

**AUSQUEST LIMITED**  
ABN 35 091 542 451  
**AND CONTROLLED ENTITIES**

Half-Yearly Consolidated Financial Report  
31 December 2004

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**AUSQUEST LIMITED ABN 35 091 542 451**

**HALF-YEAR FINANCIAL REPORT  
For the Half Year Ended 31 December 2004**

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## COMPANY DIRECTORY

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### **DIRECTORS**

John Innes  
(Chairman)

Graeme Drew  
(Managing Director)

John Ashley  
(Executive Director)

Gregory Hancock  
(Non-Executive Director)

### **COMPANY SECRETARY**

Lloyd Flint

### **PRINCIPAL OFFICE**

6 Kearns Crescent  
ARDROSS WA 6153  
Telephone: (08) 9364 3866  
Facsimile: (08) 9364 4892

### **REGISTERED OFFICE**

Level 2  
47 Colin Street  
West Perth 6005

### **AUDITORS**

HLB Mann Judd  
15 Rheola Street  
WEST PERTH WA 6005

### **SHARE REGISTRAR**

Advanced Share Registry Services  
Level 7, Adelaide Terrace  
PERTH WA 6000  
Telephone: (08) 9221 7288  
Facsimile: (08) 9221 7869

### **STOCK EXCHANGE LISTING**

Australian Stock Exchange  
(Home Exchange: Perth, Western Australia)  
Code: AQD/AQDO

**AUSQUEST LIMITED ABN 35 091 542 451  
AND CONTROLLED ENTITIES**

**INTERIM FINANCIAL REPORT**

**DIRECTORS' REPORT**

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Your directors submit the financial report of the economic entity for the half-year ended 31 December 2004.

**DIRECTORS**

The names of Directors who held office during or since the end of the half year:

John Innes  
Graeme Drew  
John Ashley  
Gregory Hancock

**REVIEW OF OPERATIONS**

Field operations continued throughout the reporting period with emphasis on advancing projects to drill status.

At the Beasley nickel project a short drill program to test two strong electromagnetic (EM) anomalies located sulphidic sediments beneath the target ultramafic contact but more recent work including mapping, sampling, moving-loop and down-hole EM has identified a number of new nickel sulphide targets for drill testing in early 2005.

South of Beasley, three Exploration Licences within the Bellary nickel project were granted providing access to over 40 kilometres of prospective and untested ultramafic rocks similar to those found at Beasley. A regional stream sediment sampling program was completed outlining at least four areas of anomalous Ni, Cu, and PGMs for follow-up.

The potential for channel iron ore deposits was recognised within the Bellary project tenements. Scout drilling by Hamersley Exploration in 1978/79 testing surface pisolite/goethite occurrences intersected iron ore mineralisation grading between 54% and 59% iron in several drill holes. Examination of Landsat imagery suggests the pisolite is more extensive than was originally tested and further drilling is planned for early 2005.

At the Table Hill nickel project a trial airborne electromagnetic survey (GeoTEM) was completed with results indicating significant massive nickel sulphide mineralisation could be detected to depths of at least 300 metres in this environment. The Canning EM anomaly was used as a test site for the trial survey. The company believes the use of GeoTEM will significantly advance the project enabling large areas to be tested, and potential drill targets defined, within a shorter period of time.

At the Antrim nickel project broad spaced reconnaissance EM has identified potential drill targets below the Antrim basalts that will be followed up in 2005.

On the gold front, both the Drummond and Horsetrack projects were advanced. At Drummond, discovery of gold within sulphidic quartz vein material from an old water bore site focussed

attention onto new target areas. Initial surface sampling around the water bore was completed and drilling is planned for 2005. Similar geological targets in the surrounding area have been highlighted for sampling in 2005.

At Horsetrack regional surface sampling identified a ten kilometre long gold zone (+Cu +/- Bi, Co, Mo, As) associated with fault structures and magnetic intrusions within the sediments. Follow-up work is planned for 2005.

Access to the Plenty River diamond project improved when the Central land Council advised they were seeking authorisation from the Federal Minister for Aboriginal Affairs to reopen negotiations over the two vetoed tenement applications. These tenements contain the vast majority of interpreted kimberlite targets and could be tested quickly if and when access is granted. This project is subject to a Rio Tinto Farm-in Agreement.

Generative work also continued along with the search for new opportunities that would increase shareholder exposure to new discovery opportunities.

## **CORPORATE**

On 30 September 2004, the Company issued 1,950,000 options exercisable on or before 31 August 2009, at \$0.30. 1,000,000 options of the total issued were granted to the directors of the Company, being 500,000 options to Mr Graeme Drew, 250,000 options to Mr John Ashley, 125,000 options to Mr Greg Hancock and 125,000 options to Mr John Innes.

On 25 October 2004, the Company issued 1,000,000 fully paid ordinary shares for no consideration pursuant to a vendor agreement to acquire the tenements EL 47/1022, EL 47/1023, EL 47/1024, EL 47/1040, EL 51/923 and EL 51/924.

### **Auditor Independence**

Section 307C of the Corporations Act 2001 requires our auditors, HLB Mann Judd, to provide the directors of the company with an Independence Declaration in relation to the review of the half-year financial report. This Independence Declaration is set out on page 12 and forms part of this directors report for the half year ended 31 December 2004.

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This report is signed in accordance with a resolution of the Board of Directors.



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Graeme Drew  
Managing Director

Perth  
Dated : 8th March 2005

**AUSQUEST LIMITED ABN 35 091 542 451  
AND CONTROLLED ENTITIES**

**CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE**

For the Half-Year Ended 31 December 2004

	Note	Economic Entity	
		31 December 2004 \$	31 December 2003
Revenue from ordinary activities	2	49,019	211,606
Employee benefits expense		(33,802)	(25,500)
Depreciation & amortisation expense		-	(2,145)
Borrowing costs expense		-	(5,550)
Administration expenses		(142,153)	(62,245)
Occupancy expense		(29,221)	(28,730)
Other expenses from ordinary activities		(31,130)	(9,585)
(Loss)/profit from ordinary activities before income tax (expense)/benefit		(187,287)	77,851
Income tax (expense)/benefit relating to ordinary activities		-	-
Operating profit from ordinary activities after income tax (expense)/benefit attributable to members of the parent entity		(187,287)	77,851
Basic earnings per share (cents per share)		(0.46)	0.26

The accompanying notes form part of this financial report.

**AUSQUEST LIMITED ABN 35 091 542 451  
AND CONTROLLED ENTITIES**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
As at 31 December 2004

	<b>Consolidated Entity</b>		
	<b>Notes</b>	<b>31 December 2004 \$</b>	<b>30 June 2004 \$</b>
<b>CURRENT ASSETS</b>			
Cash assets		1,459,358	2,617,724
Receivables		<u>45,779</u>	<u>68,804</u>
<b>TOTAL CURRENT ASSETS</b>		<u>1,505,137</u>	<u>2,686,528</u>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		36,641	29,133
Exploration expenditure		<u>3,721,202</u>	<u>2,760,627</u>
<b>TOTAL NON-CURRENT ASSETS</b>		<u>3,757,843</u>	<u>2,789,760</u>
<b>TOTAL ASSETS</b>		<u>5,262,980</u>	<u>5,476,288</u>
<b>CURRENT LIABILITIES</b>			
Payables		<u>187,364</u>	<u>363,385</u>
<b>TOTAL CURRENT LIABILITIES</b>		<u>187,364</u>	<u>363,385</u>
<b>TOTAL LIABILITIES</b>		<u>187,364</u>	<u>363,385</u>
<b>NET ASSETS</b>		<u>5,075,616</u>	<u>5,112,903</u>
<b>EQUITY</b>			
Contributed equity	3	5,164,610	5,014,610
Accumulated losses		<u>(88,994)</u>	<u>98,293</u>
<b>TOTAL EQUITY</b>		<u>5,075,616</u>	<u>5,112,903</u>

The accompanying notes form part of this financial report.

**AUSQUEST LIMITED ABN 35 091 542 451  
AND CONTROLLED ENTITIES**

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
For the Half-Year Ended 31 December 2004

	<b>Consolidated Entity</b>	
	<b>31 December</b>	<b>31 December</b>
	<b>2004</b>	<b>2003</b>
	\$	\$
<b>CASHFLOWS FROM OPERATING ACTIVITIES</b>		
Payments to suppliers and employees	(150,082)	(190,516)
Interest received	57,285	12,169
Borrowing costs	-	(5,550)
Receipts – other	-	68,319
	<hr/>	<hr/>
Net cash used in operating activities	(92,797)	(115,578)
<b>CASHFLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(7,509)	(1,306)
Payments for exploration expenditure	(1,058,060)	(316,131)
	<hr/>	<hr/>
Net cash used in investing activities	(1,065,569)	(317,437)
<b>CASHFLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issue of shares	-	4,075,000
Payments for costs of issue of shares	-	(413,864)
Repayment of borrowings	-	(50,000)
	<hr/>	<hr/>
Net cash provided by financing activities	-	3,611,136
Net increase in cash held	(1,158,366)	3,178,121
Cash at beginning of period	2,617,724	205,967
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Cash at end of period	1,459,358	3,384,088
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**AUSQUEST LIMITED ABN 35 091 542 451  
AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS**  
For the Half-Year Ended 31 December 2004

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**1. STATEMENT OF SIGNIFICANT ACCOUNT POLICIES**

**(a) BASIS OF PREPARATION**

The half-year financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001, Accounting Standard AASB 1029: "Interim Financial Reporting", Urgent Issues Group Consensus Views and other authoritative pronouncements of the Australian Accounting Standards Board.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2004 and any public announcements made by AusQuest Limited during the half-year in accordance with continuous disclosure requirements arising under the Corporations Act 2001.

The financial report has been prepared on the basis of historical costs, and does not take into account changing money values.

The accounting policies, have been consistently applied by the economic entity and are consistent with those applied in the 30 June 2004 annual report. For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

The half-year report does not include full disclosures of the type normally included in an annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the entity as the full financial report.

**(b) INTERNATIONAL FINANCIAL REPORTING STANDARDS**

International Financial Reporting Standards (IFRS) or the Australian equivalents are effective for financial years commencing 1 January 2005. This requires the production of accounting data for future comparative purposes for the first full financial year after implementation, being the year ended 30 June 2006. The economic entity's management, along with its auditors, continue to assess the significance of these changes and the preparation for their implementation. We will seek to keep stakeholders informed as to the impact of these new standards as they are finalised. The directors are of the opinion that the key differences in the economic entity's accounting policies which will arise from the adoption of IFRS are:

*i) Impairment of Assets*

The economic entity currently determines the recoverable amount of an asset on the basis of undiscounted net cash flows that will be received from the assets use and subsequent disposal. In terms of pending AASB 136: *Impairment of Assets*, the recoverable amount of an asset will be determined as the higher of fair value less costs to sell and value in use. It is likely that this change in accounting policy will lead to impairments being recognised more often than under the existing policy.

*ii) Income Tax*

Currently, the economic entity adopts the liability method of tax-effect accounting whereby the income tax expense is based on the accounting profit adjusted for any permanent differences. Timing differences are currently brought to account as either a provision for deferred income tax or future income tax benefit. Under the Australian equivalent to IAS 12, the Company will be required to adopt a balance sheet approach under which temporary differences are identified for each asset and liability rather than the effects of the timing and permanent differences between taxable income and accounting profit.

**AUSQUEST LIMITED ABN 35 091 542 451  
AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS**  
For the Half-Year Ended 31 December 2004

**(b) INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)**

*iii) Exploration Expenditure*

AASB 6 "Exploration for and Evaluation of Mineral Resources" will require the Company to apply "area of interest" accounting to their exploration and evaluation expenditures, effectively grandfathering the treatment currently used by the Company under AASB 1022 "Accounting for the Extractive Industries". Under AASB 6, if facts and circumstances suggest that the carrying amount of any recognised exploration and evaluation assets may be impaired, the Company must perform impairment tests on those assets in accordance with AASB 136 "Impairment of Assets". Impairment of exploration and evaluation assets is to be assessed at a cash generating unit or group of cash generating units level provided this is no larger than an area of interest. Any impairment loss is to be recognised as an expense in accordance with AASB 136. It is anticipated that it is unlikely that this change of policy will have a material impact on the financial position of the company.

**2. PROFIT FROM ORDINARY ACTIVITIES**

	<b>31 December 2004</b>	<b>31 December 2003</b>
	\$	\$
The following revenue and expense items are relevant in explaining the financial performance for the interim period:		
<b>Revenues from ordinary activities</b>		
Interest revenue	49,019	23,407
Debts forgiven	-	119,880
Revenue from joint venture consulting	-	22,864

**3. CONTRIBUTED EQUITY**

	<b>31 December 2004</b>	<b>30 June 2004</b>
	\$	\$
Brought Forward Balance – 40,508,000 fully paid ordinary shares	5,014,610	1,367,014
16 September 2003 - Seed Capital Issue	-	55,000
16 September 2003 – Liability owing to a director and consultants converted to share capital	-	50,000
25 November 2003 – Initial Public Offering	-	4,000,000
25 November 2003 – Shares issued to directors pursuant to Prospectus	-	20,000
25 October 2004 – Shares issued to acquire tenements pursuant to purchase agreement	150,000	-
Transaction costs relating to share issue		(477,404)
Carried Forward Balance – 41,508,000 shares	5,164,610	5,014,610

**AUSQUEST LIMITED ABN 35 091 542 451  
AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS**  
For the Half-Year Ended 31 December 2004

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**4. ACQUISITION OF CONTROLLED ENTITIES**

The following controlled entities were acquired during the period:

2004

Name	Date Acquired	Consolidated Entity's Interest %	Consideration \$	Contribution to Consolidated Net Result \$
Fortescue Resources Pty Ltd	26 October 2004	100	150,000	-

AusQuest Ltd acquired 100% of Fortescue Resources Pty Ltd via the issue of 1,000,000 ordinary fully paid shares at a deemed issue price of 15 cents per share. The directors have assessed that the fair value of the net assets acquired is as follows :

Assets acquired:	\$
- Exploration properties acquired	150,000

2003

The economic entity did not gain control over any entities during the prior corresponding period.

**5. SEGMENT INFORMATION**

The economic entity operates predominantly in one geographical segment, being Australia, and in one business segment, mineral mining and exploration and substantially all of the entity's resources are employed for this purpose.

**6. EVENTS SUBSEQUENT TO REPORTING DATE**

Since 31 December 2004, no event has arisen that would be likely to materially affect the operations of the economic entity, or the state of affairs of the company not otherwise disclosed in the economic entity's financial report.

**7. CONTINGENT LIABILITIES**

There has been no change in contingent liabilities since the last annual reporting date.

**AUSQUEST LIMITED ABN 35 091 542 451  
AND CONTROLLED ENTITIES**

**DIRECTORS' DECLARATION**  
For the Half Year Ended 31 December 2004

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The Directors of the Company declare that:

1. The financial statements and notes, as set out on pages 4 to 9:
  - (a) comply with Accounting Standard AASB 1029: Interim Financial Reporting and the Corporations Regulations 2001; and
  - (b) give a true and fair view of the economic entity's financial position as at 31 December 2004 and its performance for the half-year ended on that date.
2. In the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.



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G Drew  
Managing Director

PERTH  
Dated this 8th day of March 2005



Chartered Accountants

## AUDITORS' INDEPENDENCE DECLARATION

As lead auditor for the review of the financial report of AusQuest Limited for the half year ended 31 December 2004, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of AusQuest Limited.

Perth, Western Australia  
8 March 2005

A handwritten signature in black ink, appearing to read 'WM Clark'.

WM Clark  
Partner, HLB Mann Judd



Chartered Accountants

**INDEPENDENT REVIEW REPORT**

**To the Members of  
AUSQUEST LIMITED**

*Scope*

We have reviewed the financial report of AusQuest Limited for the half-year ended 31 December 2004 as set out on pages 4 to 10. The financial report includes the consolidated financial statements of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year. The company's directors are responsible for the preparation and presentation of the financial report and the information contained therein.

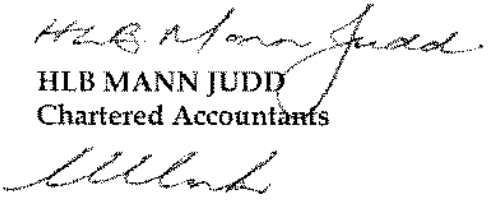
We have performed the review of the financial report in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with Accounting Standard AASB 1029 "Interim Financial Reporting" and other mandatory professional reporting requirements and statutory requirements in Australia, so as to present a view which is consistent with our understanding of the consolidated entity's financial position and performance as represented by the results of its operations and its cash flows, and in order for the company to lodge the financial report with the Australian Securities and Investments Commission / Australian Stock Exchange Limited

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. The review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. Our review has not involved a study and evaluation of internal accounting controls, tests of accounting records or tests of responses to inquiries by obtaining corroborative evidence from inspection, observation or confirmation. The procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

*Statement*

Based on our review, which is not an audit, we have not become aware of any matter that causes us to believe that the half-year financial report of AusQuest Limited is not drawn up in accordance with:

- a) the Corporations Act 2001, including:
  - i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2004 and of its performance for the half-year ended on that date; and
  - ii) complying with Accounting Standard AASB 1029 "Interim Financial Reporting" and the Corporations Regulations; and
- b) other mandatory professional reporting requirements in Australia.

  
HLB MANN JUDD  
Chartered Accountants


W M CLARK  
Partner

Perth, Western Australia  
8 March 2005

HLB Mann Judd (WA Partnership)

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Partners: Ian H Barclay, Terry M Bankinapp, Liliso Christodouros, Wayne M Clark, Luceo Di Gallesarzo, Colin D Emmott, Trevor G Huddy, Norman G. Neill, Peter J Speechley

HLB Mann Judd (WA Partnership) is a member of  International and the HLB Mann Judd National Association of independent accounting firms