

QUARTERLY REPORT

For the period ended

31 December 2003

HIGHLIGHTS

◆ **COAL**

- Aquila executes a significant 50/50 Joint Venture Agreement with AMCI Holdings Australia Pty Ltd whereby Aquila is free carried for up to \$5 million;
- Aquila granted exclusive rights by Kumba Australia Pty Ltd to explore and evaluate for coal on ground adjoining the Company's "Moranbah East" Project; and
- Aquila to also focus on its wholly owned "Moranbah East" Project.

◆ **GOLD**

- Applications lodged for two new tenements in the North Pilbara; and
- Sale of Enterprise/Penny West Projects now complete.

◆ **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 \$4.9 million as at 31 December 2003 (\$7.2 million as at 30 January 2004);
- Investments in listed entities total approximately \$3.7 million as at 31 December 2003 (\$4.2 million as at 30 January 2004); and
- Aquila currently awaiting production of "discovered documents" from Pasma.

COAL

Joint Venture - AMCI Holdings Australia Pty Ltd:

Subsequent to the end of the December 2003 quarter, 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 American Metals and Coal International Inc. (“AMCI”) group of companies, 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 to the production of coal from company owned operations, the AMCI group is also a major trader of coals in the global sea-borne traded coal market.

Designated Area Agreement - Kumba Australia Pty Ltd:

Consolidation of the Moranbah East project area continued, when subsequent to the end of the December 2003 quarter, 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 (refer attached map 1).

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 prospectively 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.

Moranbah East:

Planning is underway to recommence drilling on EPC 755 (Moranbah East) in the central part of the tenement to define the coal resources in the Leichhardt and Vermont seams (This part of EPC 755 has been excluded from the joint venture with AMCI Holding Australia Pty Ltd). Initially the effort will concentrate on the 5.5 km striking section of Rangal Coal Measures south of Wotonga, where previous scout drilling has identified the presence of both seams within 60 metres of the surface. This work will be conducted in conjunction with that programmed for the newly dealt Kumba tenement (EPC 548).

GOLD

North Pilbara:

Aquila in December 2003, lodged applications for two Exploration Licences covering an area of approximately 450 sqkm in the North Pilbara (refer attached map 2).

The tenement applications which lie in Archean granite-greenstone terrain cover some 55 strike-kilometres of the northeast trending interconnected shear system that includes the Mallina and Tabba Tabba Shear Zones.

It is a setting marked by the structurally controlled emplacement of intrusive rocks, that range in composition from gabbro to monzogranite, into sedimentary units of the Mallina Basin. A well-developed network of faults, dykes, veins and sheared intrusive contacts segment the area forming a strongly fractured setting that could be potentially favorable for gold mineralisation.

The area lies along the structural trend that hosts the Indee Gold Project of Range River/Bullion Minerals (8Mt @ 1.93 gpt gold for 494,00 contained ounces) and the recently announced discovery by De Grey Mining at its Turner River Gold Project, where RC drill intersections have been reported that include 16 m @ 5.82 gpt, 48 m @ 2.01 gpt and 36 m @ 2.63 gpt gold.

Enterprise/Penny West:

During the quarter, the sale of Aquila's 100% interest in the Enterprise/Penny West Projects ("Projects") to Goldcrest Resources Ltd ("Goldcrest") was completed.

Under the terms of the sale to Goldcrest (formerly known as "Ventaur Capital Corporation"), Aquila has to date received payments totalling \$250,000, with a further cash consideration of \$500,000 to be paid by December 2004 and the issue of 8 million common shares in Goldcrest.

The 8 million Goldcrest shares which are subject to certain standard escrow provisions represents a significant shareholding of 27% in Goldcrest and at 31 December 2003 had a market value of \$3.7 million based on its last quoted price.

CORPORATE

Private Placement of Shares and Options:

Subsequent to the December 2003 quarter, 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").

- The first action relates to a substantive claim by the Company against Pasminco, Savage Resources and Savage Finance for damages of \$153 million, being the value of lost opportunity to purchase the Pasminco Group's interest in the Ernest Henry Mine ("EHM"), plus interest and costs.

In its claim, Aquila alleges that representations made by Pasminco to procure an extension of the pre-emption period in respect of Pasminco's interest in EHM were misleading and deceptive, in contravention of the Trade Practices Act and amounted to a breach of Aquila's contract with Pasminco.

- In the second action, the Company is seeking orders terminating the Deeds of Company Arrangement ("DOCAs") executed by Savage Resources and Savage Finance (the 'Savage Companies') on the grounds that the Savage Companies should never have been placed into administration, no separate reports were furnished to Savage creditors, that DOCAs were never approved by the relevant bodies of creditors and that the pooling of the Savage Companies assets and liabilities with that of the remaining Pasminco Group companies is erroneous.

Whilst it is difficult to assess the likely returns to creditors of Pasminco based on publicly available information, Aquila is of the opinion that the returns to creditors of the Savage Companies will be significantly higher and accordingly, has taken legal action to protect the returns from its underlying claim against the Savage Companies should that claim be successful.

Aquila is currently awaiting the production of “discovered documents” from the Administrators of Pasminco with respect to its substantive claim.

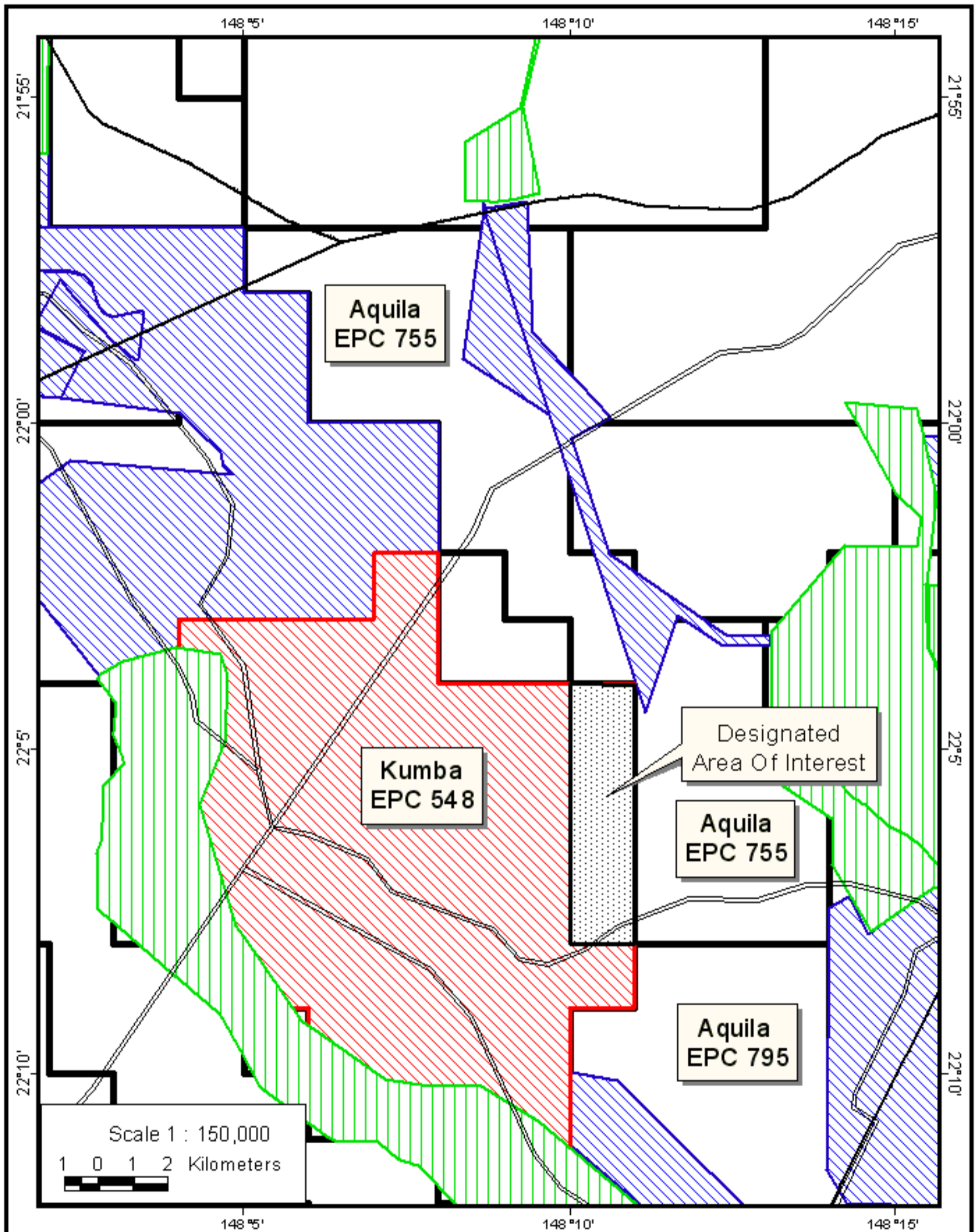
For further information please contact:-

Mr. Tony Poli
Executive Chairman

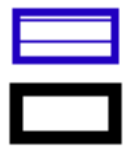
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The information in this report which relates to mineralisation is based on information compiled by Mr Geoff Pigott, MSc (Geol) of Aquila Resources Limited who is a member of the Australian Institute of Geoscientists and has relevant experience as a Competent Person as defined in the Australasian Code for Reporting of Identified Mineral Resources and Ore Reserves in relation to mineralisation being reported on.

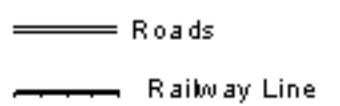
Designated Area Of Interest - Kumba EPC 548



Kumba EPC 548
Area Of Interest
Mining Lease



Mining Development Lease
EPC's



Roads
Railway Line

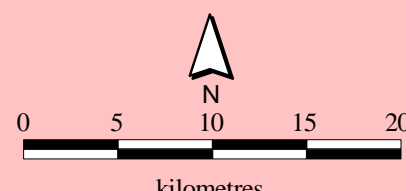
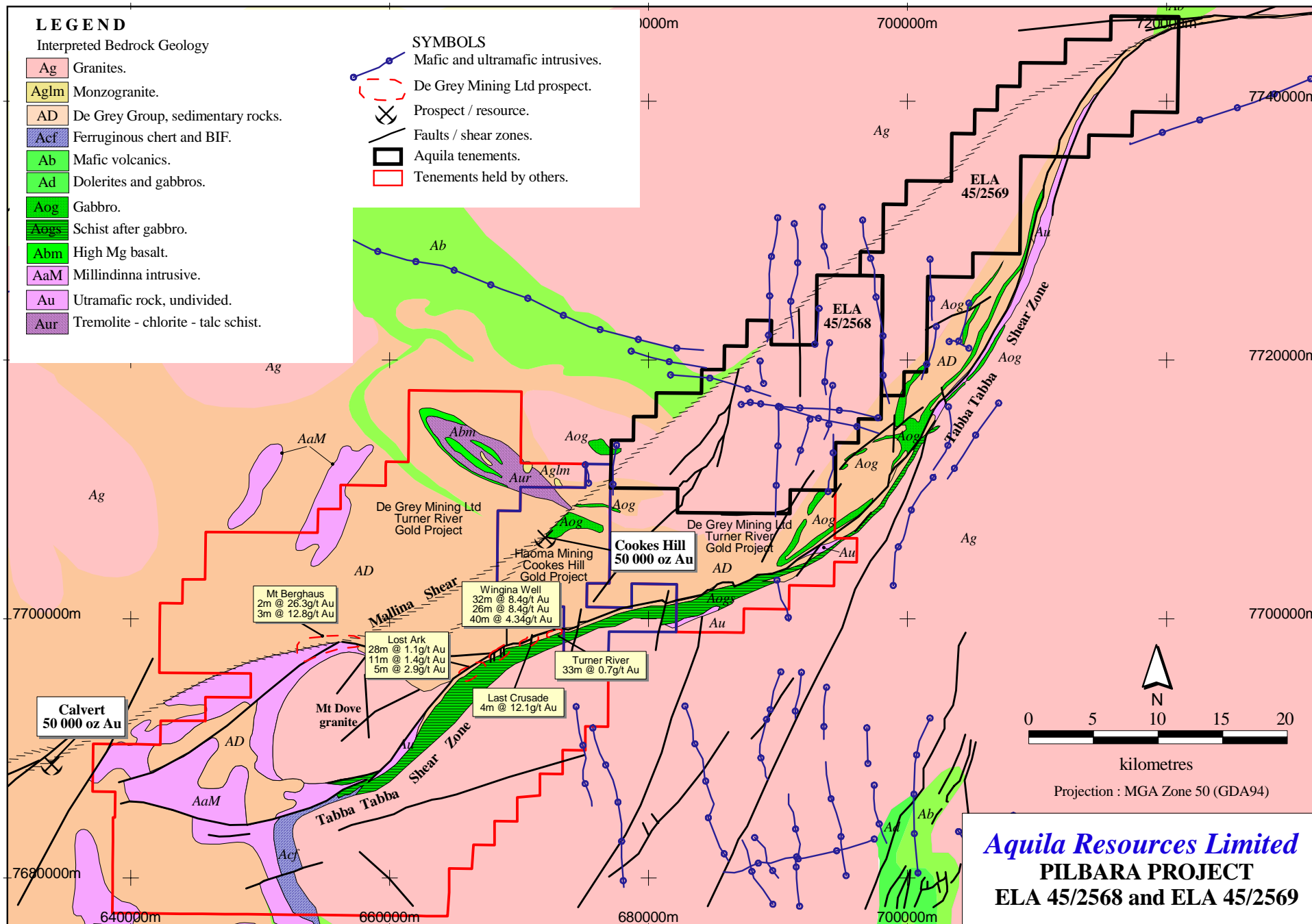
LEGEND

Interpreted Bedrock Geology

- Ag Granites.
- Aglm Monzogranite.
- AD De Grey Group, sedimentary rocks.
- Acf Ferruginous chert and BIF.
- Ab Mafic volcanics.
- Ad Dolerites and gabbros.
- Aog Gabbro.
- Aogs Schist after gabbro.
- Abm High Mg basalt.
- AaM Millindinna intrusive.
- Au Ultramafic rock, undivided.
- Aur Tremolite - chlorite - talc schist.

SYMBOLS

- Mafic and ultramafic intrusives.
- De Grey Mining Ltd prospect.
- Prospect / resource.
- Faults / shear zones.
- Aquila tenements.
- Tenements held by others.



Projection : MGA Zone 50 (GDA94)

Aquila Resources Limited
PILBARA PROJECT
ELA 45/2568 and ELA 45/2569