



Quarterly Report - 31 December 2005

HIGHLIGHTS

Iron Ore

- Rio Tinto and AusQuest sign a Letter of Intent (LOI) to progress evaluation of the Nameless Iron Project located 5 kms from Rio Tinto's existing iron ore operations at Tom Price in the Pilbara region of WA.
- Under the LOI, Rio Tinto to take up \$1.0M placement in AusQuest subject to certain conditions to initially earn a 60% equity in the Nameless Prospect.
- Detailed mapping and reconnaissance sampling implies continuity and defines surface dimensions (15 km x 200-700 metres) of the Nameless pisolitic iron channel.
- Site clearance approval received for upcoming Nameless drill program, with RC drilling to commence as soon as possible after the tenement is granted.
- Nameless tenement in the application stage and expected to be granted during the first quarter of 2006.
- Reconnaissance mapping identifies pisolitic iron mineralisation (grades ranging from 55% to 58% Fe) within the Sylvania Project, 10 kms south of Newman in the east Pilbara region of WA.

Nickel, Diamonds

- Falconbridge (Australia) signs Option Agreement to explore for nickel sulphide mineralisation within AusQuest's Beasley-Bellary project areas located to the west and south of Tom Price in WA.
- GEOTEM surveying (8,050 line kms) at the Table Hill nickel project (subject to Falconbridge farm-in) outlines 16 priority targets for testing during 2006.
- Reconnaissance mapping at Bellary locates gossan float (Ni 128ppm, Cu 1105ppm, PGE's 4.2g/t, Cr 1260ppm) significantly upgrading the potential of the area.
- Initial ground work completed over 16 targets at the Plenty River diamond project east of Alice Springs (subject to Rio Tinto farm-in).

Corporate

- Cash balance at 31 December 2005 approximately \$2.6 million.

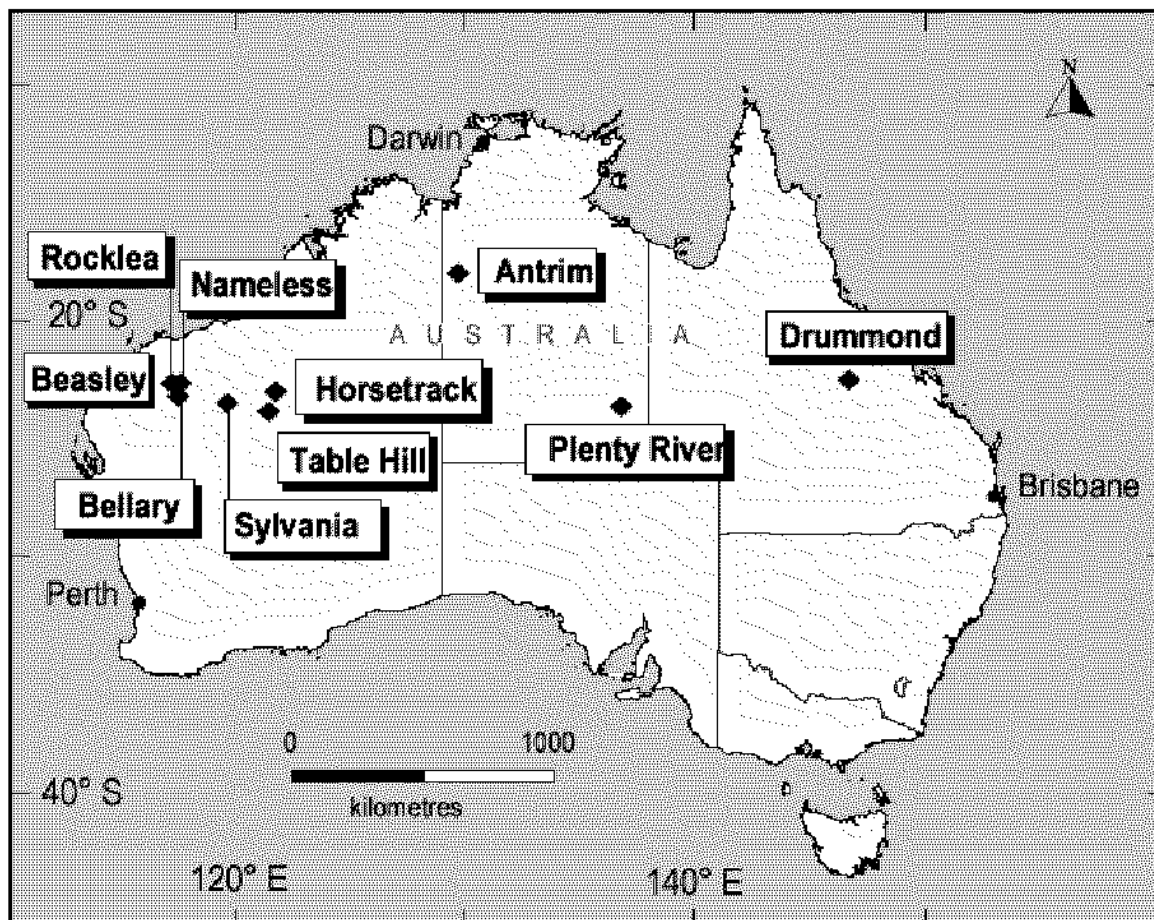


Figure 1: Project Location Plan

PROJECTS

IRON ORE

Nameless Prospect

(100% AQD)

The Nameless Iron Prospect is located 5 kilometres north west of Tom Price in the Pilbara region of WA.

During the quarter, AusQuest signed a Letter of Intent (LOI) with Rio Tinto whereby Rio Tinto can earn at least a 60% equity in the Prospect.

Under the LOI it is contemplated that Rio Tinto will, subject to the fulfilment of certain conditions precedent (including the grant of the Nameless 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). These funds will be applied towards an initial work program at the

Nameless Prospect with a budget of \$250,000. This program will be designed to further assess 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.

At the completion of the initial work program, Rio Tinto may exercise a right to earn and take interest in the prospect subject to the fulfilment of certain conditions, including the completion of an Order of Magnitude Study (“OMS”) within a 2-year period (which will be managed by Rio Tinto) as well as the payment of \$7.5 million in cash to AusQuest 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; and
 - 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.
- The terms of a formal and binding agreement between the parties are currently being negotiated and drafted for signing.

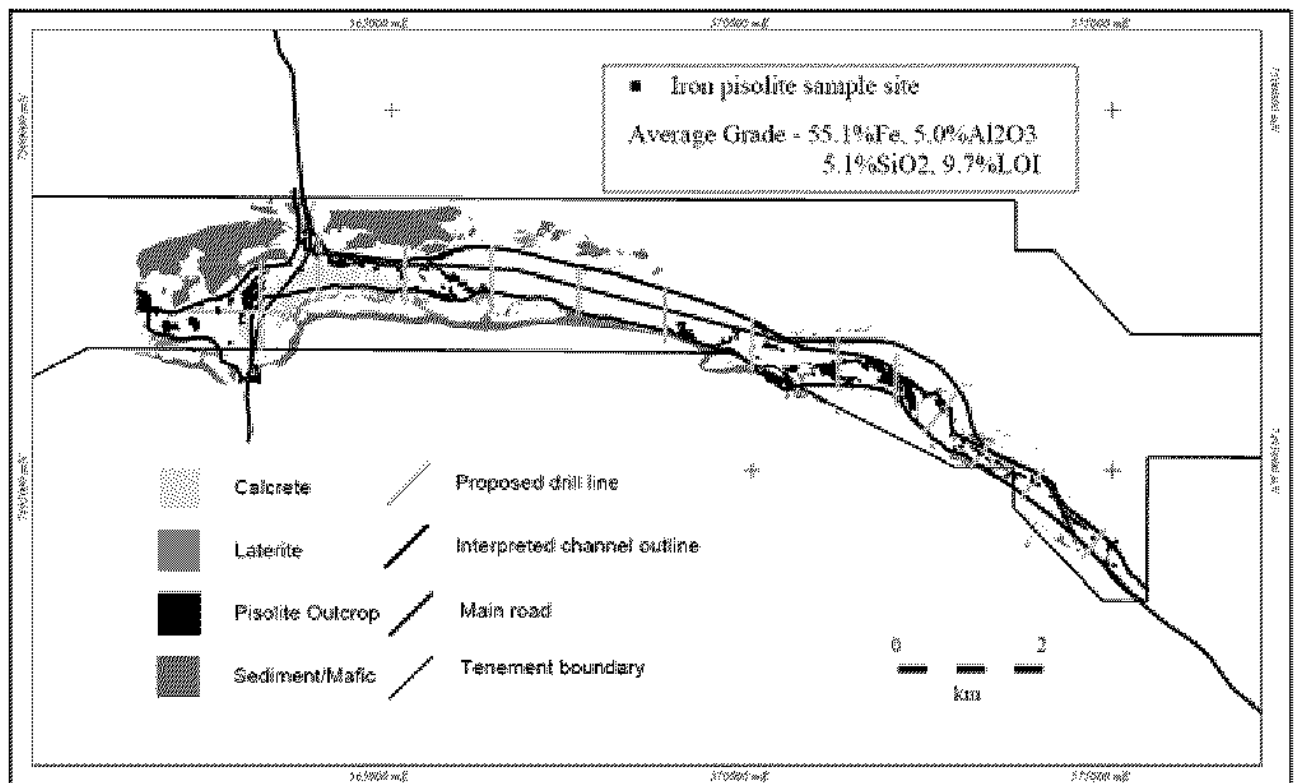


Figure 2 Nameless Iron Prospect – geological mapping

Detailed mapping and sampling carried out during the quarter located numerous outcrops of pisolitic iron mineralisation over the 15 km strike length of the previously identified channel at Nameless and extended the channel a further 1.0 km west of the Nannutarra-Wittenoom road (figure 2).

Channel margins are marked by the onset of lateritised bedrock varying from Marra Mamba Iron Formation in the east, to

shales and dolerites in the west. Nowhere does the underlying bedrock outcrop within the confines of the mapped channel.

Channel widths vary from 200 to 700 metres but some sections of the channel are hidden by more recent alluvial cover.

Analyses of 56 pisolitic iron samples collected from outcrop along the full strike length of the channel returned average grades of 55.1% Fe, 5.0% Al₂O₃, 5.1%

SiO₂ and 9.7% LOI with phosphorous values <0.05%.

These values reflect surface altered samples and provide a guide only to grades within unaltered pisolite that is anticipated to occur below the surface.

The Nameless tenement is in the application stage and is expected to be granted during the first quarter of 2006. Site clearance has been received from the Traditional Owners, which will allow RC drilling to commence soon after tenement is granted.

Rocklea Prospect (75% AQD)

The Rocklea iron ore prospect is located 40 kilometres west of Tom Price and straddles the Nannutarra-Wittenoom road.

During the quarter site clearance was received for further scout RC drilling to test strike extensions of the pisolitic channel iron mineralisation intersected by drilling in 2005.

Drilling is being scheduled for early 2006 as part of the planned drilling program that includes the Nameless prospect.

Tom Price – Paraburdoo Prospects

Assay results from initial reconnaissance sampling at the Tom Price South, Panhandle and Airport prospects have confirmed the presence of pisolitic iron mineralisation (with average Fe grades varying from 52 to 57% Fe) but mapping suggests that the channels may be of limited thickness in these areas.

Compilation of data is under way to outline possible channels for further ground checking and possible scout drilling in 2006 once titles are granted.

Sylvania Project (100% AQD)

The Sylvania Project is located 10 kilometres south of Newman in the east Pilbara region of WA.

Initial reconnaissance mapping and sampling completed during the quarter confirmed the presence of pisolitic iron mineralisation at several sites, although the extent and continuity of the mineralisation could not be properly evaluated due to extensive alluvial cover over much of the area.

Analyses of six surface pisolitic iron samples returned highly encouraging results with Fe grades ranging from 55.3% to 58.3%, and silica and alumina averaging 5.7% and 4.3% respectively. Wood fragments which were identified in each of the samples analysed, confirm the channel or valley-fill origin of the pisolite mineralisation.

Samples collected varied from float material at the western end of the tenement to outcropping pisolite approximately 15 kms to the east, and only 6 kms south of the town of Newman.

While the outline and continuity of any channel iron mineralisation is unknown at this stage, the company is very encouraged by these initial surface results, particularly in light of their proximity to existing infrastructure and iron ore mining operations.

Late in the quarter, an airborne electromagnetic survey (GEOTEM) was flown to assist in outlining possible channels where they are covered by alluvial sediments. Results from this survey are expected in early February 2006.

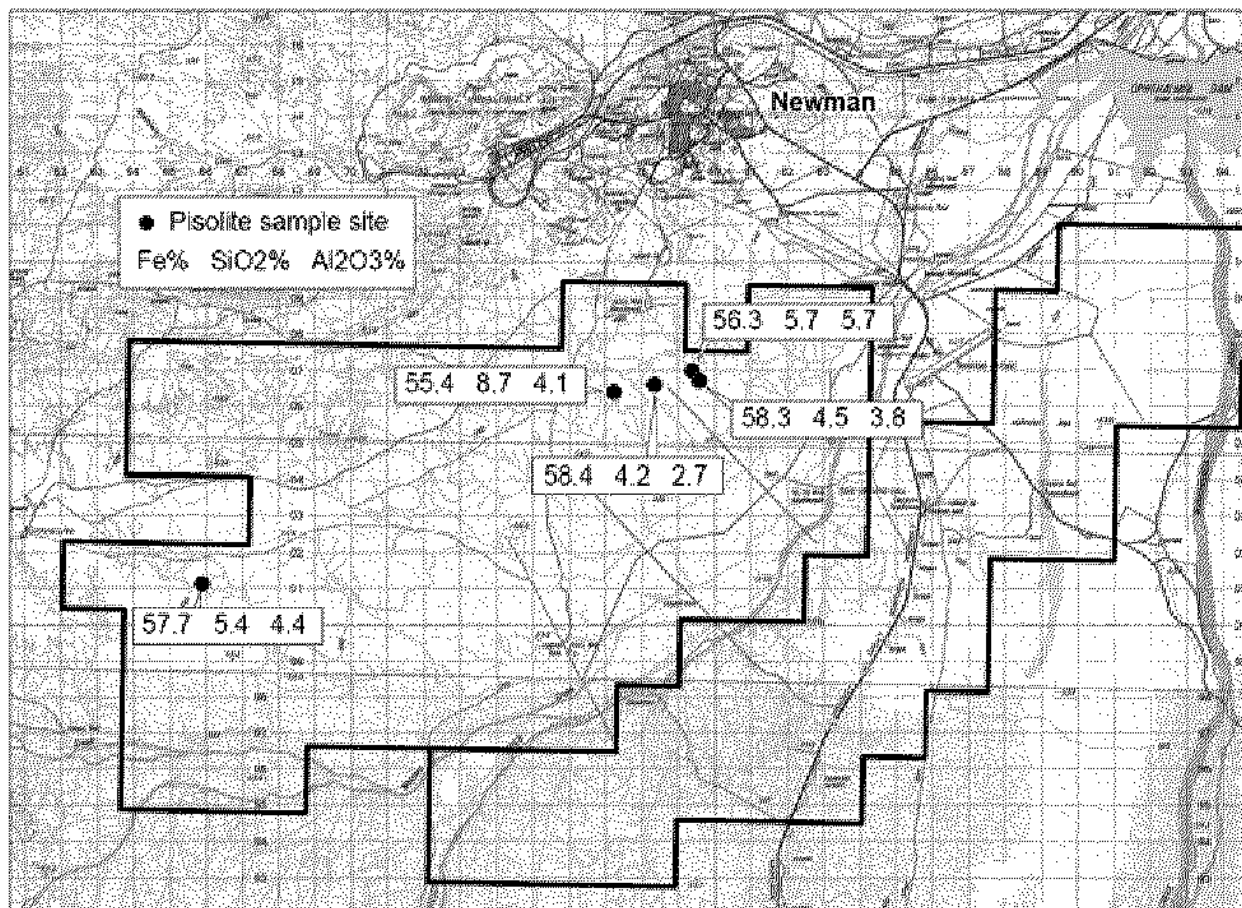


Figure 3 Sylvania Iron Project

NICKEL

Beasley Project

(100% AQD – Falconbridge farm-in)

During the quarter, agreement was reached with Falconbridge (Australia) Pty Ltd to fund ongoing exploration for nickel sulphide mineralisation within the company's Beasley project located 50 kilometres west of Tom Price in WA, and AusQuest's 100%-owned tenements within the Bellary project area (see below).

The Beasley project displays a number of strong geological similarities with the Raglan Nickel District which is one of Falconbridge's major mining operations in Canada. Drilling and Down-hole Electromagnetic surveys (DHEM) conducted by AusQuest at the Beasley project during the September 2005 quarter highlighted several targets requiring further testing including drilling.

The agreement with Falconbridge guarantees a minimum expenditure of

\$300,000 within the first 12 months, after which Falconbridge can elect to earn a 51% equity in the project by spending a further \$2.7 million in 3 years, or withdraw from the project with no equity.

Falconbridge may earn an additional 19% equity by completing a Scoping Study on one or more of the tenements or by incurring further expenditure of \$9 million, whichever occurs first (ie, \$12 million for a 70% equity).

AusQuest can form a joint venture once Falconbridge has earned its 51% interest, or it can elect to dilute further. If Falconbridge earns a 70% equity in the project, a joint venture will be formed with both parties contributing pro-rata to ongoing expenditures. If either party's interest falls below 10%, their interest will be converted to a 1.5% Net Smelter Royalty.

AusQuest will retain the exclusive right to explore for and develop iron ore deposits

within the tenements subject to this agreement.

Bellary Project

(AQD 75%)

The Bellary project is located 20 kilometres north west of Paraburdoo in WA and covers a 40 kilometre belt of unexplored ultramafic rocks which correlate, in part, with the prospective ultramafic sequence at Beasley.

During the quarter reconnaissance geological mapping and sampling located a second ultramafic unit, stratigraphically below the ultramafic that correlates with the Beasley sequence, effectively increasing the strike length of prospective host rocks for nickel sulphide mineralisation to more than 60 kms.

Prospecting in the structurally complex south western corner of the project area located gossanous float (assaying 128ppm Ni, 1105ppm Cu, and 4.2g/t PGEs, 1260 ppm Cr), confirming the potential of the area to host massive nickel-copper-PGE sulphides. The sample was found within a confined drainage system in an area where disseminated nickel and copper sulphides were identified within outcropping ultramafic rocks.

The company is highly encouraged by these results and plans to increase exploration efforts in this area during 2006. A detailed aeromagnetic survey is scheduled to be flown in late March 2006 with further prospecting and geophysical surveys to define drill targets scheduled for the June and September quarters of 2006.

Table Hill Project

(100% AQD – Falconbridge Farm-in)

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

GEOTEM surveying (8,050 line kms) was completed during December 2005 to test

for massive nickel sulphide targets beneath the extensive sand cover. Flight line spacings varied from 250 to 500 metres.

First-pass evaluation by Falconbridge of preliminary data provided by Fugro Airborne Surveys identified at least 16 priority targets for initial field testing. Final processed results are expected in February 2006 at which time a more complete interpretation is planned.

Ground follow-up planned for 2006 involves initial field reconnaissance and ground electromagnetic surveying followed by drill testing of priority targets.

Management and funding of exploration activities in 2006 will be undertaken by Falconbridge now that the initial work program is complete.

Antrim Project

(100% AQD)

The Antrim project, which is located in the Kalkarindji region of the Northern Territory close to the WA border, is currently under technical review. Exploration at this project is targeting Noril'sk style nickel sulphide mineralisation associated with the extensive Antrim Plateau basalts.

DIAMONDS

Plenty River Project

(100% AQD - Rio Tinto Farm-in)

The Plenty River project is located 230 kilometres east of Alice Springs (NT) on the north west margin of the Simpson Desert. AusQuest is targeting a new diamond field with more than 50 potential kimberlite targets interpreted from detailed aeromagnetic data.

Initial field work including surface sampling and ground magnetic surveys over 16 targets, was completed by Rio Tinto Exploration Pty Limited in November 2005. Samples collected over each anomaly were sent to Rio Tinto Exploration's laboratory in Perth for diamond indicator mineral processing with results expected during the March 2006 quarter.

Computer modelling of the ground magnetic data by AusQuest has identified at least 11 targets that could reflect potential pipe-like bodies. Depths to the

targets range from 20 to 70 metres below surface. Future work plans will be determined when mineral indicator results are available.

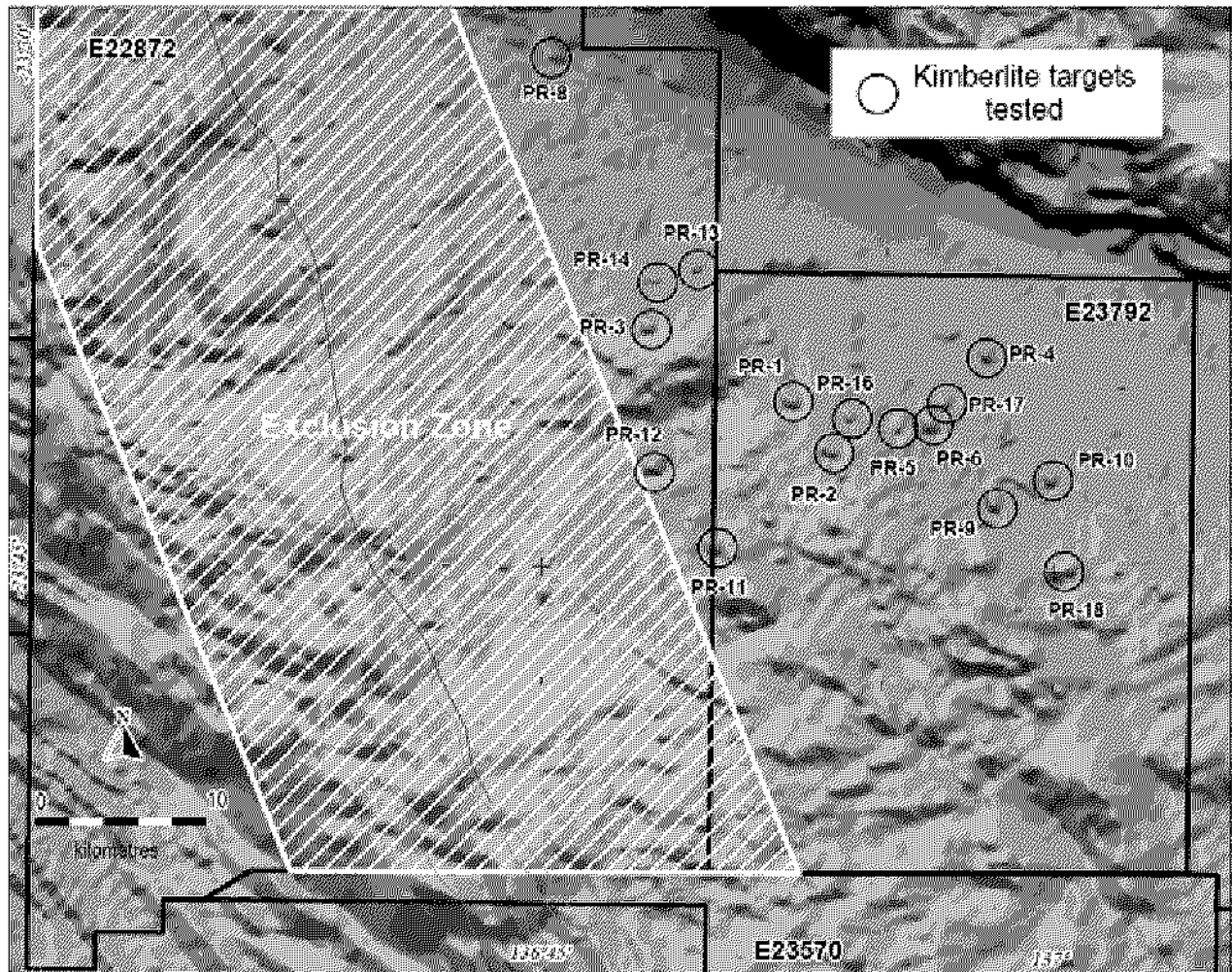


Figure 4 Plenty River Magnetic Image – kimberlite targets tested in November 2005

GOLD

Drummond Project

(100% AQD - Rio Tinto claw back)

The Drummond gold project, which is located 300 kilometres southwest of Mackay in central Queensland, is currently under review with a number of targets originally identified for follow-up still to be tested. Third party interest is being sought to fund future work in the area.

Horstrack Project

(100% AQD)

The Horstrack gold project is located 120 kilometres south of the +27 moz Telfer gold mine in WA. Infill sampling along the

12 km long gold anomaly identified by earlier reconnaissance sampling is scheduled for the second quarter of 2006, to outline targets for drilling later in the year.

WORK PROGRAMME

AusQuest has a portfolio of iron, nickel, gold and diamond projects (Figure 1) across Australia and is focused on bringing an innovative and scientifically rigorous approach to exploration targeting the discovery of major deposits and new mineral provinces.

During the quarter, field work included:

- detailed mapping and sampling of the iron pisolite mineralisation at the Nameless prospect;
- reconnaissance mapping and sampling at the Sylvania iron and nickel project near Newman;
- GEOTEM surveying (8,050 line kms) at the Table Hill nickel project;
- mapping and sampling nickel prospects within the Bellary project, and
- initial field work (sampling and ground magnetics) at the Plenty River diamond project, east of Alice Springs.

Field work planned in the March 2006 quarter will include:

- Preparations for commencement of drilling at the Nameless and Rocklea Iron prospects;
- detailed Aeromagnetic surveying over portions of the Bellary Nickel project, and
- site access for prospects at Bellary and Sylvania

CORPORATE

The company's cash balance as at 31 December 2005 was approximately \$2.6 million. This figure includes \$400,000 provided by Falconbridge under the Table Hill Agreement for work completed at Table Hill during December.



Graeme Drew
Managing Director

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

35 091 542 451

Quarter ended ("current quarter")

31 December 2005

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	(225)	(871)
(b) development	-	-
(c) production	-	-
(d) administration	(120)	(249)
1.3 Dividends received		
1.4 Interest and other items of a similar nature received	68	83
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid		
1.7 Other (Expense reimbursement)	400	400
Net Operating Cash Flows	123	(637)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a) prospects		
(b) equity investments		
(c) other fixed assets	(3)	(4)
1.9 Proceeds from sale of:		
(a) prospects		
(b) equity investments		
(c) other fixed assets	1	1
1.10 Loans to other entities		
1.11 Loans repaid by other entities		
1.12 Other (provide details if material)		
Net investing cash flows	(2)	(3)
1.13 Total operating and investing cash flows (carried forward)	121	(640)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	121	(640)
Cash flows related to financing activities			
1.14	Proceeds from issues of shares, options, etc.	25	25
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	25	25
	Net increase (decrease) in cash held	146	(615)
1.20	Cash at beginning of quarter/year to date	2,530	3,291
1.21	Exchange rate adjustments to item 1.20		
1.22	Cash at end of quarter / year to date	2,676	2,676

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	88
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

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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

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+ See chapter 19 for defined terms.

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	500
4.2 Development	
Total	500

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	776	30
5.2 Deposits at call		
5.3 Bank overdraft		
5.4 Other (Money market – 1 to 6 months)	1,900	2,500
Total: cash at end of quarter (item 1.22)	2,676	2,530

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		
6.2	EL22872	Interests in mining tenements acquired or increased	Nil	100%
	EL23792		Nil	100%
	EL25007		Nil	100%
	EL22824		Nil	100%
	EL22873		Nil	100%
	EL22874		Nil	100%
	EL22878		Nil	100%
	EL23566		Nil	100%

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

Issued and quoted securities at end of current quarter

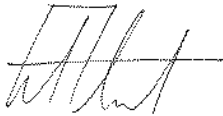
Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	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 <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 +Ordinary securities	68,516,000	68,516,000		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	75,000 10,000	75,000 10,000	30 cents 20 cents	30 cents 20 cents
7.5 +Convertible debt securities <i>(description)</i>				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 Options <i>(description and conversion factor)</i>	1,500,000 10,150,451 23,451,500 1,875,000	- - 23,451,500 -	<i>Exercise price</i> 20 cents 20 cents 20 cents 30 cents	<i>Expiry date</i> 31 Aug 2007 31 Aug 2008 30 Nov 2006 31 August 2009
7.8 Issued during quarter				
7.9 Exercised during quarter	10,000 75,000	10,000 -	20 cents 30 cents	30 Nov 2006 31 August 2009
7.10 Expired during quarter				
7.11 Debentures <i>(totals only)</i>				
7.12 Unsecured notes <i>(totals only)</i>				

+ 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: . January 2006.....

(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.

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+ See chapter 19 for defined terms.