

## QUARTERLY REPORT

For the period ended

31 December 2002

### HIGHLIGHTS

#### ◆ COAL

- At Moranbah East the two main seams of the Rangal Coal Measures were intersected with the Leichhardt seam traced over 5kms; and
- Slimcore and open hole drilling was conducted on Moranbah East and the Arcturus Projects.

#### ◆ GOLD

- In the Gawler Craton, gold anomalies at Wilcherry Hill are being ranked for follow-up drill testing; and
- Aquila sells Enterprise/Penny West Projects for cash and shares totalling \$2.75 million.

#### ◆ CORPORATE

- Supreme Court finds that Credit Suisse First Boston should be joined as a party to the pre-action discovery proceedings.

## COAL

A follow-up phase of exploration drilling was conducted on two of the granted coal permits during the December quarter. A total of 15 holes were drilled for 1,222.5 metres. Downhole geophysical logs were collected and representative samples of the coal seams were submitted for analysis. At the completion of the program the holes were surveyed and the drill sites fully rehabilitated.

### Moranbah East:

Eight holes were drilled on the Moranbah East tenement for a total of 743.5 metres. Three of the holes were cored. The drilling traced the Leichhardt Seam (the uppermost seam) over a 5-km strike. The seam appears to be of consistent quality, varying in thickness from 2.0 to 7.0 metres over a depth range of 28.0 to 62.0 metres. The brightest, cleanest coal occurs near the base of the seam. Raw coal sample results from the cored intersections of the seam gave the following results:

Hole No	From	To	Interval	Moisture	Ash	Volatile Matter	Fixed Carbon	Specific Energy	Total Sulphur	Crucible Swelling Number
			(m)	(adb%)	(adb%)	%	%	MJ/kg	%	
ME-011	62.96	63.46	0.50	1.1	31.4	25.6	41.9	21.17	2.06	1
	63.46	63.96	0.50	1.2	8.8	24.3	65.7	31.35	0.43	1
	63.96	64.30	0.34	1.3	10.1	24.3	64.3	31.02	0.42	2
	64.30	64.46	0.16	1.3	47.9	17.5	33.3	15.24	0.41	1
	64.46	64.84	0.38	1.1	28.1	23.7	47.1	25.68	0.53	1.5
	64.84	65.34	0.50	1.2	14.3	24.0	60.5	29.56	0.40	3
ME-012	60.84	61.34	0.50	1.3	16.2	24.0	58.5	28.03	0.39	1
	61.34	61.84	0.50	1.3	10.2	24.8	63.7	30.93	0.44	2.5
	61.84	62.34	0.50	1.2	23.2	22.3	53.3	25.42	0.50	1.5
	62.34	62.74	0.40	1.1	14.9	23.6	60.4	29.08	0.44	1.5
	62.74	63.30	0.56	1.4	41.3	21.0	36.3	19.01	0.49	3

The Vermont Seam is some 25 metres below the Leichhardt Seam and was traced by this drilling over a strike of 7 km. It appears to be best developed in the central and southern parts of the tenement, and is the seam of prime economic interest in this area. It was intersected over a depth range of 66.5 to 92.5 m. It is comprised of upper plies of low ash, clean coal (Vermont Upper Seam) and lower plies of higher ash, dull to bright coal (Vermont Lower and Vermont Basal Split seams). The lower plies of the Vermont Seam merge into the Girrah seams and, where the seams amalgamate, form a mixed coal-bearing sequence up to 10.0 m thick. The raw coal analytical results indicate the Vermont Upper Seam is the best quality coal. In the central part of the area, over a strike of 4 km, it ranges in thickness from 1.8 to 2.2 metres and is separated from the Vermont Lower Seam by a 20 to 50 cm thick ash band.

The raw coal analysis of cored intersections of the upper seam gave the following results:

Hole No	From	To	Interval	Moisture	Ash	Volatile Matter	Fixed Carbon	Specific Energy	Total Sulphur	Crucible Swelling Number
			(m)	(adb%)	(adb%)	%	%	MJ/kg	%	
ME-008	66.44	66.55	0.11	1.1	55.7	18.7	24.5	12.03	0.43	1
	66.55	67.05	0.50	0.7	15.3	26.0	58.0	28.07	0.40	4
	67.05	67.55	0.50	0.8	13.9	23.6	61.7	29.43	0.52	2
	67.55	67.78	0.23	0.6	18.0	22.0	59.0	28.12	0.66	1
	67.78	68.28	0.50	0.9	22.8	21.4	54.9	25.57	0.62	1
	68.28	68.57	0.29	0.8	24.4	24.4	50.4	24.28	0.57	1.5
ME-011	88.73	89.06	0.33	0.9	32.6	25.9	40.6	20.54	0.29	1
	89.32	89.82	0.50	1.2	14.4	25.9	58.5	29.10	0.39	6.5
	89.92	90.32	0.40	1.4	14.9	22.7	61.0	29.31	0.34	1
ME-012	92.47	92.99	0.52	1.3	11.1	27.1	60.5	30.96	0.42	7
	92.99	93.49	0.50	1.7	17.0	23.3	58.0	28.46	0.37	2.5
	93.49	93.99	0.50	1.4	31.2	19.2	48.2	22.87	0.27	1
	93.99	94.28	0.29	1.2	29.8	20.4	48.6	24.02	0.32	1

The next stage is to composite plies for washability testing, and where the CSN >5, analyse the coal for its coking properties.

#### **Peak Downs East:**

The area covered by the Peak Downs East tenement application (EPC 795) was offered to Aquila for granting by the Department of Natural Resources and Mines. The tenement covers some 5 to 6 km projected strike continuity of the Rangal Coal Measures southwards from the drilling on Moranbah East. With no record of any previous exploration being done for Rangal coal in that setting, the area presents an immediate drill target, once the grant is approved by the Minister.

#### **Arcturus:**

Seven holes were drilled, for a total of 479 metres, at the Orion coal prospect in the south-eastern sector of the Arcturus tenement. One of the holes was cored. The drilling was designed to define the coal deposit that has been shown by previous drilling to be composed of up to four separate seams.

The aggregate thickness of coal in the three holes in which all four seams were intersected varied from 5.0 to 6.7 metres. The best-developed seam shows good consistency throughout the area. It was intersected in all seven holes over a depth range of 31.7 to 54.0 metres and a thickness range of 1.0 to 2.7 metres.

The quality of the coal in this area is the key factor that will dictate its economic viability. Results for the washability testwork carried out on composite coal ply samples from ARC-010 (drilled in September 2002) show that the lower plies of the seam could yield a low ash, high volatile, thermal coal product:

From	To	Width (m)	RD Fraction	Mass (%)	Moisture (adb %)	Ash (adb %)	Volatile Matter (%)	Fixed Carbon (%)	Specific Energy (MJ/kg)	Total S (%)
51.03	53.17	2.14	F1.6	50.4	4.5	18.3	35.9	41.3	23.74	0.29
			S1.6	49.6						
53.17	54.62	1.45	F1.6	97.7	4.8	8.5	30.1	56.6	27.12	0.34
			S1.6	2.3						

Float and Sink Analysis: Air Dried Basis at 1.6 Relative Density.

## GOLD

### **Wilcherry Hill:**

Work is underway to recommence exploration activities on the Wilcherry Hill project in South Australia. The project area lies within the south-central portion of the Gawler Craton, an area emerging as a distinct gold province with the mineralisation being associated with the Hiltaba Granite complex.

The previous tenement holders, AngloGold, carried out systematic calcrete sampling over three of the five tenements that comprise the project area. This type of geochemical exploration has proved to be most effective in this part of the Gawler Craton where there are no younger cover sequences overlying the mineralised settings. Follow-up of the strongest gold-in-calcrete anomaly led directly to the discovery of the outcropping Weednanna gold mineralisation.

There is a suite of gold-in-calcrete and bedrock anomalies associated with granitic rocks to be followed up throughout the tenements. The next phase of exploration will be directed unto the most favorable targets through prioritising the anomalies in accordance with their geological and geophysical signatures.

### **Enterprise/Penny West:**

During the quarter, the Company executed an agreement 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 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 by the end of the first quarter of calendar 2003.

## CORPORATE

### Legal Proceedings:

- **Background**

In October 2001 Aquila brought an application for pre-action discovery 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 ("EHM"), which Aquila had contracted to purchase from Pasminco in January 2001 ("the proceedings"). In April 2002, the Court made orders for discovery ("the discovery orders").

Based upon the documents discovered so far, Aquila has determined that it has a cause of action against Pasminco. On 24 July 2002, Aquila lodged a proof of debt for \$153,715,872 with the administrators of Pasminco. The amount claimed in the proof of debt represents Aquila's assessment of its damages arising from the termination of its agreement to acquire Pasminco's 49% interest in EHM.

During the quarter Aquila sought further orders from the Court with respect to the following:

- that Pasminco and MIM make available for inspection documents which had either been masked on the grounds of relevance or were subject to a claim of legal privilege; and
- that Credit Suisse First Boston ("Credit Suisse") be joined as a party to the proceedings and that it make available for inspection those documents in its possession relating to its role as financial and corporate adviser to Pasminco in the EHM transaction which fall within the scope of the discovery orders.

- **Current**

In late December 2002 the Court found that 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.

For further information please contact :-

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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 member of the Australasian 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.