AUSQUEST LIMITED

ABN 35 091 542 451

Quarterly Report – 31 December 2010

MAJOR GOLD DRILLING PROGRAMS UNDERWAY IN WEST AFRICA AND AUSTRALIA

HIGHLIGHTS

GOLD (Comoe JV – Burkina Faso, West Africa)

- **High-grade gold** intersected in early stages of RC drilling at the **Phaco Hill** prospect, associated with semi-massive sulphide mineralisation:
  - ***8m @ 7.7g/t Au incl. 1m @ 28.1g/t Au*** *(RC030)*
  - ***2m @ 41.8g/t Au*** *(RC040)*
- **Gold mineralisation extends over at least 100m of strike**, is **open at depth** (below 100m) and appears to be **widening with depth**.
- **RC drilling continuing** as part of the current program **(15,000m)** at Phaco Hill and other regional prospects including Siniko West, Siniko Central and Baboro.
- **Diamond Drilling (3,000m)** now expected to commence in early February 2011 targeting depth extensions of the mineralisation at Phaco Hill.
- **Potential for a VMS Camp in the Phaco Hill area** inferred by initial drilling and the presence of further EM targets.
- AusQuest **increases its equity in the Comoe JV from 51% to 60%**.

GOLD (WA)

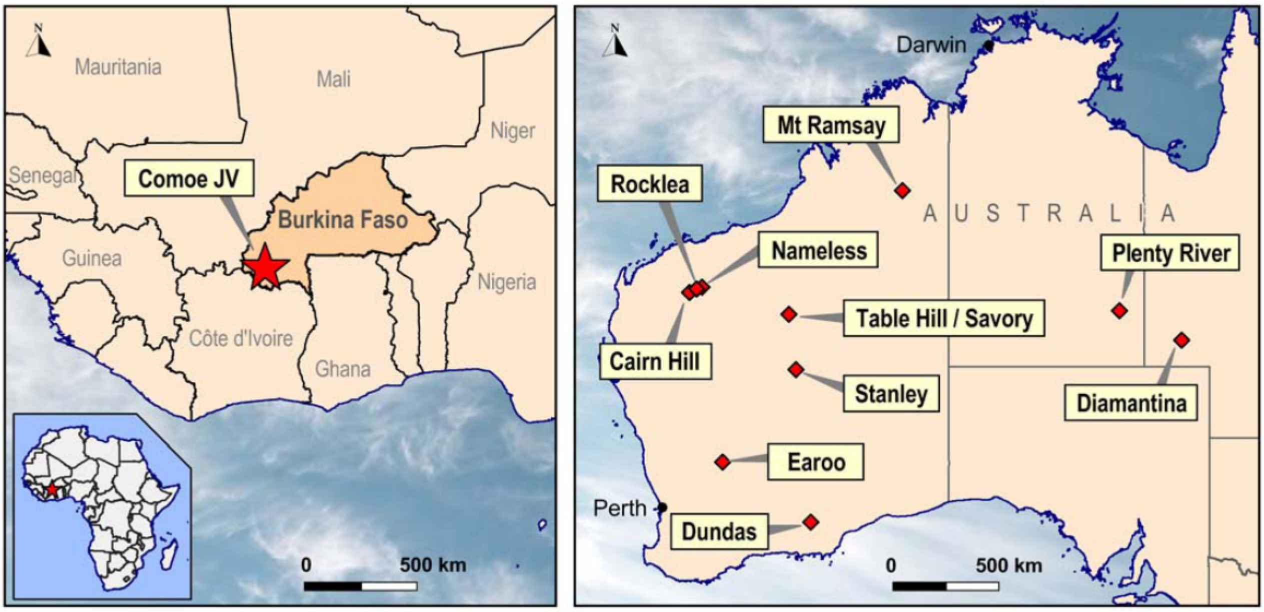
- **First gold prospect identified at the Dundas Gold Project**, located within the Tropicana gold belt ~100km east of Norseman. A major RAB drilling (15,000m) program is continuing.

MANGANESE (WA)

- **Anomalous manganese** (5m @ 7.2% Mn) reported from drilling at the Dome prospect, increases the regional extent of mineralisation at the Stanley Project, east of Wiluna.

CORPORATE

- **Net proceeds of $5.75M** from the sale of the Company's Rocklea and Tom Price Iron Projects. Initial payments totalling **$3.875M** received to date.
- Strong cash position of **approximately $15.5M** at the end of December 2010, not including the **$5.25M** from the Rocklea sale.



❑ *Figure 1: Project Locations – Australia and West Africa*

OVERVIEW

AusQuest Limited (ASX: AQD) has a diversified portfolio of gold, base metal and bulk commodity projects in West Africa and Australia (*Figure 1*). The Company's exploration strategy is based on the discovery of major new deposits and new mineral provinces.

During the December Quarter, major drilling programs comprising a planned total of 15,000m of RC and 3,000m of diamond drilling recommenced at the Company's Comoe Joint Venture in Burkina Faso, West Africa after the initial drilling campaign was suspended in mid-July due to the onset of wet weather.

Initial reconnaissance drilling also commenced at the Company's Dundas Gold Project in Western Australia where 15,000m of RAB drilling has been planned to test gold (+/- copper) anomalies identified by wide-spaced surface sampling.

Both drilling campaigns will continue throughout the March Quarter 2011.

GOLD (WEST AFRICA)

<u>Comoe Joint Venture</u> *(AQD 60%, Etruscan Bermuda 40%)*

The Comoe Joint Venture area is located in the south west corner of Burkina Faso, West Africa within a NNE trending greenstone belt, approximately 20km east of the town of Banfora. The area is relatively unexplored except for extensive surface sampling programs undertaken by Etruscan prior to the formation of the joint venture, and scattered artisanal gold workings along the belt. Burkina Faso is emerging as a significant new West African gold province.

During the Quarter, Stage 2 expenditure under the Comoe Joint Venture Agreement was completed, increasing AusQuest's equity in E&A Resources which owns 100% of the Comoe JV tenement, from 51% to 60%.

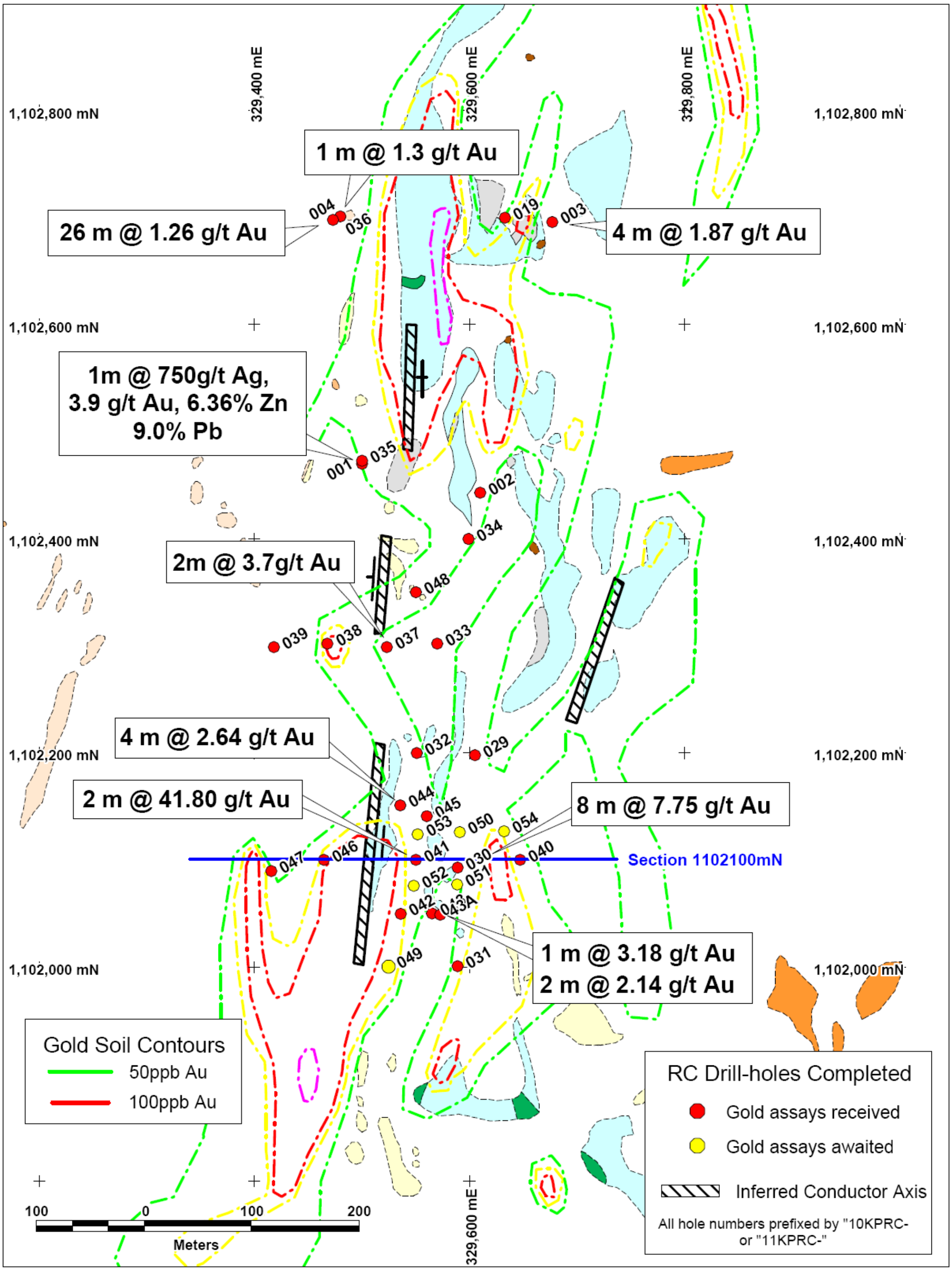
Under the Joint Venture Agreement, a further US$5.0 million is now required to be spent over a further 4-year period (Stage 3) to increase the Company's equity in E&A Resources to 80% after which project funding for the Comoe JV will be undertaken by the joint venture parties in proportion to their equity.

In late October 2010 drilling recommenced in the Joint Venture area with a total planned program comprising 15,000 metres of Reverse Circulation (RC) drilling

(12,000m outstanding as at the end of December 2010) and 3,000 metres of diamond drilling across multiple gold and base metal targets.

The bulk of the drilling is targeted within the Komoe tenement, south-east of Banfora, where initial reconnaissance drilling and subsequent geophysical surveys have located high priority gold and base metal targets.

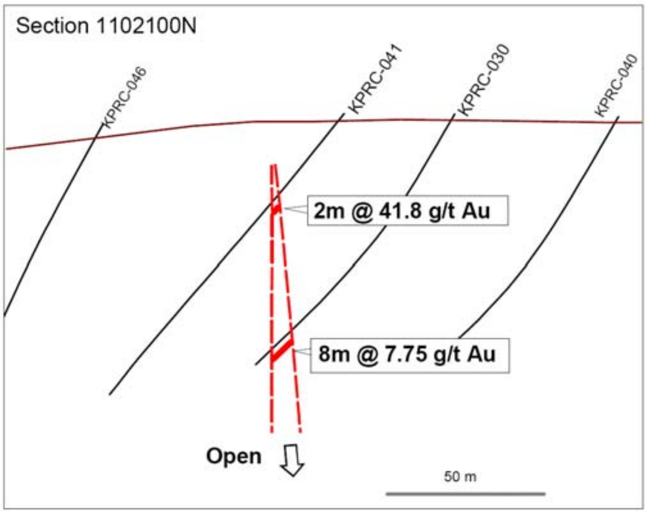
To date the RC drilling has been focussed on the Phaco Hill prospect, where initial reconnaissance drilling from earlier in 2010 had returned several gold intersections of interest associated with aluminous alteration within felsic volcanic rocks.



Phaco Hill Prospect – Drill Summary Plan

Drilling has so far returned high-grade gold intersections of **8 metres @ 7.7g/t Au** (including **1m @ 28.1g/t Au**) in drill-hole RC030 and **2 metres @ 41.8g/t Au** in drill-hole RC040, spatially associated with semi-massive sulphide mineralisation (pyrite and pyrrhotite) which is believed to be the cause of the VTEM response that has been the focus of current drilling.

Gold intersections recorded along strike from drill-hole RC030 including **4 metres @ 2.64g/t Au** (hole RC044) and **1 metre @ 3.18 g/t Au** plus **2 metres @ 2.14g/t Au** (hole RC043A) indicate that the gold mineralisation extends over at least 100 metres of strike. Assays received to date indicate that highly anomalous silver values (4.5ppm to 750ppmAg) are also associated with the gold intersections.



Phaco Hill Schematic Cross Section

Further infill drilling in the vicinity of drill-hole RC030 has been completed to define geological controls on the gold mineralisation. Assays are pending.

The mineralisation is open at depth (below 100 metres), where it appears to be widening. Modelling of the VTEM data suggests a large depth extent to the sulphide mineralisation and deeper drilling to test for extensions to the gold mineralisation will be undertaken in the first Quarter of 2011 following the arrival of a diamond drilling rig from Ghana.

Diamond drilling will also test a range of VTEM targets as well as the northern section of the Phaco Hill prospect, where initial RC drilling returned substantial gold grades (26m @ 1.26g/t Au and 4m @ 1.87g/t Au) within the aluminous alteration zone.

The Company believes the gold mineralisation (and associated base metals) discovered at Phaco Hill may reflect the presence of a gold-bearing Volcanogenic Massive Sulphide (VMS) system which has never been tested, highlighting the potential for a new VMS Camp in the region.

The presence of further VTEM targets in the general Phaco Hill area supports this concept. These targets will be tested by RC and/or diamond drilling over the coming weeks and months as part of ongoing exploration activities in this area.

Significant RC intersections at Phaco Hill (>1g/tAu) are provided in the following table:

Hole No.	Easting	Northing	From (m)	To (m)	Int (m)	Au (ppm)	Ag (ppm)
KPRC001	329500	1102470	61	62	1	3.93	750
KPRC003	329677	1102696	104	108	4	1.87	7.5
KPRC004	329473	1102698	166	192	26	1.26	4.5
KPRC030	329589	1102093	97	105	8	7.75	5.4
KPRC036	329485	1102700	73	74	1	1.30	5.1
KPRC037	329523	1102299	36	38	2	3.76	No assay
KPRC041	329550	1102100	38	40	2	41.80	No assay
KPRC043A	329573	1102049	89	90	1	3.18	No assay
			102	104	2	2.14	No assay
KPRC044	329535	1102150	18	22	4	2.64	No assay

NB: projection WGS84 Zone 30N; drill-holes KPRC001,004,and 036 inclined to 090 degrees at ~55 degrees; drill-holes KPRC003, 030, 037, 041, 043A, 044 inclined to 270 degrees at~55 degrees.

Detailed in-fill soil sampling and geological mapping are currently underway in the general Phaco Hill area to outline further targets for drilling and provide an improved understanding of the geological environment.

RC drilling at the Siniko West, Siniko Central and Baboro prospects is scheduled to commence at the completion of drilling in the general Phaco Hill area. This program will further test extensive gold-in-soil anomalies where the initial drilling confirmed the presence of numerous +1g/t Au assays in bedrock (*see June 2010 Quarterly Report*). Detailed aeromagnetic data acquired in June 2010 have been used to prioritise the location of the drill traverses in these areas.

The Company is pleased with progress being made by the Comoe JV in the Banfora area and looks forward to stepping up its exploration effort in this region over the coming months as the understanding of the controls on the gold mineralisation become better known.

MANGANESE

Stanley Project (*100% AQD*)

The Stanley Project is located 170km east of Wiluna in Western Australia within the Earaheedy Basin. The Project comprises 14 granted Exploration Licences and four Exploration Licence Applications covering a total area of approximately 4,400km² following rationalisation of the Company's tenement holdings. Manganese mineralisation in the area appears to be associated with thick carbonate units that are located stratigraphically above the iron formations which occur near the base of the Frere Formation.

During the Quarter, reconnaissance RC drilling (10 holes/526m) undertaken at the Dome prospect, located approximately 50km north-east of the Windida area, intersected further manganese mineralisation (up to 5 metres @ 7.2% Mn) within calcareous siltstones – further highlighting the extensive nature of manganiferous sediments in the Earaheedy Basin.

Initial petrological examination of anomalous (plus 4% Mn) drill chips from the Windida prospect found that manganese oxides appear to have been introduced into the sequence, most likely as a result of hydrothermal activity in the basin. At Niminga however, no manganese oxides were found, suggesting that the manganese is still present within the carbonate mineral assemblage which makes up the host rock.

An interpretation of the available magnetic data was completed to identify structurally favourable areas close to the drilled prospects where hydrothermal activity was more likely to occur. Three areas were outlined and broad-spaced airborne EM surveys are planned to identify potential targets within the basin stratigraphy for drill testing. Surveying is expected to be completed during the first half of 2011.

Table Hill-Savory Project *(100% AQD)*

The Table Hill-Savory Project, which covers an area of more than 10,000km², is located 200km east of Newman in Western Australia within the western Officer Basin sediments. The area is dominantly sand covered, with the potential to host high-grade manganese mineralisation highlighted by the Company's exploration drilling results in 2007.

Assay results from the surface sampling program completed during the previous Quarter outlined a large (1.2km x 1.3km) coherent manganese anomaly (800ppm to 2800ppm) coincident with the interpreted position of the dolomitic siltstone unit that hosts the manganese mineralisation previously intersected at the MN1 prospect.

Shallow bedrock drilling is planned to follow-up this target during 2011.

IRON ORE

<u>Rocklea Prospect</u> *(75% AQD)* <u>Nameless Project</u> *(100% AQD)*

During the Quarter, AusQuest reached agreement with Dragon Energy (Dragon) to sell its two iron ore projects in the Pilbara region of Western Australia. Under the agreements, Dragon has acquired the combined assets for a total purchase price of $7.5 million. This includes a payment of $0.5 million for the Nameless Project (100% AQD) and $7.0 million for the Rocklea Project (75% AQD), resulting in net proceeds to the Company of $5.75 million from the sale.

Full payment ($0.5 million) has been received for the Nameless Project and the first instalment of $3.375 million for the Rocklea project was received on the 19th January 2011 as reported to the ASX.

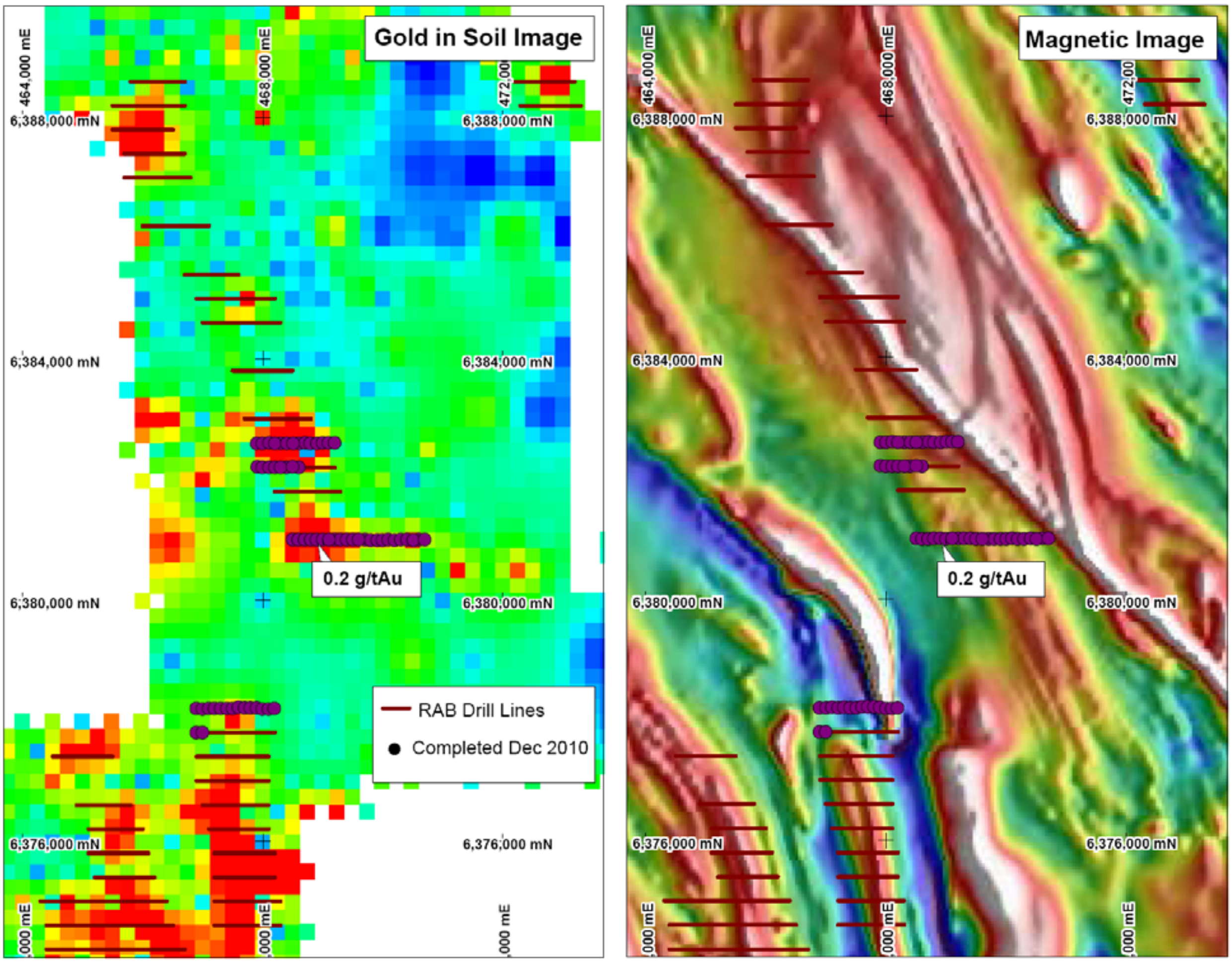
Under the agreement, Dragon is required to make a further two cash payments of $1.5 million ($1.125M to AQD) prior to 19th January 2012, and $1.0 million ($750,000 to AQD) prior to 19th January 2013 for the Rocklea Project. Should payment not be made, the tenement will revert to AusQuest and its Joint Venture partners.

The proceeds from the divestment will be used to fast-track higher priority projects in West Africa and Australia.

BASE AND PRECIOUS METALS

<u>Dundas Gold</u> *(100% AQD)*

The Dundas Gold Project is located approximately 100km east-south east of Norseman in WA and covers an area of ~1,100km² within a structurally complex region 200 km south west of the Tropicana gold discovery (AngloGold Ashanti/ Independence Group). The tenements occur within the Dundas Nature Reserve, which is under the control of the Department of Environment.



Dundas Gold Project – RAB Drilling Summary Plan

A reconnaissance RAB drilling program (~530 holes/15,000m) commenced in early December to test up to eight gold-copper targets outlined by a regional surface sampling program. At the end of 2010 a total of 61 holes and 2,148 metres had been completed. Drilling is continuing and expected to continue until at least the end of February 2011.

Assay results from the initial 61 holes have identified a priority gold target where anomalous gold values (up to 0.2g/t Au in bedrock) were reported from adjacent drill-holes spaced 100 metres apart. A review of the detailed aeromagnetic data highlighted structural dislocations in the general area of this intersection.

In-fill drilling is planned as part of the ongoing drilling program.

Table Hill-Savory Nickel Project (*100% AQD*)

The Table Hill-Savory Nickel Project is located 150km south-east of Newman in WA and covers an interpreted feeder zone to the Table Hill Volcanics, which is believed to be prospective for Noril'sk-style nickel sulphide deposits.

Drilling at the Sav08 prospect is scheduled for the first half of 2011 pending final access clearance and drill rig availability.

Plenty River Base Metal Project *(100% AQD)*

The Plenty River Project is located 250km east of Alice Springs in the Northern Territory. The copper and nickel prospectivity of this region has been highlighted by the discovery of copper and nickel sulphide mineralisation north-west of the Company's tenements.

Drilling of the Caroline EM target is scheduled for the first half of 2011, subject to drill rig availability.

Diamantina Copper-Gold Project *(100% AQD)*

The Diamantina Project is located approximately 450km south of Mt Isa along the southern margin of the Mt Isa Block, which hosts numerous base and precious metal deposits in north-western Queensland. The Company controls approximately 2,000 km² of tenements in the area and is targeting large-scale Iron-Oxide Copper-Gold (IOCG) systems below the Eromanga Basin sediments.

During the Quarter, a MIMDAS IP survey was completed along traverses positioned 500 metres north and south of the original IP survey line, to follow up an earlier survey completed in 2008 which suggested that a possible sulphide source may be present below the Eromanga Basin sediments near the eastern contact of the Machattie IOCG system.

The latest MIMDAS results do not appear to confirm the original IP response and further work in this area is now in question. A final report and interpretation is awaited.

Cairn Hill Nickel Project *(AQD 100%)*

The Cairn Hill Project is located 50km west of Paraburdoo in the Pilbara region of WA. It contains extensive outcrops of ultramafic rocks which are considered to be prospective for nickel sulphide mineralisation. Approximately 30km of basal ultramafic contact is exposed within the tenement area and this will be the initial focus of exploration activity in the area.

The grant of the Cairn Hill tenement awaits signing of a State Deed to complement the Heritage Agreement signed by the Company and the Traditional Owners.

Prospecting of the basal contact of the ultramafic to locate nickel sulphide gossans is planned for 2011.

Mt Ramsay Nickel Project *(AQD 100%)*

The Mount Ramsay Project is located between 60 and 120 kilometres south west of Halls Creek in the Kimberley Region of WA. The project straddles the Halls Creek Mobile Zone and contains mafic intrusive rocks that are believed to have potential to host nickel sulphide mineralisation similar to that found at Voiseys Bay in Canada. The Company has approximately 850km² under granted tenement and 100km² under application.

VTEM surveys to test this conceptual target and identify targets for drilling are proposed as part of the Company's ongoing exploration programme for new nickel provinces. Initial surveying is expected to be completed around mid-2011.

Earoo Nickel Project *(AQD 100%)*

The Earoo Project is located approximately 130km northwest of Southern Cross in the Yilgarn region of WA. Interpretation of regional aeromagnetic data identified a large mafic intrusion which is believed to form part of the Warakurna Large Igneous Province (WLIP), which has recently been suggested may include intrusive rocks in the Musgrave area some of which are known to host nickel sulphide occurrences. The tenement covering the prospect (~600km²) was granted in January 2011.

A VTEM survey to test this conceptual target and identify targets for drilling is planned as part of the Company's ongoing exploration programme for new nickel provinces. Initial surveying is expected to be completed by mid-2011.

BUSINESS DEVELOPMENT

The Company's Business Development Team continues to evaluate a wide range of opportunities both within Australia and offshore with the aim of adding significant value to the Company.

Project generation work in South America and Africa has identified a number of opportunities which the Company is currently pursuing.

CORPORATE

AusQuest's cash reserves at the end of December 2010 were approximately **A$15.5 million**, excluding the initial payment of **$3.375 million** for the Rocklea Project, putting the Company in a strong financial position.

KEY ACTIVITIES – March 2011 QUARTER

The following field activities are planned for the March Quarter 2011:

- Comoe JV (gold) – Ongoing RC drilling at Phaco Hill prospect;
- Comoe JV (gold) – Diamond drilling (~2,500m) at Phaco Hill prospect;
- Comoe JV (gold) – Ground EM and Down-hole EM surveys Phaco Hill;
- Comoe JV (gold) – RC drilling (~1,000m) to test EM targets in Komoe;
- Comoe JV (gold) – RC drilling (~5,000m) to test the Siniko West and Baboro prospects;
- Comoe JV (gold) – Detailed soil sampling and mapping in the Phaco Hill region;
- Stanley (manganese) – VTEM surveys at the Windida, Dome and Niminga prospects;
- Dundas (gold) – Ongoing RAB drilling (15,000m) of gold/copper targets;
- Earoo (nickel) – VTEM survey.

Graeme Drew
Managing Director

COMPETENT PERSON'S STATEMENT

The details contained in this report that pertain to exploration results are based upon information compiled by Mr Graeme Drew, a full-time employee of AusQuest Limited. Mr Drew is a Fellow of the Australasian Institute of Mining and Metallurgy (AUSIMM) and has sufficient experience in the activity which he is undertaking to qualify as a Competent Person as defined in the December 2004 edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves" (JORC Code). Mr Drew consents to the inclusion in the report of the matters based upon his information in the form and context in which it appears.

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 2010

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	(1,118)	(3,236)
	(b) development	-	-
	(c) production	-	-
	(d) administration	(409)	(1,297)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	225	540
1.5	Interest and other costs of finance paid	-	-
1.6	Income taxes paid	-	-
1.7	Other	-	-
	Net Operating Cash Flows	(1,302)	(3,993)
	Cash flows related to investing activities		
1.8	Payment for purchases of:		
	(a)prospects	-	-
	(b)equity investments	-	-
	(c) other fixed assets	(10)	(17)
1.9	Proceeds from sale of:		
	(a)prospects	500	500
	(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	490	483
1.13	Total operating and investing cash flows (carried forward)	(812)	(3,510)

1.13	Total operating and investing cash flows (brought forward)	(812)	(3,510)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	-	-
1.15	Proceeds from unissued shares, options etc	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other (share issue costs)	-	-
	Net financing cash flows	-	-
	Net increase (decrease) in cash held	(812)	(3,510)
1.20	Cash at beginning of quarter/year to date	16,354	19,052
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	**Cash at end of quarter / year to date**	**15,542**	**15,542**

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	257
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

Executive directors' salaries, bonuses, non-executive directors' fees and superannuation, consulting fees 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

None

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

None.

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	1,700
4.2	Development	-
4.3	Production	-
4.4	Administration	300
	Total	**2,000**

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	1,912	2,264
5.2	Deposits at call		
5.3	Bank overdraft		
5.4	Other (Money market/Term Deposit)	13,630	14,090
	Total: cash at end of quarter (item 1.22)	**15,542**	**16,354**

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	EPM 27293 EPM 27431		100% 100%	0% 0%
6.2	Interests in mining tenements acquired or increased	E69/2587 E80/4428 E77/1779		0% 0% 0%	100% 100% 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**	228,312,235	228,312,235		
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)*			*Exercise price*	*Expiry date*
		3,700,000	-	54 cents	30 June 2011
		500,000	-	30 cents	31 Jan 2012
		1,250,000	-	35 cents	31 Dec 2012
		48,060,857	-	40 cents	21 May 2011
		1,350,000	-	20 cents	1 Dec 2013
		1,150,000	-	40 cents	1 Dec 2013
		500,000	-	30 cents	30 Nov 2013
		500,000	-	40 cents	30 Nov 2013
		1,750,000	-	40 cents	30 Nov 2013
7.8	Issued during quarter			*Exercise price*	*Expiry date*
		500,000	-	30 cents	30 Nov 2013
		500,000	-	40 cents	30 Nov 2013
		1,750,000	-	40 cents	30 Nov 2013
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.

Sign here: Date: 31 January 2011

(Company secretary)

Print name: Darren Crawte

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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