a Court granting orders approving a compromise or arrangement for the purposes of or in connection with a scheme of arrangement for the reconstruction of the Company or its amalgamation with any other company or companies,

the Performance Shares shall automatically convert into Shares, provided that if the number of Shares that would be issued upon such conversion is greater than 10% of the Company's Shares on issue as at the date of conversion, then that number of Performance Shares that is equal to 10% of the Company's Shares on issue as at the date of conversion under this paragraph will automatically convert into an equivalent number of Company Shares. The conversion will be completed on a pro rata basis across each class of Performance Shares then on issue as well as on a pro rata basis for each Holder. Performance Shares that are not converted into Shares under this paragraph will continue to be held by the Holders on the same terms and conditions.

- (c) **(No Conversion if Milestone not Achieved):** If the relevant Milestone is not achieved by the required date (being seven years from the date of the Proposed Acquisition or such other date as required by ASX), then all Performance Shares held by each Holder shall lapse.

- (d) **(After Conversion):** The Shares issued on conversion of the Performance Shares will, as and from 5.00pm (WST) on the date of issue, rank equally with and confer rights identical with all other Shares then on issue and application will be made by the Company to ASX for official quotation of the Shares issued upon conversion (subject to complying with any restriction periods required by the ASX).

## 18.7 Terms of and conditions of Performance Rights Plan

The full terms of the performance rights plan (**PRP**) may be inspected at the registered office of the Company during normal business hours. A summary of the terms of the PRP is set out below.

- (a) Subject to any necessary approvals from the Company's shareholders or as required by law or by the Listing Rules, the Board may, from time to time, at its absolute discretion grant performance rights (being the entitlement to shares pursuant to the PRP) (**Performance Right**) to eligible participants (being any Director (including non-executive directors) and full time or part time employee or consultant of a Group Company (devoting 40% of their time to the Company) who is declared by the Board to be eligible to receive grants of Performance Rights under the PRP) (**Eligible Participant**) with effect from the date determined by the Board, upon the terms set out in the PRP and upon such additional terms and vesting conditions (being one or more conditions which must be satisfied or circumstances which must exist before Performance Rights vest, as determined by the Board) (**Vesting Conditions**) as the Board determines.
- (b) Each Performance Right will, subject to vesting, entitle the holder on exercise to one fully paid ordinary share in the capital of the Company (**Share**).
- (c) A Performance Right granted under the PRP will not vest unless the Vesting Conditions (if any) advised to the Participant by the Board have been satisfied and the Board has notified the Participant.
- (d) The Board will advise each Eligible Participant of the following minimum information regarding the Performance Rights:
- (i) the maximum number of Performance Rights that the Eligible Participant may apply for, or the formula for determining the number of Performance Rights that may be applied for;
  - (ii) the maximum number of Shares that the Participant is entitled to be issued on the exercise of each Performance Right (if the Performance Conditions are met) or the formula for determining the maximum number of Shares;
  - (iii) the Issue Price;
  - (iv) any applicable Performance Conditions and the corresponding period of performance;
  - (v) the approximate date of measurement establishing the level of satisfaction of the Performance Conditions (**Measurement Date**);
  - (vi) when unvested Performance Rights will expire (**Expiry Date**);

- (vii) the date by which an Offer must be accepted (**Closing Date**); and
  - (viii) any other information required by law or the ASX Listing Rules or considered by the Board to be relevant to the Performance Rights or the Shares to be issued on the exercise of the Performance Rights.
- (e) Performance Rights are only transferrable with the prior written consent of the Board of the Company or by force of law upon death to the Eligible Participant's legal personal representative or upon bankruptcy to the Eligible Participant's trustee in bankruptcy.
- (f) The Company shall notify the Eligible Participant when the relevant vesting requirements have been satisfied and the Eligible Participant may then exercise their right to accept the vesting of the Performance Rights and be issued the Shares, following which the Company will issue the Shares and deliver notification of the Shareholding to the Eligible Participant.
- (g) Unless the Board decides otherwise, any vested Performance Right that has not been exercised within one year of becoming vested shall automatically lapse.
- (h) Where a Participant ceases to be an Eligible Participant, any unvested Performance Rights shall lapse (subject to certain good leaver exceptions).
- (i) If Shares of the same class as those allotted under the PRP are quoted on the ASX, the Company will, subject to the ASX Listing Rules, apply to the ASX for the listing of the Shares issued upon the exercise of the Performance Rights.
- (j) Shares resulting from the vesting of the Performance Rights shall, from the date of issue, rank pari passu with all other Shares on issue.
  - (i) The Board may determine that Shares allocated on the exercise of Performance Rights are subject to the restrictions on sale, transfer or other dealing by the Participant.
  - (ii) In the event of a change in control of the Company or the Company passes a resolution for voluntary winding up or an order is made for the compulsory winding up of the Company, the Board may, in its absolute discretion, determine that all or a specified number of a Participant's unvested Performance Rights vest. Any Performance Right which the Board determines does not vest will automatically lapse, unless the Board determines otherwise.
- (k) There are no participating rights or entitlements inherent in the Performance Rights and Eligible Participants will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Performance Rights.
- (l) A Performance Right does not confer a change in the number of underlying Shares over which the Performance Right can be exercised.



- (m) If, at any time, the issued capital of the Company is reorganised, all rights of a Participant are to be changed in a manner consistent with the Corporations Act and the ASX Listing Rules at the time of the reorganisation.

## **18.8 Terms and Condition of Employee Option Share Plan**

- (a) **Eligible Participants:**

Means full or part time employees of the Company or an Associated Body Corporate or Consultant to the Company (**Eligible Participants**).

- (b) **Purpose of the ESOP:**

The purpose of the ESOP is to provide an incentive to encourage participation by Eligible Participants in the Company through Share ownership and to attract, motivate and retain Eligible Participants.

- (c) **Offer of ESOP Options**

When an Eligible Participant satisfies specified criteria imposed by the Board (including performance criteria and specified periods of tenure) the Board may make a written offer (**Offer**) to the Eligible Participant of ESOP Options. The Offer will specify the number of ESOP Options being offered and the conditions that must be met by the Eligible Participant before the ESOP Options will vest.

- (d) **Number of ESOP Options Offered**

The number of ESOP Options that will be offered to an Eligible Participant pursuant to an Offer is entirely within the discretion of the Directors. Each ESOP Option will, upon vesting, entitle the holder to one (1) Share in the capital of the Company.

- (e) **Vesting Conditions**

The ESOP Options will not vest unless the vesting conditions imposed by the Board have been satisfied or waived by the Board at its absolute discretion.

- (f) **Exercise Price**

The exercise price of any ESOP Option offered to an Eligible Participant shall be at the absolute discretion of the Board.

- (g) **Lapse of ESOP Options**

ESOP Options that have not vested will lapse on the second anniversary of the date of grant of the ESOP Option or such later date as agreed by the Board.

Any unvested ESOP Options will immediately lapse, subject to board discretion, where:

- (i) the Eligible Participant ceases to be an employee or director of, or to render services to, the Company or its Associated Body Corporate;

- (ii) the exercise conditions are unable to be met; or
- (iii) the lapsing date has passed.

(h) **Shares Allotted Upon Exercise of ESOP Options**

The Company will issue or transfer Shares to the Eligible Participant as soon as practicable after the exercise of any ESOP Options. The Shares allotted under the ESOP will be of the same class and will rank equally with Shares in the Company at the date of issue.

The Company will seek listing of the new Shares on ASX within the time required by the ASX Listing Rules.

(i) **Transfer of ESOP Options**

An ESOP Option issued under the ESOP is not transferable without the consent of the Board.

(j) **Takeover or Scheme of Arrangement**

Where:

- (i) a notice of meeting is despatched to consider a scheme of arrangement between the Company and its creditors or members or any class thereof pursuant to Section 411 of the Corporations Act;
- (ii) an announcement of a takeover bid is made or a bidder's statement for a bid is received by the Company; or
- (iii) a person or group of associated persons becomes entitled, subsequent to the date of grant of the relevant ESOP Options, to sufficient Shares to give them the ability, in general meeting, to replace all or a majority of the Board in circumstances where such an ability was not already held by that person,

then the Directors may determine that the ESOP Options may be exercised at any time from that date, and in any number until the date determined by the Board acting bona fide so as to permit the holder to participate in any change of control, or to use their reasonable endeavours to procure that an offer is made to holders of the ESOP Options on like terms to the terms proposed under the change of control event.

(k) **Bonus Issues, Rights Issues and Capital Reconstruction**

In order to prevent a reduction of the rights of holders of the ESOP Options, in the event of bonus issues or a capital reconstruction, there are provisions in the rules which provide a method of adjustment of the number or terms of ESOP Options to prevent such a reduction in compliance with the Listing Rules.

(l) **Participation in New Issues**

There are no participating rights or entitlements inherent in the ESOP Options and (subject to item (k)) the holders will not be entitled to participate in new issues of capital offered to shareholders during the

currency of the ESOP Options. In addition, holders of the ESOP Options will not be entitled to vote or receive dividends as a result of their holding of ESOP Options.

### **18.9 Interests of Directors and Proposed Directors**

Other than as set out in this Prospectus, no Director or Proposed Director holds, or has held within the 2 years preceding lodgement of this Prospectus with the ASIC, any interest in:

- (a) the formation or promotion of the Company;
- (b) any property acquired or proposed to be acquired by the Company in connection with:
  - (i) its formation or promotion; or
  - (ii) the Offer; or
- (c) the Offer,

and no amounts have been paid or agreed to be paid and no benefits have been given or agreed to be given to a Director or proposed Director:

- (d) as an inducement to become, or to qualify as, a Director; or
- (e) for services provided in connection with:
  - (i) the formation or promotion of the Company; or
  - (ii) the Offers.

### **18.10 Interests of Experts and Advisers**

Other than as set out below or elsewhere in this Prospectus, no:

- (a) person named in this Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus;
- (b) promoter of the Company; or
- (c) underwriter (but not a sub-underwriter) to the issue or a financial services licensee named in this Prospectus as a financial services licensee involved in the issue,

holds, or has held within the 2 years preceding lodgement of this Prospectus with the ASIC, any interest in:

- (d) the formation or promotion of the Company;
- (e) any property acquired or proposed to be acquired by the Company in connection with:
  - (i) its formation or promotion; or
  - (ii) the Offers; or
- (f) the Offers,

and no amounts have been paid or agreed to be paid and no benefits have been given or agreed to be given to any of these persons for services provided in connection with:

- (g) the formation or promotion of the Company; or
- (h) the Offers.

Baillieu Limited and Peloton Capital Pty Ltd have acted as Lead Managers for the Company in relation to the Offer. The Company estimates it will pay Baillieu Limited and Peloton Capital Pty Ltd a total of approximately \$250,000 (excluding GST) for these services. During the 24 months preceding lodgement of this Prospectus with the ASIC, neither Baillieu Limited nor Peloton Capital Pty Ltd have received any fees from the Company or AEP for their services.

HLB Mann Judd has acted as Investigating Accountant to the Company and has prepared the Independent Limited Assurance Report which is included in Section 12. The Company estimates it will pay HLB Mann Judd a total of \$10,000 (excluding GST) for these services. During the 24 months preceding lodgement of this Prospectus with the ASIC, HLB Mann Judd has acted as auditor of the Company and has received \$79,450 (excluding GST) from the Company for their audit and review services.

Steinepreis Paganin has acted as the solicitors to Company in relation to the Offers. The Company expects that it will pay Steinepreis Paganin approximately \$30,000 (excluding GST) for services in relation to preparation of this Prospectus. Subsequently, fees will be charged in accordance with normal charge out rates. During the 24 months preceding lodgement of this Prospectus with the ASIC, Steinepreis Paganin has received \$52,745 (excluding GST) in fees for legal services provided to the Company.

SRK Consulting has acted as the Independent Geologist to the Company and has prepared the Independent Geologist's Report which is included in Section 10. The Company paid SRK Consulting a total of \$52,794.20 (excluding GST) in fees for services during the last 24 months inclusive of fees paid for the preparation of the Independent Geologist's Report.

Bastias Yacante Abogados has acted as the solicitors reporting on the title of the tenements that comprise the Hualilan Project and has prepared the Solicitors Report on Title set out in Section 13. The Company estimates it will pay Bastias Yacante Abogados ZVS a total of \$7,500 (excluding GST) for these services. During the last 24 months preceding lodgement of this Prospectus with the ASIC Bastias Yacante Abogados has not received any fees from the Company for their services. During the last 24 months preceding lodgement of this Prospectus with the ASIC Bastias Yacante Abogados has received \$53,821 (excluding GST) in fees from AEP for the provision of legal services from legal services.

Tobar Spingbarn ZVS has acted as the solicitors reporting on the title of the tenements that comprise the El Guayabo Project and has prepared the Solicitors Report on Title set out in Section 14. The Company estimates it will pay Tobar Spingbarn ZVS a total of \$7,500 (excluding GST) for these services. During the last 24 months preceding lodgement of this Prospectus with the ASIC Tobar Spingbarn ZVS has received \$33,717.10 (excluding GST) in fees from AEP for the provision of legal services.

## 18.11 Consents

Chapter 6D of the Corporations Act imposes a liability regime on the Company (as the offeror of the Securities), the Directors, the persons named in the Prospectus with their consent as Proposed Directors, any underwriters, persons named in the Prospectus with their consent having made a statement in the Prospectus and persons involved in a contravention in relation to the Prospectus, with regard to misleading and deceptive statements made in the Prospectus. Although the Company bears primary responsibility for the Prospectus, the other parties involved in the preparation of the Prospectus can also be responsible for certain statements made in it.

Each of the parties referred to in this Section 18.11.

- (a) does not make, or purport to make, any statement in this Prospectus other than those referred to in this Section;
- (b) in light of the above, only to the maximum extent permitted by law, expressly disclaim and take no responsibility for any part of this Prospectus other than a reference to its name and a statement included in this Prospectus with the consent of that party as specified in this Section.

Baillieu Limited has given its written consent to being named as the Lead Manager to the Offer in this Prospectus. Baillieu Limited has not withdrawn its consent prior to the lodgement of this Prospectus with ASIC.

Peloton Capital Pty Ltd has given its written consent to being named as the Lead Manager to the Offer in this Prospectus. Peloton Capital Pty Ltd has not withdrawn its consent prior to the lodgement of this Prospectus with ASIC.

HLB Mann Judd has given its written consent to being named as Investigating Accountant and auditor in this Prospectus and to the inclusion of the Independent Limited Assurance Report in Section 12 in the form and context in which the information and report is included. HLB Mann Judd has not withdrawn its consent prior to lodgement of this Prospectus with the ASIC.

Security Transfer Australia Pty Ltd has given its written consent to being named as share registry of the Company in this Prospectus. Security Transfer Australia Pty Ltd has not withdrawn its consent prior to lodgement of this Prospectus with ASIC.

Steinepreis Paganin has given its written consent to being named as the solicitors to the Company in this Prospectus. Steinepreis Paganin has not withdrawn its consent prior to the lodgement of this Prospectus with the ASIC.

SRK Consulting has given its written consent to being named as Independent Geologist in this Prospectus, the inclusion of the Independent Geologist's Report in Section 10 in the form and context in which the report is included. SRK Consulting has not withdrawn consent prior to lodgement of this Prospectus with the ASIC.

Bastias Yacante Abogados has given its written consent to being named as the tenement solicitor for the Hualilan Project to the Company in this Prospectus and to the inclusion of the Report on Title in Section 13 in the form and context in which the report is included. Bastias Yacante Abogados has not withdrawn its consent prior to the lodgement of this Prospectus with the ASIC.

Tobar Spingbarn ZVS has given its written consent to being named as the tenement solicitor for the El Guayabo Project to the Company in this Prospectus and to the inclusion of the Report on Title in Section 14 in the form and context in

which the report is included. Tobar Spingbarn ZVS has not withdrawn its consent prior to the lodgement of this Prospectus with the ASIC.

## 18.12 Expenses of the Public Offer

The total expenses of the Public Offer (excluding GST and those costs which have already been paid) are estimated to be approximately \$397,007 and are expected to be applied towards the items set out in the table below:

Item of Expenditure	Completion
ASIC fees	\$3,206
ASX fees	\$79,607
Legal fees	\$30,000
Investigating Accountant's Fees	\$10,000
Legal Title Reports	\$15,000
Joint Lead Manager fees	\$250,000
Printing, Distribution and Miscellaneous	\$9,194
<b>TOTAL</b>	<b>\$397,007</b>

## 18.13 Continuous disclosure obligations

The Company is a "disclosing entity" (as defined in section 111AC of the Corporations Act) and, as such, will be subject to regular reporting and disclosure obligations. Specifically, like all listed companies, the Company is required to continuously disclose any information it has to the market which a reasonable person would expect to have a material effect on the price or the value of the Company's securities.

Price sensitive information is publicly released through ASX before it is disclosed to shareholders and market participants. Distribution of other information to shareholders and market participants is also managed through disclosure to the ASX. In addition, the Company posts this information on its website after the ASX confirms an announcement has been made, with the aim of making the information readily accessible to the widest audience.

## 18.14 Electronic Prospectus

If you have received this Prospectus as an electronic Prospectus, please ensure that you have received the entire Prospectus accompanied by the Application Form and fully read those documents. If you have not, please contact the Company and the Company will send you, for free, either a hard copy or a further electronic copy of this Prospectus or both. Alternatively, you may obtain a copy of this Prospectus from the Company's website.

The Corporations Act prohibits any person from passing on to another person the Application Form unless it is attached to or accompanies a hard copy of the Prospectus or a complete and unaltered electronic copy of this Prospectus. The Company reserves the right not to accept an Application Form from a person if it has reason to believe that when that person was given access to the electronic Application Form, it was not provided together with the electronic Prospectus and any relevant supplementary or replacement prospectus or any of those documents were incomplete or altered.

## **18.15 Privacy Statement**

If you complete an Application Form, you will be providing personal information to the Company. The Company collects, holds and will use that information to assess your application, service your needs as a Shareholder and to facilitate distribution payments and corporate communications to you as a Shareholder.

The information may also be used from time to time and disclosed to persons inspecting the register, including bidders for your securities in the context of takeovers, regulatory bodies including the Australian Taxation Office, authorised securities brokers, print service providers, mail houses and the share registry.

You can access, correct and update the personal information that we hold about you. If you wish to do so, please contact the share registry at the relevant contact number set out in this Prospectus.

Collection, maintenance and disclosure of certain personal information is governed by legislation including the Privacy Act 1988 (as amended), the Corporations Act and certain rules such as the ASX Settlement Operating Rules. You should note that if you do not provide the information required on the application for Shares, the Company may not be able to accept or process your application.

## **18.16 Governing law**

The Offer and the contracts formed on return of an Application Form are governed by the laws applicable in Western Australia, Australia. Each person who applies for Shares pursuant to this Prospectus submits to the non-exclusive jurisdiction of the courts of Western Australia, Australia, and the relevant appellate courts.

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**19. DIRECTORS' AND PROPOSED DIRECTOR AUTHORISATION**

This Prospectus is issued by the Company and its issue has been authorised by a resolution of the Directors and the Proposed Directors.

In accordance with section 720 of the Corporations Act, each Director and Proposed Director, has consented to the lodgement of this Prospectus with the ASIC.



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**Robert Willes**  
**Managing Director**  
**For and on behalf of**  
**CHALLENGER EXPLORATION LIMITED**



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## 20. GLOSSARY

Where the following terms are used in this Prospectus, they have the following meanings:

**\$** means an Australian dollar.

**AAR** means Afro Asian Resources Pty Ltd (ACN 142 265 049).

**Acquisition Agreement** means the heads of agreement between the Company, and AEP dated 19 March 2019, the material terms of which are summarised in Section 17.2.

**Additional Offers** means the Third-Party Lender Offer, the Vendor Offer and the Advisor Offer.

**Advisor Offer** has the meaning set out in Section 6.5.

**AEP** means AEP Corporation Pty Limited (ACN 627 617 976).

**AEP Loan Facility #1** has the meaning set out in Section 17.2.

**AEP Loan Facility #2** has the meaning set out in Section 17.9.

**AEP Group** means AEP and its subsidiaries.

**AEP Share** means a fully paid ordinary share in the capital of AEP.

**AEP Shareholders** means the holder of an AEP Share at the date of this Prospectus.

**Applicant** an application for Shares under the Public Offer described in this Prospectus

**Application Form** means an application form attached to or accompanying this Prospectus relating to the Offer.

**Application Monies** means the amount accompanying an Application Form submitted by an Applicant.

**ASIC** means Australian Securities & Investments Commission.

**ASX** means ASX Limited (ACN 008 624 691) or the financial market operated by it as the context requires.

**ASX Listing Rules** or **Listing Rules** means the official listing rules of ASX.

**ASX Settlement Operating Rules** means the settlement and operating rules of the ASX.

**Baillieu** means Baillieu Limited (ABN 74 006 519 393).

**Baillieu Mandate** means the mandate between the Company and Baillieu Limited as set out in Section 17.4.

**Board** means the board of Directors as constituted from time to time.

**Business Day** means Monday to Friday inclusive, except New Year's Day, Good Friday, Easter Monday, Christmas Day, Boxing Day, and any other day that ASX declares is not a business day.

**Bundu** means Bundu Gas and Oil Exploration Proprietary Limited, an entity incorporated in the Republic of South Africa and registered on 4 December 2007.

**Charter** means the South African Mining Charter.

**Closing Date** means the closing date of the Offers as set out in the indicative timetable in Section 3 of this Prospectus (subject to the Company reserving the right to extend the Closing Date or close the Offers early).

**Company** or **CEL** means Challenger Exploration Limited (ACN 123 591 382).

**Conditional Approval** means the letter issued by the ASX to the Company stating the conditions that are required to be met in order to re-comply with Chapters 1 and 2 of the ASX Listing Rules for re-quotation of its Securities on the Official List.

**Conditions** has the meaning set out in Section 6.6.

**Corporate Governance Plan** means the corporate governance plan adopted by the Company in accordance with *the Corporate Governance Principles and Recommendations (3rd Edition)* as published by ASX Corporate Governance Council.

**Consideration Options** means the Options to be issued to the Vendors under the Vendor Offer on the terms and conditions set out in Section 18.3

**Consideration Performance Shares** means the Performance Shares to be issued to the Vendor under the Vendor Offer of the terms and conditions set out in Section 18.6.

**Consideration Securities** means the Securities to be issued to the Vendor under the Vendor Offer as set out in Section 6.3.

**Consideration Shares** means the Shares to be issued pursuant to the Vendor Offer.

**Constitution** means the constitution of the Company as amended from time to time.

**Corporations Act** means the *Corporations Act 2001* (Cth).

**Deferred Consideration Shares** means the 245,000,001 Shares to be issued in accordance with the terms and conditions set out in the Farm-In Agreements.

**Director** means the directors of the Company as at the date of this Prospectus.

**El Guayabo** means the El Guayabo Project, located in Ecuador, as set out in Section 8.5.

**El Guayabo Farm-In Agreement** means the farm-in agreements and ancillary agreements pursuant to which EMP has a right to earn 100% of the El Guayabo Project.

**Eligible Participant** means, in respect of the PRP, any Director (including non-executive directors) and full time or part time employee or consultant of a Group Company (devoting 40% of their time to the Company) who is declared by the Board to be eligible to receive grants of Performance Rights under the PRP).

**EMP** means Ecuador Mining Pty Limited (ACN 626 075 367).

**Eligible Participants** means full or part time employees of the Company or an Associated Body Corporate or Consultant to the Company.

**ESOP** means the Employee Incentive Option Plan as approved by Shareholders at the General Meeting.

**ESOP Option** means an option issued to an Eligible Participant under the ESOP set out in Section 18.8.

**Existing Shareholder** means the holders of Existing Shares in the Company as at the date of this Prospectus.

**Existing Shares** means Shares held by the Existing Shareholders as at the date of this Prospectus.

**Exposure Period** means the period of 7 days after the date of lodgement of this Prospectus, which may be extended by ASIC by not more than 7 days pursuant to section 727(3) of the Corporations Act 2001.

**Independent Limited Assurance Report** means the Independent Limited Assurance Report set out in Section 12.

**Full Subscription** means the subscription of 166,666,667 Shares at an issue price of \$0.03 per Share to raise a minimum of \$5,000,000 under the Public Offer.

**General Meeting** means the meeting of Shareholders held on 29 April 2019 to consider and vote on the Resolutions outlined in the Notice of Meeting and set out in Section 7.3.

**Hualilan Project** means the Hualilan project located in Argentina, comprising the Cerro Sur and Cerro Norte concessions collectively, as set out in Section 8.5.

**Hualilan Farm-In Agreement** has the meaning set out in Section 8.6.

**Joint Lead Managers** refers to Baillieu Limited and Peloton Capital Limited.

**JLM Mandates** means the mandates between the Company and the Joint Lead Managers as set out in Section 17.4.

**Minimum Subscription** has the same meaning as the Full Subscription.

**MPRDA** means Mineral and Petroleum Resources Development Act.

**Notice of Meeting** means the notice of general meeting and explanatory statement of the Company released on ASX on 22 March 2019 in relation to the General Meeting.

**Offers** means the offers of Securities pursuant to this Prospectus, including the Public Offer and the Additional Offers (comprising the Third-Party Lender Offer, the Vendor Offer and the Advisor Offer).

**Official List** means the official list of ASX.

**Official Quotation** means official quotation by ASX in accordance with the ASX Listing Rules.

**Option** means an option to acquire a Share.

**Optionholder** means a holder of an Option.

**Peloton** means Peloton Capital Pty Ltd (ACN 149 540 018).

**Peloton Options** means the Options to be issued to Peloton in accordance with the Peloton Mandate on the terms and conditions set out in Section 18.5

**Peloton Mandate** means the mandate between the Company and Peloton dated 9 May 2019 relating to the provision of lead manager and corporate advisory services by Peloton to the Company as summarised in Section 17.4.

**Performance Right** means an entitlement to a Share pursuant to the PRP set out in Section 18.7.

**PRP** or **Performance Rights Plan** means the performance rights plan adopted at the General Meeting, a summary of which is set out in Section 18.7.

**Pitt Street** means Pitt Street Absolute Return Fund Pty Ltd (ACN 141 150 254), an entity associated with Mr Kris Knauer.

**Previous Announcement** means the announcement released on the Company's ASX announcement platform titled "Challenger to Acquire Rights to Two South American Gold/Copper Projects Located in Argentina and Ecuador" released on 25 February 2019.

**Projects** means the Hualilan Project and the El Guayabo Project, and any one or more of them as the context requires.

**Proposed Acquisition** means the acquisition of 100% of AEP in accordance with the Acquisition Agreement.

**Proposed Directors** means Mr Scott Funston, Mr Kris Knauer and Mr Fletcher Quinn who will be appointed to the Board of the Company with effect from Settlement.

**Prospectus** means this prospectus.

**PRP** means the performance rights plans approved by Shareholders at the General Meeting.

**Public Offer** means the offer pursuant to this Prospectus, as set out in Section 6.1 of 166,666,667 Shares at an issue price of \$0.03 per Share to raise a minimum of \$5,000,000.

**Resolutions** means those Shareholder resolutions referred to in Section 7.3 and approved at the General Meeting.

**Seco** means Seco Resource Finance Pty Ltd (ACN 109 967 348), an entity associated with Mr Fletcher Quinn.

**Section** means a section of this Prospectus.

**Security** means a security issued or to be issued in the capital of the Company, including a Share, an Option or a Performance Share.

**Selling Fee** means a capital raising fee of 5% (exclusive of GST) of the total amount raised under the Public Offer as set out in Section 17.4.

**Settlement** means settlement of the Proposed Acquisition in accordance with the terms of the Acquisition Agreement.

**Share** means a fully paid ordinary share in the capital of the Company.

**Shareholder** means a holder of Shares.

**Success Equity Fee** means a success fee of 6,000,000 Shares as set out in Section 17.4(b).

**Torata** means Torata Mining Resources TMR S.A., a company duly incorporated and registered under the laws of Ecuador, having its principal offices in Buenavista 2619 y Av. Bolívar, La Providencia, Machala, El Oro, Ecuador.

**Tenement** means a mining tenement or application referred to in the Solicitors Report on Title in Sections 13 and, or, the Solicitors Report on Title in Section 14.

**Third-Party Loan** has its meaning set out in Section 6.4.

**Third-Party Lender Offer** has the meaning set out in Section 6.4.

**Third-Party Lender** means Pitt Street and Seco or any one or more of them, as the context requires.

**Vendor** means AEP Shareholders.

**Vesting Conditions** means being one or more conditions which must be satisfied or circumstances which must exist before Performance Rights vest, as determined by the Board).

**WST** means Western Standard Time as observed in Perth, Western Australia.