AUSQUEST
LIMITED
ABN 35 091 542 451

Quarterly Report
for period ended 31 December 2004

HIGHLIGHTS

- Potential channel iron ore deposits recognised within the Bellary project tenements. Reverse circulation (RC) drilling is planned for February-March, subject to clearance.
- Analysis of new geophysical/geological data at the Beasley nickel project identifies targets for drill testing early in 2005.
- Regional sampling at the Bellary nickel project outlines four nickel, copper, PGM targets within a 40 kilometre long belt of untested ultramafic rocks.
- Trial airborne electromagnetic (AEM) surveying over the Table Hill nickel project produces encouraging results.
- Reconnaissance ground EM surveys within the Antrim nickel project highlights three targets for drill testing in 2005.
- Regional soil sampling at the Horsetrack gold project identifies a 10 kilometre long zone of anomalous gold and multi element geochemistry.

INTRODUCTION

AusQuest has assembled a portfolio of gold and nickel projects across Australia with an emphasis on locating new mineral provinces with the potential to host major new discoveries (Figure 1).

During the quarter field programs continued and included:

- Moving-loop ground EM surveys, downhole EM surveys and rock chip sampling at the Beasley nickel project;
- soil sampling at the Drummond gold project;
- reconnaissance EM geophysical surveys at the Antrim nickel project;
- regional soil sampling at the Bellary nickel project; and
- trial airborne EM surveying at the Table Hill nickel project.

Field work in the coming quarter will include RC drilling at the Rocklea iron ore prospect, additional soil sampling at Drummond and drill site clearances at the Beasley project.

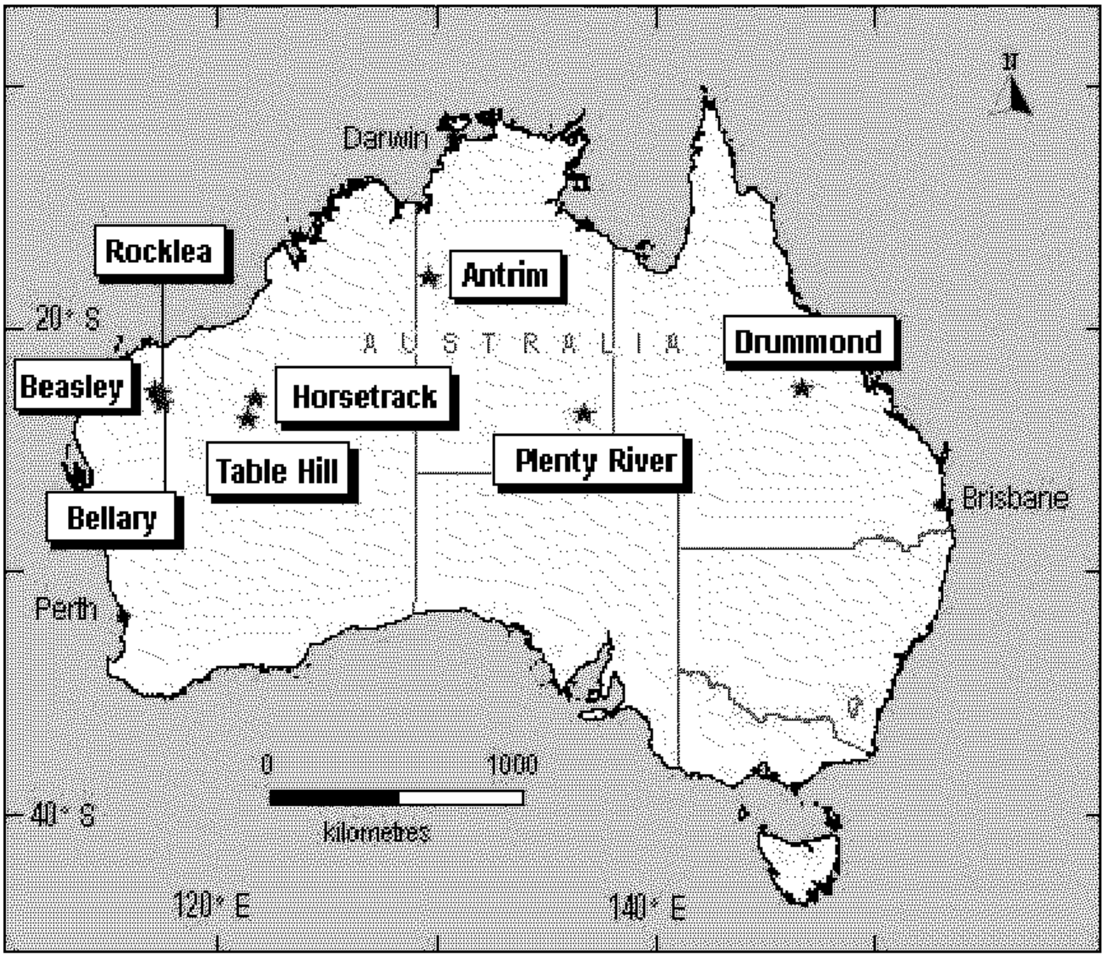

Figure 1: Project Location Plan

IRON ORE

Rocklea Iron Ore Prospect
(75% AQD)

The Rocklea iron ore prospect is located 50 kilometres northwest of Paraburdoo in WA, straddling the Nanutarra-Wittenoom road.

Scout drilling by Hamersley Exploration in 1978/79 testing surface pisolite/goethite occurrences within the upper reaches of the Hardey River, intersected iron ore mineralisation grading between 54% and 59% iron in several drill holes. Several holes do not appear to have drilled through the entire pisolite section.

The pisolite/goethite occurs within a broad fossil drainage system and has a number of characteristics similar to channel iron ore deposits found elsewhere in the Pilbara.

The iron mineralisation is low in phosphorous with values ranging from 0.01 to 0.04%.

Better mineralisation occurs in the lowermost section of the channel, which is open to the east. The channel is estimated to be 300 to 400 metres wide.

Examination of Landsat imagery suggests the pisolite is more extensive than was originally tested by drilling.

An RC drilling program (approximately 20 holes) has been designed to obtain samples for analysis and mineralogy and to locate the eastern extension of the channel. Drilling is planned for early 2005, pending site clearance and drill rig availability.

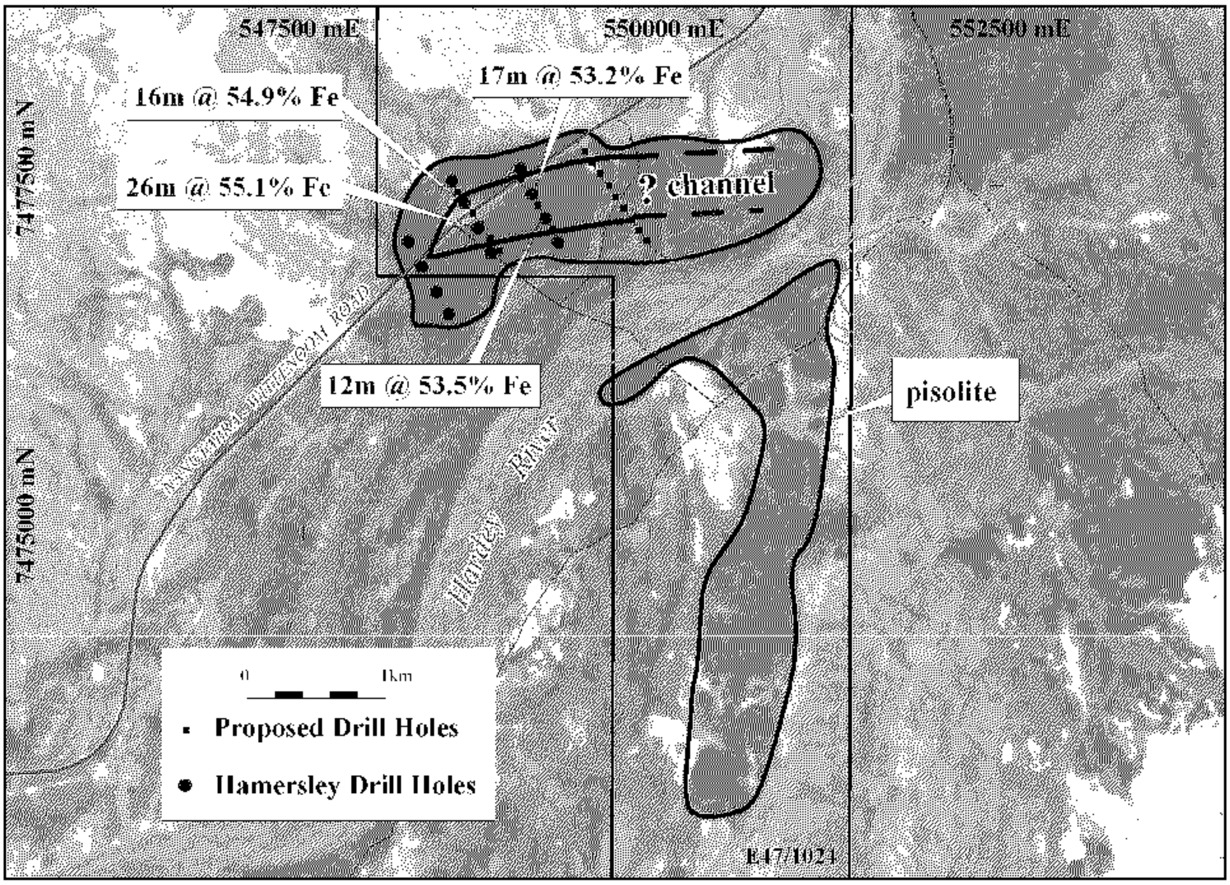

Figure 2: Rocklea Iron Ore Summary Plan

NICKEL PROJECTS

<u>Beasley Project</u>
(100% AQD)

The Beasley project is located 50 kilometres west of Tom Price in WA.

During the quarter exploration parameters for EM surveys were refined to take account of anticipated channel geometries and to reduce the effects of the underlying conductive sediments.

A moving loop EM survey was subsequently completed down dip from the basal ultramafic contact to test for nickel sulphide mineralisation within interpreted channels. Data is currently being processed, however preliminary indications suggest several low order responses may reflect sulphides within a channel type setting.

Downhole EM was completed in three of the holes drilled in August 2004 confirming the conductive nature of the sediments. No off-hole anomalies were detected.

Further mapping and sampling of the ultramafic rocks outlined several locations where channels can be interpreted near the base of the ultramafic unit.

Disseminated magmatic sulphides and zones of higher MgO content (up to 38%) were found in several areas including an area down dip from the Discovery gossan, highlighting possible channel locations.

Channels are important to the exploration model as they provide a pathway to mineralisation and are considered priority target areas for the accumulation of nickel sulphide mineralisation.

A drilling campaign at the Beasley project is currently being planned and is scheduled to commence early April 2005, subject to site clearances and drill rig availability.

<u>Bellary Project</u>
(75% AQD)

The project is centred on an area 40 kilometres southwest of Tom Price, WA, covering a 40 kilometre long belt of untested ultramafic rocks, which are similar in character to those found at the Beasley nickel project to the north.

During the quarter a regional stream sediment sampling program was completed with samples collected at approximately 500 metre intervals down slope from the basal ultramafic contact.

A total of 391 samples were collected with assay values ranging up to 569 ppm nickel, 223 ppm copper, 83 ppm cobalt, 34 ppb platinum and 20 ppb palladium.

Anomalous samples indicative of possible nickel sulphide mineralisation were outlined in four discrete areas.

Further sampling and mapping is planned within these higher priority areas ahead of EM surveying and drilling scheduled for later in the year.

During the sampling program previously unrecognised ultramafic units were also discovered, highlighting areas where additional stream sediment sampling is required to test the nickel potential.

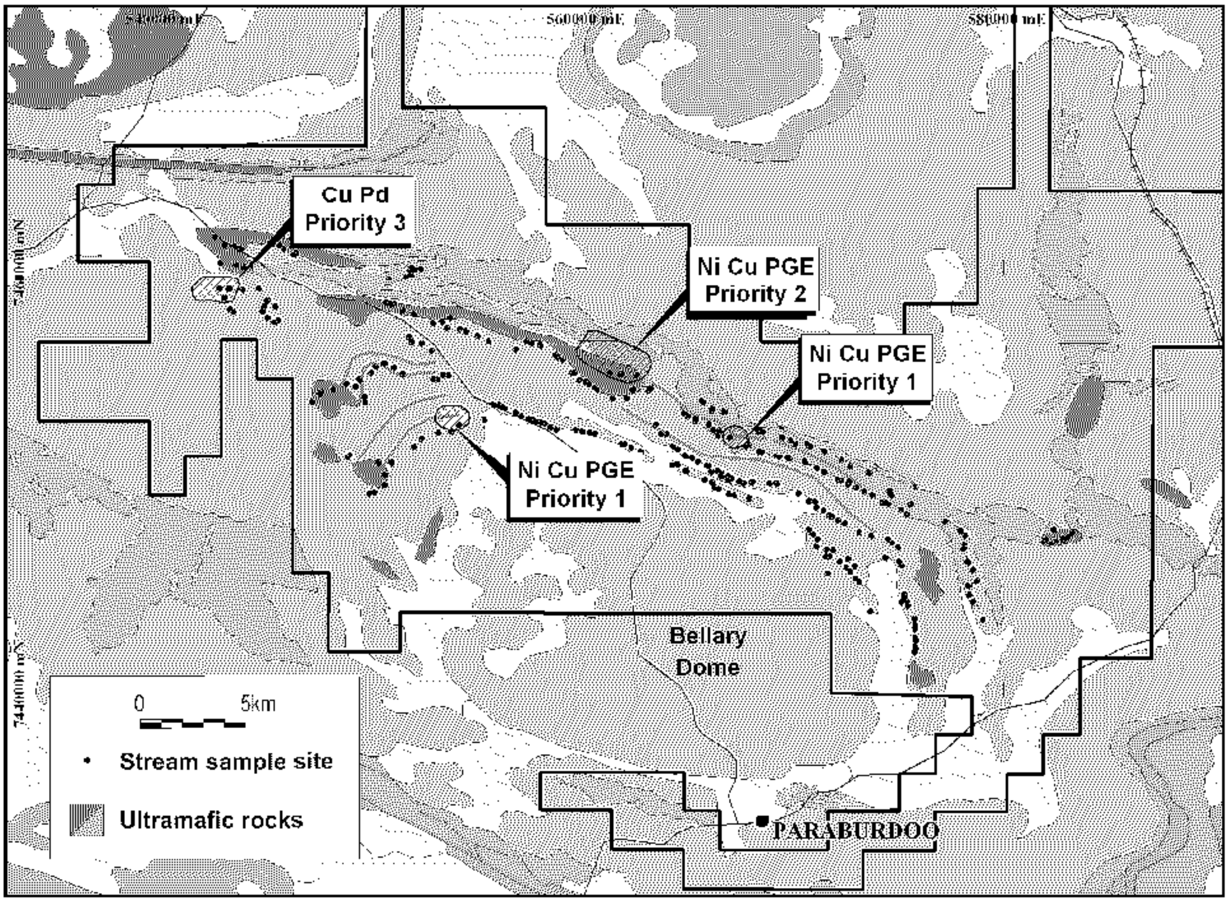

Figure 2: Bellary Nickel Project Summary Plan

Table Hill Project
(100% AQD)

The Table Hill project is located 200 kilometres east of Newman, WA. Exploration is targeting Noril'sk style nickel sulphide mineralisation within a feeder system to the regionally extensive Table Hill volcanics.

During the quarter AusQuest was advised by Sipa Resources that they were withdrawing from the Table Hill Joint

Venture Agreement. Sipa retain no equity in the project.

Work completed under the Sipa Joint Venture covered less than 5% of the mafic complex with the vast majority of potential host rocks still to be tested.

A trial airborne electromagnetic (AEM) survey (GeoTEM) was completed over the Canning prospect to test the ability of the GeoTEM method to locate massive sulphide mineralisation in this environment.

Results were highly encouraging and demonstrate that massive nickel sulphide mineralisation could be detected at depths of 300 metres below ground level within the mafic host rocks.

A regional GeoTEM traverse (170 kilometres long) was also flown and confirmed the resistive nature of the mafic host rocks and the general lack of high near surface conductivities (i.e. saline waters/ clays), which could render the GeoTEM method ineffective.

The company believes the use of GeoTEM at Table Hill would be a major step forward in exploring the area as it would fast track definition of drill targets within this large scale project.

AusQuest is committed to the next stage of exploration either through sole funding or with a new farm-in partner. Discussions have commenced with companies who have expressed an interest in the project.

<u>Antrim Project</u>
(100% AQD)

The Antrim project is located in the East Kimberley region (WA) and the Kalkarindji region (NT). Exploration is targeting Noril'sk style nickel sulphide mineralisation associated with the regionally extensive Antrim Plateau Basalts.

Broad spaced reconnaissance ground EM surveys were completed over four of the ten target areas proposed for detailed EM surveying. The programme was limited by the availability of the contract crew and very difficult access due to thick scrub.

Strong EM anomalies were located on two of the grids outlining three possible drill targets below the Antrim basalt. Modelling of data is in progress to confirm drill sites or the need for infill surveying.

Commencement of further field work will be determined by the end of the wet season.

GOLD

<u>Drummond Project</u>
(100% AQD - Rio Tinto claw back)

The Drummond gold project is located 300 kilometres southwest of Mackay in central Queensland.

Orientation soil sampling was undertaken at the Wild Horse prospect, centred on the 1.2 g/t gold occurrence in vein quartz chips from an old water bore site. Despite subdued geochemical values due to transported gravelly sand soils, patterns of low-level Au, Ag and As suggest a deep bedrock/structural control for the gold mineralisation.

Additional sampling at the Wild Horse prospect is planned for the next quarter to better define geochemical trends and confirm drill targets.

Interpretation of aeromagnetic data outlined a number of similar domal type structures south and east of the Wild Horse prospect, which are considered prospective for gold. Several of these target areas will be included in the upcoming soil sampling program.

Horsetrack Project
(100% AQD)

The Horsetrack gold project is located 120 kilometres south of the +27 moz Telfer gold mine, WA.

Results from the regional soil sampling program completed during the last quarter outlined several gold and multi element anomalies.

The gold anomalies are low order (max 2.7 ppb Au), however values are consistent with anomalism (2 ppb Au) found over gold mineralisation in the Telfer region, in cases where sand dunes dominate the sampling terrain.

A ten kilometre long gold zone (+Cu +/- Bi, Co, Mo, As) was outlined in the southern half of the area. Its close association with secondary structures off the Marloo fault and magnetic intrusions within the Proterozoic sediments makes this a high priority target area.

Infill sampling and mapping are planned to better define the anomalous area ahead of initial drill testing. Work is scheduled for the second quarter.

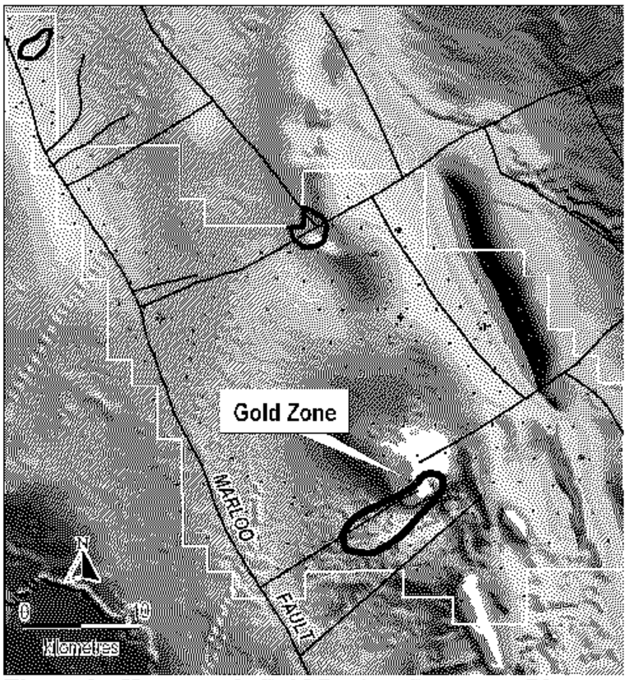

Figure 3: Horsetrack Gold Project Summary Plan

OTHER PROJECTS

Plenty River Diamond Project
(100% AQD - Rio Tinto farm-in)

The Plenty River project is located 230 kilometres east of Alice Springs (NT) on the northwest margin of the Simpson Desert. The project includes a potential new kimberlite field as interpreted from detailed aeromagnetic data released by the NT Government in 2002.

During the quarter the company was advised by the Central Land Council that they were seeking authorisation from the Federal Minister for Aboriginal Affairs to reopen negotiations over the two EL applications that are currently under veto.

These tenements contain the vast majority of interpreted kimberlite targets.

CORPORATE

The Company's cash balance as at 31st December 2004 was approximately $1.3 million.

GDrew

Graeme Drew
Managing Director

Rule 5.3

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

AUSQUEST LIMITED

ABN	Quarter ended ("current quarter")
35 091 542 451	31 December 2004

Consolidated statement of cash flows

	Cash flows related to operating activities	Current quarter $A'000	Year to date (6 months) $A'000
1.1	Receipts from product sales and related debtors	-	-
1.2	Payments for		
	(a) exploration and evaluation	(389)	(808)
	(b) development	-	-
	(c) production	-	-
	(d) administration	(120)	(209)
1.3	Dividends received		
1.4	Interest and other items of a similar nature received	6	23
1.5	Interest and other costs of finance paid		
1.6	Income taxes paid		
1.7	Other (provide details if material)		
	Net Operating Cash Flows	(503)	(994)
	Cash flows related to investing activities		
1.8	Payment for purchases of:		
	(a)prospects		
	(b)equity investments		
	(c) other fixed assets	(3)	(7)
1.9	Proceeds from sale of:		
	(a)prospects		
	(b)equity investments		
	(c)other fixed assets		
1.10	Loans to other entities		
1.11	Loans repaid by other entities		
1.12	Other (provide details if material)		
	Net investing cash flows	(3)	(7)
1.13	Total operating and investing cash flows (carried forward)	(506)	(1,001)

+ See chapter 19 for defined terms.

1.13	Total operating and investing cash flows (brought forward)	(506)	(1,001)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.		
1.15	Proceeds from sale of forfeited shares		
1.16	Proceeds from borrowings		
1.17	Repayment of borrowings		
1.18	Dividends paid		
1.19	Other payment of capital raising expenses		
	Net financing cash flows	-	-
	Net increase (decrease) in cash held	(506)	(1,001)
1.20	Cash at beginning of quarter/year to date	1,865	2,360
1.21	Exchange rate adjustments to item 1.20		
1.22	**Cash at end of quarter / year to date**	**1,359**	**1,359**

Payments to directors of the entity and associates of the directors
Payments to related entities of the entity and associates of the related entities

		Current quarter $A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	70
1.24	Aggregate amount of loans to the parties included in item 1.10	Nil

1.25 Explanation necessary for an understanding of the transactions

Executive directors' salaries and non-executive directors fees and superannuation and rental of office space

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

The issue of 1,000,000 ordinary fully paid shares to acquire 100% of the share capital of Fortescue Resources Pty Ltd ACN 091 453 468 (refer 6.2).

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

Financing facilities available

Add notes as necessary for an understanding of the position.

		Amount available $A'000	Amount used $A'000
3.1	Loan facilities		
3.2	Credit standby arrangements		

Estimated cash outflows for next quarter

		$A'000
4.1	Exploration and evaluation	300
4.2	Development	
	Total	**300**

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.		Current quarter $A'000	Previous quarter $A'000
5.1	Cash on hand and at bank	(24)	(96)
5.2	Deposits at call		
5.3	Bank overdraft		
5.4	Other (Money market – 1 to 6 months)	1,383	1,961
	Total: cash at end of quarter (item 1.22)	1,359	1,865

Changes in interests in mining tenements

		Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed	E 23222 E 23223 E 23225 E 23228		100% 100% 100% 100%	Nil Nil Nil Nil
6.2	Interests in mining tenements acquired or increased	E47/1022 E47/1023 E47/1024		Nil Nil Nil	75% 75% 75%

+ See chapter 19 for defined terms.

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

		Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1	**Preference +securities** *(description)*				
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3	**+Ordinary securities**	41,508,000	33,816,200		
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs		1,000,000 (refer 2.1)		Fully paid
7.5	**+Convertible debt securities** *(description)*				
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7	**Options** *(description and conversion factor)*	1,500,000 10,150,451 10,000,000 1,950,000	- - 10,000,000 -	*Exercise price* 20 cents 20 cents 20 cents 30 cents	*Expiry date* 31 Aug 2007 31 Aug 2008 30 Nov 2006 31 Aug 2009
7.8	Issued during quarter	1,950,000		30 cents	31 Aug 2009
7.9	Exercised during quarter				
7.10	Expired during quarter				
7.11	**Debentures** *(totals only)*				
7.12	**Unsecured notes** *(totals only)*				

+ See chapter 19 for defined terms.

Compliance statement

1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).

2 This statement does give a true and fair view of the matters disclosed.

Date: .31 January 2005..........................

(Company secretary)

Print name: Lloyd Flint...

Notes

1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.

2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.

3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.

4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.

5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

== == == == ==