AQUILA RESOURCES INC.
MANAGEMENT DISCUSSION AND ANALYSIS
For the year ended December 31, 2012

The following discussion of performance, financial condition and future prospects should be read in conjunction with the consolidated financial statements of Aquila Resources Inc. (the "Company" or "Aquila") for the year ended December 31, 2012 which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This Management Discussion and Analysis ("MD&A") includes certain statements that may be deemed "forward looking statements". All statements in this discussion, other than statements of historical fact, that address future exploration activities and events or developments that the Company expects, are forward looking statements. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in the forward-looking statements. Additional information including the Annual Information Form can be found on Sedar at www.sedar.com. All amounts herein are stated in US $ unless indicated otherwise.

1. DATE

This MD&A is dated March 28, 2013.

2. OVERALL PERFORMANCE IN 2012

Performance highlights

- A Preliminary Economic Assessment of the Back Forty Project was completed with positive pre-tax NPV of $73,574,000, using a discount rate of 8%, and IRR of 18.2%.
- An updated National Instrument 43-101 resource estimate for the Back Forty Project was completed (subsequent to December 31, 2012) indicating a significantly improved resource base.
- Drilling programs took place on the Bend and Reef projects during the year.
- HudBay Minerals Inc. ("HudBay") suspended its development activities on the Back Forty Project and the Company began assessment of strategic options.
- The Company retained key properties from the Exploration Alliance with HudBay after the Exploration Alliance was terminated by HudBay.

Performance details

Preliminary Economic Assessment of the Back Forty Project

On April 26, 2012 a National Instrument 43-101 compliant Preliminary Economic Assessment (õPEAö) of the Back Forty Project was made public. The following are key excerpts from the õPreliminary Economic Assessment Technical Report on the Back Forty Deposit, Menominee County, Michigan, USAö dated April 26, 2012, prepared for Aquila Resources Inc. by:
Brian Connolly, P.Eng., Principal Mining Engineer, SRK Consulting (Canada) Inc.,
Douglas K. Maxwell, P.Eng. Lead Process Engineer Lyntek Inc.,
Gregory Greenough, H. BSc., P.Geo. Senior Resource Geologist, Golder Associates Ltd.,
Stephen Donohue, P.H., Dir of the Mining Sector Services, Foth Infrastructure & Environment, LLC.,
Robert Carter, P.Eng., Manager, Project Evaluation, Hudbay Minerals Inc.

The potential economic viability of the open pit portion of the Back Forty deposit was evaluated using measured, indicated and inferred mineral resources and a discounted pre-tax cash flow analysis approach. In summary, based on the assumptions used for this PEA the results indicate that:

- Proposed life of mine of approximately 7 years at a full production rate of 3,000tpd and a payback of capital after 3 years of mining
- Average unit operating costs of $36.79/tonne mined and processed over the life of the project

- Total LOM capital of $272.3M, includes $224.7M for initial project capital required to build the mine, site infrastructure, sulfide flotation and oxide leach plant and purchase of new mining equipment to achieve commercial production
- The project has a pre-tax cash flow of $211.8M, with a NPV8% of $73.6M and an 18.2% IRR
- Over the LOM Back Forty is expected to produce 77,200 tonnes of copper concentrate, 323,500 tonnes of zinc concentrate and 295,300 ounces of gold and 2,561,700 ounces of silver contained in gold-silver alloy dore product and within the copper concentrate
- Net payable gross revenue of $786.8M is from copper and zinc concentrates and gold-silver alloy dore

The portion of the measured mineral resources, indicated mineral resources and inferred mineral resources used for evaluation purposes in the PEA is shown in Table 1.1, after applying allowances for dilution and mining losses based on an assumed mining production schedule and pre-tax cash flow analysis.

Table 1.1

Category	Metallurgical Type	Tonnes (000s)	Au (g/t)	Ag (g/t)	Cu (%)	Pb (%)	Zn (%)
Measured	Flotation	5,237	1.90	15.1	0.25	0.12	3.41
Measured	Oxide	965	2.85	31.0	0.10	0.12	0.35
Indicated	Flotation	506	1.71	42.7	1.34	0.07	0.64
Indicated	Oxide	149	3.72	44.4	0.34	0.06	0.13
Inferred	Flotation	588	1.31	37.5	1.18	0.05	0.60
Inferred	Oxide	91	3.86	45.0	0.64	0.03	0.09

The mine plan assesses the potential economic viability of mining only the nearer surface mineralization by open pit methods. Potential underground mining of deeper mineralization is not evaluated.

Sensitivities of the base case commodity price assumptions are shown in Table 1.2. A 15% decline in metal prices reduces the pre-tax IRR to 8.4%, whereas a 15% increase in metal prices improves the pre-tax IRR to 26.2%.

Table 1.2: Base Case Comparisons

		-15% Change to Base Case	PEA Base Case[1]	+15% Change to Base Case
Gold (US$/oz)		$1,124	$1,322	$1,520
Silver (US$/oz)		$21.29	$25.05	$28.81
Copper (US$/lb)		$2.92	$3.44	$3.96
Zinc (US$/lb)		$0.80	$0.94	$1.08
Pre-tax				
	Cash Flow	$85,779,000	$211,774,000	$335,958,000
	$NPV_{8\%}$	$2,858,000	$73,574,000	$142,958,000
	IRR	8.4%	18.2%	26.2%

1Bloomberg three year historic average (April 1, 2009 to March 31, 2012).

The full technical report, dated April 26, 2012, was filed on www.sedar.com under the filings of Aquila Resources Inc.

<u>Updated National Instrument 43-101 resource estimate for the Back Forty Project</u>:
The updated mineral resource estimate for the Back Forty Project is as follows:

AQUILA RESOURCES INC. BACK FORTY RESOURCE ESTIMATE
February 2, 2013 Thomas O. Quigley Qualified Person

Open PitÄ							
Category	Tonnes	Au (ppm)	Ag (ppm)	Cu (%)	Pb (%)	Zn (%)	NSR ($/tonne)
Meas.	4,720,716	2.24	26.77	0.55	0.13	3.49	141.88
Ind.	4,926,783	1.90	18.30	0.14	0.21	1.49	92.41
Meas. + Ind.	9,647,498	2.07	22.45	0.34	0.17	2.47	116.62
Inf.	152,488	2.76	34.56	0.19	0.39	2.86	143.31

UndergroundŒ							
Category	Tonnes	Au (ppm)	Ag (ppm)	Cu (%)	Pb (%)	Zn (%)	NSR ($/tonne)
Meas.	1,982,087	1.97	28.56	0.29	0.31	5.04	141.22
Ind.	3,504,462	1.96	27.78	0.33	0.32	3.57	117.79
Meas. + Ind.	5,486,549	1.97	28.06	0.32	0.32	4.10	126.27
Inf.	2,184,246	2.03	25.96	0.37	0.33	2.15	101.89

Global Resource							
Category	Tonnes	Au (ppm)	Ag (ppm)	Cu (%)	Pb (%)	Zn (%)	NSR ($/tonne)
Meas.	6,702,803	2.16	27.30	0.47	0.18	3.95	141.68
Ind.	8,431,244	1.92	22.24	0.22	0.26	2.36	102.96
Meas. + Ind.	15,134,047	2.03	24.48	0.33	0.22	3.06	120.11
Inf.	2,336,734	2.07	26.53	0.36	0.33	2.20	104.60

**Mineral resources are not mineral reserves and do not have demonstrated economic viability. NSR cut-off values were based on metal price assumptions of US$0.96 per pound zinc, US$3.65 per pound copper, US$1.01 per pound lead, US$1456.36 per troy ounce gold and US$27.78 per troy ounce silver. Metallurgical recoveries were determined and applied for each of the metallurgical domains determined for the deposit.*

† Cut off values were determined for each of the metallurgical domains contained in the optimized open pit were based on NSR values. Average cut-off value for the open pit resource contained within an optimized pit shell was US$27.75. "See Mineral Resource Estimate Disclosure."

‡ Cut off values were determined for each of the metallurgical domains based on NSR values. Average cut-off value for the underground resources outside of the optimized pit shell was US$66.45. See "Mineral Resource Estimate Disclosure."

The updated resource was compiled by Tetra Tech of Golden Colorado with input by Aquilaǿs technical team, and incorporated the results of an additional 78 drill holes from the previously calculated resource prepared in 2010. In addition to incorporating recent drilling, the updated resource includes a new geological model of the deposit with increased detail on the geologic boundaries of the Back Forty deposit from both a geological and geo-metallurgical standpoint.

The updated mineral resource expanded on and incorporated parameters derived from the April 26, 2012 PEA that utilized the 2010 mineral resource. The PEA contemplated mining 7,536,000 tonnes of mineral resources from an open pit. The updated open pit mineral resource consists of 9,647,498 tonnes of measured and indicated resources utilizing a NSR cut off averaging US$27.75 per tonne. The updated

resource also quantifies mineralization outside of the open pit shell utilizing an underground NSR cut off averaging US$66.45 per tonne.

Reef Gold Project:
Encouraging drill results on the 100% owned Reef Gold Project were announced on May 8, 2012 and July 9, 2012 and can be can be viewed at www.sedar.com

Bend Property:
Drill results at the Bend property, formerly an Exploration Alliance property, were announced on June 11, 2012 and August 2, 2012 and can be viewed at www.sedar.com.

HudBay suspension of its development activities on the Back Forty Project:
On July 3, 2012 the Company announced it had been informed by Hudbay Minerals Inc. (õHudBayö) that it had decided to suspend its development activities at the Back Forty Project. The Company is evaluating a range of options and opportunities available to it to continue advancing the project and strengthening its position in the Great Lakes region. The Company is working with HudBay to consider strategic alternatives that are in the best interests of the Companyøs shareholders, other stakeholders, and the Back Forty Project.

Termination of the Exploration Alliance between HudBay and the Company:
During the year the Exploration Alliance between HudBay and the Company was terminated by HudBay. As a result of the termination the Companyøs interest in the four former Exploration Alliance properties currently under evaluation increased to 100% from 49%, subject to a HudBay back in right on the Bend deposit.

3. SELECTED ANNUAL INFORMATION

Selected audited annual information for the three most recently completed years, all reported under IFRS, are as follows:

Year ended December 31,	2012 $	2011 $	2010 $
Interest and other income	265,059	6,582	6,655
Net loss before and after taxes	2,477,661	2,470,838	688,991
Basic & diluted loss per share	0.03	0.03	0.01
Total assets	30,902,031	33,550,148	30,246,860

4. RESULTS OF OPERATIONS AND SIGNIFICANT PROJECTS

Overview

The following table provides selected financial information that should be read in conjunction with the financial statements of the Company.

	Three months ended December 31, 2012 $	Three months ended December 31, 2011 $	Year ended December 31, 2012 $	Year ended December 31, 2011 $
Interest and other income	172,945	1,744	265,059	6,583
Operating expenses	1,897,343	74,459	2,742,720	2,477,421
Net loss	1,724,398	72,715	2,477,661	2,470,838
Basic and diluted loss per share	0.03	0.00	0.03	0.03
Total assets	30,902,031	33,550,148	30,902,031	33,550,148

The Company has no income from its operations. During the year ended December 31, 2012, the Company incurred a loss of $2,477,661 (2011 - $2,470,838). The loss in 2012 includes a mineral property write-off of $1,742,217 (2011 ó recovery of $12,735). Excluding the mineral property write off/recovery, the lower loss in 2012 is primarily due to management efforts in 2012 to reduce headcount, cost reduction efforts overall, and higher interest and other income in 2012. Also, share-based compensation was higher in 2011.

Revenues

None of the Companyøs properties have advanced to the point where a production decision can be made. As a consequence, the company has no producing properties and no sales or revenues. Interest and other income includes; $142,606 income related to unapplied advances from HudBay in connection with the Exploration Alliance that were recorded as income on cancellation of the Alliance by HudBay; $25,095 gain on sale of the Stephenson property in Michigan which was sold for proceeds of $220,000; and interest on invested cash making up the remaining balance.

Expenses

During the year ended December 31, 2012 the Company incurred total expenses in the amount of $2,742,720 (2011 - $2,477,421). Aside from the mineral property write off/recovery, higher costs in the 2011 period were primarily due to higher share-based compensation expense, and generally higher costs overall due to higher activity levels in 2011. The Company has implemented cuts to project expenditures, salaries and overhead in order to conserve cash.

Notable expense items are outlined in the table that follows:

	For the Three months ended December 31,		For the Year Ended December 31,	
	2012	2011	2012	2011
	$	$	$	$
Consulting fees	9,067	12,136	42,048	97,183
Filing and regulatory fees	10,031	2,360	57,189	76,507
Foreign exchange loss (gain)	4,060	192,896	(19,527)	257,093
Mineral property write off	1,696,809	(29,921)	1,742,217	(12,735)
Professional fees	13,880	73,604	202,776	251,448
Salaries and benefits	57,623	61,752	309,795	398,655
Stock-based compensation	-	(351,495)	-	1,012,186
Travel and Promotion	14,235	17,870	121,449	103,706
Other	91,639	95,257	286,773	293,378
Total expenses	1,897,344	74,459	2,742,720	2,477,421

Acquisition and Exploration Expenditures

Back Forty Project:

Until March 2012 acquisition costs for the Back Forty Project were capitalized and accounted for on the balance sheet as mineral property interests. On March 9, 2012 the Companyøs 49% interest in the Back Forty Project was transferred into a company called Back Forty Joint Venture LLC and HudBay is the project operator. The Back Forty Project has been transferred from mineral properties to a legal entity in which the Company has a 49% interest, and will be equity accounted for as an investment going forward.

Total future estimated lease, option and property acquisition costs on the Back Forty project over the next five years total $5,657,304. The acquisition costs related to the Back Forty Project are funded by HudBay as long as HudBay remains the project operator.

Expenditures on the former Exploration Alliance properties:
During the year ended December 31, 2012 total Acquisition and Exploration expenditures of $2,081,285 were made on the former Exploration Alliance properties, all of which were funded by HudBay.

Aquila Gold Properties:
Acquisition and Exploration expenditures incurred by Aquila on its account (not reimbursed by HudBay) on Aquila Gold Properties for the year ended December 31, 2012 amounted to $1,116,957 (2011 - $2,474,695). Expenditures in 2012 and 2011 are as follows:

	2012	2011
Wages	$ 148,077	$ 353,006
Assays	138,887	325,223
Geophysics	9,450	132,819
Drilling	353,199	779,203
Consulting, Legal, and Environmental	45,173	156,841
Operator	102,776	229,504
Property Interests	319,395	498,099
Total	$ 1,116,957	$ 2,474,695

Expenditures split out by projects during the year ended December 31, 2012 are as follows: Michigan Gold - $181,063; Reef - $761,240; and Other - $174,654.

Significant projects
Aquila is in the business of exploring for and developing mineral properties. Substantially all of the efforts of the Company are devoted to these business activities. To date the Company has not earned significant revenues from any of its ongoing projects. A description of each of the Companyøs ongoing projects follows.

Back Forty Project
The Back Forty Project is an advanced gold zinc project located in the Upper Peninsula of Michigan, USA and is the primary mineral property interest of the Company. The project is owned by Back Forty Joint Venture LLC (õBFJVö) and the Company currently owns a 49% interest in BFJV. There is an overriding 7% net distributable earnings royalty (õnet profits after paybackö) payable to a former joint venture partner. The activities of BFJV are subject to an Operating Agreement between the Company and HudBay.

Key provisions of the Operating Agreement are described as follows. HudBay is the operator and is responsible for all decisions including budget allocations for exploration and development. Currently HudBayøs interest is 51%. Should HudBay complete a feasibility study and submit permitting applications, its interest in the project would increase to 65%. HudBay is responsible for funding expenses at the Back Forty Project until such time as the feasibility study is complete, permitting is obtained, and a written notice (a õDevelopment Noticeö) is provided by HudBay to the Company of HudBayøs intent to develop the property into commercial production. In the event a feasibility study is completed, HudBay elects to put the Project into production and issues a Development Notice, and permitting is obtained, the Company will have 90 days to arrange financing for its share of BFJVøs costs. If the Company is unable to obtain financing, or elects not to do so, HudBay, by assuming the obligation to finance 100% of the development costs, will increase its ownership in BFJV by a further 10% to a minimum of 75%. Pursuant to the Operating Agreement, the Company's 25% share of the development

costs would then be deducted from the Company's proportionate share of Net Proceeds from BFJV. Until such time as profitable production commences from the Back Forty Project, and any amounts due to HudBay have been repaid, the Company will have no source of revenue from the Back Forty Project. If HudBay does not complete the feasibility study and submit permitting applications by August 12, 2013, then Aquila has the right to acquire HudBayøs 51% interest in the Back Forty by reimbursing it an amount equal to 50% of the costs expended by HudBay on the Back Forty since August 6, 2009. The Operating Agreement provides HudBay with the right to sell its interest in the Back Forty, subject to the Companyøs right of first refusal.

<u>Former Exploration Alliance properties</u>

Bend Copper Gold Deposit

The Bend Copper Gold Deposit is located in Marathon County, Wisconsin. The project is 35 miles southeast of the former producing Flambeau mine and occurs within the early Proterzoic aged Penokean Volcanic Belt. The Company has been issued an õexploration licenceö by the Bureau of Land Management for 5,560 acres of prospective Federal Lands.

Sturgeon Falls and Five Mile zinc properties

Aquila has completed a number of VTEM airborne geophysical surveys on these three properties. The Sturgeon Falls property is located in the Upper Peninsula of Michigan, and the Five Mile Zinc Property is in Minesota. These targets contain multiple conductive zones associated with mafic and ultramafic intrusive rocks untested by previous drilling. Land acquisition and ground geophysical follow-up work are ongoing. The Five Mile Zinc Property project area occurs within the Archean Ely Greenstone Belt and hosts widespread alteration associated with mineralization, a key characteristic of base metal deposits in the Noranda and Snow Lake districts of Canada. The project area was host to limited exploration between the 1970øs and 1980øs, most notably by Newmont Exploration and Teck. Teck conducted an exploration program in 1994 that consisted of geological mapping, geochemical and geophysical surveys, and minor diamond drilling.

In view of the ongoing costs to maintain the former Exploration Alliance properties as disclosed in Note 6(b) of the Companyøs December 31, 2012 financial statements, the Company is evaluating its strategic options with respect to the properties.

<u>Aquila Gold Properties</u>

Michigan Gold

The Michigan Gold Property is a package of gold properties located in the Marquette Greenstone Belt of Michigan. Over the course of the year the Company spent a total of $181,033 on the project which included land acquisition, drilling and other exploration work. The project is approximately 70 km north of the Back Forty Project and 3 km west of the Ropes Gold Mine, a former gold producer most recently operated in the 1980øs by Callahan Mining Corp.

While the results of the exploration were favourable, subsequent to December 31, 2012 the Company decided not to exercise its option with the optionor given the uncertainty of funding for early stage gold projects and the decision to concentrate the Companyøs resources elsewhere. As a result $1,686,139 was written off in 2012.

Reef Gold

The Reef Gold project is located in Marathon County, Wisconsin and hosts a high grade (+10 g/t gold) historical resource which is open in all directions with the potential for significant expansion. The acquisition of the Reef Project was made as part of a broader strategy to accumulate 100% owned high quality gold assets in the Great Lakes region.

In view of the ongoing costs to maintain the Reef property as disclosed in Note 6(d) of the Companyøs December 31, 2012 financial statements, the Company is evaluating its options to reduce the associated annual option costs with respect to the Reef property.

Other Properties - Vindicator and Moose Pasture

These properties are located in the Carolina Slate Belt, and are early stage gold properties. They are prospective given their geological locations and associated anomalous gold values. The Royal Vindicator property is located in Haralson County, Georgia; Aquila has acquired a 100% interest in approximately 600 acres. The Moose Pasture property is in Anson County, North Carolina; the Company has acquired 917 acres of mineral and surface rights. Aquila has completed compilation of historic exploration data and recently completed exploration activity including mapping and sampling.

In view of the ongoing costs to maintain the Vindicator and Moose Pasture properties as disclosed in Note 6(e) of the Companyøs December 31, 2012 financial statements, the Company is evaluating its strategic options with respect to the properties.

5. SUMMARY OF QUARTERLY RESULTS

Selected financial information for the previous eight fiscal quarters, all reported under IFRS in US $, is presented below:

	2012 Q4 $	2012 Q3 $	2012 Q2 $	2012 Q1 $
Interest and Other Income	172,945	66,518	25,096	500
Net loss	1,724,398	126,446	304,121	322,696
Basic and fully diluted loss per share	0.03	0.00	0.00	0.00

	2011 Q4 $	2011 Q3 $	2011 Q2 $	2011 Q1 $
Interest and Other Income	1,744	1,540	1,759	1,540
Net loss	72,716	372,964	503,858	1,521,300
Basic and fully diluted loss per share	0.00	0.00	0.01	0.02

Comments on quarterly results

Q4 2012 ó During the quarter interest and other income of $172,945 was recognized, driven primarily by the recognition in income of the remaining balance outstanding on the Exploration Alliance advance as disclosed in Note 6(b) of the Companyøs December 31, 2012 financial statements. A mineral property write off, in connection with the Michigan Gold properties, was also recorded in the amount of $1,686,139.

Q3 2012 ó Other than a foreign exchange gain of $17,747, no unusual items were recognized in the quarter. Generally lower costs were realized in the quarter which is in line with reduced activity levels as compared to prior quarters.

Q1 and Q2 2012 ó No unusual items.

Q4 2011 ó Unusual items in the quarter include a favourable adjustment to share-based compensation in the amount of $351,495 reflecting an adjustment to capitalize such costs to mineral properties, and a foreign exchange loss recorded in the amount of $192,896.

Q3 2011 ó Operating costs in 2011 are generally higher than in 2010 due to normal cost increases as the business matures.

Q2 2011 ó A significant portion of the loss was due to a foreign exchange loss recorded during the quarter in the amount of $212,193.

Q1 2011 ó The loss was primarily the result of stock based compensation recorded in the quarter of $1,012,186. A foreign exchange loss of $257,093 was recorded; however, it was offset by normal operating cost increases due to more activity as the business matures.

6. LIQUIDITY

The Company has no significant revenues and no expectation of significant revenues in the near term. In order to manage this risk, the Company closely monitors its cash requirements and expenditures to maintain sufficient liquidity.

The Company uses cash on hand to fund operations. The cash balance as at December 31, 2012 was $223,484 (December 31, 2011- $1,926,624).

Liabilities at December 31, 2012 consist of short term trade payables and accrued liabilities of $44,882 (December 31, 2011- $62,337).

The Company has reduced headcount and minimized expenses to the extent possible in efforts to conserve cash. Aquilaøs ability to operate in the near term is dependent on its ability to complete a private placement. Thereafter the Company is dependent on equity financing to fund its ongoing requirements. Alternative sources of capital include, but are not limited to, funding from capital markets or other industry partners.

7. CAPITAL RESOURCES

The Company is not committed to any material capital expenditures at December 31, 2012, or to the date of this MD&A.

In order for the Company to maintain its properties in good standing there are certain lease, option and property acquisition costs it will have to incur, as well as other commitments it has to fulfill, all as disclosed in Note 6 to the Companyøs December 31, 2012 financial statements. Any cash outlays required will be met from existing working capital and funding provided by capital markets or other industry partners.

8. OFF-BALANCE SHEET ARRANGEMENTS

As at December 31, 2012 the Company does not have any off-balance sheet arrangements.

9. TRANSACTIONS WITH RELATED PARTIES

During the years ended December 31, 2012 and 2011, the Company entered into the following transactions with related parties:

In accordance with IAS 24, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any directors (executive and non-executive) of the Company. The remuneration of directors and key executives is determined by the compensation committee. Directorøs fees, professional fees and other compensation of directors and key management personnel were as follows:

	Year ended December 31,	
	2012	2011
	$	$
Short-term compensation and benefits	419,752	507,857
Share-based payments (fair value of stock option benefits)	-	1,184,454
	419,752	1,692,311

During the year ended December 31, 2012 a total of $141,402 (2011-$628,993) was billed to the Company by a geological consulting company of which the President and CEO and another director are major shareholders. This amount was capitalized to the Mineral properties and is broken down as follows; $106,361 for analytical services and sample preparation and analysis, $35,041 for other services.

During the year ended December 31, 2012 the Company issued 200,000 shares to a company with certain common directors and officers, that is a related party, to fulfill certain commitments under an option agreement to acquire a 100% interest in the Michigan Gold property, as described in Note 6(c) to its December 31, 2012 financial statements.

During the year ended December 31, 2012, the Company was charged legal fees totaling CDN $84,140 (2011-$69,185) by a law firm whose partner is an officer of the Company.

During the year ended December 31, 2012 rental expenditures in the amount of CDN $14,400 (2011-$14,400) were charged by a Company with common directors.

During the year ended December 31, 2012 rental expenditures in the amount of $11,500 (2011-$Nil) were paid to a company of which the President and CEO and certain related individuals are part owners.

During the year ended December 31, 2012 exploration and evaluation expenditures in the amount of $3,600,215 (2011 - $6,568,008) were reimbursed by HudBay, a company that has an approximate 15.8% interest in the Company. The re-imbursement was pursuant to the terms of the HudBay Option and Joint Venture and the Exploration Alliance agreements described in Notes 6(a) and (b) of the Companyøs December 31, 2012 financial statements. In addition, during the year ended December 31, 2012 Company sold to Hudbay an office building and related equipment for proceeds of $220,000.

10. FOURTH QUARTER EVENTS AFFECTING THE COMPANY'S FINANCIAL CONDITION

The Company experienced normal operating conditions during the fourth quarter. There were no fourth quarter events, other than normal operating conditions, that affected the companyøs financial condition.

11. PROPOSED TRANSACTIONS

There are no asset or business acquisitions or dispositions proposed by the Company at December 31, 2012 other than in the normal course of business which includes evaluation of the mineral property portfolio.

12. CRITICAL ACCOUNTING ESTIMATES

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continuously evaluated and are based on managementøs experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual outcomes can differ from these estimates. The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the amounts recognized in the financial statements are:

Capitalization of mineral property costs

Management has determined mineral property costs incurred during the year have future economic benefits and are economically recoverable. In making this judgement, management has assessed various sources of information including but not limited to the geologic and metallurgic information, history of conversion of mineral deposits to proven and probable mineral reserves, scoping and feasibility studies, proximity of operating facilities, operating management expertise and existing permits.

Impairment of mineral property costs
While assessing whether any indications of impairment exist for mineral property costs, consideration is given to both external and internal sources of information. Information the Company considers includes changes in the market, economic and legal environment in which the Company operates that are not within its control that could affect the recoverable amount of mineral property costs. Internal sources of information include the manner in which mineral property costs are being used or are expected to be used and indications of expected economic performance of the assets. Estimates include but are not limited to estimates of the discounted future after-tax cash flows expected to be derived from the Companyøs mineral properties, costs to sell the properties and the appropriate discount rate. Reductions in metal price forecasts, increases in estimated future costs of production, increases in estimated future capital costs, reductions in the amount of recoverable mineral reserves and mineral resources and/or adverse current economics can result in a write-down of the carrying amounts of the Companyøs mineral property costs.

Income taxes and recoverability of potential deferred tax assets
In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. The Company considers whether relevant tax planning opportunities are within the Companyøs control, are feasible, and are within managementøs ability to implement. Examination by applicable tax authorities is supported based on individual facts and circumstances of the relevant tax position examined in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting period.

Share-based payments
Management determines costs for share-based payments using market-based valuation techniques. The fair value of the market-based and performance-based share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviors and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

Contingencies
Refer to Note 6 of the Companyøs December 31, 2012 financial statements.

13. CHANGES IN ACCOUNTING POLICIES
There have been no changes in accounting policies during the year ended December 31, 2012.

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods on or after January 1, 2013 or later periods. Many are not applicable or do not have a significant impact to the Company and have been excluded below. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

IFRS 7, Financial Instruments, Disclosures (IFRS 7) - effective for annual periods beginning on or after January 1, 2013, IFRS 7 has been amended to provide more extensive quantitative disclosures for financial instruments that are offset in the consolidated statement of financial

position or that are subject to enforceable master netting similar arrangements. The Company is currently assessing the financial impact of the new standard.

IFRS 9 ó Financial instruments (õIFRS 9ö) was issued by the IASB in October 2010 and will replace IAS 39 Financial Instruments: Recognition and Measurement (õIAS 39ö). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2015. The Company is currently assessing the financial impact of the new standard.

IFRS 10 ó Consolidated financial statements (õIFRS 10ö) was issued by the IASB in May 2011. IFRS 10 is a new standard which identifies the concept of control as the determining factor in assessing whether an entity should be included in the consolidated financial statements of the parent company. Control is comprised of three elements: power over an investee; exposure to variable returns from an investee; and the ability to use power to affect the reporting entityøs returns. IFRS 10 is effective for annual periods beginning on or after January 1, 2013. The Company is currently assessing the financial impact of the new standard.

IFRS 11 ó Joint arrangements (õIFRS 11ö) was issued by the IASB in May 2011. IFRS 11 is a new standard which focuses on classifying joint arrangements by their rights and obligations rather than their legal form. Entities are classified into two groups: parties having rights to the assets and obligations for the liabilities of an arrangement, and rights to the net assets of an arrangement. Entities in the former case account for assets, liabilities, revenues and expenses in accordance with the arrangement, whereas entities in the latter case account for the arrangement using the equity method. IFRS 11 is effective for annual periods beginning on or after January 1, 2013. The Company is currently assessing the financial impact of the new standard.

IFRS 12 ó Disclosure of interests in other entities (õIFRS 12ö) was issued by the IASB in May 2011. IFRS 12 is a new standard which provides disclosure requirements for entities reporting interests in other entities, including joint arrangements, special purpose vehicles, and off balance sheet vehicles. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. The Company is currently assessing the financial impact of the new standard.

IAS 1 ó Presentation of financial statements (õIAS 1ö) was amended by the IASB in June 2011 in order to align the presentation of items in other comprehensive income with US GAAP standards. Items in other comprehensive income will be required to be presented in two categories: items that will be reclassified into profit or loss and those that will not be reclassified. The flexibility to present a statement of comprehensive income as one statement or two separate statements of profit and loss and other comprehensive income remains unchanged. The amendments to IAS 1 are effective for annual periods beginning on or after July 1, 2012. The Company is currently assessing the financial impact of the new standard.

IFRS 13 ó Fair value measurement (õIFRS 13ö) was issued by the IASB in May 2011. IFRS 13 is a new standard which provides a precise definition of fair value and a single source of fair value measurement considerations for use across IFRSs. The key points of IFRS 13 are as follows: fair value is measured using the price in a principal market for the asset or liability, or in the absence of a principal market, the most advantageous market; financial assets and liabilities with offsetting positions in market risks or counter party credit risks can be measured on the basis of an entityøs net risk exposure; disclosures regarding the fair value hierarchy have been moved from IFRS 7 to IFRS 13, and further guidance has been added to the determination of classes of assets and liabilities; a quantitative sensitivity analysis must be provided for financial instruments measured at fair value; a narrative must be provided discussing the sensitivity of fair value measurements categorized under Level 3 of the fair value hierarchy to significant unobservable inputs; and information must be provided on an entityøs valuation processes for fair value

measurements categorized under Level 3 of the fair value hierarchy. IFRS 13 is effective for annual periods beginning on or after January 1, 2013. The Company is currently assessing the financial impact of the new standard.

14. FINANCIAL INSTRUMENTS

The carrying amounts for cash, accounts receivable and accounts payable and accrued liabilities approximate their estimated fair value due to the short term nature of these financial instruments.

Cash and accounts receivable are classified as loans and receivables and are recorded at amortized cost, which upon their initial measurement is equal to their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

Accounts payable are classified as other financial liabilities and are initially measured at their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

The Company's risk exposures and the impact on its financial investments as summarized below, have not changed significantly for the years ended December 31, 2012 and 2011.

Credit Risk

The Companyøs credit risk is primarily attributable to accounts receivable. The Company has no significant concentration of credit risk arising from operations. Management believes that the credit risk concentration with respect to the financial instrument included in accounts receivable is immaterial.

Liquidity Risk

The Company's main source of liquidity is derived from its common stock issuances. As at December 31, 2012, the Company had current assets of $301,443 (2011 - $2,167,860) to settle current liabilities of $44,883 (2011 - $312,337). All of the Company's financial liabilities have contractual maturities that are subject to normal trade terms.

Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company has cash balances and no interest bearing debt. The Company's current policy is to invest excess cash in investment grade short term deposit certificates issued by its banking institutions. The Company monitors its cash balances and is satisfied with the creditworthiness of its banks. As a result, the Company's exposure to interest rate risk is minimal.

Market Risk

Foreign Currency Risk

The Company is exposed to currency risk arising from fluctuations in foreign exchange rates. The Company raises funds from equity financing primarily in Canadian dollars and pays for a significant amount of expenditures relating to its mineral property interests in U.S. dollars.

Price Risk

The Company is exposed to price risk with respect to commodity prices. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company. As the Company's properties are in the exploration stage, the Company does not hedge against commodity price risk.

Sensitivity Analysis

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over a three month period.

(a) The Corporation is exposed to foreign currency risk on fluctuations of financial instruments related to cash, accounts receivable, and accounts payable and accrued liabilities that are denominated predominantly in Canadian Dollars. Sensitivity to a plus or minus 10% change in the foreign exchange rate would affect net loss by approximately $25,000 (2010 - $167,000).

(b)Commodity price risk could adversely affect the Company. In particular, the Company's future profitability and viability from mineral exploration depends upon the world market price of valuable minerals. Commodity prices have fluctuated significantly in recent years. There is no assurance that, even as commercial quantities of minerals may be produced in the future, a profitable market will exist for them.

15. OTHER DISCLOSURES

Share Capital

Common Shares

As at December 31, 2012, and the date hereof, there are 90,945,168 common shares of the Company outstanding (December 31, 2011 ó 90,739,168). During the year ended December 31, 2012 a total of 206,000 shares were issued; 200,000 shares were issued in connection with a property acquisition related to the Michigan Gold property relating to a prior period commitment and 6,000 shares were issued in connection with options that were exercised.

Warrants

There are a total of 515,140 broker warrants outstanding at December 31, 2012, and the date hereof. Each warrant is convertible into one common share at a weighted average exercise price of $0.51. The warrants expire between June 2013 and October 2014.

Options

There are a total of 3,722,250 stock options outstanding at December 31, 2012, with a weighted average exercise price $0.50. During the year ended December 31, 2012, 6,000 options were exercised, 1,200,000 options expired, and no options were granted. As of the date hereof there are a total of 4,722,250 (4,055,583 are currently exercisable) stock options outstanding, with a weighted average exercise price of $0.43.

Risks and Uncertainties

The Companyøs investment in BFJV is the material mineral project of the Company and any adverse development affecting it could have a material adverse effect on the Company.

The business of the Company involves many risks and uncertainties. Mineral exploration involves a high level of risk. Some of the risks include the lack of revenues and/or funding as the Company is a development stage enterprise. Other risks include the difficulty of finding economically viable mineral deposits, intense competition in the sector from both large and small competitors, fluctuations in metal prices, the ability to obtain required permits for exploration and mining in jurisdictions and the possibility of legal challenges that delay or stop from environmental and aboriginal groups. These are not an exhaustive list of the risks associated with the business.

Under the terms of the Operating Agreement governing the Companyøs investment in BFJV, HudBay may terminate its participation at any time and may sell its interest in the BFJV. In the event of that happening the Company has rights to re-acquire the Project and would pursue alternative sources of funding to do so.

Environmental Risks and Hazards - All phases of the Companyøs mineral exploration operations are subject to environmental regulations pertaining to the local, state and federal jurisdictions in which the Company operates. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Companyøs operations. Environmental hazards may exist on the properties on which the Company holds interests which are unknown to the Company at present and which have been caused by previous or existing owners or operators of the properties. The Company may become liable for such environmental hazards caused by previous owners and operators of the properties even where it has attempted to contractually limit its liability. Government approvals and permits are currently, and may in the future be, required in connection with the Companyøs operations. To the extent such approvals are required and not obtained; the Company may be curtailed or prohibited from proceeding with planned exploration or development of mineral properties. Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions there under, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

The future costs of retiring mining assets include dismantling, remediation, ongoing treatment and monitoring of the site. These are reconciled and recorded as a liability at fair value. The liability is accreted, over time, through periodic charges to earnings. In addition, asset retirement costs are capitalized as part of the assetøs carrying value and amortized over the assetøs useful life. As the Company has not yet begun mining or milling operations, the Company currently has no identifiable obligations relating to the retirement of its assets.

Amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in exploration expenses, capital expenditures or production costs or reduction in levels of production at producing properties or require abandonment or delays in development of new mining properties. Production of mineral properties may involve the use of dangerous and hazardous substances such as sodium cyanide. While all steps will be taken to prevent discharges of pollutants into the ground water and the environment, the Company may become subject to liability for hazards that cannot be insured against. The Company is subject to all environmental acts and regulations at the federal and state levels.

Disclosure Controls and Procedures

Management (the Chief Executive Officer and the Chief Financial Officer) is responsible for establishing and maintaining a system of controls and procedures over the public disclosure of financial and non-financial information regarding the Company. Such controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported, on a timely basis, to senior management, including the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO), so that appropriate decisions can be made by them regarding public disclosure.

The system of disclosure controls and procedures includes, but is not limited to, the Company Disclosure Policy, Code of Business Ethics, the effective functioning of the Audit Committee, procedures in place to systematically identify matters warranting consideration of disclosure by the Board of Directors and verification processes for individual financial and non-financial metrics and information contained in

annual and interim filings, including the financial statements, MD&A's, Annual Information Forms and other documents and external communications.

As required by CSA Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures was conducted, under the supervision of Management, including the CEO and CFO, as of December 31, 2012. The evaluation included documentation review, enquiries and other procedures considered by Management to be appropriate in the circumstances.

Based on that evaluation, the CEO and the CFO have concluded that the design and operation of the system of disclosure controls and procedures was effective as of December 31, 2012.

The CEO and CFO are also required, under NI 52-109, to file certifications of the annual filings. Copies of these certifications may be found on SEDAR at www.sedar.com.

Internal Control over Financial Reporting
Management is responsible for designing internal controls over financial reporting, or supervising their design in order to provide reasonable assurance regarding the reliability of financial reporting and preparation of consolidated financial statements for reporting purposes in accordance with Canadian GAAP.

The control framework has been designed by management with assistance by independent accounting consultants. Based on a review of its internal control procedures at the end of the period covered by this MD&A, the conclusion of management is that the internal control is appropriately designed and effective as of December 31, 2012.

Officers and Directors
The officers and directors of the Company are:

Barry Hildred ó CEO**
Thomas O. Quigley ó President and Director
Robin E. Dunbar ó CFO and Director
Nadim Wakeam ó Corporate Secretary
Robin Quigley ó Assistant Corporate Secretary
Edward Munden ó Director
Peter M.D. Bradshaw ó Chairman of the Board and Director
William J. West ó Director

Thomas O. Quigley, P.Geo, is the Qualified Person for purposes of National Instrument 43-101.

**The Company announced the appointment of Barry Hildred as Chief Executive Officer on March 18, 2013.

Stock exchange listings
The Company is a reporting issuer in Ontario, British Columbia, Alberta, Saskatchewan and Nova Scotia. The Company listed on the TSX in 2007. Previously the Company was listed on the TSX Venture Exchange. The Company is also listed on the OTC Pink Sheets and on the Frankfurt Stock Exchange.

Other
Additional information about the Company including financial statements, press releases and other filings are available on SEDAR at www.sedar.com. The Company website is www.aquilaresources.com.