

QUARTERLY REPORT

For the period ended

31 March 2004

HIGHLIGHTS

◆ COAL

- Aquila executes 50/50 Joint Venture Agreement with AMCI Holdings Australia Pty Ltd whereby Aquila is free carried for up to \$5 million of expenditure;
- Drilling commences at Moranbah East following on from a seismic survey over the northern part of the joint ventured tenement;
- Preliminary work is completed at Exevale with drilling to commence in the June 2004 quarter; and
- Aquila granted exclusive rights by Kumba Australia Pty Ltd to explore and evaluate for coal on ground adjoining the Company's Moranbah East Project.

◆ GOLD

- Drill targets defined at the Weednanna gold prospect with drilling to commence in the June 2004 quarter; and
- Gold-in-calcrete anomalies being ranked for drill testing following a regolith study over the Wilcherry Hill projects.

◆ IRON ORE

- Aquila lodges applications for 3 exploration tenements in the Pilbara prospective for iron ore.

◆ CORPORATE

- Aquila raises \$2.5 million via private placement to AMCI Holdings Australia Pty Ltd at \$1.00 per share;
- Cash reserves and liquid investments total approximately \$7.0 million as at 31 March 2004 (\$4.9 million as at 31 December 2003); and
- Investments in listed entities total approximately \$3.7 million as at 31 March 2004 (\$3.7 million as at 31 December 2003).

COAL

Joint Venture – Bowen Central Coal:

On 27 January 2004, Aquila executed an agreement with Bowen Central Coal Pty Ltd (“BCC”), a wholly owned subsidiary of AMCI Holdings Australia Pty Ltd, to form a Joint Venture to be known as the Bowen Central Coal Joint Venture (“JV”) to explore, develop and mine for coal on the majority of Aquila’s Bowen and Surat Basin coal exploration permits in Queensland.

Under the terms of the JV, Aquila will vend into the JV all of its current coal portfolio, except a large portion of EPC 755 (Moranbah East) and BCC may earn up to a 50% equity interest by free carrying Aquila for up to \$5 million in cash calls to meet all JV expenses, including exploration, mine development, mining operation and any other venture activities contemplated by the JV.

Aquila will equally share in the co-management of all JV activities through a jointly owned management entity.

AMCI Holdings Australia Pty Ltd is a subsidiary of the privately owned AMCI Metall and Kohle AG, a major producer and shipper of high-grade metallurgical coal and compliance steam coal to the domestic and international markets of the USA, Asia and Europe. In addition it is also a major trader of coals in the global sea-borne traded coal market.

Work Programme

A work programme and budget were approved by the Bowen Central Coal Management Committee for the period to end of June 2004. A total of \$1.04M is to be expended on coal exploration in the joint venture tenements, principally on drilling in EPCs 755 and 752.

- **Moranbah East - EPC 755**

A mini-sosie seismic survey was conducted within the northern portion of EPC 755. The survey, which comprised three lines for eleven kilometers, was conducted to assist with drill target definition. Drill holes have been pegged to cover an interpreted five-kilometer striking occurrence of Rangal Coal Measures with the initial drill spacing set at 500 metres. Evidence for the occurrence of coal in this area was indicated from a reinterpretation of drill results generated by earlier tenement holders and confirmed by the drilling of two scout holes on a previous programme. This portion of EPC 755 has been included in the joint venture with AMCI.

Drilling commenced in the first week of April with a total of 6,600 metres being planned for completion during the quarter. The principal target is the Leichhardt coal seam, which forms the coal resources on the adjoining Mineral Development Leases of Wotonga and Morambah (held by BHP Mitsui Coal Pty Ltd).

- **Exevale - EPC 752**

A 2,400-metre scout drill programme is planned to explore for coal in the eastern limb and core of the Exevale Syncline. Collation of previous drilling results and a reinterpretation of the geology have led to the identification of drill targets in both the Moranbah and Rangal Coal Measures.

An application was made by the JV for a new tenement (EPC 883) on ground adjoining EPC 752 covering an occurrence of Moranbah Coal Measures.

Designated Area Agreement - Kumba Australia Pty Ltd:

Consolidation of the Moranbah East project area continued, when on 27 January 2004, an agreement was reached with Kumba Australia Pty Ltd (“Kumba”), whereby exclusive rights were granted to Aquila, for a period of 3 years, to prospect, explore and investigate for Rangal Coal Measures within a designated area on Kumba’s EPC 548, that adjoins Aquila’s most prospective coal tenement EPC 755 on the western boundary.

The occurrence of Rangal Coal Measures in the eastern sub-blocks of the Kumba tenement forms part of a sequence that can be traced from Wotonga in the north-east through to Winchester South in the south-east. The prospectivity of the area was highlighted when drilling conducted on the adjoining Aquila tenement, EPC 755, identified both the Leichhardt and Vermont coal seams over a 5.5 km strike and traced the seams to within 500 metres of Kumba’s tenement boundary.

The area will be explored in association with drilling planned for the central part of EPC 755 to define the coal resources in both seams of the Rangal Coal Measures within the 0-60 metre depth range. The objective is to determine the possibility of developing an open cut mining operation on the combined resources of the two tenements.

Aquila will pay Kumba a royalty on any Rangal Coal produced from this project area.

GOLD

Wilcherry Hill - South Australia:

Notices of Entry have been served on the landholders in the region as a precursor to the commencement of a drilling campaign in the Wilcherry Hill project area. A programme combining RC, RAB and Air Core drilling is planned to follow up on the gold mineralisation identified at the Weednanna gold prospect and to test a number of the other gold anomalies that have been identified on the tenements.

The drilling at Weednanna is designed to test for continuation and extension of the high-grades of gold mineralisation that occur within the iron enriched meta-sedimentary contact zone of a granite-gneiss. The drilling will also follow up on the identification of gold mineralisation in the granite-gneiss where it is sheared and altered. The aeromagnetic data are being re-processed in order to highlight structural trends that could control the mineralisation.

A regolith study is currently underway utilizing the latest Landsat imagery. The data have been processed in such a way so as to allow for the ranking of gold-in-calcrete anomalies and to discriminate between residual and transported soil cover. Anomalies have been prioritised according to their intensity and dimension, favorable geological setting, the magnetic and gravity signatures, topographic expression and the results of any previous exploration.

EL 3190 (Valley Dam) was granted during the Quarter extending Aquila’s coverage to a total of six contiguous licences.

North Pilbara – Western Australia:

A remote sensing study is underway focused on the identification of alteration and structural features within the two tenement applications that will be targeted for field examination and sampling once the tenements are granted.

IRON ORE

Under a new generative initiative, three applications were lodged for tenements covering iron ore target settings in the Pilbara region of Western Australia. Some 655 sq km of prospective ground has been taken up so far and research to identify more ground is continuing.

CORPORATE

Private Placement of Shares and Options:

On 27 January 2004, Aquila successfully raised \$2.5 million via the placement of 2.5 million ordinary shares at an issue price of \$1.00 per share to AMCI Holdings Australia Pty Ltd. (“AMCI”).

Contemporaneously with the issue of the placement shares, Aquila also issued 2.5 million options (“Options”) at no cost to AMCI. Each Option is exercisable at a price of \$1.00 at any time prior to the Option expiry date of 31 March 2006, but only if the closing share price of Aquila’s shares traded on the Australian Stock Exchange remains above \$1.50 for five consecutive days.

The cash proceeds of \$2.5 million raised through the placement together with existing cash reserves will be used to provide working capital to fund:

- on-going expenses associated with identifying and securing potential acquisitions;
- the advancement of Aquila’s mineral properties;
- general corporate overheads and on-going litigation expenses.

Legal Proceedings:

The Company 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. The parties have exchanged pleadings and Aquila is presently awaiting discovery of relevant documents from Pasminco and the Savage Companies. This discovery is well overdue, with Aquila having provided discovery in December 2003.

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 is erroneous.

Since the DOCA proceedings were commenced in mid-March 2003, the parties have exchanged affidavit material dealing principally with the issue of the solvency of the Savage Companies. Further programming orders were made by Mr Justice Goldberg on 26 February 2004 to progress the matter to a hearing. Aquila will shortly be filing a detailed statement of claim setting out the basis of its claim to which the Administrators will have to provide their defence.

Zinifex Limited

The recent successful float of Zinifex Limited, which acquired certain assets from the Pasminco Group, will make funds available to Pasminco to meet Aquila’s claim in the event that the underlying claim is successful.

As highlighted in the Zinifex Prospectus, Ferrier Hodgson, the Deed Administrators are also seeking directions from the Federal Court enabling them to set aside a specific portion of the proceeds of the Zinifex float referable to the ex Savage Clarksville Smelter pending the outcome of the DOCA proceedings. Aquila welcomes this move, which provides a further safeguard in the event that Aquila succeeds in the underlying claim.

Whilst the exact return to creditors cannot be accurately determined at this stage, the return to creditors of the Savage Companies, assuming the DOCA proceedings are successful, will be greater than the returns to the creditors of the wider Pasminco Group.

For further information please contact:-

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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.