



COMPANY UPDATE | COMMENT

NOVEMBER 2, 2009

Aquila Resources Ltd. (ASX: AQA) Isaac Plains Continues to Improve

Outperform Above Average Risk

Price:	7.50	Price Target:	8.00
Shares O/S (MM):	254.5	Implied All-In Return:	7%
Dividend:	0.00	Market Cap (MM):	1,909
NAVPS:	7.99	Yield:	0.0%
Float (MM):	142.0	P/NAVPS:	0.9x

Substantial shareholders: Executive Chairman, Tony Poli (~31%), Non-Executive Director, Charles Bass (~13%), AMCI (~8.5%) and two institutions (combined ~11%).

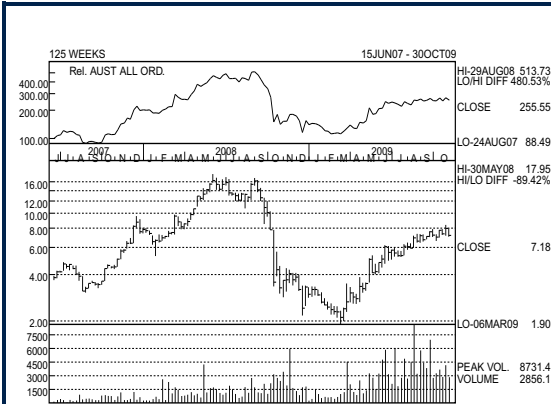
Priced at market close as on November 2, 2009 (Australian Eastern Standard time)

Event

Solid Sept Q with FIRB approval granted for Baosteel investment. Maintain Outperform, A\$8.00 target.

Investment Opinion

- Sept Q production:** Isaac Plains (50%) had a solid Sept 09 Q producing 0.67Mt (100% basis) of met and thermal coal vs our expectations of 0.6Mt. Met coal sales of 386kt accounted for 51% of all sales and showed significant improvement over the previous two Q following the financial crisis. As Isaac Plains begins to ramp up to 2.8Mtpa (for which we expect it will receive approval) and as steel demand returns, we expect met coal sales to be ~75% of total sales. **Aquila remains our preferred HCC exposure** given its suitable mix of existing production and growth from potentially Tier 1 assets such as Eagle Downs & Belvedere. **We maintain our Outperform, Above Average risk** with price target of A\$8.00.
- FIRB approval:** Australian Government approval was given to Baosteel's A\$285m (15%) investment in Aquila. Subject to receipt of Chinese regulatory approval, both companies expect to complete the transaction by months end. Baosteel has FIRB approval to acquire up to 19.99% of the company.
- Balance sheet:** At 30 Sept 09, after spending A\$20m on exploration and development, Aquila had A\$81m in cash and liquid investments with debt of ~A\$21m. We expect Aquila to end FY10 with A\$313 in cash following Baosteel's expected capital injection and additional feasibility expenditure of A\$80m to be spent on the company's major coal and iron ore projects.
- Share price catalysts:** we can expect significant newsflow over the next 6 months which should be seen as positive share price catalysts. These include: 1) a potential sale of 24.5% Belvedere stake to Vale; 2) Belvedere PFS - March 2010; 3) Washpool PFS - March 2010; 4) stronger met coal prices; & 5) positive news from other projects in the portfolio.
- Valuation:** Our target of A\$8.00 is based on our NAV of A\$7.99. While AQA is our preferred HCC play, given recent stock performance amongst many in the ASX coal space, it no longer offers significant relative value. Aquila is trading at 0.94x NAV, while many of its peers are trading at ~0.80x NAV with Riversdale at 0.84x. Only Macarthur continues to trade at a significant premium, at 1.14x NAV.



Royal Bank of Canada - Sydney Branch

David Haddad (Analyst)

(+61) 2 9033-3071; david.haddad@rbccm.com

Michael Orphanides (Associate)

(+61) 2 9033-3087;

michael.orphanides@rbccm.com

FY Jun	2008A	2009A	2010E	2011E
Adj EPS - FD	(0.12)	(0.14)	0.04	0.12
Prev.			0.03	
P/AEPS	NM	NM	NM	62.5x
Annual Div. - FD	0.00	0.00	0.00	0.00
EV/EBITDA	NMx	NMx	71.4x	28.6x

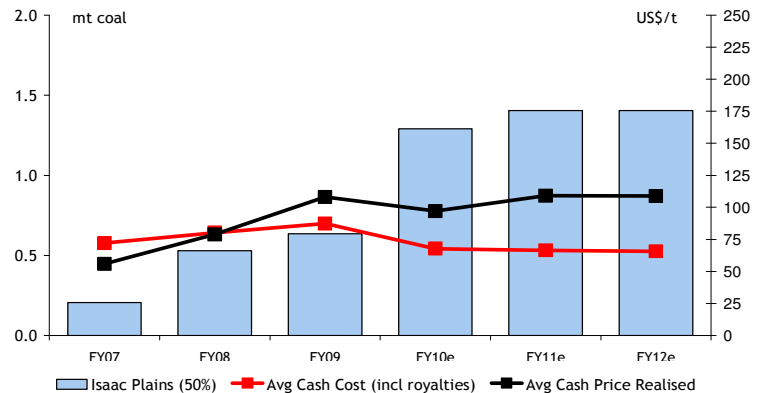
All values in AUD unless otherwise noted.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Non-U.S. Analyst and Conflicts Disclosures, see page 4.

Exhibit 1: Summary financials

Aquila Resources														
ASX: AQA	Share Price: (A\$ps)	7.50	Year end:	Jun	Stock Rating:	Outperform	Price Target:	A\$8.00						
	Mkt Cap: (A\$MM)	1,909	Issued shares (m)	254.5	Risk Qualifier:	Above Average	NAV:	A\$7.99						
ASSUMPTIONS						ATTRIBUTABLE MINE STATS								
Exchange Rate	A\$/US\$	0.79	0.90	0.75	0.83	0.81	Coal Production (equity)							
Hard coking coal (FY avg)	US\$/t	110.8	148.5	257.3	134.3	150.0	Isaac Plains (50%)	mt	0.2	0.5	0.6	1.3	1.4	
LV PCI coal (FY avg)	US\$/t	66.4	111.9	206.3	93.8	105.0	Eagle Downs (50%)	mt	0.0	0.0	0.0	0.0	0.0	
Thermal coal (FY avg)	US\$/t	53.1	73.6	111.5	70.8	80.0	Belvedere (24.5%)	mt	0.0	0.0	0.0	0.0	0.0	
Hamersley Fines (FY avg)	USc/mtu	75.2	96.5	132.7	101.9	116.4	Total coal production	mt	0.2	0.5	0.6	1.3	1.4	
Hamersley Lump (FY avg)	USc/mtu	96.0	127.4	179.3	117.6	134.4								
RATIO ANALYSIS						Coal Sales (equity)								
Diluted share capital	MM	177.7	255.0	254.5	298.5	298.5	Coking	mt	0.0	0.1	0.1	0.3	0.4	
EPS (diluted and pre sig. items)	A¢	-9.6	-11.7	-14.0	3.5	11.6	PCI/Semi-soft	mt	0.1	0.3	0.2	0.5	0.7	
P/E	x	nmf	nmf	nmf	215.4x	64.8x	Thermal	mt	0.1	0.2	0.3	0.5	0.4	
CFPS	A¢	3.7	0.9	(6.4)	18.2	19.7	Total coal sales	mt	0.2	0.5	0.6	1.3	1.4	
P/CF	x	nmf	nmf	-117.5x	41.3x	38.0x	Avg Cash Price Realised	US\$/t	56.0	78.9	108.2	97.1	109.1	
DPS	A¢	0.0	0.0	0.0	0.0	0.0	Avg Cash Cost (incl royalties)	US\$/t	72.2	80.3	87.4	67.8	66.4	
Dividend yield	%	0.0%	0.0%	0.0%	0.0%	0.0%	Cash Margin	US\$/t	-16.2	-1.4	20.7	29.3	42.7	
Franking Level	%	0%	0%	0%	0%	0%								
Book value per share		0.44	0.79	0.61	1.51	1.62	Iron Ore Production (equity)							
P/Book value	x	17.1x	9.4x	12.3x	5.0x	4.6x	West Pilbara Project (50%)	mt	0.0	0.0	0.0	0.0	0.0	
R.O.E. (pre sig items)	%	-16%	-12%	-22%	2%	7%								
R.O.A. (pre sig items)	%	-16%	-12%	-19%	2%	8%								
Interest Cover	x	16.9x	8.3x	-6.3x	-6.3x	-9.8x								
EBITDA per share	A\$ps	-0.10	-0.13	-0.14	0.08	0.19								
EV/EBITDA	x	nmf	nmf	nmf	71.4x	28.6x								
EARNINGS						GROUP RESERVES AND RESOURCES								
Sales Revenue	A\$MM	15	47	92	151	190	Coal Reserves (ex AEL)	Proven	Probable	Total				
Other Revenue	"	3	0	0	0	0	Isaac Plains (50%)	26.0	39.5	65.5				
Total Revenue	"	17	47	92	151	190	Eagle Downs (50%)	97.9	59.6	157.5				
Operating costs	"	(20)	(43)	(53)	(110)	(116)	Total reserves	123.9	99.1	223.0				
Operational EBITDA	"	(3)	4	39	41	74								
Exploration Expense/Write-offs	"	(11)	(23)	(64)	(10)	(10)	Coal Resources (ex AEL)	M & I	Inferred	Total				
Corporate & Other Costs	"	(4)	(15)	(10)	(8)	(8)	Isaac Plains (50%)	95	46	140				
EBITDA	"	(18)	(34)	(35)	23	56	Eagle Downs (50%)	450	434	884				
D&A	"	0	(2)	(5)	(10)	(11)	Belvedere (24.5%)	1,526	2,340	3,866				
EBIT	"	(18)	(36)	(41)	12	45	Total resources	2,071	2,820	4,890				
Net Interest	"	1	4	(6)	2	5								
Profit Before Tax	"	(17)	(32)	(47)	14	49	West Pilbara Iron Resources	Tonnes (mt)	Fe %					
Tax Expense	"	5	7	13	(4)	(15)	Channel iron deposits (39%)	586	56.5%					
Minorities	"	0	0	0	0	0	Bedded iron deposits (100%)	63	61.3%					
Net Profit After Tax	"	(13)	(24)	(35)	10	35	Total iron ore resources	649	57.0%					
Significant Items (post tax)	"	0	122	9	0	0								
Reported NPAT	"	(13)	97	(26)	10	35								
CASHFLOW						EPS SENSITIVITIES								
Operational Cash Flow	A\$MM	-9	-1	20	42	66	Coal Prices (US\$/t)	+10%	Acps	%				
Net Interest	"	2	4	6	2	5	-10%	(3.3)	94%					
Tax Paid and Other	"	14	0	(42)	10	(12)		(3.3)	-95%					
Net Operating Cashflow	"	7	2	(16)	54	59	A\$/US\$ (USc)	+10%	(2.2)	-63%				
Exploration	"	(10)	(16)	(55)	(10)	(10)	-10%	2.7	77%					
Capital Expenditure	"	(17)	(13)	(18)	(90)	(32)								
Investments	"	(7)	78	(2)	0	0								
Sale of PPE and Other	"	4	79	8	0	0								
Net Investing Cashflow	"	(31)	127	(66)	(100)	(42)								
Dividends Paid	"	0	0	0	0	0								
Debt	"	5	(5)	(3)	0	0								
Equity Issuance	"	0	1	2	285	0								
Other	"	0	0	(1)	0	0								
Net Financing Cashflow	"	5	(4)	(2)	285	0								
Net change in cash	"	(18)	125	(85)	239	17								
BALANCE SHEET						EQUITY DCF VALUATION								
Cash & Equivalents	A\$MM	34	159	74	313	330	Projects	A\$MM	A\$ps					
PP&E & Mine Development	"	31	39	63	142	163	Isaac Plains (50%)	310	1.24					
Exploration	"	3	3	3	3	3	Eagle Downs (50%)	638	2.56					
Total Assets	"	113	293	211	520	558	Belvedere (24.5%)	370	1.49					
Debt	"	20	15	21	21	21	West Pilbara Iron Ore (39%) - 50% weighted	496	1.99					
Total Liabilities	"	35	90	56	71	74	Aquila Exploration Ltd assets	100	0.40					
Total Net Assets / Equity	"	78	203	155	450	484	Hedging	1	0.00					
Net Debt / (Cash)	"	(14)	(144)	(52)	(291)	(309)	Corporate	(30)	-0.12					
Gearing (net debt/(nd + equity))	%	(22%)	(246%)	(51%)	(184%)	(176%)	Net Cash/(Debt) & liquids - incl option strikes	103	0.41	P / NPV				
Gearing (net debt/equity)	%	(18%)	(71%)	(34%)	(65%)	(64%)	Net Equity Value (@ 8% real d.r.)	1,989	7.99	0.9x				



Source: Company data, RBC Capital Markets estimates

Valuation

Our target of A\$8.00 is based on our NAV of A\$7.99. While AQA is our preferred HCC play, given recent stock performance amongst many in the coal place, it no longer offers significant relative value. Aquila is trading at 0.94x NAV, while many of its peers are trading at ~0.80x NAV with Riversdale at 0.84x. Only Macarthur continues to trade at a significant premium, at 1.14x NAV.

Price Target Impediment

Potential impediments to our price target include: (1) coal and iron ore price risk - a weakening in contract coal or iron ore prices would adversely affect earnings forecasts; (2) currency risk - a strengthening of the A\$/US\$ rate would adversely affect earnings forecasts; (3) development and financing risk - there are risks associated with the development and ramp-up of Aquila's coal and iron ore project base; and (4) operating risks - general mining and bulk transport risks, increases in key operating inputs (energy and labour costs) would adversely affect earnings forecasts.

Company Description

Aquila is an emerging coal and iron ore producer with a suite of large scale coal deposits in the Bowen Basin (Queensland) and channel iron deposits in the West Pilbara (Western Australia). The company also owns several earlier-stage coal, iron ore and manganese exploration assets in Australia and Africa.

Required Disclosures

Non-U.S. Analyst Disclosure

David Haddad and Michael Orphanides (i) are not registered/qualified as research analysts with the NYSE and/or FINRA and (ii) may not be associated persons of the RBC Capital Markets Corporation and therefore may not be subject to FINRA Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

Conflicts Disclosures

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

The author is employed by Royal Bank of Canada - Sydney Branch, a securities broker-dealer with principal offices located in Sydney, Australia.

Explanation of RBC Capital Markets Equity Rating System

An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average.

Ratings

Top Pick (TP): Represents best in Outperform category; analyst's best ideas; expected to significantly outperform the sector over 12 months; provides best risk-reward ratio; approximately 10% of analyst's recommendations.

Outperform (O): Expected to materially outperform sector average over 12 months.

Sector Perform (SP): Returns expected to be in line with sector average over 12 months.

Underperform (U): Returns expected to be materially below sector average over 12 months.

Risk Qualifiers (any of the following criteria may be present):

Average Risk (Avg): Volatility and risk expected to be comparable to sector; average revenue and earnings predictability; no significant cash flow/financing concerns over coming 12-24 months; fairly liquid.

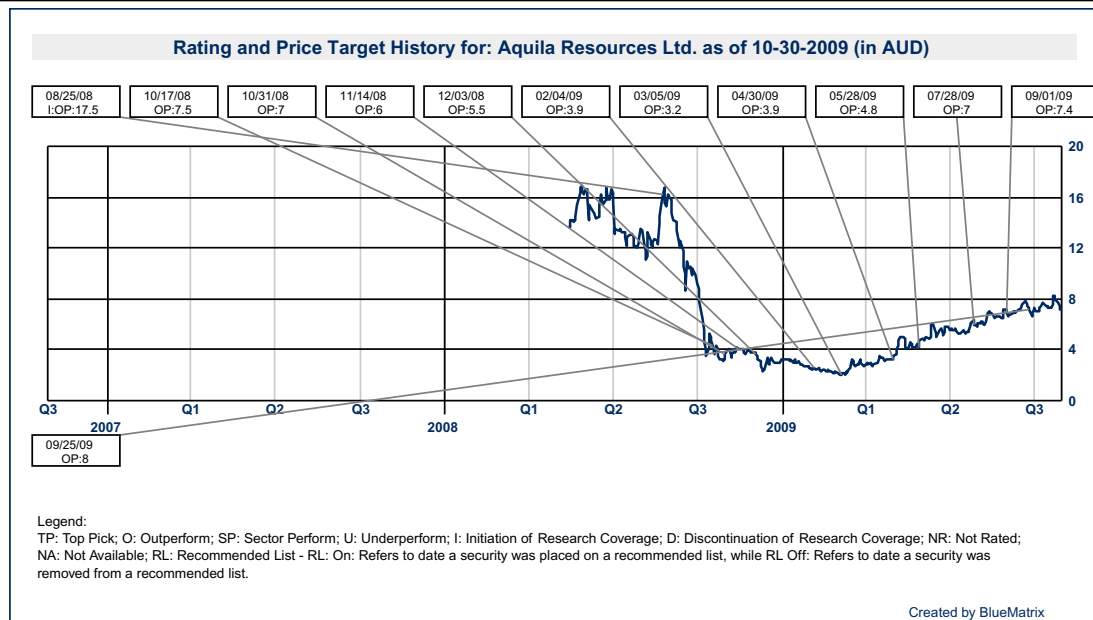
Above Average Risk (AA): Volatility and risk expected to be above sector; below average revenue and earnings predictability; may not be suitable for a significant class of individual equity investors; may have negative cash flow; low market cap or float.

Speculative (Spec): Risk consistent with venture capital; low public float; potential balance sheet concerns; risk of being delisted.

Distribution of Ratings

For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets' ratings of Top Pick/Outperform, Sector Perform and Underperform most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described above).

Distribution of Ratings RBC Capital Markets, Equity Research				
Rating	Count	Percent	Investment Banking Serv./Past 12 Mos.	
			Count	Percent
BUY[TP/O]	575	48.90	159	27.65
HOLD[SP]	518	44.00	104	20.08
SELL[U]	83	7.10	5	6.02



References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by a business unit of the Wealth Management Division of RBC Capital Markets Corporation. These Recommended Lists include the Prime Opportunity List (RL 3), a former list called the Private Client Prime Portfolio (RL 4), the Prime Income List (RL 6), the Guided Portfolio: Large Cap (RL 7), and the Guided Portfolio: Dividend Growth (RL 8). The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

Conflicts Policy

RBC Capital Markets Policy for Managing Conflicts of Interest in Relation to Investment Research is available from us on request. To access our current policy, clients should refer to

<https://www.rbccm.com/global/file-414164.pdf>

or send a request to RBC CM Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7. We reserve the right to amend or supplement this policy at any time.

Dissemination of Research and Short-Term Trading Calls

RBC Capital Markets endeavours to make all reasonable efforts to provide research simultaneously to all eligible clients, having regard to local time zones in overseas jurisdictions. RBC Capital Markets' research is posted to our proprietary websites to ensure eligible clients receive coverage initiations and changes in rating, targets and opinions in a timely manner. Additional distribution may be done by the sales personnel via email, fax or regular mail. Clients may also receive our research via third party vendors. Please contact your investment advisor or institutional salesperson for more information regarding RBC Capital Markets research.

RBC Capital Markets also provides eligible clients with access to a database which may contain Short-Term trading calls on certain of the subject companies for which it currently provides equity research coverage. The database may be accessed via the following hyperlink <https://www2.rbccm.com/cmonline/index.html>. The information regarding Short-Term trading calls accessible through the database does not constitute a research report. These Short-Term trading calls are not formal ratings and reflect the research analyst's views with respect to market and trading events in the coming days or weeks and, as such, may differ from the price targets and recommendations in our published research reports reflecting the research analyst's views of the longer-term (one year) prospects of the subject company. Thus, it is possible that a subject company's common equity that is considered a long-term 'sector perform' or even an 'underperform' might be a Short-Term buying opportunity as a result of temporary selling pressure in the market; conversely, a subject company's common equity rated a long-term 'outperform' could be considered susceptible to a Short-Term downward price correction.

Analyst Certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

Disclaimer

RBC Capital Markets is the business name used by certain subsidiaries of Royal Bank of Canada, including RBC Dominion Securities Inc., RBC Capital Markets Corporation, Royal Bank of Canada Europe Limited and Royal Bank of Canada - Sydney Branch. The information contained in this report has been compiled by RBC



Capital Markets from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC Capital Markets, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute RBC Capital Markets' judgement as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients and has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about the suitability of such investments or services. This report is not an offer to sell or a solicitation of an offer to buy any securities. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. RBC Capital Markets research analyst compensation is based in part on the overall profitability of RBC Capital Markets, which includes profits attributable to investment banking revenues. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. To the full extent permitted by law neither RBC Capital Markets nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior consent of RBC Capital Markets.

Additional information is available on request.

To U.S. Residents:

This publication has been approved by RBC Capital Markets Corporation (member FINRA, NYSE), which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets Corporation.

To Canadian Residents:

This publication has been approved by RBC Dominion Securities Inc.(member IIROC). Any Canadian recipient of this report that is not a Designated Institution in Ontario, an Accredited Investor in British Columbia or Alberta or a Sophisticated Purchaser in Quebec (or similar permitted purchaser in any other province) and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report should contact and place orders with RBC Dominion Securities Inc., which, without in any way limiting the foregoing, accepts responsibility for this report and its dissemination in Canada.

To U.K. Residents:

This publication has been approved by Royal Bank of Canada Europe Limited ('RBCCEL') which is authorized and regulated by Financial Services Authority ('FSA'), in connection with its distribution in the United Kingdom. This material is not for general distribution in the United Kingdom to retail clients, as defined under the rules of the FSA. However, targeted distribution may be made to selected retail clients of RBC and its affiliates. RBCCEL accepts responsibility for this report and its dissemination in the United Kingdom.

To Persons Receiving This Advice in Australia:

This material has been distributed in Australia by Royal Bank of Canada - Sydney Branch (ABN 86 076 940 880, AFSL No. 246521). This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider the appropriateness of this material having regard to their objectives, financial situation and needs. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product.

To Hong Kong Residents:

This publication is distributed in Hong Kong by RBC Investment Services (Asia) Limited and RBC Investment Management (Asia) Limited, licensed corporations under the Securities and Futures Ordinance or, by Royal Bank of Canada, Hong Kong Branch, a registered institution under the Securities and Futures Ordinance. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. Hong Kong persons wishing to obtain further information on any of the securities mentioned in this publication should contact RBC Investment Services (Asia) Limited, RBC Investment Management (Asia) Limited or Royal Bank of Canada, Hong Kong Branch at 17/Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong (telephone number is 2848-1388).

To Singapore Residents:

This publication is distributed in Singapore by RBC (Singapore Branch) and RBC (Asia) Limited, registered entities granted offshore bank status by the Monetary Authority of Singapore. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. You are advised to seek independent advice from a financial adviser before purchasing any product. If you do not obtain independent advice, you should consider whether the product is suitable for you. Past performance is not indicative of future performance.

®Registered trademark of Royal Bank of Canada. RBC Capital Markets is a trademark of Royal Bank of Canada. Used under license.

Copyright © RBC Capital Markets Corporation 2009 - Member SIPC

Copyright © RBC Dominion Securities Inc. 2009 - Member CIPF

Copyright © Royal Bank of Canada Europe Limited 2009

Copyright © Royal Bank of Canada 2009

All rights reserved

