Washpool Hard Coking Coal Project Supplementary Study

Highlights:

- **Physical blending trials demonstrate that Washpool coal significantly enhances the coking properties of complementary semi-hard coking coals**
- **Supplementary Study identifies 11.2% relative increase in yield through finer grinding of Washpool coal**
- **Revised mining plan anticipates that improved yield will increase full production to up to 2.9Mtpa (from 2.6Mtpa)**
- **Upfront capital costs of approximately A$358 million (including contingency and pre-production overheads), with cost of additional processing infrastructure offset by savings identified in surface infrastructure**
- **Operating costs of approximately A$122 per tonne FOB (excluding royalties) are marginally reduced from DFS**

Aquila Resources Limited (ASX:AQA "the Company" or "Aquila") is pleased to announce the completion of a Supplementary Study for its 100% owned Washpool Hard Coking Coal Project ("Washpool" or "the Project"). The Supplementary Study builds upon the findings of the 2011 Definitive Feasibility Study ("DFS"), which was based on a JORC Reserve of 108Mt[1], of which 95Mt is classified as Proved and 13Mt is classified as Probable. The Project is a proposed open cut mine situated 200km west of Rockhampton in Queensland's Bowen Basin, between Idemitsu's Ensham Coal Mine and Wesfarmers' Curragh Coal Mine.

The Supplementary Study proposes production of 7.2Mtpa of ROM coal, over a 15 year mine life, with coal being processed on site to produce up to 2.9Mtpa of hard coking coal which could be railed to Wiggins Island Coal Export Terminal and/or R.G. Tanna Coal Terminal for export.

The Supplementary Study to the DFS was primarily undertaken to compile the results of the blending study and yield optimisation study, as well as, revisions to the mine plan, surface infrastructure, capital costs and operating costs.

The results of the Supplementary Study are to be read in conjunction with the results of the DFS released to the Australian Securities Exchange on 5 September 2011.

BLENDING STUDY

In a comprehensive large-scale coke test conducted by a leading testing provider, Washpool coal was blended (1:2 ratio) with a lower ash semi-hard coking coal (from the Rangal Coal Measures) to successfully produce a blended hard coking coal with ash content of approximately 10%.

The test work demonstrated that the coking properties of Washpool coal significantly improved the coke strength of coal it was blended with. The blend coal generated higher coke strength (CSR) than would be expected based on mass weighted averages of the blends individual components.

Other parameters such as proximate analysis, ash analysis and calorific value showed a good correlation between the expected weighted averages and the actual blend test result.

[1] Washpool Hard Coking Coal Reserve Estimate issued April 2010

The Company commissioned MinAxis Pty Ltd to report on the marketability of a blended product. Based on this analysis, the Company is confident that Washpool coal can be successfully blended with complementary Queensland coking coals to produce internationally saleable products.

Large and small scale coke ovens used in the blending study

YIELD OPTIMISATION STUDY

The DFS assumed an average coking coal yield of approximately 36.5% (as received) for a target product ash of 15%. It was noted that the majority of product coal would be recovered from the finer fractions of plant feed and a washed product size of 88% passing 6mm was anticipated.

In 2012, a desktop report indicated higher product yields could be achievable through liberation at substantially finer sizes than previously investigated, in line with other operations in Mozambique, South Africa and India.

DRA Pacific Pty Ltd was subsequently commissioned to determine the effects of increased crushing / grinding on product yield.

A drilling programme was undertaken to compile in excess of 500kg of sample for testing. Coal plies from three large diameter cores were combined to provide a bulk sample as an approximation of the Resource average.

The bulk sample underwent a testing procedure specifically designed to establish the potential to increase coking coal recovery via the liberation of additional product from the middlings coal which, reported to rejects in the DFS plant design.

The test work investigated the recovery of additional product through four different configurations. Product yield increases were measured in all four options considered, with the magnitude increasing as crushing size reduced.

Capital and operating cost estimates were then derived for the implementation and continual operation of the processing infrastructure under each option. This included estimates for the CHPP, coal handling facilities, a briquetting facility (to manage the additional fines created in the washing process) and train load out.

On the basis of the above analysis, recovery of additional product from the coarse (50 x 6mm) middlings by crushing to finer sizes was recommended, resulting in an additional 4.1% overall yield compared to what could be expected without the additional crushing. The Supplementary Study confirmed the economic benefits of processing the coal to a finer state outweigh the additional capital and operating costs that will be incurred.

MINING PLAN

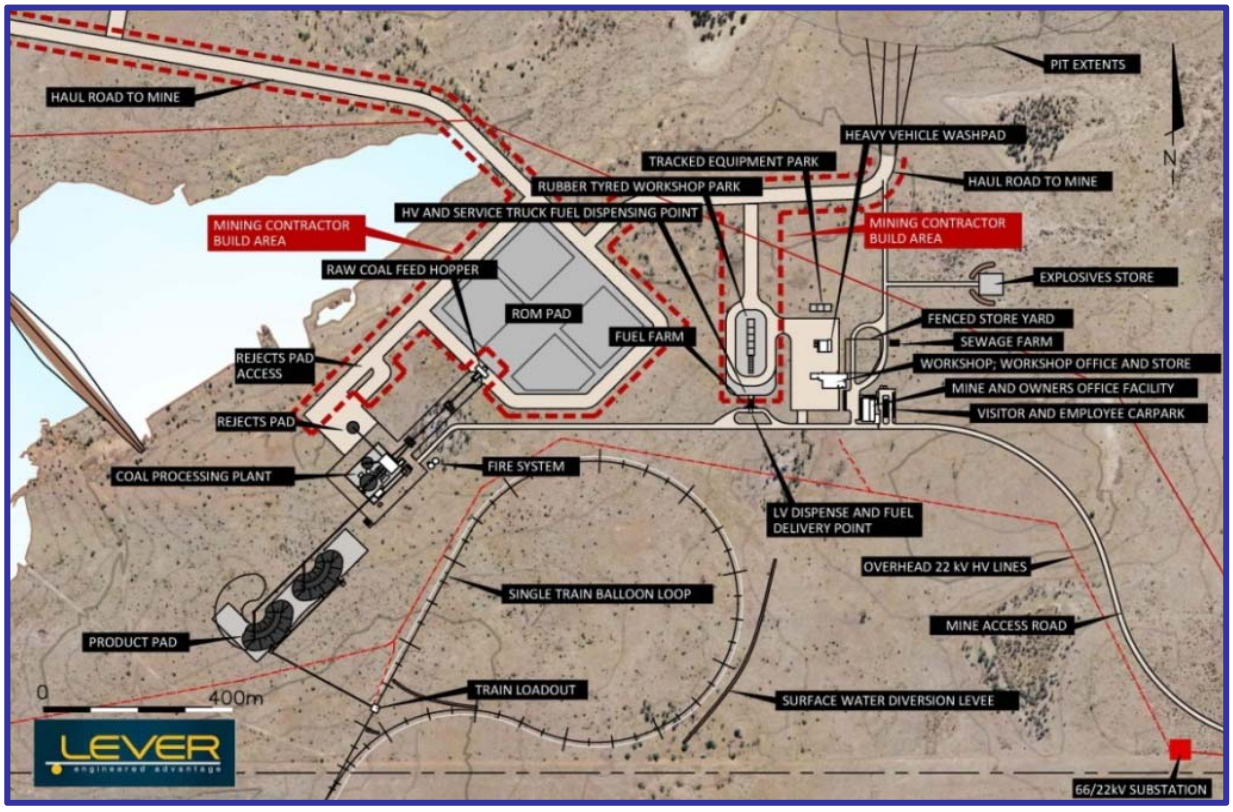
Xenith Consulting Pty Ltd was engaged to undertake a review of the mining options and update the production schedule, incorporating the results of the yield optimisation study.

A comprehensive remodelling of the Project's coal deposit indicated the yield increase allows the Project to produce up to 2.9Mtpa (previously 2.6Mtpa) from the same quantity of ROM tonnes.

SURFACE INFRASTRUCTURE

Lever (Aust) was engaged to review the proposed surface infrastructure requirements (excluding processing infrastructure) for the Project. The requirement was to ensure that suitable facilities were in place to deliver the production profile as efficiently and cost effectively as possible.

As a result of this review, there has been a reduction in capital which is expected to be required for surface infrastructure (excluding processing infrastructure). Based on scope change, and as a result of testing the market for 2014 prices, the life of mine capital estimate for surface infrastructure has been reduced from A$165 million in the DFS to A$116 million in the Supplementary Study.



Proposed mine infrastructure area layout

CAPITAL EXPENDITURE

The Supplementary Study, which assumes a contract mining operation, indicates that Washpool could be developed for an upfront capital cost of A$358 million (including contingency and pre-production overheads). This is in line with DFS capital expenditure estimate of A$357 million with the reduction in surface infrastructure capital largely offset by an expansion of the Project's coal processing infrastructure and upfront purchase of the requisite land.

Capital Summary	Base Case (A$m)
Processing Infrastructure	155
Surface and Power Infrastructure	125
Land & Other Infrastructure	41
Subtotal	**321**
Contingency	37
Total	**358**

OPERATING COSTS

The Supplementary Study indicates that the Project has the potential to produce coal at an operating cost of approximately A$122 per tonne FOB (excluding royalties) over a 15 year mine life.

Decreased mining unit costs on lower waste volumes in the Supplementary Study, were largely offset by increases in processing and fuel unit costs as well as increases in explosives supply and delivery costs.

COAL MARKET / DEVELOPMENT OUTLOOK

Since commencement of the Supplementary Study, the spot price of Premium Hard Coking Coal has fallen nearly 20% to five year lows. The Company is confident that coking coal prices will recover in the medium-term and, in the meantime, the Company intends advancing discussions with various parties that have expressed an interest in both investing in, and securing offtake from, Washpool and other projects controlled by Aquila. These discussions will assist the Company in prioritising future development efforts beyond construction of the Eagle Downs Hard Coking Coal Project.

Tony Poli
Executive Chairman

For further information regarding this announcement, please contact Tony Poli.

Telephone: (08) 9423 0111
Facsimile: (08) 9423 0133
Email address: mail@aquilaresources.com.au
Visit us at: www.aquilaresources.com.au

The information in this announcement that relates to the Washpool Reserves Statement was prepared by Mr Ross Haupt who is a director of Xenith Consulting Pty Ltd. He holds a Bachelor Degree in Mining Engineering from the University of Queensland with over 25 years' experience in the open cut coal mining industry and substantial experience in mining operations. Ross Haupt is a Member of the Australasian Institute of Mining and Metallurgy and as such qualifies as a Competent Person under the JORC 2004 Code. Mr Haupt consents to the inclusion in the announcement of the matters based on their information in the form and context in which it appears. Reserves are quoted in compliance with the JORC 2004 Code.