

5 March 2008

Companies Announcements Office
Australian Stock Exchange Limited
4th Floor, 20 Bridge Street
SYDNEY NSW 2000

Aquila Reports \$85.9 Million Half Year Net Profit After Tax

Aquila Resources Limited (ASX: AQA) is pleased to announce the release of its Consolidated Interim Financial Report for the half-year ended 31 December 2007, with a significant increase in net profit after tax to \$85.9 million (2006: \$3.3 million loss).

This result, which includes gains on the divestment of the Company's Mozambique coal tenements and the exercise of a purchase option by Vale (formerly Companhia Vale do Rio Doce) in respect of the Belvedere Coal Underground Project in central Queensland, provides the Company with a sound financial platform with which to aggressively pursue the development of its exciting iron ore and coal assets in Australia and Southern Africa.

Significant developments during the period include:

Coal

- Isaac Plains Coal Mine continuing its production ramp-up in line with increasing capacity entitlement at the Dalrymple Bay Coal Terminal. JORC run-of-mine reserves for the Integrated Isaac Plains Coal Project increasing to 65.5 Mt and a pending decision to approve a BE 1370 dragline presently being relocated from the United States.
- Commencement of a Pre-Feasibility Study in respect of the establishment of a multi-longwall mining operation at the Belvedere Coal Underground Project, targeting production of 8-9Mtpa of hard coking coal.
- Completion of an encouraging Concept Study for the Peak Downs East Underground Coal Project, which indicated the potential for a hard coking coal longwall operation initially producing 4Mtpa with further potential to 7Mtpa at an estimated FOR operating cost of A\$40-45/t, targeting the export of first coal product by 2012.
- Formation of the Asenjo Energy Joint Venture in Botswana to evaluate the development of one of three significant coal resources at the Dukwe, Lechana/Tshimoyapula and Western Mmamabula projects.

Iron Ore

- Advancement of the West Pilbara Iron Ore Project Pre-Feasibility Study for the development of a haematite iron ore operation exporting 30Mtpa to steel mills throughout Asia. The pre-feasibility study scope includes the evaluation of port options, refinement of rail routes, preliminary environmental surveys, development of mine plans, equipment selection, product specification and project costing, to be completed by the end of the first quarter 2008.
- Exploration continuing in the West Pilbara Iron Ore Project with 380 drill holes completed during the period for a total of over 20,000m. JORC resource estimates and testwork of ore is expected in the first quarter of 2008.
- Drilling of iron ore and manganese priority target areas at the Company's Northern Cape and Thabazimbi Projects in South Africa in progress.



Tony Poli
Executive Chairman

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

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AQUILA RESOURCES LIMITED

(ACN: 092 002 769)

and its Controlled Entities

Consolidated
Interim Financial Report
31 December 2007

AQUILA RESOURCES LIMITED
and its Controlled Entities

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AQUILA RESOURCES LIMITED

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DIRECTORS' REPORT

The Directors of Aquila Resources Limited ("*Aquila*" or the "*Company*") present their report together with the consolidated financial report for the half-year ended 31 December 2007 and the auditors' 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 (49)

Executive Chairman

Mr Poli, a qualified accountant, has been a member of the Board since the incorporation of the Company on 14 March 2000 and is responsible for the operations of the Company.

Charles Bennett Bass (58)

Non-Executive Director

Mr Bass is a qualified geologist and mining engineer with 30 years experience in mineral exploration, 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 (74)

Non-Executive Director

Mr Cowlan is a businessman with a wealth of 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 currently presides as the Chairman of the Ross North Group, a large home building company operating in Western Australia.

Gordon Galt (57)

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 to a lesser extent in copper, lead and zinc.

AQUILA RESOURCES LIMITED
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DIRECTORS' REPORT

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 10 and forms part of the Directors' Report for the half-year ended 31 December 2007.

3. REVIEW OF OPERATIONS

3.1 COAL - AUSTRALIA

3.1.1 ISAAC PLAINS COAL MINE

(Aquila Resources Limited 50%)

Operational Performance

Overburden removal and mining operations are conducted by contractor Cooks Construction Pty Ltd and are currently focussed on the N1 and N2 pits at the Isaac Plains North deposit. Mining activities were progressed ahead of schedule, resulting in 911kt coal mined during the period.

A review of the performance of the Coal Handling and Preparation Plant (CHPP) was conducted and a plan approved with operator Downer EDI Mining Pty Ltd to replace the belt filter presses with higher capacity Phoenix units to improve tailings and product dewatering efficiency. This work was completed in January 2008 and the processing plant is currently being tested to ensure it meets design performance standards.

In anticipation of the ramp-up of CHPP production volumes over the next few years in line with the expansion of port capacity at Dalrymple Bay, it was decided to call for tenders for the operation of the CHPP. After evaluating various proposals, Ascentis, the operations and maintenance division of Ausenco Limited, was appointed for the role and the new team mobilised to the mine site in January 2008. Ausenco is internationally recognised for its expertise in the provision of engineering and project management services to the global mining and mineral processing industries and its involvement is expected to improve operational efficiency as CHPP production volumes increase.

Management of product specifications will be improved by the operation of an on-site coal quality laboratory that has been constructed during the period to provide the operation with timely test data for optimising CHPP performance.

Product inventories were built-up in anticipation of the CHPP maintenance period and at the end of December amounted to 327kt of coking, PCI and thermal coal, enabling the mine to continue to meet sales commitments while the CHPP is re-commissioned. Coal sales during the reporting period totalled 479kt and included the first shipment of semi-hard coking coal and the first cape size cargo of thermal coal.

Demand for all products is strong and market consensus is that contract prices will be significantly increased for the Japanese financial year, commencing 1 April 2008.

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DIRECTORS' REPORT

3. REVIEW OF OPERATIONS (CONT'D)

Integrated Isaac Plains Project

The Integrated Isaac Plains Project is comprised of the Isaac Plains North and Isaac Plains South coal deposits, separated by a distance of approximately 15 kilometres. Mining operations were initially commenced at the Isaac Plains North deposit in late 2006 and it is proposed that the Isaac Plains South deposit be developed later this year, resulting in mining operations at both deposits using a combination of truck and shovel and also dragline methods, with processing and raiing occurring at the existing Isaac Plains North facilities.

An updated Coal Reserve was recently announced to the ASX, detailing a 232% increase in the Isaac Plains Coal Mine run-of-mine JORC reserves to 65.5Mt as shown on the table below. These reserves have been calculated on the basis of the truck and excavator mining methods currently used at the Isaac Plains North deposit, followed by the proposed introduction of the Bucyrus-Erie 1370 dragline, initially at Isaac Plains North and subsequently moving to Isaac Plains South in the latter half of the project life.

Deposit	ROM Reserves (ROM t)		
	Proven (Mt)	Probable (Mt)	Total ROM Reserves (Mt)
Isaac Plains North	26.0	2.0	28.0
Isaac Plains South	-	37.5	37.5
Total	26.0	39.5	65.5

The Integrated Isaac Plains Project will enable output from Isaac Plains to be increased over the next two years to 2.8Mtpa of metallurgical and thermal coal products in accordance with the increase in throughput capacity at the Dalrymple Bay Coal Terminal.

3.1.2 BELVEDERE COAL UNDERGROUND PROJECT

(Aquila Resources Limited 24.5%)

On 19 July 2007 Vale (formerly Companhia Vale do Rio Doce) provided notice of exercise of its purchase option to acquire a 51% interest in the Belvedere Coal Joint Venture. Completion of the transaction occurred on 4 December 2007 when Vale paid US\$45 million to the Company.

As a result, the Company has retained a 24.5% interest as the project is progressed through the Pre-Feasibility Study stage and Vale will have further options to acquire this remaining 24.5% interest at fair market value in the future.

Following completion of Vale's A\$17 million Exploration Study in April 2007, a detailed Pre-Feasibility Study has been commenced in respect of the establishment of a multi-longwall mining operation at Belvedere, initially producing 8-9Mtpa of hard coking coal.

AQUILA RESOURCES LIMITED

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DIRECTORS' REPORT

3. REVIEW OF OPERATIONS (CONT'D)

3.1.3 PEAK DOWNS EAST UNDERGROUND COAL PROJECT

(Aquila Resources Limited 50%)

The Peak Downs East Underground Coal Project Concept Study was completed by IMC Mining Solutions in July 2007 and evaluated various possible continuous miner and longwall configurations. It indicated the potential in the northern resource area of the project for the development of a hard coking coal longwall mining operation producing 4-7Mtpa of coking coal.

On the basis of the encouraging Concept Study, a Stage 3 exploration programme has been commenced in order to further define the existing Indicated and Inferred JORC resource of 696Mt in the northern resource area and complete a Pre-Feasibility Study by mid-2008.

Drilling during the period totalled 4,932m including 2,380m cored and the Stage 3 coal quality, gas and geotechnical programmes are on-going. Infrastructure and processing studies are also in progress and include the evaluation of infrastructure synergies with the nearby Isaac Plains Coal Mine.

On 14 November 2007 a Mining Lease application was lodged with the Queensland Department of Mines and Energy and it is intended that the project will initially be developed as a single longwall operation producing ~4Mtpa of hard coking coal. The Concept Study estimated FOR operating costs in the range of A\$40-45/t and a capital cost of the order of A\$620 million.

Subject to securing rail and port capacity for the recently announced Northern missing link and Abbott Point Coal Terminal expansion, the development of this incremental rail and port infrastructure should facilitate the project exporting its first coal by 2012.

3.1.4 BOWEN BASIN PROJECTS

(Aquila Resources Limited 100%)

The key focus for the Company during the period in relation to its wholly-owned Queensland coal projects has been the Washpool Coal Project and the Red Hill Coal Project located respectively in the southern and northern parts of the Bowen Basin.

Drilling and coal quality programmes are being conducted on both projects and will be incorporated into Concept Studies that were commenced in late 2007 to evaluate the potential for a coking and thermal coal mining operation to be established at each location.

3.2 COAL – SOUTHERN AFRICA

3.2.1 BOTSWANA

ASENJO ENERGY JOINT VENTURE

(Aquila Resources Limited 100% - reducing to 50%)

On 3 September 2007, an incorporated joint venture was created between Aquila Resources Limited and a consortium comprising of Jonah Capital Limited and Sentula Mining Limited (formerly Scharrig Mining Limited) in respect of its Dukwe, Lechana/Tshimoyapula and Western Mmamabula coal exploration projects in Botswana.

To be known as the Asenjo Energy Joint Venture, the focus of the participants is to accelerate the evaluation and development of a significant coal resource and progress plans for the construction of related power generation facilities.

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DIRECTORS' REPORT

3. REVIEW OF OPERATIONS (CONT'D)

Under the terms of the agreement, Jonah Capital Limited and Sentula Mining Limited will earn a combined 50% interest in the projects. An initial interest of 16.67% will be earned by the payment of US\$5 million and the balance will be progressively earned by the expenditure of US\$10 million on a detailed programme of exploration, evaluation and preliminary mine development studies.

During the period, the participants appointed Mr Malcolm Campbell (formerly of Anglo American plc) as Chief Operating Officer of the Asenjo Energy Joint Venture and recruitment commenced of an experienced technical and commercial team to manage the exploration and mine development programmes.

A joint venture management office has been established in Gaborone, Botswana and exploration drilling recently commenced at the Dukwe Project.

3.2.2 MOÇAMBIQUE

On 8 August 2007 Aquila Resources Limited concluded an agreement to sell all of its Moçambique coal exploration tenements to Riversdale Mining Limited ("Riversdale").

The consideration paid by Riversdale for the acquisition consisted of A\$26 million in cash and 10 million Riversdale ordinary shares, which at the time of the transaction had a market value of A\$33.2 million.

The decision to divest the Moçambique interests was made by the Company as a result of reprioritising its Southern African activities on the exploration and development of its highly prospective iron ore and coal projects in South Africa and Botswana respectively.

3.3 IRON ORE – AUSTRALIA

AUSTRALIAN PREMIUM IRON JOINT VENTURE

(Aquila Resources Limited 50%)

During the period the Australian Premium Iron Joint Venture ("API") progressed work on the Pre-Feasibility Study in relation to the West Pilbara Iron Ore Project and continued the drill evaluation of channel iron deposits within its West Pilbara area and the exploration of additional channel iron and bedded iron deposits in the central and northern Pilbara regions.

Pre-Feasibility Study

A key focus of the work programme was the further evaluation of port options, with Cape Preston and Dixon Island remaining the preferred alternatives. Port consultants Maunsell AECOM continued their analysis of the various locations for either a transshipment or fixed berth facility to load cape size vessels.

Discussions have been held with potential users and Government departments to promote the project requirements and to secure port access.

Rail routes to both potential port locations were refined following the receipt of improved topographical information.

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DIRECTORS' REPORT

3. REVIEW OF OPERATIONS (CONT'D)

First phase environmental surveys on potential mine areas, infrastructure areas and rail corridors to both Cape Preston and the Dixon Island port options have been substantially completed. This included an assessment of flora, fauna, soil characteristics and geo-diversity. Reports from this work will form the basis for environmental documentation to be submitted to Government to initiate environmental approval processes.

Sampling has confirmed the presence of troglobitic fauna in and around the ore bodies and a second phase of field sampling has been commenced.

An initial surface hydrology study was completed for the mine areas, which provided valuable data for planning the location of ore haulage and processing infrastructure. A programme of groundwater exploration is now being undertaken to locate viable mine groundwater supplies, install monitoring bores for stygofauna sampling and to provide some data for early assessment of potential ore body dewatering requirements.

Marine environmental monitoring was commenced offshore from Dixon Island. The data will provide for an advanced start to the permitting processes in the event the Dixon Island locality is selected as the final port option.

Consultation with stakeholders and other possible users of port facilities at Cape Preston and Dixon Island has led, at this early stage, to data sharing arrangements with other parties, reducing the need for API to undertake some environmental surveys.

An integrated team has been established to develop operating plans and equipment selection for mining operations and to schedule and cost the various options. This includes Golder Associates for mine scheduling and HWE Mining for mining methodology, equipment selection and costing.

HWE Mining has been selected to evaluate proprietary surface mining technology in pisolitic iron ore. This technology offers an opportunity to greatly improve grade control and product sizing when compared with traditional drill and blast alternatives. Surface miner technology is now entering the production phase in other Pilbara iron ore operations after a considerable period of research and development has confirmed the viability of the mining method in suitable applications. HWE Mining is at the forefront of this development.

The definition of infrastructure at the mine area was progressed during the period, with suitable potential locations identified for an airstrip, accommodation village, processing plant, ore stockpiles, rail loop and ore haulage corridors. More detailed design of the infrastructure and refinement of haulage alignments is in progress and further consultation with landholders is planned before the development footprint is finalised.

Metallurgical testing of ore continued with further diamond drill core samples received for evaluation and a programme to assess the sinter performance of the ore has commenced. Negotiations were conducted with the Central Iron & Steel Research Institute (CISRI) in Beijing who will perform the initial round of sinter testwork. Good progress was also made in a programme utilising CSIRO to investigate a technique of rapid, detailed mineralogical analysis of drill chip and core samples. A bulk sample programme is planned in the first half of 2008 to provide further material for metallurgical testwork and analysis.

Detailed mine scheduling commenced to assist in optimising resource development. An initial mine schedule, defined on a monthly basis to achieve selected ore volume and quality specifications, has provided valuable insight into mine pit designs, mining methodologies, waste dump management and ore haulage logistics.

Ore storage, transfer and shiploading facilities for direct vessel loading and transshipment options have been detailed to suit both Cape Preston and Dixon Island port locations. Process flow diagrams have been prepared and preliminary engineering on marine structures is complete.

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DIRECTORS' REPORT

3. REVIEW OF OPERATIONS (CONT'D)

Exploration

Exploration programmes during the period concentrated on the evaluation of major targets in the West Pilbara Iron Ore Project. In excess of 20,000m of RC, dual-rotary and diamond drilling was completed to assess the channel iron deposits.

At the Red Hill project area 380 holes for a total of 13,084m were completed across the Upper Cane, Kens Bore, Catho Well North and Trinity Bore prospects following the approval of an exploration and development budget of A\$26m for the Red Hill Iron Ore Joint Venture in the current financial year.

Selected results for these prospects include:

Upper Cane	44m @ 60.61% Fe
	48m @ 60.57% Fe
	32m @ 60.49% Fe
Kens Bore	30m @ 59.44% Fe
	34m @ 58.72% Fe
	36m @ 58.69% Fe
Catho Well North	14m @ 56.59% Fe
	12m @ 56.33% Fe
	16m @ 55.44% Fe
Trinity Bore	06m @ 58.63% Fe
	06m @ 56.93% Fe
	06m @ 56.43% Fe

A total of 37 holes for 1,103m were drilled at the Catho Well prospect as part of the Mt Stuart Iron Ore Joint Venture in order to target the north-west extension and to provide additional core material for ore characterisation and metallurgical testwork conducted by AMMTEC.

During the period API completed its farm-in expenditure requirement to earn a 70% interest in the Yalleen Iron Ore Joint Venture drilling 200 holes for 5,994m at the Kumina Creek, Robe Exit, Robe West and Bonham prospects.

3.4 IRON ORE – SOUTH AFRICA

THABAZIMBI JOINT VENTURE

(Aquila Resources Limited 74%)

Following the grant of a suite of tenements in South Africa in mid 2007 prospective for iron ore and manganese, the Company assembled an experienced geological team to undertake exploration and evaluation activities, established field offices and commenced the planning of drilling programmes to test priority targets.

The tenements cover an area of approximately 3,400km² and are strategically located adjacent to existing mining operations and established road and rail infrastructure.

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DIRECTORS' REPORT

3. REVIEW OF OPERATIONS (CONT'D)

Northern Cape Province

After identifying targets from an assessment of aeromagnetic data and existing mining information from the adjoining Kalahari Manganese Field, drill testing of potential manganese deposits was commenced on the Avontuur prospecting right and is on-going.

Three scout holes drilled in the southern sector of the tenement indicated evidence for the development of manganese mineralisation.

A low level aeromagnetic survey was flown over the Kathu prospecting right. This tenement covers the prospective area that lies between the Sishen Iron Ore Mining Centre and the mines in the Kalahari Manganese Field. Modelling of the survey data, together with existing drilling information is being undertaken to identify targets for drill testing on this prospect.

Limpopo (Thabazimbi) Province

Geological mapping and sampling programmes have been conducted over initial target settings. Drill access roads were constructed into three of the highly ranked iron ore target areas and drill pads have been prepared.

Surface grab samples recorded iron contents of up to 67.3% and the focus is on identifying iron ore concentrations closest to the infrastructure already established at Thabazimbi.

Drilling programmes have been commenced.

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.

5. EVENTS SUBSEQUENT TO BALANCE DATE

As at 15 February 2008, the aggregate fair value of the consolidated entity's investment in listed securities available for sale has fallen by \$21,403,000 (19%).

This decrease has arisen due to recent volatility in both domestic and international equity markets.

Signed in accordance with a resolution of the Directors.



Tony Poli
Director

Perth

5 March 2008



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 audit for the half-year ended 31 December 2007 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.

KPMG

KPMG

A handwritten signature in blue ink, appearing to read 'T R Hart', written over the printed name.

T R Hart
Partner

Perth
5 March 2008

AQUILA RESOURCES LIMITED
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CONSOLIDATED INTERIM INCOME STATEMENT
For the half-year ended 31 December 2007

	<i>Note</i>	<i>Consolidated</i> 31 Dec 2007 \$'000	<i>Consolidated</i> 31 Dec 2006 \$'000
Revenue from sale of product	2	19,187	2,154
Cost of sales		(19,556)	(2,697)
Gross profit (loss)		(369)	(543)
Other income	3	138,087	1,961
Exploration and evaluation expenses		(10,854)	(4,823)
Corporate expenses		(3,171)	(1,554)
Share based payment expense		(363)	(251)
Profit (loss) from operating activities		123,330	(5,210)
Financial income		1,833	1,966
Financial expenses		(1,159)	(869)
Net finance income		674	1,097
Profit (loss) before income tax		124,004	(4,113)
Income tax (expense) benefit		(38,137)	838
Profit (loss) for the period		85,867	(3,275)
Profit (loss) attributable to members of the parent entity		85,867	(3,275)
Basic earnings per share		\$0.499	(\$0.035)
Diluted earnings per share		\$0.480	(\$0.035)

The Income Statement is to be read in conjunction with the Notes to the Consolidated Interim Financial Report set out on pages 15 to 19.

AQUILA RESOURCES LIMITED
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CONSOLIDATED INTERIM BALANCE SHEET
as at 31 December 2007

	<i>Note</i>	Consolidated 31 Dec 2007 \$'000	Consolidated 30 June 2007 \$'000
CURRENT ASSETS			
Cash assets		119,660	34,160
Trade and other receivables		12,583	8,570
Inventories		7,875	3,731
Investments		112,394	29,519
Other assets		513	193
Total Current Assets		253,025	76,173
NON-CURRENT ASSETS			
Receivables		1,863	1,764
Property, plant and equipment	4	31,895	31,176
Exploration and evaluation expenditure		2,782	2,782
Intangible assets		109	49
Other assets		1,208	1,383
Total Non-current Assets		37,857	37,154
TOTAL ASSETS		290,882	113,327
CURRENT LIABILITIES			
Trade and other payables		9,671	10,315
Interest bearing liabilities		5,847	20,183
Income tax payable		29,976	-
Employee benefits		327	213
Total Current Liabilities		45,821	30,711
NON-CURRENT LIABILITIES			
Interest bearing liabilities		12,402	102
Employee benefits		-	14
Deferred tax liabilities		28,808	4,071
Provisions		799	573
Total Non-current Liabilities		42,009	4,760
TOTAL LIABILITIES		87,830	35,471
NET ASSETS		203,052	77,856
EQUITY			
Issued capital	5	74,186	72,632
Reserves		59,185	21,410
Accumulated profits (losses)	6	69,681	(16,186)
TOTAL EQUITY		203,052	77,856

The Balance Sheet is to be read in conjunction with the Notes to the Consolidated Interim Financial Report set out on pages 15 to 19.

AQUILA RESOURCES LIMITED
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STATEMENT OF CHANGES IN EQUITY
For the half-year ended 31 December 2007

	<i>Note</i>	Consolidated 31 Dec 2007 \$'000	Consolidated 31 Dec 2006 \$'000
Total equity at the beginning of the period		77,856	76,281
Gain on revaluation of available-for-sale financial assets			
- recognised in income statement		(19,720)	(258)
- recognised in fair value reserve		55,023	944
Gain on fair value of cash flow hedges			
- recognised in income statement		(1,412)	(90)
- recognised in hedging reserve		3,875	842
Amounts recognised directly in equity		37,766	1,438
Profit (loss) for the period		85,867	(3,275)
Total recognised income and expense for the period		123,633	(1,837)
Transactions with equity holders in their capacity as equity holders:			
Exercise of options	5	1,200	116
Equity settled share based payment transactions		363	251
Total equity at the end of the period	6	203,052	74,811
Total recognised income and expense for the period attributable to equity holders of the parent		123,633	(1,837)

The above amounts are stated net of tax where applicable.

The Statement of Changes in Equity is to be read in conjunction with the Notes to the Consolidated Interim Financial Report set out on pages 15 to 19.

AQUILA RESOURCES LIMITED
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STATEMENT OF CASH FLOWS
For the half-year ended 31 December 2007

	<i>Consolidated</i> 31 Dec 2007 \$'000	<i>Consolidated</i> 31 Dec 2006 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts in the course of operations	19,985	2,542
Cash payments in the course of operations	(29,393)	(6,193)
Cash payments for exploration and evaluation expenditure	(7,931)	(4,000)
Cash receipts from legal settlement	-	14,000
Interest received	1,453	1,701
Interest paid	(859)	(555)
Net cash provided by (used in) operating activities	(16,745)	7,495
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for property, plant and equipment	(3,163)	(5,634)
Payments for mineral properties	-	(70)
Proceeds from sale of mineral properties	77,439	-
Proceeds from farm-out of mineral properties	-	87
Proceeds from sale of equity investments	42,771	752
Payments for equity investments	(13,855)	(375)
Proceeds from sale of property, plant and equipment	-	1
Net cash provided by (used in) investing activities	103,192	(5,239)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	1,200	116
Proceeds from borrowings	-	5,148
Repayment of borrowings	(2,147)	-
Net cash provided by (used in) financing activities	(947)	5,264
Net increase in cash held	85,500	7,520
Cash at the beginning of the financial period	34,160	52,596
Cash at the end of the financial period	119,660	60,116

The Statement of Cash Flows is to be read in conjunction with the Notes to the Interim Financial Report set out on pages 15 to 19.

AQUILA RESOURCES LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
For the half-year ended 31 December 2007

1. Statement 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 2007 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 5 March 2008.

(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 2007. 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

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 2007.

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NOTES TO THE FINANCIAL STATEMENTS
For the half-year ended 31 December 2007

2. Segment reporting

Segment information is presented in the condensed consolidated interim financial statements in respect of the consolidated entity's business segments. The primary format, business segments, is based on the consolidated entity's management and internal reporting structure.

<i>Business segments</i>	<i>Coal</i>		<i>Iron Ore</i>		<i>Other minerals</i>		<i>Consolidated</i>	
	<i>Dec 2007</i> \$'000	<i>Dec 2006</i> \$'000	<i>Dec 2007</i> \$'000	<i>Dec 2006</i> \$'000	<i>Dec 2007</i> \$'000	<i>Dec 2006</i> \$'000	<i>Dec 2007</i> \$'000	<i>Dec 2006</i> \$'000
Segment revenue	19,187	2,154	-	-	-	-	19,187	2,154
Segment result	133,006	(3,977)	(6,313)	(40)	(181)	(42)	126,512	(4,059)
Unallocated expenses							(3,182)	(1,151)
Profit (loss) from operating activities							123,330	(5,210)

AQUILA RESOURCES LIMITED
and its Controlled Entities

NOTES TO THE FINANCIAL STATEMENTS
For the half-year ended 31 December 2007

	<i>Consolidated</i>	<i>Consolidated</i>
	<i>31 Dec 2007</i>	<i>31 Dec 2006</i>
	<i>\$'000</i>	<i>\$'000</i>
3. Other income		
Gain on sale of project interests ⁽ⁱ⁾⁽ⁱⁱ⁾	109,744	-
Administration overheads charged	156	188
Gain on farm-out of mineral properties ⁽ⁱⁱⁱ⁾	-	1,306
Gain on disposal of equity investments ^(iv)	28,171	365
Other	16	102
Total other income	<u>138,087</u>	<u>1,961</u>

(i) Following completion of an Exploration Study on the Belvedere Coal Underground Project by Rio Doce Australia Pty Ltd ("RDA"), a wholly owned subsidiary of Vale (formerly known as Companhia Vale do Rio Doce ("CVRD")), RDA exercised its purchase option to acquire a 51% interest in the Belvedere Coal Joint Venture by payment of US\$45 million each to subsidiaries of the Company and AMCI, who had previously held equal shares in the project. RDA have further options to acquire the remaining 49% at fair market value.

(ii) During the period, the consolidated entity completed the sale of its Moçambique coal exploration tenements to Riversdale Mining Limited ("Riversdale"). Proceeds from this sale comprised A\$26 million in cash and 10 million Riversdale ordinary shares, which based on the closing price upon the day of the transaction resulted in a profit of A\$58,371,000.

(iii) In 2006, following satisfaction of third party farm-in expenditure obligations in the comparative period relating to the Australian Premium Iron Joint Venture, the consolidated entity commenced cash contributions towards the joint venture and recognised a net gain of \$1,306,000 on the joint venture farm-out transaction, being the disposal of a 50% interest in the mineral properties held by the joint venture.

These gains represent the net assets acquired within the joint venture during the period for which the consolidated entity was not required to contribute funding amounts.

(iv) During the period, the consolidated entity sold 4,250,000 shares in Riversdale Mining Limited at an average price of \$9.94 per share. A gain of \$27,923,000 has been recognised from this transaction. The consolidated entity continues to hold 5,750,000 shares in Riversdale, which were valued at \$57,788,000 at period end.

4. Property, plant and equipment

Acquisitions

During the half-year ended 31 December 2007, the consolidated entity acquired property, plant and equipment with a cost of \$2,550,000 (2006: \$4,869,000) including the consolidated entity's interest in joint venture assets amounting to \$2,448,000 (2006: \$4,393,000).

AQUILA RESOURCES LIMITED
and its Controlled Entities

NOTES TO THE FINANCIAL STATEMENTS
For the half-year ended 31 December 2007

	<i>Consolidated</i> 31 Dec 2007 \$'000	<i>Consolidated</i> 30 June 2007 \$'000
5. Contributed equity		
Share capital		
205,896,872 fully paid ordinary shares (June 2007: 168,933,477)	76,210	74,656
less – issue costs	(2,024)	(2,024)
Total contributed equity	74,186	72,632
Issued and paid-up capital		
Balance at beginning of period: 168,933,477 ordinary shares (June 2006: 84,298,072)	72,632	72,238
Ordinary shares issued during the period:		
- 40,333 ordinary shares by means of the exercise of 33,333 options at \$1.00 per share	-	33
- 220,000 ordinary shares by means of the exercise of 116,666 options at \$2.50 per share	-	292
- 84,375,072 ordinary shares issued at no cost by means of a bonus issue of 1 share for every 1 share held (11 December 2006)	-	-
- 2,500,668 ordinary shares by means of the exercise of 1,033,334 options at \$1.00 per share	1,033	-
- 146,667 ordinary shares by means of the exercise of 66,666 options at \$2.50 per share	167	-
- 34,316,060 ordinary shares issued at no cost by means of a bonus issue of 1 share for every 5 shares held (18 December 2007)	-	-
Transfer from share based payment reserve upon exercise of options.	354	69
Balance at end of period: 205,896,872 ordinary shares (June 2007: 168,933,477)	74,186	72,632

Options

As at 31 December 2007, the following options remain outstanding:

- 150,002 options exercisable at \$2.50 each on or before 31 December 2008.
- 2,000,000 options exercisable at \$4.00 each on or before 31 December 2008.
- 550,000 options exercisable at \$5.50 each on or before 31 August 2010.
- 5,000,000 options exercisable at \$4.00 each on or before 31 December 2010.

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

AQUILA RESOURCES LIMITED
and its Controlled Entities

NOTES TO THE FINANCIAL STATEMENTS
For the half-year ended 31 December 2007

6. Reconciliation of movements in capital and reserves

Attributable to equity holders of the parent

Consolidated	Share capital	Available- for-sale fair value reserve	Share based payment reserve	Hedging reserve	Retained profits (accumulated losses)	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2007						
Balance 1 July 2007	72,632	13,583	7,180	647	(16,186)	77,856
Total recognised income and expense	-	35,303	-	2,463	85,867	123,633
Shares issued	1,200	-	-	-	-	1,200
Equity settled transactions	-	-	363	-	-	363
Transfer on exercise of share options	354	-	(354)	-	-	-
Balance 31 December 2007	74,186	48,886	7,189	3,110	69,681	203,052
2006						
Balance 1 July 2006	72,238	739	6,705	258	(3,659)	76,281
Total recognised income and expense	-	686	-	752	(3,275)	(1,837)
Shares issued	116	-	-	-	-	116
Equity settled transactions	-	-	251	-	-	251
Transfer on exercise of share options	22	-	(22)	-	-	-
Balance 31 December 2006	72,376	1,425	6,934	1,010	(6,934)	74,811

7. Related parties

Transactions with key executives

Key executives received compensation during the period in accordance with arrangements detailed in the 2007 Annual Report.

The total amount of fees and compensation (including share based payments expenses) referable to key executives during the period was \$1,267,000 (31 Dec 2006: \$740,000).

8. Events subsequent to balance date

As at 15 February 2008, the aggregate fair value of the consolidated entity's investment in listed securities available for sale has fallen by \$21,403,000 (19%).

This decrease has arisen due to recent volatility in both domestic and international equity markets.

AQUILA RESOURCES LIMITED
and its Controlled Entities

DIRECTORS' DECLARATION
For the half-year ended 31 December 2007

In the opinion of the Directors of Aquila Resources Limited:

1. the financial statements and notes set out on pages 11 to 19 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 2007 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
Director

Perth

5 March 2008



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

Report on the financial report

We have reviewed the accompanying half-year financial report of Aquila Resources Limited, which comprises the consolidated interim balance sheet as at 31 December 2007, income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, a statement of accounting policies and other selected explanatory notes 1 to 8 and the directors' declaration of the Group 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 financial report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the half-year 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 half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report 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 half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2007 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 a half-year 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.



Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year 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 Group's financial position as at 31 December 2007 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.

KPMG

T R Hart
Partner

Perth
5 March 2008