

Quarterly Report

September 2010



Drill Site on Meletse



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HIGHLIGHTS

COAL

Isaac Plains Coal Mine

- There were no Lost Time Injuries (LTIs) during the Quarter with the 12 month rolling average LTI Frequency Rate for the Isaac Plains Coal Mine being maintained at zero LTIs per million man hours worked.
- A total of 685Kt of saleable coal was produced during the Quarter, which was a new record Quarterly result.
- Coal sales for the Quarter were 492Kt.
- Overburden removal increased by 13% from the previous Quarter to 9.6M bank cubic metres, while coal mining at 933Kt was 9% better than the previous Quarter's 854Kt result.
- Dragline erection continues on schedule and is expected to be completed and operational during the June Quarter 2011.

Eagle Downs Hard Coking Coal Project

- An updated Resource Statement was released during the Quarter increasing the total Resource to 948Mt including a significant increase in Measured Resource to 577Mt.
- A Cultural Heritage Management Plan was executed with the Barada Barna People for the Project area and has been lodged with the State.
- The Definitive Feasibility Study work program advanced during the Quarter.

Washpool Hard Coking Coal Project

- The Feasibility Study Report was released to the ASX on 19 July 2010 and the Company commenced a Definitive Feasibility Study process which is expected to be completed by September Quarter 2011.
- The Cultural Heritage Investigation Management Agreement, agreed with the endorsed Indigenous Party, was lodged and registered.
- A Coordination Arrangement and Co-development Agreement over the Project area were developed and executed with the overlapping petroleum tenure holder.
- An application for a Mining Lease has been made for the Project.

Talwood Coking Coal Project

- Exploration activities continued during the Quarter and an updated Resource Statement is expected to be released in the next Quarter.

IRON ORE

West Pilbara Iron Ore Project

- Golder Associates Pty Ltd is currently preparing an updated Resource Statement, following which Orelogy Pty Ltd will prepare a maiden Reserve Statement. Both statements are expected to be released in the next Quarter and studies will be advanced for the mining joint ventures that comprise the Stage 1 development of the West Pilbara Iron Ore Project.
- The Mine and Rail Public Environmental Review (PER) public comment period closed during the Quarter. Responses to comments will be prepared and submitted to the Environmental Protection Authority (EPA).
- The EPA has accepted the Port PER as suitable for public release, and following approval from the federal Department of Sustainability, Environment, Water, Population and Communities expected during the December Quarter 2010, the final Port PER document will be released for public comment.
- Further sinter test work programs have been completed with continuing positive results communicated to the relevant steel mills.
- Two new Memoranda of Understanding (MoU) have been signed with steel mills, taking the total to 34 MoU with Asian steel mills.
- The Pre-Feasibility Study for the Hardey Project was 95% complete by the end of the Quarter and is expected to be completed during the December Quarter 2010.
- The final assays from the drilling of channel iron material at the Kens Bore East Prospect have been received, with better intercepts including:
 - 36m at 57.8% Fe from 6m in KBRC665;
 - 36m at 57.8% Fe from 8m in KBRC672;
 - 30m at 58.3% Fe from 12m in KBRC673;
 - 40m at 58.9% Fe from 0m in KBRC677.All intercepts were calculated for greater than 54% Fe cut.
- The final assays from the drilling of channel iron material at the Kens Bore Deposit have been received, with better intercepts including:
 - 30m at 56.4% Fe from 6m in KBRC661;
 - 22m at 56.9% Fe from 20m in KBRC663;
 - 30m at 56.1% Fe from 0m in KBRC664;
 - 32m at 56.4% Fe from 4m in KBRC670.All intercepts were calculated for greater than 54% Fe cut.

HIGHLIGHTS

- A new prospect for detrital and channel iron mineralisation has been identified to the east of the Stage 1 development area. Following promising results from mapping and surface sampling at the Weckl Prospect, a drilling program has been initiated. Initial results have been received from the drilling of detrital material, with better intercepts including:
 - 22m at 56.9% Fe from 18m in WKRC025;
 - 24m at 56.6% Fe from 10m in WKRC059;
 - 24m at 61.7% Fe from 0m in WKRC068;
 - 22m at 56.6% Fe from 8m in WKRC069;
 - 20m at 58.9% Fe from 10m in WKRC070;
 - 20m at 55.9% Fe from 14m in WKRC075;
 - 30m at 56.7% Fe from 4m in WKRC076.These intercepts were calculated for greater than 52% Fe cut.

Thabazimbi Iron Ore Project

- Drilling continued at the Meletse Iron Ore Deposit with better high grade Fe intercepts including:
 - 38m at 67.7% Fe from 204m and 5m at 62.3% Fe from 256m in DT42;
 - 13m at 63.1% Fe from 237m in DT43;
 - 23m at 67.2% Fe from 221m in DT45;
 - 32m at 67.3% Fe from 202m in DT49;
 - 32m at 66.3% Fe from 182m in DT51;
 - 15m at 67.3% Fe from 221m in DT52;
 - 40m at 63.0% Fe from 222m in DT54.
- Geological mapping continued at Target C, adjacent to the Meletse Deposit, where rock chip sampling returned several Fe results up to 65.5% Fe from three discrete zones of iron ore outcrop.
- An updated Iron Ore Resource Statement for the Meletse Deposit is expected to be released in the next Quarter.

CORPORATE

- A new Employee Share Option Plan was implemented during the period.
- A corporate office was established in Johannesburg and local administrative staff recruited.
- Experienced Project Managers have been recruited to lead the studies into, and development of, the Gravenhage Manganese and Meletse Iron Ore Projects.
- Cash and liquid investments totalled approximately \$295 million at the end of the Quarter.

MANGANESE

Avontuur Manganese Project

- Diamond and RC drilling continued during the Quarter at the Gravenhage Manganese Deposit with higher grade intercepts including:
 - 1.5m at 42.0% Mn from 320m in GHEX16;
 - 1.8m at 42.0% Mn from 338m in GHEX140;
 - 2.5m at 45.8% Mn from 320m and 4m at 38.5% Mn from 330m in GHEX144;
 - 2.0m at 44.3% Mn from 108m and 3.0m at 47.7% Mn from 126m in GHOP001
 - 4.0m at 42.8% Mn from 100m and 3.0m at 42.3% Mn from 108m in GHOP002
 - 1.5m at 52.5% Mn from 93m and 1.5m at 52.3% Mn from 106m in GHOP003;
 - 4.0m at 43.3% Mn from 88m and 2.3m at 42.6% Mn from 94m in GHOP004
- Exploration at Gravenhage Deposit is ongoing, with five diamond drill rigs and one RC drill rig on site.
- An updated Resource Statement for the Gravenhage Manganese Deposit is expected to be released in the next Quarter.
- The Feasibility Study for the Gravenhage Manganese Project has commenced and will incorporate an updated Resource Statement, a maiden Reserve Statement and the design and cost estimate for a Project with a capacity of at least 1Mtpa of manganese product for export and domestic consumption. Completion of the study is scheduled for the September Quarter 2011.

COAL

ISAAC PLAINS COAL MINE

(Aquila Resources Limited 50%)

Isaac Plains Coal Mine is an operating open cut coal mine, which now has environmental approval to increase Run of Mine (ROM) production to 4Mtpa. The mine is located east of Moranbah in the Bowen Basin in central Queensland. The coal products are a mix of metallurgical and thermal coals, which are exported through Dalrymple Bay Coal Terminal (DBCT).

Production

Isaac Plains' operational results were at record levels in most areas during the Quarter, reflecting very good operational performance by both operating contractors, John Holland and Ausenco Taggart. Improved weather conditions and machine availability assisted in records being achieved in a number of areas whilst maintaining an excellent safety record.

Major Project Activities During the Quarter

- There were no Lost Time Injuries (LTIs) during the Quarter with the 12 month rolling average LTI Frequency Rate for the mine being maintained at zero LTIs per million man hours worked.
- A total of 9.6M bank cubic metres (bcm) of overburden were moved, which was slightly above budget for the period. Improved availability and productivity of the mining equipment has led to the best Quarter performance for material movement on record for the mine, a 32% improvement over the corresponding period last year and 13% better than the previous Quarter.
- A total of 685Kt of saleable coal was produced during the Quarter, which represents a 2% improvement over the equivalent period last year. This was a new record Quarterly result for the mine and an excellent result given that yields were not as high as expected.
- G&S Engineering Services personnel continued to erect the dragline, which remains on schedule to be completed and operational in the June Quarter 2011.

Table 1 – Isaac Plains Coal Mine Production Results

| | | Calendar Quarter | | |
|--------------|--------|------------------|-----------|----------------|
| | | September 2009 | June 2010 | September 2010 |
| Overburden | BCM | 6,516,474 | 8,469,990 | 9,558,413 |
| Mining | Tonnes | 1,016,129 | 854,504 | 933,441 |
| CHPP Feed | Tonnes | 882,530 | 776,100 | 938,670 |
| CHPP Product | Tonnes | 669,120 | 547,555 | 684,986 |
| Yield | % | 75.8% | 70.6% | 73.0% |
| Railings | Tonnes | 761,952 | 537,438 | 643,569 |
| Shipping | Tonnes | 722,167 | 534,213 | 491,961 |

Coal Sales

Isaac Plains Coal Mine recorded 492Kt of coal sales during the Quarter which was ahead of budget. A shipment of PCI coal (for which railings had been completed) slipped into the next Quarter.

As the current marketing arrangements for coal sales are terminating, during the Quarter the Company commenced negotiations with Vale Australia (IP) Pty Ltd regarding future marketing arrangements for coal from the mine. It is expected the result of these negotiations will see the Company moving to an active role in marketing its portion of the coal from the Isaac Plains Coal Mine.

Table 2 – Isaac Plains Coal Mine Sales Results (tonnes)

| | | Calendar Quarter | | |
|--------------|--|------------------|-----------|----------------|
| Product | | September 2009 | June 2010 | September 2010 |
| Coking coal | | 235,508 | 122,353 | 74,053 |
| PCI | | 64,558 | 179,480 | 217,574 |
| Thermal coal | | 422,101 | 232,380 | 200,334 |
| Total | | 722,167 | 534,213 | 491,961 |

COAL

EAGLE DOWNS HARD COKING COAL PROJECT

(Aquila Resources Limited 50%)

Eagle Downs Hard Coking Coal Project is a proposed underground longwall coal mine which will produce initially up to 4.6Mtpa, and then up to 8Mtpa of hard coking coal when the second longwall is installed. It is located to the south of Moranbah in the Bowen Basin and immediately adjacent to and down dip of BHPB Mitsubishi Alliance's Peak Downs Mine.

Subject to completion of studies, all necessary approvals and securing necessary rail and port logistics, the current Project schedule contemplates commencing construction in 2011 and commencing longwall production in 2014, initially up to 4.6Mtpa from a single longwall. Consideration will be given to the staged introduction of a second longwall to increase production to 8Mtpa.

A Definitive Feasibility Study is currently being undertaken and, subject to securing appropriate rail and port capacity for the Project, completion is due in the June Quarter 2011. The completed study will inform the development decision for the Project.

Major Project Activities During the Quarter

- There were no Lost Term Injuries (LTIs) during the Quarter with the 12 month rolling average LTI Frequency Rate for the Eagle Downs Hard Coking Coal Project being maintained at zero LTIs per million man hours worked.
- The total Resource for the Project has increased to 948Mt (relative to the previously announced 894Mt) and the JORC classification of the Resource has improved significantly.

The work involved:

- Completion of 3D seismic data interpretation;
- The drilling of 10 cored holes including four new sites, four redrills and two large diameter holes;

- 65 new raw coal quality seam analyses;
- 73 new clean coal composite seam analyses, including redrills;
- Ongoing large scale coking tests; and
- Geostatistics completed on the Q, Harrow Creek Lower (HCL) and Dysart (DY) seam studies.

This has further improved the existing robust geological model for the Project.

The outcomes of this work included:

- An increase of 54Mt in total Resource from 894Mt to 948Mt;
- A 70% increase in Measured Resource from 339Mt to 577Mt;
- A 52% increase in Measured and Indicated Resources from 518Mt to 790Mt.

Results are detailed in Table 3.

- Definitive Feasibility Study
 - Work continued on the Definitive Feasibility Study:
 - Mining Studies – The key outcome for the Quarter was the design for the underground mine layout in all three target seams;
 - Surface Infrastructure – Conceptual layout designs were completed in the Quarter with commencement of geotechnical studies and engineering design; and
 - Coal Handling and Preparation Plant – Engineering design progressed with commencement of equipment tender package preparation.

Table 3 – Summary of In situ Resources by Seam (depths from 150m to >600m)

| Seam | Measured Tonnes x 10 ⁶ | Indicated Tonnes x 10 ⁶ | Total Measured & Indicated Tonnes x 10 ⁶ | Inferred Tonnes x 10 ⁶ | Total Measured Indicated & Inferred Tonnes x 10 ⁶ |
|--------------|-----------------------------------|------------------------------------|---|-----------------------------------|--|
| Q | 73 | 20 | 93 | 14 | 107 |
| HCU | 109 | 48 | 157 | 28 | 185 |
| HCL | 251 | 100 | 351 | 55 | 406 |
| DY | 132 | 26 | 158 | 22 | 180 |
| DY – "PCI" | 12 | 19 | 31 | 39 | 70 |
| Total | 577 | 213 | 790 | 158 | 948 |

COAL

- Approvals

- Eagle Downs updated the Environmental Management Plan and re-submitted it to the Department of Environment Resource Management (DERM) (for approval, based on the assessment report and recommendations);
- A Cultural Heritage Management Plan was executed with the Barada Barna People and has now been lodged with the State; and
- Negotiations for landowner compensation agreements continued this Quarter. Valuations were conducted and commercial negotiations are well advanced.



*Eagle Downs Hard Coking Coal Project
Mine Layout*

- Logistics

- The Project remains in the queue for the next expansion of the Dalrymple Bay Coal Terminal (DBCT) for its long term logistics solution and a meeting was held with DBCT during the Quarter to discuss progress on the queue and the proposed new expansion (not expected to be available before late 2016 at the earliest);
- An expression of interest (EOI) was lodged for the Stage 2 expansion of the Wiggins Island Coal Terminal. This is presently scheduled to be available between 2015 and 2016;

- Investigations for interim capacity to bridge from the proposed mine start-up to the availability of new Port capacity continued during the Quarter; and
- The legal proceedings commenced by a subsidiary of the Company, following a subsidiary of Vale's decision not to support the Abbot Point and GAPE offers of port and rail capacity, continued to be progressed towards a 2011 trial.

WASHPOOL HARD COKING COAL PROJECT

(Aquila Resources Limited 100%)

The Washpool Hard Coking Coal Project is located north west of Blackwater in the Bowen Basin. It is a proposed open cut hard coking coal mine.

The Feasibility Study was finalised during the Quarter and was released to the ASX on 19 July 2010. The Feasibility Study contemplates production of 1.6Mtpa of saleable hard coking coal.

The Project has signed a Capacity Commitment Deed for Stage 1 of the proposed Wiggins Island Coal Terminal at Gladstone.

A contract to purchase a permanent water allocation has been entered into. This allocation will provide sufficient water volume to meet the requirements of the Washpool CHPP.

Subject to statutory approvals and completion of further technical studies, construction of the mine could commence in 2012 with first coal mined early in calendar 2013.

Major Project Activities During the Quarter

Key outputs from the Feasibility Study were as follows:

Capital Costs

The outcomes of the Feasibility Study indicate that the Project can be developed for a capital cost of \$320M, which includes provisions for EPCM and contingency costs.

| Capital Summary (Base Case) | \$m |
|---------------------------------|------------|
| Coal Handling Preparation Plant | 53 |
| Surface Infrastructure | 136 |
| Power | 23 |
| Pre-production | 15 |
| EPCM | 51 |
| Subtotal | 278 |
| Contingency | 42 |
| Total | 320 |

COAL



Washpool Hard Coking Coal Project Regional Plan



Washpool Hard Coking Coal Mine Layout

Notes:

- The surface infrastructure costs include the establishment of all coal handling, coal preparation, site rail logistics requirements and buildings and roads for the mine.
- The base case assumes that the overburden is stripped using cast, doze and excavate methodology. The option of utilising a dragline from year two will be carried into the Definitive Feasibility Study for further evaluation, and if implemented, will impact on the capital and operating costs.
- The base case also considers two options for the rail loop location, which will be carried into the Definitive Feasibility Study for further evaluation. Both options would connect directly into the Blackwater system.
- Appropriate contingency allowances have been applied for this level of study of the Project.

Operating Costs

Results of the Study confirmed that the mine can produce coal for approximately \$106 per tonne over the first ten years (FOB operating cost, excluding royalties) and the mine has a life of 25 years, although potential additional resource in the south east area of the mine, where further drilling is planned, may allow for a mine life in excess of 25 years.

| Operating Costs | Cost per product tonne |
|-----------------------------|------------------------|
| Mining and Processing Costs | 87 |
| Rail and Port Costs | 19 |
| Total | 106 |

Technical and Engineering Studies

The Feasibility Study contains both technical reports (covering the technical requirements to mine the hard coking coal from the open cut mine) and engineering studies (covering surface infrastructure, coal handling and preparation, and logistics). In addition to the Washpool Coal team, work has been undertaken by consultants and contractors experienced in Bowen Basin operations and the development of capital and operating cost estimates for these types of projects. These capital and operating cost estimates have been used to develop the project valuation.

| Area | Service Provider |
|---------------------------------|--------------------------|
| Coal Handling Preparation Plant | AusTagg |
| Surface Infrastructure | Sinclair Knight Merz |
| Power | Minecraft / Hill Michael |
| Mining Options Study | Xenith Consulting |
| Mining Reserves Statement | Xenith Consulting |
| Coal Quality | David Hornsby |
| Marketing Study | MinAxis |
| Environment | Sinclair Knight Merz |

COAL

Table 4 – Resources

| Measured Mt | Indicated Mt | Total Measured and Indicated Mt | Inferred Mt | Total Measured Indicated & Inferred Mt |
|-------------|--------------|---------------------------------|-------------|--|
| 108.8 | 23.9 | 132.7 | 52.7 | 185.5 |

Table 5 – Reserves

| Proved ROM Coal Mt | Probable ROM Coal Mt | Total ROM Coal Mt | Proved Marketable Coal Mt | Probable Marketable Coal Mt | Total Marketable Coal Mt |
|--------------------|----------------------|-------------------|---------------------------|-----------------------------|--------------------------|
| 94.7 | 13.5 | 108.3 | 34.1 | 5.0 | 39.1 |

Updated Resource and Reserves Statement

Work completed by the Company during the Feasibility Study phase, which was released in May 2010, resulted in the total Resource identified increasing to 185.5Mt, shown in Table 4.

The initial Reserves Statement compiled by Xenith Consulting Pty Ltd, which was released at the same time, shows Proved and Probable Reserves as set out in Table 5, giving an overall mine life of up to 25years.

Exploration potential still exists in the balance of the Washpool and Mt Crocker exploration leases surrounding the Project area.

Coal Quality

The Washpool product will be a hard coking coal with very strong coking properties and a higher than usual specification ash. Whilst the market acceptability of higher ash coking coal is growing, the marketing strategy for the Project will be to target end users with a view to developing blends with low ash coking coals with weaker coking properties.

| Parameter | Unit | Typical |
|------------------------------------|--------|---------|
| Total Moisture (ar) | % | 12 |
| Ash | % | 15 |
| Volatile Matter | % | 20.5 |
| Total Sulphur | % | 0.56 |
| Phosphorus | % | 0.036 |
| CSN | | >9 |
| Max. Fluidity (average) | dd/min | 1000 |
| Coke Strength After Reaction (CSR) | | 63 |
| Coke Reactivity Index (CRI) | | 26 |
| Gray King Coke Type | | G9 |
| R _o max | % | 1.35 |
| Total Vitrinite | % | 84 |

Project Logistics

A wholly owned subsidiary of the Company is a foundation shareholder of WICET Holdings Pty Ltd, which has the exclusive mandate from the Queensland Government to develop the Wiggins Island Coal Terminal in Gladstone. The Washpool Hard Coking Coal Project has qualified for the Stage 1 development of the terminal and the Company intends to continue its support for the WICET feasibility study through to the terminal achieving financial close.

During the Quarter, WICET announced that eight companies have been selected in Stage 1 for a total capacity of 27Mtpa for the proposed port. The Company was successful in gaining selection as one of these companies for Washpool's 1.6Mtpa of product coal.

In addition, the Company is negotiating for capacity for both above and below rail services.

Feasibility Study Outcomes

The Feasibility Study confirmed the status of the Washpool Hard Coking Coal Project area as a significant coking coal Resource and provided confirmation that this Resource is economically recoverable with open cut mining methods. A Definitive Feasibility Study is now underway.

Approvals

The Mineral Development License (MDL403) was granted during the Quarter. An application has been made for a Mining Lease (MLa80164) over the Project area, and an EIS is being prepared.

COAL

The approval process has progressed as follows:

- Baseline studies and technical impact modelling has now been completed for the potential environmental risks of the Project, in line with the EIS Terms of Reference.
- The Social Impact Assessment process for the Project commenced this Quarter, with a round of consultation with key Project stakeholders such as landholders, Government departments and community agencies. As a result, a draft Social Impact Management Plan (SIMP) has been developed and the second round of consultation planned for next Quarter will include a stakeholder review of the draft SIMP.
- A Coordination Arrangement and a Co-development Agreement over the Project area were developed and executed with the overlapping petroleum tenure holder, BNG (Surat) Pty Ltd, in September. These agreements are a requirement of the Mining Lease process.
- The Cultural Heritage Investigation Management Agreement with the endorsed Indigenous Party, the Kangoulu People, has been lodged and registered with the Cultural Heritage Coordination Unit of DERM.

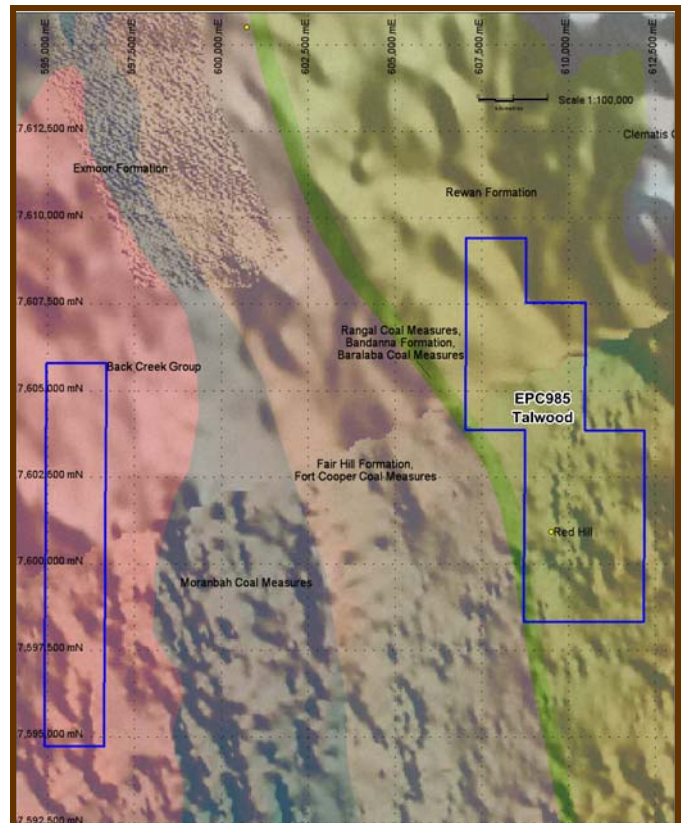
TALWOOD COKING COAL PROJECT

(Previously Red Hill Project)
(Aquila Resources Limited 100%)

The Talwood Coking Coal Project is a potential underground coking coal mine, which would target the Leichhardt and Vermont seams in the Rangal coal measures. The Project area is located north-west of Moranbah in the Bowen Basin and is located immediately adjacent to BHPB Mitsubishi Alliance's Goonyella Riverside Hard Coking Coal Mine.



Coring Rig in the North of Talwood Coking Coal Project



Talwood Coking Coal Project Geological Map

Project Activities During the Quarter

Field work involved the continuation of a drilling program to further define the coal resource in the Project area. The program included:

- The drilling program targeted both shallow and deeper seams across the tenement. In total, 60 holes were completed and these have assisted in defining likely longwall environments;
- Coal Quality analysis has identified coking coal products and associated thermal by-product to improve overall yield;
- Gas analysis has progressed with 31 samples recovered from 15 individual holes. Gas in Place reports have been completed for preparation of the Mining Lease application; and
- Development of the geological model in preparation for defining the Resource. The revised JORC resource statement is scheduled to be released in the December 2010 Quarter.

Work commenced on the Project Concept study report which is scheduled to be completed in the June Quarter 2011.

Initial Development Plan and Gas in Place Reports were drafted this Quarter, in preparation for the submission of a Mining Lease application over the tenement during the next Quarter.

Iron Ore

WEST PILBARA IRON ORE PROJECT

(Aquila Resources Limited 50%)

The West Pilbara Iron Ore Project is a proposed "direct-ship" iron ore operation the first stage of which is expected to export 30Mtpa from a new multi-user port at Anketell Point.

DEVELOPMENT

Approvals

The Public Environmental Review (PER) for the Mine and Rail has completed its public review period and responses are being prepared for the comments received during that process. Government approvals remain on schedule to be forthcoming in the September Quarter 2011.

Following receipt of investigation licenses and native vegetation clearing approvals, geotechnical and water drilling has commenced along the rail corridor. The second phase of offshore geotechnical drilling near Anketell Point is being planned, in order to facilitate detailed design and the preparation of a dredging contract.

The revised PER document for the proposed Port has been accepted by the Environmental Protection Authority as suitable for public release. Subject to approval from the federal Department of Sustainability, Environment, Water, Population and Communities, this PER will be released for public comment during the December 2010 Quarter.

The Project's consultation program continued, with meetings held with the relevant government and community stakeholders.

Mining and Processing

A new mining schedule will be developed from an updated Resource Statement for the Project.

A maiden Reserves Statement for the Stage 1 development mining areas, based on the new mining schedule, will be issued during the December Quarter 2010.

Product Development

Two new Memoranda of Understanding (MoU) have been signed with steel mills, taking the total to 34 MoU with Asian steel mills.

The ongoing sinter test-work program is continuing to deliver positive outcomes, with results being provided to the relevant steel mills in accordance with the MoU process.

RESOURCE EXPLORATION

Exploration activity during the September Quarter focused on the following areas (Figure 1):

- Continued preparation of an updated Resource Statement for the Stage 1 West Pilbara Iron Ore Project deposits;
- Commencement of an RC drilling program in a new area to the east of the Stage 1 development area named the Weckl prospect; and
- Commencement of an infill RC drilling program at the Hardey deposit.

Golder Associates Pty Ltd is revising the Resource models for all of the Stage 1 development deposits, including Kens Bore East. An updated Resource Statement will be issued during the December Quarter 2010.

Kens Bore Deposit

All results have been received from the RC drilling program completed last Quarter at the Kens Bore Deposit. Better results received include:

- 30m @ 56.35% Fe from 6m in KBRC661;
- 22m @ 56.90% Fe from 20m in KBRC663;
- 30m @ 56.07% Fe from surface in KBRC664;
- 32m @ 56.42% Fe from 4m in KBRC670.
All intercepts were calculated for greater than 54% Fe cut.

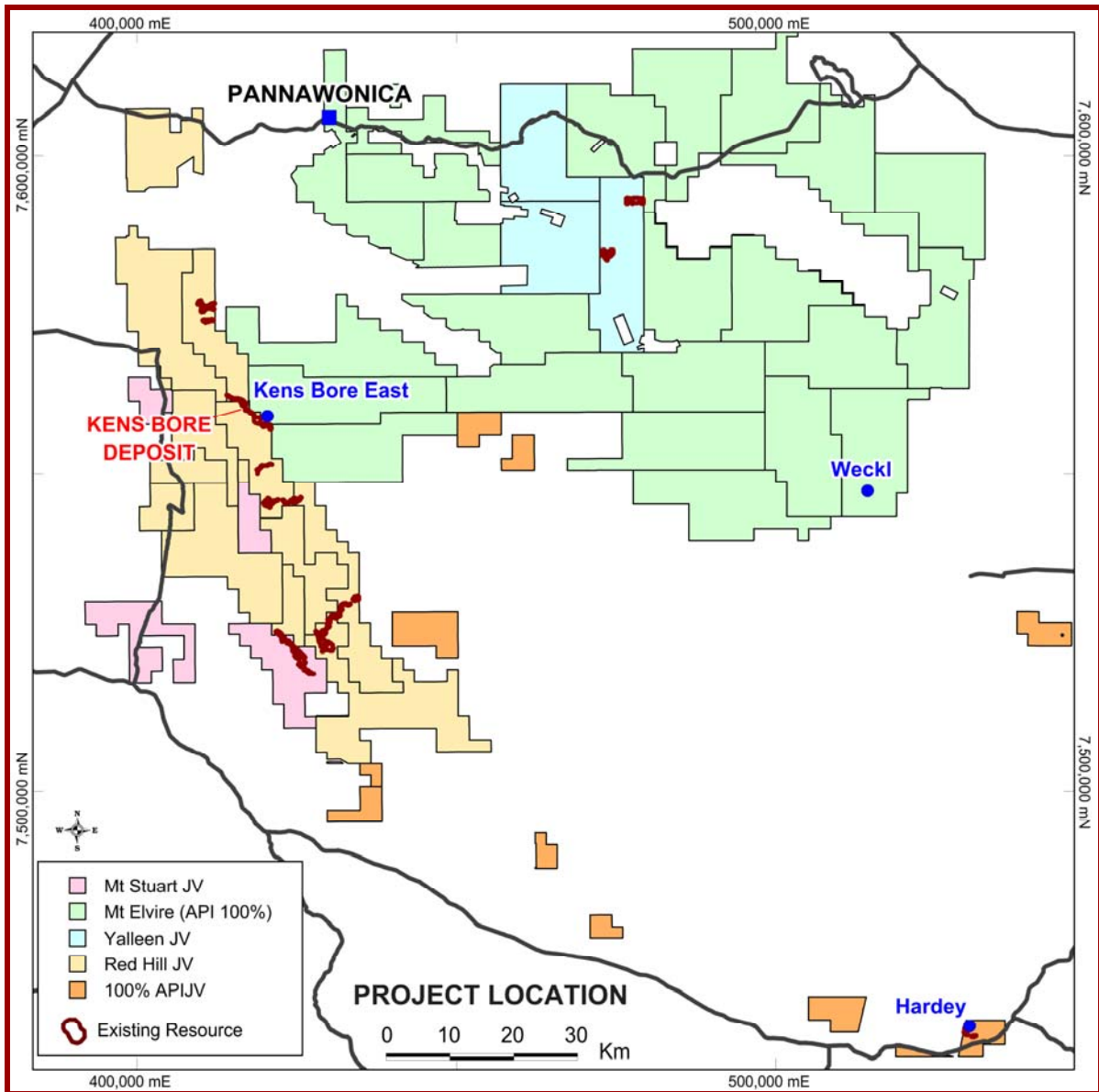
A full set of intercepts (>10m) is reported in Table 6. Figure 2 shows the location of the drill holes reported in Table 6.

Assays results continue to confirm thicknesses of up to 40m of high grade channel iron (CID). Geology encountered during the drilling program indicates a CID profile that is composed of an upper goethitic hardcap layer that varies in thickness from 4 to 14m. Underlying the hardcap zone is a mixed clay/mineralised zone that is approximately 20-35m thick.

The mixed zone has a clayey upper zone that grades into a rich red/purple friable hematite lower zone. Re-modelling of the Kens Bore Deposit area has been completed and a revised Resource estimate is being finalised by Golder Associates Pty Ltd. The revised Resource estimate will be released during the December Quarter 2010.

Iron Ore

Figure 1 – Location Plan



Kens Bore East Prospect

All assays have been received from the RC drilling program completed last Quarter at the Kens Bore East Prospect. Better results received include:

- 36m @ 57.81% Fe from 6m in KBRC665;
- 36m @ 57.83% Fe from 8m in KBRC672;
- 30m @ 58.25% Fe from 12m in KBRC673;
- 40m @ 58.90% Fe from surface in KBRC677.

All intercepts were calculated for greater than 54% Fe cut.

A full set of intercepts (>10m) are reported in Table 7 and Figure 2 shows the location of these drill holes. Drilling on the alluvial flats marginal to the Kens Bore East mesa has continued to confirm that better quality CID material displays thicknesses of up to 30m.

On the mesa itself, laterally extensive areas of high grade mineralisation continue to be intercepted and identified in the majority of holes.

A consistent CID profile has been encountered that includes a 10m hardcap zone, a narrow mixed zone with variable clay content, and a high grade zone that is up to 40m thick. Sharp contacts exist between the mixed zone, high grade zone and basement. Basal clays are generally absent in the profile.

Geological modelling and resource estimation has progressed and a revised Resource estimate will be expected to be completed in the December Quarter 2010.

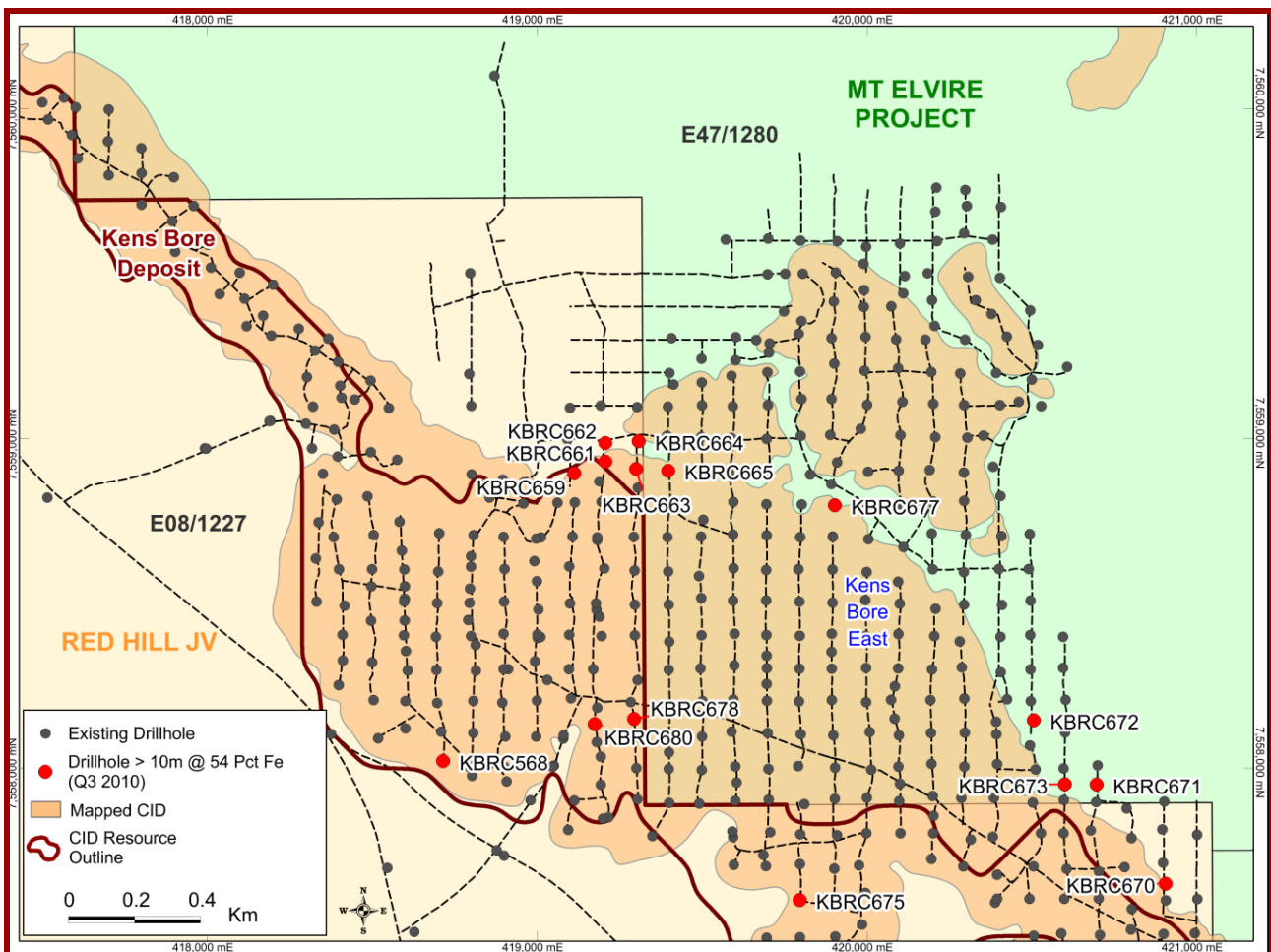
Iron Ore

Table 6 – Kens Bore Deposit Drill Intercepts

| Prospect | Hole ID | Easting | Northing | From | Intercept | Al ₂ O ₃ % | SiO ₂ % | P % | S % | LOI % |
|-----------|---------|---------|----------|------|----------------------|----------------------------------|--------------------|-------|-------|-------|
| Kens Bore | KBRC568 | 418714 | 7558021 | 30 | 10.00 m @ 54.84 % Fe | 4.47 | 7.47 | 0.091 | 0.009 | 8.93 |
| Kens Bore | KBRC659 | 419112 | 7558895 | 16 | 10.00 m @ 55.26 % Fe | 4.50 | 7.71 | 0.082 | 0.012 | 7.87 |
| Kens Bore | KBRC661 | 419207 | 7558930 | 6 | 30.00 m @ 56.35 % Fe | 4.32 | 6.25 | 0.075 | 0.016 | 8.16 |
| Kens Bore | KBRC662 | 419206 | 7558987 | 0 | 10.00 m @ 56.18 % Fe | 5.02 | 5.97 | 0.055 | 0.026 | 8.04 |
| Kens Bore | KBRC663 | 419300 | 7558908 | 20 | 22.00 m @ 56.90 % Fe | 3.90 | 5.21 | 0.082 | 0.012 | 9.04 |
| Kens Bore | KBRC664 | 419308 | 7558992 | 0 | 30.00 m @ 56.07 % Fe | 4.41 | 6.76 | 0.057 | 0.016 | 8.12 |
| Kens Bore | KBRC670 | 420906 | 7557650 | 4 | 32.00 m @ 56.42 % Fe | 4.07 | 7.29 | 0.075 | 0.012 | 7.46 |
| Kens Bore | KBRC675 | 419796 | 7557601 | 18 | 10.00 m @ 56.80 % Fe | 3.86 | 5.08 | 0.083 | 0.017 | 9.00 |
| Kens Bore | KBRC678 | 419294 | 7558149 | 22 | 10.00 m @ 58.62 % Fe | 3.58 | 4.82 | 0.109 | 0.010 | 6.99 |
| Kens Bore | KBRC680 | 419174 | 7558133 | 38 | 10.00 m @ 57.64 % Fe | 3.95 | 6.26 | 0.095 | 0.010 | 6.65 |

Intercepts shown for Kens Bore are for intercepts >54% Fe and >10m thick

Figure 2 – Drill Locations for Kens Bore Deposit and Kens Bore East Prospect



Iron Ore

Table 7 – Kens Bore East and Weckl Prospect Drill Intercepts

| Prospect | Hole ID | Easting | Northing | From | Intercept | Al ₂ O ₃ % | SiO ₂ % | P % | S % | LOI % | Fe Cut % |
|----------------|---------|---------|----------|------|----------------------|----------------------------------|--------------------|-------|-------|-------|----------|
| Kens Bore East | KBRC665 | 419397 | 7558903 | 6 | 36.00 m @ 57.81 % Fe | 3.42 | 4.91 | 0.069 | 0.015 | 8.37 | 54.00 |
| Kens Bore East | KBRC671 | 420697 | 7557950 | 4 | 12.00 m @ 58.32 % Fe | 3.42 | 4.84 | 0.059 | 0.018 | 7.96 | 54.00 |
| Kens Bore East | KBRC672 | 420506 | 7558145 | 8 | 36.00 m @ 57.83 % Fe | 3.22 | 4.74 | 0.073 | 0.014 | 8.82 | 54.00 |
| Kens Bore East | KBRC673 | 420600 | 7557951 | 12 | 30.00 m @ 58.25 % Fe | 3.21 | 4.65 | 0.088 | 0.010 | 8.27 | 54.00 |
| Kens Bore East | KBRC677 | 419903 | 7558795 | 0 | 40.00 m @ 58.90 % Fe | 3.09 | 4.38 | 0.059 | 0.014 | 7.84 | 54.00 |
| Weckl | WKRC025 | 510598 | 7545971 | 18 | 22.00 m @ 56.94 % Fe | 1.50 | 8.62 | 0.140 | 0.040 | 8.01 | 52.00 |
| Weckl | WKRC026 | 510800 | 7545990 | 16 | 18.00 m @ 58.63 % Fe | 1.45 | 8.26 | 0.120 | 0.010 | 5.93 | 52.00 |
| Weckl | WKRC027 | 511003 | 7545987 | 8 | 8.00 m @ 59.07 % Fe | 2.88 | 9.21 | 0.060 | 0.010 | 2.23 | 52.00 |
| Weckl | WKRC031 | 510602 | 7546792 | 24 | 14.00 m @ 57.47 % Fe | 3.00 | 7.00 | 0.100 | 0.020 | 7.17 | 52.00 |
| Weckl | WKRC053 | 512813 | 7543998 | 12 | 18.00 m @ 53.97 % Fe | 3.32 | 7.04 | 0.110 | 0.030 | 11.66 | 52.00 |
| Weckl | WKRC059 | 512806 | 7544799 | 10 | 24.00 m @ 56.64 % Fe | 5.06 | 8.33 | 0.060 | 0.020 | 4.33 | 52.00 |
| Weckl | WKRC060 | 512809 | 7545223 | 20 | 10.00 m @ 54.50 % Fe | 3.87 | 13.82 | 0.050 | 0.010 | 3.30 | 52.00 |
| Weckl | WKRC062 | 512803 | 7545589 | 20 | 6.00 m @ 56.50 % Fe | 4.08 | 11.88 | 0.050 | 0.010 | 2.42 | 52.00 |
| Weckl | WKRC063 | 513004 | 7545599 | 28 | 6.00 m @ 57.03 % Fe | 2.98 | 11.73 | 0.090 | 0.000 | 2.81 | 52.00 |
| Weckl | WKRC068 | 517090 | 7543539 | 0 | 24.00 m @ 61.68 % Fe | 1.35 | 4.19 | 0.090 | 0.010 | 5.52 | 52.00 |
| Weckl | WKRC069 | 516911 | 7543578 | 8 | 22.00 m @ 56.58 % Fe | 2.76 | 9.28 | 0.100 | 0.010 | 6.23 | 52.00 |
| Weckl | WKRC070 | 516704 | 7543589 | 10 | 20.00 m @ 58.92 % Fe | 1.89 | 6.89 | 0.120 | 0.010 | 5.96 | 52.00 |
| Weckl | WKRC073 | 515700 | 7543996 | 16 | 10.00 m @ 55.86 % Fe | 1.62 | 5.70 | 0.070 | 0.030 | 12.32 | 52.00 |
| Weckl | WKRC075 | 516084 | 7543988 | 14 | 20.00 m @ 55.86 % Fe | 3.37 | 12.36 | 0.050 | 0.020 | 3.49 | 52.00 |
| Weckl | WKRC076 | 516088 | 7544002 | 14 | 30.00 m @ 56.73 % Fe | 3.10 | 9.73 | 0.060 | 0.020 | 5.21 | 52.00 |
| Weckl | WKRC077 | 516301 | 7544001 | 12 | 8.00 m @ 54.93 % Fe | 5.38 | 11.93 | 0.030 | 0.020 | 3.13 | 52.00 |
| Weckl | WKRC092 | 516205 | 7545604 | 16 | 16.00 m @ 57.79 % Fe | 1.91 | 8.57 | 0.120 | 0.010 | 6.00 | 52.00 |
| Weckl | WKRC103 | 515601 | 7546000 | 22 | 10.00 m @ 55.26 % Fe | 1.45 | 14.07 | 0.090 | 0.010 | 4.86 | 52.00 |

Intercepts shown for Kens Bore East are for intercepts >10m thick and for Weckl >5m thick

Weckl

A new prospect for detrital and channel iron mineralisation has been identified to the east of the Stage 1 development area. Following promising results from mapping and surface sampling at the Weckl Prospect, a drilling program has been initiated.

The RC drilling program commenced with 232 holes completed for 8,596m drilled. Better results (intercepts >20m) received during the Quarter from the RC drilling program included:

- 22m @ 56.94% Fe from 18m in WKRC025;
- 24m @ 56.64% Fe from 10m in WKRC059;
- 24m @ 61.68% Fe from surface in WKRC068;
- 22m @ 56.58% Fe from 8m in WKRC069;
- 20m @ 58.92% Fe from 10m in WKRC070;
- 20m @ 55.86% Fe from 14m in WKRC075;
- 30m @ 56.73% Fe from 14m in WKRC076.

All intercepts were calculated for greater than 52% Fe cut.

A full set of intercepts (>5m) are reported in Table 7 and Figure 3 shows the location of these drill holes. Initial drilling was designed to test for detrital material and CID within major drainages. Drilling was conducted at 400m spacing and intersected a broad section of the valley.

On average, 30m of detrital material was intersected through the centre of the valley, reducing to 10m along the edges.

The mineralisation encountered to date is an immature detrital varying in iron grade from <50 to 60% Fe, with relatively high silica and low to moderate alumina. Better quality mineralisation is located in the upper drainages. Drilling will continue at the Weckl Prospect next Quarter.

Hardey Project

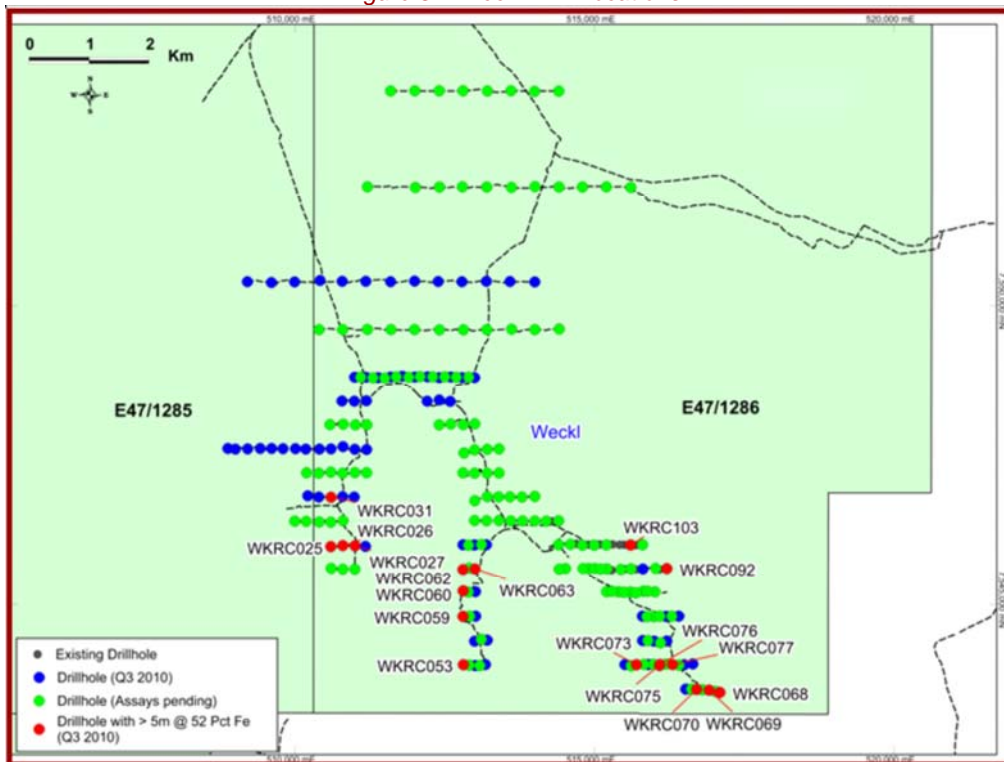
The Pre-Feasibility Study for the 10-15Mtpa Hardey Project, as the next potential project scheduled to follow the proposed Stage 1 development of the West Pilbara Iron Ore Project, was 95% complete by the end of the Quarter, and is expected to be completed during the December Quarter 2010.

The ongoing exploration effort has focussed on infill drilling, to increase the understanding of the bedded iron mineralisation at the Hardey Deposit. A total of 43 RC drill holes for 5,210m were drilled in the Quarter.

The infill drilling program has been planned to refine the ore envelope and improve geological understanding. Drilling to date has been concentrated in the northern Dales Gorge area, with mineralisation visually comparable with previous results. Assay results are pending and results will be published next Quarter.

IRON ORE

Figure 3 – Weckl Drill Locations



SOUTH AFRICA

THABAZIMBI IRON ORE PROJECT

(Aquila Resources Limited 74%)

The Thabazimbi Iron Ore Project is a potential “direct-ship” iron ore project located immediately adjacent to Kumba Iron Ore’s existing Thabazimbi Iron Ore mine.

During the Quarter, 13 RC and percussion drill holes were completed for 2,920m. The majority of the drilling was completed at the Meletse Iron Ore Deposit, where 8 RC holes were completed for 2,323m. The significant intercepts are reported in Table 8. A notable feature of this recent drilling, and the previous Quarter’s drilling results, is the broader intercepts and higher grades than previously indicated in the current Resource. The Meletse Iron Ore Deposit Resource is 21.9mt at 63% Fe.

An updated Resource Statement for the Meletse Iron Ore Deposit is expected in the December Quarter 2010.

Figure 4 shows the location of the drill holes completed during the Quarter and the geology of the Meletse Iron Ore Deposit area. The ongoing drilling continues to test the extent of the iron ore lenses within the Deposit, both down dip and along strike.

New tracks have been constructed down dip and to the north of the Deposit, where greater thicknesses of iron ore and higher grades have been intercepted in the latest drilling.

Of the six lodes identified, the A and B lodes extend down dip to the west and along strike to the north. These lodes flatten to a shallow westerly dip ($<5^{\circ}$) in this area, and often coalesce into a single, broad iron ore lens. The C and F lodes principally occur in the central east of the deposit, and are considered to be faulted repetitions and bifurcated sections of the B lode. The D and G lodes are close to the basement granite contact and are truncated by the granite at depths between 100-200m in the central area of the Deposit. The G and B/F lodes are open to the north and appear to improve in both thickness and grade.

During the next Quarter, drilling will continue with one RC drill rig, to further test the extent of the Deposit. The drilling program is designed to increase the size and upgrade the categories of the Resource to support a decision to proceed to a Feasibility Study early in 2011.

Figure 5 shows other iron ore targets in the vicinity of the Meletse Deposit. Geological mapping has been completed at Prospect C, where three outcrops of iron ore have been mapped within a 700m long zone of detrital rubble at the contact between the Penge Banded Iron Formation and the underlying Malmani Subgroup dolomite.

IRON ORE

Rock chip assays from zones 2 and 3 at Prospect C indicate high Fe grades with low contaminants (see Table 9). This prospect will be drill tested in 2011 and is favourably located on the down slope of the Meletse Deposit, adjacent to a proposed infrastructure corridor. Geological mapping is ongoing at Prospects A and B (see Figure 5).

Development

Mr Karel Meintjies has been appointed as Project Manager for the Meletse Project. Karel will commence in October and will prepare a Scoping Study for the potential development of this ore body.

Table 8 – Meletse Iron Ore Deposit Intercepts (>3m)
Projection GCS Hartbeesheek 94 (Lo27), Declination -90°, Reverse Circulation Drill Holes Below detection limit.

| Hole ID | Easting | Northing | From | To | Intercept | Al ₂ O ₃ | SiO ₂ | P | K ₂ O | LOI |
|---------|-----------|------------|------|------|-----------------|--------------------------------|------------------|------|------------------|------|
| | | | | | | % | % | % | % | % |
| DT42 | -66605.12 | 2719377.79 | 171m | 176m | 5m @ 60.55% Fe | 1.20 | 5.00 | 0.14 | <0.1 | 2.71 |
| DT42 | -66605.12 | 2719377.79 | 204m | 242m | 38m @ 67.68% Fe | 0.26 | 1.32 | 0.01 | 0.10 | 0.47 |
| DT42 | -66605.12 | 2719377.79 | 256m | 261m | 5m @ 62.27% Fe | 0.99 | 5.60 | 0.03 | 0.13 | 1.38 |
| DT43 | -66715.00 | 2719646.96 | 237m | 250m | 13m @ 63.11% Fe | 0.70 | 8.70 | 0.04 | 0.01 | 0.23 |
| DT45 | -66665.62 | 2719534.26 | 221m | 244m | 23m @ 67.17% Fe | 0.69 | 2.74 | 0.05 | <0.1 | 0.45 |
| DT49 | -66688.74 | 2719437.34 | 191m | 194m | 3m @ 61.44% Fe | 1.43 | 10.25 | 0.02 | 0.37 | 0.80 |
| DT49 | -66688.74 | 2719437.34 | 202m | 234m | 32m @ 67.29% Fe | 0.68 | 1.89 | 0.02 | 0.30 | 0.59 |
| DT51 | -66691.58 | 2719365.62 | 188m | 220m | 32m @ 66.34% Fe | 0.39 | 4.32 | 0.01 | 0.09 | 0.41 |
| DT52 | -66777.98 | 2719620.18 | 221m | 236m | 15m @ 67.30% Fe | 0.58 | 1.76 | 0.02 | 0.03 | 0.88 |
| DT52 | -66777.98 | 2719620.18 | 244m | 247m | 3m @ 60.86% Fe | 0.25 | 8.05 | 0.02 | 0.06 | 1.78 |
| DT 54 | -66508.20 | 2719371.27 | 222m | 262m | 40m @ 63.04% Fe | 0.44 | 6.94 | 0.05 | 0.11 | 0.99 |

Table 9 – Geochemical Rock Chip Sample Results of Randstephne – Prospect C

| Sample ID | % | % | % | % | % | % | % | % | % | % | % | % | % |
|---------------|------------------|--------------------------------|-------|--------------------------------|------------------|------|-------|------------------|------|------|------|------|---------------|
| | SiO ₂ | Al ₂ O ₃ | Fe | Fe ₂ O ₃ | TiO ₂ | CaO | MgO | K ₂ O | MnO | P | S | LOI | *Total Oxides |
| Zone 2 | | | | | | | | | | | | | |
| REW12 | 12.54 | 2.12 | 59.59 | 85.19 | 0.08 | 0.06 | 0.02 | <0.1 | 0.05 | 0.04 | <0.1 | 0.87 | 100.96 |
| REW13 | 8.71 | 0.69 | 62.40 | 89.22 | 0.07 | 0.04 | 0.11 | 0.13 | 0.06 | 0.03 | <0.1 | 0.66 | 99.71 |
| REW18 | 15.59 | 1.39 | 57.47 | 82.16 | 0.04 | 0.06 | <0.01 | <0.1 | 0.20 | 0.04 | <0.1 | 1.09 | 100.56 |
| REW19 | 1.09 | 0.45 | 64.12 | 91.67 | 0.02 | 0.06 | <0.01 | <0.1 | 1.36 | 0.10 | <0.1 | 4.07 | 98.82 |
| REW20 | 1.01 | 0.80 | 64.50 | 92.22 | 0.11 | 0.09 | <0.01 | 1.44 | 0.08 | 0.22 | 0.55 | 2.26 | 98.79 |
| REW22 | 8.69 | 0.94 | 63.00 | 90.07 | 0.06 | 0.06 | <0.01 | <0.1 | 0.01 | 0.39 | <0.1 | 0.16 | 100.38 |
| REW29 | 5.85 | 0.37 | 64.72 | 92.53 | 0.02 | 0.10 | <0.01 | <0.1 | 0.04 | 0.01 | <0.1 | 0.35 | 99.26 |
| Zone 3 | | | | | | | | | | | | | |
| REW47 | 9.07 | 2.77 | 60.16 | 86.01 | 0.03 | 0.03 | <0.01 | 0.18 | 0.07 | 0.19 | <0.1 | 2.28 | 100.63 |
| REW48 | 13.64 | 0.25 | 60.35 | 86.28 | 0.02 | 0.03 | 0.02 | <0.1 | 0.03 | 0.05 | 0.12 | 0.54 | 100.98 |
| REW49 | 5.56 | 0.30 | 65.27 | 93.32 | 0.02 | 0.03 | 0.11 | <0.1 | 0.15 | 0.13 | 0.29 | 0.92 | 100.82 |
| REW50 | 4.64 | 0.41 | 65.54 | 93.70 | 0.07 | 0.02 | <0.01 | <0.1 | 0.09 | 0.18 | 0.25 | 0.64 | 100.00 |
| REW51 | 9.79 | 0.99 | 61.67 | 88.17 | 0.03 | 0.03 | <0.01 | <0.1 | 0.12 | 0.12 | 0.23 | 0.90 | 100.36 |
| REW58 | 7.90 | 0.65 | 61.21 | 87.52 | 0.05 | 0.78 | 0.02 | <0.1 | 1.39 | 0.02 | <0.1 | 1.48 | 99.80 |

IRON ORE

Figure 4 – Meletse Iron Ore Deposit Geology and Location of Drill Holes

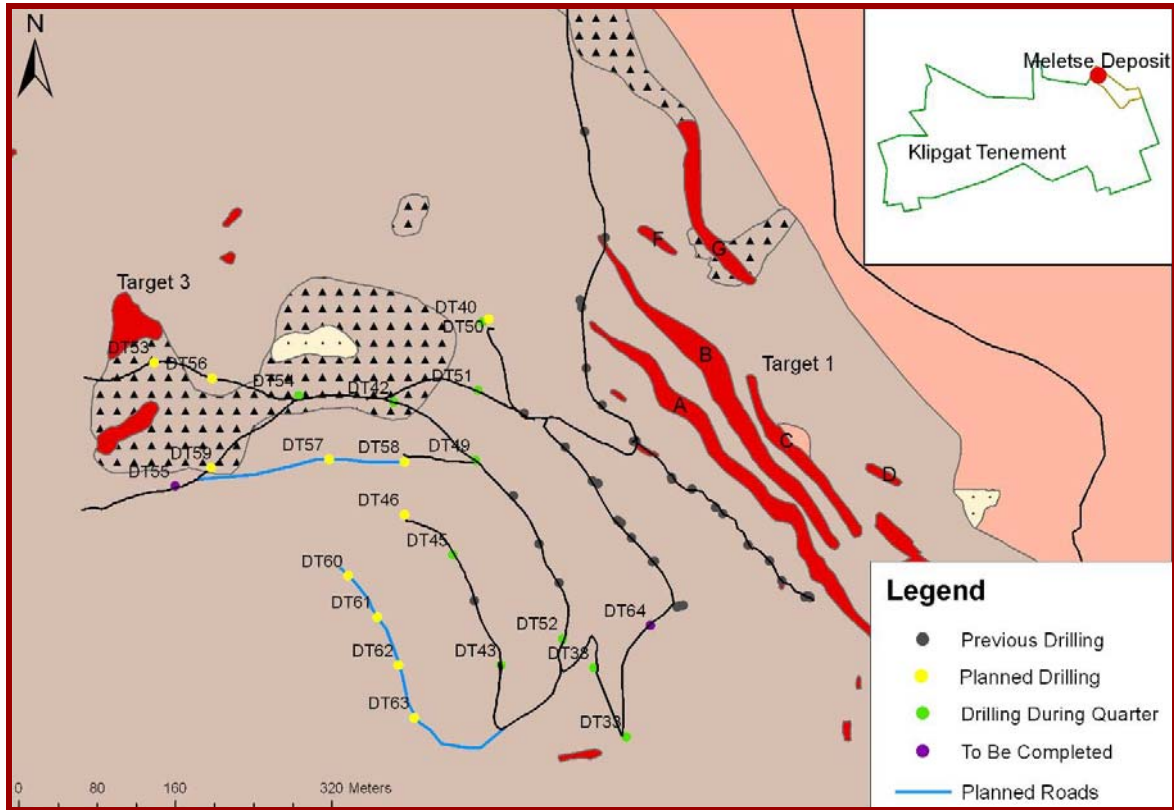
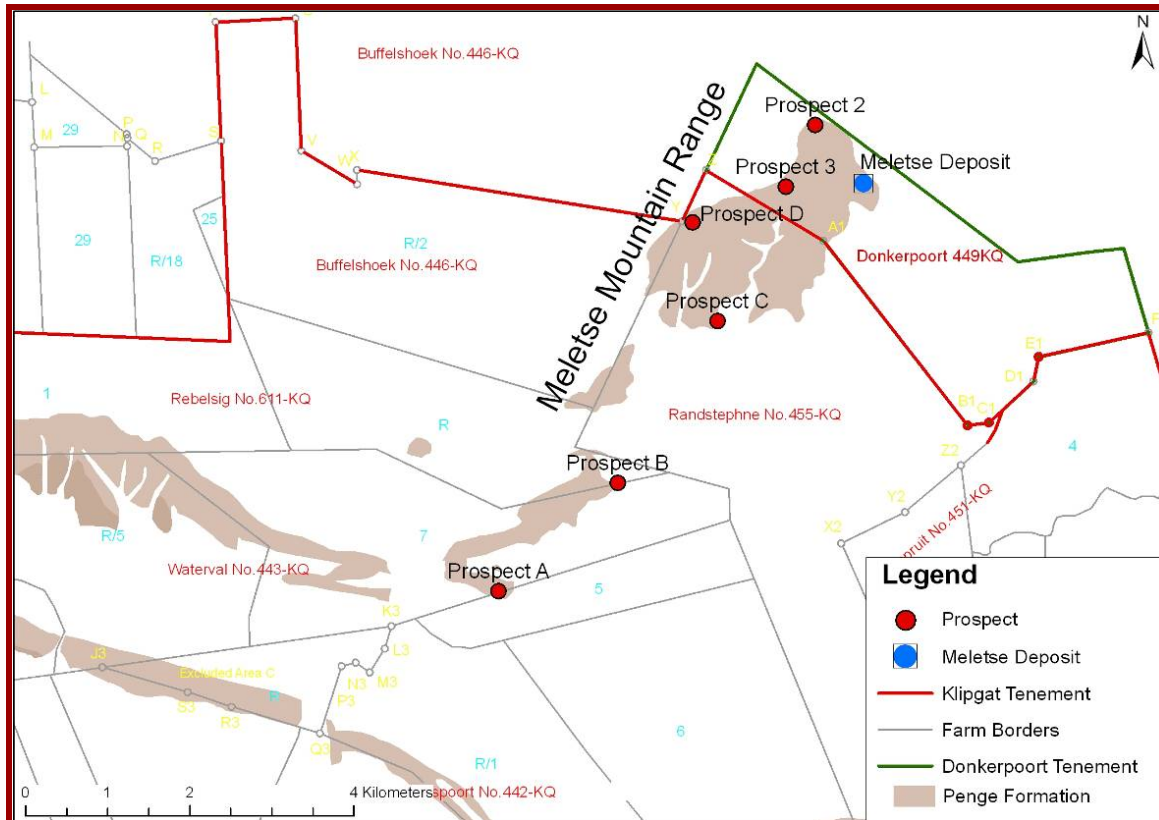


Figure 5 – Exploration Targets in the Meletse Iron Ore Deposit Area



MANGANESE

SOUTH AFRICA

AVONTUUR MANGANESE PROJECT

(Aquila Resources Limited 74%)

The Avontuur Manganese Project is a potential manganese mine located in the Northern Cape region of South Africa approximately 30km north of the Kalahari Manganese Field, South Africa's premier manganese producing area.

Resource Development

The Gravenhage Manganese Deposit is situated at the northern end of the Company's Avontuur tenement.

An updated high-grade manganese Resource Statement was announced during the June Quarter 2010. The Measured, Indicated and Inferred Resource for the Gravenhage Manganese Deposit is 64.9Mt at 39.3% Mn with a 35% Mn cut-off. Approximately 26% of the Resource is in the Measured and Indicated Categories.

| Measured Mt | Indicated Mt | Inferred Mt | Total Mt |
|-------------|--------------|-------------|----------|
| 3.3 | 14.0 | 47.6 | 64.9 |

Drilling continued at the Gravenhage Deposit with 53 drill holes completed or in progress at Quarter's end for 6,217m (diamond, RC and percussion pre-collar). Significant assay results are reported in Table 10.

Figure 6 shows the location of the drill holes completed during the Quarter and the drill holes for which assays have been received. A large number of drill holes have been completed with assays outstanding at the end of the Quarter.

A program of geotechnical diamond core drilling (GHOP) and large diameter (LD) metallurgical diamond core drilling commenced during the Quarter (see Figure 7). High grade assays were received from the geotechnical core drilling in the shallow area of the resource, with grades ranging from 42.3% Mn to 53.5% Mn, within intervals ranging from 1.5m to 4.1m. The results of this drilling have confirmed and enhanced the Resource model and support the mining of high grade manganese in an initial open pit development.

Exploration drilling is continuing on an approximately 400m by 400m drill spacing beyond the extent of the current Resource in the south, and includes re-drilling percussion drill holes with RC drilling to upgrade the categories of the Inferred component of the Resource in the eastern areas.

An upgraded Resource Statement for the Gravenhage Manganese Deposit is expected in the December Quarter 2010.

Table 10 – Gravenhage Manganese Deposit Intercepts

| Hole Number | Easting | Northing | Depth From (m) | Interval (m) | Wt % Mn | Wt % Fe | Wt % SiO ₂ | Wt % Al ₂ O ₃ | Wt % CaO | Wt % P ₂ O ₅ | Wt % LOI |
|-------------|------------|-------------|----------------|--------------|---------|---------|-----------------------|-------------------------------------|----------|------------------------------------|----------|
| GHEX140 | 678596.584 | 7034249.175 | 338.2 | 1.83 | 42.02 | 8.9 | 10.0 | 0.3 | 0.2 | 0.06 | 10.4 |
| GHEX144 | 678204.487 | 7034054.317 | 319.7 | 2.50 | 45.82 | 14.9 | 2.8 | 0.4 | 5.1 | 0.10 | 4.5 |
| GHEX144 | 678204.487 | 7034054.317 | 330.0 | 4.00 | 38.54 | 12.11 | 11.4 | 0.4 | 7.8 | 0.07 | 4.5 |
| GHEX173 | 680184.564 | 7033841.499 | 239.5 | 2.00 | 35.05 | 12.4 | 19.0 | 0.2 | 5.3 | 0.06 | 6.5 |
| GHEX194 | 680472.997 | 7033564.328 | 146.9 | 1.50 | 34.47 | 20.4 | 4.3 | 0.4 | 7.5 | 0.09 | 6.9 |
| GHOP001* | 679798.670 | 7035038.120 | 107.8 | 2.00 | 44.33 | 6.0 | 1.1 | 0.1 | 1.3 | 0.38 | 6.1 |
| GHOP001* | 679798.670 | 7035038.120 | 126.3 | 3.71 | 47.72 | 9.0 | 6.8 | 0.5 | 1.0 | 0.08 | 8.4 |
| GHOP002* | 679998.740 | 7035039.080 | 99.8 | 4.00 | 42.78 | 13.9 | 2.5 | 0.3 | 2.4 | 0.11 | 12.3 |
| GHOP002* | 679998.740 | 7035039.080 | 108.1 | 3.00 | 42.33 | 11.5 | 8.6 | 0.4 | 5.8 | 0.08 | 7.6 |
| GHOP003* | 680199.770 | 7035038.120 | 93.1 | 1.50 | 52.53 | 39.1 | 3.3 | 0.2 | 0.3 | 0.07 | 0.8 |
| GHOP003* | 680199.770 | 7035038.120 | 105.9 | 1.50 | 52.33 | 37.9 | 6.8 | 0.2 | 1.5 | 0.05 | 0.8 |
| GHOP004* | 679898.700 | 7035138.160 | 87.6 | 4.05 | 43.30 | 15.6 | 6.5 | 0.3 | 3.6 | 0.11 | 6.6 |
| GHOP004* | 679898.700 | 7035138.160 | 93.6 | 2.30 | 42.60 | 10.4 | 6.8 | 0.4 | 4.1 | 0.08 | 11.3 |

Projection (WGS84 S34), Declination -90°, Diamond Drill Holes. * Geotechnical Diamond Drill Holes – Declination 70°/000°.

MANGANESE

Figure 6 – Gravenhage Manganese Deposit – Location of Drill Holes

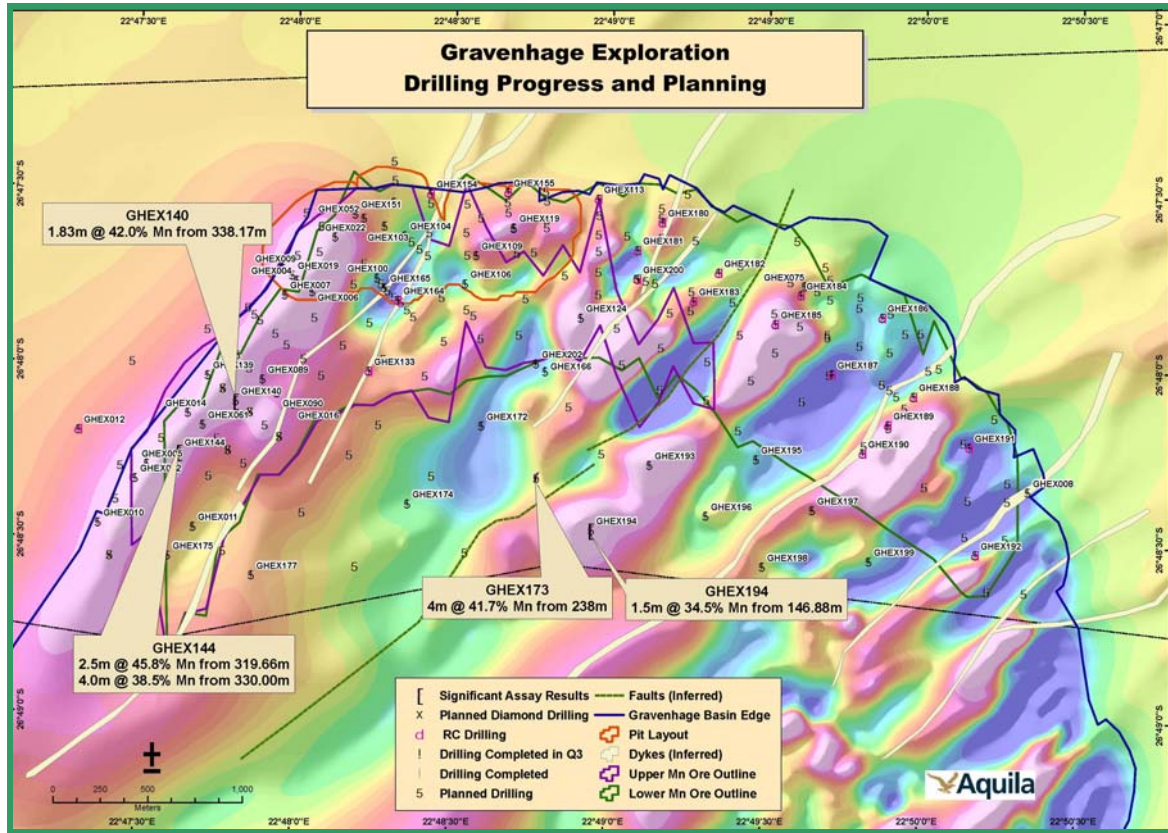
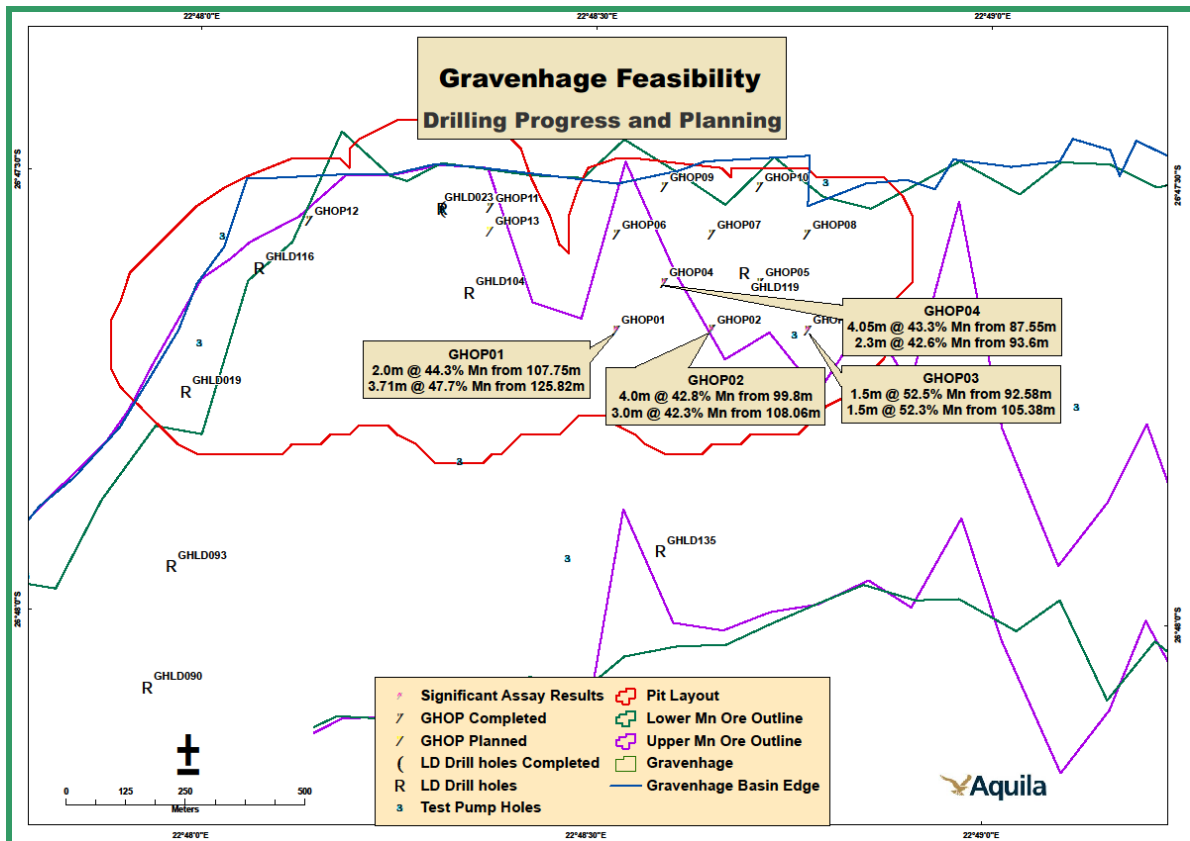


Figure 7 – Location of Geotechnical and Metallurgical Drilling within the Proposed Pit



MANGANESE

In the December Quarter 2010, exploration drilling will commence along the remaining 10km of strike of the Avontuur Basin (see Figure 8). At Avontuur farm, historic drilling has intersected up to 5m composite intercepts of >30% manganese from shallow depths (<100m), potentially amenable to open pit mining. Further to the south, historic drilling has intersected high grade manganese intercepts, including 2.3m at 46.7% Mn from 199m, 2.5m at 43.2% Mn from 213m and 2.7m at 48.4% Mn from 218m. These high manganese grades may indicate structurally related hydrothermal upgrade of manganese mineralisation and thus are a priority target area. Ground gravity and magnetic surveys have been completed and RC/diamond drilling is scheduled for late 2010.

Development

The Feasibility Study into the development of the Avontuur Manganese Project has progressed during the Quarter.

Following an update to the Resource Statement in the December Quarter 2010, a new mine schedule will be developed and a maiden Reserve Statement will issue. The Feasibility Study is considering a Project with a capacity of at least 1Mtpa capacity for both domestic and export markets.

The Mining Right application and associated Social and Labour Plan have been delayed due to a new requirement for the local Municipality to sign off on any new Social and Labour Plans. It is anticipated that the Mining Right application will be submitted during the December 2010 Quarter.

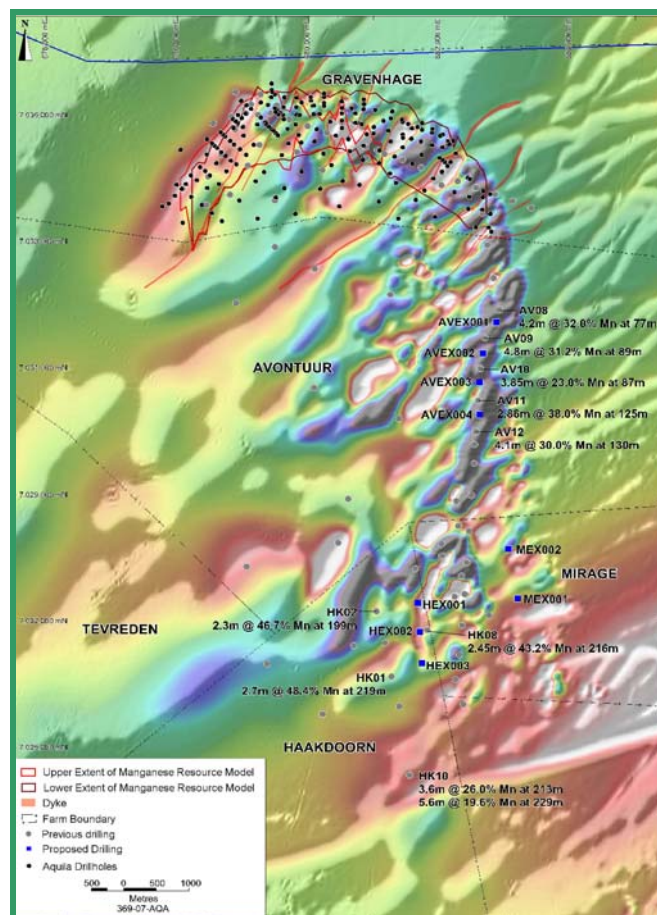
Mr Johann von Breda has been appointed Project Manager for the Gravenhage Project and will commence in October. Johann will take over carriage of the Feasibility Study currently being undertaken on this Project.

Logistics

The Company has joined an industry group to work with Transnet to conduct feasibility studies on the expansion of the railway from the Northern Cape to Saldanha Bay and of the port facilities at Saldanha Bay.

A preliminary scoping study is being completed for presentation to the Steering Committee of the group during the December Quarter 2010. The Steering Committee will then consider the results of the scoping study and decide on the next steps.

Figure 8 – Location of Exploration Drill Targets within the Avontuur Basin



CORPORATE

BELVEDERE DISPOSAL

In June 2010, a Vale subsidiary exercised its option to purchase the 49% interest in the Belvedere Hard Coking Coal Project not already owned by it.

The Joint Venture Agreement requires that, following exercise of the option, valuations be conducted by two valuers, one nominated by Aquila and one by the Vale subsidiary, to determine the Fair Market Value of the interest that is the subject of the option. Each of Aquila and the Vale subsidiary appointed a valuer in July 2010 and the two resulting valuations were then exchanged between the Parties as required by the Joint Venture Agreement. They were more than 10% apart in value.

The process to be followed, as defined in the Joint Venture Agreement, if the two valuations are more than 10% apart and the parties are unable to agree a price, is that a third, Determining Valuer is to be appointed to determine the Fair Market Value, such value not to be less than the lower of the two valuations previously obtained. That Fair Market Value will be the purchase price to be paid by the Vale subsidiary.

Notwithstanding, the process defined in the Joint Venture Agreement, the Vale subsidiary has challenged through the Courts the valuation commissioned by Aquila (and prepared by a leading international investment bank). This matter is now being progressed towards a hearing in 2011.

For further information please contact:

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Email: mail@aquilaresources.com.au
Visit us at: www.aquilaresources.com.au

EMPLOYEE SHARE OPTION PLAN FOR NEW EMPLOYEES

During the Quarter, Aquila implemented a new Employee Share Plan for certain employees who have joined the Company subsequent to the implementation of the initial Employee Share Option Plan in June 2009.

Under the new plan the exercise price for each option is \$11.40. The options are exercisable in increasing tranches over a period of four years from the date of the implementation of the Plan, which is designed to encourage staff retention and encourage alignment with the Company's growth plans.

The maximum number of options exercisable by all eligible employees under this new plan was 1,570,000 as at the date of implementation.

CASH RESERVES AND LIQUID INVESTMENTS

Cash reserves and liquid investments totalled approximately \$295 million at the end of the Quarter.

COMPETENCY STATEMENTS

Eagle Downs Hard Coking Coal Project

The information in this presentation that relates to the Eagle Downs Resource Statement has been based on information compiled by Mr Mal Blaik who is a member of the Australasian Institute of Mining and Metallurgy. Mr Blaik has over 30 years experience in geology and over 20 years experience in coal resource evaluation. 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 Blaik consents to the inclusion in the report of the matters based on their information in the form and context in which it appears.

Washpool Hard Coking Coal Project

The information in this presentation that relates to the Washpool Resource Statement has been based on information compiled by Mr Rod Doyle, who is a full-time employee of Aquila Resources Limited. He is a qualified Geologist (BSc Geology UOW 1978 and MAppSc UNSW 1988) with some 30 years experience in coal geology, coal mining and resource evaluation. He is a member of the Australasian Institute of Mining and Metallurgy and qualifies as a Competent Person under the JORC Code. Mr Doyle holds shares in Aquila Resources Limited. Mr Doyle consents to the inclusion in the report of the matters based on this information in the form and context it appears.

The Reserves Estimate was prepared by Mr Ross Haupt who is a Director of Xenith Consulting Pty Ltd. He has a Bachelor Degree in Mining Engineering from University of Queensland with over 25 years experience in the open cut coal mining industry and substantial experience in mining operations. Ross Haupt is a Member of the Australasian Institute of Mining and Metallurgy and as such qualifies as a Competent Person under the JORC Code. Mr Haupt consents to the inclusion in the report of the matters based on this information in the form and context in which it appears.

West Pilbara Iron Ore Project

The information in this report that relates to exploration results is based on information compiled by Mr Stuart Tuckey, who is a Member of The Australasian Institute of Mining and Metallurgy and is a full-time employee of API Management Pty Ltd. Mr Tuckey 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 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Stuart Tuckey consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Thabazimbi Iron Ore Project

The information in this report, insofar as it relates to Mineral Exploration activities, is based on information compiled by Mr Brent E Green who is a member of the Australian Institute of Geoscientists, and who has more than five years experience in the field of activity being reported on. Mr Green is a full-time employee of the Company. Mr Green 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 'Australasian Code of Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Green consents to the inclusion in the report of the matters based on his information, in the form and context in which it appears.

Avontuur Manganese Project

The estimates of manganese Resources for the Gravenhage Manganese Deposit presented in this report have been prepared in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves 2004 ("the JORC Code").

The estimates are based on information compiled by Mr Brent E Green who is a member of the Australian Institute of Geoscientists and a full time employee of the Company. Mr Green 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 JORC Code. Mr Green consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

The information in this report, insofar as it relates to Mineral Exploration activities, is based on information compiled by Mr Brent E Green who is a member of the Australian Institute of Geoscientists, and who has more than five years experience in the field of activity being reported on. Mr Green is a full-time employee of the Company. Mr Green 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 'Australasian Code of Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Green consents to the inclusion in the report of the matters based on the 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, 01/06/10.

Name of entity

AQUILA RESOURCES LIMITED

ABN

81 092 002 769

Quarter ended ("current quarter")

SEPTEMBER 2010

Consolidated statement of cash flows

| | Current quarter | Year to date (3 months) |
|---|-----------------|----------------------------|
| | \$A'000 | \$A'000 |
| Cash flows related to operating activities | | |
| 1.1 Receipts from product sales and related debtors | 37,904 | 37,904 |
| 1.2 Payments for (a) exploration & evaluation | (20,572) | (20,572) |
| (b) development | (2,623) | (2,623) |
| (c) production | (29,763) | (29,763) |
| (d) administration | (3,022) | (3,022) |
| 1.3 Dividends received | - | - |
| 1.4 Interest and other items of a similar nature received | 5,417 | 5,417 |
| 1.5 Interest and other costs of finance paid | (195) | (195) |
| 1.6 Income taxes paid | - | - |
| 1.7 Other (Service charges) | 235 | 235 |
| Net Operating Cash Flows | (12,619) | (12,619) |
| Cash flows related to investing activities | | |
| 1.8 Payment for purchases of: | | |
| (a) prospects | - | - |
| (b) equity investments | (4,042) | (4,042) |
| (c) other fixed assets | (693) | (693) |
| 1.9 Proceeds from sale of: | | |
| (a) prospects | - | - |
| (b) equity investments | 5 | 5 |
| (c) other fixed assets | - | - |
| 1.10 Loans to other entities | - | - |
| 1.11 Loans repaid by other entities | - | - |
| 1.12 Other (Security deposits lodged) | (2,652) | (2,652) |
| Net investing cash flows | (7,382) | (7,382) |
| 1.13 Total operating and investing cash flows (carried forward) | (20,001) | (20,001) |

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

| | | | |
|------|--|----------|----------|
| 1.13 | Total operating and investing cash flows (brought forward) | (20,001) | (20,001) |
| | Cash flows related to financing activities | | |
| 1.14 | Proceeds from issues of shares, options, etc. | 2,074 | 2,074 |
| 1.15 | Proceeds from sale of forfeited shares | - | - |
| 1.16 | Proceeds from borrowings | - | - |
| 1.17 | Repayment of borrowings | (309) | (309) |
| 1.18 | Dividends paid | - | - |
| 1.19 | Other (provide details if material) | - | - |
| | Net financing cash flows | 1,765 | 1,765 |
| | Net increase (decrease) in cash held | (18,236) | (18,236) |
| 1.20 | Cash at beginning of quarter/year to date | 281,174 | 281,174 |
| 1.21 | Exchange rate adjustments to item 1.20 | 107 | 107 |
| 1.22 | Cash at end of quarter | 263,045 | 263,045 |

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 | 179 |
| 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

| |
|--|
| |
|--|

+ See chapter 19 for defined terms.

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 | 5,000 ¹ | 5,000 |
| 3.2 Credit standby arrangements | 12,742 ² | 12,705 |

1 - Isaac Plains Coal Mine cash advance facility.

2 - Isaac Plains Coal Mine financial guarantee facility.

Estimated cash outflows for next quarter

| | \$A'000 |
|--------------------------------|---------------------------|
| 4.1 Exploration and evaluation | 24,000 |
| 4.2 Development | 7,000 |
| 4.3 Production | 40,000 |
| 4.4 Administration | 3,000 |
| Total | 74,000¹ |

1 – Represents cash outflows only. Does not include cash inflows such as sales receipts and interest income.

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 | 48,037 | 30,924 |
| 5.2 Deposits at call | 215,008 | 250,250 |
| 5.3 Bank overdraft | - | - |
| 5.4 Other (provide details) | - | - |
| Total: cash at end of quarter (item 1.22) | 263,045 | 281,174 |

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 | E08/2134 | Iron-ore – Western Australia Application withdrawn | 50% | 0% |

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

| | | | | |
|---|----------|-------------------------------------|------|-----|
| 6.2 Interests in mining tenements acquired or increased | | Iron-ore – Western Australia | | |
| | E47/1257 | Granted | 50% | 50% |
| | E47/1267 | Granted | 50% | 50% |
| | E52/2596 | Application | 0% | 50% |
| | E47/2400 | Application | 0% | 50% |
| | E47/2408 | Application | 0% | 50% |
| | | Coal - Queensland | | |
| MDL403 | Granted | 0% | 100% | |

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 +Ordinary securities | 322,862,186 | 322,862,186 | | |
| 7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs | 580,800 8,250 | 580,800 8,250 | \$5.50 – See Note 7 \$7.65 – See Note 7 | \$5.50 – See Note 7 \$7.65 – See Note 7 |
| 7.5 +Convertible debt securities (description) | | | | |
| 7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted | | | | |
| 7.7 Options (description and conversion factor) | 9,590,000 | - | Exercise price See note 6. | Expiry date See note 6. |
| 7.8 Issued during quarter | 1,650,000 | - | \$11.40 | 1 July 2014 |
| 7.9 Exercised during quarter | 366,666 7,500 | - - | \$5.50 \$7.65 | 31 August 2010 22 June 2013 |
| 7.10 Expired during quarter | 33,334 42,500 | - - | \$5.50 \$7.65 | 31 August 2010 22 June 2013 |
| 7.11 Debentures (totals only) | | | | |
| 7.12 Unsecured notes (totals only) | | | | |

+ See chapter 19 for defined terms.

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: 27 October 2010

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 30 September 2010.

| <u>Number Issued</u> | <u>Type</u> | <u>Expiry Date</u> | <u>Exercise Price</u> |
|----------------------|-------------|--------------------|-----------------------|
| 5,000,000 | Options | 31 December 2010 | \$4.00 |
| 2,940,000 | Options | 22 June 2013 | \$7.65 |
| 1,650,000 | Options | 1 July 2014 | \$11.40 |

- 7 374,166 options were exercised during the quarter that converted to 589,050 ordinary shares as a result of the entitlement of the holders to bonus issues.

+ See chapter 19 for defined terms.