



AusQuest Limited

ABN 35 091 542 451

**Financial report for the half-year ended
31 December 2018**

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

Registered Office

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Auditors

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Share Registry

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Securities Exchange Listing

Australian Securities Exchange
(Home Exchange: Perth, WA)
Code: AQD

Bankers

Australian and New Zealand Bank
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Booragoon WA 6154

**Financial report for the
half-year ended 31 December 2018**

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Directors' report

The Directors of AusQuest Limited herewith submit the financial report for the half-year ended 31 December 2018. 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

- ❑ Significant copper and gold mineralisation intersected at the Cerro de Fierro Iron-Oxide Copper-Gold Project during the first phase of drilling completed in December 2018, confirming the presence of a large-scale mineralised system.
- ❑ Further drilling of this prospect and its surrounds currently being planned under the Strategic Alliance with South32.
- ❑ Copper mineralisation confirmed at the Parcoy IOCG Project (South32 Strategic Alliance), located 50km north of Cerro de Fierro. IP geophysical surveys are being used to outline potential drill targets.
- ❑ Potential for a buried porphyry copper system confirmed by the initial reconnaissance drilling program at the Chololo Project. Further drilling is required to locate the core of the system.

Australia – Nickel, Copper, Zinc

- ❑ Drill targets confirmed at both the Yallum Hill Copper-(Nickel) Project in Western Australia and the Hamilton Copper Project in north-west Queensland. Both projects are planned to be drilled under the South32 Strategic Alliance during the first half of 2019.
- ❑ Highly anomalous base metals reported from reconnaissance Aircore drilling at Balladonia, highlighting a new target for the South32 Strategic Alliance.

Corporate

- ❑ The Company's cash position remains strong (\$2.1M at the end of December) with continued funding under the South32 Strategic Alliance expected for agreed work programs in Australia and Peru.

OVERVIEW

The Company's activities during the second half of 2018 were focused on completing drill programs both in Australia and Peru under the Company's Strategic Alliance Agreement (SAA) with diversified global miner South32.

In **Peru**, initial reconnaissance drilling was completed at both the Chololo Porphyry Copper and the Cerro de Fierro IOCG Prospects with positive indications in both areas – especially at Cerro de Fierro, where significant copper and gold mineralisation was intersected.

In **Australia**, early-stage drilling at the Blue Billy, Jimberlana and Balladonia Projects produced variable results, with significant base metal encouragement at Balladonia suggesting that further drilling will be required at this prospect during 2019.

Project generation studies continued during the reporting period, resulting in the identification of several new areas of interest. These included targets that were located and secured along structural extensions of the Paterson Range Province in Western Australia and additional titles secured in the Cerro de Fierro – Parcoy region of Peru, where the Company plans to focus its efforts in 2019.

PERU COPPER-GOLD 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 FY2019, initial diamond drilling programs were completed at the Cerro de Fierro Iron-Oxide Copper-Gold (IOCG) and the Chololo Porphyry Copper Projects in southern Peru.

At Cerro de Fierro results highlighted a number of significant copper-gold intersections (30m @ 0.43% Cu, 0.16gpt Au; 43m @ 0.43% Cu, 0.35gpt Au; 28m @ 0.32% Cu, 0.37gpt Au) including evidence of higher grades (7m @ 1.2% Cu, 11gpt Ag; 10m @ 0.9% Cu, 1.06 gpt Au; 6m @ 1.09% Cu, 0.4gpt Au).

The results have confirmed the potential for a sizeable IOCG system and additional drilling to determine the potential size and grade of a possible resource is in the planning stage.

While the controls on the shape, size and grade of the mineralisation are yet to be determined, initial indications suggest that the mineralisation is located outboard of a magnetite-pyrite core which was the initial focus for drilling, and the mineralisation is not constrained in any direction.

The Cerro de Fierro Project is located at the southern end of a recognised IOCG metallogenic belt in southern Peru. It lies within ~150km of the Mina Justa deposit (~475Mt @ 0.68% Cu), which is being developed by Peruvian mining company Minsur S.A. It is subject to an agreement with South32, which can earn a 70% interest in the project by spending a total of US\$4.0 million.

At the Chololo Porphyry Copper Project, drilling identified a possible buried porphyry beneath Chololo Hill and another target further north along the Chololo Fault associated with untested magnetic and IP anomalies.

While these targets have not been taken up by South32 under the SAA, the Company remains committed to advancing the Chololo Project and will in due course seek alternate avenues of funding to complete a second round of drilling which could locate a preserved porphyry copper resource beneath the cover sediments.

At the **Parcoy IOCG Project**, which is located ~50km north of Cerro de Fierro, access preparations progressed to facilitate the restart of an IP survey to identify targets for drilling.

Regional structures that are known to host copper mineralisation to the south-east at Los Chapitos cut through the Parcoy tenements and provide a focal point for the IP survey, which is expected to be completed by the middle of 2019.

The Company also expanded its footprint in the Cerro de Fierro – Parcoy region, with more tenement applications submitted based on the Company's proprietary aeromagnetic data.

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

Current Projects (under the SAA)

During the first half of FY 2019, target drilling was completed at the Balladonia, Blue Billy and Jimberlana Projects with significant encouragement reported from Aircore drilling at Balladonia.

A strong multi-element geochemical signature, including highly anomalous copper (300-5,500ppm Cu), silver (1-15gpt Ag), lead (100-1,800ppm Pb), and zinc (300-2,900ppm Zn) from a drill-hole within the northern target area, indicated the potential for a new base metal prospect at Balladonia. Further drilling is being planned to determine the full potential of this new prospect.

New drilling opportunities were identified at both the Yallum Hill and Hamilton Projects which have been accepted for funding under the SAA.

At Yallum Hill, a discrete bedrock EM target was located along the southern flank of a strong magnetic response thought to reflect a possible copper-gold and/or nickel target buried beneath the cover sequences.

Modelling of the survey data found a strong relationship between the EM and magnetic targets, which is similar to copper-gold deposits that occur in the Eastern Succession of North-West Queensland. Drilling to test both targets is scheduled to be completed in Q2 / 2019.

At Hamilton, IP surveys identified a large sulphide target beneath the Eromanga cover sequence close to historical drill-holes which suggested the presence of nearby IOCG-style mineralisation. Modelling of the IP data suggests a spatial association between IP, magnetic and gravity responses, confirming a possible IOCG source.

Drilling is planned to commence at Hamilton in Q2 / 2019, once all necessary access and heritage clearances have been obtained.

Diamond drilling results from the Blue Billy and Jimberlana Projects failed to provide sufficient encouragement to justify continued involvement by South32 in these projects. The Blue Billy tenements are being surrendered, but the Company is considering its position with regard to Jimberlana.

New Projects

During the period, new Exploration Licence Applications were submitted in WA to secure targets identified by the Company's consultants along possible structural extensions to the Paterson Province, where recent work by Rio Tinto and Greatland Gold has focused the industry's attention on the significant copper-gold potential of the region.

CORPORATE

The loss of the Group after income tax for the half-year was \$449,781 (2017: profit after tax of \$151,244).

At the end of December 2018, the Company's cash position was approximately \$2.1 million with additional funding expected from South32 for agreed work programs over Strategic Alliance Projects both in Australia and Peru.

During the first half of FY 2019 the Company signed a Farm-In/Option Agreement with Westminster Resources Limited to consolidate the Company's tenement position in the Puute-Ventura area, where previous drilling suggested the potential for a nearby porphyry copper system. Conditions Precedent for the Agreement have not yet been fulfilled and the Company is in communication with Westminster to remedy the situation.

Auditor's Independence Declaration

Section 307C of the *Corporations Act 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 2018.

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

On behalf of the Directors



Graeme Drew
Managing Director

Perth, 12 March 2019

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.

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 2018, 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
12 March 2019

B G McVeigh
Partner

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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 2018, 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 2018 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*.

Emphasis of matter - 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 entity'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 fair view of the Group's financial position as at 31 December 2018 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 Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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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

Perth, Western Australia
12 March 2019



B G McVeigh
Partner

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 2018 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 2018.

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



Graeme Drew
Managing Director

Perth, 12 March 2019

**Condensed consolidated statement of profit or loss and other comprehensive income
for the half-year ended 31 December 2018**

		Consolidated	
		Half-year to 31 Dec 2018	Half-year to 31 Dec 2017
	Note	\$	\$
<i>Continuing operations</i>			
Revenue	3	714,580	884,308
Consultants and employee benefits expenses		(105,883)	(62,916)
Share-based payments expense	9	(66,000)	(81,330)
Occupancy expenses		(81,660)	(51,254)
Administrative expenses		(311,613)	(300,195)
Impairment of exploration and evaluation expenditure	5	(599,205)	(221,556)
Profit/(loss) before income tax expense		(449,781)	167,057
Income tax expense		-	-
Profit/(loss) from continuing operations		(449,781)	167,057
Loss after tax from discontinued operations	11	-	(15,813)
Profit/(loss) for the year		(449,781)	151,244
Other comprehensive income			
<i>Items that may be reclassified to profit or loss</i>			
Exchange loss on translation of foreign operations		392,681	(38,380)
Other comprehensive income/(loss) for the period		392,681	(38,380)
Total comprehensive income/(loss) for the period		(57,100)	112,864
Earnings/(loss) per share from continuing and discontinued operations:			
Basic and diluted earnings/(loss) per share from			
- continuing operations (cents per share)		(0.09)	0.03
- discontinued operations (cents per share)		-	(0.003)

The accompanying notes form part of these financial statements.

**Condensed consolidated statement of financial position
as at 31 December 2018**

	Note	Consolidated	
		31 Dec 2018	30 Jun 2018
		\$	\$
Current assets			
Cash and cash equivalents		2,137,544	4,520,934
Receivables	4	576,598	171,643
Other assets		130,598	130,928
Total current assets		2,844,740	4,823,505
Non-current assets			
Plant and equipment		47,578	47,773
Exploration and evaluation expenditure	5	4,106,077	4,055,120
Total non-current assets		4,153,655	4,102,893
Total assets		6,998,395	8,926,398
Current liabilities			
Trade and other payables	6	809,522	1,064,333
Borrowings	7	-	317,159
Provisions		121,167	116,094
Unexpended funding	8	602,809	2,377,602
Total current liabilities		1,533,498	3,875,188
Total liabilities		1,533,498	3,875,188
Net assets		5,464,897	5,051,210
Equity			
Issued capital	9	57,724,440	57,253,653
Reserves		4,196,498	3,803,817
Accumulated losses		(56,456,041)	(56,006,260)
Total equity		5,464,897	5,051,210

The accompanying notes form part of these financial statements.

**Condensed consolidated statement of changes in equity
for the half-year ended 31 December 2018**

	Consolidated				
	Issued capital	Share based payment reserve	Foreign currency translation reserve	Accumulated losses	Total equity
	\$	\$	\$	\$	\$
Balance at 1 July 2018	57,253,653	327,929	3,475,888	(56,006,260)	5,051,210
Loss for the period	-	-	-	(449,781)	(449,781)
Other comprehensive income for the period, net of tax	-	-	392,681	-	392,681
Total comprehensive loss for the period	-	-	392,681	(449,781)	(57,100)
Issue of shares	470,787	-	-	-	470,787
Balance at 31 December 2018	57,724,440	327,929	3,868,569	(56,456,041)	5,464,897

	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 income 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

The accompanying notes form part of these financial statements.

**Condensed consolidated statement of cash flows
for the half-year ended 31 December 2018**

	Consolidated	
	Half-year to 31 Dec 2018	Half-year to 31 Dec 2017
	\$	\$
Cash flows from operating activities		
Receipt from South32 Group Operations Pty Ltd	712,226	172,824
Payments to suppliers and employees	(567,411)	(388,583)
Interest received	1,379	1,348
Finance costs	(7,098)	-
Net cash provided by/(used in) operating activities	139,096	(214,411)
Cash flows from investing activities		
Payment for plant and equipment	(6,910)	(14,246)
Payment for exploration and evaluation activities	(6,458,110)	(2,763,252)
Payment received on grant of farm-in and joint venture interests	3,851,853	1,728,243
Net cash used in investing activities	(2,613,167)	(1,049,255)
Cash flows from financing activities		
Proceeds from borrowings	-	-
Net cash generated by financing activities	-	-
Net decrease in cash and cash equivalents	(2,474,071)	(1,263,666)
Cash and cash equivalents at the beginning of the half-year	4,520,934	1,694,181
Exchange rate adjustment	90,681	(5,058)
Cash and cash equivalents at the end of the half-year	2,137,544	425,457

The accompanying notes form part of these financial statements.

Notes to the condensed consolidated financial statements for the half-year ended 31 December 2018

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 2018 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 12 March 2019.

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 2018 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, other than in respect of new and revised accounting standards adopted as set out below. 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 2018.

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 \$599,205 (Note 5) for the half-year ended 31 December 2018 (half-year ended 31 December 2017: \$221,556). No other impairment loss was recorded in the period.

Notes to the condensed consolidated financial statements for the half-year ended 31 December 2018

2. Significant accounting policies (continued)

Adoption of new and revised standards

In the period ended 31 December 2018, 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 reporting periods beginning on or after 1 July 2018.

As a result of this review, the Group has initially applied AASB 9 and AASB 15 from 1 July 2018.

Due to the transition methods chosen by the Group in applying AASB 9 and AASB 15, comparative information throughout the interim financial statements has not been restated to reflect the requirements of the new standards.

AASB 9 Financial Instruments

AASB 9 replaces AASB 139 Financial Instruments: Recognition and Measurement and makes changes to a number of areas including classification of financial instruments, measurement, impairment of financial assets and hedge accounting model.

Financial instruments are classified as either held at amortised cost or fair value.

Financial instruments are carried at amortised cost if the business model concept can be satisfied.

All equity instruments are carried at fair value and the cost exemption under AASB 139 which was used where it was not possible to reliably measure the fair value of an unlisted entity has been removed. Equity instruments which are non-derivative and not held for trading may be designated as fair value through other comprehensive income (FVOCI). Previously classified available-for-sale investments, now carried at fair value are exempt from impairment testing and gains or loss on sale are no longer recognised in profit or loss.

The AASB 9 impairment model is based on expected loss at day 1 rather than needing evidence of an incurred loss, this is likely to cause earlier recognition of bad debt expenses. Most financial instruments held at fair value are exempt from impairment testing.

The Group has applied AASB 9 with the effect of initially applying this standard recognised at the date of initial application, being 1 July 2018 and has elected not to restate comparative information. Accordingly, the information presented for 31 December 2017 and 30 June 2018 has not been restated.

There is no material impact to profit or loss or net assets on the adoption of this new standard in the current or comparative periods.

AASB 15 Revenue from Contracts with Customers

AASB 15 replaces AASB 118 Revenue and AASB 111 Construction Contracts and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards.

AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised, including in respect of multiple element arrangements. The core principle of AASB 15 is that it requires identification of discrete performance obligations within a transaction and associated transaction price allocation to these obligations. Revenue is recognised upon satisfaction of these performance obligations, which occur when control of goods or services is transferred, rather than on transfer of risks or rewards. Revenue received for a contract that includes a variable amount is subject to revised conditions for recognition, whereby it must be highly probable that no significant reversal of the variable component may occur when the uncertainties around its measurement are removed.

Notes to the condensed consolidated financial statements for the half-year ended 31 December 2018

2. Significant accounting policies (continued)

Adoption of new and revised standards (continued)

AASB 15 Revenue from Contracts with Customers (continued)

The Group has adopted AASB 15 using the modified retrospective method of adoption (without practical expedients) with the effect of initially applying this standard recognised at the date of initial application, being 1 July 2018. Accordingly, the information presented for 31 December 2017 and 30 June 2018 has not been restated. The effect of the application of AASB 15 has been applied to all contracts at date of initial application. Where the effect is material, an adjustment has been recognised in the statement of changes in equity for the six months ended 31 December 2018.

There is no material impact to profit or loss or net assets on the adoption of this new standard in the current or comparative periods.

Standards and Interpretations in issue not yet adopted

The Directors have also reviewed all of the new and revised Standards and Interpretations in issue not yet adopted for the half-year ended 31 December 2018.

As a result of this review the Directors have determined that AASB 16 Leases may have a material effect on the application in future periods.

AASB 16 Leases

AASB 16 replaces AASB 117 Leases and sets out the principles for the recognition, measurement, presentation and disclosure of leases.

AASB 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligations to make lease payments. A lessee measures right-of-use assets similarly to other non-financial assets (such as property, plant and equipment) and lease liabilities similarly to other financial liabilities. As a consequence, a lessee recognises depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows applying AASB 107 Statement of Cash Flows. AASB 16 substantially carries forward the lessor accounting requirements in AASB 117 Leases. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

AASB 16 is effective from annual reporting periods beginning on or after 1 January 2019. A lessee can choose to apply the Standard using a full retrospective or modified retrospective approach.

The directors do not believe that this revised standard will have an impact on the Company and therefore, no material change is necessary to Group accounting policies.

Notes to the condensed consolidated financial statements for the half-year ended 31 December 2018

2. Significant accounting policies (continued)

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 2018 the Group recorded an operating cash inflow of \$139,096 (half-year ended 31 December 2017: outflow of \$214,411) and at 31 December 2018 had a net working capital surplus of \$1,311,242 (30 June 2018: surplus of \$948,317).

Based on the Group's cash flow forecast it is likely that the Group will need to access additional 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

Funding from South32 Group Operations Pty Ltd recognised as income:

	Half-year to 31 Dec 2018 \$	Half-year to 31 Dec 2017 \$
Bonus generation fee (Note 5 (iii))	-	652,231
Administration charges (Note 8)	521,828	231,800
Funding against written off exploration expenditure (Note 8)	190,398	-
Interest Income	1,352	1,281
Other income	1,002	(1,004)
Total revenue	714,580	884,308

4. Receivables

	31 Dec 2018 \$	30 June 2018 \$
Security deposits	50,000	50,000
Receivable GST / IGV	524,046	121,413
Other receivables	2,552	230
Total trade and other receivables	576,598	171,643

Notes to the condensed consolidated financial statements for the half-year ended 31 December 2018

5. Exploration and evaluation expenditure

	Half-year to 31 Dec 2018 \$	Full-year to 30 Jun 2018 \$
Balance at beginning of period/year	4,055,120	3,650,791
Capitalised during the period/year	6,226,429	5,818,431
Impaired during the period/year (i)	(599,205)	(754,926)
Grant of farm-in interests in previously capitalised projects (ii)	(5,573,073)	(4,807,572)
Exchange movements	(3,194)	148,396
Balance at end of period/year	4,106,077	4,055,120

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

	Half-year to 31 Dec 2018 \$	Full-year to 30 Jun 2018 \$
South West Peru ^a	117,094	203,762
Other Australian Projects ^a	482,111	551,164
Total impairment	599,205	754,926

^a The Group has impaired expenditure for those projects and tenement where they have decided not to renew leases and/or the lease is still under application. For the period to 31 December 2018 the Group has impaired \$599,205 (30 June 2018: \$754,926) of previously capitalised expenditure incurred on those. The impairment has been recognised in the statement of profit or loss and other comprehensive income.

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

For the half-year ended 31 December 2018, the Company received \$4,510,506 (30 June 2018 full year: \$7,200,612) in funding. \$5,573,073 (30 June 2018 full year: \$4,807,572) has been allocated against capitalised exploration and evaluation expenditures at reporting date during the reporting period (Note 5 and 8).

(iii) Bonus generation fee:

During the half-year ended 31 December 2018, the Company did not receive a bonus generation fee under the Strategic Alliance Agreement (31 December 2017 half year: US\$500,000 (AU\$652,231)).

6. Trade and other payable

	31 Dec 2018 \$	30 June 2018 \$
Trade and other payables and accruals	685,277	863,531
Payable GST / IGTV	124,245	200,802
Total trade and other receivables	809,522	1,064,333

Notes to the condensed consolidated financial statements for the half-year ended 31 December 2018

7. Borrowings and facilities

Borrowings

	31 Dec 2018	30 June 2018
	\$	\$
Convertible note	-	317,159

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 original 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.

On 19 October 2018 the Company announced changes to the interest repayment terms. The amended terms allowed interest payable under the Agreement to be payable in cash or in conversion shares, at the election of the Company.

On 22 November 2018, the Company issued 20,239,305 ordinary shares at \$0.02 per share to fully convert \$317,159, being the remaining balance of the convertible note plus interest of \$87,628, as approved by shareholders at the Company's AGM on 21 November 2018.

Facilities

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 (30 June 2018: Nil).

Notes to the condensed consolidated financial statements for the half-year ended 31 December 2018

8. Unexpended funding

	Half-year to 31 Dec 2018 \$	Full-year to 30 Jun 2018 \$
Balance at beginning of period/year	2,377,602	848,952
Funding from strategic alliance and joint venture partner	4,510,506	7,200,612
Amount spent on exploration and evaluation projects (Note 5)	(5,573,073)	(4,807,572)
Amount spent on administration	(521,828)	(452,792)
Excess funding recognised	-	(379,438)
Funding against written off exploration expenditure	(190,398)	(32,160)
Balance at end of period/year	602,809	2,377,602

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

9. Issued capital

	31 Dec 2018 \$	30 Jun 2018 \$
Ordinary Shares – fully paid	57,724,440	57,253,653

Details

	No.	\$
Balance at 30 June 2017	500,897,392	56,770,891
Issue of shares (balance conversion of a convertible note)	21,642,048	432,841
Issue of shares (consulting services)	3,000,000	33,000
Listed options exercised – 3 May 2018	26,316	921
Balance at 30 June 2018	525,565,756	57,253,653
Issue of shares (consulting services) (i)	3,000,000	66,000
Issue of shares (balance conversion of a convertible note) (ii)	20,239,305	404,787
Balance at 31 December 2018	548,805,061	57,724,440

(i) Issue of shares (consulting services)

The Company issued 3,000,000 ordinary shares during the six months to 31 December 2018 in lieu of cash payments for consulting services rendered to the Group. 1,000,000 shares were issued on 11 September 2018 and 2,000,000 shares on 22 November 2018. All shares were issued at the share price at the date the share-based payment arrangement was entered into. Consulting expenses to the same value were recognised in the statement of profit or loss and other comprehensive income.

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

On 22 November 2018, the Company issued 20,239,305 ordinary shares on full conversion of a convertible note plus interest of \$87,628 as approved by shareholders at the Company's AGM on 21 November 2018. The deemed conversion price was \$0.02 per share. Refer note 7 for further detail.

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital. On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Notes to the condensed consolidated financial statements for the half-year ended 31 December 2018

10. Share-based payments

At the date of this report the company had 39,500,000 options exercisable on 30 November 2020 at \$0.05 on issue (30 June 2018: 39,500,000). Full terms and conditions are as detailed in the annual report for the financial year ended 30 June 2018.

	Half-year to 31 Dec 2018		Half-year to 31 Dec 2017	
	Number of Options	Weighted average exercise price \$	Number of Options	Weighted average exercise price \$
Balance at beginning of the period	39,500,000	0.05	30,000,000	0.05
Granted during period	-	-	9,500,000	0.05
Lapsed during the period	-	-	-	-
Balance at end of the period	39,500,000	0.05	39,500,000	0.05

11. 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 ended 31 December 2017, the Company closed down its operations in Filigree SARL and Comoe Exploration SARL in Burkina Faso. 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 2018	Half-year to 31 Dec 2017
	\$	\$
Revenue	-	-
Foreign exchange movement	-	-
Administration costs	-	(15,813)
Impairment of exploration expenditure	-	-
Loss before tax expense	-	(15,813)
Income tax expense	-	-
Net loss from discontinued operations	-	(15,813)

B. Cash flows from discontinued operations

	Half-year to 31 Dec 2018	Half-year to 31 Dec 2017
	\$	\$
Net cash used in operating activities	-	(15,489)
Net cash from investing activities	-	29,075
Net cash used in financing activities	-	-
Net cash inflow for the period	-	13,586

Notes to the condensed consolidated financial statements for the half-year ended 31 December 2018

12. Subsequent events

On 2 January 2019 the Company announced that both the Blue Billy Zinc and Jimberlana Nickel Projects will not be progressing into 2019 under the Strategic Alliance Agreement (SAA) with South32. Drill testing of targets identified by the Company at both prospects has not provided sufficient encouragement to justify ongoing exploration under the SAA. Expenditures relating to these projects were impaired as at 31 December 2018.

Post 31 December 2018, the Company received additional funding of A\$1,349,245 in funding from South 32 for existing projects under the SAA.

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.

13. Contingent liabilities

At reporting date the Company had contingent share issues to consultants of up to 11,500,000 (30 June 2018: 14,500,000) 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.

14. Commitments

The Group's commitments remain unchanged.

15. Related parties

Arrangements with related parties continue to be in place in line with those disclosed in the 2018 Annual Report.

16. 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 2018

17. 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 2018.

	Australia \$	South America \$	Discontinued Operations \$	Intersegment eliminations \$	Consolidated \$
Six Months to 31 December 2018					
Segment revenue	713,578	1,002	-	-	714,580
Segment expenditure	(878,798)	(285,563)	-	-	(1,164,361)
Net loss after tax	(165,220)	(284,561)	-	-	(449,781)
Included within segment result:					
Interest income	1,352	-	-	-	1,352
Depreciation	(6,116)	(989)	-	-	(7,105)
Impairment of exploration expenditure	(482,111)	(117,094)	-	-	(599,205)
As at 31 December 2018					
Segment assets	10,744,920	9,432,675	19,026	(13,198,226)	6,998,395
Segment liabilities	1,412,656	11,591,637	34,510	(11,505,305)	1,533,498

	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 profit 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 30 June 2018					
Segment assets	12,446,490	5,570,602	18,166	(9,108,860)	8,926,398
Segment liabilities	3,450,729	7,807,439	32,955	(7,415,935)	3,875,188