ASX RELEASE 4 June 2010

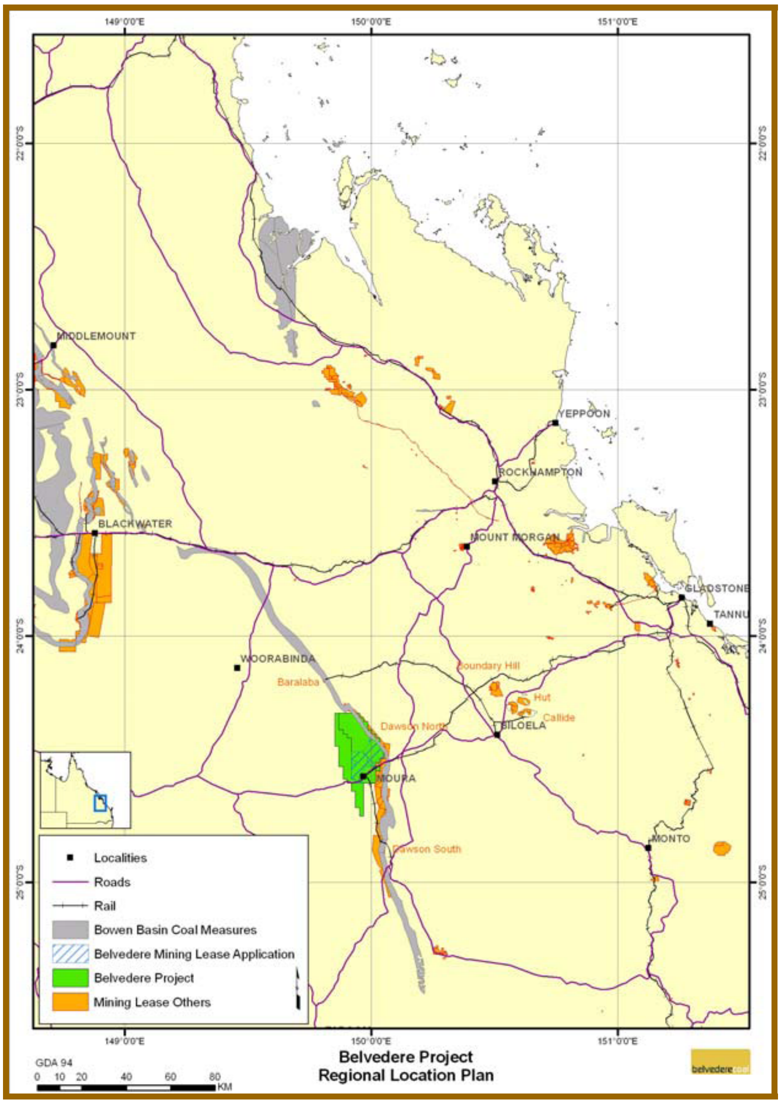
Vale Exercises Option to Acquire Aquila's Interest in Belvedere Hard Coking Coal Project

Aquila Resources Limited (ASX: AQA) (**Aquila**) advises that Vale Belvedere Pty Ltd (**Vale Belvedere**) has given Aquila's wholly owned subsidiary, BD Coal Pty Ltd (**BD Coal**), a notice of exercise of Vale Belvedere's option to acquire all of BD Coal's 24.5% interest in the Belvedere Hard Coking Coal Project (**Project**) to take the Vale group's interest in the Project to 100%.

Background on the Project and further information regarding the exercise of the option by Vale Belvedere is set out below.

Belvedere Hard Coking Coal Project

The Project is located in the southern Bowen Basin in Central Queensland to the west of Moura and immediately down dip from the Dawson mine operated by Anglo Coal Australia Pty Ltd. As previously announced by Aquila, the Project achieved a major milestone during the first quarter of 2010, with the completion of the Project's Pre-Feasibility Study.



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As set out in Aquila's ASX release dated 25 March 2010, the outcomes of the Pre-Feasibility Study:

- identified significant mining domains containing hard coking coal suitable for mining extraction using longwall mining techniques, with 1,002Mt of Indicated Resource and 1,473Mt of Inferred Resource for a total of 2,475Mt.
- indicated that the Project can be developed for a capital cost of A$2,814 million, which includes a provision for engineering procurement and construction management of A$245 million and a contingency of A$169 million.
- confirmed that the mine can produce coal for approximately $71 per tonne (Free on Board excluding royalties) and the mine has a life of in excess of 30 years based on the domains selected for the base case, although the Resource of the Project area may allow for an extended mine life.

The Pre-Feasibility Study proposes an underground longwall mine, producing initially 3.5Mtpa of coking coal product and then up to 7Mtpa of coking coal product when a second longwall is installed. The Study presents a mining base case in a limited Project area and within only some of the identified mining domains. The initial base case represents the start-up operation for only a part of a significant mining province, given the size of the Resource. There are a range of other mining areas within the Resource that could provide opportunities for future operations.

The Project is currently progressing feasibility studies, albeit initially with a limited scope targeting technical and infrastructure issues, after which it was intended (prior to exercise of the option by Vale Belvedere) that there would be further evaluation of Project economics and decision whether to proceed with the full Feasibility Study.

The Project was declared a "state significant project requiring an EIS" by the Queensland Coordinator-General in November 2009.

Subject to owner and statutory approvals and completion of the technical studies, construction of the mine could commence in 2014, with first coal mined in 2016. The first longwall would be expected to be installed in 2017, followed by the second longwall in 2020.

Exercise of option by Vale Belvedere

Vale Belvedere, which currently holds a 51% interest in the Project, is a subsidiary of Vale S.A. (**Vale**) and is a related body corporate of Vale Belvedere (BC) Pty Ltd (formerly known as AMCI (BC) Pty Ltd) (**Vale Belvedere (BC)**). Vale Belvedere (BC) was recently acquired by the Vale group and holds a further 24.5% interest in the Project, giving the Vale group a current interest in the Project of 75.5%.

Under the terms of the Belvedere Joint Venture Agreement (**JV Agreement**), the price payable to the Aquila group for the interest to be purchased by Vale Belvedere pursuant to the exercise of the option is the fair market value of that interest. The JV Agreement provides that two valuers are to be appointed to determine the fair market value. In the event the two valuations are within 10% of each other, then the price payable for the interest is the average of those valuations.

If the valuations are not within 10% of each other, a third determining valuer is appointed to determine the fair market value (which must not be less than the lower of the two valuations already obtained), which third valuation will then be the price payable for the interest.

Aquila notes the recent press release made by Vale in relation to its acquisition of a parent company of Vale Belvedere (BC) (**Vale Release**), a copy of which is attached. The purchase price for that acquisition as stated in the Vale Release was arrived at between the particular parties to that transaction without any prior knowledge, input or involvement of Aquila, and was not conducted under the fair market value determination process set out in the JV Agreement which applies to determine the price payable for the interest to be purchased on exercise of the option. Aquila's view is that the purchase price for the recent Vale Belvedere (BC) acquisition is not reflective of (and is lower than) the fair market value (to be determined in accordance with the process set out above) payable for the Aquila group's interest in the Project as a result of Vale Belvedere's exercise of its option.

Aquila's view is consistent with indicative valuations of Aquila's interest in the Project as contained in recent broker research reports, as extracted in the table below:

Broker	**Date of research report**	**Indicative valuation of Aquila's interest in the Project (A$m)***
Investec Securities	19 April 2010	357 (with an indicative range of 300 - 400)
Southern Cross Equities	8 March 2010	414 (however, with an expected cash receipt of 455 as a result of the exercise of the option)
RBC Capital Markets	2 June 2010	143 (and up to 454 based on the EV/Resource multiple of US$1.56/t stated by RBC Capital Markets in the 2 June 2010 report)
RBC Capital Markets	26 February 2010	380

* The indicative valuations in the research reports, and set out above, are prepared on the basis of publicly available information, the particular research analyst's own industry knowledge and various assumptions (as set out in the complete copies of the reports available from Aquila's website). They are not determinations of "Fair Market Value" for the purposes of the JV Agreement

Unless otherwise agreed or determined earlier in accordance with the process set out in the JV Agreement, Aquila expects the process to determine the price payable on exercise of the option to take in the order of 3 months. Aquila will update the market when it receives the valuation that it is to commission as part of the process.

Aquila will keep ASX advised of further developments.

Tony Poli
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Competency Statement

The estimate of Coal Resources for the Belvedere Project (EPC783) as presented in this announcement has been carried out in accordance with the Guidelines of the 'Australasian Code for Reporting of Mineral Resources and Ore Reserves' prepared by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Mineral Council of Australia, December 2004.

The information in the announcement to which this statement is attached, that relates to the Belvedere Coal Resources, is based on information provided by Belvedere Coal Management, and reviewed and validated by Mr Lyon Barrett. Mr Barrett is a full time employee of Salva Resources Pty Ltd and is a member of the Australasian Institute of Mining and Metallurgy. Mr Barrett has reviewed the geological data, constructed the geological model, and estimated the coal resources.

Mr Barrett has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 edition of the Australasian Code for Reporting of Mineral Resources and Ore Reserves. Mr Barrett consents to the inclusion in the announcement of the matters based on this information in the form and context in which it appears.

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2010

Vale increases stake in Belvedere

Rio de Janeiro, June 1, 2010 – Vale S.A. (Vale) informs that it has acquired an additional 24.5% stake in the Belvedere coal project (Belvedere) for US$ 92 million from AMCI Investments Pty Ltd (AMCI). As an outcome of this transaction, Vale increased its participation in Belvedere to 75.5% from 51.0%.

Belvedere is an underground coal project, in the southern Bowen Basin region, near the city of Moura, in the state of Queensland, Australia. According to our preliminary estimates, once it is fully developed Belvedere has the potential to reach in the future a production capacity up to 7.0 million metric tons per year of coking coal.

The price for this transaction was settled before the announcement by Australian government of the project to create the Resource Super Profits Tax to be imposed on mining companies.

Investment in the coal business is an important part of Vale's growth strategy. Vale has coal operating assets and a portfolio of exploration projects in Australia and Colombia, and minority interests in two joint ventures in China. Vale is also developing the Moatize project in Mozambique and has mineral exploration initiatives in several other countries.

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