

ASX ANNOUNCEMENT

29 May 2019

Dear shareholders

Curtailment by Aeris of Torrens Stage 1 Drilling Program

Drilling at the Torrens Project in South Australia has been stopped following the completion of the second drill hole, TD10. The agreed drilling program announced by the parties on 17 September 2018 of 8 to 10 holes to depths of between 700m and 1,500m has not been completed.

Our 70% partner, Straits Resources (Australia) Pty Ltd (*Straits*), a subsidiary of Aeris Resources Ltd (ASX: AIS), has advised that the contractors will soon demobilise from site. Information provided to Argonaut's subsidiary, Kelaray Pty Ltd, by Straits regarding possible demobilisation does not include a proposed date for recommencement of drilling or details of future drill funding.

The drilling program under the management of Straits has gone poorly. Straits estimate that on completion of demobilisation and remediation, the JV will have spent roughly 120% of the program's budget testing only 20-25% of the initial targets. By any metric this outcome is unsatisfactory. Shareholders have every right to feel disappointed.

Early in the program, exasperated contractors have complained openly and in writing to both Straits and Kelaray that the drill operations were disorganised and lacked project management. Kelaray made similar complaints to Straits. No material action was taken by Straits to remedy the situation.

The proportion of Stage 1 drilling completed to date has been plagued by cost overruns. Some of these were legitimate, many were avoidable. The cost overruns have led to the premature curtailment, or at best suspension, by Straits of the Stage 1 drilling program.

Kelaray strongly objects to the cessation of drilling and has written to Straits stating Kelaray is prepared take over management of the joint venture and fund continued drilling. Kelaray has also made Straits aware that the Torrens Option and Joint Venture Agreement does not permit a unilateral decision to discontinue an approved program of works. Kelaray has sought advice and will take appropriate action to remedy the current situation if arrangements to continue drilling cannot be agreed by the parties.

Copper discoveries in the Eastern Gawler Craton, under Stuart Shelf sediments, have always been a game of statistics. Explorers must be persistent and resilient. The Olympic Dam discovery

wasn't confirmed until the tenth hole. The Carrapateena deposit was discovered in the second drill hole, but the ore body wasn't properly intersected again until hole number 32.

The Torrens anomaly presents many opportunities for discovery in several different styles of gravity (density) anomaly. The holes completed this year at Torrens failed to test any 'gravity-only' anomalies. Gravity-only anomalies are in the style of both BHP's nearby Oak Dam West discovery and the Carrapateena deposit. The drilling program managed by Straits also failed to test any of the 'partially coincident' gravity/magnetic anomalies that have similar characteristics to Prominent Hill.

Parties to the Torrens Joint Venture were aware of the need to test as many of the anomalies as possible to improve the odds of success based on the examples cited above.

Straits has asserted that more desk-based geological and geophysical work is required in order to proceed. Kelaray disagrees. The opposite is true. More drilling is required to test and explain the geophysical anomalies.

Of the four most prospective targets still untested at Torrens, two are shallow, lower-cost drill holes. One of these is on Andamooka Island, so could be drilled without incurring helicopter expenses. Argonaut firmly believes opportunities exist to provide shareholders with the desired exposure to quality copper exploration.

Argonaut must also weigh-up the merits of drilling attractive targets on its 100% held Murdie, West Lake Torrens and Red Dam licences. Critical native title authorisations have already been issued for Murdie and West Lake Torrens and an application for operational and environmental approval to drill these areas has been submitted to the South Australia Government.

The prospectivity of the Torrens anomaly and Argonaut's surrounding ground remains completely intact. There is far more work to be done and the Argonaut board will properly consider the avenues available to recommence drill testing of large Iron Oxide Copper-Gold targets in one of the most heavily endowed geological domains on the planet.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Lindsay Oowler', with a long horizontal flourish extending to the right.

Lindsay Oowler
Director and CEO

ARGONAUT RESOURCES NL