AQUILA
RESOURCES LIMITED

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QUARTERLY REPORT

For the period ended

30 June 2004

HIGHLIGHTS

♦ COAL

- **A new deposit of shallow coal has been delineated in the northern part of the Moranbah East tenement, in Queensland's Bowen Basin. The deposit, in the Leichhardt Seam of the Rangal Coal Measures, is consistently 3 to 4 metres thick over the 5.5 km strike that has been drilled to date;**
- **Two rigs are now operating to drill out the deposit and to define the coal resource while large diameter core holes are being drilled for coal quality testwork; and**
- **At a second prospect, north of the Hail Creek Mine, exploration drilling in the Exevale Syncline has discovered an 8 metre thick coal seam and traced it over a 6 km strike.**

♦ GOLD

- **Drilling is underway at the Wilcherry Gold project in South Australia where 6 targets are being tested for structurally related gold mineralisation.**

♦ IRON ORE

- **Aquila lodges applications for a further 13 exploration tenements in the Pilbara prospective for iron ore.**

♦ CORPORATE

- **Federal Court orders Pasminco Administrators to set aside funds relating to Clarksville Smelter;**
- **Cash reserves and liquid investments total approximately $6.64 million as at 30 June 2004 ($7.0 million as at 31 March 2004); and**
- **Investments in listed entities total approximately $2.8 million as at 30 June 2004 ($3.7 million as at 31 March 2004).**

COAL

Bowen Central Coal JV:

(Aquila Coal Pty Ltd 50%, Bowen Central Coal Pty Ltd 50%)

Drilling (comprising 137 holes) for a total of 11,239 metres was conducted on two Joint Venture tenements during the June 2004 quarter.

Moranbah East – EPC 755

Drilling commenced in early April within the northern part of the Moranbah East tenement (EPC 755) that is subject to the Joint Venture. By the end of the quarter a total of 99 holes had been drilled, 8,315 metres open hole and 250 metres of core.

The drilling has successfully delineated a coal deposit in the Leichhardt Seam of the Rangal Coal Measures. It extends from the northern boundary of the EPC and trends southwards over a distance of 5.5 km to the boundary of the 100% Aquila held portion of the tenement. The first phase of drilling traced the continuity of the seam on 500 metre centres along the strike of the sub-crop and then stepped out to confirm the down dip continuity. The encouraging results prompted an acceleration of exploration and the introduction of a second rig. One rig is now drilling out the deposit to 250 metre centers with the second rig core drilling for coal quality testing and to collect geotechnical information for mine design purposes.

The seam shows good consistency of development over the full strike of 5.5 km that has been drill tested. Coal thickness ranges from 2.7 metres to 5.0 metres, but generally is between 3.0 and 4.0 metres. Some seam splitting has been identified in the extreme northwest corner of the deposit. There is minimal cover and the depth to unoxidised coal is shallow (in the 15 to 25 metres range). The shallowest intersection of coal has been from a depth of 7.9 metres and the deepest has been at 196.0 metres. For the most part the drilling has been concentrated on the open cut depth range.

Faulting is evident throughout the area with both reverse faults and normal faults being identified. The reverse faults can give rise to repetition of the seam (in effect doubling its thickness) in some holes. Normal faulting is present and increases in intensity to the south, progressively causing the sub-crop to be displaced to the east with each fault uplift.

During the forthcoming September 2004 quarter, it is planned to:

- drill out the resource area to define the distribution and structure of the coal seam;
- bring the status of the deposit up to the measured **resource** category;
- conduct coal quality testwork on large diameter core samples to determine the optimum coal products and yields;
- commence engineering studies on a mine design; and
- establish infrastructure requirements.

The coal-bearing sequence remains open to the south. Aquila's drilling has previously intersected the seam some 7.0 km to the southeast at Wotonga, where it is 5.3 metres thick. The intervening ground between the two project areas has yet to be explored.

Exevale – EPC 752

Programmes of scout drilling were conducted over two of the target settings that had been previously identified within the Exevale project area. The eastern limb of the Exevale Syncline had been considered a priority, based on the results obtained from earlier (1970's) drilling. A total of 28 holes in 7 fences was drilled on traverses spaced 1 km apart. The drilling covered a 6.5 km strike extent of the Hynds coal seam. The Hynds Seam is one of the principle seams of the Rangal Coal Measures in the northern part of the Bowen basin and is being mined by PacCoal at its Hail Creek mine, some 15 km to the south of the project area.

The Hynds Seam was intersected on each of the traverses over the full strike extent that has been drilled so far. It occurs as a single coal seam over the northernmost 3.5 km, averaging 11.70 metres in thickness (apparent). It splits into two seams in the southern 3.0 km portion. When split, the upper seam averages 4.2 metres and the lower seam 5.6 metres, an aggregate average thickness of 9.8 metres of coal (apparent). Dips appear to be relatively steep, up to 45 degrees in the north, but becoming shallower to the south. Three holes were cored through the seam in order to collect samples for quality analysis.

The coal bearing sequence continues to the southeast, where it trends towards the synclinal keel. Continuity to the northwest is uncertain as the coal may be disrupted by intrusive activity.

Ten holes were drilled in the nose of the north-plunging Hillalong Anticline, the prominent structure in the western part of the tenement. The equivalent of Hynds seam was intersected in 6 of the holes with an average intersection width of 1.7 metres. The higher ranked target setting at Hillalong lies further to the south. This is where the Moranbah Coal Measures appear to be exposed in the anticlinal core and the Rangal Coal Measures occur along the western limb. Drilling in this area requires access to be cleared, so it has been deferred until later in the year.

GOLD

Wilcherry Hill - South Australia:

The drilling campaign, planned to test previously identified gold anomalies in the Wilcherry project area, got underway in mid June, following the granting of all necessary approvals. The programme is designed to test six highly ranked targets, three on the Wilcherry Hill tenement and three on the Peterlumbo tenement. By the end of the Quarter, 56 holes had been completed for a total of 3,250 metres. The holes are drilled with air core to blade refusal and are then extended utilizing a RC hammer in order to ensure that primary bedrock samples are obtained.

Holes 1-18 were drilled at the **Magery** target, which occurs 4.0 km north of Weednanna. It was initially defined by calcrete sampling that delineated a 1.5 km x 0.4 km gold-in-calcrete anomaly, with a peak result of 145 ppb Au, over a northwest-trending disrupted magnetic anomaly. Subsequent testing with two RAB traverses identified bedrock gold anomalism (> 0.1 ppm gold) with anomalous arsenic, copper and bismuth over iron metasomatised carbonate and BIF rock units. But the drilling was constrained to the sub-crop and the gold anomalism was seen to be open to the west, where much of the magnetic anomaly is under cover.

The new drilling has bracketed the anomaly and extended the coverage to the west. Results have been received for the first 10 holes so far, with the strongest response being 10 metres at 226 ppb gold in one hole (04AC 005) from 60 to 70 metres.

The **Golden Gate** target is located 7.5 km north of the Weednanna gold prospect. It is a gold-in-calcrete anomaly measuring approximately 1.4 km x 0.6 km, with a peak result of 61.0 ppb gold. The anomaly is located on the southern edge of a prominent magnetic feature. An initial follow-up of the calcrete anomalies comprised three narrow fences of RAB drilling. Previous best results included 6 m @ 0.16 g/t Au, 3 m @ 0.46 g/t Au and 3 m @ 0.23 g/t Au, but no further work was done.

The anomaly coincides with a north-northwest trending fracture corridor. The strong magnetite alteration occurs within a fold hinge with zones of haematite alteration occurring along the limbs. Aquila's drilling is designed to cover the calcrete anomaly and the anomalous magnetic features. Holes 19 to 56 had been completed by the end of the Quarter but the assay results had not yet been received.

The last phases of drilling at **Weednanna** conducted by AngloGold in 2000 showed that the skarn hosted gold mineralisation could be part of a broader mineralised system. Gold intercepts such as 16.0 metres at 2.9 g/t gold and 26.0 metres at 0.6 g/t gold were returned from drilling in quartz-sericite altered zones in gneissic granites adjoining the skarn complex.

Aquila has targeted this setting for drilling with 25 holes planned on 100 metre centres. The drill pattern is designed to trace out the mineralised zone and define its trend. The earlier drilling has shown that the gold mineralisation is associated with sulphide development and brecciation, so it is important to ensure that the rig samples below the weathering zone.

The **Peterlumbo** licence area (E 2638) adjoins the Wilcherry Hill tenement to the west. Calcrete sampling has defined a number of coherent gold-in-calcrete anomalies within the contact aureole of the Buckleboo Granite. There has been no previous drill test of any of these anomalies. Drilling is now planned to test three well-defined gold targets that appear to be associated with iron metasomatism and structural breaks.

IRON ORE

During the quarter, 13 new applications were lodged for tenements over prospective iron ore targets in the Pilbara region of Western Australia. Aquila now has a total of 16 applications covering an area of 3,059 sq km. Research and target generation is continuing to identify further opportunities for ground acquisition.

CORPORATE

Legal Proceedings:

Aquila has two actions in the Federal Court involving Pasminco Limited ("Pasminco") and two of its subsidiaries, Savage Resources Limited ("Savage Resources") and Savage EHM Finance Pty Ltd ("Savage Finance").

Underlying Claim

In the first set of proceedings (the "**underlying claim**") Aquila has a claim against Pasminco and the Savage Companies arising from the circumstances under which Aquila's consent was procured to an extension of the period within which MIM Holdings Limited was able to

exercise a pre-emptive right to purchase the interest held by the Savage Companies in the Ernest Henry copper mine in North Queensland, which Aquila had contracted to purchase. Aquila is claiming damages of $153.7 million (plus interest and costs), being the value of the lost opportunity to purchase the Savage Companies' interest in the mine.

The underlying claim has been on foot since June 2003, when Aquila obtained the leave of the Court to proceed against Pasminco and the Savage Companies. On 9 June 2004, the Federal Court made various programming orders to take the matter to trial. As part of this process, Aquila is presently reviewing documents discovered by Pasminco and awaiting a response from Pasminco's solicitors with respect to deficiencies in Pasminco's claim for legal professional privilege over certain documents discovered by Pasminco.

Aquila has also written to Credit Suisse First Boston Pty Limited and the present owners of MIM Holdings Limited, Xstrata Limited with respect to obtaining discovery of documents from those parties which relate to questions to be determined in the underlying claim. Aquila believes that it is very likely that those parties will have documents in their possession which are relevant to the matters in issue in the underlying claim.

DOCA Proceedings

In separate but related proceedings ("DOCA proceedings"), Aquila is seeking orders terminating the Deeds of Company Arrangement ("DOCAs") executed by the Savage Companies on a number of grounds, including that there was no valid resolution by the relevant creditors approving the DOCAs and no validly convened meetings of the Savage Companies' creditors in accordance with the Corporations Act. Aquila asserts that the pooling of the Savage Companies' assets and liabilities with the wider Pasminco Group, as proposed by the Deed Administrators was erroneous.

Since the DOCA proceedings were commenced in mid-March 2003, the parties have exchanged pleadings and Aquila is presently awaiting discovery of certain documents from the Deed Administrators in accordance with programming orders made by the Federal Court on 9 June 2004.

Zinifex Limited (Clarksville Smelter)

Amongst the assets acquired from the Pasminco Group by Zinifex Limited in its successful float on the Australian Stock Exchange, was an asset of Savage Resources Limited, the Clarksville Smelter.

As highlighted in the Zinifex Prospectus, Ferrier Hodgson, the Deed Administrators, sought directions from the Federal Court enabling them to set aside a specific portion of the proceeds of the Zinifex float referable to the Clarksville Smelter pending the outcome of the DOCA proceedings.

On 9 June 2004, the Federal Court ordered that $42.7 million from the Zinifex Limited float proceeds be set aside pending resolution of ongoing legal proceedings.

Aquila believes the sum of $42.7 million, less $37 million (being the amount of the Deed Administrators' lien) together with other assets of Savage Resources will now be held by the Deed Administrators pending the outcome of proceedings brought by Aquila to terminate the DOCAs executed by the Savage Companies.

The Federal Court also ordered that Aquila's costs (expected to be in excess of $250,000) with respect to the Deed Administrators' application be reimbursed on a full indemnity basis.

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The information in this report which relates to mineralisation is based on information compiled by Mr Geoff Pigott, MSc (Geol) of Aquila Resources Limited who is a member of the Australian Institute of Geoscientists and has relevant experience as a Competent Person as defined in the Australasian Code for Reporting of Identified Mineral Resources and Ore Reserves in relation to mineralisation being reported on.