

QUARTERLY REPORT

For the period ended

30 September 2002

HIGHLIGHTS

– **COAL**

- Exploration drill testing was carried out at three of Aquila's coal prospects.

– **GOLD**

- A drilling program totaling 2,655 metres was completed at the Wilcherry Hill Project;
- Three of the identified gravity anomalies were tested;

– **CORPORATE**

- A final proof of debt for \$153.7 million lodged against Pasminco Limited administrator;
- Aquila seeks orders for the inspection of documents from MIM and Pasminco which has been masked for relevance and in some cases privilege.

COAL

Exploration test drilling was carried out in three of the coal permits during the Quarter. A total of 21 holes were drilled for 2,371 metres and 88 samples were collected for preliminary coal analysis. Downhole geophysical logging was carried out where hole conditions permitted.

Arcturus:

The drilling on Arcturus was confined to the southeastern sector of the permit where coal seams at relatively shallow depths had been reported previously. Eleven holes were drilled for a total of 983 metres and the results integrated with those obtained on Departmental programmes.

The drilling has outlined a coal deposit that is comprised of up to four seams. The best developed of which shows good consistency over a strike of 3.5 km. The intersected thickness of this seam varies from 2.5 to 7.0 metres over a depth range of 17.5 to 64.0 metres to the seam roof. Dips vary from 1 to 3 degrees.

The preliminary analytical results of the raw coal samples indicate similar analysis results as those reported for the departmental core holes in the area. It appears to be a high volatile bituminous coal with a moderate to high ash content. Swelling tests indicate that no coking fraction is present. Composite samples of coal plies from the one core hole drilled on this program have been submitted for washability testwork.

The coal deposit occurs on the western flank of a northwest trending anticline. Erosion of the Rangal Coal Measures is evident along the anticlinal axis, which appears to have formed a structural high during the outpouring of the Tertiary basalt. The drilling has traced this structure for a further 10 km into the permit. Thickening of the coal seams appears to occur on the flanks of the structural high. Repetitions of the coal deposit could exist at shallow depths along the structure presenting new exploration targets for future drill testing.

A follow up programme of slim core drilling is planned to better delineate the deposit and to collect representative samples of the seams for quality testing.

Kingower:

The drilling done at Kingower consisted of three holes being completed for a total of 543 metres. The program encountered difficult drilling conditions which prevented the recovery of clean samples from the coal bearing sequences. Core holes will be required on future programs to overcome these contamination problems.

The full suite of coal seams that characterize the upper portion of the German Creek Formation was encountered by the drilling. Little structural disruption is evident and there is good correlation of seams between the holes despite the wide spacing. The German Creek Seam is split into two seams, the lowermost of which appears to thicken up dip from the 1970's Departmental holes and to the west. From east to west the holes intersected the seam at depths of 176, 162 and 150 metres respectively.

Thick Tertiary cover effectively masks the Permian coal bearing strata over much of the permit area. It does thin to the west, decreasing from 139 metres in the east to 86 metres in the most westerly hole. The basalt component also thins out to the west and is replaced by sand and

clay. The thickness of the cover would appear to restrict opportunities for the development of open pit mining operations to the western sector of the permit.

Moranbah East:

Seven holes were drilled at Moranbah East, for a total of 845 metres, targeting the Rangal Coal Measures.

The drilling shows that the Rangal Coal Measures contain two major coal seams. The uppermost, or Leichhardt Seam, is best developed in the northern sub-blocks. The seam thins and splits to the south and is not readily recognised in the drill holes there.

The lowermost, or Vermont Seam, which occurs near the base of the Coal Measures, was intersected in all seven holes. Below these is a mixed sequence of coal and ash that forms the Girrah Seam of the underlying Burngrove Formation. Interpretation of the down hole geophysical logs will be required to better define the Vermont Seam and characterize the individual plies.

GOLD

Wilcherry Hill:

Drilling was carried out at the Cato, Mawson and Torrens prospects during the quarter. A total of 960 metres was drilled, 633 metres of reverse circulation (RC) and 327 metres of diamond core.

Two new exploration licenses were granted to Aquila. Lake Gilles (EL 3020) covers a strong regional gravity high with associated magnetic anomalism. Eurilla Dam (EL 3021) covers the eastern contact zone of the Wilcherry Hill granite complex. The compilation of previous exploration results together with an assessment of the regional data sets will be undertaken prior to the commencement of fieldwork on the tenements.

Cato:

A diamond core tail was drilled from CAT 006 to follow up on the gold mineralised intersection recorded in CAT 005 of 14 metres at 0.9 g/t gold from 70 metres. The hole intersected granite gneiss and amphibolite with discrete zones of biotite alteration, but no mineralisation. The results indicate that the gold mineralisation in this setting occurs in shallow north plunging shoots and needs to be followed up along the trend of the plunge.

Mawson:

Hole number MAW 001 was extended from 100 metres and diamond core drilled to 288 metres. It intersected red-rock (hematite) altered granite gneiss and amphibolite before finishing in albitised quartzite. The source of the coincident gravity and magnetic anomaly was not explained. It could be at a deeper level than reached since the depth range that was modelled of 200 to 400 metres was not fully tested. It was decided not to extend MAW 002 at this time but to reassess the situation when a better understanding of the geological setting is established.

CORPORATE

Legal Proceedings:

Background

Aquila has initiated and has been successful in its application against Pasminco and MIM for access to documents relating to the circumstances surrounding the extension of MIM's right of pre-emption in respect of Pasminco's interest in the Ernest Henry Mine, which Aquila had contracted to purchase in January 2001.

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.

Current

In addition to seeking orders for the inspection of documents from MIM and Pasminco which have been masked for relevance and in some cases privilege, Aquila had also been seeking orders that Credit Suisse First Boston hand over all of the documents in its possession relating to its role as financial and corporate adviser to Pasminco in the transaction.

The additional documents that Aquila is seeking to discover will assist the Company in determining whether it has a cause of action against MIM (in addition to Pasminco itself). A decision as to whether proceedings will be initiated against MIM will be made once this process has been completed.

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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.