

Quest Minerals Limited

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Activities Report for Quarter Ended 31 December 2013

Highlights

- Programs of work have been submitted for resource drilling programs on both Feral and Alken EL's at Perenjori
- Perenjori farm-in period to earn 80% extended by 2 years to April 2016
- Zone of ore-grade gold mineralization identified close to vanadium magnetite lenses at Victory Bore

Corporate

- The following funds were received and applied to working capital:
 - \$300,000 from unsecured Debenture Notes issued to Droxford International Limited
 - \$81,000 from share placement to Droxford International Limited
 - \$137,500 from final call on 2.5m partly paid shares.
- Steps taken to recover remaining \$976,000 receivable on partly paid shares.
- Non-renounceable 1 for 1 rights issue announced to raise up to approximately \$623,000 during December quarter was withdrawn in January 2014 due to delay in lifting ASX trading suspension; Alternative funding sources now under consideration. If not successful, company risks being placed into voluntary administration or liquidation.
- All directors re-elected at AGM and new auditor appointed. Alternative Director and Deputy Chairman appointed.
- Management efforts are focused on lifting suspension of trading on ASX, failing which the Company is likely to be delisted.

1.0 Perenjori Iron Ore Project

Quest Minerals is earning 80% interest in each of EL 70/2777 (Feral) and EL 70/2858 (Alken), which are situated close to the northern wheat-belt town of Perenjori. The project is strategically located close to existing infrastructure 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.

To provide context, the mineral resource estimate as detailed in the September 2013 Quarterly Report, is re-quoted below.

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

Zone	Category	Tonnage Mt	Fe%	Al ₂ O ₃ %	SiO ₂ %	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
Total	Inferred	191.7	36.61	1.75	42.18	0.07

1.2 Proposed Resource Drill Program

EL 70/2777 (Feral): In order to progress to a pre-feasibility study, a drilling program has been developed to bring most of the Core BIF Zone to Indicated status. The Program of Works (POW) submitted to DMP in September 2013 has been referred to the EPA for assessment, because there is remnant native vegetation on the ridge of the Core BIF Zone. This program involves 23 RC holes and two DD 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. At the time of submission of this quarterly activity report, no assessment has been made by the EPA.

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). Together with the existing holes, the detailed mapping, and the high-resolution aeromagnetic imagery, this should provide an inferred resource for Bestry BIF Zone.

1.3 Extension of Farm-in period

On 6 December 2013 the Company announced it has agreed a two year extension to 30 April 2016 to earn an initial 80% interest in the Perenjori iron ore project by fulfilling its remaining earn-in commitments of \$1.4 million. The Company may also earn a further 5% to take it to an 85% interest in the project by sole funding a definitive feasibility study.



Background

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 E70/2777 (Feral) and E70/2858 (Alken) respectively by sole funding combined expenditure on the tenements 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, leaving approximately \$1,300,000 to be spent by May 2016.

Quest has agreed to meet certain interim expenditure targets throughout the extended farm-in period. Quest 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 April 2016. Failure to achieve these interim targets will result in the project's owners having a right to terminate the farm-in.

Until 31 December 2014, the vendor syndicate will also have the right to immediately and at its election, terminate the Term Sheet in the event that there is any change in the composition of the Company's board, and it cannot be demonstrated to the vendors' sole and unfettered satisfaction that the change in the composition will not have a material adverse effect upon the Company's ability to perform its obligations under the Term Sheet.

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

Sole activity at Victory Bore vanadium project involved a review of historical gold exploration, which has identified some priority drill targets.

In 1997 Battle Mountain Gold (BMG) undertook extensive RAB and RC drilling of gold-in-soil anomalies, including a prospect near Victory Bore on the then E70/228. This subsequently was covered by Quest's E57/550.

Extensive vertical RAB drilling to an average depth of 32m, on a 200x100m pattern over the entire area defined a large gold-in-saprolite anomaly. The envelope of this anomaly at the 30ppb level measures 4,300m in strike length and 600m in width. It lies in the southwestern extension of the eastern (footwall) zone of Ti-V magnetite lenses.

The old RAB drilling is best considered a geochemical sampling program in deeply weathered regolith. The best RAB intersection recorded 8m @ 10.24g/t Au from 20m in YP780, just south of the bundle of magnetite lenses. Depth of oxidation is 40m. Battle Mountain state that "supergene mineralization occurs in the saprolite zone where it forms a classic mushroom dispersion pattern". This indicates the presence of strong depletion in the saprolite, which would understate gold values in RAB drilling.

A follow-up RC program by BMG of 27 holes averaging 84m deep tested the oxide and primary zones. Two RC lines 200m apart, each of 7 RC holes on 50m centers tested the RAB hit in the northern part of the saprolite anomaly.

Ore-grade mineralization was intersected in holes YR867 (4m @ 3.51 g/t Au from 52m) and 200m to the south in YR875 (12m @ 1.6 g/t Au from 56m) adjacent to the RAB hit in YP780. The mineralized horizon appears to strike 020° and dips 60° west. It occurs in gabbro with silica-carbonate alteration. The zone of mineralization is therefore open along strike in both directions. Significant hits are tabulated below:

HoleID	HoleType	North	East	From	Interval	G/tAu
YP571	RAB	6870400	694900	34	2	0.21
YP590	RAB	6870000	694950	36	4	0.25
YP684	RAB	6868400	693550	28	2	0.22
YP780	RAB	6870600	694600	20	8	10.20
YR867	RC	6870600	694590	52	4	3.50
YR875	RC	6870400	694550	56	12	1.60
YR883	RC	6868400	693490	58	14	0.24
YR885	RC	6868400	693570	76	4	0.39

Table2: Significant gold intersection from historical drilling

A Program of Works (POW) has been approved by DMP to infill and extend the existing RC pattern as shown in the figure below. This will create a 200 x 50m grid pattern over the zone of mineralization, involving 10 new holes to 90m depth.

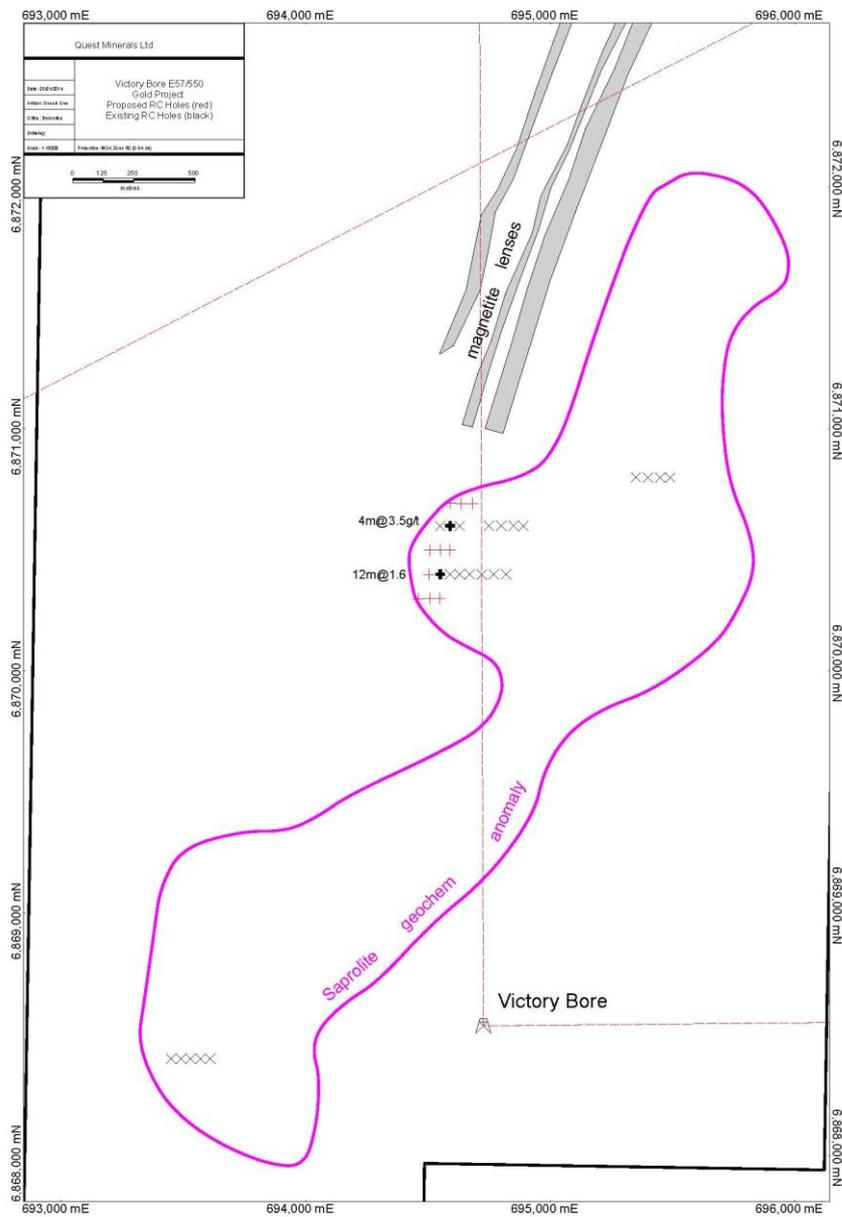


Figure 1: Proposed RC drilling (red) in relation to existing RC holes and major sapolite anomaly



3.0 Nigeria Gold Exploration – 100%

No field work was performed in Nigeria during the quarter. As noted in the September Quarterly 2013, the carry value of the Nigeria properties is reduced to zero.

After a first-stage strategic review of the Nigeria tenements, Quest has decided not to seek Certificates of Title for five exploration licenses currently subject to Notices of Grant, and will not seek to renew at least nine licenses subject to Certificates of Title, particularly in the north of Nigeria. This decision is made on the basis of their low geological prospectivity, and also takes into account the worsening security situation in the north of the country. Quest's focus remains on the Bin Yauri Prospects results of which have been reported in previous ASX quarterly releases.

4.0 Corporate

4.1 Capital raised and Outstanding Calls on Partly Paid Shares

The Company raised a total of \$518,500 for working capital purposes during the quarter:

- \$300,000 from unsecured Debenture Notes issued to Droxford International Limited
- \$81,000 from share placement to Droxford International Limited
- \$137,500 from final call on 2.5m partly paid shares.

The payment received on the partly paid shares was from an Australian incorporated holder. The Company now has 16.98 million partly paid shares remaining on issue held by foreign incorporated entities, with 5.75 cents in outstanding calls per share for a total of \$976,350 that was due on 4 October 2013. To recover these funds, the Company has obtained orders from the District Court of Western Australia for orders to serve and serve writs on the two foreign entities, Malacca Capital Limited and Eurobond Trading Limited. Both Malacca and Eurobond are registered in Labuan, a financial centre, free trade and tax free zone in offshore Malaysia. The Company is 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.

4.2 Rights Issue

On 17 October 2013 the Company announced a non-renounceable rights issue to raise up to approximately \$540,000. 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 has resolved to withdraw the issue.

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 acceptances and support for the Board's initiatives to ensure the Company's compliance with both the ASX Listing Rules and Statutory requirements. The Company and its advisors will continue to consider the steps required for ASX to exercise its discretion to lift the suspension. This includes corrective action (including obtaining necessary shareholder approvals) to satisfy Listing Rule 10.9 either through agreement with Mr Vladimir (Roger) Nikolaenko and his controlled entities or by alternative means available to the Company that are acceptable to ASX (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 4.3 below).

The directors will consider the appointment of a voluntary administrator or liquidation if its efforts to secure alternative funding are not successful.

4.3 Demands Against the Company

Natwest Securities

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 also registered in Labuan and shares the same address 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 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 will both vigorously defend the proceedings and subject to funding, will seek to recover all amounts the Company paid to Mr Nikolaenko's controlled entities in breach of Chapter 2E (approximately \$3.1m).

The Board is, and will continue to do all things necessary to ensure compliance with the Listing Rules and for the suspension in trading of the Company's shares to be lifted as soon as reasonably practicable. In the event that the Company cannot satisfy conditions imposed by ASX, it's likely that the Company will be delisted from ASX.

4.4 AGM

The Company's Annual General Meeting was held on 20 December 2013. All directors were re-elected at the meeting, the placement to Droxford International of 81m shares ratified, thus restoring its capacity to issue 15% of its issued capital, and approval given for the Company to issue 250m shares within three months of the date of the meeting.

Shareholders also approved the appointment of Grant Thornton Audit Pty Ltd as auditor of the Company as from the closure of the meeting.

4.5 Deputy Chairman and Alternate Director Appointments

Mr Vitale was appointed as Deputy Chairman on 20 December 2013 and Mr Stuart Third was appointed as alternate director for Mr Piercy on 5 December 2013.



4.6 Cash Balance

At 31 December 2013, the Company had \$136,000 in remaining 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 December 2013

Project	Reference	QNL Interest	Status
Western Australia			
Victory Bore	E57/550	100%	Current
Perenjori	E70/2227	Earning 80%*	Current
Perenjori	E70/2858	Earning 80%*	Current
Perenjori	P70/1608	100%	Current
Perenjori	P70/1609	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.

Nigeria			
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 did not acquire or dispose of any tenements or beneficial interests in farm-in/farm-out agreements during the quarter ended 31 December 2013.