AUSQUEST LIMITED

ABN 35 091 542 451

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ASX Release

AUSQUEST AND RIO TINTO SIGN LETTER OF INTENT FOR NAMELESS IRON ORE EXPLORATION PROJECT IN THE PILBARA

The Board of AusQuest Limited (ASX: AQD) ("AusQuest" or "the Company") is pleased to announce that it has signed a Letter of Intent (LOI) with Hamersley Iron Pty Limited, a member of the Rio Tinto Group ("Rio Tinto"), setting out the basis on which the companies intend to negotiate a formal and binding agreement, to progress AusQuest's recently identified Nameless iron ore exploration project, located 5 kilometres from the town of Tom Price in the Pilbara region of WA.

The Nameless Prospect is part of AusQuest's portfolio of iron- and nickel-prospective tenements in the Pilbara region of WA and encompasses a potentially substantial pisolitic iron ore target identified by AusQuest earlier this year, located in close proximity to Rio Tinto's existing mining operations in the Tom Price area.

Under the LOI it is contemplated that Rio Tinto will, subject to the fulfilment of certain conditions precedent (including the grant of the tenement to AusQuest) take up an equity position in AusQuest through a $1.0 million placement at 20 cents per share (with an attaching 40 cent free option exercisable within 24 months). The funds will be applied toward an initial work program at the Nameless Prospect with a budget of $250,000. This program will be designed to ascertain the iron-ore potential of the Nameless Prospect.

AusQuest will manage the initial work program (consisting mainly of drilling), which is expected to be completed by mid 2006. A heritage agreement covering the Nameless Prospect has been signed with Native Title claimants to facilitate the grant of the tenement, which is expected to occur in early 2006.

At the completion of the initial work program, Rio Tinto may exercise a right to earn and take interests in the prospect subject to the fulfilment of certain conditions including an Order of Magnitude Study ("OMS") to be completed within a 2 year period (which will be managed by Rio Tinto) as well as paying to AusQuest $7.5 million in cash within 3 years of completing the OMS at a minimum rate of $2.0 million per annum.

The LOI also contemplates that:

- Rio Tinto will have the opportunity to take up further equity in AusQuest by way of two further placements of shares (and free options) of $500,000 each at a premium to market.

- AusQuest will retain the right to participate in the project at a 40% level and will also be able to elect to sell down or dilute its equity to a minimum of 20%, at which time it must either contribute to ongoing funding for the project or convert its equity to a 1.25% Gross Revenue Royalty.

- A feasibility study to develop the prospect will be undertaken by Rio Tinto.

- Rio Tinto will be granted a first right of refusal over other iron ore tenements held or acquired by AusQuest within the Tom Price-Paraburdoo area.

Reconnaissance geological mapping and sampling completed by AusQuest at the Nameless Prospect, earlier this year identified channel fill pisolitic iron mineralisation over a strike length of approximately 15 kilometres, with chemical analysis of 15 surface pisolite rock samples collected along the strike length of the channel returning promising iron grades (55% to 58% Fe). Mineralisation is similar in style to other pisolitic deposits mined elsewhere in the Pilbara.

The channel varies in width from 200 metres in the east where it cuts through the Marra Mamba Iron Formation to 500 metres over the majority of its strike length. In places detrital iron mineralisation occurs along the margins of the channel.

Wood fragments identified within the pisolitic iron outcrops are diagnostic of channel or valley fill material and confirm correlations being made with the Robe Pisolite.

The Nameless Prospect had been confirmed as a priority exploration focus for AusQuest because of the potential of the channel to host significant tonnages of iron ore mineralisation.

The Board of AusQuest is very encouraged by the proposal and Rio Tinto's anticipated participation in the Nameless iron project as it may provide a realistic opportunity to advance the project should the initial test program provide the necessary encouragement to proceed.

The companies will now progress negotiations towards a formal and binding agreement

A Media Release pertaining to this announcement, to be issued today, is attached.

GDrew

Graeme Drew
Managing Director