

Goldquest Mining Corp. (GQC-V)

Fleshing Out The Cachimbo VMS Discovery

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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), for which a bankable feasibility study is currently underway. In March, Agnico-Eagle became a strategic shareholder, purchasing 15% of the company's shares for \$22.8MM.

Cachimbo Expanding: In Q1/17, Goldquest reported initial drill results confirming a new volcanogenic massive sulphide (VMS) discovery in the southern portion of the Tiroo belt (fig1). The discovery hole was **4.9 metres grading 11.9% zinc and 1.1% copper, with 13.8g/t gold and 74g/t silver** (in hole TIR-16-09).

Recent drilling has expanded Cachimbo to the south and east, with hole TIR-17-32 yielding 31.6 metres grading 3.9g/t AuEq, including **11.9m grading 6.6g/t gold, 24g/t silver, 1.43% zinc, and 0.2% copper**, as well as **2.7m grading 22.3g/t gold, 53g/t silver, 3.1% zinc, and 0.5% copper**. Hole 32 was drilled 50m south of the hole TIR-16-09 (fig3). Hole 30, drilled 100m to the east of the discovery hole, encountered the mineralized unit, but grades were significantly lower (56m grading 0.3g/t gold, 2.4g/t silver, with minor zinc and copper). Two additional holes (35 and 36) drilled a further 100m to the east, still have assays pending.

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

Update

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

Ticker	GQC-V		
Previous Close	\$0.43		
12-month Target Price	\$1.40		
Potential Return	229.4%		
Dividend Yield	0.0%		

52 Week Price Range	Low	High
	\$0.20	\$0.68

Annual Estimates	FY16	FY17e	FY18e	FY19e
(C\$MM, except per unit)				
Revenue	\$0.0	\$0.0	\$0.0	\$43.7
Net Income	-\$8.9	-\$8.0	-\$8.5	\$4.0
Shares O/S (wgt avg)	201	275	365	384
EPS (operating)	-\$0.04	-\$0.02	-\$0.02	\$0.01
CFPS	-\$0.04	-\$0.02	-\$0.02	\$0.05

Valuation				
P/E	neg.	neg.	neg.	32.9x
P/CF	neg.	neg.	neg.	8.8x
NAV		\$1.17	\$1.21	\$1.25
P/NAV		0.4x	0.4x	0.3x

Financials		
Shares Outstanding	253.8 million	
Mgt/Insiders	1%	
	(C\$MM)	

Market Cap	\$107.9
LT Debt (corporate)	\$0.0
Working Capital	\$27.3
Enterprise Value	\$80.6
Fiscal Year End	December 31

Reserves / Resources	
2P Reserves	0.8 MMoz
M+I Resources	1.6 MMoz
Total Resources (M+I)	1.9 MMoz

Quarterly Estimates	Q1/16	Q2/16	Q3/16	Q4/16
EPS (operating)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)
CFPS	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)
	Q1/17	Q2/17e	Q3/17e	Q4/17e
EPS (operating)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)
CFPS	(\$0.01)	(\$0.01)	(\$0.01)	(\$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

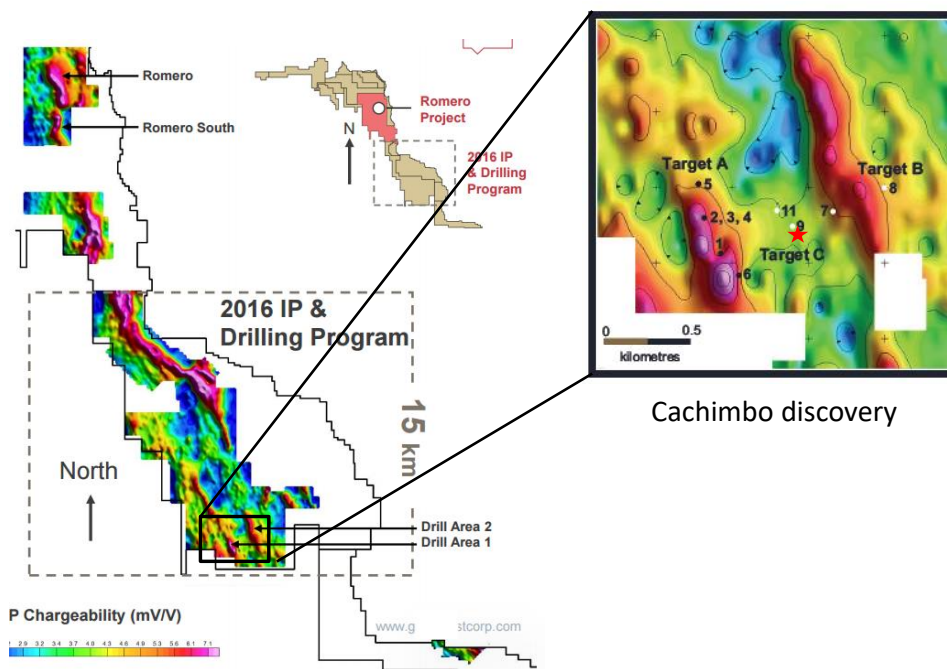


Investment Thesis...Re-rating Opportunity As Romero Advances

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. 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.

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 Tiroo Belt Exploration: Cachimbo VMS Discovery



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 C\$MM	Per Share (C\$/sh)		
				2017e	2018E	2019E
Romero (Dom. Rep.)	9.0%	100%	\$270	\$1.07	\$1.11	\$1.17
Other exploration			\$0	\$0.00	\$0.00	\$0.00
OPERATING ASSETS			\$270	\$1.07	\$1.11	\$1.17
Working Capital			\$27	\$0.11	\$0.10	\$0.08
LT Debt (corporate only)			\$0	\$0.00	\$0.00	\$0.00
CORPORATE ASSETS			\$27	\$0.11	\$0.10	\$0.08
NET ASSET VALUE			\$298	\$1.17	\$1.21	\$1.25

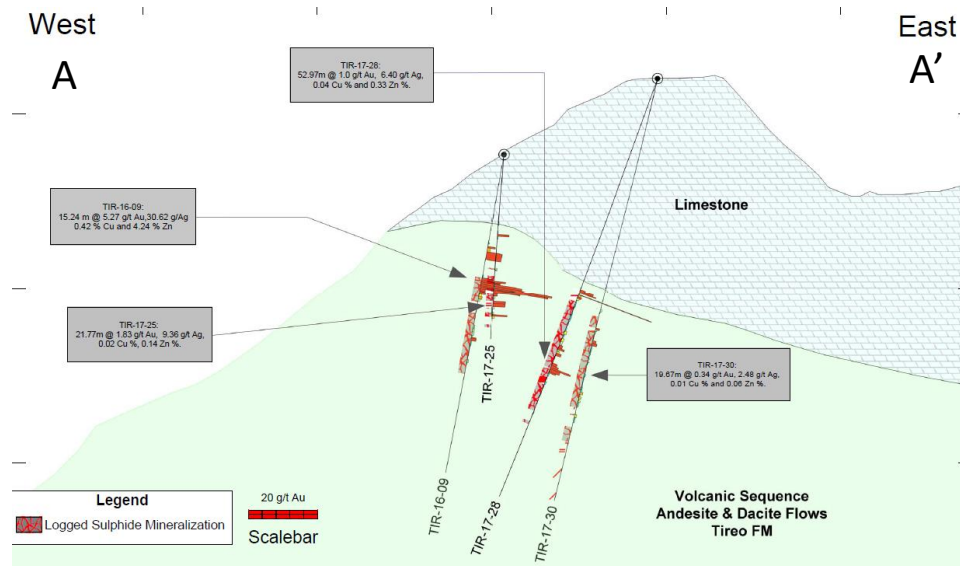
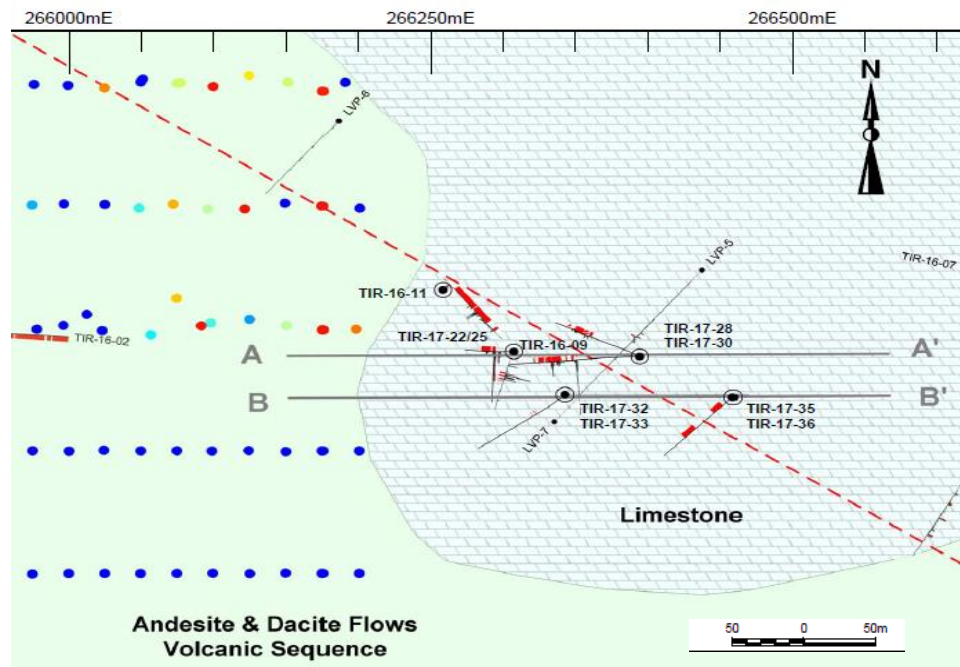
Source: Beacon Securities estimates

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 \$1.05/sh for Goldquest.

On a forward-looking P/CF multiple analysis basis, we forecast Goldquest could achieve average CFPS of US\$0.28/sh in its first two full years of production (2020-2021). Discounting back to the present (at 20% per annum) suggests \$0.20/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 \$1.80/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.

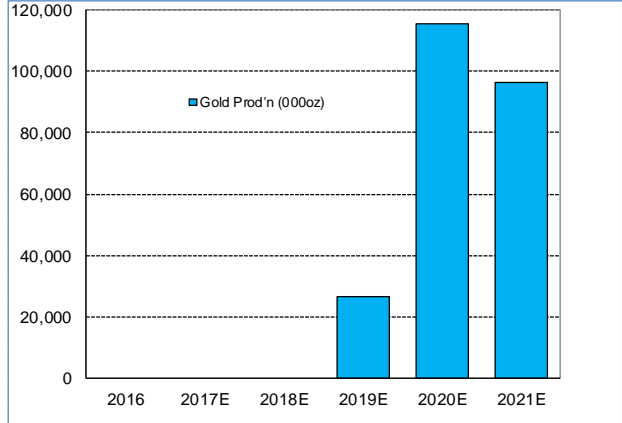
Fig 3 Plan and Cross-Section Maps: Cachimbo Property (Dom.Rep.)



Source: Company reports

Appendix: Summary Financials

Goldquest Mining					Beacon Securities Limited						
	Symbol	GQC-V	Share Price	\$0.43							
	Stock Rating	BUY	Shares O/S (MM)	253.8							
	Price Target	\$1.40	Mkt Cap (\$MM)	108							
									Michael Curran, CFA (416) 507-3950		
INCOME STATEMENT		2016	2017e	2018e	2019e	RATIO ANALYSIS		2016	2017e	2018e	2019e
Revenues	C\$MM	-	-	-	43.7	Dividends Per Share	\$/sh	-	-	-	-
Operating Costs	C\$MM	-	-	-	13.4	Dividend Yield	%	-	-	-	-
EBITDA	C\$MM	(8.9)	(8.0)	(8.5)	20.3	LT Debt/(Total Capital)	%	-	-	-	-
DD&A	C\$MM	0.0	-	-	11.3	EV/EBITDA	x	-	-	-	-
EBIT	C\$MM	(9.0)	(8.0)	(8.5)	9.0	PRICES/EXCHANGE RATES		2016	2017e	2018e	2019e
Interest Expense	C\$MM	(0.0)	-	-	2.7	Gold Price	US\$/oz	\$1,251	\$1,300	\$1,300	\$1,300
EBT	C\$MM	(7.2)	(6.5)	(7.0)	7.3	Realized Gold Price	US\$/oz	-	-	-	-
Taxes/Recovery	C\$MM	-	-	-	2.3	Copper Price	US\$/lb	\$2.18	\$2.35	\$2.50	\$2.50
Net Income (reported)	C\$MM	(8.9)	(8.0)	(8.5)	4.0	Realized Copper Price	US\$/lb	-	-	-	-
Non-Recurring Items/Other	C\$MM	1.8	1.5	1.5	1.0	C\$/US\$		1.31	1.33	1.30	1.27
Net Income (operating)	C\$MM	(7.3)	(6.5)	(7.0)	5.0	MINE/EQUITY PRODUCTION		2016	2017e	2018e	2019e
Shares o/s (wgt avg.)	MM	201.4	275.0	365.0	383.7	Gold Production	000 oz	-	-	-	26,754
EPS (operating)	\$/sh	(\$0.04)	(\$0.03)	(\$0.02)	\$0.01	Copper Production	MM lbs	-	-	-	4.2
P/E Multiple	x	n.m.	n.m.	n.m.	n.m.	All-in Costs	US\$/oz	-	-	-	-
Cash Flow (operating)	C\$MM	(7.1)	(6.5)	(7.0)	18.6	Total incl. Cash Costs + royalties	All-in CCs incl. sustex, exploration, corpG&A				
CFPS	\$/sh	(\$0.04)	(\$0.02)	(\$0.02)	\$0.05						
P/CF Multiple	x	n.m.	n.m.	n.m.	n.m.						
SCFP											
Cash Flow from Operations											
Net Income	C\$MM	(8.9)	(8.0)	(8.5)	4.0						
DD&A	C\$MM	0.1	-	-	11.3						
Deferred Taxes	C\$MM	-	-	-	2.3						
Other	C\$MM	1.7	1.5	1.5	1.0						
Changes in Working Capital	C\$MM	0.2	-	-	-						
		(7.0)	(6.5)	(7.0)	18.6						
Cash Flow From Investing											
Capital Expenditure (net)	C\$MM	(0.1)	-	(85.0)	(75.0)						
Acquis./Investments	C\$MM	-	-	-	-						
Other	C\$MM	-	-	-	-						
		(0.1)	0.0	(85.0)	(75.0)						
Cash Flow From Financing											
Equity Issues (net of costs)	C\$MM	8.9	22.7	55.0	-						
Net Borrowings	C\$MM	-	-	35.0	75.0						
Dividends Paid & Other	C\$MM	-	-	-	-						
		8.9	22.7	90.0	75.0						
Net Inc/Dec (incl FX)	C\$MM	1.9	16.2	(2.0)	18.6						
Cash at End of Year	C\$MM	6.3	22.5	20.5	39.0						
BALANCE SHEET											
Cash & Equivalents	C\$MM	6.3	22.5	20.5	39.0						
Total Current Assets	C\$MM	6.8	23.0	21.0	39.5						
PP&E & Mining Interests	C\$MM	1.4	1.4	86.4	143.1						
Other	C\$MM	0.1	0.1	0.1	0.1						
Total Assets	C\$MM	8.2	24.4	107.4	182.7						
Current Liabilities	C\$MM	0.6	0.9	0.9	0.9						
Long Term Debt	C\$MM	-	-	35.0	110.0						
Other LT Liabilities	C\$MM	-	-	-	2.3						
Total Liabilities	C\$MM	0.6	0.9	35.9	113.2						
S/Holder Equity	C\$MM	7.5	23.5	71.5	69.5						
Total Liab. & S/Holder Equity	C\$MM	8.2	24.4	107.4	182.7						
Working Capital	C\$MM	6.1	22.1	20.1	38.6						



RESERVES / RESOURCES	
Reserves	MMoz 0.8
AMC/oz*	US\$/oz 72
Total Resources	MMoz 1.9
AMC/oz**	US\$/oz 31

* 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%	\$270	\$1.07	91%
Other			\$0	\$0.00	0%
Total Operating			\$270	\$1.07	
Working capital			\$27	\$0.11	9%
LT Debt			\$0	\$0.00	0%
NAV at 9%			\$298	\$1.17	
			Current P/NAV	0.4x	

Source: Company reports, Beacon estimates

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As at June 30, 2017	# Stocks	Distribution
Buy	69	75%
Speculative BUY	10	11%
Hold	6	7%
Sell	0	0%
Under Review	5	5%
Tender	2	2%
Total	92	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
Under Review	No current rating/target
Tender	Clients are advised to tender their shares to takeover bid or similar offer

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