

## 2009 INTERIM FINANCIAL REPORT

Aquila Resources Limited (ASX code: AQA) announces the release of its Consolidated Interim Financial Report for the six months ended 31 December 2008, including a record contribution from its 50% interest in the Isaac Plains Coal Mine in Queensland.

The Isaac Plains Coal Mine interim gross profit of A\$27.8m was a significant improvement on the similar result for the previous six months and the corresponding period last year. Notwithstanding this improvement, the profit was negatively impacted by a reduction in coal shipments during the final Quarter of 2008 predominantly as a result of customer deferrals of sales.

Other significant impacts on the financial results for the period were:

- A\$12.7m profit on formation of the Asenjo Energy Coal Project with Sentula Mining Limited and Jonah Capital (BVI) Limited;
- A\$32m programme of exploration and feasibility study activities on key coal, iron ore and manganese projects (highlights of which are set-out below) that have been expensed as incurred; and
- Recognition of a A\$9.3m impairment against the carrying value of various investments held in listed entities, due to the economic conditions.

As a consequence, the Company recorded a net loss after income tax of A\$1.1m for the six months ended 31 December 2008.

In order to mitigate the impact of reduced world demand for steel making raw materials on the Isaac Plains Coal Mine, a programme has been initiated to:

- re-balance product output to increase thermal coal volumes for which demand levels have remained relatively robust;
- commence customer negotiations for JFY09 metallurgical coal contracts;
- institute a review of opportunities for reducing operating costs; and
- improve overall operational efficiency as coal output is progressively increased.

As reported, the Company has continued its investment in a significant exploration and feasibility programme across its portfolio of mineral projects and key points of note for the interim period are as follows:

### COAL PROJECTS

- Record sales tonnages from the Isaac Plains Coal Mine of 662,614 tonnes (2007: 479,000 tonnes). The Company's share of the revenues from these sales was A\$56.1m (2007: A\$19.2m) at an average realised AUD:USD exchange rate of US\$0.82.
- Attributable EBITDA from the Isaac Plains Coal Mine of A\$29.5m (2007: A\$1.5m).
- Commencement of the Eagle Downs Feasibility Study following successful completion of a Pre-Feasibility Study in July 2008 which demonstrated both the technical and financial viability of developing the project as a multi-seam, single or dual longwall mine, capable of producing up to 7Mtpa of predominantly hard coking coal.

- Continued progress on a Pre-Feasibility Study in respect of the establishment of a multi-longwall mining operation at the Belvedere Coal Project, targeting production of 7-9Mtpa of hard coking coal.

### **IRON ORE PROJECTS**

- Progression of a Definitive Feasibility Study for the West Pilbara Iron Ore Project (WPIOP). This project is based on a current measured, indicated and inferred iron ore resource of 493Mt, with a projected production rate of at least 30Mtpa.
- Further analysis of port and rail locations for the WPIOP, resulting in the recommendation of Anketell Point as the preferred port location for study purposes.
- Completion of bulk samples totalling 40,000 tonnes of iron ore for metallurgical laboratory testing and assessment by prospective customers.
- Memoranda of Understanding agreements have been entered into with three steel mills in China, Japan and South Korea.
- Exploration drilling of over 33,000m was completed during the period and an updated resource statement is scheduled to be finalised during the first Quarter of 2009.

### **MANGANESE PROJECT**

- Completion of over 16,000m of drilling on the Avontuur Manganese Project in South Africa during the period, with high grade manganese encountered.
- An initial resource statement for this project is expected during the first Quarter of 2009.

### **CORPORATE**

- The Company maintained a strong cash and liquid investment position at 31 December 2008 of \$118.2m and had a net asset position of \$153.4m, more than sufficient to meet its short term cash requirements.

**Tony Poli**  
**Executive Chairman**

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

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# COMPETENCY PERSON STATEMENTS

## **Eagle Downs Coal Project**

The information in the report to which this statement is attached relates to the Eagle Downs Resource Statement has been based on information compiled by Mr Graeme Hewitt and Mr Mal Blaik who are members of the Australian Institute of Mining and Metallurgy. Mr Hewitt is a qualified Geologist (BSc (Hons) University of NSW, MBA (University of Queensland) and a Fellow of the Australasian Institute of Mining and Metallurgy and as such qualifies as a Competent Person under the JORC Code. Mr Hewitt holds shares in Aquila Resources Ltd. Mr Blaik is a Principal Consultant of JB Mining Services Pty Ltd. Mr Blaik is a qualified geologist (BSc App Geol (Hons) University of QLD, 1979) and is a member of the Australasian Institute of Mining and Metallurgy and as such qualifies as a Competent Person under the JORC Code. Mr Hewitt and Mr Blaik consent to the inclusion in the report of the matters based on their information in the form and context in which it appears.

## **Belvedere Coal Project**

The information in the report to which this statement is attached relates to estimates of Coal Resources for the Belvedere Coal Project which have been carried out in accordance with the JORC Code. The information that relates to Belvedere Coal Resources, is based on information reviewed by Mr Pat Hanna, who is a Fellow of The AusIMM and was previously an employee of SRK Consulting. Mr Hanna 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. Mr Hanna consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

## **Washpool Coal Project**

The information in the report to which this statement is attached relates to estimates of Coal Resources for the Washpool Project which have been carried out in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code), 2004, prepared by the Joint Ore Reserves Committee of The Australasian Institute of Mining and Metallurgy (AusIMM) and The Australasian Institute of Geoscientists and Minerals Council of Australia, December 2004. The information in this report that relates to Washpool Coal Resources, is compiled by Mr Blair Richardson and modelled and reviewed by Mr Lyon Barrett. Mr Richardson, previously a full time employee of Aquila Resources Ltd., has 25 years experience in geology and over 15 years experience in resource evaluation. Mr Richardson is a member of The Australasian Institute of Mining and Metallurgy and 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 2004 Edition of the JORC Code. Mr Richardson holds shares in Aquila Resources Ltd. Mr Barratt is a full time employee of Salva Resources and has over 15 years experience in geology and over 10 years experience in resource evaluation. Mr Barrett is a member of The Australasian Institute of Mining and Metallurgy and 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 2004 Edition of the JORC Code. Mr Richardson and Mr Barrett consent to the inclusion in the report of the matters based on their information in the form and context in which it appears.

## **Red Hill Coal Project**

The information in the report to which this statement is attached relates to estimates of Coal Resources for the Red Hill Underground Project which have been carried out in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code), 2004, prepared by the Joint Ore Reserves Committee of The Australasian Institute of Mining and Metallurgy (AusIMM) and The Australasian Institute of Geoscientists and Minerals Council of Australia, December 2004. The information in this report that relates to Red Hill Coal Resources, is compiled by Mr Blair Richardson and modelled and reviewed by Mr Lyon Barrett. Mr Richardson, previously a full time employee of Aquila Resources Ltd, has 25 years experience in geology and over 15 years experience in resource evaluation. Mr Richardson is a member of The Australasian Institute of Mining and Metallurgy and 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 2004 Edition of the JORC Code. Mr Richardson holds shares in Aquila Resources Ltd. Mr Barratt is a full time employee of Salva Resources and has over 15 years experience in geology and over 10 years experience in resource evaluation. Mr Barrett is a member of The Australasian Institute of Mining and Metallurgy and 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 2004 Edition of the JORC Code. Mr Richardson and Mr Barrett consent to the inclusion in the report of the matters based on their information in the form and context in which it appears.

## **Australian Premium Iron Joint Venture**

The information in the report to which this statement is attached that relates to the Australian Premium Iron Joint Venture 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 Australian Premium Iron. 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.

# Aquila Resources Limited

(ACN 092 002 769)

## and its Controlled Entities



### Consolidated Interim Financial Report 31 December 2008

**Aquila Resources Limited**

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**AQUILA RESOURCES LIMITED**  
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# AQUILA RESOURCES LIMITED

## and its Controlled Entities

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### 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 2008 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 (50)**

*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 its operations.

**Charles Bennett Bass (59)**

*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.

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

#### 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 11 and forms part of the Directors' Report for the half-year ended 31 December 2008.

# AQUILA RESOURCES LIMITED

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### DIRECTORS' REPORT

### 3. REVIEW OF OPERATIONS

#### (I) COAL - AUSTRALIA

##### **ISAAC PLAINS COAL MINE**

*(Aquila Resources Limited 50%)*

##### **Operational Performance**

A second mining contractor was engaged and mobilised to the minesite during the period. This has resulted in the successful opening of a second box cut, consequently reducing the overall production risk to the Isaac Plains operation during the annual Queensland wet weather season.

Various operational enhancements were implemented, including the use of a loader for Run of Mine coal feed and improved rejects stockpile management.



Coal Handling and Preparation Plant (CHPP) production performance has improved consistently since completion of the rectification works in February 2008. However, raw coal availability from the mine during the period has continued to impact on overall production volumes, with 743kt fed to the CHPP.

##### **Sales and Marketing**

Total sales (100% terms) for the six months to 31 December 2008 were as follows:

Product	Six months ended December 2008 (tonnes)
Semi Hard Coking Coal	117,199
Semi Soft Coking Coal	293,589
Thermal Coal	251,826
<b>Total</b>	<b>662,614</b>

Sales volumes for the period were affected by a number of customer requests for the deferral of scheduled coal shipments arising as a consequence of contraction in global steel demand in the final Quarter of 2008. The mine is presently responding to this downturn in the steel market by re-balancing product output to increase thermal coal volumes for which demand levels have remained relatively robust.

##### **Integrated Isaac Plains Project**

A key focus of activity during the period has been the preparation and submission of a supplementary Environmental Impact Statement (EIS) for the Integrated Isaac Plains Project with a response expected from the Environmental Protection Agency in the next few months.

Approval of the EIS is a key milestone in attaining an amended environmental authority to develop the Isaac Plains South deposit and commence construction of the BE1370 dragline in order to ramp-up annual production to 3.4Mt Run of Mine coal.

In addition to EIS related work, activities have focussed on cultural heritage and native title agreements, as well as the progression of other stakeholder consents and cooperation and coordination agreements.

##### **EAGLE DOWNS COAL PROJECT**

*(Aquila Resources Limited 50%)*

The Eagle Downs Pre-Feasibility Study was completed in July 2008 and demonstrated both the technical and financial viability of developing the project as a multi-seam, single or dual longwall mine, producing up to 7Mtpa of coking coal. As part of the study, JB Mining Services Pty Ltd was commissioned, in conjunction with joint venture staff, to complete an updated resource statement. The Eagle Downs Coal Project northern resource area contains 190Mt of Indicated and 590Mt of Inferred status coal resources.

The Pre-Feasibility Study incorporated the assessment of four mining configurations as summarised below:

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**DIRECTORS' REPORT**

**3. REVIEW OF OPERATIONS (CONT'D)**

*Eagle Downs – Mining Configurations*

Mining Scenario		Nominal Production	Mine Life
Case 1	Single longwall mining of all seams sequentially	4Mtpa	90yrs
Case 2	Single longwall mining of HCU, HCL and DY seams only (excludes Q seam)	4Mtpa	73yrs
Case 3	Two longwall units mining all seams	7Mtpa	46yrs
Case 4	Two longwall units mining the HCU, HCL and DY seams only (excludes Q seam)	7Mtpa	37yrs

*HCU (Harrow Creek Upper)  
HCL (Harrow Creek Lower)  
DY (Dysart)*

Capital and operating cost estimates were evaluated for each of these scenarios, with Case 2 identified as an attractive first stage of development, enabling the earlier delivery of Eagle Downs Coal Project hard coking coal into the export market and providing significant cashflow to fund the installation of a second longwall in order to increase production to 7Mtpa in line with the projected expansion of port capacity.

The Pre-Feasibility Study estimate of capital costs for the Case 2 development of the project is \$892m, (which contemplates a single longwall operation to produce 4Mtpa of hard coking coal), and total operating costs (inclusive of royalties) are estimated to average \$72.51 per tonne of product.

Capital Component	Capital Cost (A\$M)
Pre-production Engineering	60
Longwall	143
Conveyors	67
Mine Development Equipment	25
Mine Support Equipment	33
Infrastructure	169
Coal Handling and Preparation	294
Access and Services	101
<b>Total Costs</b>	<b>892</b>

The Pre-Feasibility Study estimate of operating costs for the Case 2 development of the project, which contemplates a single longwall operation to produce 4Mtpa of hard coking coal, is detailed below:

Operating Component	Operating Cost (A\$ per tonne of product)
Mining	30.66
Processing	8.24
Rail	12.35
Port	5.30
Royalty	14.21
Administration & Marketing	1.75
<b>Total Operating Costs</b>	<b>72.51</b>

Following the encouraging outcomes of the Pre-Feasibility Study, work has commenced on the Eagle Downs Feasibility Study with the following key study activities being progressed during the period:

- Evaluation and optimisation of various mining scenarios, with three further scenarios evaluated. A re-optimisation of Case 4 above, with same seam mining, produced significant increases in project Internal Rate of Return and Net Present Value;
- Geotechnical sampling and testing to measure and interpret horizontal stress magnitude and direction, with 3-D modelling of the stress effects of multi-seam mining on the lower seams;
- Mine scheduling and margin ranking;
- Ventilation, gas emission and drift design studies;
- Key infrastructure and services studies and design work in relation to the mine surface plant layout, CHPP, power, accommodation and rail loop;
- Marketing and product specifications studies; and
- Finalisation of the EIS for submission.

# AQUILA RESOURCES LIMITED

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### DIRECTORS' REPORT

### 3. REVIEW OF OPERATIONS (CONT'D)



Five drill rigs were operating during the period and a total of 43 holes for 22,294m, including 6,936m of core, were drilled. A revised resource statement is expected to be completed during March 2009 which will improve the resource level of confidence.

The Eagle Downs Feasibility Study remains on schedule for completion by 30 June 2009.

#### **BELVEDERE COAL PROJECT**

*(Aquila Resources Limited 24.5%)*

The Belvedere Coal Project, which is located near Moura in the southern Bowen Basin region of Queensland, contains an Indicated and Inferred in situ Coal Resource of 3.8 billion tonnes and consists of the potential development of a multi-longwall underground mining operation which is currently planned to produce 7-9Mtpa of coking coal. The project is currently the subject of a Pre-Feasibility Study with key activities during the period focussed on the completion of the 2008 drilling programme and capture and interpretation of 3-D seismic field data.

The 3-D seismic survey assists in the definition of stratigraphy, structural complexity, seam depth, seam gradient and faulting. The interpretation work will enable the update of the geotechnical model which is required to finalise the 2009 drilling programme. The 3-D seismic programme covered some 38.3km<sup>2</sup>, the largest of its type in Australia. Initial results indicate confirmation of the structural findings of the 2007 Exploration Study undertaken by Vale Australia, a wholly owned subsidiary of Vale.

Despite the operation of four drill rigs throughout much of the period, field exploration activity was impacted by wet weather and is expected to be completed in March 2009, the results of which will be used to determine the next phase of the Belvedere drilling programme.

Various Mining Lease Applications and Petroleum Lease Applications have been lodged over the planned development area and Environmental Impact Statement activities are in progress.

Port capacity for the proposed 7-9Mtpa Belvedere Coal Project has been applied for with the Gladstone Ports Corporation and contractual arrangements have been concluded in relation to funding a Feasibility Study on the planned construction of the Wiggins Island Coal Terminal. Discussions have also progressed with Queensland Rail in relation to the funding of a Feasibility Study for the proposed upgrade of the haulage capacity of the Moura to Gladstone rail corridor.

Vale Australia currently holds an option to acquire the Company's remaining interest in the Belvedere Coal Project at fair market value, with the option exercise period commencing in December 2009.

#### **BOWEN BASIN COAL PROJECTS**

##### **WASHPool COAL PROJECT**

*(Aquila Resources Limited 100%)*

A detailed Stage 3 field exploration programme was completed during the period which targeted the delineation of the resource, together with a detailed review of the coal quality of the Washpool Coal Project.

Geological logs from the recent exploration programme indicate the continuity of the target coal seams throughout the areas drilled and the sample processing for coal quality parameters is currently in progress.

# AQUILA RESOURCES LIMITED

## and its Controlled Entities

### DIRECTORS' REPORT

### 3. REVIEW OF OPERATIONS (CONT'D)

The programme also included a total of five 200mm diameter core drill holes to provide samples for coke strength testing and mineralogical and liberation testwork. The processing of these samples has commenced and the results will become available shortly. These studies will assist with the evaluation of mining options for the Washpool Coal Project and an investigation of the mineralogical, liberation and handleability characteristics of this resource.

The distribution of quality based on the drilling completed to date confirms earlier reports of good coking qualities with a high ash content. Preliminary work completed by the CSIRO confirmed a mix of inherent ash within the coal particles and free ash that could be removed by washing processes.

This additional information will increase the definition of the existing resource level of confidence to the Indicated category. As previously reported, the Indicated and Inferred in situ Coal Resources within the Washpool Coal Project area are currently estimated to be 138.1Mt.

Seam	In situ Coal Resources (Mt)		
	Indicated	Inferred	Total Indicated and Inferred
A	5.6	10.0	15.6
B	8.6	13.6	22.2
C	6.0	11.0	17.0
D	7.3	17.3	24.6
E	6.3	12.8	19.1
F	-	39.6	39.6
<b>Total</b>	<b>33.8</b>	<b>104.3</b>	<b>138.1</b>

Work on the Concept Study is being progressed and has identified a number of development options to be considered in future project assessments. Following the lodgement of a Mineral Development Licence application over part of the Washpool Coal Project resource area, planning was commenced during the period for the environmental studies that will be undertaken to support the preparation of the project Environmental Impact Statement.

#### RED HILL COAL PROJECT

*(Aquila Resources Limited 100%)*

As previously reported, the Red Hill Coal Project currently contains an estimated in situ Indicated and Inferred Coal Resource of 75Mt as shown in the following table.

Seam	In situ Coal Resources (Mt)				
	Depth				
	<100m	100 to 200	200 to 300	>300	Total (Inferred tonnes)
Leichhardt Upper	2.9	11.1	18.5	5.8	38.3
Vermont	0.4	10.5	19.9	5.9	36.7
<b>Total</b>	<b>3.3</b>	<b>21.6</b>	<b>38.4</b>	<b>11.7</b>	<b>75.0</b>

The results from the exploration and quality assessment programmes completed by the Company to date on the Red Hill Coal Project have focussed on the Leichhardt seam qualities. This work indicates that the Leichhardt seam is generally a medium volatile coal, with the potential to produce a primary product of low to moderate ash (9.0-11.0%) with a low sulphur (less than 0.3%) content. Average CSN values from the test work were 4.3, indicating the metallurgical coal potential from this seam.

The next stage of exploration and evaluation activities will focus on further definition of the resource in the north and east of the project area where the Leichhardt seam thickens, the assessment of quality of both the Leichhardt and Vermont seam groups (including the distribution of phosphorous across the resource) and the proposed box cut and initial underground development of areas along the north western boundary of the tenement.

# AQUILA RESOURCES LIMITED

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### DIRECTORS' REPORT

## 3. REVIEW OF OPERATIONS (CONT'D)

### (II) IRON ORE – AUSTRALIA

#### WEST PILBARA IRON ORE PROJECT

(Aquila Resources Limited 50%)

##### Development Overview

The West Pilbara Iron Ore Project – Stage 1 (the Project) is based on a current Measured, Indicated and Inferred Resource of 493Mt. It is intended that Run of Mine ore will be railed at a rate of at least 30Mtpa from the minesite to the port, where it will be blended into stockpiles for reclaiming and loading onto Capesize vessels for transport to Asian steel mills.

The Definitive Feasibility Study for the Project continued during the period, with the focus on the evaluation of the various potential port and rail configurations. After incorporation of the new information provided by the marine seismic surveys, a recommendation was provided by the Manager preferring Anketell Point as the port site, with a 240km rail connection to the mine site.

##### Feasibility Studies:

##### Mining and Infrastructure

A programme of marine seismic surveys was completed during the period covering each of the alternative Project port locations under consideration. The data obtained has been utilised to estimate dredging requirements and associated costs at each site and was useful in facilitating objective comparison between each option.

A simulation model is being developed that extends from the mine faces via the crushing plant through Run of Mine product stockpiles and train loadout infrastructure, and is based on the life of mine schedule. The dynamic simulation model is undergoing sensitivity trials following completion of the validation phase.

The definition of infrastructure at the mine area was improved during the period with completion of conceptual engineering and determination of locations for crushing and sampling plants and train loadouts for the Project area. Flow sheets have been prepared and nominal equipment lists devised.

Following confirmation of Anketell Point as the preferred port location, detailed geo-technical studies will commence on the proposed alignments for the rail, jetty and dredged channel.

Engineering plans, schedules, specifications and process flow diagrams were advanced during the period.

##### Environmental

The Environmental Protection Authority set the level of assessment of the Project mine and rail elements at *Public Environmental Review*, following submission of a referral document in relation to the Project's mine and infrastructure aspects.

Environmental base line studies relating to flora, fauna, soil and landscapes, hydrology, noise and vibration, greenhouse gases and dust impacts have progressed during the period. The studies form a critical part of the environmental knowledge base necessary to prepare approval documentation for the Project.

##### Testwork

Bulk ore samples from the Upper Cane and Catho Well deposits were completed during the period, delivering approximately 40,000t of iron ore. This work entailed the trial use of a surface miner/terrain leveller. The ore from the bulk sample programmes will be utilised for further metallurgical testing and to provide samples for testing by prospective customers.



# AQUILA RESOURCES LIMITED

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### DIRECTORS' REPORT

### 3. REVIEW OF OPERATIONS (CONT'D)

Ore testing for dust control and crusher selection was undertaken during the period.

Detailed mine scheduling activities will continue over the following months, as various extraction and processing scenarios are examined.

#### Marketing

The marketing team visited prospective customer steel mills in China, Japan and South Korea as part of the market development programme. These mills were very supportive of the proposed development of further significant supply sources from Australia.

Memoranda of Understanding have been executed with three steel mills, agreeing the process for independent testwork and evaluation of ore, with a view to providing Letters of Intent to support the bankability of the Project.

The steel mills have confirmed their strong encouragement for the development of the Project.

Value in Use assessment, together with the results of the initial sinter testwork by CISRI, has demonstrated the ability to cost effectively substitute Project ore for existing steel mill feed components and this work will be refined, following further sinter testwork.

#### Exploration

Significant exploration activity continued on the Project area during the period, with a total of 33,654m of drilling completed on the Red Hill, Mount Stuart and Yalleen Joint Venture tenements.

This comprised 31,753m of RC drilling, 1,734m of diamond drilling and 167m of pre-collar/water bore drilling. Selected drill results were reported in the September 2008 and December 2008 Quarterly Reports.

Mapping and sampling within the Mount Elvire Project concentrated on defining extensions to Channel Iron Deposit mineralisation.

With the completion of further drilling programmes at various prospects during the period, a revised JORC Resource Estimate for the Project is expected to be completed early in the second Quarter of calendar 2009.

### (III) IRON ORE – SOUTH AFRICA

#### THABAZIMBI IRON ORE PROJECT

*(Aquila Resources Limited 74%)*

Drilling during the period focussed on the testing of iron ore targets on the Leeuwbosch and Cornwall Prospects in the Thabazimbi region. A total of 27 holes (including 4 diamond cored holes) were completed for 2,889m.

The most promising iron occurrence to date is at the base of the Penge Formation at the Cornwall Prospect where jasper filled veins and voids are commonly developed in the ore. Samples from this drilling were sent for metallurgical analysis. The mineralogical association between hematite and gangue minerals (mainly impregnated jasper) requires beneficiation by Media Density Separation (MDS). This is necessary to determine the optimum yield and fraction size within chemical product specifications. Three representative samples were compiled from borehole intersections and sent for laboratory assessment.



The average indicates that the combination of the northern and southern Cornwall Prospect basal ore bodies can be combined to produce an acceptable yield of 65% at 60.02% Fe. Bulk sampling for MDS tests will be needed to determine the exact product specifications and the mining ratio of the two deposits.

# AQUILA RESOURCES LIMITED

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### DIRECTORS' REPORT

### 3. REVIEW OF OPERATIONS (CONT'D)

Geological mapping was completed on the north eastern area of the Donkerpoort Prospect and defined the occurrence of three outcropping iron ore zones. These zones have a south-easterly strike, with south-westerly dips. Mapping of the south-easterly iron ore outcrop defined a 100m thick ferruginized zone with alternating bedded iron formation (BIF) and iron ore. Three iron ore lenses were defined, with an average thickness of 20m and a strike length of 600m. The iron ore outcrops are presently being interpreted as lenses within the BIF. Three diamond holes are planned, to evaluate the continuity of the iron ore bodies at depth.

#### (IV) MANGANESE – SOUTH AFRICA

##### AVONTUUR MANGANESE PROJECT

*(Aquila Resources Limited 74%)*

During the period, a total of 83 diamond and percussion drillholes for 16,339m were drilled on the Avontuur Manganese Project at the Gravenhage and Eersbegint Prospects.

Drilling of the Gravenhage Prospect is designed to test manganese mineralisation hosted by the Avontuur Iron Formation. Ongoing exploration at Gravenhage is focused on delineating the high-grade manganese mineralisation, targeting extensions of this mineralisation at shallow depths and along the edge of the Avontuur Basin.

The Gravenhage Prospect consists of three areas. In the west, a northeast trending magnetic feature is interpreted to represent a fault/thrust structure, which provides for supergene and hydrothermal upgrading of manganese hosted by the Avontuur Iron Formation. Here, the manganese intercepts range up to 9m in thickness at depths between 160m and 320m, in a corridor less than 400m wide. Access to this ore may be available by decline from open pit developments to the east. Assays from this area were previously reported in the September 2008 and December 2008 Quarterly Reports.

In addition, percussion and diamond drilling in the central and eastern areas at Gravenhage has intersected shallow manganese from 51m, directly beneath the overlying Kalahari sands, dipping shallowly to the south and west into the basin to depths of approximately 200m. The manganese mineralisation ranges from 1m to 8m in thickness and occurs over a strike of approximately 3km around the basin edge. The drilling during the period tested the continuity of the manganese mineralised zone on a 400m and 200m pattern, along the 3km strike and up to 1km of dip extending into the basin.

Within this mineralised zone, there are a series of north east trending faults and dolerite dykes intruding through the broader BIF sequence. A dolerite sill, which can attain thicknesses of tens of metres, also occurs through large areas of the Avontuur Basin. Preliminary interpretation of the drilling geology indicates that there are large blocks of continuous manganese mineralisation separated by dolerite dykes and sills.

This relatively shallow ore (starting at 51m), allows for consideration of open pit mining, which would be positive for capital and operating costs.

An initial JORC Resource Statement is expected to be completed on the Avontuur Manganese Project in the first Quarter of 2009.



**AQUILA RESOURCES LIMITED**  
and its Controlled Entities

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**DIRECTORS' REPORT**

**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.



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Tony Poli  
Executive Chairman

Perth

11 March 2009



***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 2008 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 black ink, appearing to be 'TH', written over a light blue horizontal line.

Trevor Hart  
*Partner*

Perth

11 March 2009

**AQUILA RESOURCES LIMITED**  
and its Controlled Entities

**CONSOLIDATED INTERIM INCOME STATEMENT**  
For the half-year ended 31 December 2008

	<i>Note</i>	<i>Consolidated</i> 31 Dec 2008 \$'000	<i>Consolidated</i> 31 Dec 2007 \$'000
Revenue from sale of product	2	56,107	19,187
Cost of sales		(28,312)	(19,556)
<b>Gross profit (loss)</b>		<b>27,795</b>	<b>(369)</b>
Other income	3	12,723	138,087
Exploration and evaluation expenses		(32,064)	(11,217)
Corporate, legal and administration expenses		(6,606)	(3,171)
<b>Profit from operating activities</b>		<b>1,848</b>	<b>123,330</b>
Financial income		5,100	1,833
Impairment of investments	4	(9,285)	-
Other financial expenses		(550)	(1,159)
<b>Net finance income (expense)</b>		<b>(4,735)</b>	<b>674</b>
<b>Profit (loss) before income tax</b>		<b>(2,887)</b>	<b>124,004</b>
Income tax (expense) benefit		1,769	(38,137)
<b>Profit (loss) for the period</b>		<b>(1,118)</b>	<b>85,867</b>
<b>Profit (loss) attributable to members of the parent entity</b>		<b>(1,118)</b>	<b>85,867</b>
Basic earnings per share		(\$0.005)	\$0.499
Diluted earnings per share		(\$0.005)	\$0.480

The Consolidated Interim Income Statement is to be read in conjunction with the Notes to the Interim Financial Statements set out on pages 16 to 20.

**AQUILA RESOURCES LIMITED**  
and its Controlled Entities

**CONSOLIDATED INTERIM BALANCE SHEET**  
as at 31 December 2008

	<i>Note</i>	<i>Consolidated</i> 31 Dec 2008 \$'000	<i>Consolidated</i> 30 June 2008 \$'000
<b>CURRENT ASSETS</b>			
Cash assets		96,058	159,416
Trade and other receivables		14,650	11,848
Inventories		4,733	4,511
Investments	4	22,105	69,861
Other assets		762	324
<b>Total Current Assets</b>		<b>138,308</b>	<b>245,960</b>
<b>NON-CURRENT ASSETS</b>			
Receivables		4,550	2,183
Property, plant and equipment	5	48,099	38,914
Exploration and evaluation expenditure		3,169	2,920
Intangible assets		178	118
Other assets		9,462	2,715
Deferred tax assets		5,933	-
<b>Total Non-current Assets</b>		<b>71,391</b>	<b>46,850</b>
<b>TOTAL ASSETS</b>		<b>209,699</b>	<b>292,810</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables		23,155	15,209
Interest bearing liabilities		4,937	5,882
Income tax payable		-	43,483
Forward exchange contract liabilities		19,083	-
Employee benefits		268	334
<b>Total Current Liabilities</b>		<b>47,443</b>	<b>64,908</b>
<b>NON-CURRENT LIABILITIES</b>			
Interest bearing liabilities		7,469	9,453
Deferred tax liabilities		-	14,839
Provisions		1,419	919
<b>Total Non-current Liabilities</b>		<b>8,888</b>	<b>25,211</b>
<b>TOTAL LIABILITIES</b>		<b>56,331</b>	<b>90,119</b>
<b>NET ASSETS</b>		<b>153,368</b>	<b>202,691</b>
<b>EQUITY</b>			
Issued capital	6	76,124	74,124
Reserves		(2,721)	47,484
Accumulated profits	7	79,965	81,083
<b>TOTAL EQUITY</b>		<b>153,368</b>	<b>202,691</b>

The Consolidated Interim Balance Sheet is to be read in conjunction with the Notes to the Interim Financial Statements set out on pages 16 to 20.

**AQUILA RESOURCES LIMITED**  
and its Controlled Entities

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
For the half-year ended 31 December 2008

	<i>Note</i>	<b>Consolidated</b> 31 Dec 2008 \$'000	<b>Consolidated</b> 31 Dec 2007 \$'000
<b>Total equity at the beginning of the period</b>		<b>202,691</b>	<b>77,856</b>
Movement in fair value of available-for-sale financial assets			
- recognised in income statement		9,285	(19,720)
- recognised in fair value reserve		(41,129)	55,023
Movement in fair value of cash flow hedges			
- recognised in income statement		389	(1,412)
- recognised in hedging reserve		(18,752)	3,875
<b>Amounts recognised directly in equity</b>		<b>(50,207)</b>	<b>37,766</b>
<b>Profit (loss) for the period</b>		<b>(1,118)</b>	<b>85,867</b>
<b>Total recognised income and expense for the period</b>		<b>(51,325)</b>	<b>123,633</b>
<b>Transactions with equity holders in their capacity as equity holders:</b>			
Exercise of options	6	2,000	1,200
Equity settled share based payment transactions		2	363
<b>Total equity at the end of the period</b>	<b>7</b>	<b>153,368</b>	<b>203,052</b>
<b>Total recognised income and expense for the period attributable to equity holders of the parent</b>		<b>(51,325)</b>	<b>123,633</b>

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 16 to 20.

**AQUILA RESOURCES LIMITED**  
and its Controlled Entities

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
For the half-year ended 31 December 2008

	<i>Consolidated</i> 31 Dec 2008 \$'000	<i>Consolidated</i> 31 Dec 2007 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash receipts in the course of operations	45,269	19,985
Cash payments in the course of operations	(39,081)	(29,393)
Cash payments for exploration and evaluation expenditure	(25,200)	(7,931)
Interest received	6,232	1,453
Interest paid	(732)	(859)
Income taxes paid	(42,233)	-
<b>Net cash used in operating activities</b>	<b>(55,745)</b>	<b>(16,745)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of mineral properties	11,982	77,439
Proceeds from sale of equity investments	21	42,771
Payments for property, plant and equipment	(10,060)	(3,163)
Payments for mineral properties	(249)	-
Payments for equity investments	(5,964)	(13,855)
Payments for security deposits	(2,648)	-
<b>Net cash provided by (used in) investing activities</b>	<b>(6,918)</b>	<b>103,192</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issue of shares	2,000	1,200
Repayment of borrowings	(3,000)	(2,147)
<b>Net cash used in financing activities</b>	<b>(1,000)</b>	<b>(947)</b>
<b>Net increase (decrease) in cash held</b>	<b>(63,663)</b>	<b>85,500</b>
<b>Cash at the beginning of the financial period</b>	<b>159,416</b>	<b>34,160</b>
<b>Effect of exchange rate fluctuations on cash held</b>	<b>305</b>	<b>-</b>
<b>Cash at the end of the financial period</b>	<b>96,058</b>	<b>119,660</b>

The Consolidated Statement of Cash Flows is to be read in conjunction with the Notes to the Interim Financial Statements set out on pages 16 to 20.

**AQUILA RESOURCES LIMITED**  
and its Controlled Entities

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**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
For the half-year ended 31 December 2008

**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 2008 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 11 March 2009.

**(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 2008. 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 2008.

**AQUILA RESOURCES LIMITED**  
and its Controlled Entities

**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
For the half-year ended 31 December 2008

**2. Segment reporting**

Segment information is presented in the consolidated interim financial report 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>Manganese</i>		<i>Consolidated</i>	
	<i>Dec 2008</i> \$'000	<i>Dec 2007</i> \$'000	<i>Dec 2008</i> \$'000	<i>Dec 2007</i> \$'000	<i>Dec 2008</i> \$'000	<i>Dec 2007</i> \$'000	<i>Dec 2008</i> \$'000	<i>Dec 2007</i> \$'000
Segment revenue	56,107	19,187	-	-	-	-	56,107	19,187
Segment result	25,513	133,006	(16,449)	(6,313)	(1,623)	(181)	7,441	126,512
Unallocated expenses							(5,593)	(3,182)
<b>Profit from operating activities</b>							<b>1,848</b>	<b>123,330</b>

**AQUILA RESOURCES LIMITED**  
and its Controlled Entities

**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
For the half-year ended 31 December 2008

	<i>Consolidated</i>	<i>Consolidated</i>
	<i>31 Dec 2008</i>	<i>31 Dec 2007</i>
	<i>\$'000</i>	<i>\$'000</i>
<b>3. Other income</b>		
Gain on sale of project interests <sup>(i)(ii)(iii)</sup>	12,571	109,744
Net gain on disposal of equity investments <sup>(iv)</sup>	-	28,171
Administration overheads charged	152	156
Other	-	16
<b>Total other income</b>	<b>12,723</b>	<b>138,087</b>

- (i) Represents a gain arising upon settlement of an agreement with a consortium comprising Jonah Capital (BVI) Limited and Sentula Mining Limited, whereby the consortium earned a 50% interest in the Asenjo Energy Coal Project in Botswana by payment to the consolidated entity of US\$5 million and sole-funding a US\$10 million exploration programme on the project.
- (ii) During the prior period, a wholly owned subsidiary of Vale 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. Vale have further options to acquire the remaining 49% at fair market value.
- (iii) During the prior 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.
- (iv) During the prior 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 was recognised from this transaction.

	<i>Consolidated</i>	<i>Consolidated</i>
	<i>31 Dec 2008</i>	<i>30 June 2008</i>
	<i>\$'000</i>	<i>\$'000</i>
<b>4. Investments</b>		
Investment in listed entities – at fair value <sup>(i) (ii)</sup>	22,105	69,861
<b>Total investments</b>	<b>22,105</b>	<b>69,861</b>

- (i) Fair value is based on the quoted market price at balance sheet date. These investments are classified as available-for-sale.
- (ii) The consolidated entity has recognised an impairment loss of \$9,285,000 on its investments in listed entities due to a significant or prolonged decline in the fair value of these investments to below their original cost. This decrease in fair value has arisen due to significant falls in equity markets resulting from the on-going global financial crisis.

**AQUILA RESOURCES LIMITED**  
and its Controlled Entities

**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
For the half-year ended 31 December 2008

**5. Property, plant and equipment**

**Acquisitions**

During the half-year ended 31 December 2008, the consolidated entity acquired property, plant and equipment with a cost of \$11,292,000 (2007: \$2,550,000) including the consolidated entity's interest in joint venture assets amounting to \$10,995,000 (2007: \$2,448,000).

	<i>Consolidated</i>	<i>Consolidated</i>
	<i>31 Dec 2008</i>	<i>30 June 2008</i>
	<i>\$'000</i>	<i>\$'000</i>
<b>6. Contributed equity</b>		
<b>Share capital</b>		
249,029,672 fully paid ordinary shares (June 2008: 247,445,672)	78,148	76,148
<i>less – issue costs</i>	<i>(2,024)</i>	<i>(2,024)</i>
<b>Total contributed equity</b>	<b>76,124</b>	<b>74,124</b>
<b>Issued and paid-up capital</b>		
Balance at beginning of period:		
247,445,672 ordinary shares (June 2007: 168,933,477)	74,124	72,632
Ordinary shares issued during the period:		
- 2,500,668 ordinary shares by means of the exercise of 1,033,334 options at \$1.00 per option	-	1,033
- 516,268 ordinary shares by means of the exercise of 183,333 options at \$2.50 per option	-	459
- 1,584,000 ordinary shares by means of the exercise of 500,000 options at \$4.00 per option	2,000	-
- 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)	-	-
- 41,179,199 ordinary shares issued at no cost by means of a bonus issue of 1 share for every 5 shares held (15 May 2008)	-	-
Balance at end of period:		
249,029,672 ordinary shares (June 2008: 247,445,672)	76,124	74,124

**Options**

As at 31 December 2008, the following options remain outstanding:

- 550,000 options exercisable at \$5.50 each on or before 31 August 2010, for 792,000 shares.
- 5,000,000 options exercisable at \$4.00 each on or before 31 December 2010, for 15,840,000 shares.

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 INTERIM FINANCIAL STATEMENTS**  
For the half-year ended 31 December 2008

**7. 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	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>2008</b>						
Balance 1 July 2008	74,124	29,234	13,245	5,005	81,083	202,691
Total recognised income and expense	-	(31,844)	-	(18,363)	(1,118)	(51,325)
Shares issued	2,000	-	-	-	-	2,000
Equity settled transactions	-	-	2	-	-	2
Transfer on exercise of share options	-	-	-	-	-	-
<b>Balance 31 December 2008</b>	<b>76,124</b>	<b>(2,610)</b>	<b>13,247</b>	<b>(13,358)</b>	<b>79,965</b>	<b>153,368</b>
<b>2007</b>						
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)	-	-	-
<b>Balance 31 December 2007</b>	<b>74,186</b>	<b>48,886</b>	<b>7,189</b>	<b>3,110</b>	<b>69,681</b>	<b>203,052</b>

**8. Related parties**

**Transactions with key executives**

Key executives received compensation during the period in accordance with arrangements detailed in the 2008 Annual Report.

The total amount of fees and compensation (including share based payments expenses) referable to key executives during the period was \$1,422,000 (2007: \$1,267,000).

**AQUILA RESOURCES LIMITED**  
and its Controlled Entities

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**DIRECTORS' DECLARATION**  
**For the half-year ended 31 December 2008**

In the opinion of the Directors of Aquila Resources Limited:

1. the financial statements and notes set out on pages 12 to 20 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 2008 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:



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Tony Poli  
Executive Chairman

Perth

11 March 2009



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

### **Report on the financial report**

We have reviewed the accompanying interim financial report of Aquila Resources Limited, which comprises the consolidated interim balance sheet as at 31 December 2008, income statement, statement of changes in equity and cash flow statement for the interim period ended on that date, a statement of accounting policies and other 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 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 Group's financial position as at 31 December 2008 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 Group's financial position as at 31 December 2008 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

Trevor Hart  
*Partner*

Perth

11 March 2009