



FIRST GLANCE | COMMENT

AUGUST 28, 2009

Aquila Resources Ltd. (ASX: AQA; 6.55)
Partnering with the Chinese

Outperform
Above Average Risk

Event

- Placement and strategic co-operation with Baosteel.

First Impression

- China's largest steel mill, Baosteel, will invest up to \$285.6m in AQA for an equity stake of up to 15% (44m shares @ \$6.50ps - this compares to last close of \$6.55 and 10-day VWAP of \$6.75). AQA's cash balance was \$73m at 30 June 2009 while debt stood at \$12m. The Baosteel-nominated director to the AQA board is Mr. Dai Zhihao, the Vice President of the steel company. Significantly, the deal represents Baosteel's first major international strategic investment in a public company.
- In addition to the placement, the two companies have signed a Memo of Strategic Co-operation, the key points of which include frameworks/processes for potential: further investment by Baosteel at the project level; marketing possibilities in China for product from AQA's coal, iron ore and manganese projects; long-term offtake agreements with Baosteel for those same products; and sourcing of Chinese debt to facilitate project development. Baosteel's involvement should allow Aquila to better facilitate delivery of the West Pilbara Iron Ore Project through the planned Anketell Port.
- The deal is subject to a number of conditions, which include FIRB and Chinese regulatory approvals as well as approval from Aquila shareholders. Baosteel retains anti-dilution rights allowing it to participate in new issues of AQA shares, a standstill agreement preventing ownership in excess of 19.99% (to August 2010) and a lock-up arrangement preventing disposal of shares during the period to August 2010.
- At a high level, the agreement with Baosteel represents a good one for AQA, in our view. The company has secured nearly A\$300m in funding at effectively market levels while not giving up any direct asset stakes. The provisions for potential project-level investment, etc., by Baosteel in the future provide AQA with optionality, implicit backing and the potential leverage of a truly powerful partner.



Priced as of prior trading day's market close, EST (unless otherwise noted).
For Required Non-U.S. Analyst and Conflicts Disclosures, see page 3.

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.

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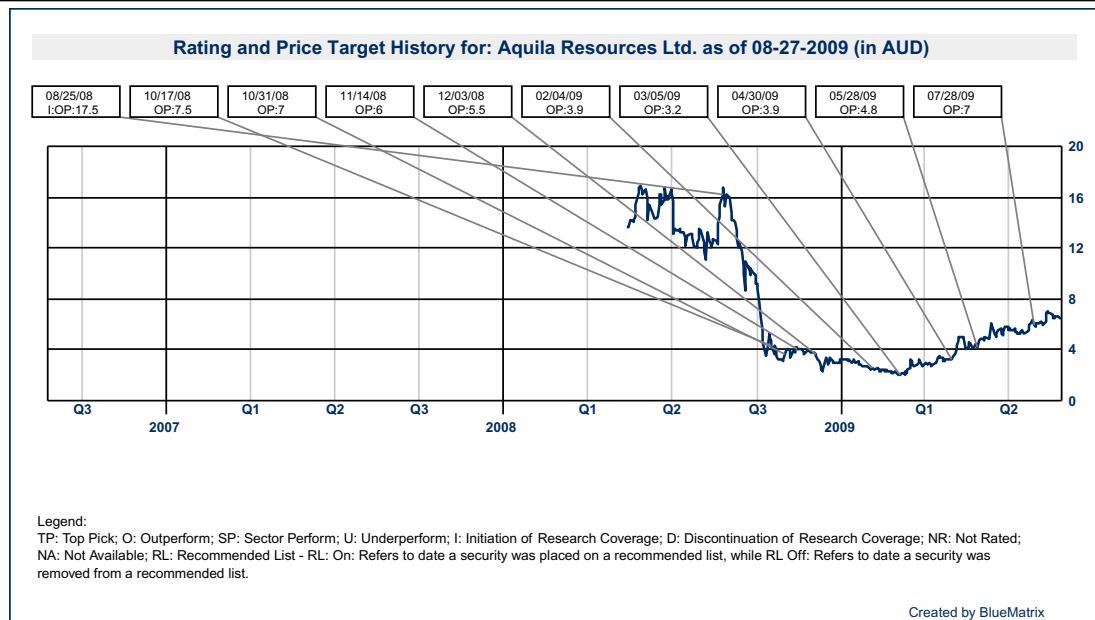
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