

## Goldquest Mining Corp. (GQC-V)

### Not Just Beaches In The Dominican Republic

August 9, 2016

Michael Curran, CFA

(416) 507-3950

[mcurran@beaconsecurities.ca](mailto:mcurran@beaconsecurities.ca)

We are initiating coverage of Goldquest Mining with a BUY rating and a 12-month target price of \$1.20/sh. Our recommendation is based on the following:

- Advancing Romero Gold-Copper Project:** GQC's assets are located in the Tiroo gold belt of western Dominican Republic (DR), a newly-discovered area of gold mineralization in Central America. A 2015 PEA for the Romero gold deposit outlined a robust 2,500tpd underground mine capable of producing +80Koz/yr over a 9-year minelife. Material copper by-product credits help bring the forecasted AISC to below US\$600/oz.
- Additional Upside:** the PEA focused on a higher-grade core zone of the deposit, 7.7MMt with an average grade of 4.0g/t gold and 0.8% copper. There are another +20MMt of resources (at lower grades, but potentially economic) not currently included in the mineplan. The PEA mineplan also showed gold production peaking at 110,000oz in Year 3 and declining thereafter. The company's goal is to maintain output at the +100Koz/yr level.
- District Potential:** Goldquest controls the majority of the Tiroo gold belt. With over 50km of strike length and numerous gold and/or copper occurrences, we believe a larger producer could become interested in the multi-deposit potential of the region. For example, Newmont Mining (NEM-NYSE, no rating, not covered) has been exploring on the Haitian side of the same gold belt.
- Re-rating Opportunity:** we expect market interest in GQC shares to increase as the company delivers prefeasibility results in the next few months. While the feasibility work continues, regional exploration success could also provide a catalyst for GQC shares.

#### Initiating Coverage

BUY \$1.20

Ticker	GQC
Previous Close	\$0.64
12-month Target Price	\$1.20
Potential Return	87.5%
Dividend Yield	0.0%

	Low	High
52 Week Price Range	\$0.09	\$0.68

Annual Estimates	FY15	FY16e	FY17e	FY18e
(C\$MM, except per unit)				
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	345
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			\$1.11	\$1.38
P/NAV			0.6x	0.5x

Financials	
Shares Outstanding	213.6 million
Mgt/Insiders	2%
	(C\$MM)
Market Cap	\$136.7
LT Debt (corporate)	\$0.0
Working Capital	\$7.0
Enterprise Value	\$129.7
Fiscal Year End	December 31

Reserves / Resources	
2P Reserves	- MMoz
M+I Resources	1.6 MMoz
Total Resources (M+I+)	2.2 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 80Koz/yr underground mine with AISC below US\$600/oz. We also see good potential to both extend the minelife and maintain production levels closer 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.

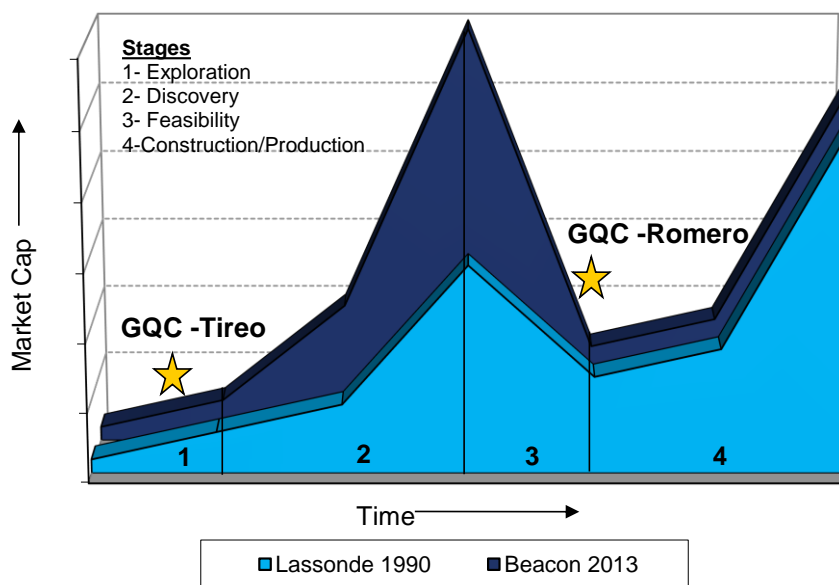
**Re-Valuation Potential** - we consider GQC to be under-owned by traditional institutional resource fund managers, and to have above average potential to qualify for addition to several precious metal indices over the next 12 months.

**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.

## Lifecycle Model

The lifecycle of a mining share model links mining share price movements to the stage of development or advancement of a project, through **exploration, discovery, feasibility, and construction/production**.

**Fig 1 Lifecycle of a Mining Share**



Source: P.Lassonde's *The Gold Book* (1990), M.Curran modifications

The lifecycle model shows that the best opportunities for share price performance relate to the new discoveries and the successful advancement of projects to production.

Goldquest's **Romero** property is expected to remain within the **Feasibility Stage until late this year or perhaps until mid-2017**. This suggests to us that GQC shares should react positively to news flow in the coming quarters relating to advancing the project towards development (updated economic studies, permits, financing, etc.).

Elsewhere in the Tireo gold belt, Goldquest is concurrently advancing properties that are firmly in the **Exploration Stage**, where an initial discovery has yet to be made, suggesting to us that shares should react positively to news flow in the short-term relating to initial exploration results that indicate/confirm a significant new metal deposit discovery.

## 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 prefeasibility 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 C\$MM	Per Share (C\$/sh)		
				2017e	2018E	2019E
Romero (Dom. Rep.)	9.0%	100%	\$230	\$1.08	\$1.33	\$1.42
Other exploration			\$0	\$0.00	\$0.00	\$0.00
<b>OPERATING ASSETS</b>			<b>\$230</b>	<b>\$1.08</b>	<b>\$1.33</b>	<b>\$1.42</b>
Working Capital			\$7	\$0.03	\$0.05	\$0.05
LT Debt (corporate only)			\$0	\$0.00	\$0.00	\$0.00
<b>CORPORATE ASSETS</b>			<b>\$7</b>	<b>\$0.03</b>	<b>\$0.05</b>	<b>\$0.05</b>
<b>NET ASSET VALUE</b>			<b>\$237</b>	<b>\$1.11</b>	<b>\$1.38</b>	<b>\$1.47</b>

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-1.25x 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\$0.21/sh in its first two full years of production (2020-2021). Discounting back to the present (at 20% per annum) suggests \$0.15/sh. Applying our target multiple of 9.0x P/CF to this estimate, which is towards the middle of our 5.0x-12.5x target range for junior gold producers, suggests a fair value of \$1.40/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 \$1.20 per GQC share.

## Company Description

### Romero Project (Dominican Republic)

This property is located in the Province of San Juan, Dominican Republic, ~165km west-northwest of the capital city of Santo Domingo, and 35km north of the city of San Juan de la Maguana (the capital of the province). The Tiroe Gold Belt represents a new discovery area, as there is no historical mining (of any significance) in the region.

**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**

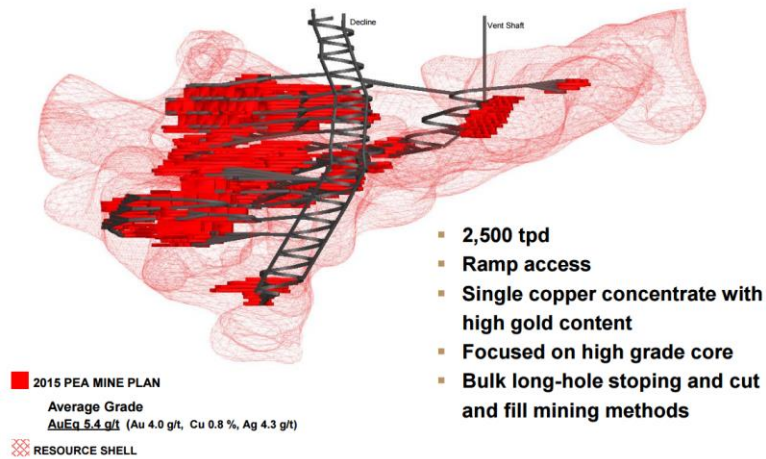
	Tonnage (MMt)	Gold Grade (g/t)	Gold Contained Gold (MMoz)	Copper Grade (%)	Contained Copper (MMlb)
Romero					
Indicated	17.3	2.55	1.42	0.68%	259
Inferred	8.5	1.59	0.44	0.39%	73
Romero South					
Indicated	2.1	3.33	0.23	0.23%	11
Inferred	1.5	1.92	0.09	0.19%	6
<b>Total company</b>			<b>2.18</b>		<b>349</b>
<b>PEA basis</b>	<b>7.7</b>	<b>4.02</b>	<b>1.00</b>	<b>0.81%</b>	<b>63</b>

Source: Company website

**Mining/Processing**

The 2015 PEA contemplated a 2,500tpd ramp-accessed underground mine capable of producing, on average 75-80Koz gold, 14MMLb of copper, and minor silver over a 10-year minelife. With a central high-grade core, the majority of the deposit is amenable to lower cost longhole stoping mining methods. Mined stopes would be backfilled with cemented paste.

**Fig 5 Cross-section: Romero Deposit with Mineplan**



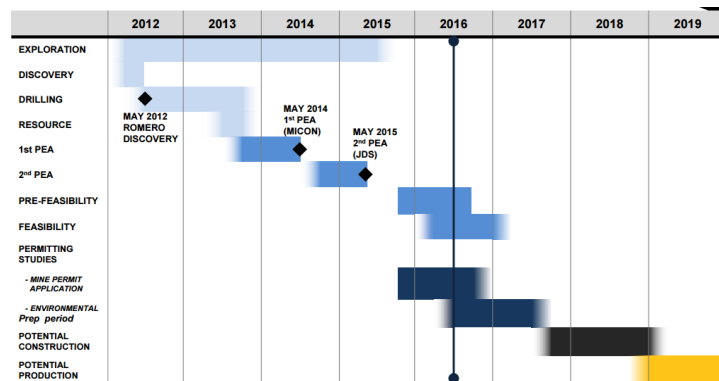
Source: Company website

Ore processing would involve conventional crushing, milling, and flotation to produce a high quality (low deleterious material) 20% copper concentrate containing gold and silver. Recoveries are forecast to be 96.5% for copper, 75% for gold, and 50% for silver.

**Feasibility Work**

JDS Energy and Mining, an independent consultant, is expected to deliver a **pre-feasibility study (PFS) in September 2016**.

**Fig 6 Romero Timeline: Potentially 5 Years “from Disco to Devo”**



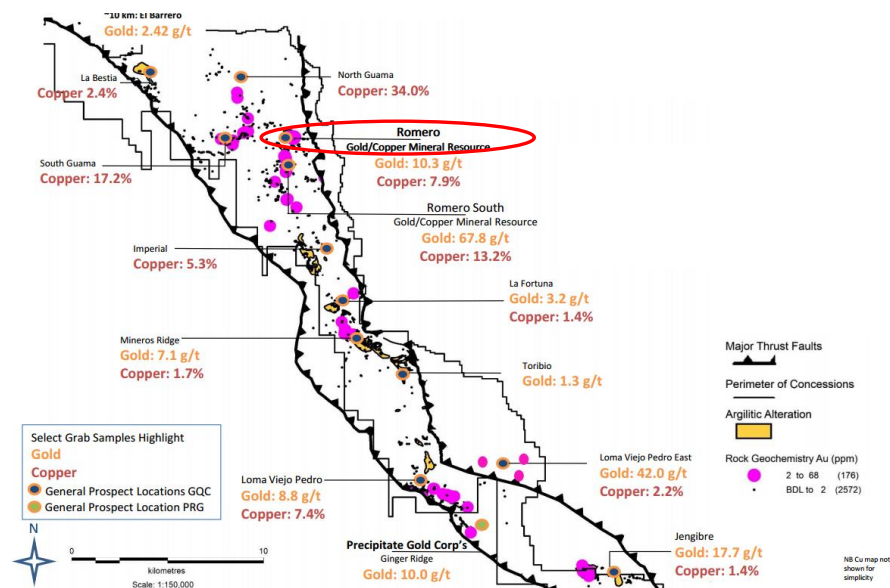
Source: Company website



### Tireo Gold Belt (Dominican Republic)

As an early entrant into the DR, Goldquest was able to gain control over a large part (almost 50km strike) of the highly prospective Tireo Gold Belt. Regional exploration activity this year has included ground geophysics (IP, magnetics, resistivity) and mapping. **In late July, the company announced a 10,000m drill programme for the Tireo gold belt, looking to test several IP anomalies along the belt.**

**Fig 7 Plan Map: Tireo Gold Belt**



Source: Company website

## Investment Risks

### Commodity Prices

For mining operations, profitability and cashflow are materially dependent on the realized prices for the commodities produced. In the case of non-producers, the most important factor to economic viability is the assumption of future commodity prices.

### Geological

Even with a successful mine development at Romero, geological risk will remain, relating to how the actual mining results (grade, tonnage, recovery, etc.) compare to forecasted rates.

### Political

Goldquest's main asset is located in the Dominican Republic, an island in the Caribbean. Although small, the country has an established mining industry, with the large Pueblo Viejo gold mine (owned by Barrick Gold and Goldcorp), and the large Falcondo nickel mine. Principals of Goldquest were involved in the development of the Cerro de Maimon copper mine in the DR.

**Political (cont.)**

At this point in time, we consider political risk for the DR to be low, and believe that the current framework (royalties, tax structure, etc.) can be maintained over the minelife proposed for Romero.

**Financial**

Goldquest has sufficient cash on hand to complete pre-feasibility work, as well as take the project through feasibility and permitting, while maintaining exploration efforts until a production decision is made for the Romero mine. We believe the US\$143 million capital requirement should be within the ability of Goldquest to fund on its own.

**Summary/Conclusions**

Goldquest's **Romero gold deposit** looks to be a robust project capable of generating significant cashflow over a +10-year. Annual production is forecast to average over 80,000 ounces of gold.

Focusing on the higher-grade core of the Romero deposit should allow for **low capital** (under US\$150 million), and the combination of bulk underground mining methods and associated metals production (copper and silver) should deliver **lowest quartile operating costs** (AISC forecast of US\$572 per eqAu oz).

Medium-term, the company's land position in the **Tireo Gold Belt** of western Dominican Republic has above-average potential to host additional gold deposits that could become standalone operations.

At this point in time, we consider GQC shares to be undervaluing the potential for a +80Kopy gold mine at Romero, and that investors are getting the exploration upside of the Tireo Gold Belt for free. **As a result, we are initiating coverage of Goldquest Mining with a 12-month target price of \$1.20/sh and a BUY rating.**



## Appendix A : Management/Directors

**Bill Fisher: Executive Chairman**

Mr. Fisher is a geologist with over 35 years' experience in the mining industry. He previously worked with GlobeStar Mining, Karmin Exploration, and Boliden AB, and was a Director of Aurelian Resources. He joined Goldquest's Board in July 2010.

**Julio Espailat: President, CEO, and Director**

Mr. Espailat is a Dominican Republic trained geologist with over 25 years' experience in the mining industry. He has held senior management positions with GlobeStar Mining and Falconbridge. He joined Goldquest in Feb 2011.

**Paul Robertson: CFO**

Mr. Robertson is a Chartered Accountant with +16 years' experience in the mining sector. He joined Goldquest in Sep 2010.

**Jeremy Niemi: VP Exploration**

Mr. Niemi is a geologist who brings over 20 years' experience to Goldquest, having previously worked with Noront Resources, Kinross Gold, and Inco. He joined GQC in 2012.

**Felix Mercedes: Country Manager**

Mr. Mercedes is a Dominican geologist over 20 years' experience in the DR mining industry, with several companies including Energold Drilling.

**Board of Directors:**

Bill Fisher – see above

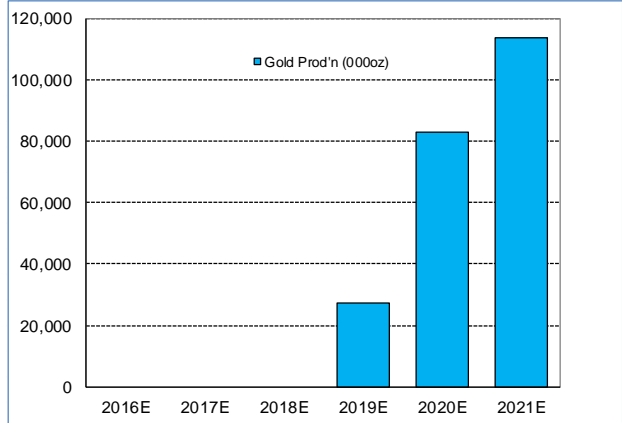
Julio Espailat – see above

Patrick Michaels – Swiss portfolio manager

Florian Siegfried – Swiss portfolio manager

Frank Balint – ex-Inmet Mining

## Appendix B: Summary Financials

Goldquest Mining					Beacon Securities Limited						
	Symbol	GQC-V	Share Price	\$0.64							
	Stock Rating	BUY	Shares O/S (MM)	213.6							
	Price Target	\$1.20	Mkt Cap (\$MM)	137							
									Michael Curran, CFA (416) 507-3950		
<b>INCOME STATEMENT</b>					<b>RATIO ANALYSIS</b>						
		2015	2016e	2017e	2018e		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)	<b>PRICES/EXCHANGE RATES</b>					
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)	<b>MINE/EQUITY PRODUCTION</b>					
Shares o/s (wgt avg.)	MM	151.6	215.0	275.0	344.9	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	-4.931	-6	-6	-6	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.						
<b>SCFP</b>											
<b>Cash Flow from Operations</b>											
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	-	-	-	-						
		<b>(4.6)</b>	<b>(6.0)</b>	<b>(6.0)</b>	<b>(6.0)</b>						
<b>Cash Flow From Investing</b>											
Capital Expenditure (net)	C\$MM	-	-	(25.0)	(80.0)						
Acquis./Investments	C\$MM	-	-	-	-						
Other	C\$MM	-	-	-	-						
		<b>0.0</b>	<b>0.0</b>	<b>(25.0)</b>	<b>(80.0)</b>						
<b>Cash Flow From Financing</b>											
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	-	-	-	-						
		<b>3.4</b>	<b>7.4</b>	<b>59.0</b>	<b>80.0</b>						
Net Inc/Dec (incl FX)	C\$MM	(1.2)	1.4	28.0	(6.0)						
Cash at End of Year	C\$MM	4.4	5.8	33.8	27.8						
<b>BALANCE SHEET</b>					<b>RESERVES / RESOURCES</b>						
Cash & Equivalents	C\$MM	4.4	5.8	33.8	27.8	Reserves	MMoz	-			
Total Current Assets	C\$MM	4.9	6.3	34.3	28.3	AMC/oz*	US\$/oz	n.m.			
PP&E & Mining Interests	C\$MM	1.3	1.3	22.6	92.6	Total Resources	MMoz	2.2			
Other	C\$MM	0.0	0.0	0.0	0.0	AMC/oz**	US\$/oz	45			
Total Assets	C\$MM	<b>6.2</b>	<b>7.6</b>	<b>56.9</b>	<b>120.9</b>	* AMC = Adjusted Market Capitalization = Market Cap + LT Debt - working cap					
Current Liabilities	C\$MM	0.4	0.4	0.4	0.4	** Total Resources include measured, indicated, and inferred					
Long Term Debt	C\$MM	-	-	-	75.0	<b>ESTIMATED NET ASSET VALUE (NAV)/SHARE - 2017</b>					
Other LT Liabilities	C\$MM	-	-	-	-	Status	Own'ship	\$M	\$/Sh	%NAV	
Total Liabilities	C\$MM	0.4	0.4	0.4	75.4	Romero	devo	100%	\$230	\$1.08	97%
S/Holder Equity	C\$MM	5.8	7.2	56.5	45.5	Other			\$0	\$0.00	0%
Total Liab. & S/Holder Equity	C\$MM	<b>6.2</b>	<b>7.6</b>	<b>57.0</b>	<b>121.0</b>	Total Operating			\$230	\$1.08	
Working Capital	C\$MM	4.4	5.8	33.8	27.8	Working capital			\$7	\$0.03	3%
						LT Debt			\$0	\$0.00	0%
						NAV at 9%			<b>\$237</b>	<b>\$1.11</b>	
						Current P/NAV			<b>0.6x</b>		

Source: Company reports, Beacon estimates

## Disclosure Requirements

Does Beacon, or its affiliates or analysts collectively, beneficially own 1% or more of any class of the issuer's equity securities?  Yes  No

Does the analyst who prepared this research report have a position, either long or short, in any of the issuer's securities?  Yes  No

Does Beacon Securities beneficially own more than 1% of equity securities of the issuer?  Yes  No

Has any director, partner, or officer of Beacon Securities, or the analyst involved in the preparation of the research report, received remuneration for any services provided to the securities issuer during the preceding 12 months?  
 Yes  No

Has Beacon Securities performed investment banking services in the past 12 months and received compensation for investment banking services for this issuer in the past 12 months?  Yes  No

Was the analyst who prepared this research report compensated from revenues generated solely by the Beacon Securities Investment Banking Department?  Yes  No

Does any director, officer, or employee of Beacon Securities serve as a director, officer, or in any advisory capacity to the issuer?  Yes  No

Are there any material conflicts of interest with Beacon Securities or the analyst who prepared the report and the issuer?  Yes  No

Is Beacon Securities a market maker in the equity of the issuer?  Yes  No

Has the analyst visited the head office of the issuer and viewed its operations in a limited context?  Yes  No

Did the issuer pay for or reimburse the analyst for the travel expenses?  Yes  No

All information contained herein has been collected and compiled by Beacon Securities Limited, an independently owned and operated member of the Investment Industry Regulatory Organization of Canada (IIROC). All facts and statistical data have been obtained or ascertained from sources, which we believe to be reliable, but are not warranted as accurate or complete.

All projections and estimates are the expressed opinion of Beacon Securities Limited, and are subject to change without notice. Beacon Securities Limited takes no responsibility for any errors or omissions contained herein, and accepts no legal responsibility from any losses resulting from investment decisions based on the content of this report.

This report is provided for informational purposes only and does not constitute an offer or solicitation to buy or sell securities discussed herein. Based on their volatility, income structure, or eligibility for sale, the securities mentioned herein may not be suitable or available for all investors in all countries.

As at July 31, 2016	# Stocks	Distribution
Buy	56	66%
Speculative BUY	14	16%
Hold	5	6%
Sell	0	0%
Under Review	10	12%
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

## Dissemination

Beacon Securities distributes its research products simultaneously, via email, to its authorized client base. All research is then available on [www.beaconsecurities.ca](http://www.beaconsecurities.ca) via login and password.

## Analyst Certification

The Beacon Securities Analyst named on the report hereby certifies that the recommendations and/or opinions expressed herein accurately reflect such research analyst's personal views about the company and securities that are the subject of the report; or any other companies mentioned in the report that are also covered by the named analyst. In addition, no part of the research analyst's compensation is, or will be, directly or indirectly, related to the specific recommendations or views expressed by such research analyst in this report.