

Goldquest Mining Corp. (GQC-V)

Positive PFS Reported For Romero Gold Project

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Goldquest's main asset is the **Romero Gold-Copper Project** located in the Tiroo gold belt of western Dominican Republic (DR), a newly-discovered area of gold mineralization in Central America.

- Positive PFS:** the prefeasibility study focuses on a higher-grade core zone of the Romero deposit, 7MMt with an average grade of 3.72g/t gold and 0.88% copper. There are another 16MMt of resources (at lower grades, but potentially economic) not currently included in the mineplan. The PFS mineplan delivers an average of 87Koz/yr (109Koz/yr eqAu – including copper and silver production converted to gold), with gold production peaking at 115,000oz in Year 2 and declining thereafter. The company's medium term goal is to outline additional reserves that would allow the mine to maintain output in the 75-100Koz/yr level.
- Low Costs Maintained:** initial capital costs are now pegged at \$159MM, up 11% from the PEA forecast. Sustaining capital over the minelife is basically unchanged at \$92.3MM. Operating costs have been reduced 13% from the PEA forecast, to just under US\$46/t, which keeps forecasted AISC below US\$600/oz (see fig.1).
- Valuation Impact Positive:** adjusting our valuation model to include the revised parameters/forecasts for the Romero project has a net positive impact, resulting in an increase to our target price.

Investment Thesis Unchanged: we expect market interest in GQC shares to increase as the company moves its Romero project towards development. While feasibility work continues, regional exploration success could also provide a catalyst for GQC shares.

Update

BUY(unch.) \$1.40 (was \$1.20)

Ticker	GQC
Previous Close	\$0.43
12-month Target Price	\$1.40
Potential Return	225.6%
Dividend Yield	0.0%

52 Week Price Range	Low \$0.09	High \$0.68
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Annual Estimates				
(C\$MM, except per unit)	FY15	FY16e	FY17e	FY18e
Revenue	\$0.0	\$0.0	\$0.0	\$0.0
Net Income	-\$4.9	-\$6.0	-\$6.0	-\$6.0
Shares O/S (wgt avg)	152	215	275	357
EPS (operating)	-\$0.03	-\$0.03	-\$0.02	-\$0.02
CFPS	-\$0.03	-\$0.03	-\$0.02	-\$0.02

Valuation				
P/E	neg.	neg.	neg.	neg.
P/CF	neg.	neg.	neg.	neg.
NAV			\$1.06	\$1.29
P/NAV			0.4x	0.3x

Financials	
Shares Outstanding	215.6 million
Mgt/Insiders	2%

	(C\$MM)
Market Cap	\$92.7
LT Debt (corporate)	\$0.0
Working Capital	\$7.0
Enterprise Value	\$85.7
Fiscal Year End	December 31

Reserves / Resources	
2P Reserves	0.8 MMoz
M+I Resources	1.7 MMoz
Total Resources (M+I+I)	1.9 MMoz

Quarterly Estimates				
	Q1/15	Q2/15	Q3/15	Q4/15
EPS (operating)	-\$0.01	-\$0.01	\$0.00	-\$0.01
CFPS	-\$0.01	-\$0.01	\$0.00	-\$0.01
	Q1/16	Q2/16e	Q3/16e	Q4/16e
EPS (operating)	(\$0.01)	(\$0.01)	\$0.00	(\$0.01)
CFPS	(\$0.01)	(\$0.01)	\$0.00	(\$0.01)

Company at a Glance

Goldquest is a Canadian-based exploration and development company focused on gold and copper in the Dominican Republic. The main asset is the 100%-owned Romero gold-copper property. **All prices in C\$ unless otherwise indicated.**

Stock Performance



Investment Thesis...Re-rating Opportunity As Romero Advances

We consider Goldquest Mining to be an attractive investment for the combination of an undervalued emerging junior gold producer with additional district-scale exploration upside for free.

Economic Project – Goldquest's Romero deposit could become an +85Koz/yr underground mine with AISC below US\$600/oz. We also see good potential to both extend the minelife and maintain production levels close to the 100Koz/yr level for several years.

Exploration Upside – GQC controls the vast majority of the Tiroo gold belt in the Dominican Republic, covering some 50km of favourable strike for potential gold-copper mineralization. Early prospecting along the belt has identified numerous areas that justify further follow-up exploration drilling.

Re-Valuation Potential - we consider GQC to be under-owned by traditional institutional resource fund managers, and to have above average potential to qualify for addition to several precious metal indices over the next 12 months.

DR-experienced Management Team – several of the senior management were involved with GlobeStar Mining, which successfully explored, permitted, financed, and built the Cerro de Maimon copper/gold mine in the Dominican Republic (GlobeStar was later sold to an Australian mid-tier base metal producer). Thus the team has extensive experience working in the DR.

Fig 1 Economic Evaluations: Romero Project

		Apr-15	Sep-16		
		PEA	PFS	Change	
Initial capital	US\$MM	143	158.6	11%	negative
Sustaining capital	US\$MM	92	92.3	0%	neutral
Resource Size	MMt	7.7	7	-9%	neutral
Throughput - daily	t	2,500	2,800	12%	positive
Throughput - annual	MMt	0.9125	1.008	10%	positive
Minelife	years	9.2	7.1	-23%	negative
Mined Grade - Gold	g/t	4.02	3.72	-7%	negative
Gold recovery	%	75%	78%	4%	positive
Silver recovery	%		59%		positive
Copper recovery	%	97%	95%	-2%	positive
eqGold Production - avg annual	Koz	117	109	-7%	neutral
Gold Production - total lom	MMoz	1.1	1.12	2%	neutral
Op Costs	US\$/t	52.78	45.97	-13%	positive
AISC	US\$/oz	572	595	4%	neutral
IRR - after tax	%	34.0	28.1	-17%	negative
Payback - after tax	years	2.7	2.5	-7%	neutral

Source: Company reports

Valuation Methodology

Our favored valuation method for precious metals producers is a price-to-net-asset-value (P/NAV) multiple based on a discounted cash flow (DCF) model constructed using our estimates of the parameters of existing or potential mining operations. We employ long-term assumptions of \$1,300/oz for gold starting in 2018. Future year cash flows are then discounted using a base rate of 5%, to which a risk premium is added, depending on the overall political risk the company's assets are exposed to. Goldquest's asset exposure to the DR is considered medium risk (5% base + 2% premium). Until the feasibility study is completed, we also impose a further 2% premium to our valuation (7% + 2 % premium).

Fig 2 Net Asset Value Breakdown: Goldquest Mining

	Discount Rate	Ownership	Value	Per Share (C\$/sh)		
			C\$MM	2017e	2018E	2019E
Romero (Dom. Rep.)	9.0%	100%	\$223	\$1.03	\$1.24	\$1.32
Other exploration			\$0	\$0.00	\$0.00	\$0.00
OPERATING ASSETS			\$223	\$1.03	\$1.24	\$1.32
Working Capital			\$7	\$0.03	\$0.05	\$0.05
LT Debt (corporate only)			\$0	\$0.00	\$0.00	\$0.00
CORPORATE ASSETS			\$7	\$0.03	\$0.05	\$0.05
NET ASSET VALUE			\$230	\$1.06	\$1.29	\$1.37

Source: Beacon Securities estimates

In Fig. 2 we provide forward-looking NAV/sh estimates to show how the company's NAV is forecast to change over the next few years. For junior gold producers (gold production <250Koz/yr), we employ a target range of 0.50x-1.5x P/NAV. Using a target P/NAV multiple of 0.90x on our 2017 NAV estimate suggests a fair value of \$1.00/sh for Goldquest.

On a forward-looking P/CF multiple analysis basis, we forecast Goldquest could achieve average CFPS of US\$0.29/sh in its first two full years of production (2020-2021). Discounting back to the present (at 20% per annum) suggests \$0.21/sh. Applying our target multiple of 9.0x P/CF to this estimate, which is towards the middle of our 5.0x-15x target range for junior gold producers, suggests a fair value of \$1.90/sh.

Using the valuation methods described above, and a 50/50 blend of fair values generated by NAV and CF analysis, generates our 12-month target price of \$1.40 per GQC share.

Fig 3 Location Map: Romero Project


Source: Company website

Geology/Mineralization

Gold and associated base metal mineralization is considered to be epigenetic, of an intermediate sulphidation epithermal type. The deposit forms a stratiform body in dacite breccias, with mineralization related to silicification and quartz-sulphide veining. The high-grade core area of mineralization occurs as 10-40m thick sub-parallel lenses. The main high-grade zone has a small footprint, within a 200mX200m area (strikeXdepth).

Fig 4 Current Resources: Romero Project

	Tonnage (MMt)	Gold Grade (g/t)	Contained Gold (MMoz)	Copper Grade (%)	Contained Copper (MMlb)
Romero					
Indicated	18.4	2.57	1.52	0.65%	264
Inferred	2.1	1.8	0.12	0.39%	18
Romero South					
Indicated	1.8	3.69	0.22	0.25%	10
Inferred	0.9	2.57	0.07	0.20%	4
Total company	23.2		1.93		296
PEA basis	7.7	4.02	1.00	0.81%	63
PFS basis	7	3.72	0.84	0.88%	136

Source: Company website

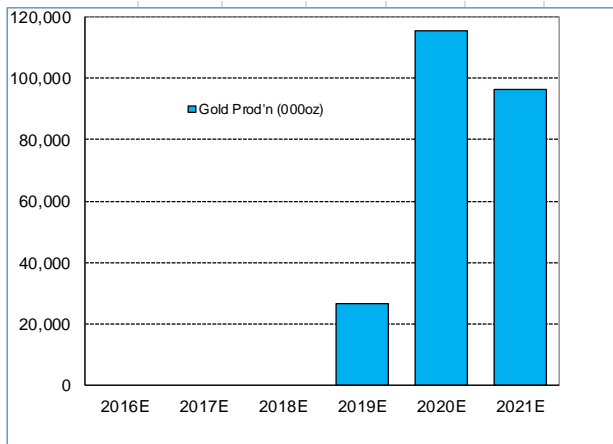
Appendix: Summary Financials

Goldquest Mining						Beacon Securities Limited					
	Symbol	GQC-V	Share Price	\$0.43							
	Stock Rating	BUY	Shares O/S (MM)	215.6							
	Price Target	\$1.40	Mkt Cap (\$MM)	93							
						Michael Curran, CFA (416) 507-3950					
INCOME STATEMENT		2015	2016e	2017e	2018e	RATIO ANALYSIS		2015	2016e	2017e	2018e
Revenues	C\$MM	-	-	-	-	Dividends Per Share	\$/sh	-	-	-	-
Operating Costs	C\$MM	-	-	-	-	Dividend Yield	%	-	-	-	-
EBITDA	C\$MM	(4.9)	(6.0)	(6.0)	(6.0)	LT Debt/(Total Capital)	%	-	-	-	-
DD&A	C\$MM	0.1	-	-	-	EV/EBITDA	x	-	-	-	-
EBIT	C\$MM	(4.9)	(6.0)	(6.0)	(6.0)	PRICES/EXCHANGE RATES		2015	2016e	2017e	2018e
Interest Expense	C\$MM	(0.0)	-	-	-	Gold Price	US\$/oz	\$1,262	\$1,250	\$1,300	\$1,300
EBT	C\$MM	(4.9)	(6.0)	(6.0)	(6.0)	Realized Gold Price	US\$/oz	-	-	-	-
Taxes/Recovery	C\$MM	-	-	-	-	Copper Price	US\$/lb	\$2.42	\$2.35	\$2.35	\$2.35
Net Income (reported)	C\$MM	(4.9)	(6.0)	(6.0)	(6.0)	Realized Copper Price	US\$/lb	-	-	-	-
Non-Recurring Items/Other	C\$MM	0.0	-	-	-	C\$/US\$		1.28	1.33	1.30	1.27
Net Income (operating)	C\$MM	(4.7)	(6.0)	(6.0)	(6.0)	MINE/EQUITY PRODUCTION		2015	2016e	2017e	2018e
Shares o/s (wgt avg.)	MM	151.6	215.0	275.0	356.9	Gold Production	000 oz	-	-	-	-
EPS (operating)	\$/sh	(\$0.03)	(\$0.03)	(\$0.02)	(\$0.02)	Total Cash Costs	US\$/oz	-	-	-	-
P/E Multiple	x	n.m.	n.m.	n.m.	n.m.	All-in Costs	US\$/oz	-	-	-	-
Cash Flow (operating)	C\$MM	(4.9)	(6.0)	(6.0)	(6.0)	Total incl. Cash Costs + royalties	All-in CCs incl. sustex, exploration, corpG&A	-	-	-	-
CFPS	\$/sh	(\$0.03)	(\$0.03)	(\$0.02)	(\$0.02)						
P/CF Multiple	x	n.m.	n.m.	n.m.	n.m.						
SCFP											
Cash Flow from Operations											
Net Income	C\$MM	(4.9)	(6.0)	(6.0)	(6.0)						
DD&A	C\$MM	0.1	-	-	-						
Deferred Taxes	C\$MM	-	-	-	-						
Other	C\$MM	0.3	-	-	-						
Changes in Working Capital	C\$MM	-	-	-	-						
		(4.6)	(6.0)	(6.0)	(6.0)						
Cash Flow From Investing											
Capital Expenditure (net)	C\$MM	-	-	(25.0)	(90.0)						
Acquis./Investments	C\$MM	-	-	-	-						
Other	C\$MM	-	-	-	-						
		0.0	0.0	(25.0)	(90.0)						
Cash Flow From Financing											
Equity Issues (net of costs)	C\$MM	3.4	7.4	59.0	5.0						
Net Borrowings	C\$MM	-	-	-	75.0						
Dividends Paid & Other	C\$MM	-	-	-	-						
		3.4	7.4	59.0	80.0						
Net Inc/Dec (incl FX)	C\$MM	(1.2)	1.4	28.0	(16.0)						
Cash at End of Year	C\$MM	4.4	5.8	33.8	17.8						
BALANCE SHEET											
Cash & Equivalents	C\$MM	4.4	5.8	33.8	17.8						
Total Current Assets	C\$MM	4.9	6.3	34.3	18.3						
PP&E & Mining Interests	C\$MM	1.3	1.3	22.6	102.6						
Other	C\$MM	0.0	0.0	0.0	0.0						
Total Assets	C\$MM	6.2	7.6	56.9	120.9						
Current Liabilities	C\$MM	0.4	0.4	0.4	0.4						
Long Term Debt	C\$MM	-	-	-	75.0						
Other LT Liabilities	C\$MM	-	-	-	-						
Total Liabilities	C\$MM	0.4	0.4	0.4	75.4						
S/Holder Equity	C\$MM	5.8	7.2	56.5	45.5						
Total Liab. & S/Holder Equity	C\$MM	6.2	7.6	57.0	121.0						
Working Capital	C\$MM	4.4	5.8	33.8	17.8						

Year	Gold Prod'n (000oz)
2016E	0
2017E	0
2018E	28,000
2019E	28,000
2020E	118,000
2021E	98,000

RESERVES / RESOURCES					
Reserves	MMoz	0.8			
AMC/oz*	US\$/oz	77			
Total Resources	MMoz	1.9			
AMC/oz**	US\$/oz	33			
* AMC = Adjusted Market Capitalization = Market Cap + LT Debt - working cap					
** Total Resources include measured, indicated, and inferred					
ESTIMATED NET ASSET VALUE (NAV)/SHARE - 2017					
	Status	Own'ship	\$M	\$/Sh	%NAV
Romero	devo	100%	\$223	\$1.03	97%
Other			\$0	\$0.00	0%
Total Operating			\$223	\$1.03	
Working capital			\$7	\$0.03	3%
LT Debt			\$0	\$0.00	0%
NAV at 9%			\$230	\$1.06	
			Current P/NAV	0.4x	

Source: Company reports, Beacon estimate



RESERVES / RESOURCES	
Reserves	MMoz 0.8
AMC/oz*	US\$/oz 77
Total Resources	MMoz 1.9
AMC/oz**	US\$/oz 33

* AMC = Adjusted Market Capitalization = Market Cap + LT Debt - working cap

** Total Resources include measured, indicated, and inferred

ESTIMATED NET ASSET VALUE (NAV)/SHARE - 2017					
Status	Own'ship	\$M	\$/Sh	%NAV	
Romero	devo	100%	\$223	\$1.03	97%
Other			\$0	\$0.00	0%
Total Operating			\$223	\$1.03	
Working capital			\$7	\$0.03	3%
LT Debt			\$0	\$0.00	0%
NAV at 9%			\$230	\$1.06	
Current P/NAV				0.4x	

Source: Company reports, Beacon estimates

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Buy	57	67%
Speculative BUY	14	16%
Hold	6	7%
Sell	0	0%
Under Review	8	9%
Total	85	100%

Buy	Total 12-month return expected to be >15%
Speculative Buy	Potential total 12-month return is high (>15%) but given elevated risk, investment could result in a material loss
Hold	Total 12-month return expected to be between 0% and 15%
Sell	Total 12-month return expected to be negative

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