

AUSQUEST LIMITED (AQD)

Drilling of Peru copper-gold targets well underway

Drilling is gathering pace at the Puite and Colorada prospects in Peru, one of the joint venture (JV) agreements with copper major, Zahena SAC, who has a planned drill program for ~10,000m at this project before the end of CY16.

Zahena is currently active with two diamond rigs at Puite and one diamond rig at Colorada, with drill campaigns designed to test a range of potential porphyry targets. Both prospects contain areas with elevated copper and molybdenum values from previous rock and soil geochemical sampling, and correspond to priority geophysical targets (both magnetic and IP anomalies).

Under the terms of JV agreement, in addition to the initial planned drilling, Zahena have the election to fund further drilling over a three year period. Once the minimum program has been completed (~30,000m of drilling) and option payment made (US\$4m cash to AQD), Zahena will earn a 70% interest in the Puite-Colorada JV. AusQuest remains free-carried until an interest is earned, upon which time AQD can co-fund or be diluted (and once below 10% revert to a 2% NSR). This JV agreement covers only a few targets out of an extensive portfolio of copper-gold prospects; we expect additional targets will be commercialised in the future

The Peru JVs provide AQD exposure to a potential large copper-gold discovery(s), while receiving staged option payments, and with exploration funded by an earn-in partner; seen as a very good model for a junior. We maintain our Speculative Buy recommendation, with the Company's estimated cash position of just under A\$1m.

Early encouragement with confirmed porphyry-style alteration

Drilling the Puite prospect is now three holes in (for ~1,900m), with a further six holes planned to be completed. Preliminary reports from the first few drill holes have confirmed porphyry-related alteration within diorite host rocks, which suggests the potential for a nearby porphyry copper system. In addition, visible copper oxides and sulphides have been identified within veinlets encountered while drilling, though only at trace levels thus far. Assays to confirm potential copper grades are pending, and expected within a few weeks. Drilling is ongoing and will now be accelerated.

Second large porphyry target now being tested at Colorada

The Colorada prospect is located within 10km of Puite and also contains multiple small copper-gold workings, with chargeable IP anomalies beneath epithermal veins to test. Elevated copper and gold values within rock and soil samples also potentially upgrade this prospect.

Cardonal JV drill permits still pending, expected soon

The start of drilling under the Cardonal JV with Zahena is still pending, subject to final drill permits for the Ventana and Cardonal prospects. The permits are expected to be issued soon. Both prospects contain large porphyry copper targets as defined by copper anomalism (soils and rock chips) and geophysical features (magnetics and IP).

The Peru JVs provide funding to test some potential "Company-making targets". With option payments to be received and drilling soon to commence (funded by major copper players), AQD's strategy of securing high-quality JV partners for its large-scale offshore projects remains a prudent one.

7 Jul 2016

Share Price (last): \$0.013

Brief Business Description

Junior gold, base metal explorer
Hartleys Brief Investment Conclusion
Multiple large copper targets in Peru being drill-tested by JV partners. Highly prospective ground in the Albany-Fraser WA. Leveraged to exploration success.

Issued Capital	499.4m
- fully diluted	675.1m
- ITM diluted	499.4m
Market Cap	\$6.5m
- fully diluted	\$8.8m
- ITM diluted	\$6.5m
Cash -est	\$1.0m
Debt -est	\$0.0m
EV	\$5.5m
- fully diluted	\$0.9m

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>Cardonal JV (Peru)</i>	Cu, Au
<i>Puite-Colorada JV (Peru)</i>	Cu, Au

Board & Management

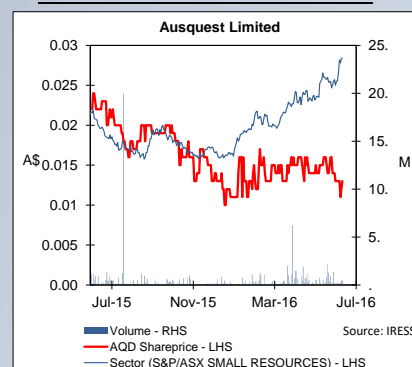
Greg Hancock (Non-Exec. Chairman)
Graeme Drew (Managing Director)
John Ashley (Non Exec. Dir)
Chris Ellis (Non-Exec. Dir)

Top Shareholders

Chris Ellis	16.6%
Acorn Capital	5.5%

Company Address

8 Kearns Crescent
Ardross WA 6153



Author:

Mike Millikan
Resources Analyst
Ph: +61 8 9268 2805
E: mike_millikan@hartleys.com.au

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 \$0.013		Jul-16 Speculative Buy	
Key Market Information			Directors		
Share Price		\$0.013	Greg Hancock (Non-Exec. Chairman) 8 Kearns Crescent		
Market Capitalisation		\$6.5m	Graeme Drew (Managing Director) Ardross WA 6153		
Cash		\$1.0m	John Ashley (Non Exec. Dir) +61 (0)8 9364 3866		
Debt		\$0.0m	Chris Ellis (Non-Exec. Dir) www.ausquest.com.au		
Net Cash (debt)		\$1.0m			
Issued Capital		499.4m			
Issued Capital (fully diluted ITM options)		499.4m			
Options		175.70m @ A\$0.04			
Issued Capital (fully diluted all options)		675.1m			
EV		\$5.5m			
Valuation		N/A			
12Mth Price Target		N/A			
Projects			Top Shareholders (est)		
	Interest	Location	Commodity	m shs	%
Balladonia	100%	Albany-Fraser	Ni, Cu, Au	82.8	16.6%
Dundas	100%	Albany-Fraser	Ni, Cu, Au	27.5	5.5%
Gibson Soak	100%	Albany-Fraser	Ni, Cu, Au		
Banfora Gold JV	100%*	Burkina Faso	Au, others		
Cardonal JV	100%**	Peru	Cu, Au		
Puite-Colorada JV	100%**	Peru	Cu, Au		
* SEMAFO earning 80% interest spending US\$7.5m over 3 years					
** Zahena earning 70% interest, option payments and drilling costs					
Resources			Investment Summary		
	Mt	Grade	Metal	Attr.	
Base Metals					
No JORC resources					
P&L			Newsflow		
	FY2013F	FY2014F	FY2015F	Project	
Net Revenue	na	na	na	Q2 CY16	Peru target drilling Peru JV
Total Costs	na	na	na	Q3 CY16	Peru target drilling Peru JV
EBITDA	na	na	na	Q4 CY16	Peru target drilling Peru JV
Deprec/Amort	na	na	na	CY16	Peru target permitting - ongoing Peru
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		
			Unpaid Capital		
			No (m)	\$ (m)	Ave Pr
			Options		
			30-Jun-17	68.8	2.8
			30-Jun-18	78.9	2.8
			30-Jun-21	28.0	1.4
			Total	175.7	6.9
				0.039	35%
			Comments		
			Early stage exploration company with no production assets, ongoing funding will be required. Leveraged to exploration success/improved market sentiment.		
Analyst: Mike Millikan					
Phone: +61 8 9268 2805					
Sources: IRESS, Company Information, Hartleys Research					
Last Updated: 07/07/2016					

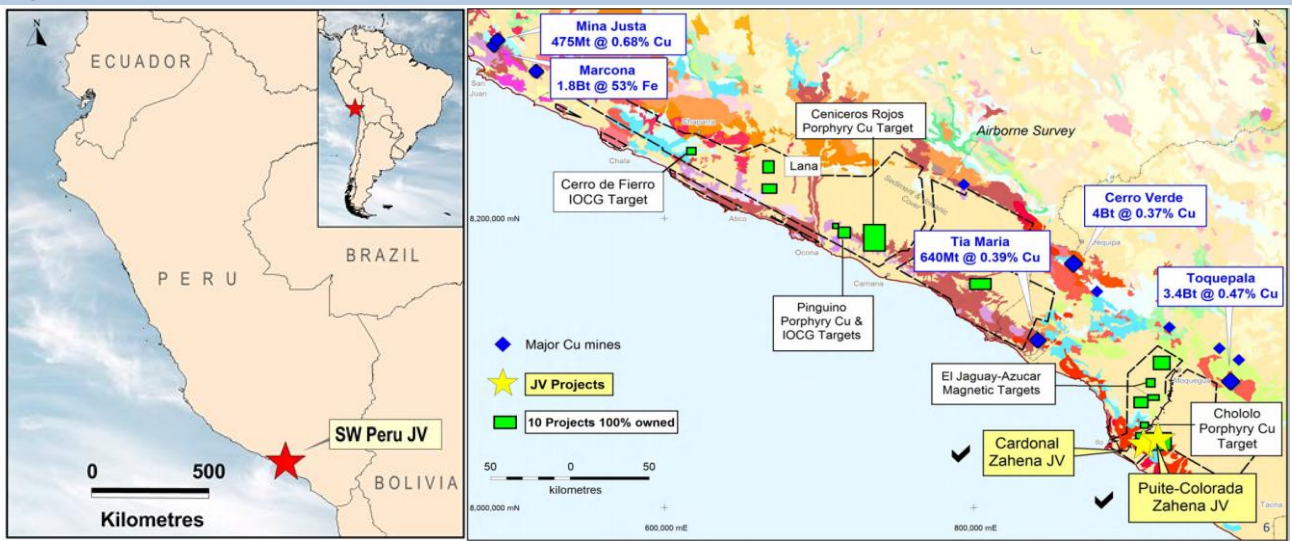
Peru – target-testing large copper-gold systems

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 porphyry deposits).

Drilling now underway at the Puite-Colorada JV project with Zahena

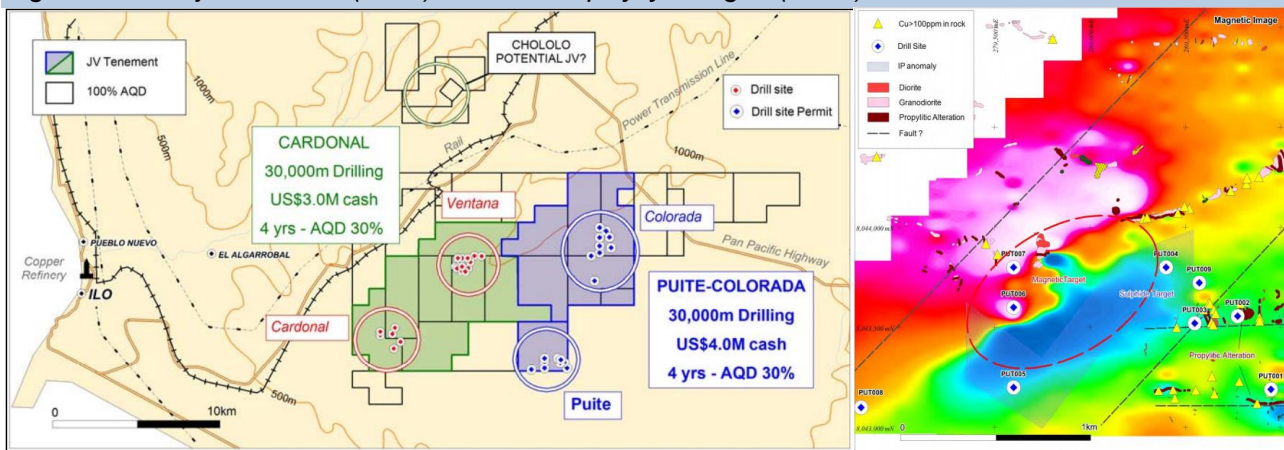
AusQuest currently has two project areas the subject of JV agreements with Peru copper major Zahena SAC while the others (10 areas) remain 100%-owned by AQD. The Company expects to move additional targets through the drill permitting process which we expect should attract additional earn-in partners.

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



Source: AusQuest Limited

Fig. 2: JV Project Areas (LHS); Puite Porphyry Target (RHS)



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 of less than \$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.
<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

HARTLEYS CORPORATE DIRECTORY

Research

Trent Barnett	Head of Research	+61 8 9268 3052
Mike Millikan	Resources Analyst	+61 8 9268 2805
Scott Williamson	Resources Analyst	+61 8 9268 3045
Simon Andrew	Energy Analyst	+61 8 9268 3020
Janine Bell	Research Assistant	+61 8 9268 2831

Corporate Finance

Grey Egerton-Warburton	Director & Head of Corp Fin.	+61 8 9268 2851
Richard Simpson	Director	+61 8 9268 2824
Paul Fryer	Director	+61 8 9268 2819
Dale Bryan	Director	+61 8 9268 2829
Ben Wale	Associate Director	+61 8 9268 3055
Ben Crossing	Associate Director	+61 8 9268 3047
Stephen Kite	Associate Director	+61 8 9268 3050
Scott Weir	Associate Director	+61 8 9268 2821

Registered Office

Level 6, 141 St Georges Tce Postal Address:

Perth WA 6000	GPO Box 2777
Australia	Perth WA 6001
PH: +61 8 9268 2888	FX: +61 8 9268 2800
www.hartleys.com.au	info@hartleys.com.au

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	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.

Institutional Sales

Carrick Ryan	+61 8 9268 2864
Justin Stewart	+61 8 9268 3062
Simon van den Berg	+61 8 9268 2867
Chris Chong	+61 8 9268 2817
Digby Gilmour	+61 8 9268 2814
Veronika Tkacova	+61 8 9268 3053

Wealth Management

Nicola Bond	+61 8 9268 2840
Bradley Booth	+61 8 9268 2873
Adrian Brant	+61 8 9268 3065
Nathan Bray	+61 8 9268 2874
Sven Burrell	+61 8 9268 2847
Simon Casey	+61 8 9268 2875
Tony Chien	+61 8 9268 2850
Tim Cottee	+61 8 9268 3064
David Cross	+61 8 9268 2860
Nicholas Draper	+61 8 9268 2883
John Featherby	+61 8 9268 2811
Ben Fleay	+61 8 9268 2844
James Gatti	+61 8 9268 3025
John Goodlad	+61 8 9268 2890
Andrew Gribble	+61 8 9268 2842
David Hainsworth	+61 8 9268 3040
Neil Inglis	+61 8 9268 2894
Murray Jacob	+61 8 9268 2892
Gavin Lehmann	+61 8 9268 2895
Shane Lehmann	+61 8 9268 2897
Steven Loxley	+61 8 9268 2857
Andrew Macnaughtan	+61 8 9268 2898
Scott Metcalf	+61 8 9268 2807
David Michael	+61 8 9268 2835
Jamie Moullin	+61 8 9268 2856
Chris Munro	+61 8 9268 2858
Michael Munro	+61 8 9268 2820
Ian Parker	+61 8 9268 2810
Charlie Ransom	+61 8 9268 2868
Brenton Reynolds	+61 8 9268 2866
Conlie Salvemini	+61 8 9268 2833
Mark Sandford	+61 8 9268 3066
David Smyth	+61 8 9268 2839
Greg Soudure	+61 8 9268 2834
Sonya Soudure	+61 8 9268 2865
Dirk Vanderstruyf	+61 8 9268 2855
Samuel Williams	+61 8 9268 3041
Jayne Walsh	+61 8 9268 2828

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