

AUSQUEST LIMITED (AQD)

Strategic Alliance now testing Australian prospects

AusQuest Limited (AQD) recently received approvals to commence drilling at the **Balladonia** prospect (Fraser Range area, WA) and **Hamilton** prospect (NW QLD). All drilling costs are covered under the Strategic Alliance Agreement (SAA) by strategic partner South32 (S32), who can earn an initial 70% interest by spending a total US\$4M on each project.

Balladonia (Fraser Range area) telegraphing base metals

Balladonia consists of a large tenement holding over ~1,040km² in the Fraser Range region of WA, and is located ~50km south of IGO's Nova nickel-copper mine. The ground was pegged following a review of aeromagnetic data which highlighted a number of inferred mafic intrusions. Electromagnetic (EM) surveys, to identify potential Nova-style mineralisation, were completed over 12 of the interpreted mafic intrusions in CY18, with priority drill target areas generated. Initial aircore (AC) drilling to test a broad discrete EM conductor within the northernmost target area returned a highly anomalous multi-element geochemical signature (elevated copper, silver, lead and zinc) within weathered silica-rich felsic host rocks, prompting further work within the area. A 40-hole AC program for ~1,600m is now underway in-filling the geochem anomaly, referred to as the **Telegraph** prospect. Depending on the results received, deeper drilling will be considered in the later parts of CY19.

Hamilton (Mt Isa area) testing a potential IOCG target

Drilling at Hamilton plans to test a large 1km long induced polarisation (IP)/gravity target located north of a historical drill hole which provided indications of a potential iron-oxide-copper-gold (IOCG) system, and is located ~120km south of S32's Cannington lead-silver mine. Sedimentary cover (overburden) in the area is extensive, some 200m thick in parts, with follow-up drilling activities (target testing) planned to commence in early August and should take ~3 weeks to complete. Four broadly spaced holes (~400m apart) will test the priority IP anomaly and surrounding area.

Project generator model for minority interest but major targets

AQD operates under the "project generator model", which is considered a sensible exploration funding approach for a junior explorer with strong technical and targeting acumen. The model enables AQD to be focused on major discoveries within greenfield jurisdictions, with the exploration activities funded via its strategic partner (S32), and AQD retaining a minority interest (20-30%) in what could be multiple Tier 1 opportunities (leveraged exposure). Multiple projects can be funded through to target-testing, and while exploration success is not guarantee, the probability of discovery can be improved. The model also lowers equity dilution for ongoing exploration.

AQD has received total payments of ~A\$7M (est) from S32 during FY19, with the funds spent on pre-drilling exploration, site-preparations and drilling. S32 continues to have a strong commitment to the SAA and leaves AQD in a solid capital position for future project generation.

We maintain our **Speculative Buy** recommendation, with a 12-month price target of 4.6cps (from 5.0cps). AQD remains leveraged to exploration success, considered high risk but potential for high reward. With drilling underway (target testing) and assays expected soon, further catalysts are anticipated. We estimate AQD's cash at the end of the JunQ to be ~A\$1.6M.

15 Jul 2019

Share Price (last):	\$0.015
Price Target (12 months):	\$0.046

Brief Business Description

Junior gold, base metal explorer

Hartleys Brief Investment Conclusion

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

Issued Capital	549.3m
- fully diluted	588.8m
- ITM diluted	549.3m
Market Cap	\$8.2m
- fully diluted	\$8.8m
- ITM diluted	\$8.2m
Cash - (30 Jun'19e)	\$1.6m
Debt - (30 Jun'19e)*	\$0.0m
EV	\$6.6m
- fully diluted	\$5.3m

Projects

SW Peru JV (Peru)	Cu, Au
Balladonia (WA)	Ni, Cu
Hamilton (QLD)	Cu, Au
Other AUS Projects (WA, QLD)	Ni, Cu, Zn

Board & Management

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

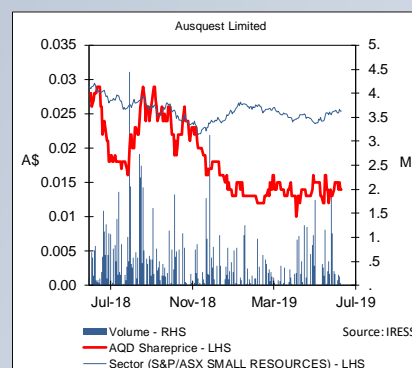
Top Shareholders

Chrysalis Investments (Chris Ellis) 22.7%

Company Address

8 Kearns Crescent
Arross WA 6153

* As part of the strategic alliance agreement (SAA) with South32 (S32), S32 has provided AQD with a US\$1M 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 SAA but in any event must be repaid by 31 Dec 2019. At the date of this report no amount was drawn from this facility.



Author:

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Resources Analyst
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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.

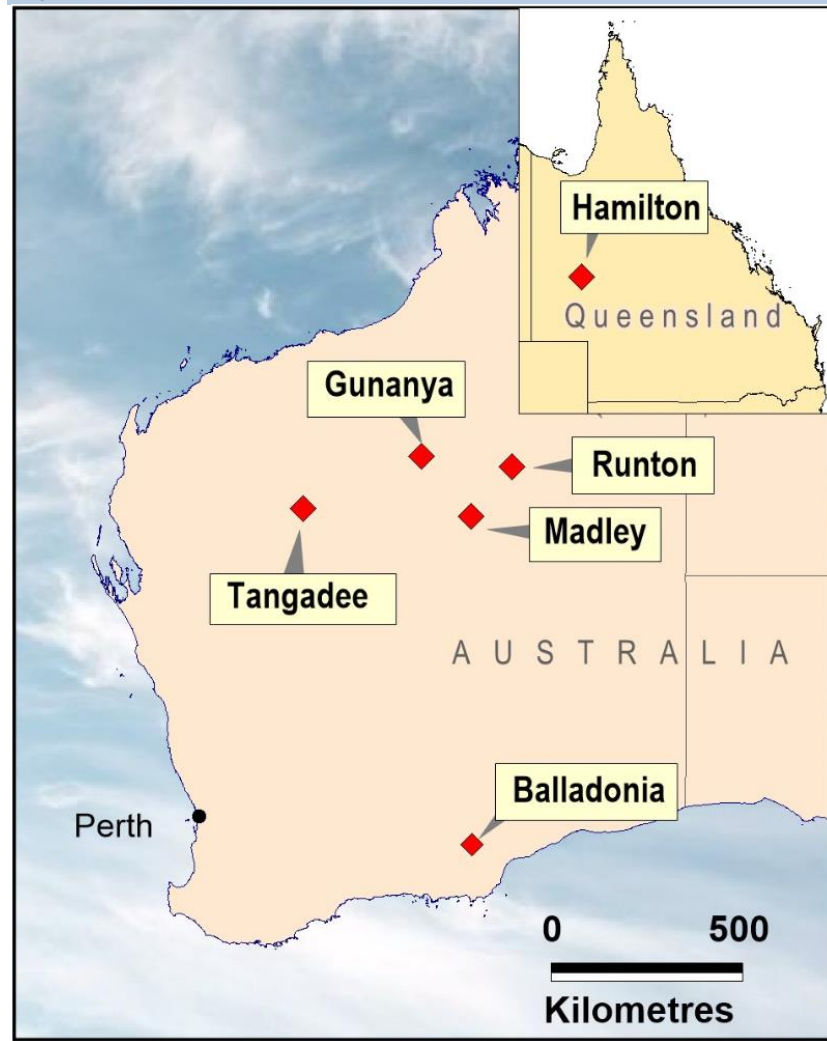
SUMMARY MODEL

AusQuest Limited AQD		Share Price \$0.015		Jul-19 Speculative Buy	
Key Market Information					
Share Price		\$0.014			
Market Capitalisation		\$8.2m			
Cash		\$1.60m			
Debt		\$0.00m			
Net Cash (debt)		\$1.60m			
Issued Capital		549.3m			
Issued Capital (fully diluted ITM options)		549.3m			
Options		39.50m @ A\$0.05			
Issued Capital (fully diluted all options)		588.8m			
EV -ord		\$6.6m			
EV -diluted		\$5.3m			
12Mth Price Target		\$0.046			
Projects					
Interest		Location		Commodity	
SW Peru JV (Peru)		100%*		Peru Cu, Au	
Balladonia (WA)		100%*		Fraser Range Ni, Cu, Au	
Hamilton (Qld)		100%*		Mt Isa area Cu, Au, Fe	
Other AUS Projects (WA, QLD)		100%		Australia Ni, Cu, Au, Zn	
* South32 can earn to 70% through sole fund US\$4M, and up to 80% through PFS completion					
Resources					
Mt		Grade		Metal Attr.	
Base Metals					
No JORC resources					
Cashflow					
FY18		SepQ'19		DecQ'19 MarQ'19	
A\$k		A\$k		A\$k A\$k	
Receipts from customers		2117.0		278 463 49	
Payments expl, supp, admin etc		-6,837		-3,851 -3,929 -876	
Interest		4.0		1 7 1	
Other - S32 Funding under SAA		7,228		2,403 2,161 555	
Net Cash from Op activities		2,827		-1,169 -1,298 -271	
PP&E acquired		-40.0		-6 -1 -11	
PP&E disposed		0.0		0 0 0	
Other		0.0		0 0 0	
Net Cash from Inv activities		-40		-6 -1 -11	
Proceeds - Equity		1		0 0 0	
Proceeds - Borrowings		0		0 0 0	
Other		0		48 43 -8	
Net Cash from Fin activities		1		48 43 -8	
Cash - Start		1,694		4,521 3,394 2,138	
Change		2,788		-1,127 -1,256 -290	
Cash - End		4,521		3,394 2,138 1,848	
Directors					
Greg Hancock (Non-Exec. Chairman)				8 Kearns Crescent	
Graeme Drew (Managing Director)				Ardross WA 6153	
Chris Ellis (Non-Exec. Dir)				+61 (0)8 9364 3866	
				www.ausquest.com.au	
Top Shareholders (est)					
m shs		%			
Chrysalis Investments (Chris Ellis)		124.7		22.7%	
Directors		142.8		26.0%	
Investment Summary					
Actively exploring early stage projects in Australia and Peru					
Multiple drill-ready targets providing strong newsflow and potential for discovery. A portfolio of opportunities.					
Newsflow					
Project					
Q1 CY17		Enters exploration alliance with S32		Aus/Peru	
Q1/Q2 CY19		Cerro de Fierro - review results		Peru	
Q3 CY19		Balladonia aircore drilling		WA	
Q3 CY19		Hamilton IP target testing		QLD	
Q3 CY19		Review results Balladonia, Hamilton		Aus	
Q2/Q3 CY19		Drill permitting - Cerro de Fierro		Peru	
Q4 CY19		Drilling Cerro de Fierro		Peru	
Q3/Q4 CY19		Potential follow-up drilling		Aus	
CY19/20		Target generation activities		Aus/Peru	
Unpaid Capital					
No (M)		\$ (M)		Ave Pr % Ord	
Options					
30-Jun-21		39.5 2.0		0.050 7%	
Total		39.5 2.0		0.050 7%	
Comments					
Early stage exploration company with no production assets. Strategic exploration alliance with S32 funds ongoing exploration. Leveraged to exploration success/improved market sentiment.					
Analyst: Mike Millikan					
Phone: +61 8 9268 2805					
Last Updated: 15/07/2019					
Sources: IRESS, Company Information, Hartleys Research					

AUSTRALIAN PROJECTS – TARGET TESTING

Exploration in Australia is largely focused on large-scale (potential) base metal projects located in WA and QLD.

Fig. 1: Australian Project Areas



Source: AusQuest Limited

Exploration is largely focused on large-scale base metal projects located in WA, but AQD also has a project in QLD

AQD recently received approvals to commence drilling at the Balladonia prospect (Fraser Range area WA) and Hamilton prospect (NW QLD)

All drilling costs are covered under the Strategic Alliance Agreement (SAA) by strategic partner South32 (S32), who can earn a 70% interest by spending a total US\$4M on each project

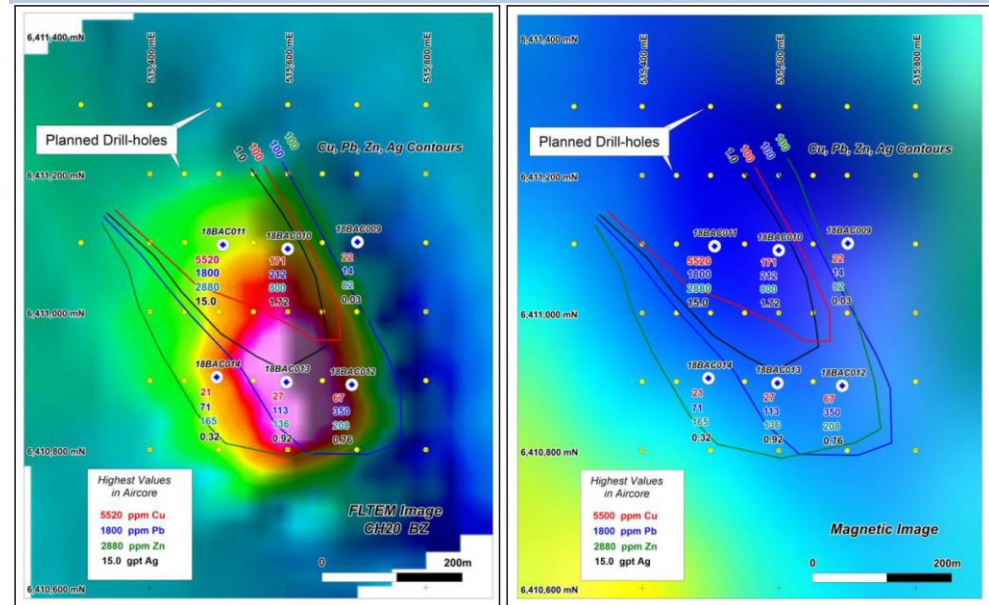
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The ground was initially selected following a review of aeromagnetic data which highlighted a number of inferred mafic intrusions. Electromagnetic (EM) surveys, to identify potential Nova-style mineralisation, were completed over 12 of the interpreted mafic intrusions in CY18, with priority drill target areas generated. Initial aircore (AC) drilling to test a broad discrete EM conductor within the northernmost target area returned a highly anomalous multi-element geochemical signature (elevated copper, silver, lead and zinc) within weathered silica-rich felsic host rocks, prompting further work within the area.

A 40-hole AC program for ~1,600m is now underway in-filling the geochem anomaly, referred to as the Telegraph prospect. Depending on the results received, deeper drilling will be considered in the later parts of CY19.

Fig. 2: Balladonia Project – Telegraph Prospect Drill Target



Aircore drilling has commenced at the Telegraph Prospect, part of the Balladonia project area

Source: AusQuest Limited

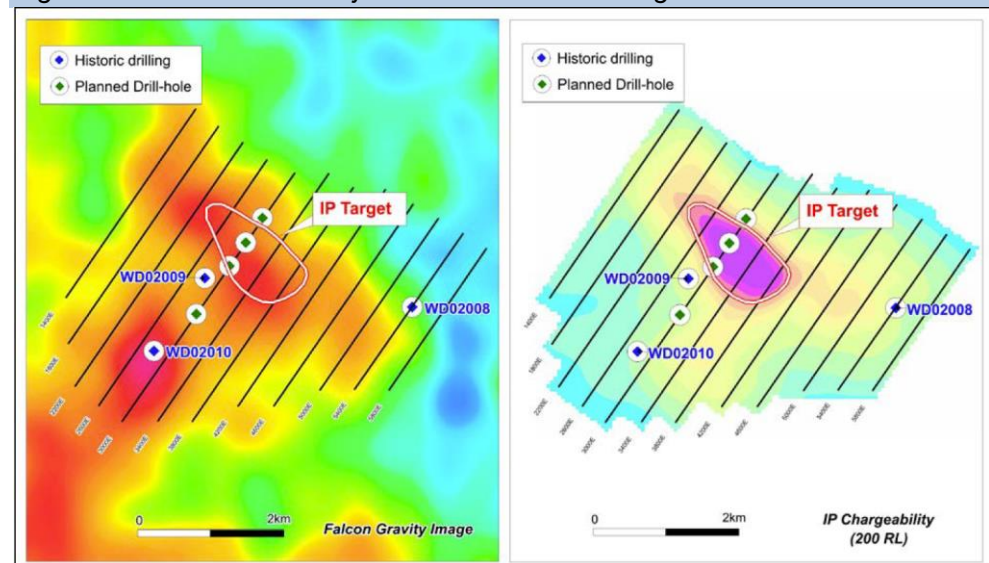
Drilling at Hamilton in QLD plans to test a large 1km long induced polarisation (IP)/gravity target located north of a historical drill hole which provided indications of a potential iron-oxide-copper-gold (IOCG) system, and is located ~120km south of S32's Cannington lead-silver mine.

Sedimentary cover (overburden) in the area is extensive, some 200m thick in parts, with follow-up drilling activities (target testing) planned to commence early August and should take ~3 weeks to complete.

Four broadly spaced holes (~400m apart) will test the priority IP anomaly and surrounding area.

Drilling is QLD plans to test a high-priority IP/gravity target located to the south of the Cannington lead-silver mine

Fig. 3: Hamilton Project – Planned Drilling



Source: AusQuest Limited

AQD confirmed the discovery of an IOCG mineralised system at the Cerro de Fierro Copper Project in Peru in early CY19, following a review of assays from completed drilling in late CY18

Drilling is expected to recommence in the later parts of CY19

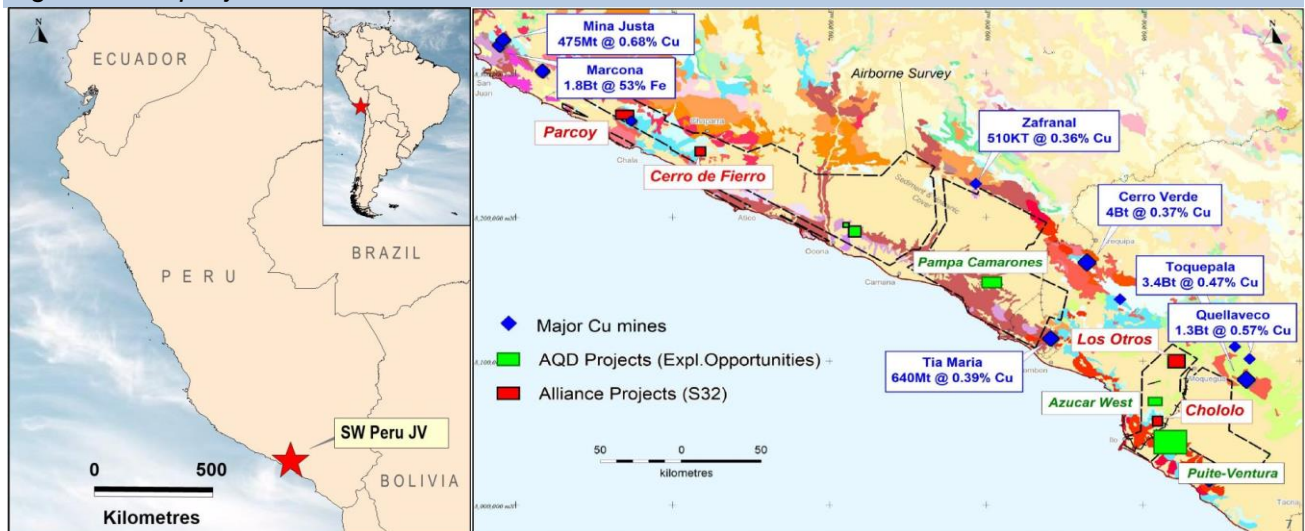
CERRO DE FIERRO NEW IOCG DISCOVERY

AQD confirmed the discovery of an IOCG mineralised system at the Cerro de Fierro Copper Project in Peru in early CY19, following a review of assays from completed drilling in late CY18. The project lies within ~150km of the large Mina Justa deposit which is ~480Mt grading 0.68% Cu.

Previous drilling was designed to test a strong chargeable IP anomaly coincident to a discrete, but large magnetic feature, which is further supported by anomalous copper and gold geochem (+0.5% Cu and +40ppb Au). Drilling highlighted copper-gold mineralisation associated to sub-vertical structures and flat-lying volcanics as replacement-style mineralisation (mantos).

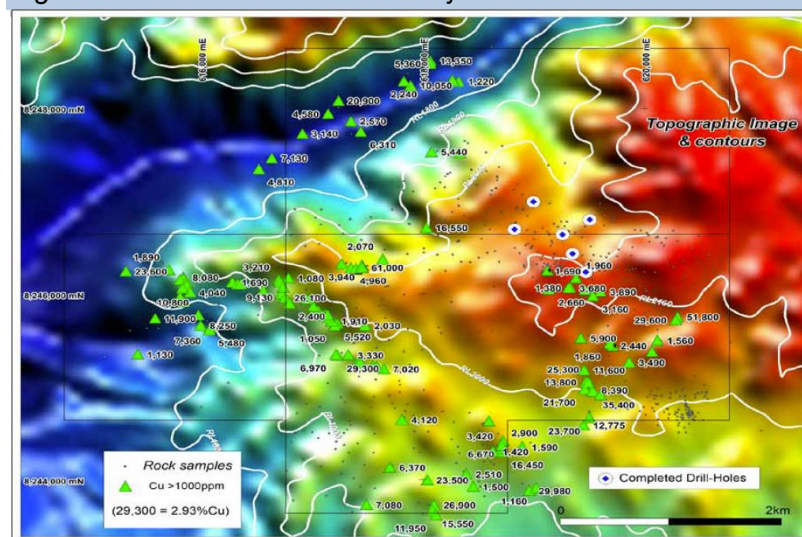
Higher copper values from the initial 7 hole program correlate well with lower magnetic zones (associated with haematite alteration), with some of the previously reported better results including 28m @ 0.32% Cu, 0.37g/t Au from 130m, 43m @ 0.43% Cu, 0.35g/t Au from 250m and 7m @ 1.17% Cu, 11.2g/t Ag from 499m. Additional mapping and surface sampling is in progress to define the extent of the copper-gold system, ahead of further drilling, planned for the later parts of CY19.

Fig. 4: AQD project location – Peru



Source: AusQuest Limited

Fig. 5: Cerro De Fierro Project – Cu Anomalism



Source: AusQuest Limited

Economic copper grades reported from the drilling

The copper anomaly highlights potential for a very large system

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.

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

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

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 4.6cps (from 5.0cps) 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.

Latest price target of 4.6cps

Fig. 6: Hartleys AQD Price Target

Price Target Methodology	Weighting	15/07/2019	12 Month
Strategic Alliance + other asset value	75%	\$0.048	\$0.05
Exploration value - peer comp	20%	\$0.042	\$0.04
Cash Backing	5%	\$0.00	\$0.00
Risk weighted composite		\$0.045	
12 Months Price Target		\$0.046	
Shareprice - Last		\$0.015	
12 mth total return (% to 12mth target + dividend)		207%	

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. 7: 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	<p>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).</p> <p>Under the terms of the agreement, AQD expects to receive 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.</p>
Discovery Success	Med	Low-Med	<p>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.</p>
Preliminary AQD price target	Med	Meaningful	<p>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.</p>
Commodity Prices	Med	Med-High	<p>The projects remain highly sensitive to commodity price movements and sentiment. Current exploration focus is base metals (nickel, copper, zinc) and gold.</p>
Conclusion	<p><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></p>		

Source: Hartleys Research

HARTLEYS CORPORATE DIRECTORY

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Note: personal email addresses of company employees are structured in the following manner:firstname.lastname@hartleys.com.au

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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