

AUSQUEST LIMITED (AQD)

Permitting underway for Peruvian drilling in Q2 CY18

AusQuest Limited (AQD) and its strategic partner South32 (S32) committed to drilling programs at the Chololo and Cerro de Fierro (copper) projects in southern Peru in late 2017. Drill permitting approvals are well advanced and expected soon for drilling to commence in Q2 CY18.

Both projects contain large-scale copper (and gold) targets considered prospective, with drill permitting well underway for approvals in Q1 CY18 and drilling to commence in Q2 CY18. The drilling contract has already been awarded, with Chololo expected to be the first target tested. Under the terms of the agreement, S32 can now spend US\$4M on each project to earn 70% interest with the right to earn a further 10% interest by completing a PFS.

Three projects under the strategic alliance have now progressed to the drill-ready stage, triggering a bonus payment of US\$500k to AQD. AQD remains well placed to generate additional targets which can be added to the JV over time. The alliance is clearly a strong endorsement for AQD's technical aptitude to attract a partner of this level (mid-tier miner), who remains focused on identifying Tier 1 opportunities.

We maintain our Speculative Buy recommendation with a 12-month price target of 5cps. The Company's cash is estimated to be ~A\$1.6M, after receiving S32 bonus payment (US\$500k) and other payments. If required, S32 will also provide AQD with an unsecured, interest free loan for US\$1M over 3 years, to fund project generation activities. AQD is leveraged to exploration success, considered high risk but potential for high reward.

Planned diamond drill program for 8,000m

Diamond drilling (up to 5,000m) at Chololo will test a large-scale porphyry copper target identified by Induced Polarisation (IP) over areas of high chargeability, where porphyry-style alteration and anomalous geochemistry have been identified.

Diamond drilling (up to 3,000m) at Cerro de Fierro will test a large-scale Iron-Oxide Copper Gold (IOCG) target identified in aeromagnetic data and confirmed by mapping, sampling and follow-up IP surveys. Geological mapping and sampling in the area has identified numerous copper and gold anomalies in the area (Cu >0.1% Au >40ppb). Both of these projects have the potential to be 'Company makers' in their own right.

Blue Billy provides potential for large SedEx Zinc

AQD's Blue Billy zinc project, located ~100km south west of Paraburdoo in WA, is considered prospective for sediment-hosted (SedEx) zinc mineralisation. The JV tested the prospect with four broadly-spaced, deep diamond holes totalling ~2,500m in late CY17.

Alteration was apparent in two of the holes, with manganese alteration located within footwall sediments and stronger alteration within black shales. The best hole reported 15m @ 0.26% Zn, 350ppm Cu and 3g/t Ag, which is clearly not ore grade, but rather proof of concept of the geological model for mineralising processes within the basin.

Follow-up work at Blue Billy will be commence once targets have been prioritised, aimed at finding potential economic accumulations of zinc.

26 Feb 2018

Share Price (last):	\$0.018
Price Target (12 months):	\$0.050

Brief Business Description

Junior gold, base metal explorer

Hartleys Brief Investment Conclusion

New strategic exploration alliance with S32. Leveraged to exploration success/improved market sentiment.

Issued Capital	525.5m
- fully diluted	644.0m
- ITM diluted	525.5m
Market Cap	\$9.5m
- fully diluted	\$11.6m
- ITM diluted	\$9.5m
Cash -est Jan	\$1.60m
Debt -est *	\$0.32m
EV	\$8.2m
- fully diluted	\$5.6m

Projects

SW Peru JV (Peru)	Cu, Au
Balladonia (WA)	Ni, Cu
Jimberlana (WA)	Ni, Cu
Glenayle (WA)	Ni, Cu
Blue Billy JV (WA)	Zn

Board & Management

Greg Hancock (Non-Exec. Chairman)
 Graeme Drew (Managing Director)
 Chris Ellis (Non-Exec. Dir)

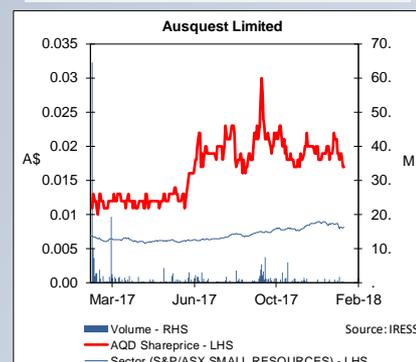
Top Shareholders

Chrysalis Investments (Chris Ellis) 19.9%

Company Address

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* Loan and Convertible Note agreement w ith major shareholder and non-executive director Chris Ellis. Conversion at AQD election and subject to shareholder approval. Conversion price set at the low er of 2cps or 5-day VWAP prior to conversion.



Author:

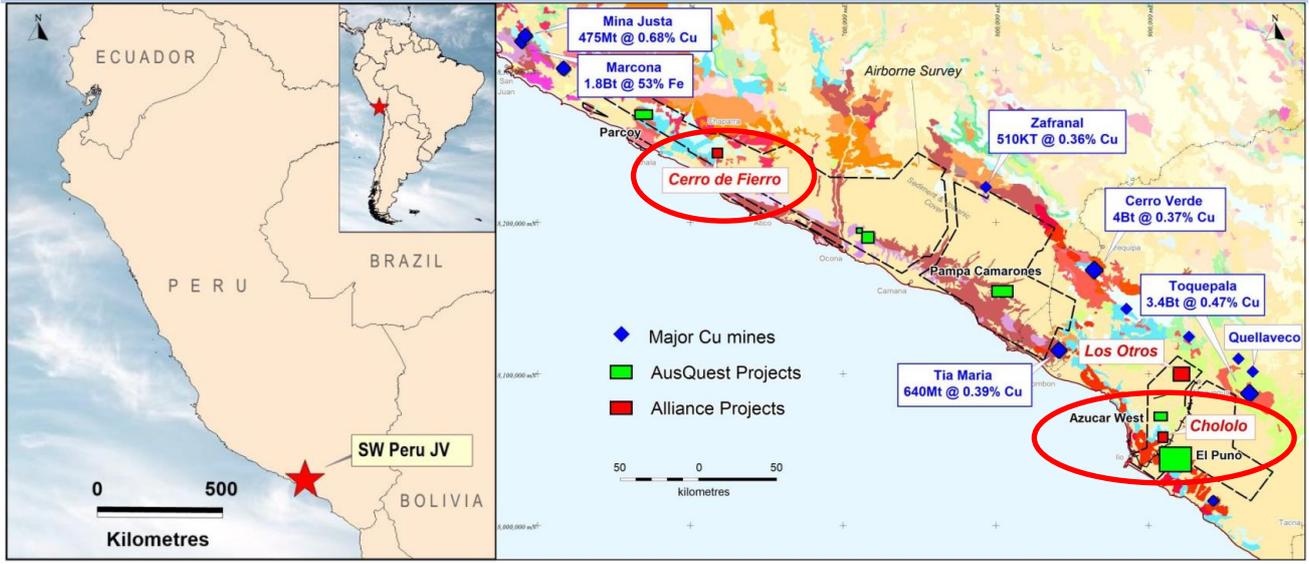
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Hartleys has provided corporate advice within the past 12 months and continues to provide corporate advice to AusQuest Limited for which it has earned fees and continues to earn fees.

SUMMARY MODEL

Ausquest Limited AQD		Share Price \$0.018		Feb-18 Speculative Buy	
Key Market Information		Directors		Company Details	
Share Price	\$0.018	Greg Hancock (Non-Exec. Chairman)	8 Kearns Crescent		
Market Capitalisation	\$9.5m	Graeme Drew (Managing Director)	Ardross WA 6153		
Cash	\$1.60m	Chris Ellis (Non-Exec. Dir)	+61 (0)8 9364 3866		
Debt	-\$0.32m		www.ausquest.com.au		
Net Cash (debt)	\$1.28m				
Issued Capital	525.5m				
Issued Capital (fully diluted ITM options)	525.5m				
Options	118.45m @ A\$0.04				
Issued Capital (fully diluted all options)	644.0m				
EV -ord	\$8.2m				
EV -diluted	\$5.6m				
12Mth Price Target	\$0.050				
Projects		Interest	Location	Commodity	
SW Peru JV (Peru)	100%*	Peru	Cu, Au		
Balladonia (WA)	100%	Albany-Fraser	Ni, Cu, Au		
Jimberlana (WA)	100%	Norseman	Ni, Cu, Au		
Glenayle (WA)	100%	Yilgarn Margin	Ni, Cu, Au		
Blue Billy JV (WA)	100%*	Edmund Basin	Zn		
* South32 can earn up to 70% through sole fund US\$4m					
Resources		Mt	Grade	Metal	Attr.
Base Metals					
No JORC resources					
P&L		FY2015A	FY2016A	FY2017A	FY2017F
Net Revenue	0.0	0.0	0.0	na	
Total Costs	-0.8	-1.0	-0.8	na	
EBITDA	-0.8	-1.0	-0.8	na	
Deprec/Amort	0.0	0.0	0.0	na	
EBIT	-0.8	-1.0	-0.8	na	
Net Interest	0.0	0.0	0.7	na	
Pre-Tax Profit	-0.8	-1.0	-0.1	na	
Tax Expense	0.0	0.2	0.2	na	
NPAT	-0.8	-0.8	0.1	loss	
Abnormal Items	0.0	-7.1	-7.3	na	
Reported Profit	-0.8	-7.9	-7.2	loss	
Unpaid Capital		No (m)	\$ (m)	Ave Pr	% Ord
Options					
30-Jun-18	78.9	2.8	0.035	15%	
30-Jun-21	39.5	2.0	0.050	8%	
Total	118.4	4.7	0.040	23%	
Comments					
Early stage exploration company with no production assets, ongoing funding will be required. New strategic exploration alliance with S32. Leveraged to exploration success/improved market sentiment.					
Analyst: Mike Millikan		Last Updated: 26/02/2018			
Phone: +61 8 9268 2805					
Sources: IRESS, Company Information, Hartleys Research					

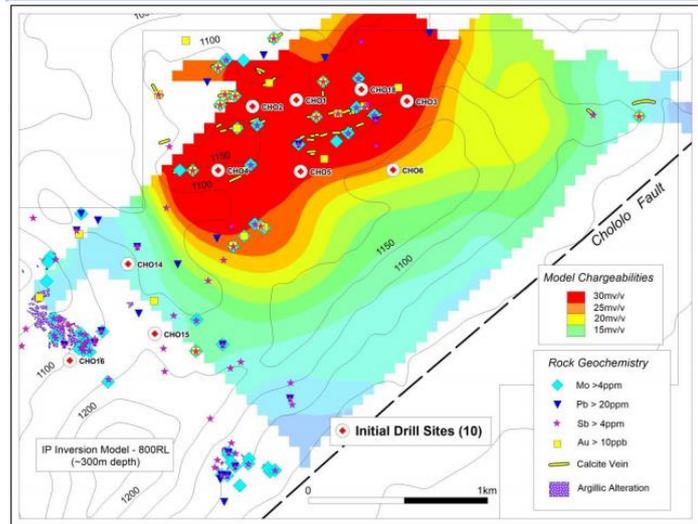
Fig. 1: AQD Project Location –Peru



Source: AusQuest Limited

Chololo is a large potential porphyry-copper target identified by mapping, sampling and IP surveys

Fig. 2: Chololo – Planned drilling over IP

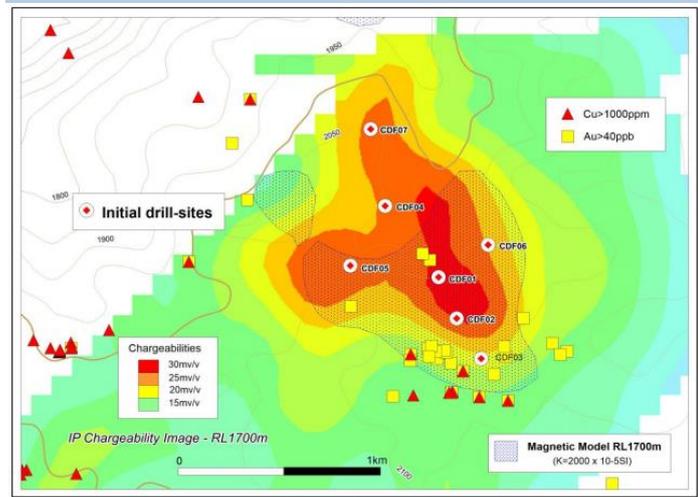


Source: AusQuest Limited

Cerro de Fierro is a potential IOCG target, with drilling primarily focused on a strong IP chargeability anomaly associated with the large discrete magnetic response

Diamond drilling for a combined ~8,000m is proposed

Fig. 3: Cerro de Fierro – Planned drilling



Source: AusQuest Limited

PRICE TARGET

Our AQD price target is considered highly speculative.

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AQD has a strategic exploration alliance with S32 whereby the two companies will work together to develop a pipeline of exploration opportunities within Australia and overseas (mostly in Peru). We see this alliance as an excellent model for a junior explorer such as AQD, who has a strong track record of quality target generation, with particular focus on Tier 1 opportunities.

AQD has low current cash of ~A\$1.6M, but receives funding from S32

Under the terms of the agreement, AQD can receive bonus payments (US\$500k) by reaching agreed KPIs (3 new accepted opportunities per annum) to help advance new base metal (copper, zinc, and nickel) opportunities, which have potential for associated precious metal credits.

Key projects secured by AQD will be exclusively offered to S32, and if accepted, undergo staged evaluation before advancing through to drill-ready opportunities. Work programs developed during this generative stage will be fully funded by S32, with an initial budget of US\$250k (up to US\$500k) per project. AQD will manage all works up to the drill-ready stage.

Prospectivity remains high

Following project generation, JVs will be formed whereby S32 can earn a 70% interest through expenditure of US\$4M per project, and up to 80% through completion of a PFS (fully funded by S32). Upon formalisation of any JVs, AQD receives a second payment of US\$500k (less the initial payment).

Our 12-month price target of 5cps is derived from a perception of exploration value in the search of base metal (copper, zinc, and nickel) projects, and precious metal deposits with some peer comparison. The Company remains highly leveraged to exploration success, and is considered to be in the high risk but potential high reward exploration stage. Target generation and drilling results can have an upside and downside impact on trading levels.

Price target of 5cps

Fig. 4: Hartleys AQD Price Target

Price Target Methodology	Weighting	26/02/2018	12 Month
Strategic Alliance + other asset value	75%	\$0.054	\$0.055
Exploration value - peer comp	20%	\$0.042	\$0.042
Cash Backing	5%	\$0.000	\$0.000
Risk weighted composite		\$0.049	
12 Months Price Target		\$0.050	
Shareprice - Last		\$0.018	
12 mth total return (% to 12mth target + dividend)		175%	

Source: Hartleys Research

KEY RISKS

Key risks for AusQuest include making an economic discovery and obtaining funding for ongoing exploration. Weather, land access, drill rig availability, retaining key people are all risks.

Fig. 5: Key Risks

Assumption	Risk of not realising assumption	Downside risk to share price if assumption is incorrect	Comment
Funding for ongoing exploration	Low-Med	Med-High	AQD has now entered into a strategic exploration alliance with S32 whereby the two companies will work together to development a pipeline of exploration opportunities within Australia and overseas (mostly in Peru). Under the terms of the agreement, AQD expects to receive over US\$1.5M in S32 funding to advance base metal (copper, zinc, and nickel) projects. If required, S32 will also provide AQD with an unsecured, interest free loan for US\$1M over 3 years, to fund project generation activities.
Discovery Success	Med	Low-Med	Though the Company has some good drill targets this does not guarantee success. AQD's management team has a high level of technical expertise and has conducted detailed exploration in preparation for the testing of drill targets, which does provide some level of comfort in the program(s) ahead.
Preliminary AQD price target	Med	Meaningful	We have made a number of large assumptions in our AQD preliminary valuation, based on incomplete information (ie no significant discoveries (as yet), no reserves or development studies). AQD has no production history. Any changes to our assumptions have both upside and downside risks. Our valuation is considered highly speculative.
Commodity Prices	Med	Med-High	The projects remain highly sensitive to commodity price movements and sentiment. Current exploration focus is base metals (nickel, copper, zinc) and gold.
<i>Conclusion</i>	<i>At this stage we consider the assumptions have a low to high risk of not being achieved. At this stage we have no valuation for AQD, but the Company's extensive project portfolio with high prospectivity and low current market cap, implies the Company is undervalued.</i>		

Source: Hartleys Research

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Hartleys Recommendation Categories

Buy	Share price appreciation anticipated.
Accumulate	Share price appreciation anticipated but the risk/reward is not as attractive as a "Buy". Alternatively, for the share price to rise it may be contingent on the outcome of an uncertain or distant event. Analyst will often indicate a price level at which it may become a "Buy".
Neutral	Take no action. Upside & downside risk/reward is evenly balanced.
Reduce / Take profits	It is anticipated to be unlikely that there will be gains over the investment time horizon but there is a possibility of some price weakness over that period.
Sell	Significant price depreciation anticipated.
No Rating	No recommendation.
Speculative Buy	Share price could be volatile. While it is anticipated that, on a risk/reward basis, an investment is attractive, there is at least one identifiable risk that has a meaningful possibility of occurring, which, if it did occur, could lead to significant share price reduction. Consequently, the investment is considered high risk.

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