

Quarterly Report for the period ended 30 June 2006

HIGHLIGHTS

COAL

Isaac Plains Coal Project

- Continued progress with construction of Coal Handling and Preparation Plant, mine infrastructure and rail-loop substantially completed;
- First railing of coal early in the December Quarter;
- Mining operations commenced with coal exposed in pit;
- Continued evaluation of a dragline operation;
- Isaac Plains South Mining Lease Application lodged.

Belvedere Coal Underground Project

- Exploration program by CVRD accelerates with the deployment of three rigs and completion of 18,977m of drilling during the Quarter;
- Initial phase of seismic survey comprising of 36km of 2D testing completed;
- Initial coal quality testing on a limited number of samples indicates low volatile hard coking coal with yields variable but generally high.

Peak Downs East Underground Coal Project

- Completion of three partially cored drill holes testing the full sequence of the Harrow Creek, Dysart, Q and P seams of the Moranbah Coal Measures;
- Harrow Creek (Upper) averages 4 metres;
- Harrow Creek (Lower) averages 7 metres;
- Sample testing in progress with coal quality data due next Quarter;
- Collation and analysis of seismic and geophysical data undertaken.

Moçambique Coal Project

- Two rigs in operation with sixteen RC drill holes and three diamond core holes completed;
- Applications submitted for two additional Reconnaissance Licences;
- Total tenement area held increased to 2,567 sq km.

IRON ORE

- Further drilling of prospects within the West Pilbara-Red Hill Iron Ore Project confirms significant zones of channel iron mineralisation;
- Encouraging intercepts include:

Cardo Bore East	18m @ 60.02% Fe
	22m @ 56.59% Fe
	18m @ 58.53% Fe
Cardo Bore North	14m @ 60.90% Fe
	16m @ 58.35% Fe
	14m @ 57.77% Fe
Red Hill North	20m @ 58.65% Fe
	28m @ 57.76% Fe
	20m @ 58.61% Fe
- Completed a field review of drill targets identified from the Hoist EM survey at the West Pilbara-Yalleen Iron Ore Project;
- Heritage survey undertaken at the Eastern Pilbara-Hardey Iron Ore Project with drill programme to commence next Quarter.

CORPORATE

- Pasminco creditors approve \$14 million legal settlement in favour of the Company;
- 7th July 2006, the Company receives \$14 million payment;
- Cash reserves and liquid investments total approximately \$66 million (including the settlement of \$14 million);
- Appointment of additional executives and opening of offices in Brisbane and South Africa;
- Divestment of Wilcherry Hill Gold Project.

COAL

ISAAC PLAINS COAL PROJECT

(Aquila Resources Limited 50%)

Construction

Construction of the Coal Handling and Preparation Plant (CHPP) continued during the Quarter. Civils, structural erection and installation of major components are well advanced. Electrical fit out has commenced.

Rail loop earthworks and trackwork are complete. Installation of signalling and overhead traction cabling has commenced.

Installation of the high voltage switch gear and substation is complete. Commissioning is expected in the September Quarter, with first railings of coal expected early in the December Quarter.

The Eastern Spur water supply line was completed and commissioned and the raw water dam filled.

Construction of the access road is advanced with completion expected in the September Quarter.

Operations - Mining

Cooks Construction has mobilised and commenced mining operations in June with two shifts. First coal exposure occurred early in July from the initial box-cut.

The annual mine plan has been approved and the owner and contractor teams have established effective interface protocols.

Operations – CHPP

Contractual negotiations are progressing in parallel with the evaluation of options to ensure efficient start-up, commissioning and operation of the plant facility.

Development

Isaac Plains South evaluation continued during the Quarter with emphasis on coal quality and dragline schedule and selection. The Isaac Plains South Mining Lease Application was submitted in early July.

Investigations into acquiring a suitable dragline are continuing.



Overhead cabling to rail loop



CHPP



Floatation tank/CHPP

BELVEDERE COAL UNDERGROUND PROJECT

(Aquila Resources Limited 50%)

The Exploration Study by Companhia Vale do Rio Doce ("CVRD") intensified during the Quarter, with the deployment of three drill rigs and completion of 25 holes totalling 18,977m. An additional two drill rigs will be mobilised to the project during the September Quarter.

An initial phase of seismic survey comprising of 36km of 2D testing was completed, providing broad coverage of the primary exploration area. Conventional explosive survey techniques were used and processing of the data, together with information obtained from previous seismic programs in the area, will be completed shortly.

The stratigraphy of the coal-bearing sequence and correlation of the individual coal seams has been updated based on the results from the 38 drill holes that have now been completed. By the end of the Quarter raw quality results had been received for 26 holes, floats at RD 1.5 for 19 holes and full washability analyses for seven holes. Results to date indicate the existence of consistently low volatile hard coking coal with low levels of sulphur. The median yields are generally high, noting that the sampling is still limited and as a result the values currently range widely.

A comprehensive review will be undertaken during the next Quarter to integrate the drilling and seismic information with available coal quality data and gas results. The review will have the objective of focussing the next phase of work on areas showing the most potential for development.

Preliminary technical assessments will commence in the next Quarter.

PEAK DOWNS EAST UNDERGROUND COAL PROJECT

(Aquila Resources Limited 50%)

Drilling continued during the Quarter as part of the Stage 1 programme to complete six partially cored holes testing the full sequence of the Moranbah Coal Measures to confirm historical coal quality results.

Although field activities were impacted by unseasonably wet weather 1,692m of drilling were completed during the Quarter. Samples from three of the six holes have now been sent for testing and coal quality data will be received and evaluated next Quarter.

Collation and analysis of seismic and geophysical data is being undertaken in parallel with the Stage 1 drill programme.

Peak Downs Drill Intercepts (from 1st three holes)

Hole - E795015

Seam	From m	To m	Width m
S Seam	156.5	160.0	3.5
R Seam	176.4	178.2	1.8
Q Seam	201.4	203.7	2.3
P Seam	269.7	273.2	3.5
Harrow Ck (U)	305.0	309.0	4.0
Harrow Ck (L)	356.3	363.9	7.6
Dysart (U)	383.8	385.3	1.5
Dysart	433.8	439.2	5.5

Hole - E795016

Seam	From m	To m	Width m
S Seam	246.0	252.0	6.0
R Seam	266.1	267.7	1.6
Q Seam	294.5	297.1	2.6
P Seam (L)	369.4	370.8	1.4
Harrow Ck (U)	395.7	399.7	4.0
Harrow Ck (L)	456.5	462.4	5.9
Dysart (U)	489.4	490.6	1.2
Dysart	531.9	537.2	5.3
Dysart (L)	553.1	554.2	1.1

Hole - E795017

Seam	From m	To m	Width m
S Seam	368.1	371.7	3.6
R Seam	387.2	388.9	1.7
Q Seam	408.9	411.1	2.2
P Seam	486.0	488.4	2.4
Harrow Ck (U)	526.2	530.7	4.5
Harrow Ck (L)	582.4	589.8	7.4

MOÇAMBIQUE

(Aquila Resources Limited 100%)

During the Quarter, an application was made for two new Reconnaissance Licences, while one Reconnaissance Licence was relinquished. The Company now holds twelve tenements in Moçambique covering a total area of 2,567 sq km. With two rigs in operation, sixteen airflush (percussion / reverse circulation) holes were drilled for a total of 2,056m. In addition, 940m of diamond core were drilled in three holes with a fourth hole in progress by the end of the Quarter.

Tete-Moatize Project: The Tete-Moatize Project comprises three Prospecting Licences located in the Zambezi Valley adjacent to CVRD's Moatize mining concession. The airflush drilling commenced in early May, initially targeting the most prospective of the coal sequences, the

Chipanga Coal Horizon, that had been discovered at shallow depth in scout drilling. Of the ten holes drilled in this eastern section, six either intersected or finished within the Chipanga Horizon, while four were abandoned before reaching it. The intersected widths of the horizon range from 18.6m to 26.5m. The overlying Bananeiras Coal Horizon was also intersected in six of the holes, either as a continuous unit or as a split one.

Diamond drilling commenced at the end of May, when a rig became available. The initial holes are stepped away from the unconformity with the basement at the northern margin of the basin and have been designed to intersect the full coal bearing sequence and obtain samples from the coal horizons for analysis.

Hole 19 Results

From	To	Drilled width	Cumulative
92.43	100.98	8.55	8.55
244.05	253.00	8.95	17.50
306.31	316.33	10.02	27.52

The above hole intersected the full coal-bearing sequence of nine horizons with three of the units comprised of predominantly bright coal.

Hole 22 Results

From	To	Drilled Width	Cumulative
50.89	72.63	21.74	21.74
247.96	276.11	28.15	49.89

The above hole located 1km to the north intersected two thick coal horizons, each containing plies with concentrations of predominantly bright coal.

In addition four reverse circulation holes were drilled in the central part of the tenement. Three holes intersected four coal horizons, with one of the holes abandoned before reaching its target. These holes still require wireline logging.

Ludgenda Basin Project: The Ludgenda Basin Project is located in the Cabo Delgado Province in north-eastern Moçambique, near the border with Tanzania. A geological interpretation of Landsat-TM imagery was carried out, incorporating ground observations made on earlier expeditions into the area. The tenement coverage was extended to take in the whole of the eastern part of the basin, when it was recognised that the area is underlain by Lower Karoo coal-bearing sediments and the eastern boundary of the half-graben is an unconformity. Upper Karoo sandstones are developed within a secondary graben in the centre of the basin with the Lower Karoo strata on either side.

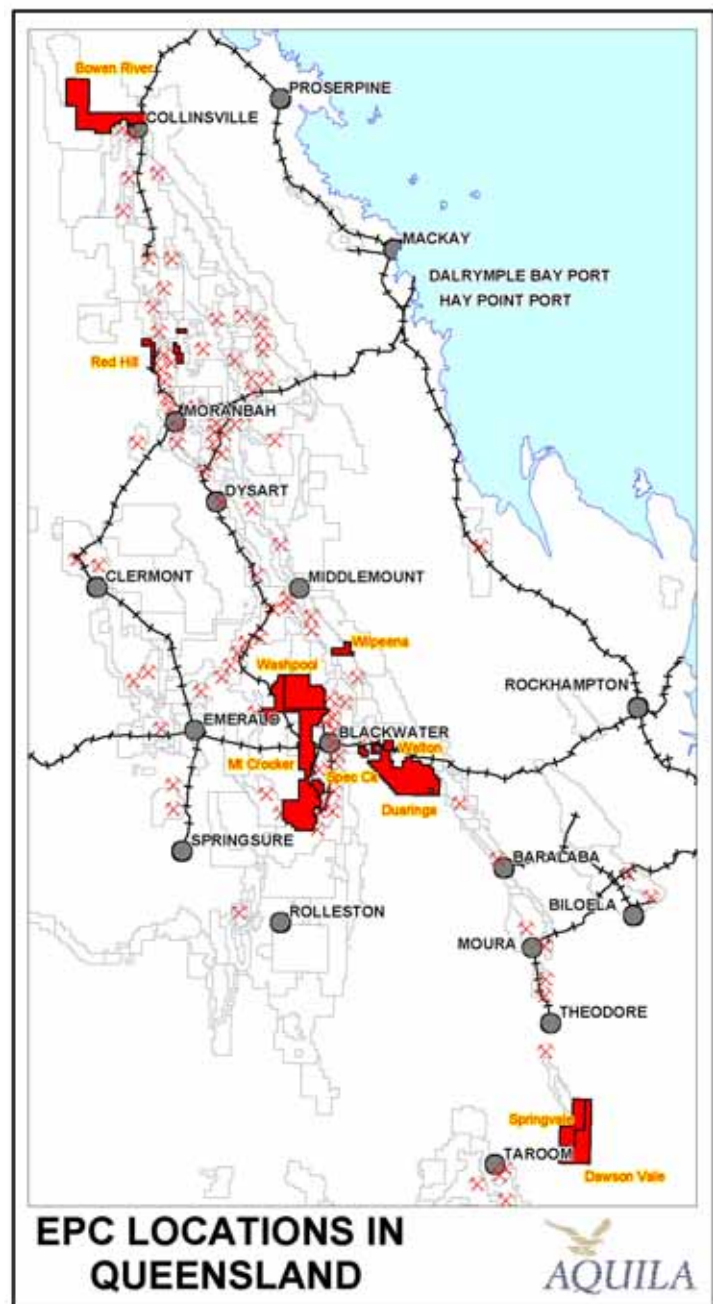
The principal commodity being targeted is coal, but recently released airborne radiometrics show

that the surrounding basement rocks have a high uranium background. The exploration target is sandstone hosted uranium mineralisation in the Beaufort series of the Upper Karoo.

BOWEN BASIN

(Aquila Resources Limited 100%)

During the Quarter, work programmes were completed on three of the granted tenements, Washpool, Mt Crocker and Duinga.



Washpool Project: The Washpool Project is located north of Blackwater and west of the Curragh minesite. A percussion and core drill programme was completed during the Quarter to explore the low strip ratio Scorpio coal seams of the Burngrove Formation.

The primary objective of the drill programme was to obtain 100mm core samples of the Scorpio seam for quality analysis. Twelve percussion chip and three 100mm diameter core holes for 886m were completed in four traverses approximately 3.5km apart. The Scorpio seam was intersected in three of the four traverses and averaged approximately 6m thickness at depths less than 60m. The Scorpio seam is flat to shallow dipping and is unconstrained to the west, north, and east of the prospect area.

The Scorpio seam is typically banded with multiple plies ranging from 0.1m to 1m thickness of bright, high-swell potential coking coals. Seventy three 100mm core samples were collected for full ply by ply washability and coal quality analysis. Results are due in the September Quarter.

Mt Crocker Project: The Mt Crocker Project is located 15km west of Blackwater in the central Bowen Basin and extends over a large area of the Comet Ridge between the Ensham mine in the west and the Curragh mine in the east. In accordance with an agreement between the Company and Ensham Resources Pty Ltd (“Ensham”), Ensham completed a traverse of six drill holes in the westernmost area of the tenement where Ensham proposes to construct a tailings dam. Coal seams correlating with the Burngrove Formation and ranging between 4m and 16m thickness were intersected in five of the six drill holes. The unoxidised coal seams dip shallowly to the west and were intersected at depths between 20m and 70m. Core drilling to determine coal quality is currently underway.

Duaranga Project: The Duaranga Project is located south of Dingo and covers an area of Rangal and Baralaba Coal Measures beneath Triassic cover rocks. One percussion drill hole was completed in the eastern target area of the permit which intersected Triassic Rewan Formation indicating that Permian Coal Measures are further east. Further drilling is planned.



IRON ORE

AUSTRALIAN PREMIUM IRON JOINT VENTURE

(Aquila Resources Limited 50%)

Exploration by the Australian Premium Iron Joint Venture ("API") during the Quarter has continued to target channel iron deposits ("CIDs") at its West Pilbara projects. Results from RC drill programmes completed in late 2005 highlighted the Cardo Bore East and Catho Well prospects, which together with the Red Hill North, Cardo Bore North and Kens Bore prospects, have been the focus of drilling completed during the Quarter.

WEST PILBARA – RED HILL IRON ORE PROJECT

(API earning 80%)

During the Quarter a total of 232 holes for 12,486m were completed over the Red Hill project area, details of which are as follows:

Prospect	No. of Holes	Hole ID	Metres
Cardo Bore	26	CBRC053-074, CBRC133-136	1,164
Cardo Bore North	44	CBRC089-132	2,272
Ken's Bore	13	KBRC001-013	684
Red Hill North	149	RNRC001-149	8,366
Total	232		12,486

Cardo Bore East: Results received from the initial drill programme returned intercepts between 15m and 20m with iron ranging from between 56.6% to 60.3% Fe. An infill programme of RC drilling has been completed reducing drill hole spacing down to 200m x 200m (Table 1).

The infill programme has confirmed a significant zone of channel iron mineralisation (+56% Fe) over 2.5km in length and ranging from 250m to 1000m in width. Additional drilling is currently in progress to close off the channel limits.

Cardo Bore North: Located 3km north west of Cardo Bore East, a initial programme of RC drilling has been completed along the spine of the mesa. Drill holes are centred at 100m to 200m intervals along the 6km length of the CID. Two areas represented in the table below by CBRC111-115 and CBRC121-127, have returned encouraging intersections of channel iron mineralisation. Drill holes completed between the two areas intersected CID material with higher clay content, potentially reflecting the margin of the channel. Mineralised zones have been returned from generally greater than 15m down hole. Additional drilling is planned to test the position of the main channel (Table 2).

Table 1: Selected RC drill intercepts from Cardo Bore East

Hole ID	From	To	Intercept	Al ₂ O ₃ %	SiO ₂ %	P%	S%	LOI%
CBRC053	0	18	18.00 m @ 60.02% Fe	2.65	3.65	0.08	0.02	7.35
CBRC054	14	36	22.00 m @ 56.59% Fe	3.88	5.85	0.08	0.01	8.73
CBRC055	18	30	12.00 m @ 55.67% Fe	5.02	8.04	0.08	0.02	6.72
CBRC056	18	36	18.00 m @ 58.53% Fe	3.77	4.45	0.05	0.02	7.49
CBRC060	16	26	10.00 m @ 60.96% Fe	3.06	3.47	0.06	0.02	5.60
CBRC067	22	38	16.00 m @ 58.98% Fe	3.13	3.98	0.13	0.01	7.29
CBRC068	26	42	16.00 m @ 57.97% Fe	3.55	4.51	0.14	0.01	8.00

Table 2: Selected RC drill intercepts from Cardo Bore North

Hole ID	From	To	Intercept	Al ₂ O ₃ %	SiO ₂ %	P%	S%	LOI%
CBRC102	16	26	10.00 m @ 58.80% Fe	3.09	4.68	0.11	0.02	7.41
CBRC111	22	38	16.00 m @ 58.35% Fe	3.59	5.52	0.09	0.03	6.84
CBRC112	18	32	14.00 m @ 60.90% Fe	2.39	3.15	0.07	0.02	6.99
CBRC113	22	34	12.00 m @ 60.57% Fe	2.66	3.40	0.07	0.02	7.00
CBRC114	22	34	12.00 m @ 58.93% Fe	2.79	5.09	0.09	0.02	7.42
CBRC115	24	34	10.00 m @ 57.10% Fe	3.42	6.54	0.08	0.01	7.73
CBRC121	24	38	14.00 m @ 57.77% Fe	3.59	6.18	0.08	0.02	7.09
CBRC122	28	38	10.00 m @ 57.78% Fe	3.44	6.23	0.09	0.02	6.68
CBRC123	30	40	10.00 m @ 57.72% Fe	3.71	5.85	0.09	0.02	6.96
CBRC124	30	40	10.00 m @ 57.78% Fe	3.67	5.29	0.08	0.01	7.77
CBRC127	28	38	10.00 m @ 55.08% Fe	4.68	6.45	0.06	0.02	9.21

Red Hill North: The Red Hill North Project covers a large area and has been subdivided into 5 prospects, namely Jewel, Cochrane, Farnum, Swearingen and Stubbs. First pass RC drilling has been completed over all prospects at 200m x 400m centres.

Significant zones of mineralisation have been returned from the Jewel and Cochrane prospects. Results received to date include drill holes RNRC001-025 and RNRC041-071 (Table 3).

WEST PILBARA – MT STUART IRON ORE PROJECT

(API 70%)

During the Quarter a total of fourteen holes, comprising CBRC075-088, for 616m were completed at the Cardo Bore prospect. The RC drilling tested the extent of the mineralisation reported previously in drill holes CBRC009 and CBRC010.

Drill hole CBRC086, located 200m east of CBRC 010, returned 10m @ 56.52% Fe confirming the presence of a higher grade zone, albeit limited in extent. Additional drilling is planned north west of CBRC010 and CBRC086 to test an alternate alignment of the channel (Table 4).

At Catho Well a program of RC drilling has been planned to infill the north-western portion of the prospect. Drilling will be completed in the September Quarter.

Table 3: Selected RC drill intercepts from Red Hill North

Hole ID	From	To	Intercept	Al ₂ O ₃ %	SiO ₂ %	P%	S%	LOI%
RNRC041	0	2	2.00 m @ 57.40% Fe	2.44	5.84	0.02	0.02	9.14
	28	50	22.00 m @ 55.35% Fe	4.74	6.33	0.07	0.02	9.21
RNRC042	0	2	2.00 m @ 54.50% Fe	3.23	9.57	0.03	0.03	9.02
	30	44	14.00 m @ 54.30% Fe	4.93	8.25	0.07	0.02	8.54
RNRC043	32	54	22.00 m @ 56.70% Fe	4.30	4.67	0.08	0.02	9.41
RNRC044	32	52	20.00 m @ 57.07% Fe	4.26	4.78	0.07	0.02	8.76
RNRC045	28	56	28.00 m @ 57.76% Fe	3.67	4.87	0.09	0.01	8.30
RNRC046	32	52	20.00 m @ 56.48% Fe	4.30	5.47	0.07	0.02	8.85
RNRC049	0	12	12.00 m @ 54.33% Fe	4.42	6.40	0.03	0.02	11.13
	24	44	20.00 m @ 58.65% Fe	2.83	4.70	0.06	0.03	8.28
RNRC053	24	38	14.00 m @ 57.20% Fe	3.49	5.68	0.06	0.02	8.57
RNRC054	16	26	10.00 m @ 57.96% Fe	2.18	7.04	0.07	0.04	7.67
RNRC056	12	32	20.00 m @ 58.61% Fe	3.04	4.31	0.11	0.02	8.27
RNRC057	14	34	20.00 m @ 58.01% Fe	2.90	4.84	0.11	0.02	8.73
RNRC060	12	26	14.00 m @ 57.00% Fe	4.01	5.14	0.09	0.02	8.63
RNRC061	4	14	10.00 m @ 56.10% Fe	4.98	5.72	0.06	0.03	8.35
RNRC062	26	40	14.00 m @ 58.76% Fe	3.93	4.56	0.05	0.02	6.94
RNRC063	20	36	16.00 m @ 58.16% Fe	4.11	4.68	0.06	0.02	7.44

Table 4: Selected RC drill intercepts from Cardo Bore

Hole ID	From	To	Intercept	Al ₂ O ₃ %	SiO ₂ %	P%	S%	LOI%
CBRC075	2	4	2.00 m @ 54.10% Fe	4.95	6.16	0.03	0.04	11.3
	22	24	2.00 m @ 54.60% Fe	4.87	4.65	0.05	0.02	12
	38	40	2.00 m @ 55.50% Fe	3.09	4.93	0.06	0.01	11.8
CBRC076	4	6	2.00 m @ 54.50% Fe	4.42	5.96	0.06	0.03	10.6
CBRC080	0	2	2.00 m @ 54.70% Fe	5.22	7.38	0.04	0.03	8.46
	22	26	4.00 m @ 56.25% Fe	3.97	5.17	0.09	0.01	9.73
	18	22	4.00 m @ 54.60% Fe	4.96	6.53	0.06	0.01	9.56
CBRC082	0	2	2.00 m @ 55.20% Fe	5.22	7.00	0.07	0.02	7.98
	20	24	4.00 m @ 54.95% Fe	4.79	5.83	0.07	0.01	9.75
	34	38	4.00 m @ 54.80% Fe	4.57	6.54	0.13	0.01	9.49
CBRC083	2	4	2.00 m @ 54.40% Fe	3.76	7.90	0.07	0.02	9.27
	24	26	2.00 m @ 55.60% Fe	4.15	4.96	0.06	0.02	10.9
CBRC086	20	30	10.00 m @ 56.52% Fe	4.76	5.57	0.06	0.01	8.19

WEST PILBARA – YALLEEN IRON ORE PROJECT

(API earning 70%)

A field review of targets identified from the Hoist EM survey was completed during the Quarter resulting in the positioning of drill holes to test all targets later in the year.

EASTERN PILBARA – HARDEY IRON ORE PROJECT

(API 100%)

Mapping and sampling at the Hardey Project reported in the previous Quarter identified bedded iron mineralisation, supergene-enriched hematite and hematite-goethite mineralisation, within the Marra Mamba and Brockman Iron Formations of the Hamersley Group. The prospective area covers the keel and eastern extent of the Hardey Syncline, a regional west-north-west trending fold of Hamersley Group units. Results were very encouraging with grades of greater than 60% Fe along with low levels of alumina, silica, phosphorus and sulphur being returned. The highest grade result returned 67.0% Fe, 0.46% Al₂O₃, 0.67% SiO₂, 0.06% P and 0.04% S.

During the Quarter planning for a RC drill programme was finalised together with the completion of an Aboriginal heritage survey in preparation for construction of drill rig access to the project area. An RC drill programme of between 4,000m and 5,000m is scheduled to commence next Quarter.



Drilling at Hardey

CORPORATE

LITIGATION

On 19th May 2006 the creditors of the Pasminco Group Companies (comprising Pasminco Limited and its subsidiaries) approved the payment of a \$14 million dividend to the Company, as settlement of legal actions brought by the Company in relation to its proposed purchase of a 49% interest in the Ernest Henry Mine.

The payment of \$14 million received on 7th July 2006, concludes a dispute that has been ongoing since late 2001 and will avoid the further expense and delay which would arise if the matter went to a trial.

EXECUTIVE APPOINTMENTS

During the Quarter the Company strengthened its executive team with the appointment of Mr Andrew Matheson as Manager Development – Coal and Mr Peet Meyer as Exploration and Development Manager – Southern Africa.

Andrew, previously with BHP Billiton Mitsubishi Alliance, is based in the Company's new Brisbane office and will drive the development of its wholly-owned and joint venture coal projects in Queensland.

Peet, formerly of BHP Billiton Coal in South Africa, will manage the acceleration of the Company's exploration activities in the Southern African region and is based in its new Witbank office.

WILCHERRY HILL GOLD PROJECT

During the Quarter, Trafford Resources Limited exercised its option to acquire the Company's remaining gold interests in South Australia by the payment of \$190,000 (after paying an Option Fee of \$100,000), issue of 3,222,222 ordinary shares and 500,000 options, and the grant of a royalty entitlement.

Trafford Resources Limited listed on the Australian Stock Exchange on 19th June 2006, and this transaction completes the Company's divestment of its gold tenements.

CASH RESERVES AND LIQUID INVESTMENTS

Cash reserves and liquid investments total approximately \$66 million, including the \$14 million litigation dividend received on 7th July 2006.

For further information please contact:

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The information in this announcement, insofar as it relates to Mineral Exploration activities, is based on information compiled by Geoffrey F Pigott who is a member of the Australian Institute of Geoscientists, and Stuart H Tuckey, who is a member of the Australian Institute of Mining and Metallurgy, and who have more than five years experience in the field of activity being reported on. Messrs Pigott and Tuckey are full-time employees of the Company. Messrs Pigott and Tuckey have sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to qualify as Competent Persons as defined in the 2004 Edition of the 'Australasian Code of Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Pigott and Mr Tuckey consent to the inclusion in the report of the matters based on their information in the form and context in which it appears.