Strategic Co-operation with Baosteel

Highlights

- **Strategic co-operation created between Aquila Resources Limited and Baosteel Group Corporation, China's largest steel mill and one of the world's biggest steel makers, to fast-track the development of Aquila's key steel raw materials projects including iron ore, coal, and manganese.**
- **Baosteel to invest up to $285.6 million in Aquila via a placement of up to 43.95 million shares (15%).**
- **Baosteel to work with Aquila to source low cost financing from Chinese financial institutions for most of its major projects.**
- **Baosteel to have a preferential opportunity to directly invest in and co-develop most of Aquila's projects.**
- **Vice President of Baosteel, Mr. Dai Zhihao, has been nominated to the Aquila Board.**
- **Statutory Conditions include FIRB and Chinese regulatory approvals.**

Aquila Resources Limited (ASX:AQA "Aquila" or "the Company") and Baosteel Group Corporation ("Baosteel") have today executed two landmark agreements, a Memorandum of Strategic Co-operation and a share Subscription Agreement.

Baosteel, which has several subsidiaries listed on the Shanghai Stock Exchange, is China's largest steel manufacturer and one of the most important companies in the global steel industry. Baosteel is also active in resource development, technology services, finance and production services.

The strategic co-operation that has been established by the signing of these two agreements is expected to deliver significant long-term benefits for both Aquila and Baosteel, and significant benefits to both Australia and China.

This is a transforming event for Aquila. China's largest steelmaker has established a strategic co-operation with Aquila, not only to make a major investment in the Company, but also to advance participation in some of the important projects in the Company's portfolio. For Baosteel, this represents its first major international strategic investment in a public company and is an important transaction in Baosteel's strategy to secure long-term supply of critical steel raw materials for its steel making business.

Placement to Baosteel

The share Subscription Agreement provides for a placement of up to 43,946,413 shares in the Company at $6.50 per share for total cash proceeds of up to $285.6 million. The placement, when completed, will result in Baosteel owning up to 15% of the expanded issued share capital of the Company.

This placement will provide the Company with significantly greater capacity to accelerate the development of its key, high quality, steel raw materials asset portfolio. This is an important step in executing Aquila's vision to become one of Australia's leading globally diversified steel raw materials producers.

Perth: Level 2 Aquila Centre, 1 Preston Street, Como WA 6151 Telephone (61) 8 9423 0111Facsimile (61) 8 9423 0133
Brisbane: Level 11, 10 Market St, Brisbane QLD 4000 Telephone (61) 7 3229 5630 Facsimile (61) 7 3229 5631
Thabazimbi: C/O Platina and Lood Avenue, Thabazimbi 0380, South Africa Telephone (27) 14 772 3337 Facsimile (27) 14 772 3337
Northern Cape: Stand 585 Opwag, Groblershoop, Northern Cape, South Africa Telephone (27) 798 816 459 Facsimile (27) 866 838 065

Strategic co-operation with Baosteel

In addition to the Subscription Agreement, Aquila and Baosteel have entered into a Memorandum of Strategic Co-operation which provides a foundation for long-term strategic co-operation between the two companies in relation to the key projects. Importantly, this includes Baosteel's potential direct investment into a number of the Company's projects and support in sourcing finance for those projects.

Baosteel will work with Aquila to assist in sourcing low cost financing from Chinese institutions for a number of the Company's projects, including the strategic West Pilbara Iron Ore Project. The support of Baosteel in accessing the Chinese financial institutions will be of significant importance, value and advantage to Aquila.

Aquila is pleased to enter this strategic co-operation with Baosteel to potentially underwrite the delivery of the Company's key development projects in iron ore, metallurgical coal and manganese. Subject to Government and project participant approvals, with the necessary funding being made available, the Company's portfolio of projects can be developed in the timeframes currently considered, launching Aquila as a significant producer of steel raw materials. The following table indicates the potential attributable tonnages that may accrue to the Company in the event of the more advanced projects being brought into production.

COMMODITY/PROJECT	AQUILA'S INTEREST	PLANNED PRODUCTION	AQUILA'S SHARE OF PRODUCTION
IRON ORE			
- West Pilbara Iron Ore	~40%	30 - 40 Mtpa	12 - 16 Mtpa
- Thabazimbi (South Africa)	74%	2.5 Mtpa	1.9 Mtpa
Total		32.5 – 42.5 Mtpa	13.9 – 17-9 Mtpa
COAL (Queensland)			
- Isaac Plains	50%	2.8 Mtpa	1.4 Mtpa
- Eagle Downs	50%	up to 8.0 Mtpa	up to 4.0 Mtpa
- Washpool	100%	1.6 Mtpa	1.6 Mtpa
Total		12.4 Mtpa	7.0 Mtpa
MANGANESE (South Africa)			
- Avontuur	74%	1.0 Mtpa	0.74 Mtpa

For Baosteel, the Company's portfolio of projects has the potential to deliver significant new supplies of iron ore, coking coal and manganese. The involvement of Baosteel now paves the way for Aquila to pursue its strategic vision in drawing together supply through its interests in the West Pilbara Iron Ore Project and shipping through the planned Anketell Port.

In addition, Aquila and Baosteel will work towards establishing a joint sales arrangement to assist in the distribution of the Company's, and potentially Baosteel's share of production, from these key projects throughout the Peoples' Republic of China. Aquila and Baosteel have also agreed to work towards the establishment of long-term raw material off-take arrangements from these projects, once they are developed and in production. If appropriate arrangements are agreed, they would significantly assist in ensuring the relevant projects are able to find suitable markets for their planned production.

Appointment to the Board

As part of the share Subscription Agreement, Baosteel may nominate a key Baosteel executive to the Company's board. The initial Baosteel nominated director is Mr Dai Zhihao, a Vice President of Baosteel.

Mr Dai is a Senior Engineer having graduated from the Shanghai Jiao Tong University with a Bachelor's Degree majoring in Welding Procedure. He has extensive experience in production, organisation, and products marketing and sales in iron and steel enterprises. Mr Dai joined Baosteel in 1983 and recently was appointed as Vice President of Baosteel Group Corporation in November 2007.

Aquila welcomes this appointment as a significant indication of the strategic co-operation between Aquila and Baosteel.

SUMMARY OF AGREEMENTS

Share Subscription Agreement – Key placement terms

The placement is subject to several conditions and approvals, including no objection from the Federal Treasurer under Australia's Foreign Investment policy, Chinese regulatory approvals, no material adverse change in Aquila and the Company not issuing or agreeing to issue further shares (or securities convertible into shares) prior to completion of the placement (other than certain permitted issues). In addition, the subscription of 9,696,963 of the new shares is also subject to approval from Aquila's shareholders. A shareholder meeting will be called shortly for the purposes of seeking shareholder approval for the issue of these shares and ratification of the initial placement.

The Agreement with Baosteel also includes:

- anti-dilution rights allowing Baosteel, subject to certain conditions, to participate in new issues of the Company's shares (or securities convertible into shares), other than certain excluded issues, during the period to August 2010;
- a standstill agreement during the period to August 2010, which prevents the Baosteel Group from having a relevant interest in more than 19.99% of the Company's shares on issue (subject to certain exceptions, including if there is a third party control transaction for the Company in certain circumstances);
- a "lock-up" arrangement during the period to August 2010 which, subject to the receipt by the Company of appropriate regulatory relief, restrains the Baosteel Group from disposing of any shares (or securities convertible into shares) issued to it by the Company. This arrangement is subject to certain exceptions, including where there is a third party control transaction under which a third party obtains a relevant interest in more than 19.99% of the Company's shares, or where Aquila's directors dispose of more than 30% of their current shareholdings;
- "no-shop" restrictions on the Company (and restrictions on provision of information) during the period prior to the completion of the placement in relation to proposals for the issue to a single investor or to a group of associated investors of Aquila shares (or securities convertible into shares) comprising more than 4.99% of the shares on issue, or a third party control transaction. These restrictions are supported by notification rights and rights for Baosteel to make a counterproposal in respect of such transactions; and
- payment by the Company of a break-fee of approximately $2.85 million in the event that a third party control transaction is publicly announced and recommended by a majority of Aquila's directors before the completion of the placement.

Memorandum of Strategic Co-operation

The Memorandum of Strategic Co-operation contains a framework for Aquila and Baosteel to develop and progress strategic co-operation by:

- the potential investment in certain of the Company's projects by Baosteel;
- the marketing in China of a proportion of coal from the Isaac Plains Coal Mine, the Eagle Downs Coal Project, the Belvedere Coal Project, and iron ore from the West Pilbara Iron Ore Project and the Thabazimbi Iron Ore Project, and leveraging from Baosteel's technical expertise and strong local sales networks;
- the long-term supply to Baosteel of a proportion of the products from the above projects; and
- the sourcing of low cost financing from appropriate Chinese financial institutions for the above projects.

The Memorandum of Strategic Co-operation also contains a process to support potential project-level investment by Baosteel in various Company projects. This process comprises rights to a period of initial due diligence to allow Baosteel to further familiarise itself with the projects, together with rights to be notified and enter into a limited period of exclusive due diligence and exclusive negotiations (each subject to appropriate fiduciary exceptions) in the event that the Company proposes seeking or progressing third party investment in a project during the 12 month period to August 2010. These arrangements are supported by "no-shop" and "no-talk" restrictions and obligations to notify Baosteel of third party approaches, subject to appropriate fiduciary exceptions.

Tony Poli
Executive Chairman

For further information regarding this announcement, please contact:

Tony Poli	**Aquila Resources Limited**
Telephone:	+61 8 9423 0111
Facsimile:	+61 8 9423 0133
Email address:	mail@aquilaresources.com.au
Visit us at:	www.aquilaresources.com.au
Chris Fraser	**Sigiriya Capital (Australia)**
Telephone:	+61 2 9917 8988
Paul Glasson	**Sigiriya Capital (China)**
Telephone:	+86 138 168 32788