

## AUSQUEST LIMITED (AQD)

### Secures new copper-gold JVs in Peru

AusQuest has secured JV agreements with major South American copper producers, Zahena SAC and Southern Peru Copper Corp to drill-test four large porphyry copper-gold targets in southern Peru.

We see these agreements as a great funding model and ideal strategy for a junior explorer such as AusQuest. AusQuest retains exposure to a potentially large discovery (or discoveries), receives staged option payments (up to a total ~US\$10m) and has exploration fully-funded during the earn-in period by quality, major copper players. The projects have been permitted for drilling, with first stage drilling expected to be completed within the next 12-18 months and commence 1H CY15.

### Good model for a pipeline of exploration opportunities

Under the terms of the deal, Zahena and Southern Peru Copper have to complete a minimum exploration program of 5,000m of drilling (RC or Diamond) or spend US\$1m to test each target. In addition, both companies have the election to fund further drilling over a 3 year period. Once the minimum program has been completed and option payments made, Zahena and Southern Peru Copper can earn 70% interest in the respective projects.

If the agreed drilling and payments are not completed then full ownership reverts to AusQuest but in the event of exploration success both Zahena and Southern Copper can earn an additional 10% interest in the respective projects through the completion of a BFS within a 4 year period. Importantly, AusQuest will be free-carried until interests are earned, upon which time the Company can co-fund or be diluted (and once below 10% reverts to a 2% NSR). The JV agreements cover only four targets out of an extensive portfolio of copper-gold porphyry or IOCG targets; we expected additional targets will be commercialised in the future.

### Compelling drill-ready targets could provide a major discovery

AusQuest has built a quality portfolio of exploration opportunities in Peru, which is considered to be largely under-explored and highly prospective for large copper-gold systems (IOCG and porphyries). The Lana target is expected to be the first prospect to be drilled and corresponds to a very large gravity anomaly (over 20km<sup>2</sup>). The other three drill-ready targets of Cardonal, Puite and Colorada are well located near infrastructure of rail, road and port and within 20kms of a copper refinery at Ilo.

### Offshore activities largely funded, with Fraser Range upside

The latest agreements provide funding to test some potential "Company-making targets". With option payments to be received and exploration drilling soon to commence, AusQuest's strategy of securing high-quality JV partners for its large-scale offshore projects remains a good one. It should be noted that AusQuest is free-carried for up to US\$7.5m worth of exploration spend by SEMAFO in Burkina Faso, for which SEMAFO can earn an 80% interest.

In addition, AusQuest has an expanding Albany-Fraser footprint with recent exploration news from neighbouring explorers upgrading the Company's tenure. Ground EM surveys are planned for Balladonia North and Dundas, which should provide additional drill-targets and discovery potential. We continue to recommend AusQuest Limited as a Speculative Buy.

25 Feb 2015

**Share Price (last):** \$0.023

**Brief Business Description**

Junior gold, base metal explorer

**Hartleys Brief Investment Conclusion**

New JV agreements for the drill-testing of large copper-gold targets in Peru. Highly prospective ground in the Albany-Fraser WA. Leveraged to exploration success.

<b>Issued Capital</b>	298.5m
- fully diluted	377.2m
- ITM diluted	298.5m
<b>Market Cap</b>	\$6.9m
- fully diluted	\$8.7m
- ITM diluted	\$6.9m
<b>Cash -est</b>	\$1.0m
<b>Debt -est*</b>	\$0.75m
<b>EV</b>	\$6.6m
- fully diluted	\$8.4m

**Projects**

<i>Balladonia (WA)</i>	Ni, Cu, Au
<i>Dundas (WA)</i>	Ni, Cu, Au
<i>Gibson Soak (WA)</i>	Ni, Cu, Au
<i>Banfora Gold JV (Burkina)</i>	Au, others
<i>Lana JV (Peru)</i>	Cu, Au
<i>Cardonal JV (Peru)</i>	Cu, Au
<i>Puite-Colorada JV (Peru)</i>	Cu, Au
<i>Southern Peru - other</i>	Cu, Au

**Board & Management**

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

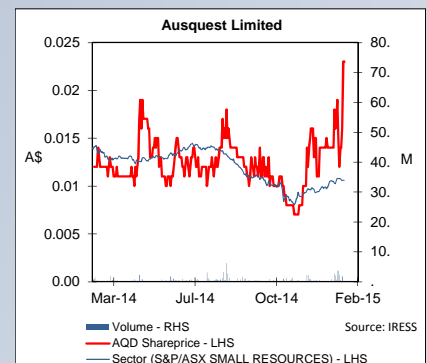
**Top Shareholders**

Chris Ellis	9.5%
Hammersley Holdings (Rio Tinto)	3.5%

**Company Address**

8 Kearns Crescent  
 Address WA 6153

\* Con note, convertible 37.5m shares @ 2cps, interest free loan for 6 months


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

## SUMMARY MODEL

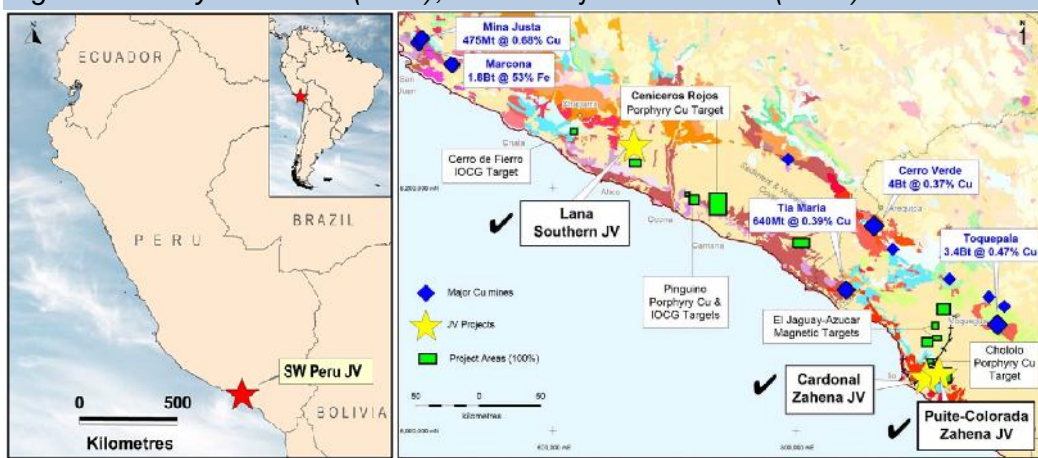
Ausquest Limited AQD		Share Price \$0.023		Feb-15 Speculative Buy			
<b>Key Market Information</b>		<b>Directors</b>		<b>Company Details</b>			
Share Price	\$0.023	Greg Hancock (Non-Exec. Chairman)	8 Kearns Crescent				
Market Capitalisation	\$6.9m	Graeme Drew (Managing Director)	Ardross WA 6153				
Cash	\$1.0m	John Ashley (Non Exec. Dir)	+61 (0)8 9364 3866				
Debt*	-\$0.8m	Chris Ellis (Non-Exec. Dir)	www.ausquest.com.au				
Net Debt (cash)	-\$0.2m						
Issued Capital	298.5m						
Issued Capital (fully diluted ITM options)	298.5m						
Options	78.65m @ A\$0.04						
Issued Capital (fully diluted all options)	377.2m						
EV	\$6.6m						
Valuation	N/A						
12Mth Price Target	N/A						
<b>Projects</b>		<b>Top Shareholders (est)</b>		<b>Investment Summary</b>			
	Interest	Location	Commodity				
Balladonia	100%	Albany-Fraser	Ni, Cu, Au				
Dundas	100%	Albany-Fraser	Ni, Cu, Au				
Gibson Soak	100%	Albany-Fraser	Ni, Cu, Au				
Banfora Gold JV	100%*	Burkina Faso	Au, others				
Lana JV	100%**	Peru	Cu, Au				
Cardonal JV	100%***	Peru	Cu, Au				
Puite-Colorada JV	100%***	Peru	Cu, Au				
Southern Peru - other	100%	Peru	Cu, Au				
* SEMAFO earning 80% interest spending US\$7.5m over 3 years							
** Southern Peru Copper earning 70% interest, option payments and drilling costs							
*** Zahena earning 70% interest, option payments and drilling costs							
<b>Resources</b>		<b>Newsflow</b>		<b>Project</b>			
	Mt	Grade	Metal	Attr.			
<b>Base Metals</b>							
No JORC resources							
<b>P&amp;L</b>		<b>Unpaid Capital</b>					
	FY2013F	FY2014F	FY2015F	No (m)	\$ (m)	Ave Pr	% Ord
Net Revenue	na	na	na				
Total Costs	na	na	na				
EBITDA	na	na	na				
Deprec/Amort	na	na	na				
EBIT	na	na	na				
Net Interest	na	na	na				
Pre-Tax Profit	na	na	na				
Tax Expense	na	na	na				
NPAT	loss	loss	loss				
Abnormal Items	na	na	na				
Reported Profit	loss	loss	loss				
		<b>Options</b>					
		30-Jun-15		0.00	0.00	0.00	0%
		30-Jun-16		9.90	0.69	0.07	3%
		30-Jun-17		68.75	2.75	0.04	23%
		<b>Total</b>		<b>78.65</b>	<b>3.44</b>	<b>0.04</b>	<b>26%</b>
		<b>Comments</b>					
		Early stage exploration company with no production assets, ongoing funding will be required. Leveraged to exploration success/improved market sentiment.					
Analyst: Mike Millikan				Last Updated: 25/02/2015			
Phone: +61 8 9268 2805							
Sources: IRESS, Company Information, Hartleys Research							

### Peru – searching for large Copper-Gold systems

Exploration activities over the last 3 years in Peru has seen the completion of a large regional airborne magnetic survey, ground based follow-up which has defined key prospects containing drill-ready targets

AusQuest has assembled a quality tenement package within the southern coastal belt of Peru, which is considered to be largely under-explored and prospective for large copper-gold mineralised systems (in particular IOCG and porphyry deposits). Exploration activities over the last 3 years have involved the flying of a large regional magnetic survey to identify anomalies (potential Tier 1 targets), mapping and sampling. Large geophysical targets considered of high priority were further investigated with ground-based geophysical surveys (magnetics and IP) and sampling programs, leading to the generation of several key prospects, four of which are now subject to JV agreements and others that remain 100%-owned by AQD. The Company expects to move additional targets through the drill permitting process which we expect should attract additional earn-in partners. The drill permitting process is expected to take 3-6 months to complete.

Fig. 1: Country Location (LHS); Peru Project Location (RHS)

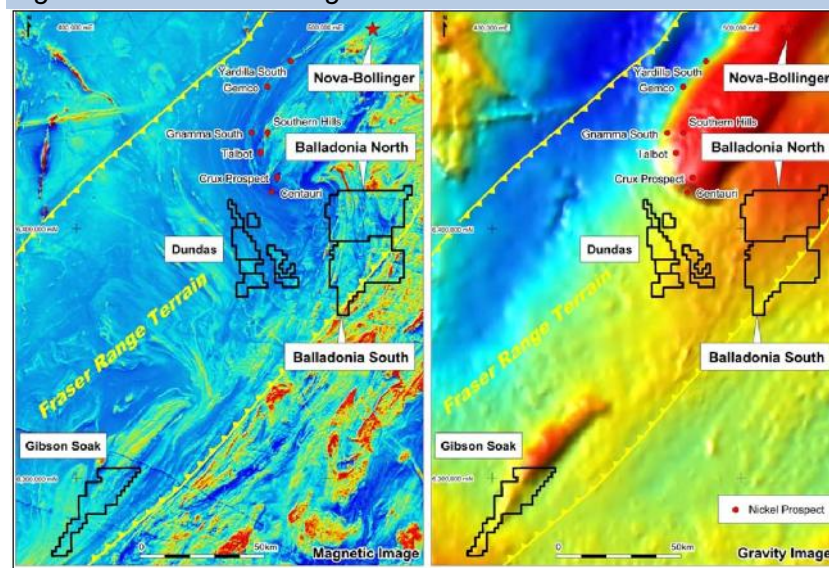


Source: AusQuest Limited

### Albany-Fraser footprint expanding

AusQuest has expanded its Albany-Fraser footprint with granted tenure and applications in the highly sought after nickel province. Ground-based EM surveys are underway and generated targets will be drill-tested.

Fig. 2: Fraser Range Tenement Locations - WA



100% owned ground holdings now span 2,300sqkm

Drill targets are now being generated

Source: AusQuest Limited

## 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. 3: Key Risks**

Assumption	Risk of not realising assumption	Downside risk to share price if assumption is incorrect	Comment
Funding for ongoing exploration	Med	Med-High	We estimate AQD has a current cash position ~\$1m. The Company has a number of options to raise additional funds for future exploration, including new equity issuances and potential new joint venture deals. The Company operates under a lean corporate structure (low cost base).
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.
Commodity Prices	Med	Med-High	The projects remain highly sensitive to commodity price movements and sentiment. Current exploration focus is nickel, copper and gold.

**Conclusion**

*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.*

Source: Hartleys Research

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*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	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.
Buy	

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