AusQuest Limited

ABN 35 091 542 451

Financial report for the half-year ended 31 December 2017

Corporate directory

Board of Directors

Mr Greg Hancock	Chairman and Non-Executive Director
Mr Graeme Drew	Managing Director
Mr Chris Ellis	Non-Executive Director

Company Secretary
Mr Henko Vos

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Auditors
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Share Registry
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Fax: +61 8 9389 7871
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Securities Exchange Listing
Australian Securities Exchange
(Home Exchange: Perth, WA)
Code: AQD

Bankers
Australian and New Zealand Bank
135 Riseley Street
Booragoon WA 6154

Financial report for the half-year ended 31 December 2017

Directors' report

The Directors of AusQuest Limited herewith submit the financial report for the half-year ended 31 December 2017. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Directors

The names of the directors of the Company who have held office during and since the end of the half-year period and until the date of this report are noted below. Directors were in office for the entire period unless otherwise noted.

Gregory Hancock
Graeme Drew
Chris Ellis

Review of Operations

HIGHLIGHTS

Peru – Copper-Gold

- Extensive diamond drilling programs approved at both the Chololo porphyry copper (~5,000m) and the Cerro de Fierro IOCG (~3,000m) prospects under the Strategic Alliance Agreement (SAA) with South32. Agreements were signed and permitting commenced at both sites.
- Drilling contractor selected for the Chololo program with drilling expected to commence during Q2 2018.
- Three target areas with potential for buried porphyry copper mineralisation outlined following the compilation of data at the Los Otros Project (South32 Strategic Alliance). An Induced Polarisation (IP) survey commenced in January to identify drill targets.
- New IOCG base metal opportunity secured north of the Cerro de Fierro project.

Australia – Nickel, Copper, Zinc

- Favourable host rocks for sediment-hosted zinc mineralisation intersected by wide-spaced reconnaissance drilling (4 holes/2,568m) at the Blue Billy Zinc Joint Venture Project (South32).
- Strong alteration in two drill-holes located 10km apart (BBDD03 and 04) implies proximity to potential zinc mineralisation. Further work, including drilling, is being planned.
- Electromagnetic (EM) surveys completed over both the Balladonia and Jimberlana Nickel Projects with targets identified for possible testing under the Strategic Alliance Agreement.
- New base metal opportunities secured in WA and Queensland under title applications.

Corporate

- Agreements signed with South32 to drill test the Chololo and Cerro de Fierro Projects in southern Peru, triggering the payment of a US$500,000 bonus to AusQuest.

OVERVIEW

Field programs under the Company's Strategic Alliance Agreement (SAA) with diversified global miner South32 (ASX, LSE, JSE: S32; ADR: SOUHY) were accelerated during the first half of FY2018, both in Australia and Peru, with several projects now at the drilling stage.

In Peru, the Chololo and Cerro de Fierro Copper Projects were both advanced to the "drill- ready" stage, with permitting initiated in both areas to enable drilling to commence during the first half of 2018. Elsewhere, mapping and sampling continued in order to identify new opportunities under the SAA. IP surveys commenced at Los Otros to identify targets for drilling.

In Australia, the Strategic Alliance's inaugural drilling program at the Blue Billy Zinc Joint Venture Project in Western Australia was successfully completed with assay results supporting the zinc prospectivity of the region. Structural interpretation of available geophysical data commenced to outline target areas close to the anomalous drill-holes.

Reconnaissance EM surveys were completed at both the Jimberlana and Balladonia Nickel Projects, with several bedrock conductors outlined for further investigation.

Several new base metal opportunities were identified and secured under tenement application both in Australia and Peru.

PERU COPPER-GOLD JV PROJECTS *(100% AQD)*

Over the past five years, AusQuest has assembled a large portfolio of copper-gold prospects along the southern coastal belt of Peru, South America. Peru is one of the world's most prominent destinations for international copper exploration and is considered to be a prime location for world-class exploration opportunities.

Current Projects (under the SAA)

During the first half of FY2018, the Chololo Prospect was advanced to the drilling stage with a program of up to 5,000m of diamond drilling planned to test a large potential porphyry copper target identified by the Company's mapping, sampling and IP surveys.

Drill permitting for this program is expected to be completed around the end of Q1 2018, with final approvals and access preparations to commence in Q2 2018. A drilling contract has been awarded to SFP Drilling, with two drill-rigs scheduled to be on site at the start of the program.

Under an Agreement signed with South32, they can earn a 70% interest in the project by spending a total of US$4.0 million. AusQuest, through its Peruvian subsidiary, will be the first operator of the project.

Agreement was also reached with South32 to drill test the Cerro de Fierro Iron-Oxide Copper-Gold (IOCG) prospect, located at the southern end of the IOCG metallogenic belt in southern Peru, within ~150km of the Mina Justa (~475Mt @ 0.68% Cu) and Pampa de Pongo (945Mt @ 44.7% Fe, 0.12% Cu, 0.09g/t Au) deposits.

Drill permitting for up to 3,000m of diamond drilling has commenced with environmental survey work and community consultations now completed. It is anticipated that final drilling approvals should be obtained by mid-2018, enabling drilling to commence shortly thereafter.

Again, as with Chololo, South32 can earn a 70% interest in the project by spending a total of US$4.0 million.

At the Los Otros Project, several areas with anomalous geochemistry and alteration were located by the Company's mapping and sampling program, highlighting the potential for buried porphyry copper mineralisation. Induced polarisation (IP) surveys commenced late in January 2018 to identify targets for drilling.

New Projects (for future consideration under the SAA)

The Company continued to evaluate prospects within southern Peru, with the aim of identifying new opportunities to be presented under the SAA. Work at the Azucar West, Pampa Camarones, El Puno and Parcoy prospects yielded encouraging results, identifying areas of interest that justify further attention.

New tenement applications were submitted over the Parcoy Project, located to the north-west of Cerro de Fierro. The Company's proprietary regional airborne survey data have highlighted the potential for a new IOCG system close to the Los Chapitos prospect, where Camino Resources has reported intersections of 168m @ 0.72% Cu and 96.5m @ 0.93% Cu from early drilling.

The Company is pleased with the strong progress being made at all of the prospects in Peru especially those under the SAA, and looks forward to the commencement of drilling operations during 2018.

AUSTRALIA – BASE METAL PROJECTS (Nickel, Copper, Zinc)

Current Projects (under the SAA)

During the first half of FY 2018, the inaugural drilling program (4 holes/2,568m) under the SAA was completed at the Blue Billy Zinc Project located in the Edmund Basin of Western Australia. The Blue Billy Zinc Project is subject to a joint venture agreement with South32, which can earn 70% equity in the project by spending US$4.0 million.

All four widely-spaced (4km to 10km) diamond drill-holes showed geological and geochemical characteristics consistent with major mineralised basins found in northern Australia. Strong alteration found in the two northern most holes (BBDD03 and 04) inferred the potential for nearby zinc mineralisation.

VTEM data were subsequently acquired to help identify favourable trap sites within the target stratigraphy to guide further drilling at the project. Re-processing of these data has been completed and a structural interpretation is underway.

At the Jimberlana Nickel Project, located ~120km west of Norseman in Western Australia, reconnaissance and fixed-loop electromagnetic (EM) surveys were completed along the strike of the dyke to search for massive nickel sulphide targets near the base of the intrusion. Two moderate conductivity targets associated with a cross-cutting structure within the dyke complex were identified and further testing of these targets is now being considered under the SAA.

At the Balladonia Nickel-Copper Project, located ~50km south of the Nova-Bollinger nickel deposit in the Fraser Range region of Western Australia, both moving-loop and fixed-loop EM surveys were completed, testing 12 interpreted mafic intrusions for nickel-copper mineralisation similar to that found at Nova-Bollinger.

Six discrete bedrock targets of weak-to-moderate conductivity – three from the current EM program (2017) and three from previous EM work completed by the Company in 2015 – have been identified. Further testing of these targets is being considered under the SAA.

New Projects (for future consideration under the SAA)

During the first half of 2018, the Company also submitted new tenement applications over three areas identified by the Company's consultants as having the potential for base metal (nickel, zinc and copper) mineralisation.

The Tangadee Project is located in the Edmund Basin of Western Australia and is targeting sediment-hosted zinc mineralisation similar to deposits found in north-west Queensland.

The Caramulla Project, located immediately east of the Coobina chromite mine, is targeting nickel sulphide mineralisation within a feeder structure.

The Hamilton Project, in north-west Queensland ~120km south of the world-class Cannington base metals mine, is targeting Iron-Oxide Copper-Gold (IOCG) mineralisation beneath cover.

Heritage Agreements have been finalised for each project and the grant of tenements is expected to commence over the coming months.

CORPORATE

In December 2017, two agreements were signed with South32 to undertake drilling programs at the Chololo and Cerro de Fierro Copper Projects in southern Peru. Under the Agreements, South32 can spend US$4.0 million on each project to earn a 70% interest with the right to earn a further 10% interest by completing Pre-Feasibility Studies.

Under the terms of the SAA with South32, these Agreements triggered the payment to AusQuest of a Bonus Generation Fee of US$500,000 (AU$652,231), to be used by the Company for ongoing project generation work.

A portion being $432,841 of the $750,000 Loan and Convertible Note Agreement with Mr Chris Ellis, a Director and substantial shareholder of the Company, was converted to shares in the Company following approval by shareholders at the Company's Annual General Meeting held on 20 November 2017.

Auditor's Independence Declaration

Section 307C of the Corporations Action 2001 requires our auditors, HLB Mann Judd, to provide the Directors of the Company with an Independence Declaration in relation to the review of the half-year financial report. This Independence declaration is set out on page 5 and forms part of this Directors' report for the half year ended 31 December 2017.

Signed in accordance with a resolution of Directors made pursuant to s.306(3) of the Corporations Act 2001.

On behalf of the Directors

Graeme Drew
Managing Director

Perth, 9 March 2018

COMPETENT PERSON'S STATEMENT

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

FORWARD LOOKING STATEMENT

This report contains forward looking statements concerning the projects owned by AusQuest Limited. Statements concerning mining reserves and resources may also be deemed to be forward looking statements in that they involve estimates based on specific assumptions. Forward-looking statements are not statements of historical fact and actual events and results may differ materially from those described in the forward looking statements as a result of a variety of risks, uncertainties and other factors. Forward looking statements are based on management's beliefs, opinions and estimates as of the dates the forward looking statements are made and no obligation is assumed to update forward looking statements if these beliefs, opinions and estimates should change or to reflect other future developments.

HLB Mann Judd

Accountants | Business and Financial Advisers

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the consolidated financial report of AusQuest Limited for the half-year ended 31 December 2017, I declare that to the best of my knowledge and belief, there have been no contraventions of:

a) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

b) any applicable code of professional conduct in relation to the review.

Perth, Western Australia
9 March 2018

M R Ohm
Partner

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HLB Mann Judd

Accountants | Business and Financial Advisers

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of AusQuest Limited

Report on the Condensed Half-year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of AusQuest Limited ("the company") which comprises the condensed consolidated statement of financial position as at 31 December 2017, the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory notes, and the directors' declaration, for the Group comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of AusQuest Limited is not in accordance with the *Corporations Act 2001* including:

(a) giving a true and fair view of the Group's financial position as at 31 December 2017 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Material uncertainty related to going concern

We draw attention to Note 2 in the half-year financial report, which indicates that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and

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fair view of the Group's financial position as at 31 December 2017 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and.the *Corporations Regulations 2001*. As the auditor of the company, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

HLB Mann Judd

HLB Mann Judd
Chartered Accountants

M R Ohm
Partner

Perth, Western Australia
9 March 2018

Directors’ declaration

1. In the opinion of the Directors of AusQuest Limited (the “Company”):

a. the accompanying interim financial statements and notes thereto are in accordance with the Corporations Act 2001 including:

   i. giving a true and fair view of the Group’s financial position as at 31 December 2017 and of its performance for the financial half-year ended on that date; and

   ii. complying with Australian Accounting Standards, the Corporations Regulations 2001, professional reporting requirements and other mandatory requirements.

b. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

c. The interim financial statements and notes thereto are in accordance with Interim Financial Reporting Standards issued by the International Accounting Standards Board.

2. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with Section 303(5) of the Corporations Act 2001 for the half-year ended 31 December 2017.

This declaration is signed in accordance with a resolution of the Board of Directors.

Graeme Drew
Managing Director

Perth, 9 March 2018

Condensed consolidated statement of profit or loss and other comprehensive income for the half-year ended 31 December 2017

		Consolidated	
	Note	Half-year to 31 Dec 2017 $	Half-year to 31 Dec 2016 $
Continuing operations			
Revenue	3	884,308	2,514
Consultants and employee benefits expenses		(62,916)	(46,654)
Share-based payments expense	9	(81,330)	-
Occupancy expenses		(51,254)	(45,672)
Administrative expenses		(300,195)	(174,833)
Impairment of exploration and evaluation expenditure		(221,556)	(353,445)
Profit/(loss) before income tax expense		167,057	(618,090)
Income tax expense		-	-
Profit/(loss) from continuing operations		167,057	(618,090)
Loss after tax from discontinued operations	10	(15,813)	(5,506,070)
Profit/(loss) for the year		151,244	(6,124,160)
Other comprehensive loss			
Items that may be reclassified to profit or loss			
Exchange loss on translation of foreign operations		(38,380)	(21,721)
Other comprehensive loss for the period		(38,380)	(21,721)
Total comprehensive income/(loss) for the period		112,864	(6,145,881)
Loss per share from continuing and discontinued operations:			
Basic and diluted earnings/(loss) per share from continuing and discontinued operations (cents per share)	10	0.03	(1.23)

The accompanying notes form part of these financial statements.

Condensed consolidated statement of financial position as at 31 December 2017

	Note	Consolidated 31 Dec 2017 $	Consolidated 30 Jun 2017 $
Current assets			
Cash and cash equivalents		425,457	1,694,181
Trade and other receivables	4	1,211,454	95,950
Other assets		173,156	147,874
Total current assets		1,810,067	1,938,005
Non-current assets			
Plant and equipment		28,780	21,993
Exploration and evaluation expenditure	5	3,675,762	3,650,791
Total non-current assets		3,704,542	3,672,784
Total assets		5,514,609	5,610,789
Current liabilities			
Trade and other payables		472,470	388,279
Borrowings	7	317,159	750,000
Provisions		47,915	46,058
Unexpended funding	6	472,530	848,952
Total current liabilities		1,310,074	2,033,289
Total liabilities		1,310,074	2,033,289
Net assets		**4,204,535**	**3,577,500**
Equity			
Issued capital	8	57,219,732	56,786,891
Reserves		3,607,607	3,564,657
Accumulated losses		(56,622,804)	(56,774,048)
Total equity		**4,204,535**	**3,577,500**

The accompanying notes form part of these financial statements.

Condensed consolidated statement of changes in equity for the half-year ended 31 December 2017

	Consolidated				
	Issued capital	Share based payment reserve	Foreign currency translation reserve	Accumulated losses	Total equity
	$	$	$	$	$
Balance at 1 July 2017	56,786,891	246,599	3,318,058	(56,774,048)	3,577,500
Profit for the period	-	-	-	151,244	151,244
Other comprehensive loss for the period, net of tax	-	-	(38,380)	-	(38,380)
Total comprehensive loss for the period	-	-	(38,380)	151,244	112,864
Issue of shares	432,841	-	-	-	432,841
Options issued	-	81,330	-	-	81,330
Balance at 31 December 2017	**57,219,732**	**327,929**	**3,279,678**	**(56,622,804)**	**4,204,535**

	Consolidated				
	Issued capital	Share based payment reserve	Foreign currency translation reserve	Accumulated losses	Total equity
	$	$	$	$	$
Balance at 1 July 2016	56,770,891	230,000	3,281,149	(49,581,903)	10,700,137
Loss for the period	-	-	-	(6,124,160)	(6,124,160)
Other comprehensive loss for the period, net of tax	-	-	(21,721)	-	(21,721)
Total comprehensive loss for the period	-	-	(21,721)	(6,124,160)	(6,145,881)
Issue of shares	5,000	-	-	-	5,000
Balance at 31 December 2016	**56,775,891**	**230,000**	**3,259,428**	**(55,706,063)**	**4,559,256**

The accompanying notes form part of these financial statements.

Condensed consolidated statement of cash flows
for the half-year ended 31 December 2017

	Consolidated	
	Half-year to 31 Dec 2017 $	Half-year to 31 Dec 2016 $
Cash flows from operating activities		
Receipt from South32 Group Operations Pty Ltd	172,824	-
Payments to suppliers and employees	(388,583)	(296,802)
Interest received	1,348	2,581
Net cash used in operating activities	(214,411)	(294,221)
Cash flows from investing activities		
Payment for plant and equipment	(14,246)	-
Payment for exploration and evaluation activities	(2,763,252)	(558,464)
Payment received on grant of farm-in and joint venture interests	1,728,243	-
Net cash used in investing activities	(1,049,255)	(558,464)
Cash flows from financing activities		
Proceeds from borrowings	-	750,000
Net cash generated by financing activities	-	750,000
Net decrease in cash and cash equivalents	(1,263,666)	(102,685)
Cash and cash equivalents at the beginning of the half-year	1,694,181	810,546
Exchange rate adjustment	(5,058)	6,669
Cash and cash equivalents at the end of the half-year	425,457	714,530

The accompanying notes form part of these financial statements.

Notes to the condensed consolidated financial statements for the half-year ended 31 December 2017

1. General information

The financial report covers AusQuest Limited as a consolidated entity consisting of AusQuest Limited and the entities it controlled during the period ("the Group"). The financial report consists of the financial statements, notes to the financial statements and the Directors' declaration. AusQuest Limited is a listed public company limited by shares, incorporated and domiciled in Australia.

2. Significant accounting policies

Statement of compliance
These general purpose condensed consolidated financial statements for the half-year reporting period ended 31 December 2017 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'. The financial statements were authorised for issue on 9 March 2018.

These condensed consolidated general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Therefore, it cannot be expected to provide as full an understanding of the financial performance, financial position and cash flows of the Group as in the full financial report. It is recommended that these financial statements be read in conjunction with the annual report for the year ended 30 June 2017 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001 and the ASX Listing Rules.

Basis of preparation
The half-year financial report has been prepared on a historical cost basis. Cost is based on the fair value of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

For the purposes of preparing the report, the half-year has been treated as a discrete reporting period.

Accounting policies and methods of computation
The accounting policies and methods of computation are consistent with those of the previous financial year and corresponding interim reporting period. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

Significant accounting judgments and key estimates
The preparation of half-year financial report requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates. In preparing this half-year financial report, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report for the year ended 30 June 2017, except for the following:

Exploration and evaluation expenditure:
The Group assesses impairment at each reporting date by evaluating conditions specific to the Group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. An assessment by the Group of its previously capitalised exploration and evaluation expenditures resulted in an impairment of tenements totalling $221,556 (Note 5) for the half-year ended 31 December 2017 (half-year ended 31 December 2016: $5,859,156). $5,505,711 impairment expense for the half-year ended 31 December 2016 relates to the discontinued operations (Note 10(A)). No other impairment loss was recorded in the period.

Notes to the condensed consolidated financial statements for the half-year ended 31 December 2017

2. Significant accounting policies (continued)

Adoption of new and revised standards

Standards and Interpretations applicable to 31 December 2017

In the period 31 December 2017, the Directors have reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to the Company and effective for the current annual reporting period. As a result of this review, the Directors have determined that there is no material impact of the new and revised Standards and Interpretations on the Company and, therefore, no material change is necessary to Group accounting policies.

Standards and Interpretations in issue not yet adopted

The Directors have also reviewed all Standards and Interpretations in issue not yet adopted for the period ended 31 December 2017. As a result of this review the Directors have determined that there is no material impact of the Standards and Interpretations in issue not yet adopted on the Company, and, therefore, no change is necessary to Group accounting policies.

Going concern

The financial report has been prepared on the going concern basis that contemplates the continuity of normal business activities and the realisation of assets and extinguishment of liabilities in the ordinary course of business. For the half-year ended 31 December 2017 the Group recorded an operating cash outflow of $214,411 (half-year ended 31 December 2016: outflow of $294,221) and at 31 December 2017 had a net working capital surplus of $499,993 (30 June 2017: deficit of $95,284).

Based on the Group's cash flow forecast it is likely that the Group will need to access additional working capital in the next 12 months to advance its exploration projects and to ensure the realisation of assets on an orderly basis and the extinguishment of liabilities as and when they fall due.

The Directors are confident that the Group will be successful in raising additional funds through the issue of new equity, should the need arise. The Directors are also aware that the Group has the option, if necessary, to defer expenditure or relinquish certain projects and reduce administration costs in order to minimise its capital raising requirements.

Based on these facts, the Directors consider the going concern basis of preparation to be appropriate for this financial report. Should the Company be unsuccessful in raising additional funds through the issue of new equity, there is a material uncertainty which may cast significant doubt whether the entity will be able to continue as a going concern and therefore, whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The financial statements do not include any adjustments relative to the recoverability and classification of recorded asset amounts or, to the amounts and classification of liabilities that might be necessary should the entity not continue as a going concern.

3. Revenue

	Half-year to 31 Dec 2017 $	Half-year to 31 Dec 2016 $
Funding from South32 Group Operations Pty Ltd recognised as income:		
Bonus generation fee (Note 5 (ii))	652,231	-
Administration charges (Note 6)	231,800	-
Other income	277	2,514
Total revenue	884,308	2,514

Notes to the condensed consolidated financial statements for the half-year ended 31 December 2017

4. Trade and other receivables

	31 Dec 2017 $	30 June 2017 $
Amount due from South32 Group Operations Pty Ltd	1,148,904	-
Security deposits	50,000	50,000
Other receivables	12,550	45,950
Total trade and other receivables	1,211,454	95,950

5. Exploration and evaluation expenditure

	Half-year to 31 Dec 2017 $	Full-year to 30 Jun 2017 $
Balance at beginning of period/year	3,650,791	9,944,550
Capitalised during the period/year	2,732,625	1,841,318
Grant of joint venture interest in previously capitalised project (ii)	-	(65,073)
Impaired during the period/year (i)	(221,556)	(7,263,512)
Grant of farm-in interests in previously capitalised projects (ii)	(2,455,557)	(912,082)
Exchange movements	(30,541)	105,590
Balance at end of period/year	3,675,762	3,650,791

(i) Impairments to the following projects occurred during the period/year:

	Half-year to 31 Dec 2017 $	Full-year to 30 Jun 2017 $
West Africa - discontinued operations [a]	-	5,995,553
South West Peru [b]	-	870,835
Others	221,556	397,124
Total impairment	221,556	7,263,512

[a] Please refer to Note 10(A)(i).

[b] On 21 September 2016 the Company announced that its partner in the Cardonal and Puite-Colorada Joint Ventures in the Ilo area of southern Peru, Compania Minera Zahena SAC ("Zahena"), has given notice of their intention to withdraw from the joint ventures in October 2016. Following the termination of the joint ventures, all drilling and assay data revert to AusQuest who retained 100 per cent ownership of these projects. The termination of the Joint Venture agreements did not, in the opinion of the Directors, change the carrying values of the capitalised exploration and evaluation costs of these tenements at that point in time.

Subsequent to the above, the Group decided not to renew a number of its Peruvian tenements and consequently impaired $870,835 of previously capitalised expenditure incurred on those tenements for the year ended 30 June 2017. The impairment has been recognised in the statement of profit or loss and other comprehensive income.

Notes to the condensed consolidated financial statements for the half-year ended 31 December 2017

5. Exploration and evaluation expenditure (continued)

(ii) Grant of farm-in and joint venture interests in previously capitalised projects:

2016-2017 financial year:
On 20 February 2017 the Company announced that it had entered into a Strategic Alliance Agreement with South32 Group Operations Pty Ltd ("South32") to develop a pipeline of high-potential exploration opportunities. The terms of the agreement allows South32 the ability to accept exploration opportunities offered by the Company which in turn entitles the Company to receive an initial payment of US$250,000 per opportunity accepted (and up to a maximum of US$500,000) to advance these to drill-ready stage. Once a project reaches the drill-ready stage and becomes a drill ready opportunity, a joint venture is formed in which South32 can earn a 70% interest by incurring expenditures of US$4,000,000. On execution of a joint venture agreement the Company is also entitled to receive a second payment equal to US$500,000 less the total of the initial payment.

During the current half-year, the Company signed two agreements with South32 to undertake drilling programmes at the Chololo and Cerro de Fierro Copper projects in southern Peru. Under the terms of the Strategic Alliance Agreement, the two agreements plus the initial Blue Billy Project Joint Venture Agreement signed at inception, triggered the payment to the Company of a Bonus Generation Fee of US$500,000 (AU$652,231). This has been recognized as revenue in the statement of profit or loss and other comprehensive income. The amount due was subsequently received by the Company after 31 December 2017.

For the half-year ended 31 December 2017, the Company received $2,310,935 (30 June 2017 full year: $1,852,243) in funding of which $2,455,557 (30 June 2017 full year: $912,082) has been allocated against capitalised exploration and evaluation expenditures at reporting date (Note 5 and 6).

6. Unexpended funding

	Half-year to 31 Dec 2017 $	Full-year to 30 Jun 2017 $
Balance at beginning of period/year	848,952	-
Funding from strategic alliance and joint venture partner	2,310,935	1,852,243
Amount spent on exploration and evaluation projects (Note 5)	(2,455,557)	(912,082)
Amount spent on administration	(231,800)	(91,209)
Balance at end of period/year	472,530	848,952

The balance represents the unexpended funding received from South32 Group Operations Pty Ltd at reporting date.

Notes to the condensed consolidated financial statements for the half-year ended 31 December 2017

7. Borrowings

The Company executed a Loan and Convertible Note Agreement ("Agreement") on 5 October 2016 with Mr Chris Ellis, a Director and substantial shareholder of AusQuest Limited for a total loan facility of $750,000. The additional funds will enable the Company to advance several of its prospective WA nickel and Peru copper projects to the drilling stage.

Key terms under the convertible note included:

- The conversion of the Notes to AusQuest shares is subject to shareholder approval, for the purposes of Listing Rule 10.11;
- The conversion price has been set at the lower of 2 cents per share or the 5-day Value Weighted Average Price (VWAP) immediately prior to the conversion;
- The Loan matures 18 months after execution of the Agreement, and if the Note has not been converted to shares by that date, the Loan must be repaid in cash. The Loan must also be repaid on 20 business days' notice in the case of an event of default by AusQuest including material breach and insolvency events;
- Conversion to shares is solely at the election of AusQuest, provided shareholder approval has been obtained; and
- Interest on the Loan will be accrued at 10% per annum commencing six months after the date of the advance, if the Company has not converted the Note to shares within six months of the date of issue. All interest accrued is payable in cash.

The Company recognised the convertible note as a liability on the basis of it having a contractual obligation to issue a variable number of shares if conversion takes place.

On 4 October 2017, the Company announced that the maturity date of the convertible note has been extended from 5 April 2018 to 30 November 2018. On 23 November 2017, the Company issued 21,642,048 ordinary shares at $0.02 per share to partly convert $432,841 of the convertible note as approved by shareholders at the Company's AGM on 22 November 2017.

As part of the strategic alliance with South32 Group Operations Pty Ltd, South32 also provided the Company with a US$1,000,000 unsecured, interest-free cash advance facility to help fund project generation activities as and when required. Money drawn down from this facility can be repaid during the term of the Strategic Alliance Agreement but in any event must be repaid by 31 December 2019. At reporting date, no amount was drawn from this facility.

8. Issued capital

	31 Dec 2017 $	30 Jun 2017 $
Ordinary Shares – fully paid	57,219,732	56,786,891

Details	No.	$
Balance at 30 June 2017	500,897,392	56,786,891
Issue of shares (i)	21,642,048	432,841
Balance at 31 December 2017	522,539,440	57,219,732

(i) Issue of shares (part conversion of a convertible note)

On 23 November 2017, the Company issued 21,642,048 ordinary shares on part conversion of a convertible note as approved by shareholders at the Company's AGM on 22 November 2017. The deemed conversion price was $0.02 per share.

Notes to the condensed consolidated financial statements for the half-year ended 31 December 2017

9. Share-based payments

On 18 December 2017, the Company issued 9,500,000 unlisted options to employees and contractors under the Company's Long Term Incentive Scheme ("LTIS"). The exercise price of the options under the LTIS was determined by the Directors. The employees eligible to participate in the plan are at the discretion of the Directors. The options hold no voting rights and are not transferable. At reporting date no options have been exercised and the employees have not ceased employment.

The fair value of the all the options issued is determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at valuation date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option. The unlisted options vest immediately and the Black Scholes valuation is expensed on grant date.

The expense recognised in the statement of profit or loss and other comprehensive income in relation to share-based payments granted in the half-year ended 31 December 2017 is $81,330 (2016: nil).

The table below summarises the model inputs for the options granted during the half-year and valued using the Black Scholes option pricing model:

Inputs into the model	Option series: 30 Nov 2020 (Dec 2017 issue)
Grant date share price (cents)	1.9 cents
Exercise price (cents)	5.0 cents
Expected volatility	104%
Option life	3 years
Dividend yield	-
Risk-free interest rate	2.03%

The following table shows a reconciliation of the outstanding share options granted as share-based payments at the beginning and end of the half-year period:

	Half-year to 31 Dec 2017	
	Number of Options	**Weighted average exercise price $**
Balance at beginning of the period	30,000,000	0.05
Granted during the period	9,500,000	0.05
Balance at end of the period	39,500,000	0.05

Notes to the condensed consolidated financial statements for the half-year ended 31 December 2017

10. Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:
– represents a separate major line of business or geographic area of operations; or
– is part of a single coordinated plan to dispose of a separate major line of business or geographic area of operations.

When an operation is classified as a discontinued operation, the comparative statement of profit or loss and other comprehensive loss is re-presented as if the operation had been discontinued from the start of the comparative year.

During the half-year, the Company closed down its operations in Filigree SARL and Comoe Exploration SARL in Burkina Faso. These were assessed as discontinued operations at 31 December 2017. The comparative consolidated statement of profit or loss and other comprehensive income has been restated to show the discontinued operation separately from continuing operations.

A. Results of discontinued operations

	Half-year to 31 Dec 2017 $	Half-year to 31 Dec 2016 $
Revenue	-	-
Foreign exchange movement	-	(359)
Administration costs	(15,813)	-
Impairment of exploration expenditure (i)	-	(5,505,711)
Loss before tax expense	(15,813)	(5,506,070)
Income tax expense	-	-
Net loss from discontinued operations	(15,813)	(5,506,070)
Basic/diluted loss per share (cents per share)	(0.003)	(1.10)

(i) The Company's joint venture partner, Burkinor SARL, advised on 3 February 2017 that all "second exceptional renewals" of titles (those held for more than 12 years) are being refused by the Burkina Faso authorities and that 6 of the 11 tenements held will not be renewed. Consequently, previously capitalised exploration and development costs associated with these tenements totalling $5,995,553 have been impaired for the full year ended 30 June 2017 of which $5,505,711 had been included as an impairment charge in the half-year ended 31 December 2016. The impairment has been recognised in the statement of profit or loss and other comprehensive income.

B. Cash flows from discontinued operations

	Half-year to 31 Dec 2017 $	Half-year to 31 Dec 2016 $
Net cash used in operating activities	(15,489)	(147,659)
Net cash from investing activities	29,075	157,186
Net cash used in financing activities	-	-
Net cash inflow for the period	13,586	9,527

Notes to the condensed consolidated financial statements for the half-year ended 31 December 2017

11. Subsequent events

3,000,000 ordinary shares were issued on 11 January 2018 pursuant to a geological service consultancy agreement.

The amount due from South32 Group Operations Pty Ltd of $1,148,904 at 31 December 2017 which included the bonus generation fee of $652,231 has been subsequently received.

There has been no other matter or circumstance that has arisen since the end of the half-year which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs in future financial years.

12. Contingent liabilities

At reporting date the Company had contingent share issues to consultants of up to 17,500,000 (30 June 2017: 17,500,000) fully paid ordinary shares. The issue of these shares are staged over a period of up to four years and is dependent on certain agreed project and/or Joint Venture milestones being reached. Other than the above, there has been no change in contingent liabilities since the last annual reporting date.

13. Commitments

The Group’s commitments remain unchanged.

14. Related parties

Arrangements with related parties continue to be in place.

15. Financial instruments

The methods and valuation techniques used for the purpose of measuring fair values are unchanged compared to the previous reporting period.

The carrying amounts of financial assets and financial liabilities are considered to be a reasonable approximation of their fair value.

Notes to the condensed consolidated financial statements for the half-year ended 31 December 2017

16. Segment Information

Operating segments are reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision-maker has been identified as the Board of Directors of AusQuest Limited.

The following table presents the revenue and results information regarding the segment information provided to the Board of Directors for the half-year ended 31 December 2017.

	Australia $	South America $	Discontinued Operations $	Intersegment eliminations $	Consolidated $
Six Months to 31 December 2017					
Segment revenue	884,308	-	-	-	884,308
Segment expenditure	(638,795)	(78,456)	(15,813)	-	(733,064)
Net loss after tax	245,513	(78,456)	(15,813)	-	151,244
Included within segment result:					
Interest income	1,281	-	-	-	1,281
Depreciation	6,332	122	-	-	6,454
Impairment of exploration expenditure	221,556	-	-	-	221,556
As at 31 December 2017					
Segment assets	9,106,464	3,267,273	17,233	(6,876,361)	5,514,609
Segment liabilities	1,283,957	5,440,236	5,612,593	(11,026,713)	1,310,074

	Australia $	South America $	Discontinued Operations $	Intersegment eliminations $	Consolidated $
Six Months to 31 December 2016					
Segment revenue	2,514	-	-	-	2,514
Segment expenditure	(345,801)	(274,803)	(5,506,070)	-	(6,126,674)
Net loss after tax	(343,287)	(274,803)	(5,506,070)		(6,124,160)
Included within segment result:					
Depreciation	3,049	142	-	-	3,191
Interest income	2,514	-	-	-	2,514
Impairment of exploration expenditure	137,435	216,010	5,505,711	-	5,859,156
As at 30 June 2017					
Segment assets	9,223,299	2,477,576	33,473	(6,123,559)	5,610,789
Segment liabilities	1,963,180	4,532,335	5,679,030	(10,141,256)	2,033,289