

## **QUARTERLY REPORT**

For the period ended  
**30 September 2001**

### **HIGHLIGHTS**

#### **DIVERSIFYING INTO COAL**

**Aquila Resources Limited embarked on a plan to diversify into the coal industry, making it a dual commodity Company. Over 1,300 sq km of prospective ground has been acquired in the Bowen Basin in Queensland.**

#### **EXPLORATION**

**The Company continued to focus on near surface gold exploration around the Youanmi Gold Mine and adjoining tenements.**

#### **LEGAL PROCEEDINGS**

**An application for discovery against MIM Holdings Limited, Pasminco Limited, Savage Resources Limited, Savage EHM Finance Pty Ltd and Ernest Henry Mining Pty Ltd was filed in the Supreme Court of Western Australia on 18th October 2001.**

### **DIVERSIFYING INTO COAL**

Aquila has become a dual commodity focussed Company by embarking on a plan to diversify into the coal industry.

The Company's expansion into coal involved a thorough review of the Australian coal industry recognising the continuing worldwide demand for competitively priced high quality coking & thermal coal and the impact that coal will have on the world economy over the next decade.

Aquila has been actively pursuing opportunities in the coal industry and has ranked Queensland's Bowen Basin as the priority target area for its investigations. The Company has established a

presence in the north-central part of the basin by taking up four exploration permits and by entering into an arrangement on a tenement held by another party. The total area Aquila has targeted to date covers 1,317 sq km.

Coal bearing horizons have been preserved at several stratigraphic levels throughout the Bowen Basin. The deposits of most economic importance occur into two groups;

- The German Creek Formation and Moranbah Coal Measures which contain the majority of high-grade coking coal deposits mined in Queensland; and
- The younger Rangal Coal Measures which are more widely distributed within the basin. Characterised by comparatively low reactivities content and low impurities, they are of major economic importance as a source of both coking and thermal coals.

A key component of Aquila's strategy is the acquisition of undeveloped coal resources that are located close to existing infrastructure and therefore have potential for development in the short to medium term. Opportunities that have been identified include:

- Deposits that fall outside of centres controlled by companies such as BHP-Billiton, Rio Tinto, Anglo Coal and Glencore that are focussing on mine development and consolidation adjacent to existing operations;
- Deposits that are considered insufficient to fit economies of scale required by the large multi-national companies, as they progress through the process of restructuring and rationalisation; and
- Semi-anthracite/low volatile coals that were previously considered to be of little value but are now in demand for PCI use due to their high carbon and energy content.

Aquila has identified and subsequently either lodged applications or entered into an agreement for five project areas (EPCs 726, 752, 753, 754 & 755) which have immediate access to well developed infrastructure.

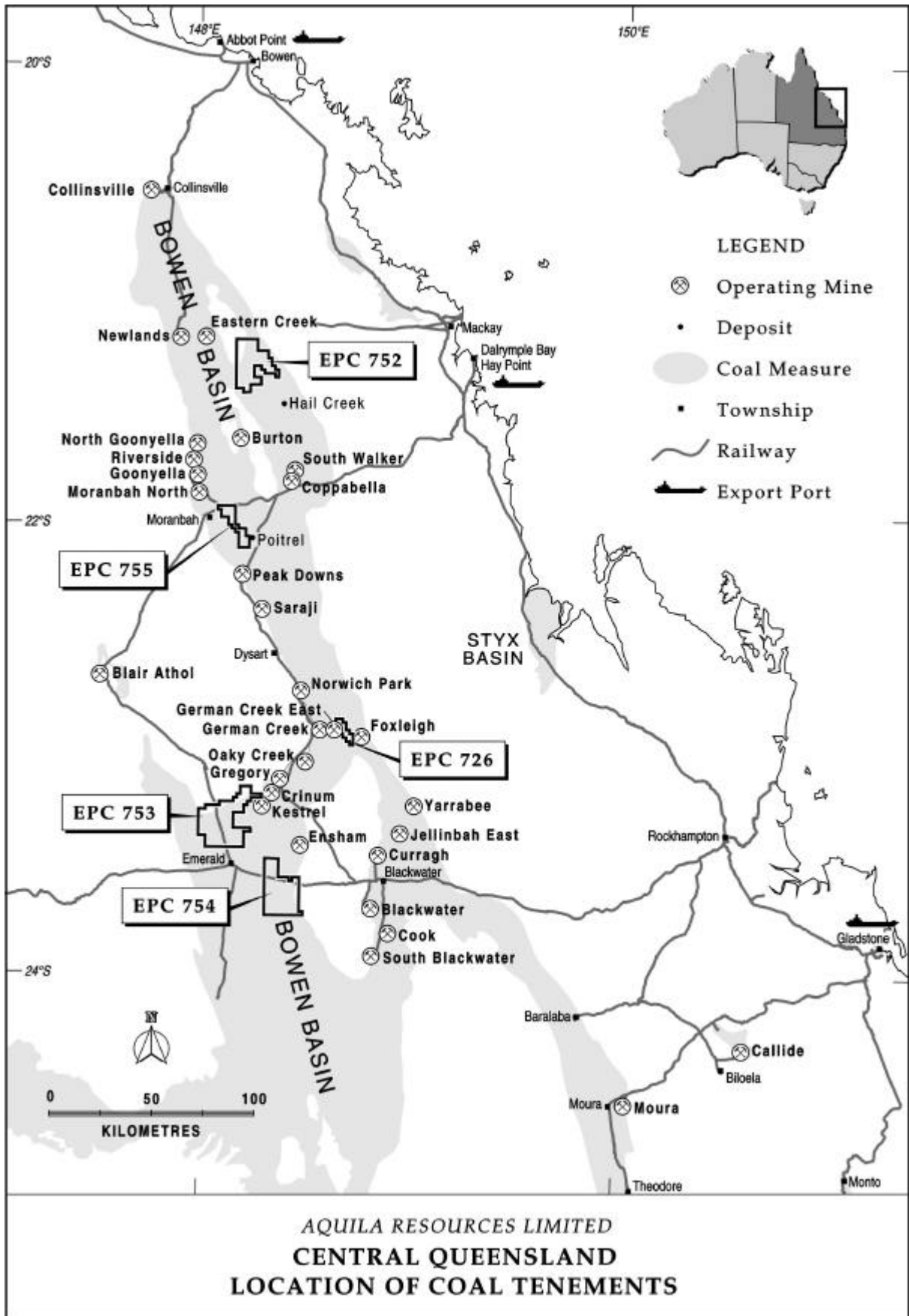
#### - **EPC 726**

Aquila, through its 85%-owned subsidiary Rangal Coal Pty Ltd, has acquired 100% of EPC 726.

Acquisition of this tenement gives Aquila a strategic ground holding in one of the principal coal producing centres of the Bowen Basin. Located near the town of Middlemount, it already has good infrastructure being well serviced by bitumen roads, electrified rail lines, power and water.

Coal-bearing strata of the Rangal Coal Measures underlie the tenement forming a gentle east dipping sequence on the western side of a major reverse fault, the Jellinbah Thrust. Four potentially mineable coal seams are present of which the uppermost, the Middlemount Seam, is the most important. It is the most laterally persistent seam, ranging in thickness from 1.45 to 6.27 metres at depths of between 75 and 272 metres below the surface.

There have been several phases of drilling carried out in the tenement area. The Queensland Mines Department originally delineated the Rangal coal seams. Subsequent exploration by other companies mainly focused on assessing the coking properties of the coals and since there was little interest in thermal coal at that time, the ground was subsequently relinquished.



EPC 726 is situated between two operating coalmines on its western and eastern boundaries. It lies down dip and east of Anglo Coal's German Creek East opencuts and west of CAML's Foxleigh opencut mine. Both mines are developed on coal deposits in the Middlemount seam similar to the coals underlying the Aquila tenement.

Aquila's exploration objective is to define both opencut and underground reserves of thermal coal on the tenement. It is targeting low ash, low sulphur, high carbon coal which can be sold unwashed as export thermal coal, or if washed, sold as a PCI product. In-fill drilling is being planned to target areas selected on the basis of where the thickest and most persistent coal seams have been identified from the previous drilling.

- **EPC 752**

This application covers an area of 320 sq km and lies in the northern section of the Bowen Basin.

The principal geological feature targeted is the Exevale syncline, which contains well-preserved coal seams of the Rangal Coal Measures, in a similar setting to those being developed by Rio Tinto at Hail Creek on the adjoining tenement to the south.

Previous exploration in the application area was conducted by large companies applying wide-spaced scout drilling and there was minimal testing done of the Rangal Coal Measures. There are at least four seams that make up the Rangal Coal Measures in this area, with the main one being the Hynds seam. The coal is contained within the asymmetric north plunging syncline with relatively shallow dips in the west limb.

The area lies 15 kilometres east of the town of Glenden and 40 kilometres from the Newlands plant on the Abbot Point railway. The Hail Creek development will deliver improved infrastructure to the area, particularly with the proposed establishment of a rail line linking the new mine to the port at Dalrymple Bay.

- **EPC 753**

This application, which is located in the central part of the Bowen Basin, covers an area of 458 sq km. It contains coal seams of the German Creek Formation and Rangal Coal Measures, which dip gently south and show minimal structural disruption.

The Kestrel Mine (managed by Pacific Coal, a wholly owned subsidiary of Rio Tinto) which produces 3.6 Mtpa of both coking and thermal coal from the German Creek seam at depths of between 220 and 280 metres, adjoins EPC 753 on the eastern boundary.

Little drilling has been carried out targeting the younger Rangal Coal Measures which contains four potentially mineable seams, and in particular, no drilling has been done in the western sector of the area where fault uplift may have brought the coal seams closer to the surface enhancing the prospects of opencut mining.

The area is centred approximately 20 km north of the town of Emerald and is readily accessible by road and rail. The distance to the port of Gladstone is 380 km by rail.

- **EPC 754**

Application 754 covers an area of 378 sq km in the central part of the Bowen Basin and lies in an area underlain by Rangal Coal Measures.

Exploration drilling by the Queensland Department of Mines has identified that at least four coal seams are present, dipping gently to the west and are variable in distribution and thickness. The Aries II seam appears to be the most persistent, being intersected in the drill holes at depths of between 63 and 250 metres. There has been minimal follow up drilling to date.

The EPC lies immediately along strike from the adjacent Ensham operations managed by Idemitsu Kosan Co Ltd, where high energy thermal coal is mined from open pits at a rate of 5.5 Mtpa. Aquila has identified structurally uplifted blocks in the northern portion of EPC 754 with the potential to contain down dip extensions of the Ensham resources.

The area is well serviced by existing infrastructure and being approximately 30 km from Emerald is easily accessible by rail and highways to the coast. The port of Gladstone is 340 km by rail.

- **EPC 755**

This EPC lies in the northern part of the Bowen Basin and covers an area of 105sq km. It is surrounded by both operating coal mines and advanced exploration properties.

Coal seams of the Moranbah Coal Measures occur at depth in this application area and have been the main target for previous drilling. These coals are extensively mined up-dip over a 200 km strike along the western margin of the Basin. Aquila is targeting the area for near surface coal seams of the Rangal Coal Measures, where open pit mining operations could be readily established.

Geological mapping and wide-spaced drilling trace the Rangal coals into the area along strike from the adjoining tenement containing BHP-Billiton's undeveloped Poitrel deposit (271 Mt open pitable coal resources).

The area is well serviced by existing infrastructure and is 190 km by rail from the coal export terminal of Dalrymple Bay.

## **EXPLORATION**

Rather than continue pursuing known mineralized resources, Aquila decided to examine areas within its tenements which have had little or no exploration to-date. As such, this quarter's drilling was designed to test a number of regional exploration targets that had not previously been explored. A comprehensive rotary air blast ("*RAB*") drilling programme was completed at the Enterprise and Penny West project areas during the September 2001 quarter.

### **Enterprise Project**

A total of 8,056 metres of RAB drilling were completed testing a number of target areas.

RAB drilling north of the Plant Zone tested for extensions of the quartz-veined stockworks gold mineralisation. Hole PZR050 recorded an intercept 220 metres north of the last Plant Zone drill line, with 6 metres at 1.08 g/t gold from 40 metres depth.

A second gold anomaly was also intersected to the west of hole PZR050. The gold mineralisation is hosted in quartz-veined stockworks along a parallel structure west of the Plant Zone anomaly. The RAB drill assays indicate that the anomaly is over 200 metres in width with the following results being recorded;

Hole Id	From	To	Width	Au g/t gold	Au ppb gold
PZR0053	37	44	7 metres		647
<i>Including</i>	39	40	1 metre	3.31	3389
PZR0055	18	27	10 metres		470
<i>Including</i>	22	23	1 metre	2.43	2741
PZR0055	50	51	1 metre	1.65	1504
PZR0056	27	44	17 metres		272
PZR0057	41	56	15 metres		279
<i>Including</i>	50	51	1 metre	1.69	1715
PZR0058	39	43	4 metres		225

In the Midas area RAB drilling targeted an interpreted northwest trending structure. Best results were from holes MDR0106 and MDR0107, which were located on the western end of the drill lines. These results were intersected within quartz-veined granites along a structure, which appears to be an extension of the East Plant Zone soil gold anomalies located to the west. The drill results are as follows;

Hole Id	From	To	Width	Au g/t gold	Au ppb gold
MDR0106	55	68	13 metres		195
MDR0107	43	52	11 metres		581
<i>Including</i>	43	44	1 metre	2.89	2938

## Penny West

A total of 1,577 metres of RAB drilling were completed. Resplit samples are still outstanding and geological interpretation of the drilling has not been completed.

A best result from hole YGRB058 with 4 metres at 107 ppb gold from 36 metres depth was recorded within sheared mafics.

## LEGAL PROCEEDINGS

On 18th October 2001, Aquila filed an application in the Supreme Court of Western Australia 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 Pasma Limited's 49% interest in the Ernest Henry Mine.

Aquila is seeking orders against MIM Holdings Limited, Pasminco Limited, Savage Resources Limited, Savage EHM Finance Pty Ltd and Ernest Henry Mining Pty Ltd.

The Company had been awaiting the release of Pasminco's and MIM's annual financial results to substantiate certain information.

The pre-action discovery application to the Court is designed to furnish Aquila with additional information which may result in substantive proceedings being initiated.

For further information please contact :-

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The technical aspects of this report have been prepared by Mr Neil Lithgow, 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.