



Quarterly Report – 30th June 2017

HIGHLIGHTS

Exploration activity increases significantly under the South32 Strategic Alliance with six projects in Australia and Peru now included

Peru – Copper-Gold

- ❑ Strong Induced Polarisation (IP) responses thought to reflect sulphide mineralisation associated with a large potential porphyry copper target were identified by IP surveys at the Chololo Project, under the Strategic Alliance (SA) with South32.
- ❑ Mapping and sampling at the Los Otros Project (South32 Strategic Alliance) outlined areas of possible lithocap with anomalous levels of Mo, Bi, As, Sb, Pb, and Au, providing strong evidence for a nearby buried porphyry copper system.
- ❑ The Cerro de Fierro Iron-Oxide Copper-Gold (IOCG) Project was accepted by South32 as a new “Exploration Opportunity” with IP surveys scheduled to commence in July.
- ❑ Soil geochemistry at the La Grande prospect outlined an area of anomalous Cu, and Mo south-west of the Company’s Puite Prospect.

Australia – Nickel, Copper, Zinc

- ❑ A high-conductivity target (>3000 siemens) was identified by reconnaissance electromagnetic (EM) surveys at the Jemberlana Nickel Project (South32 Strategic Alliance). The survey has been extended.
- ❑ High-Power EM (HPEM) surveys testing interpreted mafic intrusions within the Balladonia Nickel Project (South32 Strategic Alliance) have identified two potential targets with survey work only 30% complete.
- ❑ Preparations for diamond drilling (4 holes/~3,100m) at the Blue Billy Zinc Project (South32 Joint Venture) commenced with drilling now scheduled to start in early August.

Corporate

- ❑ The inclusion of the Cerro de Fierro copper-gold project under the Strategic Alliance takes the total number of Strategic Alliance projects to six (three in Peru and three in Western Australia).
- ❑ ~\$1.7M cash position at Quarter-end, with an additional \$715,000 due in July to cover drilling costs at the Blue Billy Zinc JV Project.

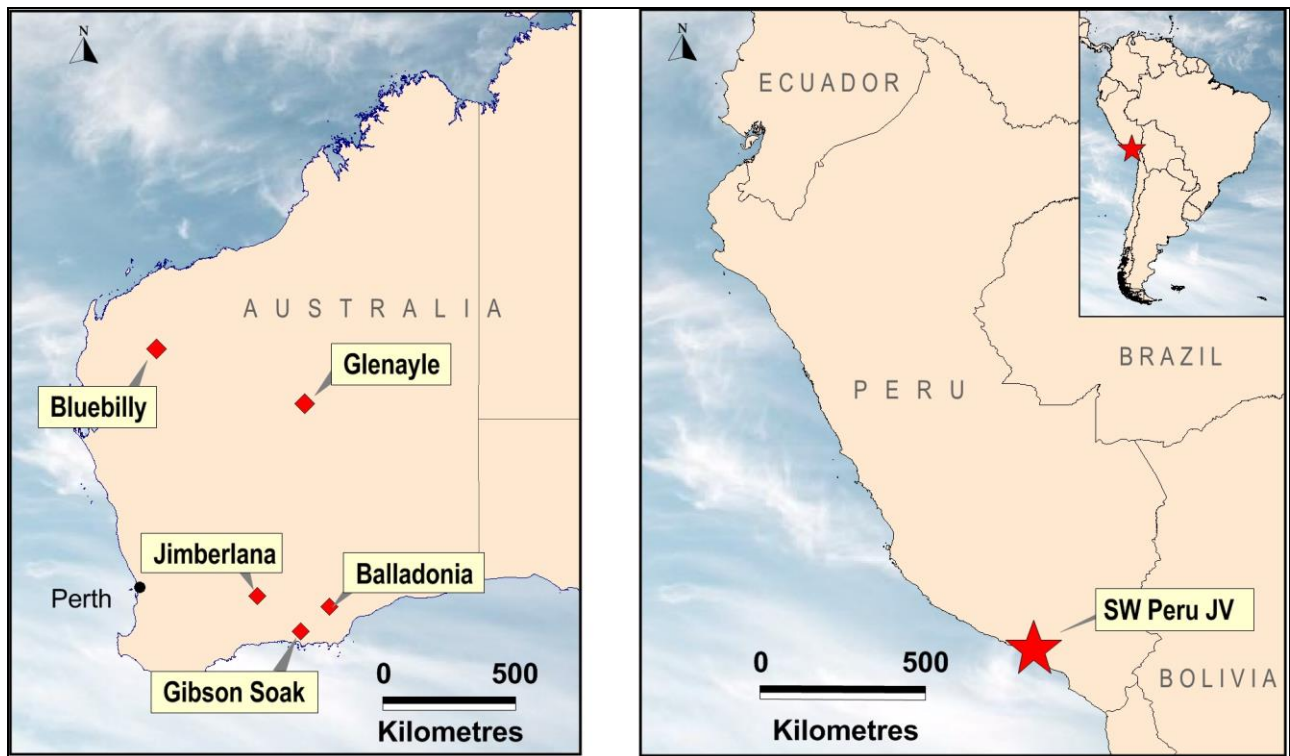


Figure 1: Project Locations – Australia and Peru

OVERVIEW

During the Quarter, the Company's Strategic Alliance (SA) with diversified global miner South32 (ASX, LSE, JSE: S32; ADR: SOUHY) – under which the two companies have agreed to work together to develop a pipeline of high-potential exploration opportunities – was bedded down with survey work commencing at a number of SA projects both in Australia and Peru.

In **Peru**, IP surveys at the Chololo Copper Project were completed and mapping/sampling at the Los Otros Project continued, in order to locate potential targets for follow-up exploration and/or drilling. Site visits with South32 staff were conducted, resulting in the Cerro de Fierro Project being added as another SA project (see ASX releases 01 June 2017).

In **Australia**, EM surveys were undertaken at the Jimberlana, Gibson Soak and Balladonia Nickel Projects, locating bedrock conductors in two of the three areas surveyed. At the Blue Billy Zinc Project, preparations for

drilling are well underway with drilling scheduled to commence in early August.

Project generation activities gathered pace with the addition of Richard Hatfield and Peter Walker to the team. Richard was a founding member of Mincor Resources (ASX: MCR), responsible for their exploration and business development, and Peter has worked in project generation for several of the major companies.

PERU COPPER-GOLD PROJECTS

Over the past five years, AusQuest has assembled a large portfolio of copper-gold prospects along the southern coastal belt of Peru in South America, with targets identified for drilling as possible porphyry copper targets and/or iron-oxide copper-gold (IOCG) targets with the size potential being of significance to AusQuest (Figure 2). 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.



Figure 2: Project Locations in southern Peru

Strategic Alliance Projects (funded by South32):

During the Quarter, pole-dipole Induced Polarisation (IP) surveys ($a=200\text{m}$, $n=1$ to 6, lines 200m and 400m apart) completed over the northern portion of the **Chololo Project** located strong chargeability anomalies on most lines, suggesting the potential for a large buried porphyry system on the north-western side of the Chololo Fault (see ASX release 06 July 2017).

Preliminary computer modelling of the IP data has confirmed the large target size (several km^2) and strength of the response ($>20\text{mv/v}$), with target depths varying from $\sim 100\text{m}$ to 400m . The IP anomalies are thought to reflect a large-scale pyrite (+/- chalcopyrite) halo associated with a buried porphyry copper system (Figure 3)

Geological mapping and sampling over the IP target area located numerous calcite veins containing anomalous levels of Mo ($>3\text{ppm}$

to 20ppm), Pb ($>20\text{ppm}$ to 260ppm), Sb ($>4\text{ppm}$ to 40ppm) and Au ($>10\text{ppb}$ to 80ppb), as well as elevated Mn, Zn, As and Cd, suggesting that the inferred porphyry system may be mineralised. A drill proposal is being prepared.

At the **Los Otros Project**, mapping and sampling (121 rock samples) located large areas of advanced argillic alteration (possible lithocap) with silica veins containing anomalous levels of Mo, Bi, As, Sb, Pb, Au and occasional Cu, reflecting the potential for a porphyry copper system at depth. Traverse mapping will be completed during the September Quarter.

The areas of alteration appear to flank a strong magnetic feature, suggesting that they are related to a possible buried dioritic(?) intrusion located beneath the volcanic cover. IP surveys will be planned to help locate targets for drilling once the mapping program is completed and target areas have been defined (Figure 4).

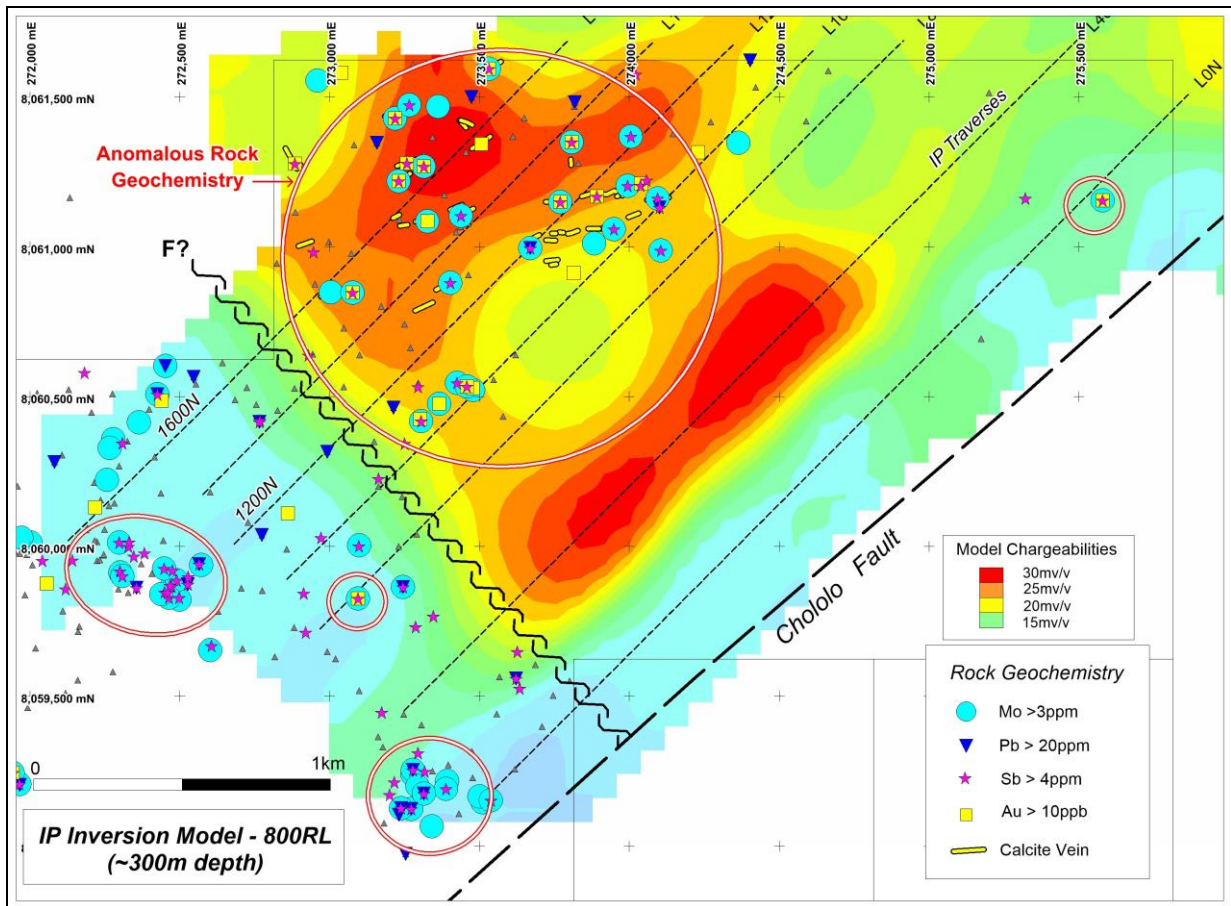


Figure 3: Chololo Preliminary IP Inversion Model showing anomalous rock geochemistry

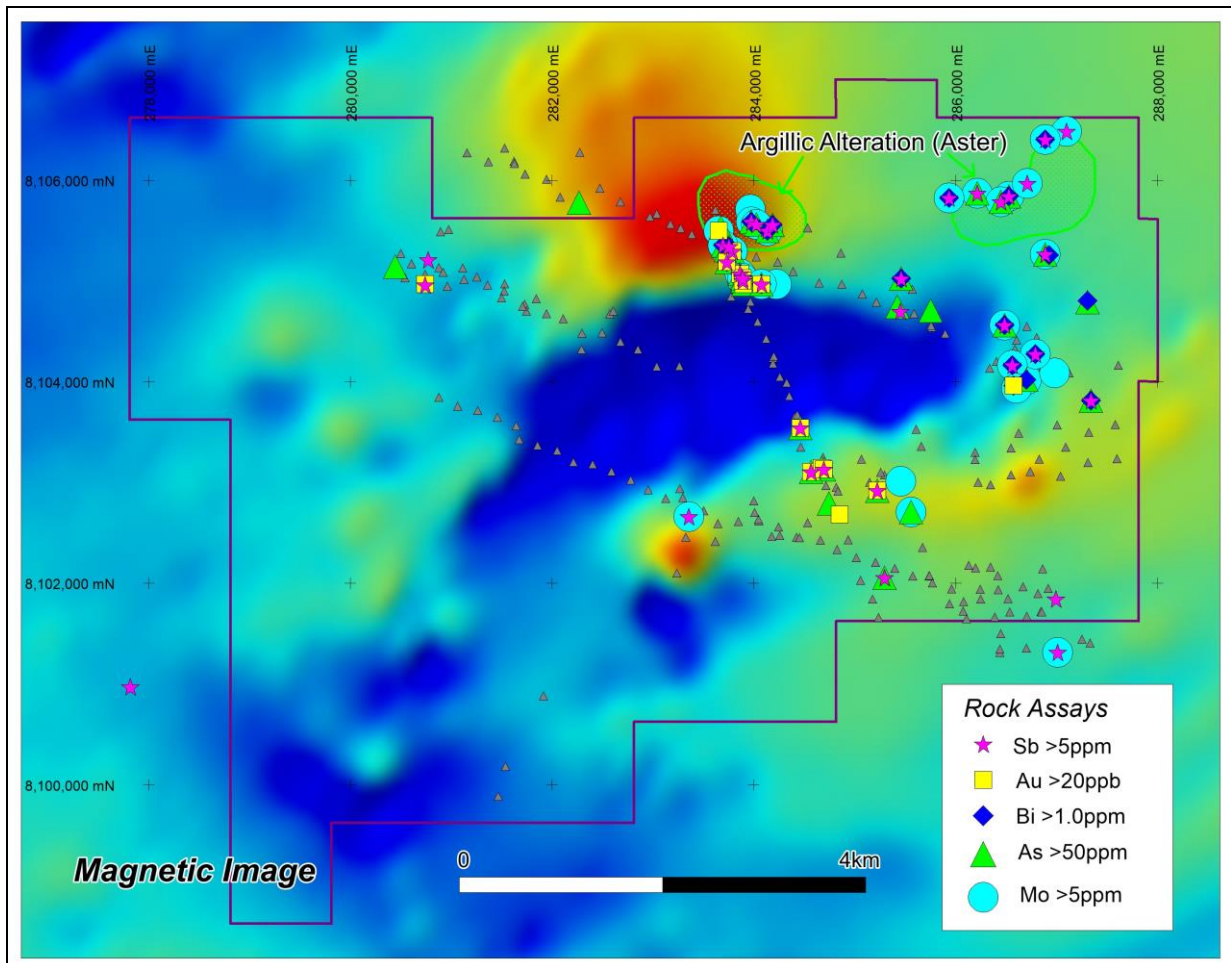


Figure 4: Los Otros magnetics showing sampling results.

Following a site visit to the **Cerro de Fierro Iron-Oxide Copper-Gold (IOCG) Project**, located ~130km south-east of the Mina Justa copper deposit (~475Mt @ 0.68% Cu), the project was accepted as a new “Exploration Opportunity” by South32, taking the total number of projects under the Strategic Alliance to six (three in Western Australia and three in Peru).

A programme of pole-dipole IP and possible ground electromagnetic (EM) surveys was agreed and will be funded by South32 under the Strategic Alliance. These surveys aim to locate and optimise drill sites (sulphide mineralisation) associated with the magnetic target and anomalous copper values located by the Company’s mapping and sampling programmes. The IP survey will commence in July 2017.

This prospect was originally identified from the Company’s proprietary aeromagnetic data as a potential IOCG target extending over an area several square kilometres in size within a regional-scale potassic alteration anomaly covering many tens of square kilometres. The buried magnetic target is thought to reflect a potential Manto-style IOCG deposit within the volcanic sequence.

AusQuest Projects

Fieldwork over the AusQuest-owned projects in Peru was limited as the Peruvian team concentrated their efforts during the Quarter on the Alliance projects.

Results from grid-based (200m x 200m) soil sampling over the La Grande prospect, located south and south-west of the Puite prospect, were received, highlighting anomalous copper (up to 794ppm Cu), and molybdenum (up to 30ppm Mo) values, associated with elevated Au (>10ppb), and As (>25ppm).

Further sampling in this area is required before the area is considered as a possible exploration opportunity under the Strategic Alliance. The anomalous soil geochemistry is partly coincident with north-east trending

structures that are evident in satellite imagery, and which trend into the Puite prospect where earlier drilling suggested the possibility of a nearby porphyry system.

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

Jimberlana Ni-Cu Project (100% AQD subject to SAA)

The Jimberlana Project is located ~120km west of Norseman between the Lake Johnston and Forrestania Greenstone Belts, and consists of one Exploration Licence (130km²) covering the western extension (~20km strike) of the Jimberlana Dyke. Recent research has found a strong association between intrusive-related nickel sulphide deposits and the base of dyke-like structures. Jimberlana is a very large, fertile, fractionated dyke known to contain nickel sulphides within its contact zones, but has never been tested (drilled) at or close to its basal section. Exploration work at Jimberlana is being funded by South32.

During the Quarter, the western half of a reconnaissance electromagnetic (EM) survey was completed, successfully identifying a high-conductivity bedrock target (>3000 siemens) within the dyke complex, at depths of ~250m below surface (see ASX release 22 June 2017).

The reconnaissance survey was completed by GEM Geophysics using 300m x 300m transmitter loops, a three component squid sensor and a 300m station spacing (slingram), with the survey lines run parallel to the strike of the dyke in order to provide a rapid initial test for massive sulphides buried near the interpreted base of the dyke.

Late-time EM responses were subsequently re-surveyed with detailed moving-loop and fixed-loop EM surveys which indicated the presence of several small (250m x 50m) highly conductive bodies (+3000 siemens) within an interpreted moderately conductive north-west trending structure, as the likely cause of the anomalies (*Figure 5*).

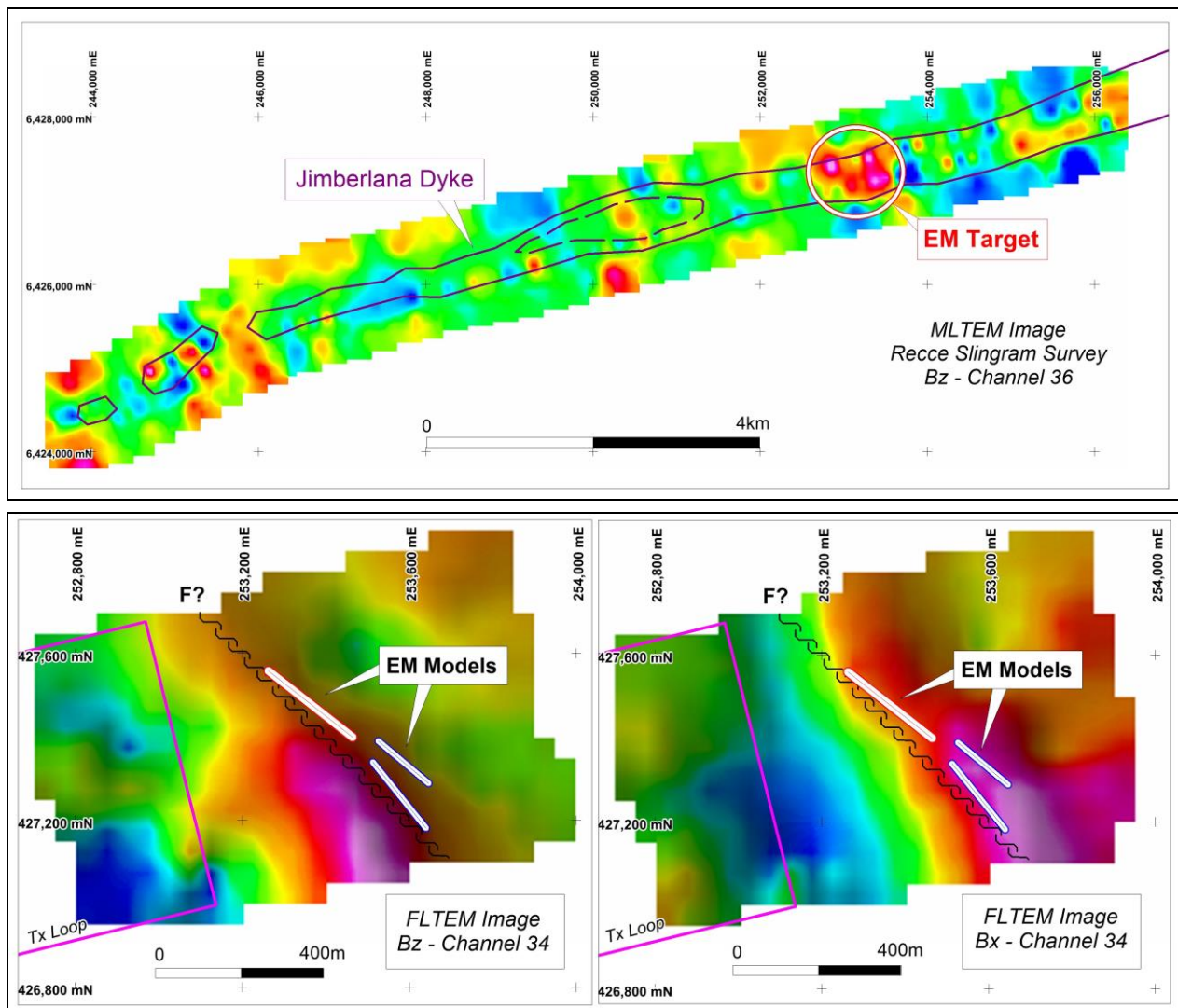


Figure 5: Jimberlana reconnaissance EM and fixed loop surveys

Reconnaissance EM surveys are now being extended to cover the remaining strike extent of the dyke (~7km), up to the eastern boundary of the tenement. This work will commence in July using a high-powered EM system to ensure maximum depth of penetration, and will take several weeks to complete.

Correlation with aeromagnetic data and a more complete assessment of the results will be made following completion of the extended survey, before drill targeting is planned.

Balladonia Ni-Cu Project (100% AQD subject to SAA)

The Balladonia Project is located ~50km south of the Nova-Bollinger nickel-copper deposit. It consists of four Exploration Licences covering an area of ~940km²,

within a structurally complex region of the Fraser Range Terrain centred above the southern margin of a deep regional gravity anomaly (~30 milligals) which is thought to reflect buried mafic/ultramafic rocks similar to those that may be related to the formation of the Nova deposit. Most of the tenements lie within the Dundas Nature Reserve. Exploration work at Balladonia is being funded by South32.

Reconnaissance EM surveys commenced during the Quarter to test a range of interpreted mafic intrusions with similar magnetic expressions to gabbroic intrusions within the Fraser Range, which are believed to host nickel-copper mineralisation at Nova-Bollinger. The targeted intrusions are relatively strike extensive and are associated with inferred regional NE and NW structures that cross-cut the area.

Gem Geophysics were contracted to undertake the EM surveys, which are approximately 30% complete at the end of the Quarter.

The reconnaissance surveys are using 300m x 300m transmitter loops, a three component squid sensor and a 300m station spacing (slingram), with survey lines run parallel to the strike of the target intrusion in order to

provide initial rapid coverage over the target intrusions. In-fill surveys will be completed over anomalous areas once all the reconnaissance surveys have been completed.

Two conductive targets requiring in-fill surveys have been identified from the four grids that have been completed to date (*Figure 6*).

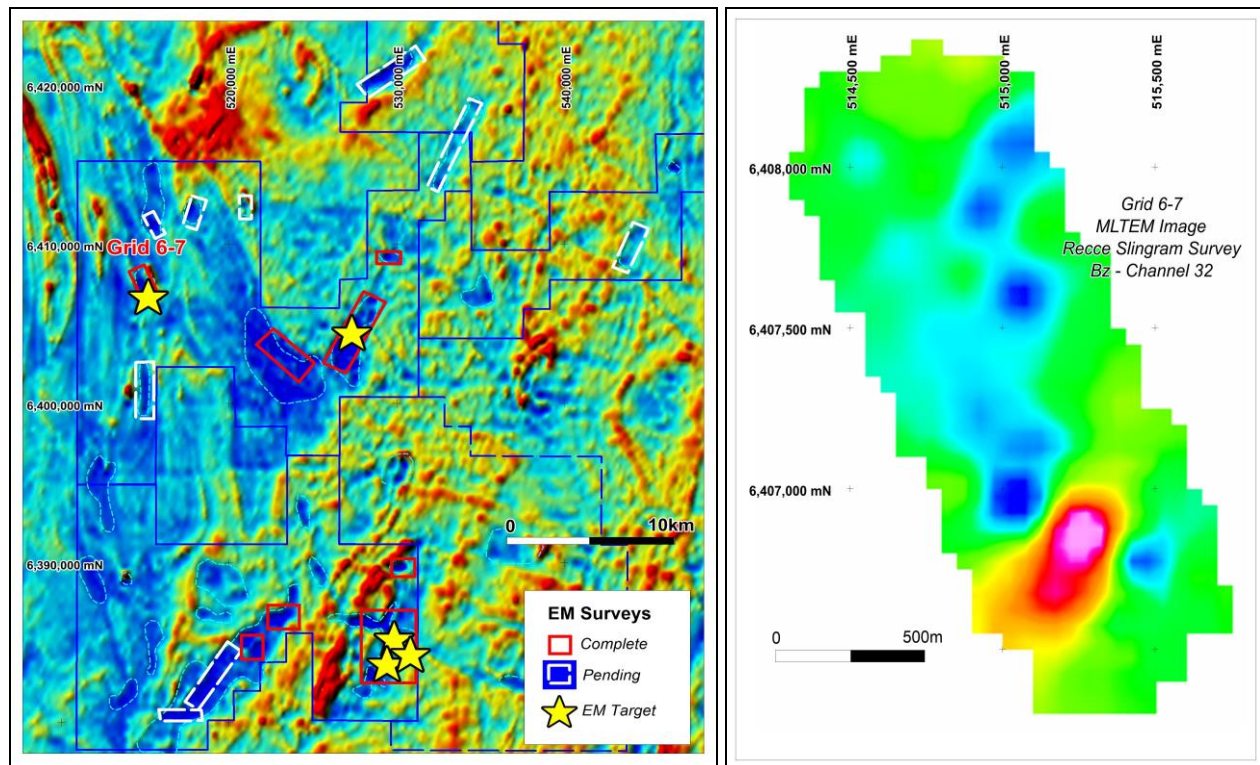


Figure 6: Balladonia interpreted mafic intrusions showing EM coverage

Gibson Soak Ni-Cu Project (100% AQD subject to SAA)

The Gibson Soak Project is located ~30km north of the port of Esperance, within the broader Fraser Range terrain. The tenement covers an area of ~250km², centred on a regional north-east trending gravity high with similarities to the Fraser Range Complex and covers major north-east trending structures thought to host mafic-ultramafic intrusions prospective for nickel sulphides. Exploration work at Gibson Soak is being funded by South32.

Reconnaissance EM surveys undertaken by GAP Geophysics to search for massive sulphides associated with mafic intrusions interpreted from magnetic data have been

completed. No targets of potential interest were located by the surveys.

The targets surveyed all occur within Vacant Crown Land (VCL) in the northern half of the tenement, with the remaining targets located on farm-land still requiring access approval from the landowners before field work can be undertaken.

Blue Billy Zinc Project (100% AQD subject to BBJVA)

The Bluebilly Zinc Project is located ~100km south west of Paraburdoo within the Edmund Basin in Western Australia. The tenement covers the down-dip extent of anomalous zinc values (up to 0.5% Zn) found within a pyritic black mudstone similar to host rocks known to contain sedimentary zinc deposits in the

Mt Isa-McArthur River District of north-west Queensland. A study of historical exploration data suggests the potential for SEDEX-style zinc mineralisation close to a regional-scale (growth?) fault system down-dip from the anomalous surface zinc occurrences. All exploration work is being funded by South32 under the Blue Billy Joint Venture (BBJVA).

During the Quarter, preparations for a diamond drilling programme (4 holes/~3,100m) commenced. All necessary approvals were received and the drilling contract was awarded to DDH1, who are scheduled to mobilise to site in early August.

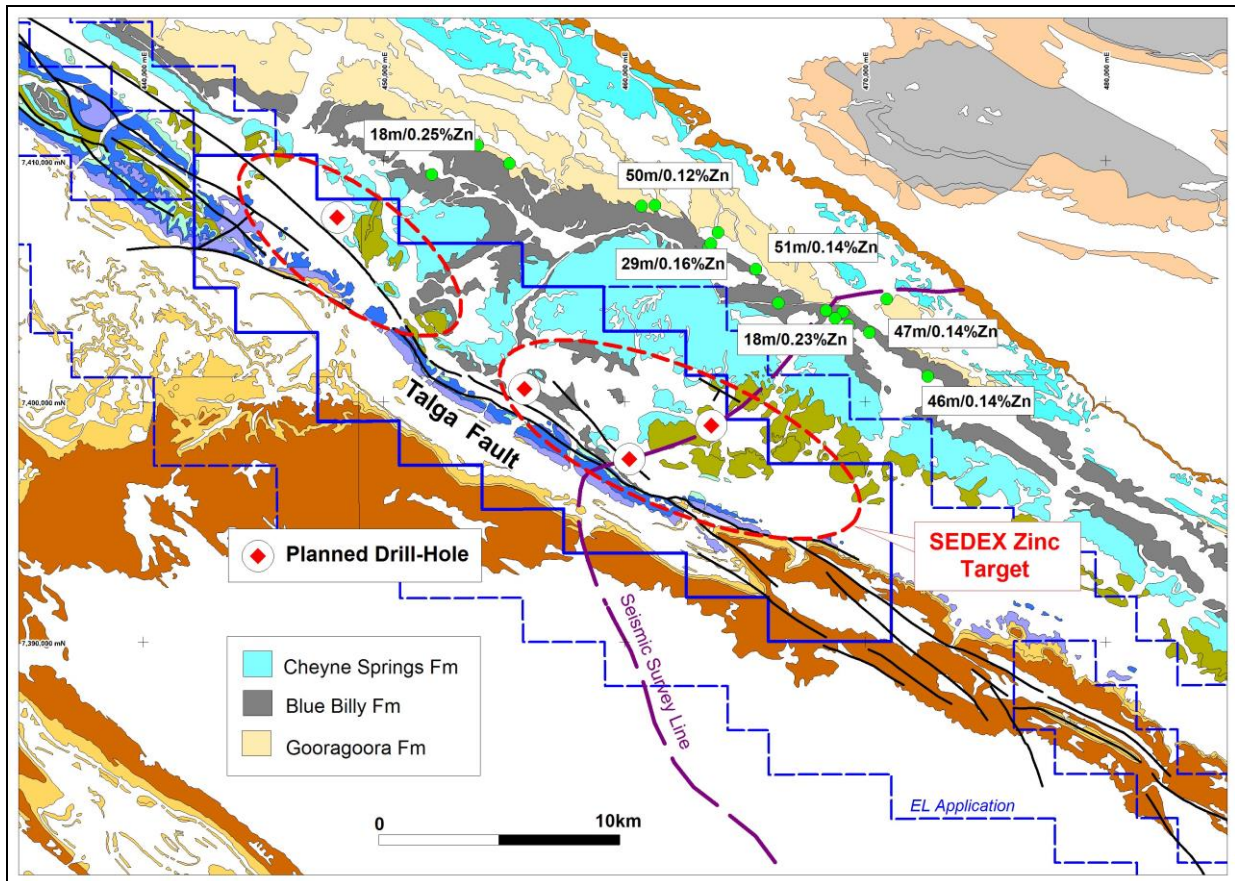


Figure 7: Blue Billy JV Geology showing drill hole locations

The drilling program is designed to test down-dip (~10km) from anomalous zinc values (up to 0.5% Zn) intersected by historical shallow drilling, where the target stratigraphy (Blue Billy Formation – pyritic black shales) is in contact with the Talga Fault, a similar setting to sediment-hosted zinc deposits in NW Queensland.

The Blue Billy Formation is relatively thick in this area (~600m), possibly indicating the presence of nearby growth faults which were active during the time of sedimentation and acted as possible conduits for mineralising (Zn-rich) fluids.

The initial diamond drill holes are broadly spaced (~4km to 10km apart) along the Talga Fault to provide an initial test of the target

stratigraphy and identify potential vectors to ore (Figure 7). The drill programme is expected to take ~6 weeks to complete.

Glenayle Ni-Cu Project (100% AQD)

The Glenayle Ni-Cu Project is located ~350km northeast of Wiluna along the northern margin of the Yilgarn Craton in Western Australia. Tenements cover the basal section of large mafic sill complex where available magnetic and geochemical data suggest there may be ultramafic rocks under the extensive cover that could be prospective for nickel-copper sulphide deposits.

HPEM surveys to test magnetic targets for possible massive nickel and copper sulphides

are in the planning stage. A decision on these surveys will be made in the coming months.

BUSINESS DEVELOPMENT

As part of the Strategic Alliance with South32, the Company is increasing its project generation work both within Australia and offshore, to provide new base metal (Cu, Zn and Ni) opportunities and possibly drill-ready targets for the Alliance.

Richard Hatfield and Peter Walker have been added to the team to help progress this work. Richard was a founding member of Mincor Resources, with responsibility for their exploration and business development, and Peter has worked in project generation for several of the major companies. The Company is very pleased to have their breadth of experience as part of our project generation team.

CORPORATE

During the Quarter, AusQuest announced that a sixth project had been accepted by South32 as an exploration opportunity under the Strategic Alliance. Funding (~\$380,000) to advance this project to the drilling stage was received.

The Company's cash position as at the end of June was ~\$1.7 million with an additional \$715,000 expected in July to cover drilling costs at the Blue Billy JV Project. This brings the total funding provided to date under the Alliance to ~\$2.4 million.

The Company believes that the Strategic Alliance with South32 has opened up an

exciting new era for AusQuest, working alongside the large diversified miner and leveraging our skills as an explorer targeting provincial-scale discoveries to increase the value of the Company.

KEY ACTIVITIES – SEPTEMBER 2017 QUARTER

The following activities are planned for the September 2017 Quarter:

- Jimberlana (Ni-Cu) – Complete EM survey to identify drill targets;
- Balladonia (Ni-Cu) – EM surveys to identify drill targets;
- Blue Billy JV (Zn) – Diamond drilling (4 holes/3100m) to test for sediment-hosted zinc;
- Peru (Cu-Au) – Commence drill permitting for the Chololo porphyry copper prospect;
- Peru (Cu-Au) – Complete mapping & sampling at Los Otros porphyry copper prospect;
- Peru (Cu-Au) – Complete IP survey at Cerro de Fierro to identify drill targets; and
- Project Generation – Identify at least one new exploration opportunity.



Graeme Drew
Managing Director

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.

Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10, 01/05/13, 01/09/16

Name of entity:

AUSQUEST LIMITED

ABN:

35 091 542 451

Quarter ended ("current quarter")

30 June 2017

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers		
1.2 Payments for		
(a) exploration & evaluation	(1,059)	(1,858)
(b) development	-	-
(c) production	-	-
(d) staff costs	(26)	(97)
(e) administration and corporate costs	(246)	(610)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	1	5
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Research and development refunds	-	-
1.8 Other :		
Funding received from South 32 under the Strategic Alliance Agreement	550	2,504
R&D Refund	189	189
1.9 Net cash from / (used in) operating activities	(591)	133

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(5)	(5)
(b) tenements (see item 10)	-	-
(c) investments	-	-
(d) other non-current assets	-	-
2.2 Proceeds from the disposal of:		
(a) property, plant and equipment	-	-
(b) tenements (see item 10)	-	-
(c) investments	-	-
(d) other non-current assets	-	-
2.3 Cash flows from loans to other entities	-	-
2.4 Dividends received (see note 3)	-	-
2.5 Other (provide details if material)	-	-
2.6 Net cash from / (used in) investing activities	(5)	(5)

3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	-	-
3.2 Proceeds from issue of convertible notes	-	-
3.3 Proceeds from exercise of share options	-	-
3.4 Transaction costs related to issues of shares, convertible notes or options	-	-
3.5 Proceeds from borrowings	-	750
3.6 Repayment of borrowings	-	-
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other (provide details if material)	-	-
3.10 Net cash from / (used in) financing activities	-	750

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of period	2,294	811
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(591)	133

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(5)	(5)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-	750
4.5	Effect of movement in exchange rates on cash held	(4)	5
4.6	Cash and cash equivalents at end of period	1,694	1,694

5. Reconciliation of cash and cash equivalents	Current quarter \$A'000	Previous quarter \$A'000	
at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts			
5.1	Bank balances	1,694	2,294
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	1,694	2,294

6. Payments to directors of the entity and their associates

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

Current quarter \$A'000

44
-

Payment of director and consulting fees.

7. Payments to related entities of the entity and their associates

- 7.1 Aggregate amount of payments to these parties included in item 1.2
- 7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

Current quarter \$A'000

8.	Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1	Loan facilities	-	-
8.2	Credit standby arrangements	-	-
8.3	Other (please specify)	-	-
8.4	Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

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9.	Estimated cash outflows for next quarter	\$A'000
9.1	Exploration and evaluation	(1,000)
9.2	Development	-
9.3	Production	-
9.4	Staff costs	(40)
9.5	Administration and corporate costs	(140)
9.6	Other (provide details if material)	-
9.7	Total estimated cash outflows	(1,180)

10.	Changes in tenements (items 2.1(b) and 2.2(b) above)	Tenement reference and location	Nature of interest	Interest at beginning of quarter	Interest at end of quarter
10.1	Interests in mining tenements and petroleum tenements lapsed, relinquished or reduced	<u>Burkina Faso</u>		-	
		Komoe		35%	Nil
		Finkere		35%	Nil
		Kangounadeni		35%	Nil
		Kaouradeni		35%	Nil
		Tiefora		35%	Nil
		Tondoura		35%	Nil
		<u>Peru</u>			
		Lana (4)		100%	Nil
		Lana South (4)		100%	Nil
		El Jaguay (2)		100%	Nil
		Sugar (2)		100%	Nil
		Pampa Las Pulgas (4)		100%	Nil
10.2		Interests in mining tenements and petroleum tenements acquired or increased	-	-	-

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.



Sign here:

Date: 28 July 2017

Print name: Henko Vos (Company Secretary)

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, AASB 6: Exploration for and Evaluation of Mineral Resources and AASB 107: Statement of Cash Flows apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.