

31 DECEMBER 2009 INTERIM FINANCIAL REPORT

Aquila Resources Limited (ASX code: AQA) is pleased to announce the release of its Consolidated Interim Financial Report for the six months ended 31 December 2009.

The Isaac Plains Coal Mine enjoyed a record sales performance for the half year, delivering an Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA) of \$15.4m. The Company recorded a net loss after income tax of \$12.4m for the six months ended 31 December 2009 after expensing all exploration and feasibility activities incurred during the period, totalling \$30.9m, across the Company's portfolio of coal, iron ore and manganese projects in accordance with the Company's conservative accounting policy on such expenditures.

EBITDA from the Isaac Plains Coal Mine is expected to be significantly higher in the second half of the current financial year due to forecast increases in both metallurgical and thermal coal prices. There is also a continued focus on achieving further efficiencies as a result of the appointment of new mining contractor John Holland, who is now operating in conjunction with the coal handling and preparation plant manager, Ascentis, the mining services division of Ausenco.

Set out below is a summary of the Company's Consolidated Income Statement for the six months ended 31 December 2009:

SUMMARY CONSOLIDATED INCOME STATEMENT		
	1H FY10	1H FY09
	\$'000	\$'000
Revenue from coal sales	75,552	56,107
EBITDA – Isaac Plains Coal Mine	15,363	29,584
Exploration and evaluation expenses	(30,925)	(32,064)
Other income / (expenses)	(6,398)	(407)
Income tax (expense) / benefit	9,526	1,769
Net profit / (loss) after tax	(12,434)	(1,118)

As reported, the Company has continued to invest heavily in significant exploration and feasibility programmes across its portfolio of coal, iron ore and manganese projects, both in Australia and South Africa. Some of the notable highlights from the interim period are as follows:

COAL

- A new record sales tonnage from the Isaac Plains Coal Mine of 1,497,612 tonnes (1H FY09: 662,614 tonnes). The Company's share of the revenues from these sales was A\$75.6m (1H FY09: A\$56.1m) at an average realised AUD:USD exchange rate of US\$0.83.
- Completion of the Feasibility Study for the Eagle Downs Hard Coking Coal Project. This study confirmed the technical and financial viability of developing the project as a multi-seam longwall mine, producing initially up to 4.6Mtpa of hard coking coal from one longwall and up to 8Mtpa of hard coking coal should a second longwall be installed.
- Upgrade of the JORC Resource Statement and release of an initial Reserve Statement for the Eagle Downs Hard Coking Coal Project.

- Progress towards the completion of the Pre-Feasibility Study in respect of the establishment of a multi-longwall mining operation at the Belvedere Hard Coking Coal Project, targeting production of up to 9Mtpa of hard coking coal. Vale holds options to acquire the Company's remaining interest in this project at fair market value, with the first option period having commenced in December 2009 and running until June 2010.
- Commencement of a Feasibility Study for the Washpool Hard Coking Coal Project. The Feasibility Study for the planned 4Mtpa mining operation, producing approximately 1.6Mtpa of hard coking coal, is scheduled for delivery by June 2010.

IRON ORE

- Significant progress on the Definitive Feasibility Study for the West Pilbara Iron Ore Project, with engineering works 85% complete at period end. This project is based on a current Measured, Indicated and Inferred iron ore resource of 742Mt, with a projected production rate of 30-40Mtpa from a proposed new 275km railway to and new port development at Anketell Point.
- Signing of further Memoranda of Understanding with steel mills in China, Japan and South Korea for the testing of iron ore products, bringing the total of such non-binding agreements to twenty-two.

MANGANESE

- Completion of over 8,000m of drilling on the Avontuur Manganese Project in South Africa during the period, with encouraging high-grade results achieved. The drilling programme is designed to increase the size and upgrade the current JORC classification of the existing 34.3Mt manganese Resource.

CORPORATE

- Finalisation of an agreement with Baosteel Group Corporation ("Baosteel") during the period whereby:
 - Baosteel invested \$285.6m in the Company, which comprised 15% of the expanded issued share capital of the Company; and
 - The Company and Baosteel signed a Memorandum of Strategic Co-operation under which Baosteel may, subject to agreement between the parties:
 - directly invest in certain of the Company's projects;
 - jointly market a proportion of the Company's coal and iron-ore products in China;
 - enter into direct long term supply agreements for the Company's coal and iron ore products; and
 - assist with the sourcing of low cost financing from Chinese financial institutions for the development of certain of the Company's projects.
- Following the successful investment by Baosteel, the Company is in a very strong net asset position leaving it well placed to continue to fund the feasibility, and ultimate development, of its pipeline of projects.

The Company's financial position as at 31 December 2009 is as follows:

SUMMARY BALANCE SHEET		
	31 December 2009	30 June 2009
	\$'000	\$'000
Current assets	381,944	122,278
Non-current assets	99,089	88,435
Current liabilities	33,985	40,656
Non-current liabilities	13,011	15,281
Net assets	434,037	154,776
Total equity	434,037	154,776

Tony Poli
Executive Chairman

For further information regarding this announcement, please contact Tony Poli.

Telephone: (08) 9423 0111
Facsimile: (08) 9423 0133
Email address: mail@aquilaresources.com.au
Visit us at: www.aquilaresources.com.au

COMPETENT PERSON STATEMENTS

West Pilbara Iron Ore Project

The information in the report to which this statement is attached that relates to the West Pilbara Iron Ore Project iron ore resources is based on information compiled by Mr Stuart H Tuckey who is a member of the Australian Institute of Mining and Metallurgy. Mr Tuckey is a full-time employee of the Australian Premium Iron Joint Venture. Mr Tuckey has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to qualify as Competent Persons as defined in the 2004 Edition of the 'Australasian Code of Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Tuckey consents to the inclusion in the report of the matters based on his information, in the form and context in which it appears.

Avontuur Manganese Project

The estimates of manganese resources for the Avontuur Manganese Project presented in this report have been prepared in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves 2004 ("the JORC Code").

The estimates are based on information compiled by Mr Brent E Green who is a member of the Australian Institute of Geoscientists and a full time employee of the Company. Mr Green has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the JORC Code. Mr Green consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Aquila Resources Limited

(ACN 092 002 769)

and its Controlled Entities



Consolidated Interim Financial Report 31 December 2009

Aquila Resources Limited

Level 2, Aquila Centre
1 Preston Street,
Como WA 6152

Telephone: +61 8 9423 0111
Facsimile: +61 8 9423 0133

Email: mail@aquilaresources.com.au
Website: www.aquilaresources.com.au



AQUILA RESOURCES LIMITED
and its Controlled Entities

CONTENTS

Directors' report	2
Review of operations	3
Auditor's independence declaration	14
Consolidated interim statement of comprehensive income	15
Consolidated interim balance sheet	16
Consolidated statement of changes in equity	17
Consolidated statement of cash flows	18
Notes to the interim financial statements.....	19
Directors' declaration.....	23
Independent auditor's review report to the owners.....	24

AQUILA RESOURCES LIMITED

and its Controlled Entities

DIRECTORS' REPORT

The Directors of Aquila Resources Limited ("the Company") present their report together with the consolidated financial report for the half-year ended 31 December 2009 and the auditor's review report thereon.

1. DIRECTORS

The Directors of the Company at any time during or since the end of the half-year are:

Tony Poli (51)

Executive Chairman

Mr Poli is a qualified Certified Practising Accountant and has accumulated extensive general management, corporate and directorial experience throughout his career in the resources industry. He has been a member of the Board since the incorporation of the Company on 14 March 2000 and is responsible for its operations.

Charles Bennett Bass (60)

Non-Executive Director

Mr Bass is a qualified geologist and mining engineer with more than 30 years experience in mineral exploration, feasibility, development and production in Australia, Canada and the United States and has been a member of the Board of the Company since it was incorporated on 14 March 2000.

Derek Thomas Cowlan (75)

Independent Non-Executive Director

Mr Cowlan is a businessman with considerable experience in financial and business management and has been a member of the Board of the Company since it was incorporated on 14 March 2000. He also performs the role of Chairman of the Company's Audit Committee.

He currently presides as the Chairman of the Ross North Group, a large home building company operating in Western Australia.

Gordon Galt (58)

Independent Non-Executive Director

Mr Galt is a senior mineral resources executive and an experienced Director. He has worked in senior management, technical and operational roles and across a wide range of commodities, primarily in coal, gold and magnesium, and also in copper, lead and zinc.

He has been a member of the Board of the Company since 22 August 2007.

Dai Zhihao (46)

Non-Executive Director

Mr Dai is a qualified engineer with substantial experience in the production and marketing functions of iron and steel enterprises. He joined Baosteel in 1983 and has held numerous roles within the Baosteel Group prior to being appointed Vice President of Baosteel Group Corporation in 2007.

He has been a member of the Board of the Company since 27 November 2009.

2. LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

The Lead Auditor's Independence Declaration is set out on page 14 and forms part of the Directors' Report for the half-year ended 31 December 2009.

AQUILA RESOURCES LIMITED and its Controlled Entities

DIRECTORS' REPORT

3. REVIEW OF OPERATIONS

(I) COAL

ISAAC PLAINS COAL MINE

Aquila Interest	50%
Location	7km south east of Moranbah in Queensland's Bowen Basin region
Reserves (JORC)	58.5Mt
Production Rate	2.8Mtpa (saleable coal)
Products	20% semi hard coking coal 55% PCI coal 25% thermal coal
Estimated Mine Life	18 years

Isaac Plains Coal Mine is an operating open cut coal mine presently finalising approvals to lift Run of Mine (ROM) production to 3.6Mtpa. The mine is located east of Moranbah in the Bowen Basin in Central Queensland. The coal products are a mix of metallurgical and thermal coals which are exported through Dalrymple Bay Coal Terminal.

During the period, the site operations have been consolidated under two contracts, namely John Holland Queensland Pty Ltd (John Holland) managing the mining operations and Ascentis Pty Ltd managing the coal beneficiation operations.



Coal stacker – Isaac Plains Coal Mine

Production

Overburden volume moved during the half-year period of 11.55 million bank cubic metres (bcm) was 3% ahead of budget, despite the impact of the changeover of mining contractor from National Mining Services to John Holland and the associated ramping up of production during the period. John Holland has now fully mobilised to site with equipment and labour.

All equipment has been commissioned and the production ramp up completed with John Holland working at full capacity by the end of the period.

The approval process to allow Isaac Plains Coal Mine to increase its production to 3.6Mtpa ROM (up from the present 2Mtpa), and to enable the assembly and commissioning of the refurbished dragline, progressed with completion of the public review period for the Environmental Approval conditions and referral to the Land Court. Mediation sessions were held with the principal objectors in the period and it is anticipated that these will be brought to a successful conclusion prior to the final hearing scheduled for March 2010.

Coal Sales

Total sales for the six months to 31 December 2009 of 1.498Mt represents a new record and has already exceeded the previous full year's sales performance.

Product	Six months ended December 2009 (tonnes)	Six months ended December 2008 (tonnes)
Coking coal	413,084	117,199
PCI coal	286,485	293,589
Thermal coal	798,043	251,826
	1,497,612	662,614

All carry over contracts have now been successfully negotiated and trading has resumed with all term customers. The balance of the financial year's production is almost fully committed to contract sales, with a significant increase in enquiries from customers for additional product indicating a return to strong trading conditions.

AQUILA RESOURCES LIMITED
and its Controlled Entities

DIRECTORS' REPORT

3. REVIEW OF OPERATIONS (CONT'D)

EAGLE DOWNS HARD COKING COAL PROJECT

Aquila Interest	50%
Location	25km south east of Moranbah in Queensland's Bowen Basin region
Reserves (JORC)	157Mt
Resources (JORC)	894Mt
Projected Production Rate	Up to 8Mtpa from two longwalls
Products	hard coking coal
Estimated Mine Life	+40 years

Eagle Downs Hard Coking Coal Project is a proposed underground longwall coal mine which when in full production, may produce up to 8Mtpa of hard coking coal. It is located to the south of Moranbah in the Bowen Basin and immediately adjacent to and down dip of BHP Mitsubishi Alliance's Peak Downs Mine. It is scheduled to commence underground development in 2012 and longwall production in 2014, initially up to 4.6Mtpa from a single longwall and followed by the staged introduction of a second longwall in 2020 to lift production to 8Mtpa.

A major milestone achieved during the period was the completion of the Feasibility Study, which confirmed the technical and financial viability of the Project.

Subject to the completion of the Definitive Feasibility Study, Joint Venture and statutory approvals, construction of the mine is scheduled to commence in 2011, with the first coal mined in 2012. The first longwall is expected to be installed and operating by 2014, followed by the second longwall in 2020. The Feasibility Study used a base case of the single longwall operation for the Project cost estimates.



Contractors performing seismic testwork at the Eagle Downs Hard Coking Coal Project

Capital Costs

The outcomes of the Feasibility Study indicate that the Project can be developed for a capital cost of \$977M, which includes a contingency of \$155M.

Project Area	Capital Cost (\$M)
Mine Costs	722
EPCM Costs	100
Contingency	155
Total	977

Operating Costs

The Feasibility Study concluded that the mine can produce coal for approximately \$73 per tonne (FOB operating cost) with a mine life in excess of 40 years.

Project Area	Operating Cost (\$ per tonne)
Mining Costs	34.50
Processing and Rail Costs	32.95
Port and other Costs (excl. royalty)	5.75
Total	73.20

AQUILA RESOURCES LIMITED

and its Controlled Entities

DIRECTORS' REPORT

3. REVIEW OF OPERATIONS (CONT'D)

A financial model was produced as part of the Feasibility Study, indicating that this cost structure would generate annual earnings before interest, tax, depreciation and amortisation (EBITDA) of approximately \$300M for the Project at production levels of 4Mtpa from the initial single longwall operation.

Initial Reserve Statement

In conjunction with the Feasibility Study, the Company also released an initial Reserve Statement for the Project during the period. Coal Reserves delineated to date total 157.5Mt, consisting of 97.9Mt Proven Reserves and 59.6Mt of Probable Reserves.

*Summary of In situ Resources by Seam
(depths from 150m to >600m)*

Seam	Measured (Mt)	Indicated (Mt)	Total Measured & Indicated (Mt)	Inferred (Mt)	Total Measured, Indicated & Inferred (Mt)
Q	33.5	18.5	52.0	45.0	97.0
HCU	103.5	47.5	151.0	26.5	177.5
HCL	129.0	63.5	192.5	187.5	380.0
DY	72.3	45.0	117.3	86.0	203.3
DY – "PCI"	1.0	4.5	5.5	31.0	36.5
Total	339.5	179	518.3	376	894.3

Statement of Coal Reserves – released in August 2009

Coal Seams	Proven Reserves (Mt)	Probable Reserves (Mt)	Recoverable Reserves (Proved & Probable) (Mt)
Harrow Creek Upper	23.6	16.9	40.5
Harrow Creek Lower	45.7	25.9	71.6
Dysart	28.6	16.8	45.4
Total	97.9	59.6	157.5

Resource Statement

Subsequent to period end, the Company announced a revised Resource Statement for the Project, following a programme of additional drilling and coal quality analysis. The JORC classification of the Harrow Creek Upper Seam resource has been upgraded significantly, together with a small increase in the total resource.

The Measured Resource for the Project has been increased to 340Mt. The Reserve within the Harrow Creek Upper Seam now covers 90% of the payback period under the Project mining plan and the increased Measured and Indicated Resources of 519Mt now covers 99% of the proposed Harrow Creek Upper life of mine plan.

The estimates of coal reserves and coal resources for the Eagle Downs Hard Coking Coal Project presented in this report have been prepared in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves 2004 ("the JORC Code").

The coal reserve estimates are based on information compiled by the staff of Bowen Central Coal Management Pty Ltd and reviewed by Mr Geoffrey Watson who is a member of the Australasian Institute of Mining and Metallurgy and a full time employee of Runge Limited. Mr Watson has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the JORC Code. Mr Watson consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

The coal resource estimates are based on information compiled by Mr Mal Blaik who is a member of the Australasian Institute of Mining and Metallurgy. Mr Blaik is a Principal Consultant of JB Mining Services Pty Ltd. Mr Blaik has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the JORC Code. Mr Blaik consents to the inclusion in the report of the matters based on their information in the form and context in which it appears.

AQUILA RESOURCES LIMITED

and its Controlled Entities

DIRECTORS' REPORT

3. REVIEW OF OPERATIONS (CONT'D)

BELVEDERE HARD COKING COAL PROJECT

Aquila Interest	24.5%
Location	180km west of the port of Gladstone in the southern part of Queensland's Bowen Basin region
Resources (JORC)	3,866Mt
Projected Production Rate	up to 9Mtpa from two longwalls
Products	hard coking coal
Estimated Mine Life	+40 years

Belvedere Hard Coking Coal Project is a proposed underground longwall coal mine which when in production will produce up to 9Mtpa of hard coking coal. It is located to the north of Moura in the southern Bowen Basin and immediately adjacent to and down dip of Anglo Coal's Dawson Mine. It is planned to export the coal through the proposed Wiggins Island Coal Terminal at Gladstone. The Project was declared a Significant Project by the Queensland Coordinator General Mr Colin Jensen in an announcement made on 10 November 2009.

- Finalisation of the geotechnical assessment and geological model, incorporating a final reconciliation of the 2D and 3D seismic survey data;
- Mine planning to produce a mine production schedule and the design of mining layouts in the C and D seams to identify potential additional mining areas; and
- Development of capital expenditure and operating cost assumptions.

Exploration programme field activities associated with the Pre-Feasibility Study were formally completed during the period following completion of a 73 hole drilling campaign, extensive 2D and 3D seismic testing and over 100 coal quality samples.

Another milestone achieved was the signing of a Cultural Heritage Management Plan with the Gangulu people.

Vale Purchase Option

Vale has the option to acquire the Company's remaining 24.5% interest in the Project at Fair Market Value under the Joint Venture Agreement. The first of these option periods commenced in December 2009 and runs until early June 2010.



Exploratory drilling in progress

The Project is presently working towards the completion of a Pre-Feasibility Study which is due to be released shortly.

Technical work undertaken during the period to complete the Pre-Feasibility Study report has included:

WASHPOL HARD COKING COAL PROJECT

Aquila Interest	100%
Location	24km north west of Blackwater in Queensland's Bowen Basin region
Resources (JORC)	138.1Mt
Projected Production Rate	1.6Mtpa
Products	hard coking coal
Estimated Mine Life	~18 years

The Washpool Hard Coking Coal Project is a proposed open cut coal mine which, when in production, will produce 1.6Mtpa of saleable hard coking coal. It is located north west of Blackwater in the Bowen Basin and it is planned to export the coal through the proposed Wiggins Island Coal Terminal at Gladstone.

AQUILA RESOURCES LIMITED

and its Controlled Entities

DIRECTORS' REPORT

3. REVIEW OF OPERATIONS (CONT'D)

Major field exploration activities were undertaken in the period in order to upgrade the geological model and Resource Statement, further define the coal quality of the Project and undertake the requirements for the Mining Lease Application and Environmental Impact Study.

Consultants have been engaged to undertake technical studies as part of the Feasibility Study and include:

- surface infrastructure studies (Sinclair Knight Merz);
- mining layout, production schedule and equipment selections (Xenith Consulting); and
- CHPP design (Austagg).

The Company has been advised that the granting of the Mineral Development Licence for the Project is imminent and the Mining Lease Application has also been lodged with the Department of Employment, Economic Development and Innovation.



A field meeting between the Company's Systems & Approvals Manager and a cultural heritage contractor

Consultations with stakeholders regarding cultural heritage, petroleum tenements and landholdings commenced during the period and are ongoing.

The Project team is scheduled to release the Feasibility Study by June 2010.

(II) IRON ORE

WEST PILBARA IRON ORE PROJECT

Aquila Interest	50% (Australian Premium Iron Joint Venture)
Location	70km south of Pannawonica in the Pilbara region of Western Australia
Resources (JORC)	742Mt
Projected Production Rate	30-40Mtpa
Products	direct ship channel iron ore and bedded iron ore
Estimated Mine Life	+20 years (16 years on current resources)

Stage 1 of the West Pilbara Iron Ore Project represents the proposed initial development of a direct ship channel iron ore and bedded iron ore export operation in the West Pilbara region of Western Australia. It is expected to produce 30-40Mtpa from a proposed new port development at Anketell Point.

The current JORC Resource for the Project is 742Mt, of which 70% is classified in the Measured or Indicated categories.

Infrastructure Engineering

Definitive Feasibility Study (DFS) engineering works have progressed to 85% complete and moved into the estimation phase during the period. The Integrated Management Team, which is responsible for the delivery of the engineering component of the Stage 1 DFS has commenced preparation of cost estimates for Project plant and infrastructure.

Port process engineering work included earthworks and drainage design for the secondary stockyard area, interface planning with roads and rail, hydrology design, storm surge protection design, development of the port simulation model, hazard identification and risk workshops and compilation of material take-offs.

Port marine engineering work focused on port capacity modelling. Conceptual development of the Anketell Point port for an ultimate capacity of 350Mtpa was further evaluated in order to plan for efficient expansion steps from the initial 30-40Mtpa capacity.

DIRECTORS' REPORT

3. REVIEW OF OPERATIONS (CONT'D)

Mine engineering work included earthworks and drainage designs, interface planning and process control.

Rail engineering work included roads and crossings, intersections and interfaces, calculations of earthworks volumes and mass haul for roads, water demand for rail construction, drainage and bridge design, in-train force simulation studies and quantity calculations for the estimating process.

Environmental and Stakeholder Consultation

A draft Public Environmental Review (PER) document for the mine and rail components of the Project has been submitted for review by the Environmental Protection Agency (EPA) and other relevant government agencies and community stakeholders.

After addressing feedback from the EPA and the Commonwealth Department of the Environment, Water, Heritage and Arts, a revised Environmental Scoping Document (ESD) for the Anketell Point port proposal was submitted to the EPA for approval.

A programme of consultation regarding the Project continued during the period with relevant government and community stakeholders.



Terrain in the West Pilbara

Mining

Work is also progressing on optimising the mining and ore blending schedule and on integrating this schedule into the mine to port infrastructure and operations simulation model.

Product Development

The Phase 2 sinter testing of the West Pilbara Fines product (WPF) was completed with very encouraging results. WPF can be satisfactorily added into the sinter mix at levels of up to 15%. Value in use (VIU) analysis and further testing is continuing to determine the optimum blend levels that can be utilised economically. These results were communicated to steel mills in accordance with Memoranda of Understanding (MoU) obligations.

Preparations for Phase 3 sinter test-work at the Anshan Institute have also been undertaken. A programme for Phase 4 sinter testing of WPF has been agreed with China South University and sample preparation has commenced.

Further consignments of WPF samples were delivered to potential customers for evaluation as part of the MoU process.

Port Stakeholder Consultation

A series of meetings for cooperative interchange were held between Western Australian government agencies and industry representatives to progress toward agreement as to how to develop a new iron ore export port and Strategic Industrial Area at Anketell Point.

Marketing

Twenty-two MoUs have now been agreed with steel mills in China, Japan and Korea.

These non-binding agreements outline the process for independent and mutual test work and evaluation of ore to determine the Project's market position. This work, along with VIU analysis, will eventually be used to progress MoUs into Letters of Intent to purchase ore.

AQUILA RESOURCES LIMITED

and its Controlled Entities

DIRECTORS' REPORT

3. REVIEW OF OPERATIONS (CONT'D)

Hardey Project

Following an extensive drilling programme and completion of a revised Resource estimate, metallurgical test work and mine planning has commenced for the Hardey Project Pre-Feasibility Study (PFS).

A "whole of project" approach is being undertaken to progress the Hardey Project efficiently and sequentially with the mine, port and rail development of the initial 30Mtpa Stage 1 of the West Pilbara Iron Ore Project.

Successful development of the Hardey Project will provide a high-grade, bedded iron ore product, which will complement the WPF product currently being evaluated by potential customers.

The Hardey Project PFS is planned for completion during the second half of 2010.

Resource Exploration

Extensive exploration activity continued during the period, with drilling programmes at the Hardey Bedded Iron Deposit and the Kens Bore and Catho Well Channel Iron Deposits.

A revised Resource estimate for the Hardey Project was completed during the period. The revised Resource estimate of 156.08Mt at 61.47% iron represents a significant increase of 93.18Mt from the previously released Resource (62.9Mt) for the Hardey Project.



Exploration activity at the Catho Well Deposit

AQUILA RESOURCES LIMITED
and its Controlled Entities

DIRECTORS' REPORT

3. REVIEW OF OPERATIONS (CONT'D)

Hardey Resource estimate (at 56% Fe cut-off)

Resource Classification	Tonnes (M)	Fe %	Al ₂ O ₃ %	SiO ₂ %	S %	P %	Mn %	MgO %	LOI (1000°C)
BROCKMAN (Dales Gorge)									
Measured	55.31	61.83	2.43	3.31	0.006	0.143	0.077	0.054	5.33
Indicated	55.16	61.59	2.43	3.65	0.006	0.138	0.078	0.051	5.27
Inferred	33.46	61.55	2.38	3.64	0.007	0.137	0.074	0.052	5.34
TOTAL	143.94	61.67	2.42	3.52	0.006	0.140	0.077	0.052	5.31
MARRA MAMBA									
Measured	-	-	-	-	-	-	-	-	-
Indicated	4.47	59.56	2.71	5.16	0.026	0.064	0.098	0.051	6.51
Inferred	7.67	58.84	2.82	5.47	0.022	0.062	0.128	0.042	7.12
TOTAL	12.14	59.10	2.78	5.35	0.024	0.063	0.117	0.045	6.90
TOTAL RESOURCE									
Measured	55.31	61.83	2.43	3.31	0.006	0.143	0.077	0.054	5.33
Indicated	59.63	61.44	2.45	3.76	0.008	0.133	0.079	0.051	5.36
Inferred	41.14	61.05	2.46	3.98	0.009	0.123	0.084	0.050	5.67
TOTAL	156.08	61.47	2.45	3.66	0.007	0.134	0.080	0.052	5.43

The estimates of iron ore resources presented in this report have been prepared in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves 2004 ("the JORC Code"). The estimates are based on information compiled by Mr Stuart H Tuckey who is a member of the Australasian Institute of Mining and Metallurgy. Mr Tuckey is a full time employee of API Management Pty Ltd. Mr Tuckey has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the JORC Code. Mr Tuckey consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

THABAZIMBI IRON ORE PROJECT

Aquila Interest	74%
Location	Near the township of Thabazimbi in the Limpopo Province of South Africa
Resources (JORC)	Resource statement expected to be released in 2010
Projected Production Rate	1-2Mtpa

The Thabazimbi project area is located in the Limpopo Province of South Africa, some 200km north-west of Pretoria. The town of Thabazimbi is central to the tenements comprising the project area. The tenements are currently held under a joint venture in which the Company currently holds a 74% interest, with its Black Economic Empowerment partner holding the remaining 26%.

AQUILA RESOURCES LIMITED and its Controlled Entities

DIRECTORS' REPORT

3. REVIEW OF OPERATIONS (CONT'D)

Exploration activities continued at the Meletse Prospect during the period with twenty-one drill holes completed for 4,478m. An Australian-based drill contractor with a specialist track mounted RC rig was mobilised to site during the period in response to challenging drilling conditions experienced. Results to date have been encouraging, with the drill programme having recommenced in January.

The Company is targeting the release of an initial JORC compliant Resource estimate in 2010.



Rocky outcrops at the Gravenhage area

(III) MANGANESE

AVONTUUR MANGANESE PROJECT

Aquila Interest	74%
Location	25km north of Hotazel in the Northern Cape Province of South Africa
Resources (JORC)	34.3Mt
Projected Production Rate	1Mtpa
Products	Medium to high grade oxide manganese
Estimated Mine Life	+15 years

Resource Development

Diamond drilling continued at the Avontuur Manganese Project with 39 drill holes totalling 8,022m completed during the period.

The drilling programme is designed to increase the size and upgrade the JORC classification of the Gravenhage Manganese Resource. The Inferred Resource at Gravenhage (Mn >35%) has been previously reported as 32.5Mt Manganese at 39.9%.

Gravenhage Resource estimate

Grading (Mt)	Mn (%)	Fe (%)	SiO ₂ (%)	Al ₂ O ₃ (%)	K ₂ O (%)	P (%)	LOI (%)
32.5	39.9	12.7	8.82	0.44	0.35	0.03	8.8

The high-grade component of the orebody has been intersected at depths between 52m and 300m and is open to the south and at depth. The deposit is considered amenable to open pit mining followed by multiple decline underground developments.

Infrastructure

The Company and its Black Economic Empowerment partner have qualified to participate in the Manganese Industry Forum (MIF), a consortium formed to assist Transnet Freight with its decisions regarding expansion of the manganese export corridors from the Northern Cape Province.

The MIF, consisting of existing and prospective producers, met for the first time during the period to consider alternate export channels through Saldanha Bay and Coega, a new port near Port Elizabeth.

The estimates of manganese resources for the Avontuur Manganese Project presented in this report have been prepared in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves 2004 ("the JORC Code").

The estimates are based on information compiled by Mr Brent E Green who is a member of the Australian Institute of Geoscientists and a full time employee of the Company. Mr Green has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the JORC Code. Mr Green consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

AQUILA RESOURCES LIMITED

and its Controlled Entities

DIRECTORS' REPORT

3. REVIEW OF OPERATIONS (CONT'D)

(IV) CORPORATE

Strategic Co-operation with Baosteel

During the period the Company executed a Memorandum of Strategic Co-operation and a share Subscription Agreement with Baosteel Group Corporation ("Baosteel"), China's largest steel mill.

Under the share Subscription Agreement, Baosteel invested \$285,651,000 in the Company, which represents 15% of its expanded share capital.

The Memorandum of Strategic Co-operation contains a framework covering:

- the potential future investment by Baosteel in certain of the Company's projects;
- the marketing in China of a proportion of coal output from the Isaac Plains Coal Mine, the Eagle Downs Hard Coking Coal Project, the Belvedere Hard Coking Coal Project, and iron ore from the West Pilbara Iron Ore Project and the Thabazimbi Iron Ore Project;
- the long-term supply to Baosteel of a proportion of the product from the above projects; and
- the sourcing of low cost financing from appropriate Chinese financial institutions for the above projects.

The Vice President of Baosteel, Mr Dai Zhihao, was nominated to the Board of Directors and appointed a director of the Company following completion of the placement of shares to Baosteel.

Staff

The Company has made a number of appointments of senior staff during the period, in order to meet the demands of the Company's expanding operations:

- Andrew Hocking – Operations Manager – Open Cut. Prior to joining Aquila, Andrew held the position of Project Director with Macmahon Mining where he was responsible for the Eaglefield and Phosphate Hill operations.

- Rod Doyle – Exploration Manager – Coal. Rod is a geologist with over 30 years experience in mining, exploration and mining project development. Rod's most recent experience is in substantial projects in New South Wales in the Hunter Valley and South Coast coal regions with Anglo Coal and BHP Billiton.
- Richard Webb – Commercial Manager – Coal. Richard has held roles with companies as diverse as BHP Billiton, New Hope Corporation, Energy Developments Limited, KPMG and most recently Vale.
- Geoff Allen – Senior Exploration Geologist – Western Australia. Geoff's recent experience includes 3 years with Consolidated Minerals and 11 years with the Goldfields/Placer Dome/Barrick group of companies.
- Ian Wollff – Exploration and Business Development Manager – Indonesia. Ian's most recent experience includes 5 years with the Noble Group where he undertook the feasibility work and initiated the start of the Wira Coal Mine.
- May Chan – Corporate Lawyer. May comes to the Company from Blakiston & Crabb Lawyers.
- Melanie Scurlock – Management Accountant. Melanie is a Chartered Accountant and has performed various accounting roles within a number of commercial groups, with her most recent position being Group Accountant at Mirabela Nickel.

AQUILA RESOURCES LIMITED
and its Controlled Entities

4. ROUNDING OFF

The consolidated entity is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Signed in accordance with a resolution of the Directors.



Tony Poli
Executive Chairman

Perth

25 February 2010



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Aquila Resources Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2009 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.

A handwritten signature of the KPMG firm, written in a cursive, grey ink.

KPMG

A handwritten signature in grey ink, appearing to be 'T R Hart'.

T R Hart
Partner

Perth

25 February 2010

AQUILA RESOURCES LIMITED
and its Controlled Entities

**CONSOLIDATED INTERIM
STATEMENT OF COMPREHENSIVE INCOME**
For the half-year ended 31 December 2009

	<i>Note</i>	<i>Consolidated</i> 31 Dec 2009 \$'000	<i>Consolidated</i> 31 Dec 2008 \$'000
Revenue from sale of product	2	75,552	56,107
Cost of sales		(62,787)	(28,312)
Gross profit		12,765	27,795
Other income		418	12,723
Exploration and evaluation expenses		(30,925)	(32,064)
Corporate, legal and administration expenses		(6,085)	(6,606)
Profit (loss) from operating activities		(23,827)	1,848
Financial income		2,558	5,100
Impairment of investments		-	(9,285)
Finance costs		(691)	(550)
Net finance income (expense)		1,867	(4,735)
Profit (loss) before income tax		(21,960)	(2,887)
Income tax (expense) benefit	3	9,526	1,769
Profit (loss) for the period attributable to owners of the parent entity		(12,434)	(1,118)
Other comprehensive income			
Net change in fair value of available-for-sale financial assets		5,973	(31,844)
Net change in fair value of cash flow hedges		(489)	(18,363)
Foreign currency translation differences for foreign operations		(417)	-
Other comprehensive income for the period, net of income tax		5,067	(50,207)
Total comprehensive income for the period attributable to owners of the parent entity		(7,367)	(51,325)
Basic earnings per share		(\$0.048)	(\$0.005)
Diluted earnings per share		(\$0.048)	(\$0.005)

The Consolidated Interim Statement of Comprehensive Income is to be read in conjunction with the Notes to the Interim Financial Statements set out on pages 19 to 22.

AQUILA RESOURCES LIMITED
and its Controlled Entities

CONSOLIDATED INTERIM BALANCE SHEET
as at 31 December 2009

	<i>Note</i>	<i>Consolidated</i> 31 Dec 2009 \$'000	<i>Consolidated</i> 30 June 2009 \$'000
CURRENT ASSETS			
Cash assets		316,809	73,522
Trade and other receivables		17,956	4,214
Inventories		8,205	14,814
Investments	4	37,902	29,343
Other assets		1,072	385
Total Current Assets		381,944	122,278
NON-CURRENT ASSETS			
Receivables		6,470	6,313
Investments		1	1
Deferred tax assets		14,298	7,338
Property, plant and equipment	5	65,125	62,791
Exploration and evaluation expenditure		3,324	3,324
Intangible assets		305	318
Other assets		9,566	8,350
Total Non-current Assets		99,089	88,435
TOTAL ASSETS		481,033	210,713
CURRENT LIABILITIES			
Trade and other payables		24,866	31,503
Interest-bearing liabilities		8,666	8,699
Employee benefits		453	454
Total Current Liabilities		33,985	40,656
NON-CURRENT LIABILITIES			
Interest-bearing liabilities		7,207	12,796
Provisions		5,804	2,485
Total Non-current Liabilities		13,011	15,281
TOTAL LIABILITIES		46,996	55,937
NET ASSETS		434,037	154,776
EQUITY			
Issued capital	6	361,776	76,124
Reserves		29,774	23,731
Retained earnings		42,487	54,921
TOTAL EQUITY		434,037	154,776

The Consolidated Interim Balance Sheet is to be read in conjunction with the Notes to the Interim Financial Statements set out on pages 19 to 22.

AQUILA RESOURCES LIMITED
and its Controlled Entities

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the half-year ended 31 December 2009

		Share capital	Available- for-sale fair value reserve	Share based payment reserve	Hedging reserve	Foreign currency translation reserve	Retained earnings	Total
	Note	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2009		76,124	9,957	13,285	489	-	54,921	154,776
Profit (loss) for the period		-	-	-	-	-	(12,434)	(12,434)
Other comprehensive income								
Net change in fair value of available-for-sale financial assets		-	5,973	-	-	-	-	5,973
Net change in fair value of cash flow hedges		-	-	-	(489)	-	-	(489)
Foreign currency translation differences		-	-	-	-	(417)	-	(417)
Total other comprehensive income		-	5,973	-	(489)	(417)	-	5,067
Total comprehensive income for the period		-	5,973	-	(489)	(417)	(12,434)	(7,367)
Transactions with owners, recorded directly in equity:								
Issue of ordinary shares	6	285,652	-	-	-	-	-	285,652
Share based payments		-	-	976	-	-	-	976
Balance at 31 December 2009		361,776	15,930	14,261	-	(417)	42,487	434,037
Balance at 1 July 2008		74,124	29,234	13,245	5,005	-	81,083	202,691
Profit (loss) for the period		-	-	-	-	-	(1,118)	(1,118)
Other comprehensive income								
Net change in fair value of available-for-sale financial assets		-	(31,844)	-	-	-	-	(31,844)
Net change in fair value of cash flow hedges		-	-	-	(18,363)	-	-	(18,363)
Total other comprehensive income		-	(31,844)	-	(18,363)	-	-	(50,207)
Total comprehensive income for the period		-	(31,844)	-	(18,363)	-	(1,118)	(51,325)
Transactions with owners, recorded directly in equity:								
Issue of ordinary shares	6	2,000	-	-	-	-	-	2,000
Share based payments		-	-	2	-	-	-	2
Balance at 31 December 2008		76,124	(2,610)	13,247	(13,358)	-	79,965	153,368

The above amounts are stated net of tax where applicable.

The Consolidated Statement of Changes in Equity is to be read in conjunction with the Notes to the Interim Financial Statements set out on pages 19 to 22.

AQUILA RESOURCES LIMITED
and its Controlled Entities

CONSOLIDATED STATEMENT OF CASH FLOWS
For the half-year ended 31 December 2009

	<i>Consolidated</i> 31 Dec 2009 \$'000	<i>Consolidated</i> 31 Dec 2008 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts in the course of operations	61,872	45,269
Cash payments in the course of operations	(58,141)	(39,081)
Cash payments for exploration and evaluation expenditure	(37,109)	(25,200)
Interest received	779	6,232
Interest paid	(650)	(732)
Income taxes paid	-	(42,233)
Net cash used in operating activities	(33,249)	(55,745)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of mineral properties	-	11,982
Proceeds from sale of equity investments	588	21
Payments for property, plant and equipment	(2,587)	(10,060)
Payments for mineral properties	-	(249)
Payments for equity investments	(58)	(5,964)
Payments for security deposits	(1,249)	(2,648)
Net cash used in investing activities	(3,306)	(6,918)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	285,652	2,000
Repayment of borrowings	(5,000)	(3,000)
Payment of finance lease liabilities	(619)	-
Net cash provided by (used in) financing activities	280,033	(1,000)
Net increase (decrease) in cash held	243,478	(63,663)
Cash at the beginning of the financial period	73,522	159,416
Effect of exchange rate fluctuations on cash held	(191)	305
Cash at the end of the financial period	316,809	96,058

The Consolidated Statement of Cash Flows is to be read in conjunction with the Notes to the Interim Financial Statements set out on pages 19 to 22.

AQUILA RESOURCES LIMITED

and its Controlled Entities

NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the half-year ended 31 December 2009

1. Summary of significant accounting policies

Aquila Resources Limited ("the Company") is a company domiciled in Australia.

The consolidated interim financial report of the Company for the six months ended 31 December 2009 comprise the Company and its subsidiaries (together referred to as "the consolidated entity") and the consolidated entity's interest in jointly controlled operations.

The consolidated interim financial report was authorised for issue by the Directors on 23 February 2010.

(a) Statement of compliance

The consolidated interim financial report is a general purpose financial report which has been prepared in accordance with AASB 134: *Interim Financial Reporting* and the Corporations Act 2001.

The consolidated interim financial report does not include all of the information required for a full annual financial report.

The interim financial report is to be read in conjunction with the consolidated annual financial report of the consolidated entity as at and for the year ended 30 June 2009. This report must also be read in conjunction with any public announcements made by Aquila Resources Limited during the half-year in accordance with continuous disclosure obligations arising under the Corporations Act 2001.

The consolidated entity is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and, in accordance with the Class Order, amounts in the financial report have been rounded to the nearest thousand dollars, unless otherwise stated.

(b) Significant accounting policies

Except as described below, the accounting policies applied by the consolidated entity in the consolidated interim financial report are the same as those applied by the consolidated entity in its consolidated financial report as at and for the year ended 30 June 2009.

Changes in accounting policies

(i) Determination and presentation of operating segments

The consolidated entity has adopted AASB 8 *Operating Segments* from 1 July 2009. Operating segments are required to be determined and presented based on the information that is internally provided to the Chief Executive Officer (CEO), who is the consolidated entity's chief operating decision maker. Previously operating segments were determined and presented in accordance with AASB 114 *Segment Reporting*.

All operating segments' operating results are regularly reviewed by the CEO to make decisions about resources to be allocated to the segment and assess its performance, for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment, as well as those that can be allocated on a reasonable basis.

(ii) Presentation of financial statements

The consolidated entity has applied the revised AASB 101 *Presentation of Financial Statements (2007)* from 1 July 2009. As a result, all changes in equity, other than changes related to transactions with owners of the parent entity, are presented in the Consolidated Interim Statement of Comprehensive Income.

Comparative information has been re-presented in conformity with the transitional arrangements of the revised standards. Since the change in accounting policies only impact presentation and disclosure aspects, there is no impact on earnings per share.

AQUILA RESOURCES LIMITED
and its Controlled Entities

NOTES TO THE INTERIM FINANCIAL STATEMENTS
For the half-year ended 31 December 2009

2. Segment reporting

Segment information is presented in the consolidated interim financial report in respect of the consolidated entity's operating segments. Operating segments are determined in a manner consistent with internal reporting provided to the CEO, who is the consolidated entity's chief operating decision maker.

The consolidated entity's operating segments comprise the following:

- Coal – encompassing mining, development, feasibility and exploration activities at the consolidated entity's coal projects in Queensland (including the Isaac Plains Coal Mine, Eagle Downs Hard Coking Coal Project, Belvedere Hard Coking Coal Project, Washpool Hard Coking Coal Project and Red Hill Coal Project) and Botswana (the Asenjo Energy Coal Project);
- Iron ore – encompassing feasibility and exploration activities at the consolidated entity's iron ore projects in Australia (the West Pilbara Iron Ore Project) and South Africa (the Thabazimbi Iron Ore Project and Northern Cape Iron Ore Project); and
- Manganese – encompassing feasibility and exploration activities at the consolidated entity's Avontuur Manganese Project in South Africa.

<i>Operating segments</i>	<i>Coal</i>		<i>Iron Ore</i>		<i>Manganese</i>		<i>Consolidated</i>	
	<i>Dec 2009</i> \$'000	<i>Dec 2008</i> \$'000	<i>Dec 2009</i> \$'000	<i>Dec 2008</i> \$'000	<i>Dec 2009</i> \$'000	<i>Dec 2008</i> \$'000	<i>Dec 2009</i> \$'000	<i>Dec 2008</i> \$'000
External segment revenue	75,552	56,107	-	-	-	-	75,552	56,107
Segment result	(108)	23,754	(17,763)	(16,449)	(1,333)	(1,623)	(19,204)	5,682
Unallocated corporate result							(2,756)	(8,569)
Profit (loss) from ordinary activities before income tax							(21,960)	(2,887)
Segment assets	114,869	95,622	41,370	16,650	349	301	156,588	112,573
Unallocated corporate assets							324,445	97,126
Total assets							481,033	209,699

AQUILA RESOURCES LIMITED
and its Controlled Entities

NOTES TO THE INTERIM FINANCIAL STATEMENTS
For the half-year ended 31 December 2009

3. Income tax (expense) benefit

Income tax expense or benefit is determined using the Company's estimate of the effective annual income tax rate based upon the pre-tax interim profit or loss for the interim period, after adjusting for non-taxable and/or non-assessable items.

The consolidated entity's effective tax rate for the period to date is 43% (2008: 61%), which differs from the Australian corporate tax rate of 30% primarily due to the significant and ongoing research and development expenditures incurred as part of feasibility study activities in respect of the consolidated entity's development projects, which qualify for concessional tax treatment under the Federal Government's Research and Development Tax Concession programme.

	<i>Consolidated</i> 31 Dec 2009 \$'000	<i>Consolidated</i> 30 June 2009 \$'000
4. Investments		
Investment in listed entities – at fair value ⁽ⁱ⁾	37,902	29,343
Total investments	37,902	29,343

(i) Fair value is based on the quoted market price at balance sheet date. These investments are classified as available-for-sale.

5. Property, plant and equipment

Acquisitions

During the half-year ended 31 December 2009, the consolidated entity acquired property, plant and equipment with a cost of \$4,529,000 (2008: \$11,292,000) including the consolidated entity's interest in joint venture assets amounting to \$4,462,000 (2008: \$10,995,000).

AQUILA RESOURCES LIMITED
and its Controlled Entities

NOTES TO THE INTERIM FINANCIAL STATEMENTS
For the half-year ended 31 December 2009

	<i>Consolidated</i> 31 Dec 2009 \$'000	<i>Consolidated</i> 30 June 2009 \$'000
6. Contributed equity		
Share capital		
322,273,136 fully paid ordinary shares (June 2009: 249,029,672)	363,800	78,148
Less – issue costs	(2,024)	(2,024)
Total contributed equity	361,776	76,124
Issued and paid-up capital		
Balance at beginning of period: 249,029,672 ordinary shares (June 2008: 247,445,672)	76,124	74,124
Ordinary shares issued during the period:		
- 1,584,000 ordinary shares by means of the exercise of 500,000 options at \$4.00 per option	-	2,000
- 43,946,413 ordinary shares issued at \$6.50 each	285,652	-
- 29,297,051 ordinary shares issued at no cost by means of a bonus issue of 1 share for every 10 shares held (23 December 2009)	-	-
Balance at end of period: 322,273,136 ordinary shares (June 2009: 249,029,672)	361,776	76,124

Options

As at 31 December 2009, the following options remain outstanding:

- 400,000 options exercisable at \$5.50 each on or before 31 August 2010, for 633,600 shares.
- 5,000,000 options exercisable at \$4.00 each on or before 31 December 2010, for 17,424,000 shares.
- 3,030,000 options exercisable at \$7.65 each on or before 21 June 2013, for 3,333,000 shares.

Conversion rights attaching to the options are adjusted to incorporate the effects of bonus issues.

7. Related parties

Transactions with key executives

Key executives received compensation during the period in accordance with arrangements detailed in the 2009 Annual Report.

The total amount of fees and compensation (including share based payments expenses) referable to key executives and Directors during the period was \$1,873,000 (2008: \$1,422,000).

AQUILA RESOURCES LIMITED
and its Controlled Entities

DIRECTORS' DECLARATION
For the half-year ended 31 December 2009

In the opinion of the Directors of Aquila Resources Limited:

1. the financial statements and notes set out on pages 15 to 22 are in accordance with the Corporations Act 2001, including:
 - (a) giving a true and fair view of the financial position of the consolidated entity as at 31 December 2009 and of its performance, as represented by the results of its operations and cash flows for the half-year ended on that date; and
 - (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001, and
2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors:



Tony Poli
Executive Chairman

Perth

25 February 2010



Independent auditor's review report to the members of Aquila Resources Limited

We have reviewed the accompanying interim financial report of Aquila Resources Limited, which comprises the consolidated balance sheet as at 31 December 2009, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, a statement of accounting policies and other explanatory notes 1 to 7 and the directors' declaration of the Consolidated entity comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' responsibility for the interim financial report

The directors of the company are responsible for the preparation and fair presentation of the interim financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the interim financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Consolidated entity's financial position as at 31 December 2009 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Aquila Resources Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.



Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Aquila Resources Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Consolidated entity's financial position as at 31 December 2009 and of its performance for the half-year ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A large, stylized handwritten signature of 'KPMG' in black ink.

KPMG

A large, stylized handwritten signature in black ink, appearing to be 'T R Hart'.

T R Hart
Partner

Perth

25 February 2010