ASX Release

October 23, 2012

AUSQUEST FINALISES AGREEMENT WITH CLIFFS FOR SELECTIVE SHARE BUY-BACK AND WA MANGANESE JOINT VENTURE

Key Points

- **AusQuest to buy back and cancel Cliffs' 68.3M shares – 29.91% shareholding.**
- **Transaction will reduce AusQuest's issued capital to ~160M shares.**
- **Cliffs to acquire 70% interest in AusQuest's Stanley Manganese Project in WA, with AusQuest to sole fund first $1M of exploration.**
- **AusQuest and Cliffs to retain strong working relationship through project joint ventures**

Further to its ASX Announcement of 4th October, AusQuest Limited ("AusQuest") is pleased to advise that it has executed a legally binding agreement with its major shareholder, Cliffs Australia Holdings Pty Ltd (Cliffs), to undertake a selective buy-back and cancellation of Cliff's 29.91% shareholding in AusQuest, subject to FIRB and shareholder approval.

The transaction will result in a reduction in the number of AusQuest shares on issue from ~228 million to ~160 million, meaning that remaining existing shareholders will have an increased percentage ownership of the Company.

At the same time the Company will retain a strong and important working relationship with Cliffs through project joint ventures in Australia and overseas.

Under the agreement, AusQuest will buy back and cancel 68,308,791 shares held by Cliffs, in consideration for which the Company will assign a 70% interest in the Company's Stanley Manganese Project in Western Australia to Cliffs and AusQuest will sole fund exploration expenditure of $1 million on the Stanley Project within the two years following completion of the buy-back.

The parties have agreed that, by the completion of AusQuest's sole-funding period, a Joint Venture Agreement will be negotiated for the Stanley Project which will provide Cliffs with the election either to form a 70:30 joint venture with AusQuest, or sole-fund further exploration expenditure of $3.0 million over a four year period to earn an additional 10% equity in the project, or withdraw from the agreement.

If Cliffs elects to continue under a Joint Venture Agreement, it will assume management of the Stanley Project and AusQuest will retain a minority equity of between 20% and 30%, depending on Cliffs' election.

If Cliffs elects to withdraw or a Joint Venture Agreement cannot be agreed, Cliffs will retain its equity in the project as well as the right to on-sell its equity under standard pre-emptive rights and conditions.

The value of the consideration to be paid by AusQuest in exchange for the buy-back and cancellation of Cliffs' shareholding, has been assessed by an independent expert, BDO Corporate Finance (WA) Pty Ltd, which has concluded that the transaction is '*fair and reasonable*' to shareholders who are not associated with Cliffs.

The agreement, which is subject to shareholder approval under Listing Rule 10.1 and the selective buy-back provisions of the Corporations Act, will be put to shareholders at the Company's 2012 Annual General Meeting, to be held on the 27th November in the Heritage Room at the South of Perth Yacht Club, Perth.

A Notice of Meeting including details of the transaction and a copy of the Independent Expert's Report will be sent to shareholders shortly.

Commenting on the agreement, AusQuest's Managing Director, Graeme Drew, said: "*We are very pleased to have concluded this agreement with Cliffs, which enables us to maintain our strong working relationship with Cliffs at a project level rather than a corporate level.*

"AusQuest shareholders will benefit from the transaction by increasing their percentage ownership of the Company, while at the same time being exposed to exploration upside at the Stanley Project, where a new joint venture will be negotiated.

"We look forward to continuing our strong working relationship with Cliffs, both in Australia and in Peru, where we already have an active joint venture."

Background on Stanley Manganese Project

The Stanley Project is located approximately170km east of Wiluna in Western Australia, within the Earaheedy Basin. The Project comprises 14 granted Exploration Licences and two Exploration Licence Applications covering a total area of approximately 2,330km^2.

Manganese mineralisation in the area occurs at several different stratigraphic locations and is widespread around the basin. Mineralisation is often associated with carbonate units that are located stratigraphically above the iron formations which occur within the Frere Formation.

Exploration to date by AusQuest has located extensive areas of manganiferous float and sub-crop at the Niminga, Dome and Windidda prospects. Reconnaissance RC drilling at each prospect has intersected thick sequences of low-grade manganese, ranging from 5m @ 7.2% Mn at Dome to 16m @ 7.0% Mn at Windidda and 99m @ 3.1% Mn at Niminga.

VTEM and gravity surveys undertaken by AusQuest over limited areas have identified strike extensive targets at each prospect that require drill testing. This drilling, together with geological mapping and in-fill geophysical surveys, will form part of a detailed work program to be agreed with Cliffs and commenced in 2013.

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.

FORWARD LOOKING STATEMENT

This report contains forward looking statements concerning the projects owned by AusQuest Limited. Statements concerning mining reserves and resources may also be deemed to be forward looking statements in that they involve estimates based on specific assumptions. Forward-looking statements are not statements of historical fact and actual events and results may differ materially from those described in the forward looking statements as a result of a variety of risks, uncertainties and other factors. Forward looking statements are based on management's beliefs, opinions and estimates as of the dates the forward looking statements are made and no obligation is assumed to update forward looking statements if these beliefs, opinions and estimates should change or to reflect other future developments.

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