

# Quarterly Report

March 2007

**Outcrop of mineralised Banded Iron Formation,  
Northern Cape, South Africa**



Resourceful Partnership

# Aquila

**Aquila Resources Limited**

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# HIGHLIGHTS

## COAL

### Isaac Plains Coal Mine

- Commissioning of Coal Handling and Preparation Plant continues as the plant is adjusted to meet nameplate capacity.
- First metallurgical coal cargo shipped.
- Disassembly and storage of BE 1370W dragline in progress.

### Belvedere Coal Underground Project

- CVRD approaches completion of AUD 17m Exploration Study and has until 19 July 2007 to exercise 51% Purchase Option by payment of USD 45m to each of Aquila Resources Limited and AMCI.

### Peak Downs East Underground Coal Project

- Stage 2 exploration program progresses with a resource estimate due in the June Quarter.
- Preliminary results indicate hard coking coal potential within target seams.

### Washpool Project

- Thirty three open holes, including three partly cored 100mm holes drilled during the Quarter.
- Coal quality analysis presently being undertaken.
- Potential for open pittable resource of coking and thermal coal products.

## IRON ORE

### Pre-Feasibility Study

- Two potential port sites identified by Port Options Study.
- Process plant design parameters and operating criteria established.
- Statutory approvals program commenced with environmental surveys in progress.

### Exploration

- Resource estimates for the Catho Well, Cardo Bore East, Upper Cane, Jewel and Cochrane channel iron deposits and Hardey bedded iron deposit expected mid-May 2007.
- Low phosphorus bedded iron mineralisation within the Marra Mamba zone extended at the Hardey Project.

Significant intercepts include:

38m at 61.98% Fe  
40m at 58.27% Fe  
51m at 60.84% Fe

- In excess of 300 drill holes planned for the Mt Stuart and Red Hill project areas.
- Planning for ground gravity surveys covering potential buried channel iron mineralisation at the Yalleen Project completed.

### South Africa

- Grant of seven iron ore exploration tenements, comprising the Northern Cape and Thabazimbi Projects.
- Total area 3,400sq km.
- Tenements strategically positioned adjacent to existing iron ore mines and associated infrastructure.

## CORPORATE

- The Company acquires 15% of Red Hill Iron Limited's issued share capital.
- CVRD acquires joint venture interest in the Isaac Plains Coal Mine and Peak Downs East Underground Coal Project.
- Subsequent to the end of the Quarter, legal proceedings commenced seeking declarations with respect to the Company's pre-emptive rights to acquire the 50% of the Australian Premium Iron and Belvedere interests retained by AMCI.
- Cash and liquid investments total approximately \$59m at the end of the Quarter.
- Appointment of Exploration Manager – Thabazimbi Region (South Africa).

## **ISAAC PLAINS COAL MINE**

*(Aquila Resources Limited 50%)*

### **Commissioning - CHPP**

Commissioning and Practical Completion of the Coal Handling and Preparation Plant (CHPP) was expected to occur during the last Quarter. However, Commissioning and Practical Completion of the CHPP has been delayed due to the CHPP not consistently maintaining nameplate capacity.

A review is currently underway to determine the proper causes of this situation and to develop an appropriate action plan to achieve Commissioning and Practical Completion of the CHPP as soon as practicable.

Whilst CHPP production rates have been inconsistent, the production of metallurgical and thermal coal products has been ongoing.

### **Operations**

Operations during the Quarter were restricted by the CHPP performance. Coal mining has been reduced to 52% of budget with year to date CHPP feed currently at 56% of plan.

### **Sales**

The first metallurgical coal shipment (30,000 tonnes PCI) was made in February 2007.

Total metallurgical and thermal products shipped in the financial year to date amount to 150,000 tonnes. The distribution of samples for customer testing and analysis is continuing.



**Mining at Isaac Plains N1 pit**



**Removal of dragline roof section**

### **Integrated Isaac Plains Coal Project (IIPP)**

Technical and financial review of the IIPP is currently in progress.

Disassembly of the BE 1370 dragline commenced in January. The machine will be relocated to the Port of Galveston, Texas. Further relocation of the machine will be subject to the completion of the review process for the IIPP.

Final terms of reference for the IIPP Environmental Impact Statement were approved and published by the EPA in March.

### **BELVEDERE COAL UNDERGROUND PROJECT**

*(Aquila Resources Limited 50%)*

During the Quarter, Companhia Vale do Rio Doce (CVRD) progressed study work under the Exploration Study, addressing geological, environmental, gas, geotechnical, logistical, marketing, CHPP and infrastructure aspects relating to the Belvedere Coal Underground Project.

CVRD now has a three month evaluation period until 19 July 2007 to exercise its option to acquire 51% of the project by paying each of the Company and AMCI Investments Pty Ltd USD45 million.

# COAL

## PEAK DOWNS EAST UNDERGROUND COAL PROJECT

(Aquila Resources Limited 50%)

The Stage 2 exploration program continued during the Quarter, focussing on the northern part of the resource. This stage of exploration is to assess product coke strength, gas regimes and to identify critical structural constraints.

Coal quality work was progressed and initial coal quality data indicates hard coking potential within target seams. An initial resource statement will be issued following the review of the coal quality work and is expected in the June Quarter.

## BOWEN BASIN PROJECTS

(Aquila Resources Limited 100%)

### Washpool and Mt Crocker Projects

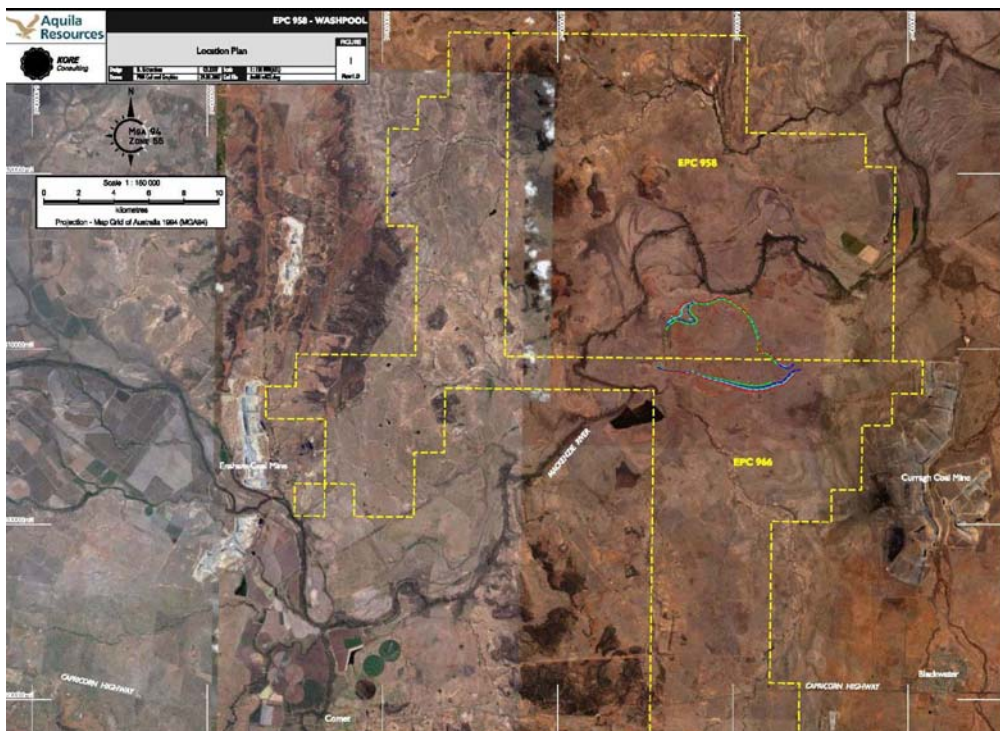
Exploration work continued in January focusing on the north, south and eastern margins of the project area. This work consisted of an additional thirty three open holes, including three partly cored 100mm cored holes. Coal quality analysis is currently in progress at the laboratory. Pre-existing and acquired data has been processed and integrated into a preliminary geological model.

The project area at Washpool has been interpreted as a perched basin containing the Scorpio Seam, which is part of the Burngrove Formation. The occurrence of coal is bounded on three sides by seam subcrops and seam thinning and deteriorations to the east. The figure below shows the basin extends 6,000m along its axis and approximately 3,000m across the widest section. The coal seam is typically 6.0m in total thickness and is heavily banded (including partings and inter-burden).

The Washpool basin has the potential to contain open pittable coal resources. Coal quality work to date indicates the potential to produce moderate ash coking coal and thermal secondary products. Laboratory test work will continue throughout the June Quarter, together with preliminary concept level studies.

At the Mt Crocker Project eight open holes were drilled intersecting several coal seams within the Burngrove Formation. A further two partially cored 100mm holes were drilled and sampled with laboratory testing in progress to establish raw coal quality parameters.

Stratigraphic correlation is currently being undertaken to assess the Washpool and Mt Crocker coal intersections and to establish project stratigraphy.



Washpool Basin: Tenement areas for Washpool and Mt Crocker

## **MOÇAMBIQUE**

*(Aquila Resources Limited 100%)*

A comprehensive technical review of results generated from exploration on Aquila's coal properties in Moçambique was conducted prior to planning the next phase of activities. Incorporated in the review was the interpretation of data from the recently completed aeromagnetic survey, which focused on depth to basement indicators, the structural framework and dyke patterns. Exploration targets for step out and infill drilling have been highlighted, where the Karoo coal basin overlies shallower basement. The principal target is the 30m thick Chipanga coal horizon at potentially open pittable depth.

The value of the Company's strategic holdings in the Moatize district will be significantly enhanced when the final approval for the development of the Moatize mine by CVRD is given by the Moçambique Government, which is expected in the next Quarter. The Moatize region is widely considered to be one of the largest known undeveloped coking and thermal coal regions in the world and is within economic reach of the East African coast.

## **BOTSWANA**

*(Aquila Resources Limited 100%)*

Diamond drilling was conducted on the Mmamabula prospecting licences to collect core samples for detailed coal quality testing and to confirm coal seam continuity.

Western Mmamabula Blocks A and B are two contiguous tenements covering the western continuation of the Mmamabula coalfield. The east-west aligned coal basin sub-divides into a series of horsts and grabens containing shallow dipping coal seams. Large tonnages of potentially underground minable coal were delineated in the 1980's from drilling by Shell Coal and Charbonnage de France.

### *Block A*

Four boreholes were drilled within the eastern licence, Western Mmamabula Block A.

The cores have been geologically logged and sampled, with the samples being submitted to the laboratory for detailed analysis and wash testing. If the results are promising, a scoping study on the market potential of these coal deposits will be conducted in order to review opportunities on how to maximize their value.

### *Block B*

Two boreholes were drilled within the uplifted Central Block within Western Mmamabula Block B. This structural setting was preferred for Aquila's investigations since it contains the largest reported resource of shallow coal over the biggest area. Both holes intersected the full sequence of coal measures.

## AUSTRALIAN PREMIUM IRON JOINT VENTURE

*(Aquila Resources Limited 50%)*

### Pre-Feasibility Study

The Port Options Study was received and two locations were identified as potential sites for an iron ore port facility. Twelve locations were initially considered, then progressively short listed in accordance with the selection criteria and a process of risk analysis. More detailed evaluation of the two preferred sites is progressing.

Transport corridors for each of the port locations have been determined by desk top study and these are being site inspected and assessed to minimise the possibility of serious civil issues arising during the definitive design stage. The transport corridors have been selected to suit both rail and road train possibilities.

Process plant basis for design and operating criteria was established to enable block models and flow diagrams to be prepared. Parameters were established for the run-of-mine plant feed, process plant product and port stockpiles and yards.

Planning was commenced to utilise a continuous surface miner to dig a bulk sample. The bulk sample will confirm the product sizing expected from the West Pilbara Iron Ore Project ores in the Red Hill and Mt Stuart areas and give a comparison of the quality of extracted primary ore to drill results.

The bulk sample will also provide an opportunity to study a continuous miner and improve understanding of its capability to selectively mine. The excavation will provide some insight as to the structure of clays in the ore and the definition of their boundary with the ore. These factors may assist with the decision for a wash plant and its size.

Metallurgical test work continued during the Quarter with preliminary results indicating that some of the alumina is associated with the iron in the pisolites and is unable to be removed by washing.

The statutory approvals program commenced with environmental consultants conducting reconnaissance surveys of the potential mining areas and transport corridors. On the basis of the reconnaissance findings, detailed baseline flora and fauna monitoring programs are being designed. Field implementation will commence next Quarter.

Meetings with various Government Departments took place throughout the Quarter to clarify agency jurisdiction and to determine the options for project facilitation.

Key stakeholders have been identified for consultation as required under the environmental approval processes.

### Exploration

The focus of activity undertaken by the Australian Premium Iron Joint Venture (API) during the Quarter has been the advancement of resource estimates for the channel iron deposits (CID's) within the Red Hill and Mt Stuart joint venture projects and the Hardey bedded iron deposit (BID).

Significant work has also been directed toward planning of the 2007 field program. API plans to continue the rapid assessment of targets within the West Pilbara Iron Ore Project. API has previously reported encouraging drill intercepts from the Kens Bore and Trinity Bore prospects, both located in the West Pilbara - Red Hill Project.

At the Hardey Project, results have been received during the Quarter from the RC drilling program that was completed in December 2006, assessing the bedded iron mineralisation. These results have confirmed the continuity of the low phosphorus Marra Mamba mineralisation over a strike length of 900m.

The commencement of the 2007 field program has been delayed by approximately 4 weeks due to cyclone activity in March.

# IRON ORE

## WEST PILBARA – MT STUART PROJECT

(API 70%)

During the Quarter aeromagnetic and radiometric data was acquired. A review of the radiometric data covering the Mt Stuart project area has successfully identified palaeodrainages, with the potassium/thorium ratio proving the most reliable tool for the discrimination of the iron-rich surfaces and has targeted the CID.

As a result, drill programs have been planned for untested areas highlighted from the radiometrics.

### Catho Well

At the end of the Quarter, Golder Associates was working towards the finalisation the Catho Well resource estimate.

## WEST PILBARA – RED HILL PROJECT

(API earning up to 80%)

Following the completion of RC drilling at the Upper Cane prospect in December 2006, Golder Associates have been working to complete resource estimates for the Cardo Bore East, Jewel, Cochrane and Upper Cane prospects. At the end of the Quarter, final review of the resource models was progressing.

During the Quarter aeromagnetic and radiometric data was received from Red Hill Iron Limited. A review of the radiometric data covering the Red Hill and Mt Stuart project areas has proved successful in the identification of palaeodrainages, with the potassium/thorium ratio proving the most reliable tool for the discrimination of the iron-rich surfaces that equate with CID or potentially bedded iron sources.

Previously unknown CID mineralisation, interpreted from the potassium/thorium ration at Upper Cane, was verified during recent mapping. Programs have been initiated to assess all identified targets.

Significant planning has been completed in preparation for the commencement of the 2007 field program. Drilling programs totalling in excess of 300 holes have been planned and all preliminary work is now complete for commencement of these programs once heritage clearances are received.

Mapping programs commenced in late March, targeting CID occurrences abutting the western flank of the Hamersley Ranges.

## WEST PILBARA – YALLEEN PROJECT

(API earning 70%)

In the December 2006 Quarter, the Company announced the discovery of a buried channel iron deposit on the West Pilbara – Yalleen Iron Ore Project located approximately 50km east south-east of the Pilbara township of Pannawonica. No further field work was completed in the March Quarter.

Detailed planning has been completed for the commencement of a ground gravity survey and drilling of the Kumina Creek buried CID and as yet untested HoistEM targets.

## EAST PILBARA – HARDEY PROJECT

(API 100%)

All results have now been received from RC drilling completed in December 2006 infilling and extending the Dales Gorge and Marra Mamba zones at the Hardey Project.

The Dales Gorge zone has been extensively drilled and the additional drilling confirms the continuity of the mineralised zone. Drill holes targeting the Marra Mamba have also confirmed the continuity of the low phosphorus mineralisation over a strike of approximately 900m.

Resource estimation work is currently being undertaken by Golder Associates and is scheduled for completion next Quarter.

### Hardey Project

Hole ID	From	Intercept	Al <sub>2</sub> O <sub>3</sub> %	SiO <sub>2</sub> %	P%	S%	LOI%
<b>Marra Mamba</b>							
HARC084	3.00	12m @ 59.55 % Fe	1.46	6.48	0.046	0.022	6.45
HARC087	1.00	16m @ 59.74 % Fe	2.01	6.43	0.061	0.030	5.58
	23.00	21m @ 63.92 % Fe	1.74	2.47	0.069	0.012	3.99
HARC089	24.00	19m @ 59.73 % Fe	2.88	4.34	0.066	0.022	6.88
HARC090	0.00	2m @ 59.35 % Fe	1.75	5.67	0.071	0.030	7.21
	28.00	38m @ 61.98 % Fe	1.83	2.16	0.091	0.010	6.95
HARC091	16.00	40m @ 58.27 % Fe	3.60	5.55	0.064	0.027	6.94
HARC093	1.00	12m @ 58.47 % Fe	1.57	9.97	0.065	0.027	4.19
HARC094	0.00	51m @ 60.84 % Fe	2.45	4.61	0.070	0.020	5.48
<b>Dales Gorge</b>							
HARC096	7.00	88m @ 58.54 % Fe	3.57	4.25	0.149	0.007	7.68

# IRON ORE

## SOUTH AFRICA

### THABAZIMBI JOINT VENTURE

(Aquila Resources Limited 74%)

Subsequent to the end of the Quarter, it was announced that the Company had been granted a suite of iron ore exploration tenements, comprising the Northern Cape and Thabazimbi Projects, strategically positioned adjacent to existing iron ore mines and associated infrastructure.

Aquila and Rakana Consolidated Mining (Proprietary) Limited have formed the Thabazimbi Joint Venture to develop iron ore projects in South Africa. A total of seven prospecting rights, covering some 3,400sq km have been granted in the Limpopo and Northern Cape Provinces over highly prospective iron ore settings.

The Company's exploration tenements in these provinces are situated in close proximity to existing iron ore mines and established road and rail infrastructure within a relatively open access regime.

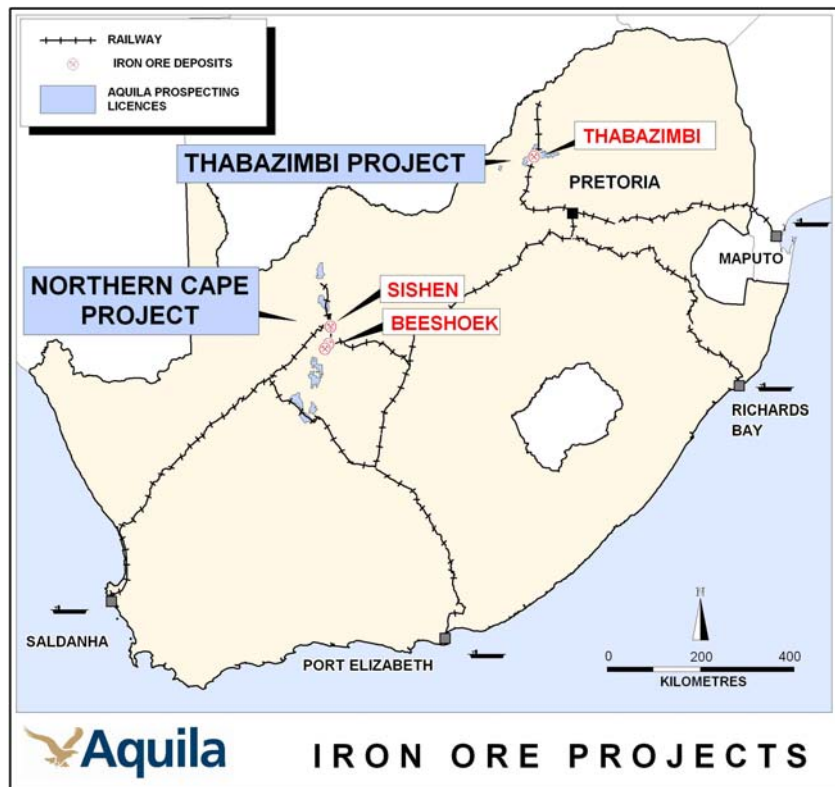
#### Work currently in progress

- Recruitment of experienced iron ore geologists to manage the projects;

- Literature research, compilation of previous exploration data and acquisition of geological information on each of the licence areas;
- Geological mapping and geochemical sampling of targets in areas of outcrop;
- High resolution airborne geophysical surveys over prospective ground to aid in identifying occurrences of mineralisation; and
- Ground geophysical surveys to test identified anomalies and to define drill targets under cover.

The Company intends to apply its financial capacity, technical expertise and mining capability in order to rapidly advance these exciting exploration projects and to ultimately develop mining activities in South Africa.

The grant of these tenements is the culmination of nearly two years of exploration by the Company using a number of the exploration techniques that it has used so successfully in the Pilbara.



## SUBSCRIPTION: RED HILL IRON LIMITED

During the Quarter, the Company announced that its wholly-owned subsidiary Aquila Steel Pty Ltd had entered into a share subscription agreement with Red Hill Iron Limited whereby Aquila Steel Pty Ltd subscribed for 5,882,353 ordinary fully paid shares in Red Hill Iron Limited, being the number of shares that, after their issue, represent 15% of its issued share capital.

The issue price of the shares was \$1.3435 each and Aquila Steel Pty Ltd is now the second largest shareholder in Red Hill Iron Limited.

## ACQUISITION OF AMCI COAL ASSETS BY CVRD

As previously reported, on Monday 26 February 2007, CVRD announced to the New York Stock Exchange that it had entered into a Purchase and Sale Agreement to acquire 100% of AMCI Holdings Australia Pty Limited for AUD 835 million, plus the assumption of net debt, which as at 30 November 2006, was reported by CVRD to be AUD 157 million.

The purchase of AMCI Holdings Australia Pty Ltd results in CVRD becoming a 50:50 joint venture partner of the Company in the Isaac Plains Coal and Bowen Central Coal Joint Ventures, which include the Isaac Plains Coal Mine and the prospective Peak Downs East Underground Coal Project.

Aquila welcomes CVRD, one of the world's leading mining companies, as its partner in these joint ventures.

## LEGAL PROCEEDINGS: AMCI CHANGE IN CONTROL

The Company has recently announced the commencement of legal proceedings against subsidiaries of AMCI Investments Pty Ltd that were not acquired by CVRD. The Company is seeking declarations in relation to its pre-emptive rights to acquire the 50% interests retained by these AMCI subsidiaries in the Australian Premium Iron and Belvedere Coal Joint Ventures.

Aquila Resources Limited has concluded that the restructuring undertaken by AMCI Investments Pty Ltd of its indirect interests held in these joint ventures has resulted in a Change in Control event, giving rise to a right by the Company to acquire those interests at a price to be determined by an Independent Expert as at the date of the Change in Control, being 26 February 2007.

Mallesons Stephen Jaques and Macquarie Bank are assisting the Company in relation to this matter.

## CASH RESERVES AND LIQUID INVESTMENTS

Cash reserves and liquid investments total approximately \$59m at 31 March 2007.

## EXECUTIVE APPOINTMENTS

Mr Johann van Deventer has been appointed Exploration Manager – Thabazimbi Region in South Africa and has some 28 years experience in iron ore exploration and development with Kumba Resources Limited.

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For further information please contact:

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*The information in this announcement, insofar as it relates to Mineral Exploration activities, is based on information compiled by Geoffrey F Pigott who is a member of the Australian Institute of Geoscientists, and Stuart H Tuckey, who is a member of the Australian Institute of Mining and Metallurgy, and who have more than five years experience in the field of activity being reported on. Messrs Pigott and Tuckey are full-time employees of the Company. Messrs Pigott and Tuckey have sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to qualify as Competent Persons as defined in the 2004 Edition of the 'Australasian Code of Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Pigott and Mr Tuckey consent to the inclusion in the report of the matters based on their information in the form and context in which it appears.*