

## Quarterly Report for the period ended 30 September 2005

### HIGHLIGHTS

#### COAL MINE DEVELOPMENT

##### Isaac Plains Coal Project

- Substantial increase in the Coal Resource Statement to 135.3 million tonnes.
- The development of the Isaac Plains Coal Project remains on schedule with the Mining Lease expected to be issued in the next quarter.
- Bank Syndicate appointed to provide project funding.

#### COAL EXPLORATION

##### Belvedere Coal Underground Project

- CVRD to commence seismic and diamond drilling exploration programme in December 2005.
- Key project personnel appointed.

##### Peak Downs East Underground Coal Project

- Drilling has intersected economic width Moranbah coal measures at 316 metres depth.
- Previous drilling and coal quality analyses undertaken by the BHP Billiton Mitsubishi Alliance indicates hard coking coal potential.

##### Moçambique Coal Project

- Detailed geological mapping identifies in excess of 10 kms of strike of the main Moatize coal measures.
- Exploration drilling to commence in November 2005.

#### IRON ORE EXPLORATION

- Field mapping and sampling programmes continue to identify additional channel iron deposit potential.
- Follow up HoistEM/magnetic survey planned for the West Pilbara Yalleen Project.
- Exploration drilling to commence in November 2005.

#### CORPORATE

##### Litigation

- Pasma Limited (in administration) to provide witness statements by the end of October 2005.

##### Cash Reserves

- Cash reserves and liquid investments total approximately \$8.3 million as at 30 September 2005.

# COAL

## COAL MINE DEVELOPMENT

### Isaac Plains Coal Project

(Aquila Resources Limited 50%)

The development of a mining operation at the Isaac Plains Coal Project progressed on schedule during the quarter.

- Resources for Isaac Plains Coal Project increased to 135.3 million tonnes.
- Mining Lease expected to be issued in November 2005.
- Bank Syndicate has been appointed.
- Orders have been placed for long lead time items.
- Exploration identifies new coal seam at Isaac River.

## RESOURCES

The Resource Statement for the Isaac Plains Coal Project has been boosted by the inclusion of the initial resource estimate for the Isaac Plains South Coal Project.

The JORC compliant resource now totals **135.3 million tonnes** (an increase from the previously quoted 44.3 million tonnes) comprising:

Measured	32.3 million tonnes
Indicated	61.6 million tonnes
Inferred	<u>41.4 million tonnes</u>
	<u>135.3 million tonnes</u>

The deposits will produce both coking and PCI/thermal coal products.

The Isaac Plains South Coal Project area lies 10 km south of the Isaac Plains Coal Project where the Leichhardt ("LHD") and Vermont ("V1") seams of the Rangal Coal Measures form the principle economic coal resources. Additional coal resources are provided by the Vermont 2 ("V2") and Vermont 3 ("V3") seams and splits, which occur in the underlying Fort Cooper Coal Measures.

Resource modelling of the coal deposit at the Isaac Plains South Coal Project was carried out after the completion of delineation drilling on a borehole spacing of 250 metres for chipped holes and 700 metres for cored holes. The Resource Statement is compliant with the Australian Code of Reporting of Mineral Resources and Ore Reserves (the JORC Code, December 2004) and is based on the results of this drilling.

### Summary of Resources Isaac Plains South Coal Project

Seam	Indicated (Mt)	Inferred (Mt)	Total Indicated & Inferred (Mt)
LHD	18.1	1.8	19.9
V1	18.8	9.5	28.3
V2	12.1	11.6	23.7
V3 (1)	3.7	4.0	7.7
V3 (2)	2.6	4.4	7.0
<b>Total</b>	<b>55.3</b>	<b>31.3</b>	<b>86.6</b>

An open pit coal mining operation at Isaac Plains South Coal Project will significantly enhance the economics and extend the life of the Isaac Plains Coal Project. The Coal Handling and Preparation facility to be constructed at the Isaac Plains Coal Project has sufficient built in design capacity to accommodate an additional 1.6 Million tonnes per annum.

In addition, the Isaac Plains Coal Project's coal inventory has been updated to incorporate the coal tonnage in the portion of EPC 667 added to the Project and incorporate the results of new drilling data. Borehole spacing is 250 metres for chipped holes and 500 metres for cored holes.

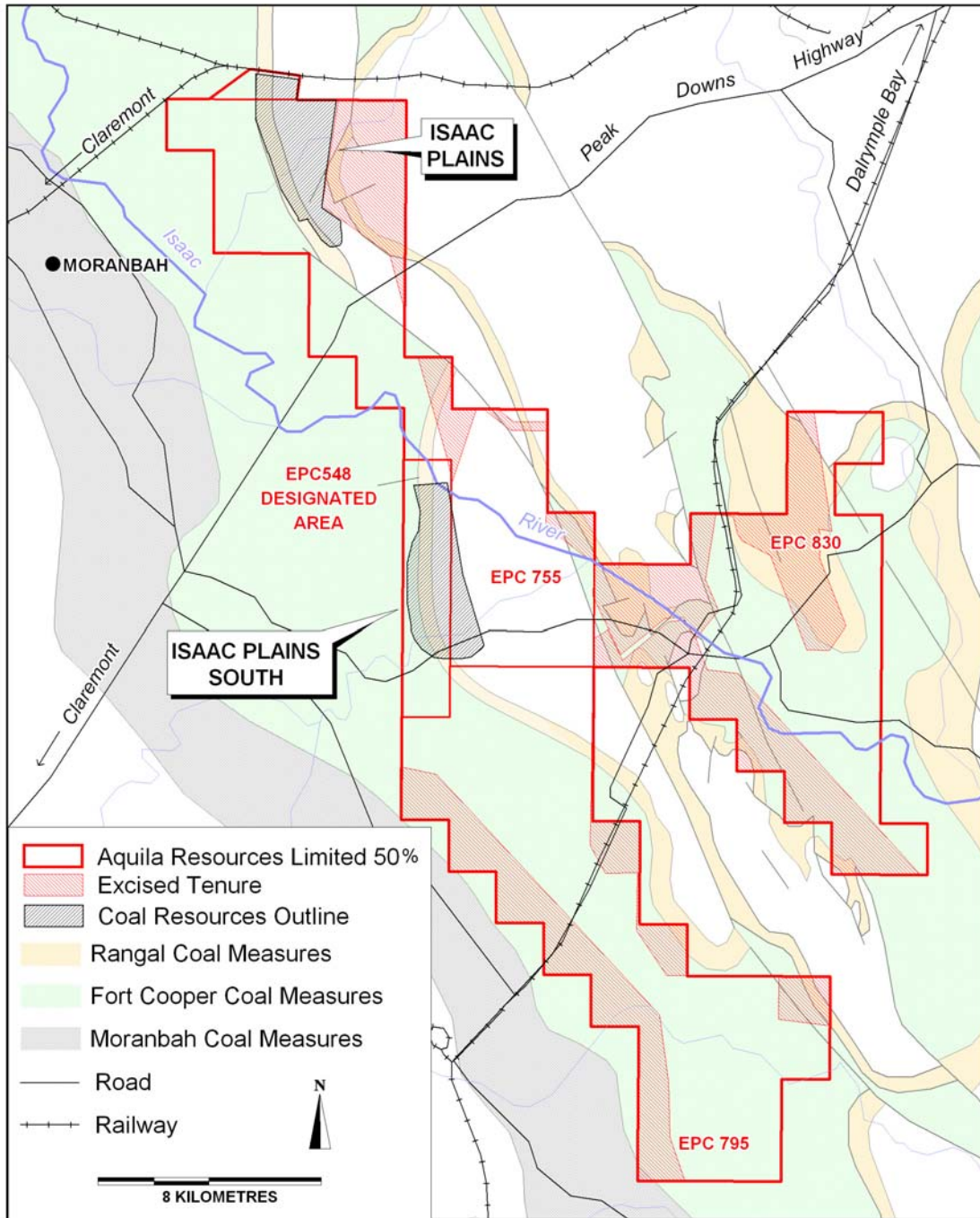
### Summary of Resources Isaac Plains Coal Project

Seam	Measured (Mt)	Indicated (Mt)	Inferred (Mt)	Total Measured, Indicated & Inferred (Mt)
LHD	32.3	5.4	9.6	47.3
LHL (Lower)		0.9	0.5	1.4
Total	32.3	6.3	10.1	48.7

The resource estimates were prepared in accordance with the Australian Guidelines for Estimating and Reporting of Inventory Coal, Coal Resources and Coal Reserves (March 2003), and are reported in compliance with the Joint Ore Reserves Committee's Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (December 2004).

## PROJECT FUNDING

A syndicate of international banks has been appointed to provide project finance for the development of the Isaac Plains Coal Project. Credit approvals are expected in November with the signing of loan documentation prior to calendar year end.



## EXPLORATION

### Isaac River

A scout drilling programme was undertaken on the Isaac River tenement (EPC 830), which adjoins the Isaac Plains Coal Project to the east. Eighteen holes were drilled for a total of 2,812 m on 500 m centres, testing for economic indications of coal in the Rangal Coal Measures. Thirteen holes drilled

intersected the Leichhardt Seam of 5.5 m thickness from depths as shallow as 36 metres. An intrusive and its coked aureole were intersected at the eastern boundary of the tenement where predicted. Samples for quality indication have been collected from drill core.

## COAL EXPLORATION

### Belvedere Coal Underground Project

*(Aquila Resources Limited 50%)*

During the Quarter the Joint Venture partners entered into an agreement with a wholly owned subsidiary of Companhia Vale do Rio Doce ("CVRD"), whereby CVRD will undertake an Exploration Study on the Belvedere Coal Underground Coal Project. The project has an estimated 2.7 billion tonne hard coking coal resource.

CVRD has established a project team headed by an experienced underground project manager. A comprehensive exploration programme has been devised which is centred on seismic surveys and diamond drilling. Drilling is scheduled to commence in December, 2005, with up to four drill rigs expected to be operating by the March (2006) Quarter.

CVRD is Brazil's largest mining company and is the world's largest producer of iron ore. Its investment in the Belvedere Coal Underground Project forms part of a global strategy to secure projects with the potential to become world class coking coal mining operations.

### Peak Downs East Underground Coal Project

*(Aquila Resources Limited 50%)*

A new phase of exploration drilling has commenced on the Peak Downs East tenement, which is situated south of the Isaac Plains South Coal Project. Drilling is targeting the Moranbah Coal Measures down-dip from BHP's Peak Downs coking coal mining operation.

By the end of the Quarter four holes had been drilled within the northern part of the tenement for a total of 1,549 m. Up to seven coal seams and splits of the Moranbah Coal Measures were intersected over a depth range less than had been previously modelled.

The target seam is the Harrow Creek Seam which can produce a low volatile, low ash premium hard coking coal product when washed. It is split into the Harrow Creek (Upper) and the Harrow Creek (Lower) seams in the holes that have been drilled. However, there is evidence from earlier drilling that the seams may coalesce in the central part of the area. In hole 795008, 2 km inside the tenement boundary, the Harrow Creek (Upper) seam is 3.9 m thick at 316.2 m and the Harrow Creek (Lower) seam is 8.0 m thick at 373.2 m.

The drill spacing will now be closed up to a 1 km grid pattern for an indicated resource to be calculated.

### Moçambique Coal Project

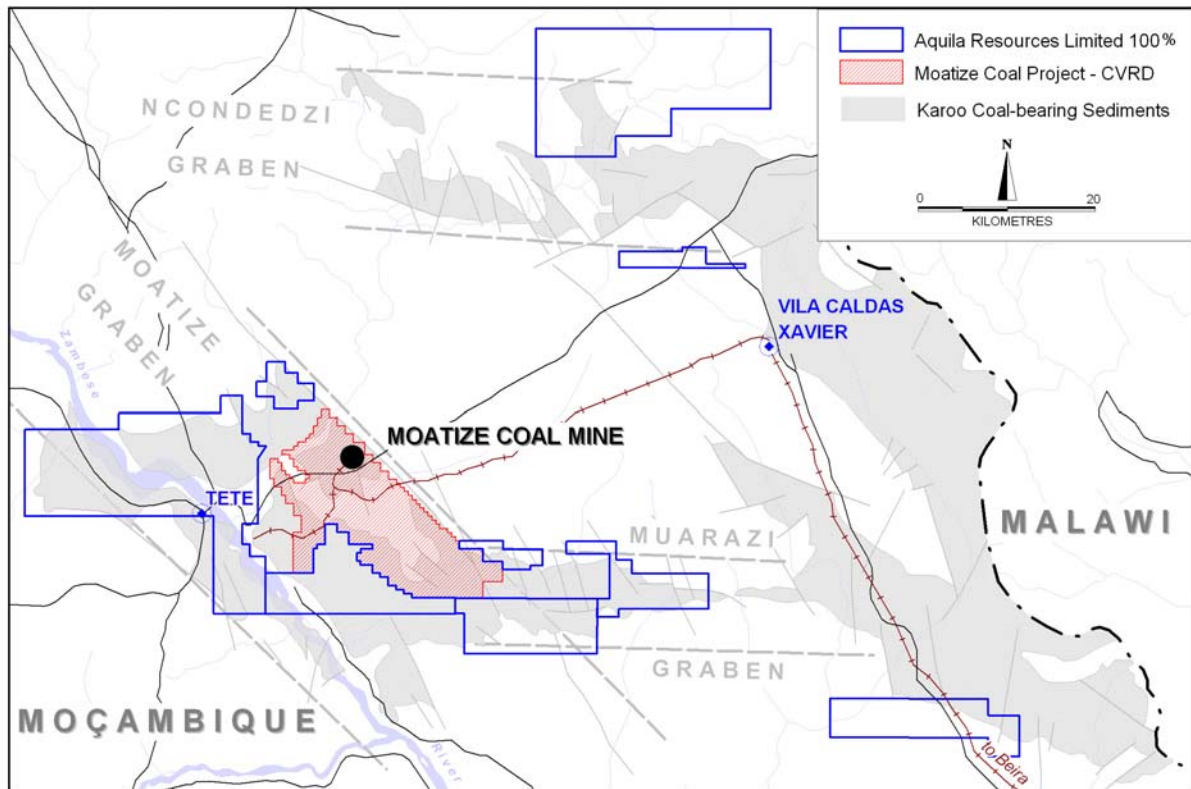
*(Aquila Resources Limited 100%)*

In Moçambique, the Company's licences cover a significant portion of the Moatize sub-basin. The economic coal deposits at Moatize occur within the Productive Series, a coal-bearing sequence some 320 m thick that contains six coal-bearing horizons ("seams"). The most important horizon is the Chipanga seam, which is 24 to 65 m in thickness. Up to 65% of the seam is coal that is highly vitrinitic and when washed yields a high-grade coking coal product. Historically mining has been from inclined shafts with production mostly confined to the basal 5.0 m unit of the Chipanga seam.

The Company has three licences bordering the Moatize coal mine concession that is controlled by CVRD. One licence lies along strike to the northwest, one covers an extension of the sub-basin to the west and one covers a repeat of the Lower Karoo stratigraphy to the southwest. The Company also has taken up three licences covering the south-eastern extension of the Moatize sub-basin, where it trends into the east-west orientated graben of the Muárazi area.

Geological mapping shows that there is extensive outcrop within the Company's licence areas. At the end of the quarter in excess of 10 kms of strike had been mapped. Exposures of carbonaceous or coal-bearing sequences are confined to low lying areas such as river and stream beds, where significant sections of the stratigraphy can be mapped. The mapping has identified Productive Series lithologies in outcrop on the three tenements at Moatize. Outcropping coal seams are only lightly oxidised and the overburden thickness is minimal, indicating that any coal deposits could be amenable to open pit mining at low striping ratios.

It is apparent that substantial coal resources could exist in the Moatize sub-basin that fall outside of the Moatize mining concession. Mapping is continuing with the objective of selecting suitable target settings for drilling to commence in November 2005.



## Bowen Basin

*(Aquila Resources Limited 100%)*

Applications have been made for new exploration permits for coal over identified coal targets in the Bowen Basin, bringing the total area covered by tenements and applications to 2,945 sq km. During the Quarter four of the tenement applications were offered for granting and have progressed into the expedited procedure process.

**Springvale:** The Springvale tenement application is located in the south eastern part of the Bowen Basin, approximately 100 km south of the Belvedere Coal Underground Project. The tenement overlies an 11 km interpreted strike extension of the Permian Blackwater Group, which hosts the Baralaba Coal Measures. Triassic and Jurassic sediments cover the Permian sequence over the southern portion of the License. However, a review of historical coal and petroleum exploration indicates that the Baralaba Coal Measures occur at 100 m depth at the southern tenement boundary and are interpreted to progressively occur closer to the surface towards the northern tenement boundary where they outcrop.

The principle exploration targets at Springvale are coking and thermal coals within the Baralaba Coal Measures under shallow cover in the southern area of the tenement.

**Mt Crocker:** The Mt Crocker tenement is located adjacent to, and west of the Curragh mining operations, approximately 10 km west of Blackwater. It overlies lower Permian sediments developed along the margins of the Comet Ridge.

There are several exploration targets within the Mt Crocker tenement. A preliminary review of previous exploration indicates that earlier explorers have defined a workable coal resource within the Scorpio seam of the Burngrove Formation on the adjacent tenement to the east. The Burngrove Formation contains several thick coking-quality coal seams but has high ash content. Radiometric imagery indicates that the Burngrove Formation extends through the eastern area of the tenement. There is also potential for faulted repetitions of Rangal Coal Measures. A secondary target is coking coal seams hosted by the underlying Crocker Formation, which is a stratigraphic equivalent to the German Creek Formation.

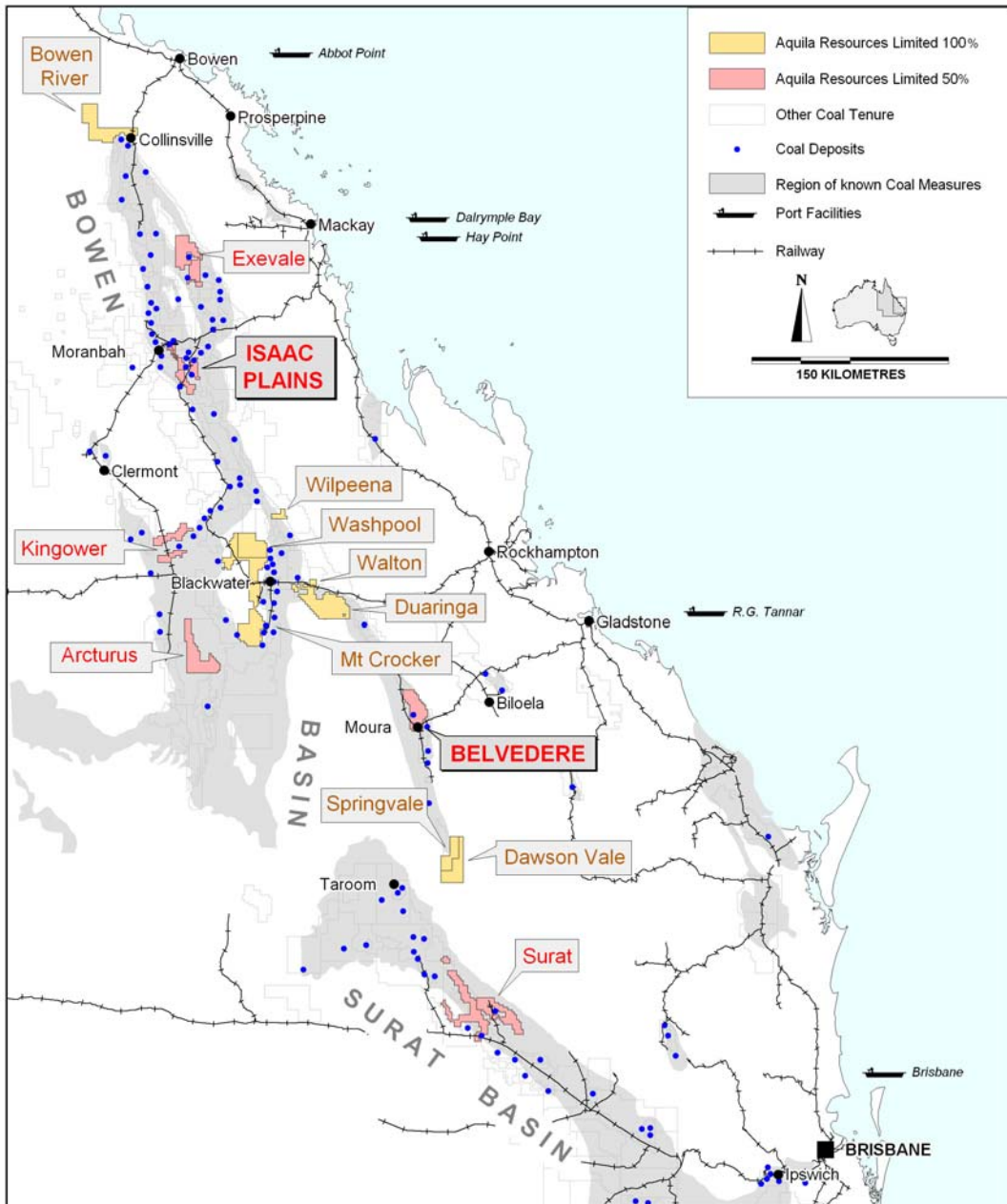
**Wilpeena:** The Wilpeena tenement is located between the Girrah and Yarrabee coalmines, approximately 40 km north of Blackwater. The tenement overlies Upper Permian stratigraphy, which includes the Rangal Coal Measures mined at Girrah and Foxleigh to the northwest and at Yarrabee to the southeast. The Wilpeena tenement covers a 4 km strike projection of this stratigraphy under shallow Triassic sediments.

Preliminary interpretation of aeromagnetic imagery suggests that the Wilpeena tenement lies within the northeast trending Blackwater transfer fault. The principle targets are moderate-sized, possibly structurally repeated, occurrences of coal in the Rangal Coal Measures.

**Bowen River:** The Bowen River tenement application is located adjacent to and west of Collinsville in the northern Bowen Basin. The tenement overlies exposures of the Lower Permian Crush Creek Group where coal occurrences have been recorded in outcrop and from water bores. These coals are equivalent to the Reids Dome and other Lower Permian coals preserved in small basins along the western side

of the Bowen Basin. Such coals often have good coking properties and are low in ash.

The primary exploration target at Bowen River is a medium-sized coking or thermal coal resource within specific target areas. The tenement is located close to established infrastructure, being 80 km by rail from the Abbot Point coal export terminal.



# IRON ORE

## Australian Premium Iron Joint Venture (API)

(Aquila Resources Limited 50%,  
AMCI Holdings Australia Pty Ltd 50%)

The Australian Premium Iron Joint Venture has assembled a significant iron ore exploration portfolio in the Pilbara region of Western Australia. The region is known for channel iron deposits ("CID's") being just south of Rio Tinto's Pannawonica mining operations.

The joint venture now has an exploration area in excess of 5,600 sq km.

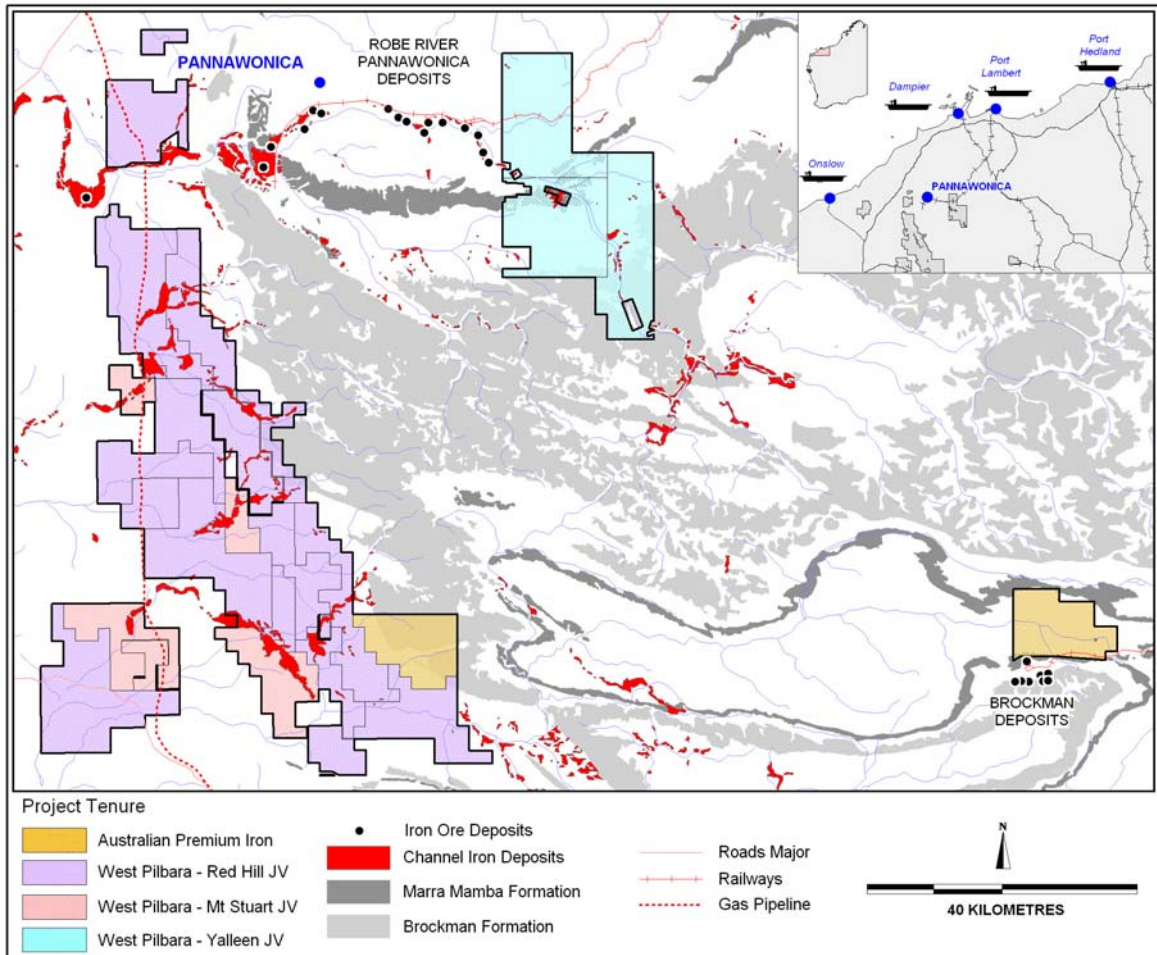
## West Pilbara – Mt Stuart Joint Venture

(API earning 70%)

Detailed geological mapping and sampling of CID's continued at Cardo Bore (E08/1341) and at Catho Well (E08/1330).

At the end of the quarter planned site access and drill hole locations have been identified. Heritage clearance surveys over the identified drill targets are scheduled for completion early in the December quarter.

Once heritage clearance has been obtained an evaluation drilling programme is planned to commence in the December quarter.



### **West Pilbara – Red Hill Joint Venture** (API earning 80%)

A geological mapping and sampling programme has commenced and early indications are positive for the existence of CID's.

A RC drilling programme will be planned to cover the south western and northern CID's in the new year. Drilling will commence once heritage clearances have been obtained.

### **West Pilbara – Yalleen Joint Venture** (API earning 70%)

Work undertaken during the quarter has identified the potential for buried pisolitic CID's similar to Robe River's Bungaroo Creek deposit.

An airborne HoistEM/magnetics survey over the central area of the project is planned for the next quarter. The survey will centre on the Robe River and Kumina Creek area north of the Hamersley Range.

## **CORPORATE**

### **LITIGATION**

The company has two actions in the Federal Court involving Pasminco Limited ("Pasminco") and two of its subsidiaries, Savage Resources Limited ("Savage") and Savage EHM Finance Pty Ltd (Savage Finance"). These companies are subject to a Deed of Company Arrangement ("DOCA").

#### **Underlying Claim**

During the quarter the Company lodged its witness statements with Federal Court.

Pasminco is expected to lodge its Witness Statements by the end of October 2005.

### **CASH RESERVES**

At the end of the quarter the Company had \$8.3 million in cash reserves.

For further information please contact:

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The information in this report (excluding the Belvedere Coal Resources) 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.

The information in this report that relates to Belvedere Coal Resources is based on information reviewed by Mr Patrick Hanna, who is a Fellow of the Australasian Institute of Mining and Metallurgy and is a full time employee of Steffen, Robertson and Kirsten (Australasia) trading as SRK Consulting (SRK).

Mr Hanna has sufficient experience, which is relevant to the style of mineralisation and type of deposit under consideration and to the activity, which he is undertaking, to qualify as a Competent Person as defined in the 2004 Edition of the *Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves*.

Mr Hanna consents to the inclusion in the report of the matters based on this information in the form and context in which it appears.