Aquila Resources Inc.

AQUILA RESOURCES INC.
MANAGEMENT DISCUSSION AND ANALYSIS
For the three months ended March 31, 2013

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 three months ended March 31, 2013 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 May 15, 2013.

2. SUMMARY – HIGHLIGHTS AND SELECTED FINANCIAL INFORMATION

Highlights

- An updated National Instrument 43-101 resource estimate for the Back Forty Project was announced on February 18, 2013. The combined open pit and underground resource will provide the basis for future economic evaluation of Back Forty.
- The Company retained the services of Mr. Barry Hildred as CEO to round out the management team. Under Mr. Hildredôs leadership the Company will focus on satisfying legal, structural, and financial requirements to further the development of its Back Forty Project.
- On April 1, 2013 the Company announced its intention to complete a non-brokered private placement offering, for up to 6,000,000 units at a price of $0.12 per share, representing gross proceeds of up to $720,000. Proceeds are intended primarily for working capital.

Selected financial 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	6,583	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	30,369,538

The Companyôs property exploration and evaluation expenditures on Mineral properties for the years ended December 31, are as follows:

	2012 $	2011 $	2010 $
Back Forty Project (1)	1,516,180	5,344,602	4,504,872
Reef	761,240	1,000,905	-
Exploration Alliance(1)	2,081,285	973,037	36,300
Other	174,654	196,033	274,203
Michigan Gold(2)	181,063	1,277,757	311,972
Total	4,714,422	8,792,334	5,127,347

(1)Before reimbursement

(2)The Company decided not to renew its options on the properties and they were written off at December 31, 2012

3. BACKGROUND

Aquila Resources Inc. (formerly JML Resources Ltd. ï ñthe Companyò or ñAquilaò) was incorporated in the Province of Ontario as 1223068 Ontario Limited by Articles of Incorporation dated February 17, 1997. The Company carries on the business of mineral exploration and development and is a mineral exploration company. The principal asset of the Company is the exploration and development of its 49% interest in the Back Forty Project located in Menominee County, Michigan. A National Instrument 43-101 compliant Preliminary Economic Assessment (ñPEAò) of the Back Forty Project was completed during 2012, the results of which indicated a positive pre-tax NPV of $73,574,000, using a discount rate of 8%, and an IRR of 18.2%. A National Instrument 43-101 compliant resource estimate for the Back Forty Project, updating the resource estimate from that used for the PEA, was announced February 18, 2013.

4. OVERVIEW OF PROJECTS

Back Forty Project

The Back Forty Project is an advanced volcanogenic massive sulfide (VMS) deposit containing gold, zinc, silver and copper, 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 (ñBFJVò) and the Company currently owns a 49% interest in BFJV. There is an overriding 7% net distributable earnings royalty (ñnet profits after paybackò) 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 HudBayôs interest is 51%. HudBay and the Company are each responsible for their share of annual property holding costs, for which the Company would be subject to dilution should it choose not to participate. Should HudBay complete a feasibility study and submit permitting applications by August 2013, 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 ñDevelopment Noticeò) is provided by HudBay to the Company of HudBayôs 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 BFJVôs costs to maintain a 49% interest in the project. 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 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 HudBayǿs 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 Companyǿs right of first refusal.

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 Companyǿs 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 ending December 31, 2017 total $5,657,304. As long as HudBay remains the project operator, HudBay is materially liable for these costs.

On April 26, 2012 a National Instrument 43-101 compliant PEA of the Back Forty Project was made public. The following are key excerpts from the ñPreliminary Economic Assessment Technical Report on the Back Forty Deposit, Menominee County, Michigan, USAò 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, an NPV of $73.6M at a discount rate of 8%, 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%

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

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

A National Instrument 43-101 compliant resource estimate, updated from the resource estimate used for the PEA for the Back Forty Project, was completed February 2, 2013. The results of the updated mineral resource estimate for the Back Forty Project follows.

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

Open PitÀ							
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

Undergroundÿ							
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 Aquilaôs 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

The Reef Gold project is located in Marathon County, Wisconsin and hosts a high grade (454,000 tonnes @ 10.6 g/t gold) historical resource (non NI 43-101 compliant) which is open in all directions and in the view of management has potential for expansion. Since acquiring the project Aquila has completed 42 diamond drill holes at Reef that have confirmed and expanded the presence of gold and copper mineralization within loosely defined zones identified by previous explorers. The acquisition of the Reef Project was part of a broader strategy to accumulate 100% owned, high quality gold assets in the Great Lakes region. The Company is committed to lease and/or option costs in the amount of $413,381during fiscal 2013 and is evaluating its options to reduce the annual option costs associated with the Reef Gold project. Future exploration of the property will depend on the availability of funding.

Bend (a Former Exploration Alliance property*, now 100% owned by the Company)

Bend, a VMS occurrence containing copper and gold, is located in Marathon County, Wisconsin. The project is 35 miles southeast of the former producing Flambeau mine and occurs within the early Proterozoic aged Penokean Volcanic Belt. The Company has been issued an ñexploration licenseò by the Bureau of Land Management covering the Bend occurrence and 5,560 acres of prospective Federal Lands. Historical resource evaluations at Bend (non NI 43-101 compliant) have outlined a resource estimate of 3 million tons grading 2.3% copper, 1.4 g/t gold and 13.7 g/t silver. A separate lower gold zone containing 1.23 million tons of 4.7 g/t gold and .31% copper (non 43-101 compliant), was also identified from previous work. Ten drill holes and other exploration work completed by Aquila has focused on expanding both zones which remains open along strike. HudBay retains a back-in right on Bend pursuant to the now terminated Exploration Alliance Agreement.

The Company has no lease and/or option costs for fiscal 2013 in connection with the Bend project. Future exploration of the property will depend on the availability of funding.

* On October 15, 2010, the Company signed an Exploration Alliance agreement with HudBay. Under the agreement HudBay funded exploration conducted by the Company (as Project Operator) in Michigan and other designated areas. On July 3, 2012 HudBay notified the Company of its intent to terminate the Exploration Alliance agreement.

Sturgeon Falls and Five Mile Lake (Former Exploration Alliance properties*, now 100% owned by the Company)

The Sturgeon Falls and Five Mile Lake properties were acquired as part of the now terminated Exploration Alliance. The Sturgeon Falls project (a nickel-copper prospect) is located in the Upper Peninsula of Michigan. The Company has completed airborne and ground geophysical surveys and other geological work at Sturgeon Falls identifying a number of drill targets. The Five Mile Lake property (a prospective VMS target) is located in northern Minnesota. The Five Mile Lake property project area occurs within the Archean aged Ely Greenstone Belt and hosts widespread alteration associated with zinc 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 1970ôs and 1980ôs, most notably by Newmont Exploration and Teck Cominco. Teck conducted an exploration program in 1994 that consisted of geological mapping, geochemical and geophysical surveys, and minor diamond drilling.

The Company is committed to lease and/or option costs in the amount of $310,364 during fiscal 2013 and in light of challenging capital markets is evaluating strategic options with respect to these properties to minimize future expenditures. Future exploration of the property will depend on the availability of funding.

Other - Vindicator and Moose Pasture

TheVindicator and Moose Pasture projects are early stage gold properties located in the Carolina Slate Belt in the southeastern US.. They are prospective given their geological setting and based on the Companysô evaluation of historical work as well as work completed to date by Aquila. The Vindicator property is located in Haralson County, Georgia where Aquila has acquired a 100% interest in the mineral rights on approximately 600 acres. Widely spaced historical drilling at Vindicator outlined a shallow dipping moderate grade gold zone; however, no resource has been completed at the property. The Moose Pasture property is in Anson County, North Carolina where the Company has acquired 917 acres of mineral and surface rights through a number of property agreements. Aquila has completed compilation of historic exploration data and recently completed exploration activity including mapping and sampling.

The Company is committed to lease and/or option costs in the amount of $78,000 during fiscal 2013, views these projects as prospective, and is reviewing its strategic options for the future of these properties in light of current capital market conditions.

Michigan Gold

The Michigan Gold Property is a package of gold properties located in the Marquette Greenstone Belt of Michigan. The Company decided not to continue its option on the Michigan Gold properties and wrote them off at December 31, 2012.

5. MARKET TRENDS

The Companyôs future financial performance is dependent on many external factors including the prices of certain precious and base metals. The markets for these commodities are volatile and difficult to predict as they are impacted by many factors including international political, social, and economic conditions. These conditions, combined with volatility in the capital markets, could materially affect the future financial performance of the Company. For a summary of other factors and risks that may affect the Company and its financial position, please refer to ñRisks and uncertaintiesò.

The two tables that follow demonstrate the fluctuations in historic spot and futures prices for precious and base metals that are the main targets of the Companyôs exploration programs.

	Approximate Spot Prices as at February 28			
	2013	2012	2011	2010
Gold (US$/oz.)	1,579	1,789	1,413	1,117
Silver (US$/oz.)	28.51	37.12	33.90	16.63
Copper (US$/lb.)	3.53	3.85	4.50	3.45
Lead (US$/lb.)	1.03	0.98	1.17	0.98
Zinc (US$/lb.)	0.93	0.95	1.17	1.08

Prices as at February 28, 2013		
Settlement Date	COMEX Gold Futures USD ($)	COMEX Silver Futures USD ($)
December 31, 2013	1,584	28.59
December 31, 2014	1,594	28.75
December 31, 2015	1,609	28.77

(Sources include: www.kitco.com; www.kitcometals.com; futures.tradingcharts.com)

6. FINANCING ACTIVITIES

On April 1, 2013 the Company announced that it intends to complete a non-brokered private placement offering for up to 6,000,000 units at a price of $0.12 per share representing gross proceeds of up to $720,000. Each unit is comprised of one common share and one half common share purchase warrant. Each full warrant is exercisable into common shares of the company at a price of $0.20 for a period of 5 years from the date of issuance.

7. RESULTS OF OPERATIONS

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

	Three months ended March 31, 2013 $	Three months ended March 31, 2012 $
Interest and other income	-	500
Operating expenses	277,281	323,196
Net loss	277,281	322,696
Basic and diluted loss per share	0.00	0.00
Total assets	30,886,486	30,902,031

The Company has no income from its operations. During the three months ended March 31, 2013, the Company incurred a loss of $277,281 (2012 - $322,696). The lower loss in 2013 is primarily attributable to reduced overheads due to reduced remuneration to key management, and lower filing and regulatory fees. Lower filing and regulatory fees in the three months ended December 31, 2013 is due to the fact that there was no financing in the period, whereas there was a financing in the comparative period in the prior year.

Revenues

None of the Companyŝ 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.

Aquila Resources Inc.

Expenses

During the three months ended March 31, 2013 the Company incurred total expenses in the amount of $277,281 (2012 - $323,196). 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 March 31, 2013 $	2012 $
Consulting fees	53,541	12,013
Filing and regulatory fees	9,138	50,828
Foreign exchange loss (gain)	2,779	(31,257)
Mineral property write off	37,970	21,703
Professional fees	43,501	55,042
Salaries and benefits	43,914	11,648
Stock-based compensation	36,355	-
Travel and Promotion	16,557	48,362
Other	33,525	154,857
Total expenses	277,281	323,196

Acquisition and exploration expenditures

An analysis of expenditures by project is as per Note 6 to the Companyǿs March 31, 2013 financial statements.

Acquisition and exploration expenditures by cost category for the three months ended March 31, 2013 amounted to $114,009 (2012 - $403,160 (excluding costs reimbursed)) as follows:

For the three months ended March 31	2013 $	2012 $
Wages	-	63,178
Assays	-	105,602
Consulting, Legal, and Environmental	59,193	27,478
Operator	1,055	59,398
Property Interests	53,761	147,504
Total	114,009	403,160

8. SUMMARY OF QUARTERLY RESULTS

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

	2013 Q1 $	2012 Q4 $	2012 Q3 $	2012 Q2 $
Interest and Other Income	-	172,945	66,518	25,096
Net loss	277,281	1,724,398	126,446	304,121
Basic and fully diluted loss per share	0.00	0.03	0.00	0.00

	2012 Q1 $	2011 Q4 $	2011 Q3 $	2011 Q2 $
Interest and Other Income	500	1,744	1,540	1,759
Net loss	322,696	72,716	372,964	503,858
Basic and fully diluted loss per share	0.00	0.00	0.00	0.01

Comments on quarterly results

Q1 2013 ï The lower loss during the three months ended December 31, 2013 versus the comparative period in the prior year is due to a focus on reducing costs in general, and reduced key management remuneration in particular, in an effort to conserve cash.

Q4 2012 ï 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 Companyôs 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 ï 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 ï No unusual items.

Q4 2011 ï 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 ï Operating costs in 2011 are generally higher than in 2010 due to normal cost increases as the business matures.

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

9. LIQUIDITY

Historically, the Companyôs main source of funding has been the issuance of equity securities for cash, primarily through private placement offerings to accredited investors and institutions. The Companyôs access to financing is always uncertain. There can be no assurance of continued access to significant equity financing, or that such access will be timely and in the amounts necessary to fund the Companyôs activities. There are many conditions beyond the Companyôs control which have a direct impact on the level of investor interest in the purchase of Company securities. The Company may also attempt to generate additional working capital through the operation, development, sale or possible joint venture development of its properties. However, there is no assurance that any such activity will generate funds that will be available for operations. See ñRisks and uncertaintiesò.

The Company uses cash on hand to fund operations. The cash balance as at March 31, 2013 was $86,753 (December 31, 2012- $223,484). Liabilities at March 31, 2013 consist of short term trade payables and accrued liabilities of $270,263 (December 31, 2012 - $44,882).

The Company has reduced staff and minimized expenses in an effort to conserve cash. Aquilaôs ability to operate in the near term is dependent on its ability to complete a private placement. On April 1, 2013 the Company announced its intention to complete a non-brokered private placement offering, for up to 6,000,000 units at a price of $0.12 per share, representing gross proceeds of up to $720,000.

10. CAPITAL RESOURCES

The Company is not committed to any material capital expenditures at March 31, 2013, 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 Companyôs 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.

11. OFF-BALANCE SHEET ARRANGEMENTS

As at March 31, 2013 the Company does not have any off-balance sheet arrangements.

12. TRANSACTIONS WITH RELATED PARTIES

During the three months ended March 31, 2013, 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. Directorôs fees, professional fees and other compensation of directors and key management personnel were as follows:

	Three months Ended March 31,	
	2013	2012
	$	$
Short-term compensation and benefits	51,424	116,429
Share-based payments (fair value of stock option benefits)	36,355	-
	87,779	116,429

As at March 31, 2013 $8,850 (2012 - $Nil) is included in accounts payable in connection with amounts due to key management personnel.

During the three months ended March 31, 2013 a total of $8,562 (2012 - $102,045) 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 for professional services provided and cost reimbursement. As at March 31, 2013 $2,413 (2012 - $Nil) is included in accounts payable in connection with this amount.

During the three months ended March 31, 2013, the Company was charged legal fees totaling CDN $16,867 (2012 - $12,085) by a law firm whose partner is an officer of the Company.

During the three months ended March 31, 2013 rental expenditures in the amount of CDN $3,600 (2012 - $3,600) were charged by a Company with common directors.

During the three months ended March 31, 2013 rental expenditures in the amount of $3,600 (2012-$Nil) were paid to a company of which the President and CEO and certain related individuals are part owners.

During the three months ended March 31, 2013 exploration and evaluation expenditures in the amount of $Nil (2012 - $777,508) 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 Companyǿs March 31, 2013 financial statements.

13. FOURTH QUARTER EVENTS AFFECTING THE COMPANY’S FINANCIAL CONDITION

The Company experienced normal operating conditions during the three months ended March 31, 2013. There were no events in the three months ended March 31, 2013, other than normal operating conditions, that affected the companyǿs financial condition.

14. PROPOSED TRANSACTIONS

There are no asset or business acquisitions or dispositions proposed by the Company at March 31, 2013 other than in the normal course of business.

15. 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 managementǿs 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.

Aquila Resources Inc.

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 Companyǿs 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 Companyǿs 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 Companyǿs control, are feasible, and are within managementǿs 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.

Commitments

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

16. CHANGES IN ACCOUNTING POLICIES

There have been no changes in accounting policies during the three months ended March 31, 2013.

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods on or after April 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 9 ï Financial instruments (ñIFRS 9ò) was issued by the IASB in October 2010 and will replace IAS 39 Financial Instruments: Recognition and Measurement (ñIAS 39ò). 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.

17. 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 three months ended March 31, 2013.

Credit Risk

The Companyôs 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 March 31, 2013, the Company had current assets of $175,590 (December 31, 2012 - $301,443) to settle current liabilities of $270,263 (December 31, 2012 - $44,882). 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.

Aquila Resources Inc.

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

Managementôs views of the Companyôs exposure to currency and commodity price risk are as follows:
(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 not materially affect net loss.
(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.

18. OTHER DISCLOSURES

Share Capital

Common Shares

As at March 31, 2013, December 31, 2012, there are 90,945,168 common shares of the Company outstanding. As of the date hereof there are 91,063,352 common shares of the Company outstanding.

The Company is committed to issuing 1,818,903 shares in partial fulfillment of Mr Hildredôs remuneration, should he earn them.

Warrants

There are a total of 515,140 broker warrants outstanding at March 31, 2013, and December 31, 2012. 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. At the date hereof there are 430,160 warrants outstanding.

Options

As at March 31, 2013 and the date hereof there are a total of 4,693,750 stock options outstanding, of which 4,027,083 are exercisable (December 31, 2012 ï 3,722,250), with a weighted average exercise price of $0.43. During the three months ended March 31, 2013, 28,500 options expired, and 1,000,000 options were granted.

Risks and Uncertainties

The Company's principal activity of mineral exploration is considered to be very high risk and the mining industry in general is intensely competitive in all its phases. Companies involved in this industry are subject to many and varied types of risks, including but not limited to, environmental, commodity prices, political and economic. Some of the more significant risks are:

<u>Investment in BFJV</u>

The Company's 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. Under the terms of the Operating Agreement governing the Company's 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.

<u>Nature of Activities</u>

The exploration for and development of mineral projects involves significant risks which even a combination of careful evaluation, experience and knowledge may not mitigate. Few properties that are explored are ultimately developed into producing mines. The Company's property is nearing the development stage, but it is impossible to provide any assurance that the property and any exploration further planned by the Company will result in a profitable commercial mining operation.

<u>Mineral Reserves and Resources</u>

The activities of the Company are directed towards the search, evaluation and development of base and precious metals resources. The Back Forty Project consists of measured, indicated and inferred resources. Mineral resources that are not mineral reserves do not have demonstrated economic viability. Due to the uncertainty that may attach to measured and indicated mineral resources, there is no assurance that mineral resources will be upgraded to proven and probable ore reserves. Inferred mineral resources are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves.

<u>Exploration and Development Costs</u>

Actual exploration, development or other costs and economic returns may differ significantly from those the Company has anticipated and there are no assurances that any future development activities will result in profitable mining operations. The Company has limited operating history and there can be no assurance of its ability to operate its projects profitably.

<u>Commodity Prices</u>

Changes in the market price for mineral production, which have fluctuated widely in the past, will affect the future profitability of the Company's operations and financial condition.

<u>Financing and Dilution</u>

The Companyôs historical capital needs have been met primarily by the issuance of common shares. The Company will require substantial additional funds to further explore and develop its properties. The Company has limited financial resources and no current source of recurring revenue. The junior resource market where the Company raises funds is extremely volatile, companies are subject to high level of competition for the same pool of investment dollars, and there is no guarantee that the Company will be able to raise adequate funds in a timely manner to conduct its business. The Company will require external financing or may need to enter into a strategic alliance or joint venture to develop its mineral properties. There can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favourable. The terms of any additional financing obtained by the Company could result in substantial dilution to the shareholders of the Company.

<u>Trading Price</u>

Market prices of shares of early stage companies are often volatile. Factors such as announcement of mineral discoveries and financial results have a significant effect on the price of the Company's shares. The lack of trading volume of the Company's shares reduces the liquidity of an investment in the Company's shares. The Company has no dividend payment policy and does not intend to pay any dividends in the foreseeable future.

<u>Title</u>

Although the Company has taken steps to verify title to its mineral property interests there is no guarantee that the mineral properties will not be subject to title disputes or undetected defects.

<u>Regulatory</u>

Many of the mineral rights and interests of the Company are subject to government approvals, licenses and permits. Such approvals, licenses and permits are, as a practical matter, subject to the discretion of applicable governments or governmental officials. No assurance can be given that the Company will be successful in obtaining or maintaining any or all of the various approvals, licenses and permits required to operate its businesses in full force and effect or without modification or revocation and delays or a failure to obtain such permits or failure to comply with the terms of any such permits that have been obtained could have a material adverse impact on the Company.

<u>Environmental</u>

The Company is subject to laws and regulations related to environmental matters, including provisions for reclamation, discharge of hazardous material and other matters. The Company conducts its exploration activities in compliance with applicable environmental legislation and is not aware of any existing environmental problems related to its mineral property interests that may be the cause of material liability to the Company.

<u>Personnel</u>

The Company may experience difficulty in attracting and retaining qualified management to meet the needs of its anticipated growth, and the failure to manage the Companyôs growth effectively could have a material adverse effect on its business and financial condition. Insofar as certain directors and officers of the Company hold similar positions with other mineral resource companies, conflicts may arise between the obligations of these directors and officers to the Company and to such other mineral resource companies.

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 March 31, 2013. 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 March 31, 2013.

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 IFRS.

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 March 31, 2013.

Officers and Directors

The officers and directors of the Company are:

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

Aquila
Resources Inc.

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.