

## Quest Minerals Limited

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Paul Piercy, Chairman  
Jerome Vitale, Managing Director  
Dennis Gee, Non-executive Director



ASX Code: **QNL**

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### Activities Report for Quarter Ended 31 March 2014

#### Highlights

- Program of Work ("POW") submitted by Company in second half of 2013 for resource drilling programs at Perenjori is yet to be approved by DMP and EPA, causing delay in field activity.
- Due to delay in receiving POW, a waiver and extension has been sought from farm-in syndicate in respect of minimum expenditure committed to by Quest at Perenjori. While the matter remains under consideration, at the date of this report no assurances have been received by the Company that the extension will be granted. If the extension is not granted, the Company risks forfeiting its earn-in rights over the project, including all funds invested to date.

#### Corporate

- A R&D grant application has been lodged with AusIndustry which if accepted will result in a cash injection of approximately \$230,000 during the June quarter.
- Non-renounceable rights issue announced during December quarter was withdrawn in January 2014 due to delay in lifting ASX trading suspension (a pre-condition of issue proceeding).
- Action commenced in the District Court to recover \$976,000 in calls made on overseas holders of partly paid shares.
- In response to formal submissions from the Company, ASX has advised it requires strict compliance with the Listing Rules (including Chapter 10) in order to lift the suspension of trading in its securities. Due to the historical nature of the breaches that have been voluntarily reported by the Company, some aspects of compliance, including reversal of historical transactions, are outside of the Company's control.

In the event that the Company cannot satisfy these conditions it is likely that it will be delisted from ASX. If efforts to secure alternative funding are not successful within a reasonable time frame while the Company's shares remain suspended (or if the Company is delisted), the directors will be compelled to appoint a voluntary administrator or seek liquidation of the Company.

## 1.0 Perenjori Iron Ore Project

Quest Minerals is earning 80% interest in each of EL 70/2777 (Feral) and EL 70/2858 (Alken), (together “Tenements”) which are located close to the northern wheat-belt town of Perenjori. The project is strategically located close to existing infra-structure and only 14 km from the rail head that links to the port of Geraldton in the mid west of Western Australia.

Quest has completed a scoping study, based on a mining operation of 12Mt/y and production of 5Mt/y of high-quality magnetite concentrate, augmented by hematite production from the oxide zone. Metallurgical aspects of the scoping study were reported in the September 2013 Quarterly Report. The scoping study is based on low-level technical and economic assessments, and is based on Inferred Resources and exploration results prepared and first disclosed under the JORC Code 2004. The information has not been updated since to comply with the JORC Code 2012 on the basis that the information has not materially changed since it was last reported. The study is insufficient to support estimation of ore reserves or to provide assurance of an economic development case at this stage, or to provide certainty that the conclusions of the scoping study will be realised.

The mineral resource estimate detailed in the September 2013 Quarterly Report, is re-quoted below.

**Table 1: JORC (2004) Mineral Resource Estimate for Perenjori Iron Ore Project at cut-off grade of 20% Fe**

Zone	Category	Tonnage Mt	Fe%	Al <sub>2</sub> O <sub>3</sub> %	SiO <sub>2</sub> %	S%
Core BIF Zone	Inferred	93.3	37.22	1.67	41.59	0.05
Eastern Belt (excluding CBZ)	Inferred	78.7	37.64	1.45	41.66	0.03
Western Belt	Inferred	19.7	29.77	3.39	47.04	0.32
<b>Total</b>	<b>Inferred</b>	<b>191.7</b>	<b>36.61</b>	<b>1.75</b>	<b>42.18</b>	<b>0.07</b>

## 1.2 Extension of Farm-in period

The Company’s rights over the Perenjori iron ore project arise under a farm-in agreement Term Sheet (ASX: 29 Dec 2010) under which the Company may earn an 80% interest in the Tenements by sole funding expenditure of a total of \$2,300,000. A further 5% interest can be earned in either or both of Alken and Feral by sole funding a definitive feasibility study on each tenement. The Company has spent approximately \$1,000,000 to date in satisfaction of its earn-in obligations.

On 6 December 2013 the Company announced it has negotiated a two year extension to 30 May 2016 to earn the initial 80% interest in the Tenements. Quest has agreed to meet certain interim expenditure targets throughout the extended farm-in period. The Company must spend \$100,000 by 30 April 2014, \$500,000 by 31 December 2014 and \$1,000,000 by 31 December 2015, with the remaining balance by May 2016. Failure to achieve these interim targets will result in the project’s owners having the right to terminate the farm-in.

## 1.3 Proposed Resource Drill Program and Program of Works Submission to DMP

**EL 70/2777 (Feral):** In order to progress to a pre-feasibility study within the guidelines contemplated in JORC 2012, a drilling program has been developed to bring most of the Core BIF Zone to Indicated status. The program submitted by the Company involves 23 RC holes and two diamond drill holes, on 200m spaced lines, totaling 3,500m. Drill pads and access tracks have been surveyed in detail by Mattiske Consultants, and detailed GIS polygons showing the clearing requirements have been forwarded to the EPA. Total clearing in only 2.8Ha.

A Program of Works (POW) was submitted to DMP in September 2013. This was subsequently referred to the EPA for assessment on the grounds that the impact of drilling on the remnant native vegetation on the ridge of the Core BIF Zone needed to be further assessed. During March 2014 the Company provided a briefing to the EPA to clarify certain aspects of its POW submission and sought an expedited assessment. At the date of this report however, no assessment had been made by the EPA.



In the absence of approval to conduct the work program set out in the above POW, the Company is unable to mobilize a drilling rig and is effectively prohibited from compliance with its obligations under the Farm-in agreement which required the expenditure of at least \$100,000 by 30 April 2014 (see 1.2 above). The Company has requested a waiver and extension from the private registered owners of the Tenements. At the date of this report they are considering their position however no assurances have been given that an extension will be granted and discussions are continuing.

**EL 70/2858 (Alken):** Alken lies immediately west of Feral, and contains two BIF units. In 2011, Quest explored Alken for detrital, supergene and hydrothermal hematite-goethite targets with limited success. None of the BIF of the Western Belt in Alken is included in the previously announced Inferred Resource, but is included in the Company's announced Exploration Target.

Detailed geological mapping was undertaken on Alken, involving close-spaced field traverses and contact walking using GPS tracking (Blue Marble Geotracker) and litholine digitizing directly into MapInfo using a variety of raster underlays. The main BIF of Alken is 4.7km in length and 60-80 meters in outcrop width. Although split by gabbro sills in places, it constitutes an important potential resource similar to the Core BIF Zone on Feral. This is termed the **Bestry BIF Zone**.

A six-hole RC program, designed to initially test the Bestry BIF Zone, has been approved by WA DMP (POW 41731, 25 Sep 2013). Having regard to the existing holes, the detailed mapping completed, and the high-resolution aeromagnetic imagery, it is anticipated that the proposed drilling program will provide sufficient data to generate an Inferred resource estimate for the Bestry BIF Zone.

## **2.0 Victory Bore Project, EL 57/550 - 100%**

There was no activity on this project during the quarter.

A Program of Works (POW) has been approved by DMP to infill and extend the existing RC pattern drilled by previous explorers. Details of this are set out in the map contained in the Company's quarterly Report for 31 December 2013. The proposed drilling will create a 200 x 50m grid pattern over the zone of mineralization, involving 10 new holes to 90m depth.

## **3.0 Nigeria Gold Exploration – 100%**

No field work was performed in Nigeria during the quarter. As noted in the Company's 2013 Annual Report, the carrying value of the Nigeria properties has been reduced to zero.

## **4.0 Corporate**

### **4.1 Application for R & D Grant**

The Company has lodged an application under section 27A of the Industry Research and Development Act 1986 based on approximately \$673,000 of qualifying expenditure incurred during the fiscal year ended 30 June 2013. If successful, the claim is expected to be paid in late May or June and result in a net cash reimbursement to Quest of approximately \$230,000 after professional fees and charges.

### **4.2 Outstanding Calls on Partly Paid Shares**

The Company now has 16.98 million partly paid shares remaining on issue with 5.75 cents in outstanding calls per share for a total of \$976,350 that was due on 4 October 2013. These shares are held by foreign incorporated entities, Malacca Capital Limited and Eurobond Trading Limited. To recover these funds, the Company has obtained orders from the District Court of Western Australia to file and serve writs in a foreign jurisdiction.



The Company has previously independently obtained documentation showing that both Malacca and Eurobond have their registered office in Labuan, a financial centre, free trade and tax free zone in offshore Malaysia. Accordingly writs were served on these companies in their Labuan registered offices respectively during the March quarter. In mid April 2014 however, the Company received conflicting documentation from these companies' legal representative in Australia purporting to show that Malacca is registered in Brunei and that Eurobond is registered in the British Virgin Islands (BVI). If this can be established, the Company may be required to lodge new writs in Brunei (Malacca) and BVI (Eurobond) respectively. The Company's lawyers are seeking clarification of from the lawyer acting for Malacca and Eurobond to establish the correct place of incorporation of these companies and an explanation for this anomalous information.

The Company is otherwise not aware of any basis upon which the holders can dispute the call, and will seek to obtain and enforce judgments as soon as practicable. Despite opportunities to do so, neither Malacca nor Eurobond have disputed the call of the liability owed under the partly paid shares.

#### **4.3 Rights Issue**

On 17 January 2014 the Company advised that as a result of delays in satisfying the conditions under which ASX may lift the suspension from trading of the Company's shares, the Company's board resolved to withdraw the non-renounceable rights issue announced on 17 October 2013. Acceptances and shortfall applications were received for a total of \$393,257, representing approximately 63% of the offer of \$622,943, demonstrating a high level of shareholder support.

#### **4.4 Application for Readmission to Quotation on ASX and Risk of Liquidation**

The Company has made detailed submissions to ASX seeking to lift the suspension of trading in the Company's securities. To date these have not been successful, and ASX has advised that it will consider granting re-quotation only if there is strict compliance with the Listing Rules (including Chapter 10), failing which the Company is likely to be delisted.

Compliance will require corrective action including obtaining necessary shareholder approvals and repayment of approximately \$75,000 in cash from an entity associated with Mr Vladimir (Roger) Nikolaenko to satisfy Listing Rule 10.9. This may come about either through agreement with Mr Nikolaenko and his controlled entities, or by alternative means available to the Company that are acceptable to ASX, such as the Company obtaining a court order directing compliance (see below). For details of the reported breaches of the Listing Rules refer the Company's 2013 annual report and sections 5.4 and 6.1 of the Company's replacement prospectus announced on 31 October 2013.

The Company's board is focused on taking all necessary steps to lift the ASX suspension on trading as soon as possible while also considering alternative sources of funding to both meet the Company's commitments with respect to earning into the Perenjori Iron Ore Project and funding proceedings against Mr Nikolaenko's entities (see section 4.5 below). However some of the conditions imposed by ASX are outside of the Company's control.

**In the event that the Company cannot satisfy these conditions in a reasonable time frame, it is likely that it will be delisted from ASX. If efforts to secure alternative funding while the Company's shares remain suspended from trading (or if the Company is delisted) are not successful within a reasonable time frame, the directors will be compelled to appoint a voluntary administrator or liquidator.**

#### **4.5 Demands Against the Company**

##### *Natwest Securities Limited*

The Company has received a statutory demand from Natwest Securities Limited (Natwest) with respect to an unsecured borrowing of \$200,000 and interest of approximately \$130,000 said to be owed by the Company.



Natwest is registered in Labuan, the same jurisdiction as Malacca Capital Limited and Eurobond Trading Limited and shares the same registered address and some office holders as Eurobond. As disclosed in the Company's 2013 statutory accounts, the Company has made a number of written requests to Natwest to confirm (amongst other things) its incorporation details and the identity of the ultimate beneficiaries lying behind the nominated recipient of funds and other matters as required under the Anti-Money Laundering and Counter-Terrorism Financing Act 2006 (Cth). To date Natwest has not responded to those requests. Until those matters are resolved, the Company disputes the debt and has made an application to the Federal Court of Australia to have the demand set aside.

On 29 April, the Company participated in a mediation conference at the Federal Court with a view to reaching a settlement of the dispute. No settlement was reached at the conference and the matter will now be referred back for a hearing before the registrar, or if deemed appropriate, before a judge. In the meantime however the parties have agreed to continue discussions with a view to achieving a commercial settlement before a formal hearing. If these discussions do not result in a settlement the Company will pursue its formal application before the Court to have the demand set aside.

#### *Mutual Holdings Pty Ltd*

On 17 December the Company reported it had been served with a writ by Mutual Holdings Pty Limited (Mutual Holdings), an entity controlled by Mr Nikolaenko. The demand is for approximately \$1.4 million plus unspecified accrued interest. As disclosed in the Company's 2013 statutory accounts and elsewhere, the Board has determined (amongst other things) that Mr Nikolaenko was a shadow director of the Company when it entered into an agreement to acquire exploration licence E57/550 (known as Victory Bore) from Mutual Holdings (Sale Agreement). As a result, the Sale Agreement required shareholder approval under both ASX Listing Rule 10.1 and Chapter 2E of the Corporations Act, and the Company was required to comply with Listing Rule 10.7. Shareholder approval was not obtained and Listing Rule 10.7 not complied with. The Board has reported the breaches to both ASX and ASIC, and resolved not to make any further payments to Mutual Holdings.

The writ alleges the Company wrongfully terminated the Sale Agreement and seeks damages as a result. For the reasons set out in the Company's 2013 statutory accounts and the replacement prospectus dated 31 October 2013, the Board believes that the Sale Agreement is not enforceable and is defending the writ on that basis and counterclaiming for recovery of moneys paid to date. Subject to funding, the Company will also seek to recover all amounts the Company paid to Mr Nikolaenko's other controlled entities in breach of Chapter 2E (approximately \$3.1m).

#### **4.6 Alternate Director Appointment**

Mr Stuart Third was appointed as alternate director for Dr Dennis Gee on 21 March 2014.

#### **4.7 Cash Balance**

At 31 March 2014, the Company had approximately \$25,000 in cash balances.

**Jerome G Vitale**  
**Managing Director**

**Competent Person Statement**

*Information in this report that relates to exploration results reflects information compiled by Dr Dennis Gee, a Director of the company and a member of AIG. Dr Gee has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity upon which he is reporting on as a Competent Person as defined in the 2004 Edition of "The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves." He consents to the inclusion in this report of the matters based on the information compiled by him, in the form and context in which it appears.*

*Exploration results in this report were prepared and first disclosed under the JORC Code 2004. The information has not been updated since to comply with the JORC Code 2012 on the basis that the information has not materially changed since it was last reported.*

**Competent Person Statement**

*The information in this report that relates to in-situ Mineral Resources at the Perenjori Iron Ore project is compiled by Dr Bielin Shi of CSA Global Pty Ltd. Dr Bielin Shi is a Member of the Australian Institute of Geoscientists and has sufficient experience, which is relevant to the style of mineralisation and type of deposit under consideration, and to the activity he is undertaking, to qualify as a Competent Person in terms of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code 2004 Edition). Dr Shi consents to the inclusion in this report of the matters based on the information compiled by him, in the form and context in which it appears.*

*Information in this report that relates to in-situ Mineral Resources at the Perenjori Iron Ore project were prepared and first disclosed under the JORC Code 2004. The information has not been updated since to comply with the JORC Code 2012 on the basis that the information has not materially changed since it was last reported.*



### SCHEDULE OF TENEMENTS AND INFORMATION REQUIRED FOR LISTING RULE 5.3.3

#### Tenements held at 31 March 2014

Project	Reference	QNL Interest	Status
<b>Western Australia</b>			
Victory Bore	E57/550	100%	Current
Perenjori	E70/2227	Earning 80%*	Current
Perenjori	E70/2858	Earning 80%*	Current
Perenjori	P70/1608	100%	Current

**\*NOTE:** The Company has an agreement with the syndicate that beneficially holds these tenements and is presently earning an 80% interest in them. The Company holds an equitable interest only at this time and currently does not hold a beneficial interest.

<b>Nigeria</b>			
Nigeria Exploration Licence	6181	100%	Certificate of Title
Nigeria Exploration Licence	6183	100%	Certificate of Title
Nigeria Exploration Licence	6431	100%	Certificate of Title
Nigeria Exploration Licence	7280	100%	Certificate of Title
Nigeria Exploration Licence	7281	100%	Certificate of Title
Nigeria Exploration Licence	7283	100%	Certificate of Title
Nigeria Exploration Licence	7848	100%	Certificate of Title
Nigeria Exploration Licence	7849	100%	Certificate of Title
Nigeria Exploration Licence	7850	100%	Certificate of Title
Nigeria Exploration Licence	7854	100%	Certificate of Title
Nigeria Exploration Licence	7886	100%	Certificate of Title

The Company has decided not to seek the issue of Certificates of Title for the following tenements on which notifications of grant were received for the reasons outlined in the Activities Report dated 31 January 2014.

Nigeria Exploration Licence	7852	-	Notification of Grant
Nigeria Exploration Licence	7859	-	Notification of Grant
Nigeria Exploration Licence	9161	-	Notification of Grant
Nigeria Exploration Licence	9172	-	Notification of Grant
Nigeria Exploration Licence	9173	-	Notification of Grant

#### Movements in Tenement Holdings

The Company relinquished tenement P70/1609 during the quarter ended 31 March 2014.