

September 11, 2008
ASX Release



AusQuest Agrees Strategic Alliance with Cleveland-Cliffs

- AusQuest has reached agreement on a Strategic Alliance with Cleveland-Cliffs
- Cleveland-Cliffs to acquire a 30% interest in AusQuest
- Cleveland-Cliffs to make an initial \$26 million subscription at \$0.40 per share
- Subscription monies to aggressively accelerate the exploration of AusQuest's portfolio of projects in Australia

Diversified Australian exploration company AusQuest Limited ("AusQuest", or "the Company", ASX: AQD) is pleased to announce that it has entered into a Strategic Alliance with Cliffs Australia Holdings Pty Ltd, a wholly-owned subsidiary of international mining company Cleveland-Cliffs Inc ("Cleveland-Cliffs").

Headquartered in Cleveland, Ohio, Cleveland-Cliffs is the largest producer of iron ore pellets in North America and a major supplier of metallurgical coal to the global steel-making industry. It operates six iron ore mines and three coking coal mines in North America, and also owns 85% of Portman Limited, a large iron ore mining company in Australia serving Asian markets. Cleveland-Cliffs currently has a market capitalisation of approximately US\$9.5 billion.

Transaction Structure

Under the agreement reached today, Cleveland-Cliffs will acquire a 30% fully diluted interest in AusQuest through a staged issue of shares and options.

AusQuest will issue Cleveland-Cliffs with 21,590,000 options with an exercise price of \$0.40 per share and an expiry date of around 31 March 2011. This initial issue of options will occur pursuant to AusQuest's 15% placement capacity in accordance with ASX Listing Rule 7.1 with allotment expected to occur within the next 5 days.

Subject to AusQuest shareholder and FIRB approval:

- Cleveland-Cliffs will subscribe for 66.7 million new AusQuest shares at \$0.40 per share for a total subscription price of \$26 million;
- Cleveland-Cliffs will be issued approximately 29 million additional options with an exercise price of \$0.40 per share and an expiry date of around 31 March 2011 to increase Cleveland Cliff's fully diluted interest in AusQuest to 30% post the placement; and
- Under the Strategic Alliance, Cleveland-Cliffs will appoint a representative to the AusQuest board.

Among other things, the Strategic Alliance Agreement also:

- gives Cleveland-Cliffs the right to support future capital raisings by AusQuest;
- grants Cleveland-Cliffs certain rights in relation to any future sale or other disposal of AusQuest's assets;
- confirms Cleveland-Cliff's intention not to acquire further shares in AusQuest (other than in certain agreed circumstances) until the earlier of 30 November 2010 and the 2010 AusQuest Annual General Meeting.

Commentary

Commenting on the transaction, AusQuest's Managing Director, Graeme Drew, said: "We are very pleased to announce this landmark Strategic Alliance and we look forward to welcoming Cleveland-Cliffs to our share register and working closely with them to progress both our existing exploration portfolio and new opportunities".

"The investment by Cleveland-Cliffs and formation of a Strategic Alliance validates the exploration strategy that AusQuest has been pursuing by targeting potentially significant discoveries in world-class mineral provinces and represents a strong endorsement of the quality of our exploration team".

"The \$26 million cash injection will provide us with substantial funding to implement a very significant exploration campaign over the next three years, enabling us to do justice to the exciting results we have achieved at our Table Hill project in the Pilbara and our Diamantina Project in Queensland and to accelerate activity at our other key exploration assets".

The President and CEO of Cliffs Asia-Pacific Pty Ltd, Richard Mehan said:

"Cleveland-Cliffs is delighted to have the opportunity to invest directly into AusQuest and to work with AusQuest's board and management through the Strategic Alliance we have entered into today.

AusQuest has a first class exploration portfolio and we believe that the quality of that portfolio, coupled with the talent and experience at all levels of the company, will provide many opportunities for future exploration success and subsequent project development. We are looking forward to developing a long and mutually beneficial relationship with the AusQuest team."

A meeting of AusQuest shareholders is expected to be held in October to seek the approvals needed to complete this transaction. Ausquest will distribute a Notice of Meeting in due course to all shareholders, which will include further details about the Strategic Alliance together with an Independent Expert's Report.

For comment call:

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