

## **QUARTERLY REPORT**

For the period ended  
**30 June 2002**

### **HIGHLIGHTS**

#### **GOLD - COPPER**

**Diamond drilling underway following completion of shallow RC holes and pre-collars for diamond core tails.**

#### **COAL**

**Target settings prioritised for drill testing;**

**Drilling programs finalised for determination of resource potential of four targets.**

#### **\* CORPORATE**

**Aquila lodges \$153.7 million final proof of debt against Pasminco Limited administrator;**

**The Company sets aside \$1 million to fund litigation against Pasminco Limited;**

**Sale of investment in Sun Resources NL, realises a profit in excess of \$870,000;**

**A successful rights issue and the exercise of 30 June 2002 options raises \$1.8 million.**

## **GOLD**

### **Wilcherry Hill:**

During the quarter, detailed in-fill gravity surveys were conducted over ten prospects that had been identified from the interpretation of the geophysical data acquired on the initial survey. Modeling of the new data identified several highly encouraging targets for early drill testing. Strongly anomalous gravity and/or magnetic responses along with evidence of gold and base metal mineralisation from earlier exploration define the four prospects: Cato, Mawson, Magaray and Torrens.

Drilling commenced in the third week of June. By month end 1,694 metres of reverse circulation (RC) drilling had been completed out of a planned RC and diamond core program of 4,000 metres.

### **Cato:**

Seven holes were drilled at Cato that is located immediately along strike from the Weednanna gold prospect. The drilling confirmed the strike continuity of the gold system with an intersection of 14 metres at 0.9 g/t gold from 70 to 84 metres in CAT 005. The intersection is associated with strongly altered magnetite-rich rocks similar to those hosting the high-grade gold mineralisation at Weednanna.

The gold-mineralised intercept in CAT 005 will be followed up with a diamond core tail in early August.

### **Mawson:**

Two vertical holes were pre-collared to 100 metres for diamond core drill testing to be carried out in August. Mawson comprises a 2,500 metres long residual gravity anomaly that is partly coincident with a prominent 4,000 metres long magnetic zone. Modeling of the geophysical data suggests the source of the anomaly is at a depth range of 200 to 400 metres below the surface.

### **Torrens:**

Ten holes are planned at Torrens to test a 7 km by 2 km residual gravity anomaly that is flanked by sub-parallel magnetic highs. Geophysical modeling indicates the depth to source of the features to be approximately 200 metres. Previous exploration activity on the eastern magnetic zone identified gold and base metal anomalism in shallow drilling. This drilling will be undertaken in early August.

### **Magaray:**

One hole was drilled on the gravity anomaly making up the Magaray prospect. The hole was terminated in calc-silicate altered amphibolite at 44 metres when the drill bit sheared off.

## COAL

The compilation of drilling and geophysical data from departmental records and company reports has led to the Company identifying target settings that can be prioritised according to resource potential, coal quality and location of established infrastructure.

Exploration drill testing of four of these targets is scheduled to commence in the middle of August with a program comprising 22 holes for 3,250 metres. The program was originally planned for June but has been delayed due to drill rig unavailability.

### **EPC 778 – Arcturus:**

The area identified for drilling lies in the southeastern sector of the permit where there is potential for the occurrence of open pit coal of mineable thickness. Departmental drilling in this area showed that coal seams up to 7 metres thick are present at shallow depth. Limited testwork on cored intercepts shows that the coal is of low to moderate ash content, has high calorific value and would fit the specifications for an export thermal coal product.

The plan is to drill a series of traverses on a 2 km by 1.5 km spacing across the projected strike of the thickest occurrence of coal. The program of nine holes (including two core holes), when combined with the Departmental drilling, will cover an area of 12 square km. Two additional holes will be used to test for shallow coal seams that are interpreted from seismic data to extend along an arch trending to the northwest.

### **EPC 755/795 Moranbah East:**

Departmental records indicate that there is potential in this area for the existence of thermal and coking coal resources in the Rangal Coal Measures where open pit mining operations could be established. Previous drilling intersected both the Leichhardt and Vermont seams at shallow depths.

A drill program has been designed to cover 12 km of strike, down dip of the projected subcrop, with seven drill holes to 100 metres maximum depth. The holes are located to give a first pass coverage on a 2 km by 2 km spacing and give an indication of the resource potential.

### **EPC 753 Kingower:**

The Kingower Project adjoins Pacific Coal's tenements containing the Kestrel underground mining operations. This mine produces 3.6 Million tonnes per year of high volatile hard coking coal and medium ash, high energy thermal coal from the German Creek seam at a depth range of 230 to 280 metres. The project area is centered approximately 20 km north of Emerald and is readily accessible by rail.

Little is known about the coal resources in the permit area. There has been minimal drilling carried out along the 15-km strike of the coal measures. In particular there has been little effective drilling done in the western sector of the area where the Tertiary covers thins and where fault uplift may have brought the prospective coal seams closer to surface.

The objectives of the planned drilling are to trace the coal seams of the German Creek Formation through the tenement and to evaluate their potential to produce coking and thermal coals. An initial drill test of 1,650 metres is planned, based on a 3 km by 2 km pattern, to a depth range of 140 to 270 metres.

## **EPC 783 - West Moura:**

Granting of this permit has only just occurred. Initial exploration activity will commence on the northernmost sector of the area, where the target is premium quality coking coal of the Baralaba Coal Measures, up dip of the Moura West underground coal resource.

# CORPORATE

## **Legal Proceedings:**

### **– Background**

Aquila filed a discovery application in the Supreme Court of Western Australia on 18 October 2001 seeking access to documents relating to the circumstances surrounding and leading to the extension of the pre-emption period with respect to the sale of Pasminco Limited's ("**Pasminco**") 49% interest in the Ernest Henry Mine ("**EHM**").

In handing down its ruling on 22 March 2002, the Supreme Court of Western Australia found that Aquila was entitled to documents from both MIM Holdings Limited ("**MIM**") and Pasminco in relation to its discovery application.

Notwithstanding attempts by MIM and Pasminco to narrow the scope of the documents to be discovered, the Supreme Court on 15 April 2002 re-affirmed its findings of 22 March 2002 and **ordered** that MIM and Pasminco provide verified discovery, within 14 days, of any and all documents covering the period 23 February 2001 to 31 March 2001 relating to an extension or proposed extension of the period for MIM to exercise its rights of pre-emption in respect of Pasminco's interest in EHM.

### **– Discovery to date**

Based upon the discovery of documents already provided to Aquila, Aquila has determined that it has a cause of action against Pasminco, and on 24 July 2002, lodged a final proof of debt for \$153,715,872 with the administrators of Pasminco. The amount claimed represents Aquila's assessment of its damages arising from the termination of its agreement to acquire Pasminco's 49% interest in EHM.

Aquila may also have a claim against MIM and is currently reviewing documents discovered by MIM pursuant to the orders of the Supreme Court to determine whether to commence proceedings against MIM.

### **- Provision to fund litigation:**

The Directors of Aquila have set aside \$1 million to fund legal proceedings against Pasminco.

As advised in the Company's ASX announcement on 24 July 2002, after providing for the costs of litigation, Aquila will still have cash and ASX quoted securities totalling \$2.85 million to fund ongoing exploration and company overheads.

## **Sale of investment in Sun Resources NL:**

The Company boosted its cash reserve when it sold its shareholding in Sun Resources NL, and realised a profit in excess of \$870,000.

### **Capital Raisings:**

#### **– Rights Issue**

The Company successfully raised \$1.2 million (before issue costs) by way of a non-renounceable rights issue whereby 4 million shares were issued at a price of 30 cents each.

All shareholders were offered the opportunity (on a pro-rata basis) to participate in the capital raising which involved the issue of 2 new ordinary shares for every 15 ordinary shares held at an issue price of 30 cents per new ordinary share.

#### **– Exercise of options**

The Company raised \$600,000 in June 2002, when 2,000,000 options to subscribe for fully paid ordinary shares were exercised.

For further information please contact :-

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The technical aspects of this report have been prepared by Mr Geoff Pigott, MSc (Geol) of Aquila Resources Limited who is a Corporate Member of the Australian Institute of Mining and Metallurgy, who has had a minimum of five years relevant experience in this field of activity and has consented in writing to the report in the form and context in which it appears.