AUSQUEST
LIMITED
ABN 35 091 542 451

Quarterly Report - 30 September 2006

HIGHLIGHTS

- Rio Tinto advises its withdrawal from Option Farm-in and Joint Venture Agreement on the Nameless Prospect in Western Australia's Pilbara region.
- AusQuest regains 100% control of the Beasley and Table Hill Nickel Projects following the acquisition of Falconbridge (Australia) Pty Ltd by Xstrata plc.
- Drilling at the Beasley Nickel Project intersects 52 metres of magmatic Ni-Cu-PGE sulphides 400 metres west of AusQuest drill hole DDH07.
- VTEM helicopter electromagnetic survey locates strong EM anomalies at the Bellary Nickel Project, north-west of Paraburdoo.
- Gossan outcrop (assays pending) located during ground follow-up of VTEM anomalies at Bellary.
- AusQuest's evaluation of the GEOTEM data from Table Hill confirms at least six targets for testing.
- Coherent low-level gold anomalies outlined within dune sand country at the Horsetrack Gold Project, south of Telfer in Western Australia.
- Airborne radiometric data highlights potential for uranium at the Sylvania Project south of Newman in WA, with follow-up field exploration underway.

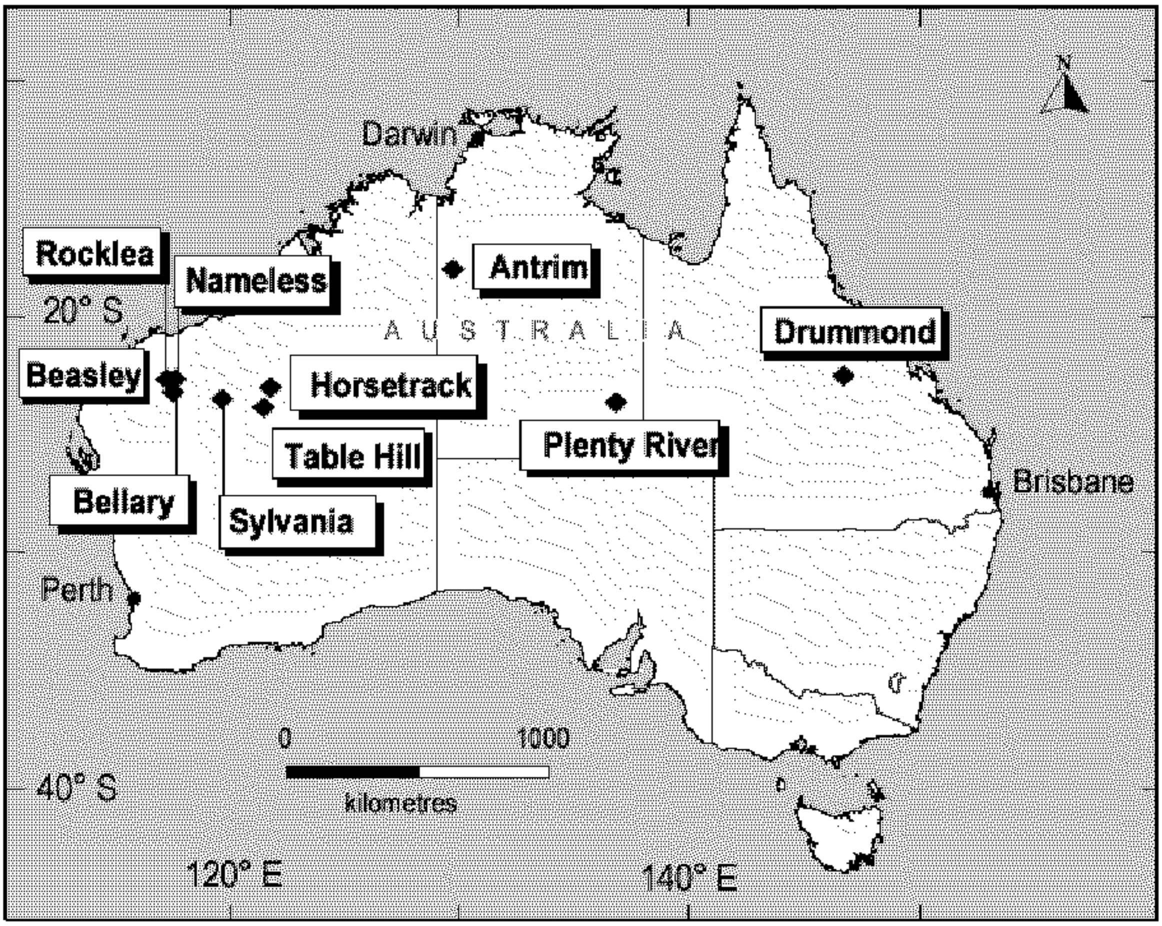

Figure 1: Project Location Plan

PROJECTS

NICKEL

Beasley Project
(100% AQD)

The Beasley Project is located 50km west of Tom Price in the Pilbara region of WA

During the Quarter, AusQuest received notice from Falconbridge (Australia) Pty Ltd (Falconbridge) of its withdrawal from the Beasley Option and Joint Venture Agreement (as reported to the ASX on 5th October 2006), due to the acquisition of Falconbridge by Xstrata plc.

Prior to its withdrawal, Falconbridge completed two diamond drill holes 400 metres and 800 metres west of drill hole BNDH07 (completed by AusQuest) to test the basal contact of the prospective ultramafic host rocks. Drill hole BNDH07 previously intersected 14 metres of disseminated nickel-copper-PGE sulphides as reported in 2005.

Drilling results extended the zone of magmatic Ni-Cu-PGE sulphides within the target ultramafic with drill hole BRD06-02, located 400m west of hole BNDH07, intersecting disseminated magmatic sulphides over a 52m section (figure 2).

Ni-Cu-PGE assays reflect the high metal tenor of the mineralisation intersected, but are relatively low in value. Assays (over 1m intervals) range up to 0.25%Ni, 550ppmCu, and 0.18g/t PGE. These are considered geochemically anomalous and could be indicative of nearby massive mineralisation.

These results, combined with aeromagnetic data, have outlined a target zone (~500m wide) extending for at least one kilometre to the north, down dip from current drill hole locations. Current drill spacing (400m) is considered inadequate to test this zone for massive nickel sulphide mineralisation.

Down hole electromagnetic surveys (DHEM) were not completed prior to Falconbridge's withdrawal from the project. Previous DHEM surveys undertaken by AusQuest identified a subtle off-hole anomaly north of, and down dip from, hole BNDH07. This location has not been drilled.

DHEM surveys designed to locate nearby massive sulphide mineralisation are scheduled for the next quarter.

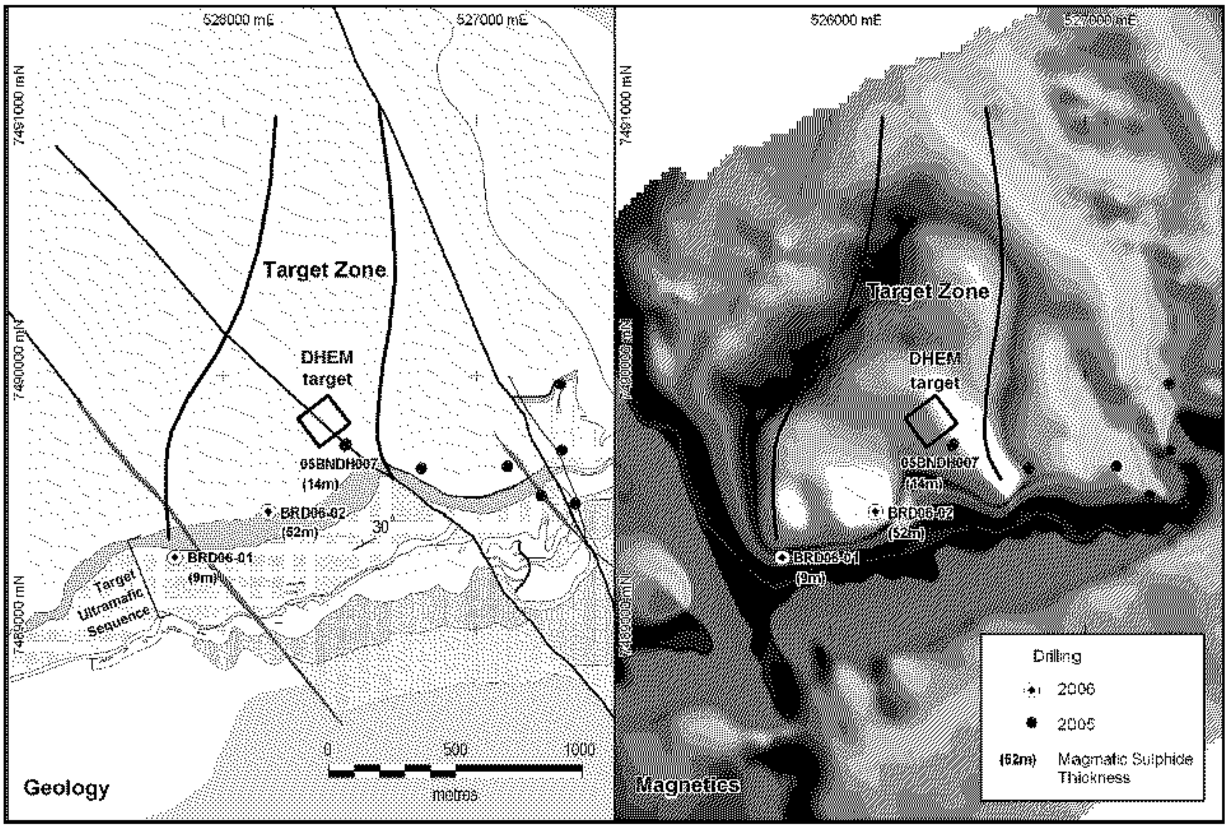

Figure 2: Beasley Nickel Project drilling results

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

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

During the Quarter, a detailed helicopter electromagnetic survey (VTEM), designed to test for massive sulphide mineralisation, was flown over five key areas where previous geological mapping and sampling had identified target areas prospective for nickel sulphide mineralisation.

Interpretation of preliminary data has outlined strong electromagnetic (EM) responses within each of the 5 areas surveyed. Many of these responses appear to be due to strike extensive conductive sediments, however approximately 30 anomalies were identified as priority targets for ground follow-up (figure 3).

Initial field reconnaissance over selected EM targets was initiated late in the quarter. Outcropping gossan was found during follow-up of one of the EM anomalies (assays are pending) and evidence for channels at the base of the target ultramafic unit was found at two of the EM target sites.

The Company is very encouraged by these early results and plans to increase the exploration tempo in this area over the coming months.

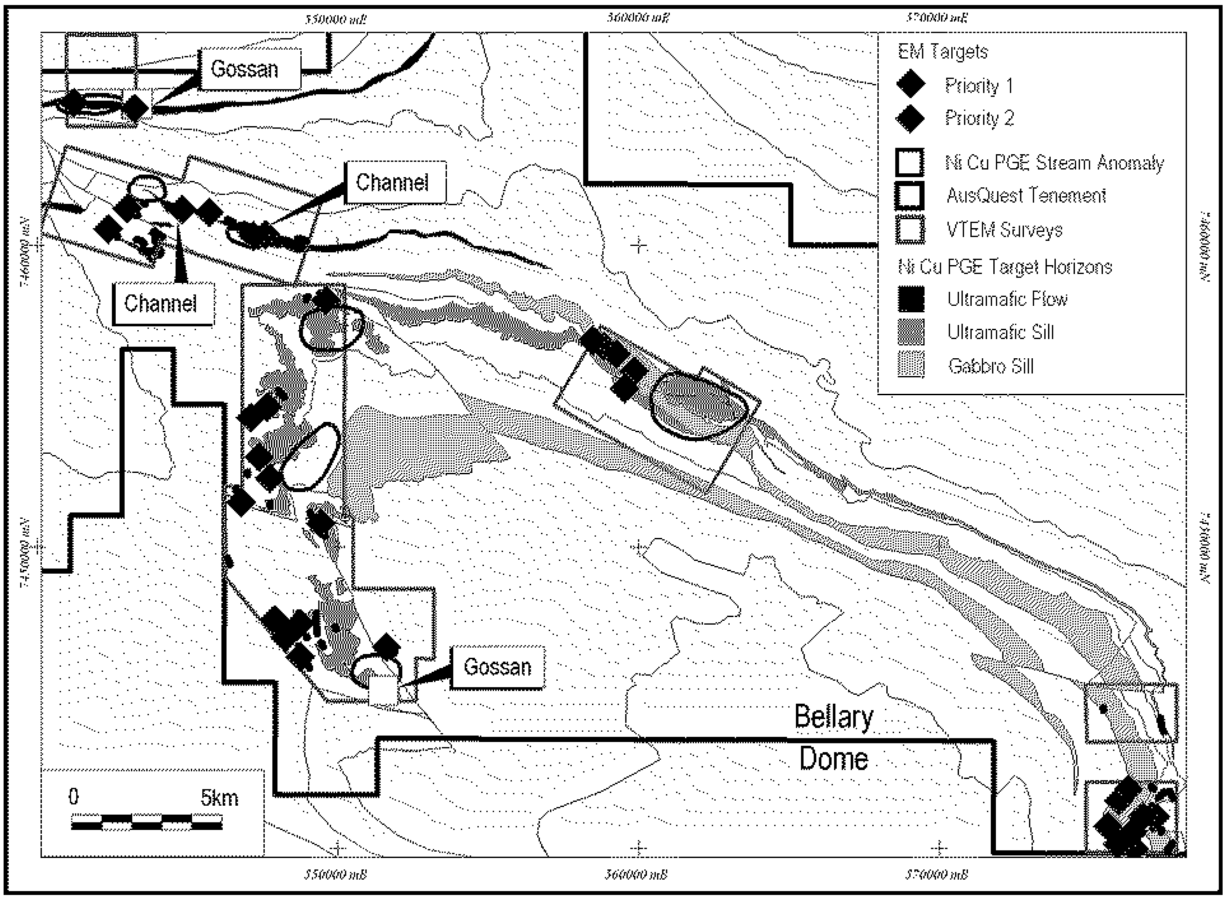

Figure 3: Bellary Nickel Project VTEM targets

Table Hill Project
(100% AQD)

The Table Hill Project is located 200km east of Newman in WA. Exploration in this region is targeting Noril'sk style nickel sulphide mineralisation within a feeder system to the regionally extensive Table Hill Volcanics.

During the Quarter, AusQuest received notice from Falconbridge (Australia) Pty Ltd (Falconbridge) of its withdrawal from the Table Hill Option and Joint Venture Agreement (as reported to the ASX on 5th October 2006), due to the acquisition of Falconbridge by Xstrata plc.

AusQuest is encouraged by results from the Table Hill project, where massive sulphide targets interpreted from the airborne electromagnetic survey (GEOTEM) flown in late 2005 have not yet been tested. Follow-up work, including ground EM surveys and drilling scheduled to be completed by Falconbridge during the second half of 2006, were curtailed by the change in ownership of Falconbridge.

All data pertaining to the joint venture were received from Falconbridge following its withdrawal and are currently being assessed by the Company's consultants. Early indications suggest there are at least six high priority EM anomalies that require ground follow-up. Several of these targets occur at depth, at or near the base of the magnetic gabbroic sills which are thought to be the prospective host rocks.

Ground EM surveys and drilling are being planned for the first half of 2007 with clearances for this work to be carried out in late 2006/early 2007.

A new tenement application was submitted south west of the Table Hill Project where recently released aeromagnetic data highlight the potential for a new prospective feeder structure to the Table Hill Volcanics.

Sylvania Project
(100% AQD)

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

Recent RAB drilling completed as part of AusQuest's iron exploration programme in the area confirmed the presence of ultramafic rock types along strike from EM targets that were located by earlier airborne and ground surveys. The ultramafics are believed to be stratigraphic equivalents to those found within the Beasley and Bellary nickel projects, 200km to the west.

Computer modelling of ground EM data collected during the previous quarter, confirmed the presence of high conductance EM targets in two of the five areas surveyed with depths to the targets modelled at approximately 100m to 150m.

Site clearance work has been completed in preparation for drilling in 2007.

IRON ORE

Nameless Project
(100% AQD)

The Nameless Iron Prospect is located 5km north west of Tom Price in the Pilbara region of Western Australia.

During the Quarter, AusQuest was advised that Rio Tinto Ltd would not exercise its option to commence earning equity in the Nameless Project.

Previous drilling by AusQuest had identified substantial volumes of pisolitic channel iron mineralisation at average grades of approximately 52.7% Fe, 6.4% SiO_2 and 6.2% Al_2O_3, as reported to the ASX on the 19th July 2006.

The Company plans to undertake beneficiation test work on the channel iron mineralisation (CIM) to determine the potential for increasing the iron content and reducing contaminant levels, in particular alumina, to more acceptable values. Initial test work is being scheduled for late 2006/early 2007.

The Company will consider its future options regarding the Nameless Iron Project once this test work has been completed.

Rocklea Prospect
(75% AQD)

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

Previous drilling by AusQuest had identified substantial volumes of pisolitic channel iron mineralisation at average grades of approximately 53.8%Fe, 7.6% SiO_2 and 2.8% Al_2O_3 as reported to the ASX on the 19th July 2006.

The company is currently considering its future options regarding this prospect. Beneficiation test work is being considered.

Sylvania Project
(100% AQD)

The Sylvania iron prospect is located 10km south of Newman in the east Pilbara region of WA.

During the Quarter, a first-pass reconnaissance programme of Rotary Air Blast (RAB) drilling (71 holes for 2,100m) was completed to test for channel iron mineralisation (CIM) beneath the laterally extensive cover.

Holes were drilled 100 to 200m apart along broad (3 to 4km) spaced sections covering the axis of an inferred channel interpreted from airborne geophysical data (electromagnetics). Outcropping remnants of CIM had previously been located at the western end of this 25km long feature.

No in-situ CIM was located by this scout drilling programme. However, re-worked boulders and cobbles of CIM were found to be prevalent within surficial fan-gravel deposits (up to 20m thick) which form part of the laterally extensive cover sequence. A limited number of test samples from the cover sequence have been submitted for analysis.

GOLD

Horsetrack Project
(100% AQD)

The Horsetrack gold project is located 120km south of the +27 million ounce Telfer gold mine in WA.

During the Quarter, a surface sampling program designed to follow-up a previously reported low-level gold anomaly, was completed. A total of 1,093 samples were collected at 50m to 100m intervals along traverses 500m to 1km apart.

Results outlined five low order but coherent gold anomalies (maximum gold value 0.65ppb) within the dominantly dune sand covered area. The anomalies are relatively large in size, ranging up to 3km long and 500m wide, and are sub-parallel to structural trends interpreted from the aeromagnetic data (figure 4).

Three of the anomalies (A to C) occur close to the southern margin of a distinct magnetic high which is interpreted to reflect a magnetic intrusion within the dominantly non-magnetic sedimentary sequence. Anomaly D is also weakly anomalous in other pathfinder elements (Bi, Ba, Cu, Co, Zn).

The Company is encouraged by these results and is planning further follow-up work for early 2007.

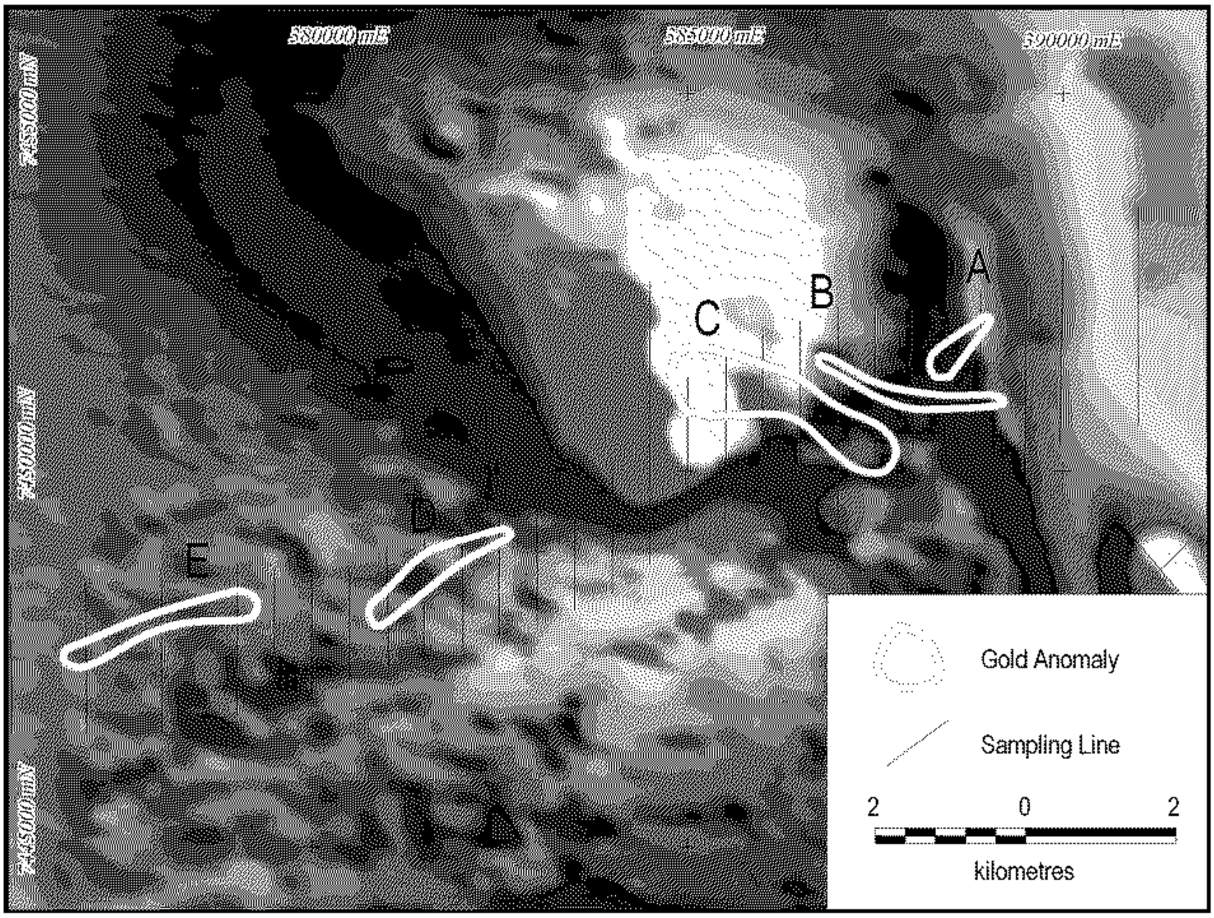

Figure 4: Horsetrack Magnetic Image showing gold anomalies

DIAMONDS

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

The Plenty River Project is located 230km east of Alice Springs in the Northern Territory, on the northern margin of the Simpson Desert.

During the Quarter, Rio Tinto Exploration Pty Limited (Rio Tinto) completed a Reverse Circulation (RC) drilling programme (comprising 11 holes for 614m) over four of the eight targets selected for the initial test programme. No kimberlitic or lamproitic rocks were intersected by the drilling.

Two of the anomalies tested were explained by a thin (5m-10m) magnetic lateritised sandstone layer at shallow depth (~10m), but no magnetic source rocks were located for the two deeper targets. Only one of the targets tested had previously reported microdiamonds (2) from surface loam sampling.

These initial drilling results suggest that at least some of the +50 magnetic anomalies interpreted by AusQuest as possible kimberlite targets are caused by discrete areas of shallow magnetic sediment. The source of the microdiamonds has not been resolved by the drilling.

Seventeen surface loam samples and 12 bulk samples (50kg) of drill cuttings were collected by Rio Tinto at the completion of drilling, and sent to the Rio Tinto laboratory in Perth for mineral indicator and microdiamond analysis. Results of this work are not expected to be available for several months.

Plenty River Project
(100% AQD)

Five Exploration Licences surrounding the Plenty River Joint Venture area remain 100% owned by AusQuest. Interpretation of aeromagnetic data over these titles revealed at least 18 anomalies similar to those being targeted within the Joint Venture area.

Preliminary results from surface loam sampling completed in early July over these targets did not report microdiamonds from these samples. Final results and a report on possible indicator minerals are awaited.

URANIUM

Sylvania Project
(100% AQD)

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

A recent review of airborne radiometric data in the area highlighted numerous uranium responses both within the dominantly granitic terrain and also associated with opaline calcrete outcrops within the main drainage.

A programme of field checking and sampling of selected anomalies has been initiated.

WORK PROGRAMME

AusQuest has a portfolio of iron, nickel, gold, diamond and uranium 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:

- Diamond drilling (576m) at the Beasley Nickel prospect (Falconbridge);
- RC drilling (614m) at the Plenty River diamond project (Rio Tinto);
- VTEM helicopter EM survey (1213 line kms) at the Bellary nickel prospect;

- Reconnaissance RAB drilling (2100m) at the Sylvania iron prospect;
- Completion of sampling (1093 samples) at the Horsetrack gold project;
- Reconnaissance follow-up of selected EM anomalies at the Bellary nickel project;

Field work planned for the December 2006 quarter will include:

- DHEM surveys at the Beasley Nickel Project;
- Initial test work on samples from the Nameless iron prospect;
- Site clearance work at the Table Hill nickel project;
- Complete reconnaissance sampling of Sylvania uranium anomalies; and
- Complete reconnaissance follow-up of selected EM anomalies at the Bellary nickel project.

CORPORATE

The company's cash balance as at 30 September 2006 was approximately $2.0 million.

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	Quarter ended ("current quarter")
35 091 542 451	30 September 2006

Consolidated statement of cash flows

	Cash flows related to operating activities	Current quarter $A'000	Year to date (3 months) $A'000
1.1	Receipts from product sales and related debtors	-	-
1.2	Payments for		
	(a) exploration and evaluation	(511)	(511)
	(b) development	-	-
	(c) production	-	-
	(d) administration	(161)	(161)
1.3	Dividends received		
1.4	Interest and other items of a similar nature received	25	25
1.5	Interest and other costs of finance paid		
1.6	Income taxes paid		
1.7	Other (Expense reimbursement)	20	20
	Net Operating Cash Flows	(627)	(627)
	Cash flows related to investing activities		
1.8	Payment for purchases of:		
	(a)prospects		
	(b)equity investments		
	(c) other fixed assets		
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		
1.13	Total operating and investing cash flows (carried forward)	(628)	(628)

1.13	Total operating and investing cash flows (brought forward)	(628)	(628)
	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	(628)	(628)
1.20	Cash at beginning of quarter/year to date	2,591	2,591
1.21	Exchange rate adjustments to item 1.20		
1.22	**Cash at end of quarter / year to date**	**1,963**	**1,963**

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	107
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

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	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	(156)	(187)
5.2	Deposits at call		
5.3	Bank overdraft		
5.4	Other (Money market – 1 to 6 months)	2,119	2,778
	Total: cash at end of quarter (item 1.22)	1,963	2,591

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	E22642 E22643 E22644 E23440 EP12045 EP12234		100% 100% 100% 100% 100% 100%	Nil Nil Nil Nil Nil Nil
6.2	Interests in mining tenements acquired or increased	E47/1424		Nil	100%

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**	77,457,692	77,457,692		
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
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)*	1,000,000 9,471,087 20,839,172 1,875,000 5,000,000 3,700,000	- - 20,839,172 - - -	*Exercise price* 20 cents 20 cents 20 cents 30 cents 40 cents 54 cents	*Expiry date* 31 Aug 2007 31 Aug 2008 30 Nov 2006 31 August 2009 1 May 2008 30 June 2011
7.8	Issued during quarter	3,700,000	-	54 cents	30 June 2011
7.9	Exercised during quarter				
7.10	Expired during quarter				
7.11	**Debentures** *(totals only)*				
7.12	**Unsecured notes** *(totals only)*				

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: . 24 October 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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