

Quarterly Report

DECEMBER 2007



Resourceful Partnership

Aquila

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

HIGHLIGHTS

COAL

Isaac Plains Coal Mine

- Quarterly mining and Coal Handling and Preparation Plant (CHPP) operations in line with budget and port capacity.
- Stocks produced to accommodate planned CHPP rectification works in January 2008.
- Preparations advanced for relocation of BE 1370 dragline from Texas to Australia.

Belvedere Coal Underground Project

- Vale (formerly CVRD) completes exercise of option and pays Aquila US\$45 million.
- Preparation of pre-feasibility study work programme and budget in progress.

Peak Downs East Underground Coal Project

- Coal Analysis Results indicate a Hard Coking Coal.
- Stage 2 exploration and laboratory programme complete.
- Stage 3 exploration programme and pre-feasibility study progressing.

Washpool Coal Project

- Additional drilling completed.
- Coal quality analysis ongoing following completion of field exploration programme.
- Concept study commenced to evaluate potential for coking and thermal coal project.

Red Hill Coal Project

- Follow-up drilling programme complete, with Leichhardt and Vermont seams identified.
- Coal quality test programme in progress.
- Concept study commenced to evaluate potential for coking and thermal coal project.

Botswana Coal

- Appointment of Mr Malcolm Campbell (formerly of Anglo American plc) as Chief Operating Officer of the Asenjo Energy Joint Venture.
- Approval of US\$10 million programme of exploration, evaluation and preliminary mine development studies.

CORPORATE

- Cash and liquid investments total approximately \$229 million at the end of the Quarter.
- Acquisition of initial 13.5% interest in Cullen Resources Limited via a share placement.
- Completion of 1 for 5 bonus issue to shareholders.
- AMCI litigation:
 - Queensland Court of Appeal dismisses the Company's appeal relating to its claim that a Change in Control has occurred in respect of the AMCI subsidiaries holding interests in the Australian Premium Iron and Belvedere Coal Joint Ventures.
 - Aquila to seek special leave to appeal the decision to the High Court of Australia.
- Sale of Surat Basin coal tenements to Cockatoo Coal Ltd for \$1.5 million.

IRON ORE

Australia

Pre-Feasibility Study

- Port access discussions continue with other potential users of Cape Preston and Dixon Island and the Western Australian Government.
- First phase environmental studies nearing completion.
- Groundwater exploration commenced.
- Sinter testwork programme established with CISRI in Beijing.
- Mine scheduling underway to optimise resource development.

Resource Exploration

- RC and diamond drilling programmes continue to test Channel Iron Deposits (CID) within the Red Hill Iron Ore Joint Venture project.
- Drill intercepts from the Kens Bore prospects continue to add to the resource potential of the target areas. Thick mineralised intercepts of up to 59% in iron have been returned across the central and southern areas of the prospect. Better results returned include:
 - 36m at 58.69% Fe;
 - 30m at 59.44% Fe;
 - 34m at 56.88% Fe
 - 28m at 57.13% Fe;
 - 24m at 56.57% Fe; and
 - 28m at 55.31% Fe.
- Reassessment of the Upper Cane resource model commenced following completion of the infill RC drill programme detailed in the September Quarterly report.
- Re-modelling of the Catho Well deposit, incorporating the north-west extensions to the deposit is in progress.
- Geological interpretation and resource modelling of the western half of the Ken Bore deposit commenced following receipt of final assays from an infill RC drill programme.
- Resource estimates for the Upper Cane, Catho Well, Kens Bore and Trinity Bore prospects will be finalised in first Quarter 2008.
- RC and diamond drilling continued at the Kumina Creek and Robe Exit prospects within the Yalleen Iron Ore Joint Venture tenements to evaluate buried CID blanketed by unconsolidated sediments.

South Africa

- Drill programmes commenced in the Northern Cape and Thabazimbi provinces near existing mining and rail infrastructure.
- Identification of additional drill targets and regional evaluation activities on-going.
- Surface samples grab results of up to 67% Fe.

COAL

ISAAC PLAINS COAL MINE

(Aquila Resources Limited 50%)

Operations

Overburden operations for the Quarter were in line with budget expectations whilst coal mining and processing has progressed ahead of budget to establish coal stocks for January and February shipments.

Design work and planning progressed during the Quarter for rectification work to the Coal Handling and Preparation Plant (CHPP) in preparation for a major shut down in January. This work will focus on replacing the existing belt filters with higher capacity Phoenix units and installing new sieve bends to improve tailings and product dewatering performance as previously reported. This work is expected to be complete by the end of January, 2008.

Sales

Total sales during the Quarter were 231,500 tonnes, all of which were metallurgical coal. Demand for all products is strong and discussions are currently taking place with key customers in respect of offtake arrangements for 2008 and beyond.



Belt Filter Area Prior to Rectification Works
Project Development

The Isaac Plains South mining lease application was submitted during the Quarter and the Environmental Impact Statement for the Integrated Isaac Plains Coal Project (IIPP) was placed on public display with submissions closing in January, 2008.

Design work for the Isaac Plains South civil and mining infrastructure is ongoing whilst arrangements for the relocation of the BE 1370 dragline from the Port of Galveston, Texas to Australia were advanced for loading and transportation of the dragline to Mackay in February 2008.

Amendments to the IIPP Feasibility Study approval case were substantially completed during the period and a decision on the project, subject to regulatory approvals, is expected shortly.

A further announcement to the ASX will be made at that time.



Coal Mining Operations N1 pit

BELVEDERE COAL UNDERGROUND PROJECT

(Aquila Resources Limited 24.5%)

During the Quarter, the transaction to give effect to the exercise of Vale's (formerly CVRD) purchase option was finalised between Vale, AMCI and the Company. This resulted in Vale paying the Company US\$45 million. The Company retains a 24.5% interest in the joint venture as the project is progressed through the pre-feasibility study stage. Following completion of the transaction, Vale has been appointed Manager of the Belvedere Coal Joint Venture and is currently preparing a detailed pre-feasibility study work programme and budget to extend the \$17 million Exploration Study completed in 2007.

Key activities planned during the next Quarter include completion of transitional issues, selection of key personnel and commencement of pre-feasibility studies.

PEAK DOWNS EAST UNDERGROUND COAL PROJECT

(Aquila Resources Limited 50%)

Work continued on the Peak Downs East pre-feasibility activities during the Quarter

Drilling for the Stage 3 work programme progressed during the period with a third drill rig mobilised in December and 3,820m completed in the Quarter, including 1,287m cored. As the drilling schedule has been impacted by wet weather in central Queensland, the additional drill rig will accelerate the field exploration programme. The schedule is currently being reviewed to assess the drilling and test work to date and develop corrective actions, such as securing a fourth drill rig, to ensure the pre-feasibility study programme is completed by mid 2008.

Stage 3 gas, coal quality and geotechnical test programmes have now commenced and the Stage 2 coal quality is complete. Clean coal composite results from this work are generally consistent with the coal quality data reported previously by the Company. Table 1 contains an updated range of values for each seam.

2-D seismic studies are now complete.

Infrastructure and processing studies are proceeding in accordance with the pre-feasibility study work plan, including the evaluation of infrastructure synergies with the nearby Isaac Plains Coal Mine.

As reported to the ASX on 20 November 2007, the mining lease application was lodged during the period for the Peak Downs East Underground Coal Project. The EPBC referral drafts was submitted in late December.

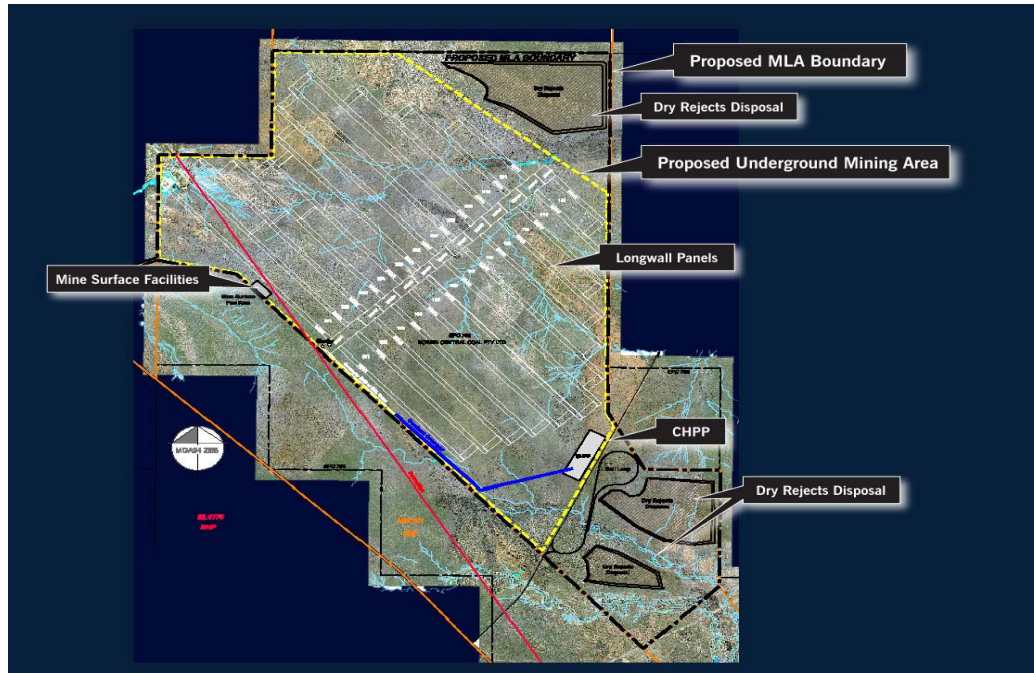
The project is intended to be developed initially as a single long-wall operation producing ~4mtpa of predominantly hard coking coal. The concept study completed in July 2007 has estimated FOR operating costs in the range of A\$40-45/t and a capital cost of the order of A\$620 million.

Table 1 – Clean Coal Composite and Coke Oven Test Result Summary

Seam	VM %	Product Ash %	Total Sulphur %	Phos %	CSN	CSR
Q (full seam – primary product)	21.1	9.5	0.66	0.018	9.0	64
HCU (full seam)	17.4	9.2	0.55	0.049	7.0	62
HCL (full seam)	16.3	9.9	0.53	0.015	7.0	72
DY (full seam)	15.7	8.4	0.56	0.069	7.0	72

COAL

The following figure shows the currently proposed layout for the project in the northern resource area.



Peak Downs East Proposed Mine Layout

BOWEN BASIN PROJECTS

(Aquila Resources Limited 100%)

Washpool Coal Project

An additional 9 open chip and four 100mm core holes were drilled at the Washpool Coal Project during the Quarter for a total of 740m to better define the coal quality on the western flanks of the deposit where higher yielding intersections were identified in the previous programmes and also to close out the core drilling to 1km spacing for resource definition purposes.

The mining concept study was commenced in December, focusing on completing the coal quality programme, resource calculations, mining strategy and infrastructure options. This is targeted for completion in the first Quarter 2008.

Two additional targets are yet to be drilled at Mt Crocker as a result of reprioritisation of the programme to the Washpool Coal Project and these will be completed as part of the future programme at Mt Crocker.



Washpool Coal Project Topography

COAL

Red Hill Coal Project

The Red Hill Coal Project consists of three tenement areas to the east and west of BMA's Goonyella lease and a small area to the west of Lenton. The current exploration programme is targeting the open cut and underground mining potential within the Rangal Coal Measures (Leichhardt and Vermont seams) contained in the project area.

During the Quarter an additional 5 open chip and 3 partially cored holes were drilled to a maximum of 330m. This brings the total drilling to 21 chip and 5 partially cored holes at 5,880m.

Initial laboratory testing is complete and float sink results are expected in February, 2008.

The mining concept study commenced during the Quarter and is focussed on an open pit entry in the south west of the tenement area and underground development options for both the Leichhardt and Vermont seams.



Red Hill Coal Project Drill Hole Locations

COAL

BOTSWANA

Asenjo Energy Joint Venture

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

As previously announced to the ASX on 3 September 2007, an incorporated joint venture has been created between the Company and a consortium comprising of Jonah Capital Limited and Sentula Mining Limited (formerly Scharrig Mining Limited) in respect of its 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.

The joint venture currently comprises the Dukwe, Lechana/Tshimoyapula and Western Mmamabula projects as shown on the figure below.

During the Quarter, Mr Malcolm Campbell was appointed as Chief Operating Officer of the Asenjo Energy Joint Venture and he has begun the recruitment of an experienced technical and commercial team to manage the exploration and mine development programmes. Mr Campbell was formerly with the coal division of Anglo American and has over 20 years experience in project development and mining operations.

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

An additional prospecting license, Kodibeleng was recently granted to the Company by the Mines Department in Botswana and will be incorporated into the portfolio of projects subject to the joint venture.



Asenjo Energy Joint Venture Project

AUSTRALIAN PREMIUM IRON JOINT VENTURE

(Aquila Resources Limited 50%)

Pre-Feasibility Study

Development work for the period was focused on resolving port location. The preferred port remains Cape Preston with the Dixon Island area the alternate. Discussions were held with relevant parties and Government departments to promote the project requirements and to seek assistance to secure access. Briefing meetings with Government and negotiations with other potential users of the port will continue.

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 in the Quarter. Reports from the 2007 fieldwork are being prepared and will form the basis for environmental documentation planned to be submitted to Government early in 2008 to initiate environmental approval processes. The reports will also assist in the planning for required second phase environmental surveys, to occur primarily in the first half of 2008.

Sampling has confirmed the presence of troglobitic fauna in and around the orebodies. Comprehensive data on the distribution and abundance of troglobitic fauna will be required by Government for environmental assessment, and a second phase of field sampling is underway.

A programme of groundwater exploration commenced during the Quarter and will extend into the first half of 2008. The objectives of the programme are to locate viable mine groundwater supplies, install monitoring bores for stygofauna sampling and to provide some data for early assessment of potential orebody 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 continued over the last three months. In particular, meetings were held with other possible users of port facilities at Cape Preston and Dixon Island. This has led, at this early stage, to data sharing arrangements with other parties, reducing the need for the Australian Premium Iron Joint Venture (API) to undertake some environmental surveys.

The definition of infrastructure at the mine area was progressed, 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 during the Quarter. Further diamond drill core samples were received for evaluation and a programme to evaluate the sinter performance of 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 for 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. Mine scheduling is iterative and will be repeated over following months as various extraction and processing scenarios are examined and new resource information becomes available.

Ore storage, transfer and shiploading facilities for direct vessel loading and trans-shipment 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 was completed during the Quarter.

Exploration

Exploration undertaken during the Quarter has continued with the evaluation of major targets at the Mt Stuart, Red Hill and Yalleen joint ventures. A total of 8,076m of RC, dual-rotary and diamond drilling was completed during the Quarter.

Assay results outstanding at the completion of the September Quarter, and for drilling completed in the current Quarter, continue to highlight the significant resource potential of the West Pilbara Iron Ore Project and the potential of other projects in the western and northern Pilbara.

IRON ORE

WEST PILBARA – RED HILL IRON ORE JOINT VENTURE

(API 60%, earning up to 80%)

The exploration focus during the period has been on the completion of diamond drilling as part of the metallurgical testwork programme. An additional 27 holes for 1,164m of diamond core were completed at all identified and potential resource areas. In addition, significant progress was made with the finalisation and checking of data prior to the commencement of remodelling of the Upper Cane resource and initial interpretation and modelling of the Kens Bore and Trinity Bore CID. The re-interpretation of the Upper Cane deposit has been completed and passed to Golder Associates for the completion of the resource estimation process.

Upper Cane

The geological model for the Upper Cane deposit has been reviewed following the completion of an extensive programme of infill drilling. A total of 183 RC drill holes have been completed at Upper Cane, 105 of which were completed in the September Quarter.

A revised geological model has been developed, defining a single continuous zone over a channel length of 3.1km and significantly improves the initial interpretation which consisted of two zones, the eastern and western zones, separated by a poorly drilled area covering approximately 400m. Results from recent drilling in the area indicate the mineralised CID is continuous and up to 52m thick.

The revised resource estimate is scheduled for completion in the March Quarter.

Kens Bore

Results from the in-fill RC drilling programme completed on the north-west and central areas of the Kens Bore prospect were received during the Quarter. The infill drill programme covered 10km of mineralised CID, predominantly comprising goethitic to haematite rich oolitic to massive CID. A mix of high (>59% iron) and low grade (<55% iron) CID has been intersected over the entire length of the CID with higher grade zones up to 30m thick.

The infill programme has validated results from the initial drilling programme and identified significantly deeper areas within the channel, up to 80m below the level of the surrounding plain, hosting well preserved haematite rich CID. Drillhole KBRC132 returned 34m at 56.88% Fe from 50m depth. The full significance of the thickness and depth of the CID sequence below the surrounding plain level is being assessed, however it highlights a number of potential targets that may host CID at deeper levels within the West Pilbara Iron Ore Project area.

Assay results were received for drill holes KBRC122-183 during the Quarter.

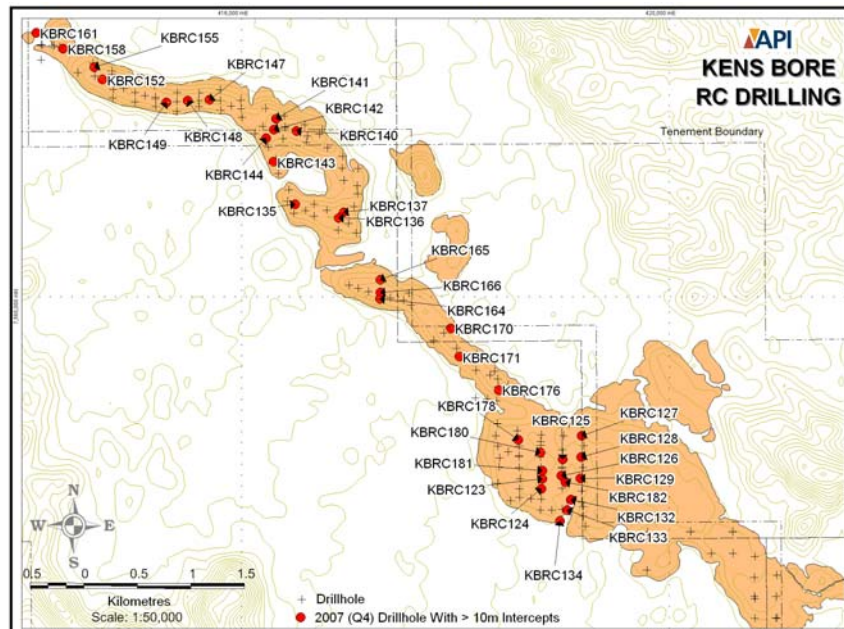
Selected results are included in Table 2 below:

Table 2 – Kens Bore – Selected Drilling Results

Hole ID	From	Intercept	Al ₂ O ₃ %	SiO ₂ %	P%	S%	LOI%
KBRC123	34	16m @ 56.60% Fe	3.48	5.49	0.162	0.007	9.02
KBRC124	30	14m @ 57.44% Fe	3.16	5.72	0.103	0.006	8.07
KBRC125	36	18m @ 56.19% Fe	3.70	6.06	0.115	0.010	8.92
KBRC126	46	36m @ 58.69% Fe	3.05	4.58	0.203	0.011	7.20
KBRC127	20	30m @ 59.44% Fe	2.94	3.91	0.067	0.019	7.52
KBRC128	24	24m @ 56.57% Fe	3.73	6.28	0.097	0.017	8.20
KBRC129	24	28m @ 55.31% Fe	4.34	7.05	0.098	0.016	8.60
KBRC132	50	34m @ 56.88% Fe	4.28	6.96	0.100	0.007	6.61
KBRC133	34	24m @ 57.63% Fe	3.97	5.66	0.083	0.009	7.26
KBRC134	26	16m @ 58.35% Fe	3.61	4.57	0.068	0.009	7.72
KBRC135	0	12m @ 56.55% Fe	3.76	5.43	0.075	0.023	9.21
KBRC136	2	16m @ 55.28% Fe	3.52	4.49	0.106	0.029	11.35
KBRC137	0	16m @ 55.35% Fe	3.97	4.98	0.102	0.024	11.02
KBRC140	24	12m @ 56.50% Fe	4.38	4.01	0.046	0.015	10.13
KBRC141	0	10m @ 56.16% Fe	4.36	5.86	0.052	0.023	8.59
KBRC142	0	10m @ 56.34% Fe	3.47	4.93	0.066	0.018	9.30
KBRC143	0	10m @ 57.30% Fe	3.94	4.86	0.074	0.017	8.44
KBRC144	0	10m @ 57.46% Fe	3.50	4.49	0.071	0.017	8.60
KBRC147	20	10m @ 54.44% Fe	3.71	8.83	0.056	0.019	8.72

Table 2 – Kens Bore – Selected Drilling (cont'd)

Hole ID	From	Intercept	Al ₂ O ₃ %	SiO ₂ %	P%	S%	LOI%
KBRC148	14	10m @ 58.80% Fe	3.75	4.68	0.077	0.022	6.88
KBRC149	20	10m @ 56.98% Fe	4.27	5.06	0.078	0.017	8.39
KBRC152	22	12m @ 55.52% Fe	4.60	5.51	0.052	0.018	9.96
KBRC155	20	14m @ 55.41% Fe	4.54	6.58	0.064	0.014	8.90
KBRC158	8	10m @ 55.84% Fe	3.93	5.72	0.044	0.016	9.75
KBRC161	10	10m @ 54.64% Fe	4.45	6.88	0.035	0.015	9.55
KBRC164	0	12m @ 56.17% Fe	4.39	5.38	0.080	0.022	9.41
KBRC165	32	10m @ 55.86% Fe	4.02	6.04	0.131	0.006	9.41
KBRC166	0	14m @ 57.97% Fe	3.34	4.98	0.077	0.024	8.26
KBRC170	26	12m @ 56.72% Fe	4.33	4.73	0.107	0.010	9.17
KBRC171	28	10m @ 56.58% Fe	4.32	5.05	0.110	0.010	9.10
KBRC176	34	10m @ 56.88% Fe	3.56	5.82	0.075	0.008	8.53
KBRC178	34	12m @ 57.30% Fe	3.66	6.39	0.080	0.009	7.28
KBRC180	34	18m @ 56.93% Fe	3.43	6.10	0.097	0.009	8.40
KBRC181	36	10m @ 58.74% Fe	2.58	5.05	0.099	0.011	7.77
KBRC182	40	28m @ 57.13% Fe	3.52	6.24	0.137	0.009	7.61



The infill drill programme has established good continuity to the mineralised CID over approximately 6km of the channel length that has been in-filled to date. An initial resource estimate for the area is scheduled for completion in the March Quarter.

Catho Well North

RC drilling, completed during the September Quarter, tested the north-western extension of the Catho Well deposit. This extension to the Catho Well CID continues into the Upper Cane prospect and has been drilled over a strike length of approximately 1km within the tenement.

IRON ORE

The low alumina grades of less than 3% are consistent with the grades obtained during resource modelling of the adjoining Catho Well deposit. Iron mineralogy is also consistent and is dominated by vitreous goethite and goethite.

A resource estimate will be completed for the combined Catho Well North and Catho Well areas.

Trinity Bore

The southern end of the Trinity Bore prospect was further drill tested to close the drill spacing to a nominal 200m x 200m. A total of 34 RC drillholes (TBRC164 to TBRC197) were completed for 838m of drilling.

Drillholes intersected mainly massive CID which has been strongly overprinted by weathering. These zones are extremely vuggy and are dominated by vitreous and ochreous goethite mineralogy. Selected intercepts are included on Table 3 below.

WEST PILBARA – MT STUART IRON ORE JOINT VENTURE (API 70%)

During the Quarter, a total of 3 holes for 81m of core drilling were completed at the Catho Well prospect. The core programme was designed to provide additional representative material to continue ore characterisation and metallurgical test-work. All core has been despatched to AMMTEC which will conduct the test-work.

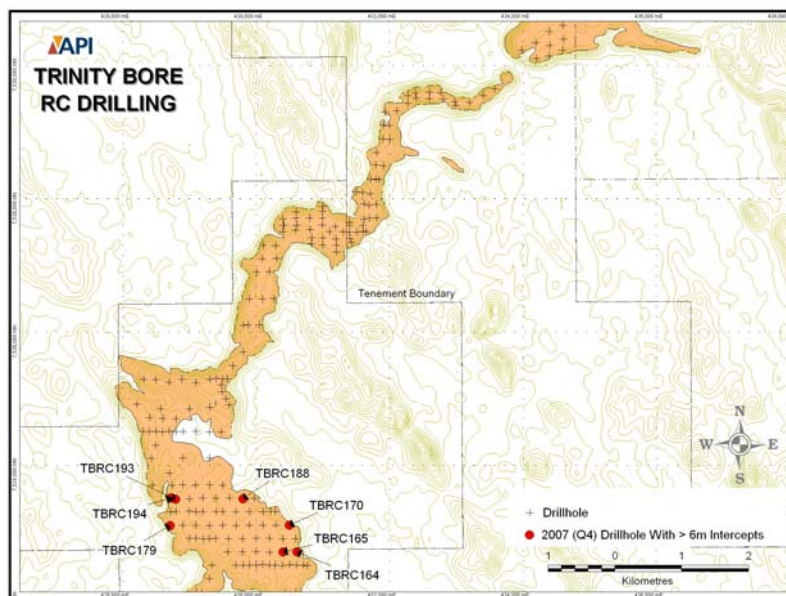
Resource Modelling

Following the completion of RC drilling to assess the continuation of the Catho Well CID to the north-west in the September Quarter, work has concentrated on the re-modelling of the Catho Well resource incorporating the defined extensions and potential stratigraphically controlled low-grade material in the channel sequence.

A revised resource model is scheduled for completion in the March Quarter.

Table 3 – Trinity Bore – Selected Drilling Results

Hole ID	From	Intercept	Al ₂ O ₃ %	SiO ₂ %	P%	S%	LOI%
TBRC164	0	6m @ 58.63 % Fe	2.13	5.06	0.032	0.018	8.89
TBRC165	0	10m @ 55.16 % Fe	2.58	8.08	0.035	0.016	10.01
TBRC170	0	6m @ 56.93 % Fe	3.07	5.69	0.030	0.024	9.14
TBRC179	0	6m @ 54.97 % Fe	5.12	5.70	0.025	0.024	9.94
TBRC188	0	6m @ 55.27 % Fe	2.67	8.87	0.026	0.016	8.74
TBRC193	0	6m @ 56.43 % Fe	3.44	6.40	0.036	0.018	9.18
TBRC194	0	6m @ 56.33 % Fe	4.37	4.92	0.041	0.018	9.76



WEST PILBARA – YALLEEN IRON ORE JOINT VENTURE

(API 70%)

During the Quarter, API completed the expenditure of \$1.5 million to earn a 70% interest in the Yalleen Iron Ore Joint Venture. Helix Resources Limited has confirmed the expenditure incurred by API and advised that it will contribute to the future exploration programmes to maintain its 30% interest in the joint venture.

Exploration has continued to advance the Kumina Creek and Robe Exit buried CID targets and the Bonham bedded iron target.

Work continued in the Quarter on diamond pre-collars at Kumina Creek with a total of 69 holes for 2,097m being completed. Diamond drilling has commenced with a total of 29 holes for 483m being completed by mid November. RC drill programmes were also completed during the Quarter at Robe Exit, Robe West and Bonham, comprising 102 holes for a total of 3,414m.

Kumina Creek Prospect

A total of 28 diamond tails for 466m were completed using pre-collars installed with dual-rotary percussion techniques to facilitate diamond-drill testing of the buried CID mineralisation at the prospect. No assay results relating to the diamond drilling have been received from the laboratory.

The most southern and northern drill lines on the Kumina Creek grid are located along the margins of an interpreted palaeochannel. Drill holes along these lines encountered relatively thin, low grade CID.

Initial field impressions from the drilling are that the target area can be subdivided into 3 distinct zones of mineralisation:

1. At the western end of the grid the CID is very goethitic, locally very clayey and the channel is slowly deepening towards the west (mineralisation is still open to the west of the current grid). Thickness of the CID is 5m - 10m.
2. Within the central section of the grid is a zone of mineralisation approximately 400m - 600m wide, striking approximately north-south, where the channel is very thin and contains typically 2m - 6m of pre-dominantly low-grade CID.
3. The eastern half of the grid typically contains 10m - 15m of CID (55% - +60% Fe) with localised basement highs. This is interpreted to be akin to a braided drainage system. The CID deepens further to a thickness of approximately 25m at the eastern end of the grid. Mineralisation is open to the east.

Overall the depth to base of mineralisation indicates a meandering channel system that would have repeatedly deposited and eroded pisolitic material. Further evidence of this is the high proportion of lithic and reworked CID throughout the profile.

The diamond drill programme will recommence in the forthcoming Quarter.

Robe Exit Prospect

A total of 49 RC drill holes for 1,698m were completed at the Robe Exit prospect to follow-up an earlier reconnaissance RC drilling programme completed in May 2007. Results have been received for 22 holes highlighting the variable distribution of the CID.

Selected results are included in Table 4 over the page.

Results remain outstanding for the balance of the holes.

Bonham Prospect

A total of 8 RC drillholes for 164m were completed on the western side of the Robe River to test a significant goethite hardcap which exists as a blanket overlying the Marra Mamba Formation at the Bonham prospect.

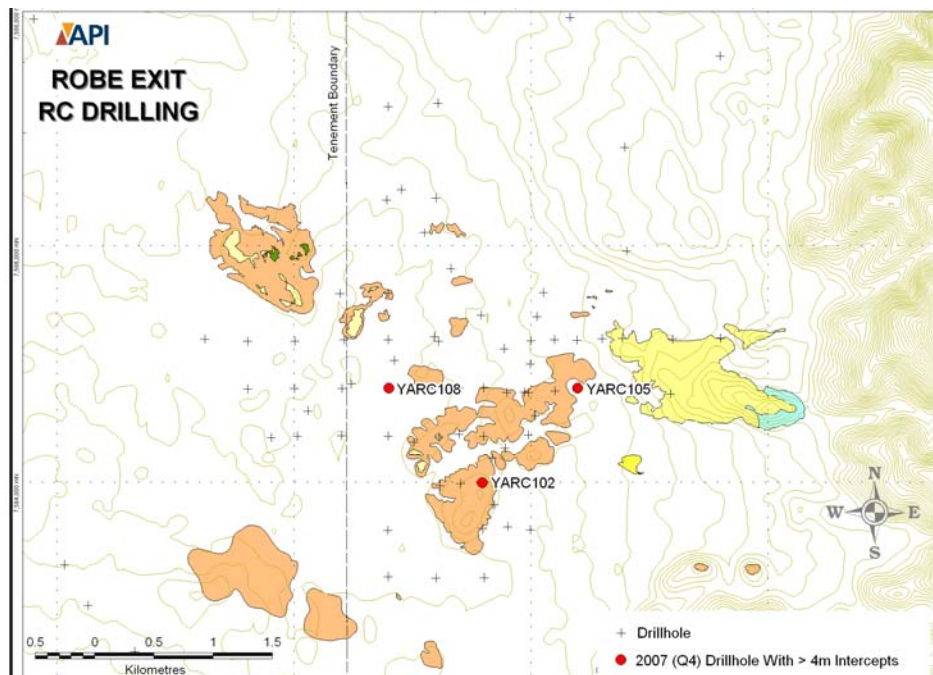
Drillholes completed into the hardcap proved that the hard goethitic mineralisation was consistently in the order of 5m - 10m thick with minor calcrete and clay horizons encountered. Mineralisation consists predominantly of hard vitreous goethite and goethite.

The hardcap extends over a large area of approximately 4km x 2.5km and requires further drill evaluation. Assay results are pending.

IRON ORE

Table 4 Robe Exit Prospect – Selected Drilling Results

Hole ID	From	Intercept	Al ₂ O ₃ %	SiO ₂ %	P%	S%	LOI%
YARC102	8	6m @ 57.57% Fe	3.10	4.82	0.038	0.019	9.35
YARC105	8	6m @ 56.40% Fe	3.36	5.73	0.032	0.020	9.65
YARC105	20	4m @ 55.60% Fe	4.77	7.52	0.036	0.020	9.03
YARC108	26	4m @ 56.25% Fe	3.58	4.83	0.082	0.003	10.37



IRON ORE

SOUTH AFRICA

THABAZIMBI JOINT VENTURE

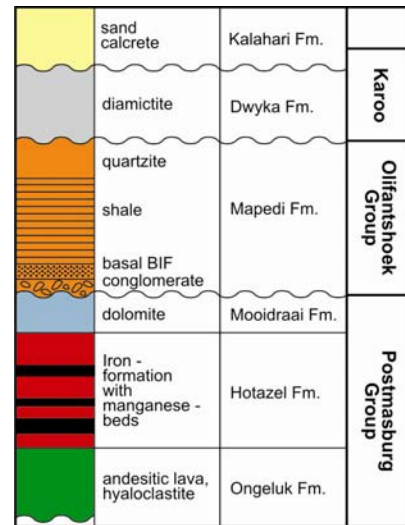
(Aquila Resources Limited 74%)

Northern Cape Province

Drill testing of potential manganese deposits commenced on the Avontuur prospecting right. Exploration is focused on two target settings defined from the interpretation of aeromagnetic data generated by the Company's survey and information from earlier drilling in the area.

Three scout holes drilled in the southern sector of the tenement established that the stratigraphic sequence there represented a re-development of the Kalahari Manganese Field and that there was evidence for the development of manganese mineralisation in the Hotazel Formation on the farm Eersbegint.

Two diamond holes were in progress along the projected trend of the mineralisation at the end of the Quarter.



Stratigraphic Succession of the KMF Preserved on Eersbegint (not to scale)

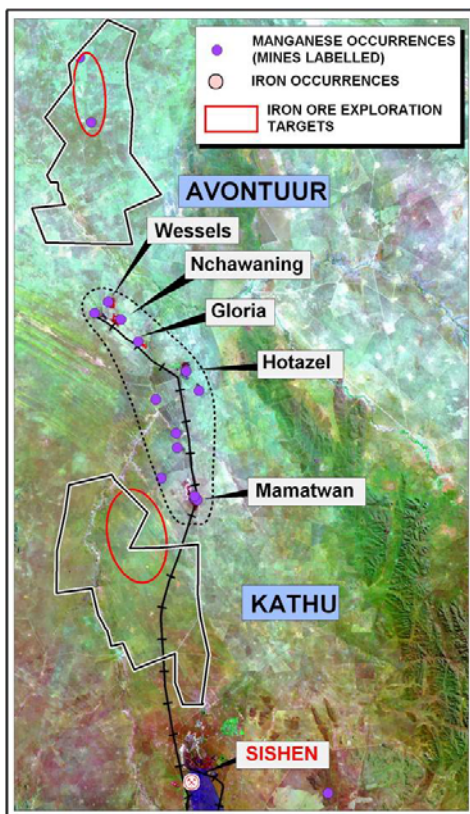
Late in the Quarter drilling also commenced on the farm Gravenhage. It is testing the manganese mineralisation in the Hotazel Formation within the northern sector of the Avontuur Basin. The first hole was pre-collared to within 40m of the target zone and cased off. That hole will continue as a diamond tail upon re-commencement of drilling this month.

Interpretation of the recently flown aeromagnetics over the Kathu prospecting right indicates three possible target settings for drill testing. Further modelling incorporating data from previous drilling is required to refine these targets.

Limpopo (Thabazimbi) Province

Geological mapping at project and prospect scales was conducted on the three tenement areas and detailed evaluation of iron ore occurrences commenced on the Klipgat prospecting right.

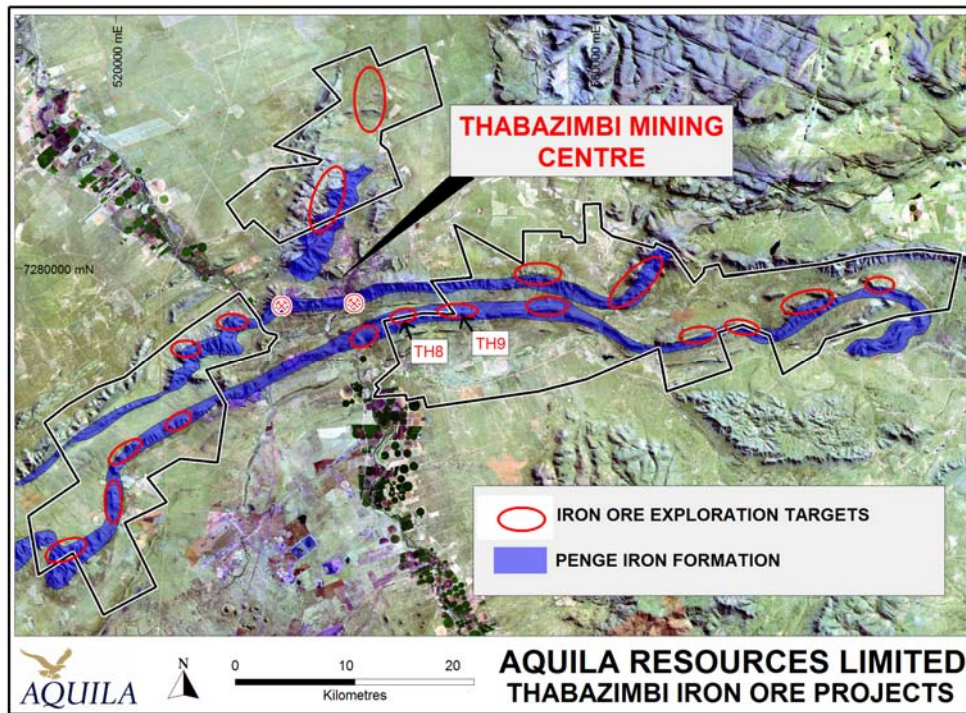
The initial focus has been on identifying iron ore concentrations closest to the infrastructure already established at Thabazimbi. Prospects TH 8 and TH 9 are adjoining targets that occur in the thrust repeated Penge Iron Formation forming the Southern Ranges. The prospects were geologically mapped and grab samples collected from outcropping mineralisation. A total of 12 scout percussion holes were completed for 2,205m at TH 8.



Avontuur and Kathu Licence Areas in the Northern Cape Province

IRON ORE

The TH 8 occurrence is a development of the upper ore zone. Surface grab samples recorded iron contents of up to 67.3%, but the drilling appears to have constrained the occurrence to that of a wedge-shaped, high-grade body bounded by faulting. A preliminary indication of the tonnage potential can be made upon receipt and processing of assay results. The TH 9 occurrence is also within the upper ore zone. Grab samples from outcrops indicate the presence of high iron ore grades, with 13 of the 17 samples collected averaging 64.34% Fe; 3.41% SiO₂; 0.82% Al₂O₃; and 0.02% P. Drill testing of this target is due to commence early in the next Quarter.



Location of Iron Ore Targets at Thabazimbi

CASH RESERVES AND LIQUID INVESTMENTS

Cash reserves and liquid investments total approximately \$229 million at the end of the Quarter.

CULLEN RESOURCES LIMITED

On 30 November 2007, the Company subscribed for a placement of 72 million fully-paid ordinary shares in Cullen Resources Limited at a price of 10 cents each, representing approximately 13.5% of its resulting share capital. Cullen Resources Limited holds a 30% interest in the Mt Stuart Iron Ore Joint Venture.

BONUS ISSUE

As announced to the ASX on 30 November 2007, the Company made a bonus issue of one new share for every five shares held by shareholders on 12 December 2007. The purpose of this issue is to reward shareholders for their loyalty and to encourage greater liquidity in the trading of the Company's shares on the ASX.

LEGAL PROCEEDINGS: AMCI CHANGE IN CONTROL

The Court of Appeal in Queensland handed down its judgment on 21 December 2007, dismissing the Company's appeal against the decision of the Supreme Court in respect of the Change in Control dispute with AMCI.

The Supreme Court had previously found that the restructuring of the AMCI interests in the Australian Premium Iron Joint Venture and Belvedere Coal Joint Venture did not constitute a Change in Control as defined in the respective joint venture agreements.

Following a review of the reasons given in the Court of Appeal judgment with its legal team, Aquila Resources Limited announced to the ASX on 9 January 2008 that it intends to seek special leave to appeal the decision to the High Court of Australia. Mr Allan Myers QC will continue to represent the Company in this matter.

SALE OF SURAT BASIN TENEMENTS

On 8 January 2008, Aquila Resources Limited reported that it had completed arrangements to sell its interests in two coal tenements in the Surat Basin, Queensland to Cockatoo Coal Ltd for \$1.5 million.

For further information please contact:

Mr Tony Poli
Executive Chairman

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

The information in this announcement, insofar as it relates to Mineral Exploration activities, is based on information compiled by Geoffrey F Pigott who is a member of the Australian Institute of Geoscientists, and Stuart H Tuckey, who is a member of the Australian Institute of Mining and Metallurgy, and who have more than five years experience in the field of activity being reported on. Messrs Pigott and Tuckey are full-time employees of the Company. Messrs Pigott and Tuckey have 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 Pigott and Mr Tuckey consent to the inclusion in the report of the matters based on their information in the form and context in which it appears.

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

AQUILA RESOURCES LIMITED

ACN or ARBN

81 092 002 769

Quarter ended ("current quarter")

DECEMBER 2007

Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (6 months) \$A'000
Cash flows related to operating activities		
1.1 Receipts from product sales and related debtors	12,628	19,811
1.2 Payments for:		
(a) exploration and evaluation	(5,357)	(7,281)
(b) development	(1,984)	(3,537)
(c) production	(12,168)	(23,219)
(d) administration	(3,023)	(5,987)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	788	1,453
1.5 Interest and other costs of finance paid	(856)	(859)
1.6 Income taxes paid	-	-
1.7 Other (service charges)	5	174
Net operating cash flows	(9,967)	(19,445)
Cash flows relating to investing activities		
1.8 Payment for purchases of:		
(a) mineral properties	-	-
(b) equity investments	(10,320)	(13,855)
(c) other fixed assets	(234)	(276)
1.9 Proceeds from sale of:		
(a) mineral properties	51,439	77,439
(b) equity investments	42,049	42,771
(c) other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material)	-	-
Net investing cash flows	82,934	106,079
1.13 Total operating and investing cash flows (carried forward)	72,967	86,634

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	72,967	86,634
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	1,033	1,200
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	(2,147)	(2,147)
1.18	Dividends paid	-	-
1.19	Other	-	-
	Net financing cash flows	(1,114)	(947)
	Net increase (decrease) in cash held	71,853	85,687
1.20	Cash at beginning of quarter/year to date	47,994	34,160
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	119,847	119,847

Payments to directors of the entity and associates of the directors
Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	88
1.24	Aggregate amount of loans to the parties included in item 1.10	-
1.25	Explanation necessary for an understanding of the transactions	
	Management Fees, Directors' Fees	

Non-cash financing and investing activities

2.1	Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows	
2.2	Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest	

Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	18,500 ¹	18,500
3.2 Credit standby arrangements	12,852 ²	12,852

1 - Isaac Plains Coal Project cash advance facility.

2 - Isaac Plains Coal Project financial guarantee facility (Aquila's 50% interest only).

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	7,831
4.2 Development	3,264
Total	11,095

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	18,366	6,696
5.2 Deposits at call	101,481	41,298
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	119,847	47,994

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note 2)	Interest at beginning of quarter	Interest at end of quarter	
6.1	Interests in mining tenements relinquished reduced or lapsed	Iron Ore – Western Australia			
		P08/508	Expired (Amalgamated)	60%	0% ¹
		P08/509	Expired (Amalgamated)	60%	0% ¹
		P08/510	Expired (Amalgamated)	60%	0% ¹
	P08/511	Expired (Amalgamated)	60%	0% ¹	
6.2	Interests in mining tenements acquired or increased	Coal – Queensland			
		EPC 1153	Granted	100%	100%
		Coal – Botswana			
		P222/2007	Granted	0%	100%
		Iron Ore –Western Australia			
		E47/1169	Granted	0%	70% ²
E47/1170	Granted	0%	70% ²		
E47/1171	Granted	0%	70% ²		

1 – These tenements have expired and have been amalgamated with the current E08/1227 which is held by the Australian Premium Iron Joint Venture (Aquila 50%), pursuant to farm-in arrangements under the West Pilbara – Red Hill Iron Ore Joint Venture

2 – The % shown represents the iron-ore rights earned by the Australian Premium Iron Joint Venture (Aquila 50%) pursuant to farm-in arrangements under the West Pilbara – Yalleen Iron Ore Joint Venture

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1				
+Preference securities (description)				
7.2				
Changes during quarter				
(a) increases through issues				
(b) decreases through returns of capital, buy-backs, redemptions				
7.3	205,896,974	205,896,974		
+Ordinary securities				
7.4				
Changes during quarter				
(a) increases through issues	2,500,668	2,500,668	\$1.00 – See Note 7(i)	\$1.00
	34,316,162	34,316,162	\$0.00– See Note 7(ii)	\$0.00
(b) decreases through returns of capital, buy-backs				

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

7.5	+Convertible debt securities <i>(description)</i>				
7.6	Changes during quarter (a) increases through issues (b) decreases through securities matured, converted				
7.7	Options <i>(description and conversion factor)</i>	7,700,002	-	<i>Exercise price</i> See note 6.	<i>Expiry date</i> See note 6.
7.8	Issued during quarter				
7.9	Exercised during quarter	1,033,334		\$1.00	31 Dec 2007
7.10	Expired during quarter				
7.11	Debentures <i>(totals only)</i>				
7.12	Unsecured notes <i>(totals only)</i>				

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here:



Date: 30 January 2008

Director

Print name: Tony Poli

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities.** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.
- 6 Securities issued but not quoted as at 31 December 2007.

<u>Number Issued</u>	<u>Type</u>	<u>Expiry Date</u>
2,150,002	Options	31 December 2008
550,000	Options	31 August 2010
5,000,000	Options	31 December 2010

- 7 Ordinary shares – increases during the quarter:
 - i) 1,033,334 options were exercised during the quarter that converted to 2,500,668 ordinary shares as a result of the holder's entitlement to bonus issues.
 - ii) Bonus issue, at no consideration, for one share for every five shares held.