

# ASX announcement

28 April 2014

## Argonaut signs major agreement with Antofagasta for the funding of Lumwana West project in Zambia

### Highlights

- Lumwana West project is fully funded to production.
- Antofagasta can earn 70% by spending US\$18.9M on exploration plus the amount required to complete a feasibility study to international standards.
- If the project is feasible, Argonaut is either carried into production or bought-out prior to construction.
- Antofagasta to become a cornerstone shareholder in Argonaut via a US\$1.1M placement, with funds to be used to increase Argonaut's interest in the Lumwana West project to 90%.
- Argonaut will be operator until an election by Antofagasta during Phase II.
- Major drilling program of over 8,500m to commence in May 2014.
- Finalisation of Rights Issue documentation is expected within two weeks.

Argonaut Resources NL (ASX: ARE) (*Argonaut* or the *Company*) is pleased to announce the execution of an option agreement (the *Agreement*) with a wholly owned subsidiary of Antofagasta PLC (*Antofagasta*) for the exploration and development of the Lumwana West project in Zambia (the *Project*).

The agreement covers all phases of the Project's development from regional exploration to the completion of a feasibility study and, in the event the project is moved forward and Argonaut decides not to fund its pro-rata share of the project, it will be either carried into production or be bought-out at the value of its interest.

Argonaut director, Lindsay Owler commented: “The implications of this Agreement are considerable. The Lumwana West project is now fully funded with a timetable for development. Project funding provided via the Agreement together with recently announced capital raising programs sees Argonaut’s capital requirements met. Investors can expect strong news-flow.”

“Major exploration work will commence at Lumwana West in May 2014. This work will include diamond-core drilling targeting extensions and repetitions of the Nyungu deposit plus discovery phase drilling at the West Mwombezhi and Kavipopo prospects.”

“The tenor of these targets, the scarcity of emerging copper mines and the global decrease in exploration activity makes this work internationally significant.”

## Principal Commercial Terms

The Agreement between Antofagasta, Argonaut Resources NL and Argonaut’s related subsidiaries is in five phases. The principal commercial terms are described below.

**Phase I** involves the input by Antofagasta of **US\$5M within one year** in exchange for a 25% interest in the Project. The funding is in two parts: US\$3.9M for exploration works commencing May 2014 and a US\$1.1M placement in Argonaut (the *Placement*). Placement funds will be used by Argonaut to acquire an additional 39% interest in the Project via the underlying Lumwana West Joint Venture, taking Argonaut’s interest in the Project to 90%.

**Phase II** involves exploration and development **expenditure of US\$15M by Antofagasta within four years** of the completion of Phase I at a minimum expenditure rate of US\$2.5M per year. Antofagasta can earn an effective 51% interest in the Project by completing Phase II.

**Phase III** involves the **completion of a feasibility study to international standards**. Antofagasta may conduct additional work necessary to commence the feasibility study, such as a preliminary feasibility study, prior to electing to commence the definitive study. Antofagasta will have up to two years to complete additional work and four years to complete the feasibility study. Antofagasta can earn an effective 70% interest in the Project by completing the feasibility study.

**Phase IV** is the period following the delivery of the feasibility study, but prior to the development decision. Argonaut may elect not to contribute or dilute during this period, subject to certain reimbursement conditions to be paid out of future dividends.

**Phase V** is the period after a development decision when, if Argonaut decides not to fund its pro-rata share of the project, Antofagasta may elect to **either carry Argonaut into production**, with Argonaut’s development costs being funded by 60% of future dividends, **or buy-out Argonaut’s** interest for its pro-rata share of the Project’s net present value<sup>1</sup>.

Antofagasta may elect to stop contributing at certain stages in which case various provisions including standard dilution and drag-along/tag-along rights will apply.

Argonaut will be the operator under the Agreement during Phase I and part of Phase II. Antofagasta may elect to become operator at any stage during Phase II.

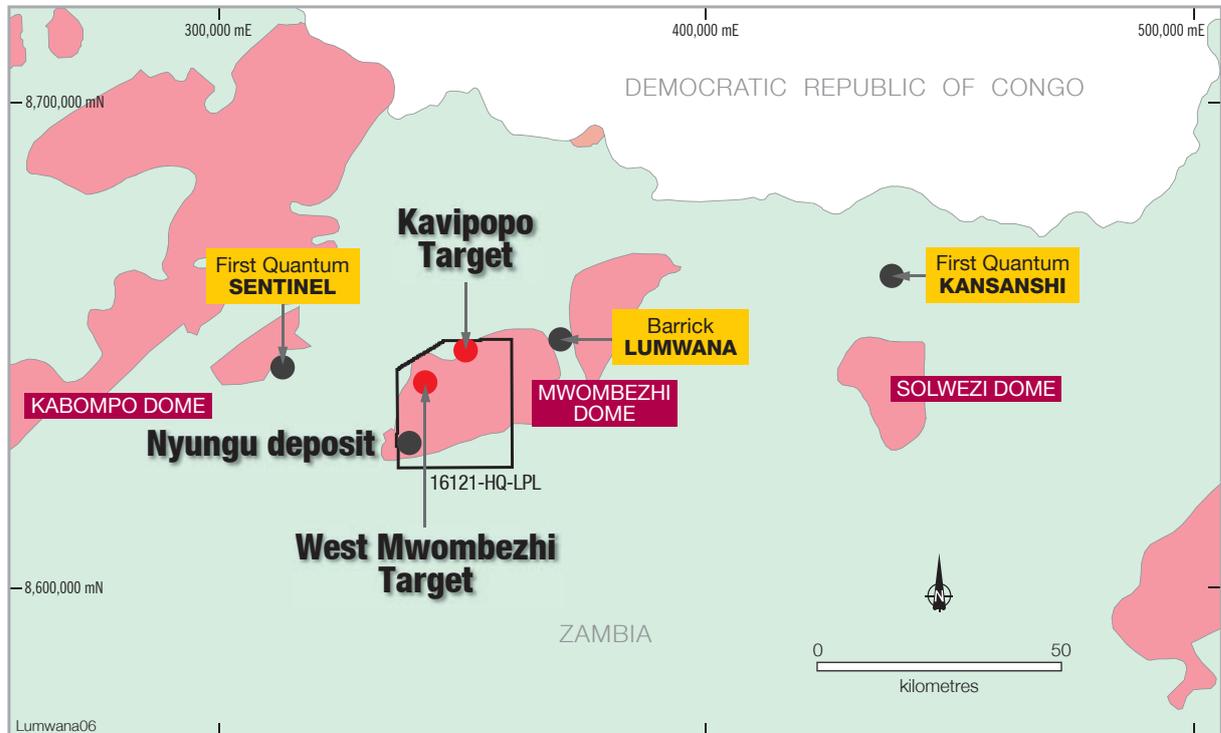
## Placement

The Placement will involve the issue of the following securities to Antofagasta: 54,899,991 ordinary shares at 2.156 cents per share. The shares are intended to be issued to Antofagasta on 5 May 2014. 20,540,433 ordinary shares will be issued in accordance with ASX Listing Rule 7.1 and 34,359,558 ordinary shares will be issued in accordance with ASX Listing Rule 7.1A.

<sup>1</sup> Using a discount rate of 12%

# 2014 Exploration Program

The Lumwana West Technical Committee comprising representatives of Antofagasta and Argonaut met twice prior to the Agreement being executed. As a result, initial drill targets and budget allocations were agreed in advance leaving the field crew well placed to start work immediately.



## Location



- Katanga (conglomerate, quartzite, argillite, arkose, shale, greywacke, dolomite, banded iron fm, mixitite, limestone & schist)
- Pre-Katanga (schist, gneiss & granulite) & Basement Complex (granite, gneiss, migmatite, & granite)
- Licence boundary

**Figure 1:** The Domes Region in North Western Zambia showing the Lumwana West licence, 2014 drill targets and surrounding mines.

The agreed initial drilling program is as follows:

### West Mwombezhi discovery drilling:

- **Stage 1:** 960m of diamond core drilling for a total of 3 drill holes.
- **Stage 2:** 370m of diamond core drilling for a total of 1 drill hole.
- Drill testing coincident IP chargeability and soil geochemistry anomaly on 400m drill traverse spacing.
- Commencing May 2014.

### Kavipopo discovery drilling:

- **Stage 1:** 800m of diamond core drilling for a total of 2 holes.
- **Stage 2:** 380m of diamond core drilling for a total of 1 drill hole.
- Drill testing coincident IP chargeability and soil geochemistry anomaly on 400m drill traverse spacing.
- Commencing June 2014.

### **Nyungu extensional and follow-up drilling:**

- Stage 1: 840m of diamond core drilling for a total of 3 drill holes.
- Stage 2: 650m of diamond core drilling for a total of 2 drill holes.
- Drill testing three previously undrilled chargeability anomalies.
- Drill holes will be located at Nyungu West, Nyungu South and Nyungu North.
- Commencing June 2014.

Further drilling will be required prior to the first anniversary date of the Agreement for Antofagasta to meet the Phase I expenditure target of US\$3.9M, with allocation of drill meters based upon exploration results. At present over 8,500m of drilling is planned prior to the first anniversary of the Agreement. In addition to drilling, regional programs of IP geophysics and soil sampling will be completed in 2014.

With the 2014 objective of assessing the district-scale potential of Lumwana West, field programs aim to:

- define extensions and repetitions of mineralisation at Nyungu on the basis of undrilled IP chargeability anomalies;
- discover new deposits at West Mwombezhi and Kavipopo on the basis of major soil geochemistry and IP chargeability anomalies; and
- generate a pipeline of new targets for future drilling.

## **Proposed Rights Issue**

As announced on 6 March 2014, the Company will undertake a rights issue with shares and options to be offered on the basis of one new share for every five ordinary shares held at the record date. The new shares will be priced at 2.2c and will come with one free option for every three new shares issued.

Rights issue documentation is expected to be finalised and distributed to all shareholders within the next two weeks.

## About Antofagasta

Antofagasta plc is a Chilean-Based copper mining company with significant by-product production and interests in transport and water distribution. The company has four operating copper mines; Los Pelambres, Esperanza, El Tesoro and Michilla which produced 721,200 tonnes of copper, 9,000 tonnes of molybdenum and 293,800 ounces of gold in 2013. Antofagasta plc also has exploration and evaluation programmes in North America, Latin America, Europe, Asia, Australia and Africa. The company is listed on the London Stock Exchange and is a constituent of the FTSE-100 Index.

## About Argonaut

Argonaut is an Australian Securities Exchange listed mineral exploration and development company focussed on large copper targets with projects in Zambia, South Australia and Queensland. Argonaut's projects are in the advanced exploration and feasibility stages.

The Company is exploring for copper at its flagship Lumwana West project in Zambia and copper (+/- gold and silver) at its Alford and Torrens projects in South Australia. The Company also owns a zinc-copper deposit at Mt Kroombit in Central Queensland and a 70% interest in a gold exploration project in Laos.

Argonaut has a significant investment in Cuesta Coal Ltd which listed on the Australian Securities Exchange in May 2012.

*Sections of information contained in this report that relate to Exploration Results were compiled or supervised by Mr Lindsay Owler BSc, MAusIMM who is a Member of the Australasian Institute of Mining and Metallurgy and is a full time employee of Argonaut Resources NL. Mr Owler holds shares and options in Argonaut Resources NL, as described on page 10 of the Company's 2013 Annual Report. Mr Owler has sufficient experience which is relevant to the style of mineral deposits under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 edition of the "Australasian Code for Reporting of Mineral Resources and Ore Reserves". Mr Owler consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.*

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