



AusQuest Limited

ABN 35 091 542 451

**Financial report for the half-year ended
31 December 2016**

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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Website: www.nexia.com.au

Corporate Office

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Website: www.ausquest.com.au

Auditors

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Level 4, 130 Stirling Street
Perth, WA, 6000

Share Registry

Advanced Share Registry Services
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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 2016**

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Directors' report

The directors of AusQuest Limited herewith submit the financial report for the half-year ended 31 December 2016. 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

John Ashley (retired 8 July 2016)

Review of Operations

HIGHLIGHTS

Peru – Copper-Gold

- ❑ Additional tenements secured over a porphyry copper prospect south of Puite following assessment of the initial reconnaissance drilling results.
- ❑ Induced Polarisation (IP) surveys commenced at the Chololo copper prospect to identify potential drill targets associated with a possible buried porphyry system.
- ❑ IP surveys at the Cerro de Fierro and Colorada East prospects planned to commence in early 2017.

Australia – Nickel, Copper, Zinc

- ❑ High-powered electromagnetic (HPEM) surveys targeting massive nickel-copper sulphides at the Jimberlana, Gibson Soak and Balladonia Projects set to commence in Q1 2017.
- ❑ Analysis of historical drill-core near the Blue Billy Zinc Project highlighted the potential for sediment-hosted zinc, similar to mineralisation found in Northern Australia. Re-processing of historical seismic data commenced.

Corporate

- ❑ Funding of \$750,000 secured from the Company's major shareholder, Christopher Ellis, following the execution of a Loan and Convertible Note Agreement.
- ❑ Discussions continuing with third parties interested in drill testing AusQuest's projects both in Peru and in Australia.

OVERVIEW

In **Peru**, reconnaissance drilling programs under the Cardonal and Puite-Colorada Joint Ventures concluded during H1 FY2017 (20 diamond holes/12,015m) with AusQuest regaining 100% title to its copper-gold prospects following the withdrawal of Compania Minera Zahena SAC ("Zahena").

A detailed assessment of drilling results by the Company's consultants resulted in new tenement applications being submitted south of the Puite prospect.

Mapping and sampling continued in several areas and induced polarisation (IP) surveys were planned for the Chololo, Cerro de Fierro and Colorada prospects, with the surveys commencing in Q1 2017.

In **Australia**, the Company continued to ramp-up its exploration efforts in WA with several geophysical programs designed to advance its nickel projects to the drilling stage.

High-powered EM (HPEM) surveys at the Jimberlana, Gibson Soak and Balladonia Nickel projects were planned with the Jimberlana and Gibson Soak surveys due to commence in February 2017 and Balladonia shortly thereafter.

At the Blue Billy zinc prospect in WA, evaluation of available data continued to support the potential for possible sedimentary zinc mineralisation and re-processing of seismic data commenced to identify potential drill targets adjacent to the Talga Fault.

Discussions with third parties interested in testing the Company's copper-gold prospects in Peru and base metal prospects in Australia were advanced during the Quarter and the Company remains hopeful that suitable joint ventures will be forthcoming over one or more of its prospects in the near future.

In **West Africa**, the Company's joint venture partner, Burkinor SARL, advised that all "second exceptional renewals" of titles (those held for more than 12 years) are being refused by the current authority and that 6 of the 11 joint venture tenements held will not be renewed. Both companies are now considering their options.

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.

During the first half of FY2017, joint venture funded drilling programs were concluded (20 reconnaissance diamond holes/12,015m) at four prospects in the south of Peru. Results were mixed with the potential for nearby porphyry copper systems inferred from results at the Puite and Colorada prospects.

The Puite prospect is located approximately 30km due east of the port of Ilo and the initial drilling program was designed as a first step to evaluate the prospect's porphyry copper potential. Both sodic (increased sodium) and phyllic (increased potassium) alteration were intersected by this drilling, with the strongest signatures pointing to a nearby porphyry system either to the south and/or east of current drilling.

New tenement applications were submitted south of the Puite prospect, where reconnaissance mapping and sampling is planned for H2 FY2017.

At the Colorada prospect, located ~10km NNE of Puite, a comparison of drill results with surface geochemistry suggested that areas of strongest alteration had not been drill tested by the broad-spaced (2km) drilling and that the potential for a nearby porphyry system still existed.

Induced Polarisation (IP) surveys will be used to test possible targets located under cover at several sites within the vicinity of these prospects.

At the Chololo Prospect, located ~20km north-east of the port of Ilo, an IP survey was designed to identify potential drill targets associated with the buried porphyry copper system inferred by mapping and sampling programs.

IP surveys are also planned to upgrade potential drill targets at the Cerro de Fierro Prospect, where earlier mapping and sampling identified the potential for iron-oxide copper-gold (IOCG) mineralisation. This survey is expected to commence in H2 FY2017.

Elsewhere, mapping and sampling programs focused on the El Jaguay and Los Otros projects, where the Company's magnetic data indicated possible targets of interest. Reports on this work are expected in H2 FY2017.

Discussions with interested parties over AusQuest's copper-gold prospects have continued, and the Company remains optimistic that a suitable joint venture will be forthcoming over one or more of its prospects in the near future.

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

The **Jimberlana Nickel** Project, located ~120km west of Norseman in WA, is based on a new concept involving a close association between intrusive related nickel-copper sulphide deposits and dyke-like intrusions.

The Jimberlana dyke is a very large, fertile, fractionated intrusion known to contain nickel sulphides in a number of locations along its strike length, and is considered to have excellent potential for large-scale accumulations of nickel-copper sulphides near its base.

Gravity surveys completed by the Company over the western end of the dyke confirmed the base of the dyke is within explorable depths (<500m) for current electromagnetic (EM) systems, and a high-powered EM (HPEM) survey was designed to test the 20km strike length occurring within the Company's tenement. Work area clearances have been obtained and the HPEM survey is expected to be completed during Q1 2017.

AusQuest also controls approximately 1,080km² of title within the Fraser Range Province of WA, which hosts the Nova-Bollinger nickel-copper mine. The region is still the focus of significant exploration activity by a range of companies, and is considered to be one of the country's premier locations for nickel exploration.

The **Gibson Soak Nickel** Project is located ~30km north of the port of Esperance and is centred on a regional north-east trending gravity high with similarities to the Fraser Range Complex that hosts the Nova-Bollinger deposit. HPEM surveys are planned to commence in February 2017 to identify potential drill targets associated with the mafic intrusions interpreted from magnetic data and confirmed by aircore drilling.

At the **Balladonia Nickel** Project, HPEM surveys testing ~12 mafic intrusions interpreted from aeromagnetic data should commence in the March-April 2017 period, once all clearances have been obtained and a contract crew is available.

The targets have similar magnetic expressions to known gabbroic intrusions within the Fraser Range Terrain, are relatively strike extensive (ranging from 2 to 6km), and are associated with inferred cross-cutting structures that appear to tap a deeply buried mafic/ultramafic complex as evidenced by the regional gravity anomaly (~30 milligals) over the project.

The **Bluebilly Zinc** Project, located within the Edmund Basin in WA, covers the down-dip extent of anomalous zinc values (up to 0.5% Zn) found within a pyritic black mudstone similar to host rocks containing sedimentary zinc deposits in the Mt Isa-McArthur River District of north-west Queensland. Results from re-sampling historical drill-core and compilation of regional data supported the concept and identified possible targets close to the Talga Fault.

Seismic data collected by Geoscience Australia in conjunction with the Geological Survey of WA is being re-processed by HiSeis to highlight possible stratigraphic targets for drilling within the upper 1km of section. Results will be available in February 2017.

The **Glenayle Nickel-Copper Project** is located ~350km northeast of Wiluna along the northern margin of the Yilgarn Craton in WA. The project tenements cover the basal section of large mafic sill complex where available magnetic and geochemical data suggest the presence of ultramafic rocks beneath the cover that could be prospective for nickel-copper sulphide deposits.

Modelling of magnetic data over the Yallum Hill prospect outlined a relatively flat-lying tube-like target ~6km in length, with magnetic properties reflecting high iron content in the source rock. HPEM surveys are being considered to test this area for possible nickel and/or copper mineralisation.

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 2016.

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, 16 February 2017

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.



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 2016, 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.

A handwritten signature in blue ink, appearing to read 'M R Ohm'.

Perth, Western Australia
16 February 2017

M R Ohm
Partner



Accountants | Business and Financial Advisers

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of AusQuest Limited

Report on the Condensed Half-Year Financial Report

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 2016, the condensed consolidated statement of 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.

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 2016 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*.

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HLB Mann Judd (WA Partnership) is a member of  HLB International, a worldwide organisation of accounting firms and business advisers.



Conclusion

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 2016 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

Without modifying our conclusion, we draw attention to Note 2 in the half-year financial report, which indicates that it is likely that the Group will need to access additional working capital in the next twelve months. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

HLB Mann Judd

**HLB Mann Judd
Chartered Accountants**

A handwritten signature in blue ink, appearing to read 'M R Ohm'.

**M R Ohm
Partner**

**Perth, Western Australia
16 February 2017**

Directors' declaration

In the directors' opinion:

1. the attached financial statements and notes thereto are in accordance with the Corporations Act 2001 including:
 - a. complying with Australian Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - b. giving a true and fair view of the Group's financial position as at 31 December 2016 and of its performance for the financial half-year ended on that date; and
2. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors



Graeme Drew
Managing Director

Perth, 16 February 2017

**Condensed consolidated statement of comprehensive income
for the half-year ended 31 December 2016**

	<u>Note</u>	<u>Consolidated</u>	
		<u>Half-year to 31 Dec 2016</u>	<u>Half-year to 31 Dec 2015</u>
		\$	\$
Revenue		2,514	11,699
Consultants and employee benefits expenses		(46,654)	(122,216)
Share-based payments expense	6	-	(230,000)
Occupancy expenses		(45,672)	(46,376)
Administrative expenses		(175,192)	(247,134)
Impairment of exploration and evaluation expenditures	3	(5,859,156)	(3,630,606)
Loss before income tax expense		<u>(6,124,160)</u>	<u>(4,264,633)</u>
Income tax expense		-	-
Loss for the period		<u>(6,124,160)</u>	<u>(4,264,633)</u>
Other comprehensive (loss)/income			
<i>Items that may be reclassified to profit or loss</i>			
Exchange (loss)/gain on translation of foreign operations		(21,721)	571,058
Total comprehensive loss for the period		<u>(6,145,881)</u>	<u>(3,693,575)</u>
Loss per share:			
Basic loss per share (cents per share)		<u>(1.23)</u>	<u>(0.86)</u>

The accompanying notes form part of these financial statements.

**Condensed consolidated statement of financial position
as at 31 December 2016**

	<u>Note</u>	Consolidated	
		31 Dec 2016	30 Jun 2016
		\$	\$
Current assets			
Cash and cash equivalents		714,530	810,546
Trade and other receivables		114,541	131,437
Other assets		25,315	31,792
Total current assets		854,386	973,775
Non-current assets			
Plant and equipment		20,118	23,290
Exploration and evaluation expenditure	3	4,595,302	9,944,550
Total non-current assets		4,615,420	9,967,840
Total assets		5,469,806	10,941,615
Current liabilities			
Trade and other payables		87,387	169,600
Provisions		73,163	71,878
Total current liabilities		160,550	241,478
Non current liabilities			
Borrowings	4	750,000	-
Total non current liabilities		750,000	-
Total liabilities		910,550	241,478
Net assets		4,559,256	10,700,137
Equity			
Issued capital	5	56,775,891	56,770,891
Reserves		3,489,428	3,511,149
Accumulated losses		(55,706,063)	(49,581,903)
Total equity		4,559,256	10,700,137

The accompanying notes form part of these financial statements.

**Condensed consolidated statement of changes in equity
for the half-year ended 31 December 2016**

	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

	Consolidated				
	Issued capital	Share based payment reserve	Foreign currency translation reserve	Accumulated losses	Total equity
	\$	\$	\$	\$	\$
Balance at 1 July 2015	56,702,391	230,360	2,861,035	(41,869,096)	17,924,690
Loss for the period	-	-	-	(4,264,633)	(4,264,633)
Other comprehensive income for the period, net of tax	-	-	571,058	-	571,058
Total comprehensive income for the period	-	-	571,058	(4,264,633)	(3,693,575)
Issue of shares	45,000	-	-	-	45,000
Options issued during the period	-	230,000	-	-	230,000
Lapsed options during the period	-	(230,360)	-	230,360	-
Balance at 31 December 2015	56,747,391	230,000	3,432,093	(45,903,369)	14,506,115

The accompanying notes form part of these financial statements.

**Condensed consolidated statement of cash flows
for the half-year ended 31 December 2016**

	Note	Consolidated	
		Half-year to 31 Dec 2016 \$	Half-year to 31 Dec 2015 \$
Cash flows from operating activities			
Payments to suppliers and employees		(296,802)	(428,256)
Interest received		2,581	11,733
Net cash used in operating activities		<u>(294,221)</u>	<u>(416,523)</u>
Cash flows from investing activities			
Payment for plant and equipment		-	(445)
Payment for exploration and evaluation activities		(558,464)	(727,458)
Payment received on grant of farm-in and joint venture interests		-	170,986
Net cash used in investing activities		<u>(558,464)</u>	<u>(556,917)</u>
Cash flows from financing activities			
Proceeds from borrowings	4	750,000	-
Net cash generated by financing activities		<u>750,000</u>	<u>-</u>
Net decrease in cash and cash equivalents		(102,685)	(973,440)
Cash and cash equivalents at the beginning of the half-year		810,546	2,395,546
Exchange rate adjustment		6,669	14,412
Cash and cash equivalents at the end of the half-year		<u>714,530</u>	<u>1,436,518</u>

The accompanying notes form part of these financial statements.

Notes to the condensed consolidated financial statements for the half-year ended 31 December 2016

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 2016 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'.

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 2016 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 2016, 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 \$5,859,156 (2015: \$3,630,606) (refer note 3). No other impairment loss was recorded in the period.

Notes to the condensed consolidated financial statements for the half-year ended 31 December 2016

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 2016 the Group recorded an operating cash outflow of \$294,221 (half-year ended 31 December 2015: outflow of \$416,523) and at 31 December 2016 had a net working capital surplus of \$693,836 (30 June 2016: surplus of \$732,297).

Based on the Group's cash flow forecast, which is dependent on results from planned exploration activity, it is likely that the Group will potentially seek to access additional working capital in the next 12 months to advance its exploration projects.

The Directors are confident that the Group will be successful in raising additional funds through the issue of new equity, should the need arise. However, should no capital raising eventuate, there exists a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

3. Exploration and Evaluation Expenditure

	Half-year to 31 Dec 2016	Full-year to 30 Jun 2016
	\$	\$
Balance at beginning of period	9,944,550	15,649,086
Capitalised during the period	527,354	1,337,398
Impaired during the period (i)	(5,859,156)	(7,135,904)
Grant of farm-in and joint venture interest (ii)	-	(264,645)
Exchange movements	(17,446)	358,615
Balance at end of period	4,595,302	9,944,550

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

	Half-year to 31 Dec 2016	Full-year to 30 Jun 2016
	\$	\$
Dundas	-	3,630,605
West Africa ^a	5,505,711	3,442,100
Peru	285,615	-
Others	67,830	63,199
	5,859,156	7,135,904

^a 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 \$5,505,711 have been impaired at reporting date. 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:

During 2015 the Group entered into four separate farm-in and joint venture agreements with Compania Minera Zahena SAC ("Zahena") and Southern Peru Copper Corporation Sucursal del Peru ("Southern"). Under the terms of the agreements these entities can earn up to an 70% interest in five copper-gold projects through a structured series of cash option payments and sole-funding exploration expenditures.

On 21 September 2016, the Company announced that Zahena has given notice of their intention to withdraw from the joint ventures in October 2016. Diamond drilling is ongoing and will continue in line with the minimum expenditure requirements under the agreements.

Notes to the condensed consolidated financial statements for the half-year ended 31 December 2016

3. Exploration and Evaluation Expenditure (continued)

Following the termination of the joint ventures, all drilling and assay data revert to AusQuest which will retain 100 percent ownership of these projects. The Company plans to continue its strategy of attracting joint venture partners to its 100%-owned projects in Peru, which will now include in the Ilo area. The termination of the Joint Venture agreements does not, in the opinion of the Directors, change the carrying values of the capitalised exploration and evaluation expenditure of these tenements at reporting date.

(iii) Capitalised exploration and evaluation expenditure

The ultimate recoupment of costs carried forward in respect of areas of interest still in the exploration and/or evaluation phases is dependent on successful development and commercial exploitation or, alternatively, sale of the respective areas of interest.

4. 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 non-current liability on the basis of it having a contractual obligation to issue a variable number of shares if conversion takes place.

5. Issued capital

	31 Dec 2016	30 Jun 2016
	\$	\$
Ordinary Shares – fully paid	56,775,891	56,770,891
	56,775,891	56,770,891

Notes to the condensed consolidated financial statements for the half-year ended 31 December 2016

5. Issued capital

Issue of shares (consulting services)

The Company issued 500,000 ordinary shares during the period in lieu of cash payments for consulting services rendered to the Group. 500,000 shares were issued on 6 October 2016. 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 profit or loss.

As a consequence of the abovementioned issues, total ordinary shares on issue increased from 499,397,392 to 499,897,392 at reporting date. On 30 November 2016, 68,750,000 listed share options exercisable at 4 cents each expired unexercised.

6. Share-based payments

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 2016	
	Number of Options	Weighted average exercise price \$
Balance at beginning of the period	28,000,000	0.05
Lapsed during the period	-	-
Granted during the period	-	-
Balance at end of the period	<u>28,000,000</u>	<u>0.05</u>
Exercisable at end of the period	<u>28,000,000</u>	<u>0.05</u>

7. Subsequent events

On 3 February 2017 the Company's joint venture partner, Burkinor SARL, advised 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 \$5,505,711 have been impaired at reporting date.

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.

8. Contingent liabilities

At reporting date the Company had contingent share issues to consultants of up to 16,500,000 (2016: 21,000,000) 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.

9. Commitments

The Group's commitments remain unchanged. For details of these commitments, please refer to the 30 June 2016 annual financial report.

10. Related parties

Arrangements with related parties continue to be in place. For details of these arrangements, please refer to the 30 June 2016 annual financial report.

Notes to the condensed consolidated financial statements for the half-year ended 31 December 2016

11. 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 2016.

Continuing operations

	Australia	Africa	South America	Intersegment eliminations	Consolidated
	\$	\$	\$	\$	\$
Six Months to 31 December 2016					
Segment revenue	2,514	-	-	-	2,514
Segment expenditure	(345,801)	(5,506,070)	(274,803)	-	(6,126,674)
Net loss after tax					(6,124,160)
As at 31 December 2016					
Segment assets	15,284,004	285,558	2,616,365	(12,716,121)	5,469,806
Segment liabilities	886,721	6,018,192	3,822,929	(9,817,292)	910,550
Included within segment result:					
Depreciation	3,049	-	142	-	3,191
Interest income	2,514	-	-	-	2,514
Impairment of exploration expenditure	137,435	5,505,711	216,010	-	5,859,156

Continuing operations

	Australia	Africa	South America	Intersegment eliminations	Consolidated
	\$	\$	\$	\$	\$
Six Months to 31 December 2015					
Segment revenue	11,699	-	-	-	11,699
Segment expenditure	(4,206,317)	(532)	(69,483)	-	(4,276,332)
Net loss after tax					(4,264,633)
As at 30 June 2016					
Segment assets	14,782,173	6,350,169	2,579,235	(12,769,962)	10,941,615
Segment liabilities	210,089	5,849,690	3,577,839	(9,396,140)	241,478
Included within segment result:					
Depreciation	4,755	-	154	-	4,909
Interest income	11,699	-	-	-	11,699
Impairment of exploration expenditure	3,630,606	-	-	-	3,630,606