

AQUILA RESOURCES LIMITED

ACN 092 002 769

HALF YEAR FINANCIAL REPORT 31 DECEMBER 2000

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DIRECTORS' REPORT

The Directors present their report together with the financial report for the half year ended 31 December 2000 and the auditors' review report thereon.

1. DIRECTORS

The Directors of the Company in office during or since the end of the half-year are:

Anthony Poli (42)

Executive Chairman

Mr Poli, a qualified accountant, has been a member of the Board since inception of the Company and has the responsibility for the operations of the Company.

Mr Poli was the Executive Chairman and CEO of Eagle Mining Corporation NL prior to its takeover by Great Central Mines Limited in 1997 and has extensive experience managing both private and publicly listed companies.

Charles Bennett Bass (51)

Non-Executive Director

Mr Bass is a qualified geologist and mining engineer with 28 years experience in mineral exploration, development and production in Australia, Canada and the United States.

Mr Bass, who has been on the Board of the Company since inception, was also an Executive Director of Eagle Mining Corporation NL.

Derek Thomas Cowlan (67)

Non-Executive Director

Mr Cowlan is a businessman with a wealth of experience in financial and business management and has been a Board member since inception. He currently presides as the Chairman of the Ross North Group, one of the largest home building companies in Western Australia.

Mr Cowlan is also a Non-Executive of Carnarvon Petroleum NL, a publicly listed company on the Australia Stock Exchange and was a Non-Executive Director of Eagle Mining Corporation NL.

2. OPERATING RESULTS

During the half-year ended 31 December 2000, the Company incurred an operating loss, after income tax of \$757,759.

3. REVIEW OF OPERATIONS

3.1 CORPORATE

The Company was officially admitted as a member of the Australian Stock Exchange on 26 June 2000 following the capital raising of \$3 million in the initial public offering.

3.2 EXPLORATION

Exploration activities undertaken during the December half year included Reverse Circulation (“RC”) and Rotary Air Blasting (“RAB”) drilling of various targets and rock chip sampling. The ongoing geological reinterpretation and development of a historical database has resulted in the generation of numerous drill targets to be followed up in 2001. A summary of the exploration work undertaken by the Company on the project areas is as follows.

Enterprise Project

Aquila completed 4,097 metres of RC drilling and 9,236 meters of RAB drilling, with the drilling targeting various structural targets within the Enterprise Project.

The RC drilling results have confirmed the existence for significant shallow zones of gold mineralisation along strike and down dip from the known mineralised resources. RC drilling highlights from the Enterprise Project are as follows:

- At United North, the most significant RC drill holes are located to the south of the pit, with UNRC003 intersecting 5 metres @ 3.91 g/t gold from 47 metres along with 4 m @ 24.45 g/t gold from 62 metres and UNRC010 intersecting 4 metres @ 4.39 g/t gold from 112 metres. The RC drilling has confirmed the existence of a second zone of gold mineralisation hosted in a quartz stockwork within basalts and a sheared mafic – granite contact.
- In the Plant Zone area, gold mineralisation representing extensions to the oxide resources, were identified on the four different structures drilled. The RC drilling not only extended the gold mineralisation along strike, it showed that it continued into fresh bedrock below 100 m depth. Intersections in holes such as PZRC07, with 21 metres @ 1.73 g/t gold from 79 metres depth and PZRC06 with 5 metres @ 2.12 g/t gold from 58 metres depth, has confirmed the potential for further mineralisation at depth and along strike of the identified gold mineralised structures.
- RC drilling in the Plant Zone area has confirmed that two previously RAB drilled gold anomalies have strike lengths in excess of 150 metres. The results indicate depth and strike potential on both structures, with results of 5m @ 2.12 g/t gold from 58 metres depth in PZRC16 and 11metres @ 1.30 g/t gold from 80 metres depth in PZRC03.

As part of the ongoing exploration programme a reinterpretation of magnetic and geological data for the Enterprise Project has commenced. RAB drilling totalling 9,236 metres has been completed, initially on a 400 x 60 metre hole spacing, testing two magnetic structural settings. The initial RAB drilling was successful in identifying gold anomalous areas in the two structural settings and subsequently further infill drilling on a 100 x 60 metre hole spacing was carried out over selected gold anomalous areas.

The two RAB drilled magnetic structures in the Enterprise Project are:

- West of the Golden Crown area, a magnetic structure was drilled over a 1 kilometre length. Anomalous gold mineralisation with values greater than 100 ppb gold for 4 metre composites were intersected along the eastern flank of this structure. Oxidised sulphide minerals within sheared mafic rocks have been noted, with the best result of 12 metres @ 422 ppb gold recorded in GCRB0083, from 64 metres depth. At gold values greater than 100 ppb gold, the anomaly is in excess of 1 kilometre in length and is approximately 120 metres in width, remaining open both to the north and south.
- To the west of the Commonwealth-Connemarra shear, a parallel structure was drilled. Gold mineralisation with values greater than 100 ppb gold for 4 metre composites is interpreted to extend over a strike length of 800 metres and is approximately 120 metres in width. The best result recorded was in hole CNRB02, with 11 metres @ 295 ppb gold from 2 metres depth. Host rock types are interpreted to be mafics with felsic intrusives, volcanoclastics and with banded iron formations present. Drilling has not closed off possible strike extensions of gold mineralisation to the north nor south.

Penny West Project

Two RC drill holes were completed for 395 metres and intersected a quartz veined structure. Previous exploration at the Penny West mine which has historical gold production of 121,000 tonnes @ 21.8 g/t of gold, had focused on a steep southerly plunge to the gold mineralisation. The two RC drill holes targeted for gold mineralisation in the northern end of the Penny West mine, for down dip extensions and a northerly plunge to the gold mineralisation.

RAB drilling of 22 holes for 935 metres was undertaken during the period. The RAB drilling targeted a magnetic structure, which is associated with a 700 x 200 metre soil gold anomaly with a maximum value of 80 ppb gold. The RAB drilling was successful in identifying a gold anomalous zone hosted in a sheared mafic unit.

The sheared mafic unit is interpreted to be a northerly trending shear. A best result from hole YGRB0005 intersected 8 metres @ 157 ppb gold from 32 metres depth. Hole YGRB0006 also intersected 4 metres @ 104 ppb gold from 4 metres depth hosted in a weathered mafic unit.

Constellation Project

In total 44 rock chip samples were taken, with field verification of previous geological mapping being completed along a 2 kilometre strike length of the Bellchambers – Rangeview gold mineralised structure. Ten of the samples returned gold values exceeding 50 ppb gold with a best result of 2.02 g/t gold recorded from a sulphidic sedimentary unit.

3.3 SUBSEQUENT EVENTS

On 13 January 2001 the Company, reached agreement with Pasminco Limited (“*Pasminco*”) to purchase Pasminco’s 49% interest in the Ernest Henry Mine (“*Mine*”).

The consideration is payable as follows :-

- \$115 million at settlement; and
- \$35 million by way of equal instalments over 7 years commencing at the end of the third year.

ABN-AMRO Australia Limited (“*ABN-AMRO*”) has been appointed to act as financial adviser, arranger and underwriter to provide loan funds of \$115 million for the acquisition.

The Company’s offer to acquire Pasminco’s interest in the Ernest Henry Mine is subject to due diligence, ABN-AMRO’s due diligence, and M.I.M. Holdings Limited (“*MIM*”) not exercising its pre-emptive rights that expire on 23 March 2001.

Aquila’s share of production on an annualised basis would be approximately 47,500 tonnes of copper and 60,000 ounces of gold, which would provide revenues in excess of \$175 million based on today’s spot metal and currency prices.

The Ernest Henry Mine has a mine life of ten years.

The Mine:

The Mine, located 38 kilometres north east of Cloncurry in West Queensland, was constructed at a cost of \$310 million, more than 10% under budget. It was officially opened in October 1997 and commenced commercial production in October 1998.

The Mine plant has an annual throughput capacity of 9 million tonnes of ore. Mining operations (owner operator) are expected to produce approximately 350,000 tonnes of concentrates annually containing 95,000 tonnes of copper and 120,000 ounces of gold. Aquila’s share of production of approximately 47,500 tonnes of copper and 60,000 ounces of gold will generate annual revenues in excess of \$175 million.

All concentrate produced at the Mine is transported by road to Mount Isa, about 117 kilometers west of Cloncurry, for smelting by MIM, who besides

having a controlling interest of 51% and management rights to the Mine, also has agreements in place to treat and purchase all concentrates produced by the Mine.

The production statistics are as follows:-

		Year Ended 30 June, 2000	Six Months Ended 31 December, 2000
Ore treated	(tonnes)	9,720,751	5,200,534
Copper grade	(%)	1.08	1.23
Gold grade	(g/t)	0.55	0.53
Copper recovered	(tonnes)	94,794	55,010
Gold recovered	(ounces)	114,931	60,292

As at 30 June 2000, the Mine had reserves of 103 million tonnes ore averaging 1.11% copper with significant gold credits of 0.54 grams per tonne which should ensure a minimum mine life of ten years at current production levels.

Financing Details:

ABN-AMRO has been mandated to provide \$115 million to complete the acquisition conditional upon its own due diligence, internal credit approvals, and other terms and conditions normal for a facility of this nature.

Prior to settlement the Company will be required to raise \$10 million to fund the financing costs, acquisition costs, and a debt servicing reserve account.

The Company intends to raise these funds by way of a placement.

Other Information:

Termination Fee -

In the event that MIM exercises its pre-emptive rights, Pasminco has agreed to pay Aquila a termination fee of \$3 million, which will cover anticipated costs.

Signed in accordance with a resolution of the Directors.

A Poli
Director

Dated at Perth this 16th day of March 2001.

AQUILA RESOURCES LIMITED

PROFIT AND LOSS STATEMENT FOR THE HALF-YEAR ENDED 31 DECEMBER 2000

	Note	6 Months Ended 31 Dec 2000 \$
Operating Revenue	2	<u>76,768</u>
Operating Loss before income tax	2	757,759
Income tax attributable to operating loss		<u>-</u>
Operating loss after income tax		757,759
Accumulated losses at the beginning of the period		<u>120,396</u>
Accumulated losses at the end of the period		<u><u>878,155</u></u>

The Profit and Loss Statement is to be read in conjunction with the accompanying notes.

AQUILA RESOURCES LIMITED

BALANCE SHEET AS AT 31 DECEMBER 2000

	Note	31 Dec 2000 \$
CURRENT ASSETS		
Cash		2,081,620
Receivables		6,882
Other		18,049
Total Current Assets		<u>2,106,551</u>
NON CURRENT ASSETS		
Property, Plant and Equipment		158,854
Mineral Properties		3,020,000
Total Non Current Assets		<u>3,178,854</u>
TOTAL ASSETS		<u>5,285,405</u>
CURRENT LIABILITIES		
Accounts Payable		483,103
Provisions		5,963
Total Current Liabilities		<u>489,066</u>
TOTAL LIABILITIES		<u>489,066</u>
NET ASSETS		<u>4,796,339</u>
SHAREHOLDER EQUITY		
Share Capital	4	5,674,494
Accumulated Losses		(878,155)
TOTAL SHAREHOLDER EQUITY		<u>4,796,339</u>

The Balance Sheet is to be read in conjunction with the accompanying notes.

AQUILA RESOURCES LIMITED

STATEMENT OF CASH FLOWS FOR THE HALF-YEAR ENDED 31 DECEMBER 2000

	Note	6 Months Ended 31 Dec 2000 \$
Cash flows from operating activities		
Payments to suppliers and employees		(105,988)
Payments for exploration and evaluation		(529,776)
Interest received		76,026
Other Income		420
Net cash flow used in operating activities		<u>(559,318)</u>
Cash flows from investing activities		
Payments for property, plant and equipment		<u>(45,440)</u>
Net cash flows used in investing activities		<u>(45,440)</u>
Net (decrease) in cash held		(604,758)
Cash at the beginning of the period		<u>2,686,378</u>
Cash at the end of the period	5	<u>2,081,620</u>

The Statement of Cash Flows is to be read in conjunction with the accompanying notes.

AQUILA RESOURCES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2000

1. Basis of Preparation of Half-Year Financial Report

The half-year financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Law, Accounting Standard 1029 “Half-Year Accounts and Consolidated Accounts” and Urgent Issues Group consensus views. It is recommended that this half-year financial report be read in conjunction with any public announcements made by the Company during the half-year in accordance with the continuous disclosure obligations arising under the Corporations Law.

This report has been prepared on the basis of historical costs and except where stated, does not take into account changing money values or current valuations of non-current assets.

The carrying amounts of non-current assets, except exploration expenditure, are reviewed to determine whether they are in excess of their recoverable amount at the end of the half-year. If the carrying amount of a non-current asset exceeds the recoverable amount, the asset is written down to the lower amount. In assessing recoverable amounts the relevant cash flows have not been discounted to their present value.

The Company’s accounting policy relating to “exploration and evaluation expenditure” is as follows :

Exploration and evaluation costs are only carried forward where rights to tenure are current and either;

- (i) they relate to acquisitions; or
- (ii) such costs are expected to be recouped through successful development and exploitation of the areas of interest, or by its sale.

Ongoing expenditure on exploration and evaluation activities in relation to areas of interest which have not yet reached a stage which permit a reasonable assessment of the existence or otherwise of economically recoverable reserves are expensed as incurred.

Where a project or area of interest has been relinquished or sold, the costs incurred thereon are written off.

For the purpose of preparing the half-year financial statements, the half-year has been treated as a discrete reporting period.

The Company was incorporated on 14 March 2000. Accordingly there are no comparatives for the corresponding half year.

2. Operating Loss

The operating loss before income tax has been determined after :

	31 Dec 2000
	\$
(Crediting) as revenue :	
- Interest	(75,773)
- Other	(995)
	<hr/>
	(76,768)
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Charging as expense :	
- Exploration expenditure written off	679,141
- Depreciation	16,109

3. Basic loss per share

	31 Dec 2000
Cents per share	(2.5) cents

Options are considered to be potentially ordinary shares. If the options on issue were to be exercised, diluted earnings/(loss) per share would not show an inferior earnings performance to basic earnings/(loss) per share. For this reason, the diluted earnings/(loss) has not been disclosed.

4. Share Capital

	31 Dec 2000
	\$
Issued and Paid-Up Capital	
30,000,003 ordinary shares	6,000,001
Less : Issue Costs	326,507
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Share Capital	5,674,494
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Options

The following options remain outstanding as at 31 December 2000 :

- 2,000,000 options exercisable at 30 cents each on or before 30 June 2002.
- 15,000,000 options exercisable at 25 cents each on or before 31 December 2005.

5. Notes to the Statement of Cash Flows

(i) Reconciliation of Cash

For the purpose of the Statement of Cash Flows, cash includes cash on hand and at bank and short term deposits at call, net of outstanding bank overdrafts. Cash at the end of the financial period as shown in the Statement of Cash Flows is reconciled to the related items in the balance sheet as follows:

	31 Dec 2000
	\$
Short term deposits	2,081,619
Cash on Hand	1
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Cash at the end of the period	2,081,620
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6. Subsequent Events

On 13 January 2001 the Company, reached agreement with Pasminco Limited (“*Pasminco*”) to purchase Pasminco’s 49% interest in the Ernest Henry Mine (“*Mine*”).

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Financing Details:

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Other Information:

Termination Fee –

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AQUILA RESOURCES LIMITED

DIRECTORS' DECLARATION FOR THE HALF-YEAR ENDED 31 DECEMBER 2000

In the opinion of the Directors of Aquila Resources Limited:

1. the Financial Statements and Notes set out on pages 6 to 11 are in accordance with the Corporations Law, including:
 - (a) giving a true and fair view of the financial position of the Company as at 31 December 2000 and of its performance, as represented by the results of its operations and cash flows for the half-year ended on that date; and
 - (b) complying with Accounting Standard AASB 1029 "Half Year Accounts and Consolidated Accounts" and the Corporations Regulations, and
2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors:

A Poli
Director

Dated at Perth this 16th day of March 2001.