

QUARTERLY REPORT

For the period ended

31 March 2003

HIGHLIGHTS

◆ COAL

- Further drilling conducted on the Moranbah tenements traced the coal seams up-dip and along strike from previous drill intercepts; and
- Washability tests indicate that the coal may be beneficiated to produce a high value PCI and thermal product.

◆ GOLD

- Target settings for high-grade gold mineralisation have been identified at Wilcherry Hill on the Gawler Craton.

◆ CORPORATE

- Federal Court grants Aquila injunction to restrain resolution being put to certain Pasminco creditors;
- Aquila commences proceedings in the Federal Court challenging the validity of the DOCAs applicable to the Savage Companies; and
- Aquila prepares to issue substantive proceedings against Pasminco in the June 2003 Quarter.

COAL

With the granting of Exploration Permit for Coal (EPC) 795, Aquila now holds some 4,196 sq km in granted tenements in the Bowen and Surat Basins and has a further 30 sub-blocks under application.

Moranbah East:

A programme of open-hole exploration drilling was conducted on EPC 755 (Moranbah East) during the quarter. Six holes were drilled for a total of 456 metres. The objectives were to trace each coal seam interval to the sub-crop and to investigate the extent of the thick occurrence of the upper (Leichhardt) seam in the north-central part of the tenement. Wireline logging of the holes enabled correlation of the seams to be made with intersections in previous holes by the use of geophysical profiling.

The drilling successfully traced the coal seams up-dip and indicated that there is little structural disruption apparent in the open-pittable depth range (0 to 60 metres). Overall the seams show a gentle dip to the east of between 1.5 and 2.0 degrees. The drilling extended the strike of the thicker Leichhardt Seam identified in earlier programmes to over 1.5 km with an average seam thickness of 5.5 metres.

Washability testwork was carried out on previously collected drill core and the results modeled to give an estimation of the coal quality and yield. The results indicate that the coal may be beneficiated to a high value, PCI coal, product, with thermal coal as a secondary product. In addition certain plies in both seams show good coking coal properties with CSNs >6. Further sample analysis has been recommended to measure the coking properties more precisely.

A database of the geological data has been established and geological sections are being prepared correlating the coal seams. Modeling can then be done to generate seam isopachs and structure contours.

Peak Downs East:

Seven open-holes for a total of 473 metres were drilled on the newly granted tenement, EPC 795, that adjoins the southern boundary of EPC 755. The drilling traced the lower or Vermont seams through the tenement from the boundary with EPC 755 to the western boundary of the Winchester South MDL. Both the upper and lower Vermont seams are present and were intersected in six of the holes over a depth range of 17 to 95 metres. The wireline logs indicate that the seams are inter-bedded with shale and siltstone to form a sequence of coal measures varying from 3 to 10 metres in thickness.

Kingower:

Vitrinite reflectances (R_{vmax}, %) were measured for coal samples recovered from the open-hole drilling conducted previously on the Kingower tenement. The Corvus Seam gave a range of values from 0.59 to 0.65, which is indicative of a coal of this rank. Only two samples of the German Creek Seam could be measured and these gave values of 0.63 and 0.99 respectively. The high value recorded from drill hole KG 001 is of interest. It indicates that the German Creek Seam may contain coal of a higher rank than was previously interpreted and shows that it is possible that coking coal can be found on this tenement.

Surat Basin:

The area covered by the Dogwood Creek tenement application (EPC 813) was offered to Aquila for granting by the Department of Natural Resources and Mines. The adjoining tenement application, EPC 796 (Horse Creek), was amended to cover areas where shallow coal has been indicated from a review of previous drilling results. This consolidates Aquila's holding in the Surat Basin to an area of 1,060 sq km.

GOLD

Wilcherry Hill:

A reassessment of all previous exploration activity carried out on the Wilcherry Hill tenements has been completed and a better understanding of the geological controls on the gold mineralisation has emerged. By reviewing the exploration results in a geological context, a number of high quality but poorly explored settings have been highlighted.

The high-grade gold mineralisation at Weednanna (e.g. 7 metres at 18.5 g/t from 125 metres in hole 98DDH-002) is related to the overprinting of a magnetite skarn by alteration, fracturing and sulphide replacement. The host rocks are Hutchinson Group meta-sediments in the contact zone of a granite pluton. It appears that while the chemically reactive rock package was altered to calc-silicate and magnetite skarn assemblages by the granite, the gold-sulphide mineralisation is associated with a later over-printing structural event. This later event is evident as a set of crosscutting fractures that may be related to the emplacement of the Hiltaba Granite body that has been intersected at depth below Weednanna (from 404 metres in hole 00WDDH-005).

The next phase of exploration drilling at Weednanna will concentrate on:

- following up the high-grade gold intersections focussing on the interplay between reactive rock types and the cross cutting fluid pathways;
- tracking the favourable rock types that promote the efficient replacement process and gold trapping along the contact of the altered granite;
- targeting magnetic gradients and areas of de-magnetisation within the magnetic complex that may represent overprinting of magnetite by sulphides; and
- following up on the gold mineralisation identified in the granite pluton, targeting the contact zone where there is evidence of fracturing, alteration and quartz veining.

Enterprise/Penny West:

The Company executed an agreement in the previous quarter for the sale of its 100% interest in the Enterprise/Penny West projects located in the East Murchison region of Western Australia to an unlisted public company Goldcrest Mines Limited ("Goldcrest") for a total consideration of \$2.75 million.

The total consideration to be received from the sale includes a non-refundable deposit of \$150,000 (since paid) plus \$600,000 to be paid over a two year period and the issue of 10 million vendor shares in Goldcrest.

Completion of the Agreement is subject to Goldcrest being admitted to the official list of the Australian Stock Exchange.

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 49% interest in the Ernest Henry Mine ("EHM") in North Queensland, 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 interest in EHM.

In late December 2002, the Supreme Court found that Credit Suisse First Boston ("Credit Suisse") should be joined as a party to the proceedings and that Credit Suisse should discover to Pasminco all of the documents in its possession that Pasminco is entitled to inspect that fall within the scope of the discovery orders.

Further orders were sought from MIM and Pasminco for the inspection of documents which have been masked for relevance and in some cases privilege.

- **Current**

On 26 March 2003 Aquila commenced proceedings in the Federal Court challenging the validity of the Deeds of Company Arrangement ("DOCAs") entered into by Savage Resources Limited and Savage EHM Finance Pty Ltd ("Savage Companies"). Aquila is also challenging the validity of the appointment of the Administrators to the Savage Companies.

As part of those proceedings, on 27 March 2003, the Federal Court granted Aquila an urgent interim injunction restraining the Administrators of the Pasminco Group from putting forward a resolution to creditors of the Savage Companies at a meeting of the Pasminco Group held in Melbourne on 28 March 2003. The resolution in question proposed to vary the DOCAs applicable to the Savage Companies to permit those companies to enter into a Deed of Cross Assumption of Claims along with the other Pasminco Group companies.

Aquila sought the injunctive relief primarily to protect its position with respect to its substantive claim against Pasminco and the Savage Companies.

Aquila will shortly seek the leave of the Court to proceed with its substantive claim against Pasminco and the Savage Companies and anticipates those proceedings to commence in the June 2003 Quarter.

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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.