DECEMBER 31, 2013
CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in United States Dollars, unless otherwise stated)

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Aquila Resources Inc.

We have audited the accompanying consolidated financial statements of Aquila Resources Inc. and its subsidiaries, which comprise the statements of financial position as at December 31, 2013, December 31, 2012 and January 1, 2012 and the consolidated statements of net loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Aquila Resources Inc. and its subsidiaries as at December 31, 2013, and December 31, 2012 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

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Emphasis of Matter
Without qualifying our opinion, we draw attention to Note 2 in the consolidated financial statements which describes matters and conditions that indicate the existence of material uncertainties that may cast significant doubt about Aquila Resources Inc.'s ability to continue as a going concern.

Collins Barrow Toronto LLP

Licensed Public Accountants
Chartered Accountants
March 31, 2014
Toronto, Ontario

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in United States Dollars)

	December 31 2013	December 2012	January 1 2012
ASSETS	**$**	**$**	**$**
Current assets			
Cash	**289,349**	223,484	1,926,624
Cash receivable from Arrangement *(note 8)*	**4,221,730**	-	-
Accounts receivable	**221,009**	47,409	211,349
Prepaid expenses	**12,817**	30,550	29,887
Total current assets	**4,744,905**	301,443	2,167,860
Investment in Back Forty Joint Venture LLC (note 8 & 9)	**-**	6,621,365	-
Mineral property costs (note 8 & 10)	**21,407,811**	334,747	9,888,978
Security deposits (note 10)	**166,424**	166,424	166,111
Capital assets (note 11)	**845,730**	658,536	868,617
Total assets	**27,164,870**	8,082,515	13,091,566
EQUITY AND LIABILTIES			
Current liabilities			
Accounts payable and accrued liabilities	**1,384,361**	44,882	62,337
Conversion feature on debentures payable *(note 12)*	**195,656**	-	250,000
Warrants Payable *(note 15)*	**378,459**	-	-
	1,958,476	44,882	312,337
Debentures payable *(note 12)*	**740,758**	-	-
Contingent Consideration *(note 8)*	**7,000,000**	-	-
Total liabilities	**9,699,234**	44,882	312,337
Shareholders' Equity			
Share capital *(note 13a)*	**42,858,892**	42,430,879	42,333,037
Shares to be issued from Acquisition Transaction *(note 13b)*	**10,387,828**	-	-
Contributed Surplus *(note 13c)*	**6,654,698**	5,350,797	5,351,640
Warrants *(note 14)*	**108,381**	199,778	199,778
Deficit	**(42,544,163)**	(39,943,821)	(35,105,226)
Total shareholders' equity	**17,465,636**	8,037,633	12,779,229
	27,164,870	8,082,515	13,091,566

Nature of operations (Note 1)
Going concern (Note 2)
Mineral property commitments (Note 10)
Subsequent event (Note 22)
Approved on behalf of the Board
"Edward J. Munden" Director *"Barry Hildred"* Director

CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS

(Expressed in United States Dollars)

For the years ended December 31	2013	2012
	$	$
Expenses		
Administrative expenses *(note 17)*	**1,014,334**	1,000,503
Mineral property exploration expenses	**125,658**	797,562
Mineral property write-off	**280,536**	632,719
Transaction compensation costs *(note 8)*	**1,031,895**	-
Equity pick up from Back Forty Joint Venture LLC *(note 9)*	**381,220**	2,672,870
Other income	**(499)**	(265,059)
Loss from operations	**2,833,144**	4,838,595
Net loss and comprehensive loss for the year	**2,833,144**	4,838,595
Loss per common share		
Basic and diluted loss per share	**(0.03)**	(0.05)
Weighted average number of common shares outstanding	**95,099,440**	90,896,510

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Expressed in United States Dollars)

	Share Capital		Issuable Share Capital		Contributed Surplus	Warrant	Deficit	Total
	Number	$	Number	$	$	$	$	$
Balance, December 31, 2011	90,739,168	42,333,037	-	-	5,351,640	199,778	(14,646,644)	33,237,811
Change in Accounting Policy *(note 6)*	-	-	-	-	-	-	(20,458,582)	(20,458,582)
Balance, December 31, 2011(restated)	90,739,168	42,333,037	-	-	5,351,640	199,778	(35,105,226)	12,779,229
Proceeds on exercise of options	6,000	893	-	-	-	-	-	893
Fair value of options exercised	-	843	-	-	(843)	-	-	-
Shares issued under property arrangement	200,000	96,106	-	-	-	-	-	96,106
Net loss for the period	-	-	-	-	-	-	(4,838,595)	(4,838,595)
Balance, December 31, 2012	90,945,168	42,430,879	-	-	5,350,797	199,778	(39,943,821)	8,037,633
Common shares issued from private placement	5,890,000	579,752	-	-	-	-	-	579,752
Share issue costs	-	(20,055)	-	-	-	-	-	(20,055)
Fair value assigned to warrant	-	(264,604)	-	-	-	18,000	-	(246,604)
Shares issued as compensation	826,494	82,395	82,443	9,526	-	-	-	91,921
Shares issued pursuant to Arrangement	-	-	64,825,568	7,923,370	-	-	-	7,923,370
Shares issued pursuant to HMI Acquisition	-	-	18,650,193	2,279,538	-	-	-	2,279,538
Shares granted pursuant to Arrangement	-	-	1,435,000	175,394	-	-	-	175,394
Share based payments pursuant to Arrangement	-	-	-	-	1,271,621	-	-	1,271,621
Warrants granted pursuant to Arrangement	-	-	-	-	-	12,035	-	12,035
Share based compensation	-	-	-	-	143,650	-	-	143,650
Shares issued for debt	506,035	50,525	-	-	-	-	-	50,525
Options expired	-	-	-	-	(111,370)	-	111,370	-
Warrants expired	-	-	-	-	-	(121,432)	121,432	-
Net loss for the period	-	-	-	-	-	-	(2,833,144)	(2,833,144)
Balance, December 31, 2013	98,167,697	42,858,892	84,993,204	10,387,828	6,654,698	108,381	(42,544,163)	17,465,636

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in United States Dollars)

For the years ended December 31	**2013**	2012
	$	$
Cash flow from operating activities		
Net loss for the year	**(2,833,144)**	(4,838,595)
Items not involving cash		
Equity pick up in Back Forty Joint Venture LLC	**381,220**	2,672,870
Transactions costs	**1,031,895**	-
Amortization	**7,821**	15,176
Share based compensation	**143,650**	-
Gain on sale of capital assets	**-**	(25,095)
Mineral property write-off	**280,536**	632,719
	(988,022)	(1,542,925)
Changes in non-cash working capital		
Accounts receivable	**(15,247)**	163,940
Prepaid expenses	**17,734**	(663)
Warrants	**235,050**	-
Accounts payable and accrued liabilities	**243,872**	(17,768)
Advance from work to be performed	**(151)**	(250,000)
Cash flow used in operating activities	**(506,764)**	(1,647,416)
Cash flow from investing activities		
Increase in mineral properties	**(108,448)**	(3,876,832)
Cash acquired on Acquisition	**225,540**	-
Mineral properties reimbursements	**-**	3,600,215
Proceeds on sale of capital assets	**-**	220,000
Cash flow used in investing activities	**117,092**	(56,617)
Cash flow from financing activities		
Issuance of common shares, net of share issue costs	**455,537**	893
Cash flow from financing activities	**455,537**	893
Increase (decrease) in cash	**65,865**	(1,703,140)
Cash, beginning of year	**223,484**	1,926,624
Cash, end of year	**289,349**	223,484

1. Nature of Operations

Aquila Resources Inc. (the "Company" or "Aquila") was incorporated under the Business Corporations Act ("Canada") and is involved in the mineral exploration business. The Company's head office address is 50 Richmond Street East, Suite 300, Toronto Canada, M5C 1N7.

The Company is listed on the Toronto Stock Exchange under the symbol "AQA", on the Frankfurter Wertpapierbörse under the symbol "JM4A", and on the American OTC Pink Sheets under the symbol "AQARF" and 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.

Although the Company has taken steps to verify title to the properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to government licensing requirements or regulations, unregistered prior agreements, undetected defects, unregistered claims, native land claims, and non-compliance with regulatory and environmental requirements.

The financial statements were approved and authorized for issuance by the Board of Directors on March 31, 2014.

2. Going Concern

The Company's ability to realize the costs it has incurred to date on its properties is dependent upon it being able to identify economically recoverable reserves; to finance their exploration and evaluation costs; to resolve any environmental, regulatory, or other constraints which may hinder the successful development of the reserves; and to attain profitable operations.

The business of mining and exploration for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The recoverability of the carrying value of exploration properties and the Company's continued existence is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to raise alternative financing, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis.

The Company has invested in Back Forty Joint Venture LLC ("BFJV")(note 7). This investment holds a property for which a Preliminary Economic Assessment Technical Report (PEA) was issued in April 2012. Effective July 3, 2012 HudBay Minerals Inc. ("HudBay"), which had the controlling interest in the BFJV, suspended its exploration and evaluation activities at the Back Forty Project. On November 7, 2013, the Company signed a definitive agreement with HudBay to effectively take back control and 100% ownership of the BFJV. (See note 8).

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying consolidated financial statements. Such adjustments could be material. It is not possible to

predict whether the Company will be able to raise adequate financing or to ultimately attain profitable levels of operations.

These conditions indicate the existence of material uncertainties that may cast doubt about the Company's ability to continue as a going concern. Changes in future conditions could require material write downs of the carrying values.

Details of deficit and working capital of the Company are as follows:

	December 31, 2013	December 31, 2012
	$	$
Deficit	**42,544,163**	39,943,821
Working capital	**2,786,429**	256,561

3. Basis of Presentation and Consolidation

The consolidated financial statements of the Company and its subsidiaries have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and included in Part 1 of the Handbook for the Canadian Institute of Chartered Accountants, and include the significant accounting policies as described in note 4. These consolidated financial statements have been prepared on a going concern basis, under the historical cost basis, except that the following assets and liabilities are stated at their fair value: Financial instruments classified at fair value through the profit and loss. These consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

These consolidated financial statements include the accounts of the Company and all of its subsidiaries. Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain variable benefits from its power over the entity's activities. Subsidiaries are included in the consolidated financial results of the Company from the effective date of acquisition of control up to the effective date of disposal or loss of control. The Company's principal subsidiaries are , Aquila Resources USA Inc. and Aquila Michigan Inc. (previously known as HudBay Michigan Inc.), which are located in Michigan USA, as well as REBgold Corporation located in Canada. All inter-company balances and transactions have been eliminated.

These consolidated financial statements are expressed in US Dollars, except those amounts denoted CDN$ which are in Canadian Dollars. The United States dollar is the functional and reporting currency of the Company's operations. Monetary assets and liabilities denominated in foreign currencies are translated into United States dollars at exchange rates in effect at the statement of financial position date. Non-monetary assets and liabilities are translated at historical exchange rates. Revenues and expenses are translated at the rate at the time of the transaction. Any resulting gain or loss is recorded in the statement of loss and comprehensive loss.

4. Significant Accounting Policies

Critical Accounting Estimates, Risks and Uncertainties

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 management's 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 judgment and estimation uncertainty that have a significant risk of causing material adjustment to the amounts recognized in the financial statements are:

i) *Impairments 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 Company's 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 Company's mineral property costs.

ii) 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 Company's control, are feasible, and are within management's 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.

iii) 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.

iv) Business Combination versus Asset Acquisition

The assessment of whether an acquisition is considered to meet the definition of a business requires judgment in establishing whether the set of activities acquired represent an integrated set of activities and assets that are capable of being conducted and managed for the purpose of providing a return. Where the acquired operations do not consist of inputs and processes with the ability to create outputs, the definition of business is not met, and the acquisition is treated as an asset acquisition.

v) Date of Acquisition

There was judgment involved in determining the date of acquisition relating to the Arrangement as the date on which legal approval was received was different from the date of management acquiring effective control. See note 8 for additional information.

vi) Contingent Consideration

The valuation of contingent consideration relies on several estimates which include the commencement date of development activities, discount rates on present value calculations and projected annual production estimates.

vii) Functional Currency

The determination of functional currency involves evaluation of numerous factors including, denomination of key expenditures, mind and management, operational locales, and currencies relating to key financing.

The significant accounting policies used in the preparation of these consolidated financial statements are as follows:

Translation of foreign currencies:
The United States dollar is the functional and reporting currency of the Company's operations. Monetary assets and liabilities denominated in foreign currencies are translated into United States dollars at exchange rates in effect at the statement of financial position date. Non-monetary assets and liabilities are translated at historical exchange rates. Revenues and expenses are translated at the rate at the time of the transaction. Any resulting gain or loss is recorded in the statement of loss and comprehensive loss.

Impairment:
Financial assets
At the end of each reporting period, the Company assesses its financial assets to determine whether there is any objective evidence that they are impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the statement of comprehensive loss.

Non-financial assets
At the end of each reporting period, non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly. Any impairment is recognized in the statement of loss.

Reversal of Impairment
An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. An impairment loss with respect to goodwill is never reversed.

Investments in Associates:
Investments over which the Company exercises significant influence and which are neither subsidiaries nor interests in joint ventures are associates. Investments in associates are accounted for using the equity method, except when classified as held for sale.

The equity method involves the recording of the initial investment at cost and the subsequent adjusting of the carrying value of the investment for the Company's proportionate share of the profit or loss and any other changes in the associate's net assets such as dividends.

Mineral property costs:
Mineral property costs relating to the acquisition of properties, that are incurred after the legal right to explore has been obtained, are capitalized until the properties are brought into production, at which time they are amortized on a unit of production basis. Other exploration expenses are charged to operations as incurred. The cost of exploration properties abandoned, impaired or sold and their related capitalized acquisition costs are expensed to operations in the year of abandonment or sale. The amounts shown as mineral property costs represent unamortized costs to date and do not necessarily reflect present or future values.

Costs include the cash consideration and the fair market value of shares issued for the acquisition of properties. The carrying value is reduced by option proceeds received until such time as the mineral property costs are reduced to nominal amounts. Properties acquired under option agreements, whereby payments are made at the sole discretion of the Company are recorded in the accounts at the time of payment.

When a project is considered to no longer have commercially viable prospects for the Company, deferred mineral property costs in respect of that property are assessed as impaired and written off to the statement of loss. The Company also assesses mineral property costs for impairment when other facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount.

During the year the Company changed its accounting policy as referred to in Note 6.

Capital assets:
Capital assets consist of land, buildings, furniture and fixtures which are initially recorded at cost. Depreciation is recorded using the following rates and methods:

Buildings	4%	Declining balance
Furniture and fixtures	20%	Declining balance

Depreciation on additions commences when assets are available for use.

Provisions:
Provisions, which include decommissioning liabilities, are liabilities that are uncertain in timing or amount. The Company records a provision when:
(i) the Company has a present obligation, legal or constructive, as a result of a past event;
(ii) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
(iii) a reliable estimate can be made of the amount of the obligation.

Constructive obligations are obligations that derive from the Company's actions where:
(i) by an established pattern of past practice, published policies or a sufficiently specific current statement, the Company has indicated to other parties that it will accept certain responsibilities; and
(ii) as a result, the Company has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Provisions are reviewed at the end of each reporting period and adjusted to reflect management's current best estimate of the expenditure required to settle the present obligation at the end of the reporting period. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed. Provisions are reduced by actual expenditures for which the provision was originally recognized. Where discounting has been used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase (accretion expense) is included in finance costs in the statements of loss and comprehensive loss.

Income taxes:

Income tax expense comprises current and deferred income tax. Income tax is recognized in the statement of loss except to the extent it relates to items recognized in other comprehensive loss or directly in equity.

Current income tax

Current income tax expense is based on the results for the period as adjusted for items that are not taxable and not deductible. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period. Management at the end of each reporting period evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax

Deferred income taxes are the taxes expected to be payable or recoverable on differences between the carrying amounts of assets in the financial statements and their corresponding tax bases used in the computation of taxable profit, and are accounted for using the asset and liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences between the carrying amounts of assets and their corresponding tax bases. Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

Share-based compensation:

The Company applies the fair value method of accounting for share-based payments granted to employees and other individuals providing similar services. The fair value of the options is determined using an option pricing model that takes into account, as of the grant date, the exercise price, the expected life of the option, the current price of the underlying stock and its expected volatility, expected dividends on the stock, and the risk free interest rate over the expected life of the option. Each tranche of an option that vests over time is considered a separate award and the fair value of each tranche is expensed over its vesting period with the corresponding credit to contributed surplus. Cash consideration received on exercise of options is credited to share capital along with the original grant date fair value of the options exercised. The value of options forfeited before vesting is removed from contributed surplus and credited to operations, while the value of options that expire after vesting is credited directly to retained earnings.

Share-based payments granted to non-employees are measured at the fair value of goods received unless that cannot be reasonably estimated in which case the fair value of the share-based payments are used. The measurement date is generally the date the goods or services are received.

Warrants:

All warrants issued under a unit financing arrangement are valued on the date of grant using the Black-Sholes option pricing model, net of related issue costs and are recorded in contributed surplus. Expired warrants are removed from contributed surplus and credited directly to retained earnings. Where warrants are denominated in a currency other than the Company's functional currency, they are considered a derivative liability and marked to market at each period and using the Black-Sholes method.

Basic and diluted loss per share:
The Company presents basic and diluted loss per share data for its common shares. Dilution is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares, which comprise convertible warrants and share options granted to directors, officers, employees, consultants and other service providers of the Company. For the period ended December 31, 2013, potentially dilutive common shares issuable on exercise of options or warrants outstanding and conversion options were not included in the computation of loss per share because their effect was anti-dilutive.

Financial Instruments:
Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.
At initial recognition, the Company classifies its financial instruments in the following categories:

i) Financial Assets and Liabilities at Fair Value Through Profit or Loss: A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short term. Financial instruments in this category are recognized initially and subsequently at fair value.

ii) Available-for-sale Investments: Non-derivatives that are either designated in this category or not classified in any other category. Available-for-sale investments are initially recognized at fair value plus transaction costs and subsequently carried at fair value with changes in fair value recognized in other comprehensive loss. The Company classifies its short term investments as available-for-sale investments.

iii) Loans and Receivables: Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise trade receivables and cash and cash equivalents, and are included in current assets due to their short term nature. Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the amount to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest rate method less a provision for impairment.

iv) Financial Liabilities at Amortized Cost: Trade payables and other payables are classified as financial liabilities at amortized cost. Trade payables and other payables are initially recognized at the amount expected to be paid, less, when material, a discount to reduce the amount to fair value. Subsequently trade payables and other payables are measured at amortized cost using the effective interest rate method. At each reporting date, the Company assesses whether there is objective evidence that a financial asset (other than a financial asset classified at fair value through profit or loss) is impaired. If such evidence exists, the Company recognizes an impairment loss as follows: (i) Financial Assets Carried at Amortized Cost :The impairment loss is the difference between the carrying amount of the asset and the present value of the

estimated future cash flows, discounted using the instrument's original effective interest rate. (ii) Available-for-sale Financial Assets: The impairment loss is the difference between the acquisition cost of the asset and the fair value at the measurement date, less any prior impairment losses previously recognized in the statement of loss. Impairment charges are recognized through other comprehensive income unless the impairment is deemed to be significant or prolonged, at which time it is recognized in the statement of loss. Impairment losses on financial assets carried at amortized cost and available-for-sale instruments are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

Financial instruments:

Financial assets and liabilities, including derivative instruments, are initially recognized and subsequently measured based on their classification as "fair value through profit or loss ("FVTPL")", "available for sale" financial assets, "held to maturity", "loans and receivables", or "other" financial liabilities. FVTPL financial instruments are measured at their fair value with changes in fair value recognized in net loss for the period. Available for sale financial assets are measured at their fair value and changes in fair value are included in other comprehensive income until the asset is removed from the statement of financial position or until impairment is assessed as other than temporary. Held to maturity investments, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest rate method.

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments recorded at fair value by valuation technique:
Level 1: The fair value measurements are classified as level 1 if the fair value is determined using quoted, unadjusted market prices for identical assets or liabilities.
Level 2: The fair value measurements are classified as level 2 when inputs other than quoted prices in level 1 which have a significant effect on the recorded fair value are observable, either directly or indirectly.
Level 3: The fair value measurements are classified as level 3 when inputs require unobservable market data or use statistical techniques to derive forward curves from observable market data and unobservable inputs.

5. New Accounting Standards Adopted During The Year

IFRS 10, 11, 12 and 13 were all issued in May 2011 and are effective for annual periods beginning January 1, 2013, with early adoption allowed. The Company has adopted these policies and there were no material effects on the financial statements.

IFRS 10, Consolidated Financial Statements, replaces the consolidation guidance in IAS 27, Consolidated and Separate Financial Statements, and SIC-12 Consolidation – Special Purpose Entities, by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee.

IFRS 11, Joint Arrangements, introduces new accounting requirements for joint arrangements, replacing IAS 31, Interests in Joint Ventures. It eliminates the option of accounting for jointly controlled entities by proportionate consolidation.

IFRS 12, Disclosure of Interests in Other Entities, requires enhanced disclosures about both consolidated entities and unconsolidated entities in which an entity has involvement.

IFRS 13, Fair Value Measurement, replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. It defines and provides guidance on determining fair value and requires disclosures about fair value measurements, but does not change the requirements regarding which items are measured or disclosed at fair value.

IAS 28, Investments in Associates and Joint Ventures prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 applies to all entities that are investors with joint control of, or significant influence over, an investee (associate or joint venture). This standard is effective for annual periods beginning on or after January 1, 2013, with early application permitted.

6. Change in Accounting Policy

Effective on January 1, 2012, the Company has adopted the following policy with respect to exploration and evaluation expenditures.

Exploration costs are incurred in gathering the information necessary to determine whether a particular property can become a commercially viable operating mine and include costs to determine whether a property adjacent to a property with Proven and Probable Reserves has Proven and Probable Reserves, whether Inferred Resources can be classified as Measured and Indicated Resources, or whether Measured and Indicated Resources can be converted to Proven and Probable Reserves, as defined by National Instrument 43-101. These costs are expensed as incurred. When it has been determined than an exploration property can be economically developed, costs incurred prospectively to develop the property and place it into commercial production are classified as development costs and capitalized as they are incurred until the asset is ready for its intended use. Costs to acquire mineral properties as part of an asset acquisition are capitalized and represent the property's fair value at the time it was acquired.

The Company's previous policy was to capitalize all exploration and evaluation costs. Management has made the voluntary change in accounting policy as management has determined that the expensing of exploration and evaluation expenditures better represents the nature of these costs. The change in accounting policy has resulted in the following changes itemized below.

The impact of this change in policy to the opening January 1, 2012 balances, accordingly an opening statement of financial position which has been presented as follows:

As at January 1, 2012	As reported $	Adjustment $	Restated $
Mineral property	30,347,560	(20,458,582)	9,888,978
Deficit	14,646,644	20,458,582	35,105,226

The impact of the change in policy for the year ended December 31, 2012, on the statement of loss and comprehensive loss are as follows:

For the year ended December 31, 2012	As reported $	Adjustment $	As Restated $
Exploration and Development expenditures	-	797,562	797,562
Mineral property write-offs	1,742,217	(1,109,498)	632,719
Equity Pick up in Back Forty Joint Venture LLC	-	2,672,870	2,672,870
	1,742,217	2,360,934	4,103,151

The impact of this change in policy to the opening December 31, 2012 balances, on the opening statement of financial position which are as follows:

As at December 31, 2012	As reported $	Adjustment $	Restated $
Investment in Back Forty Joint Venture LLC	27,572,849	(20,951,484)	6,621,365
Mineral property	2,202,779	(1,868,032)	334,747
Deficit	17,124,305	22,819,516	39,943,821
Basic and diluted net loss per share	0.03	(0.02)	0.05

Exploration and evaluation costs that were previously capitalized have now been expensed in the statement of loss and comprehensive loss in accordance with the change in accounting policy. Exploration and evaluation costs that were recorded as an investing activity in the statement of cash flows for the year ended December 31, 2013 are now recorded as cash flows used in operating activities.

7. Future Accounting Pronouncements

IAS 36 Impairment of Assets was amended by the IASB in June 2013. Recoverable Amount Disclosures for Non-Financial Assets amended certain disclosure requirements about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The amendment is effective for annual periods beginning on or after January 1, 2014.

IFRIC Interpretation 21 Levies was issued by the IFRIC in May 2013. The Interpretation on the accounting for levies imposed by governments clarifies the obligating event that gives rise to a liability to pay a levy. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014.

IFRS 9 Financial Instruments was issued by the IASB in October 2010 and will replace IAS 39 Financial Instruments: Recognition and Measurement. 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 available for application; however, previous mandatory effective date of January 1, 2015 has been removed as the IASB decided that this date would not allow sufficient time for entities to apply the new standard because the impairment phase of the IFRS 9 has not yet been completed. The IASB will decide upon a new date when the entire IFRS 9 project is closer to completion.

Management is currently assessing the impact of these amendments.

8. Acquisition Transaction - REBgold Corporation and HudBay Michigan Inc.

On December 30, 2013 separate special shareholders' meetings were held by the shareholders of Aquila and the shareholders of REBgold Corporation (“**REBgold**”), to approve the transactions involving Aquila and REBgold, and the proposed acquisition by Aquila of the 51% interest in the Back Forty Project in Michigan currently held by HudBay Minerals Inc, as well as the REBgold financing as detailed below. Both shareholder

meetings overwhelmingly approved all resolutions to approve the transactions. The details of the transactions are as follows:

i. a statutory plan of arrangement pursuant to which the Company acquired all of the outstanding shares of REBgold in exchange for shares of the Company on a 1-for-1 basis (the "Arrangement");

ii. the non-brokered private placement of REBgold shares for gross proceeds of approximately CDN$4.85 million (the "REBgold Financing"). Pursuant to the REBgold Financing, Baker Steel Capital Managers LLP, on behalf of investment funds managed or controlled by it ("Baker Steel"), REBgold's larger shareholder, invested CDN$4.5 million of such gross proceeds. Proceeds from the REBgold Financing will be used for general working capital and to fund the next phase of development activity at Back Forty; and

iii. the acquisition of 100% of the shares of HudBay Michigan Inc. ("HMI"), a subsidiary of HudBay Minerals Inc. ("HudBay"), effectively giving Aquila 100% ownership in the Back Forty Project (the "HMI Acquisition"). Pursuant to the HMI Acquisition, HudBay's 51% interest in the Back Forty Project was acquired in consideration for the issuance of common shares of Aquila, future milestone payments tied to the development of the Back Forty Project and a 1% net smelter return royalty on production from certain land parcels in the project.

The Acquisition Transactions closed on January 16, 2014. Pursuant to the REBgold Financing, REBgold issued a total of 37,300,385 shares at a price of CDN$0.13 cents per share for gross proceeds of approximately CDN$4.85-million. All shares issued pursuant to the REBgold Financing were immediately exchanged for Aquila shares on a one-for-one basis in accordance with the terms of the Arrangement. In connection with the issuance of 2,285,000 REBgold shares for gross proceeds of CDN$297,050 as part of the REBgold Financing, REBgold paid broker compensation consisting of: (i) a cash commission equal to 7 % of the gross proceeds related to such subscriptions; and (ii) non-transferable broker warrants to purchase a total of CDN$159,950 REBgold shares (representing 7 % of the REBgold shares related to such subscriptions) at a price of CDN$0.15 per share for two years from the closing of the REBgold Financing. As a result of completion of the Arrangement, each broker warrant became exercisable for one Aquila share at a price of CDN$0.15 cents per share.

Immediately prior to completion of the Arrangement and related transactions, there were 64,825,568 REBgold shares outstanding (including shares issued pursuant to the REBgold Financing). All of these shares were exchanged for Aquila shares pursuant to the Arrangement on a one-for-one basis.

In connection with HMI Acquisition, Aquila issued 18,650,193 shares to HMI in satisfaction of the portion of the purchase price for HMI that was payable on closing.

Post closing capital structure and effective date of transaction

Upon completion of the Arrangement, REBgold became a wholly-owned subsidiary of Aquila. REBgold Shares were delisted from the TSXV following completion of the Arrangement and REBgold has ceased being a reporting issuer.

Immediately following completion of the Arrangement, the REBgold Financing and the HMI Acquisitions, there were 183,160,901 Aquila shares outstanding together with outstanding stock options, convertible debentures and warrants that will collectively be exercisable for up to approximately 27.6 million Aquila shares.

As Aquila was able to exercise control as of December 30th, 2013, management has determined that HMI and REBgold should be consolidated from this date onwards, as it represents the date on which the acquirer has gained control of the acquirees. In addition, Baker Steel had provided a letter of commitment on the financing by this date, ensuring one of the key conditions on the transaction was in place. While final approval had not yet been received from the courts until January 7, 2014, the remaining authorization was considered administrative in nature, as all other major precedents conditional to the transaction occurring had been completed. Accordingly, the transactions have been reflected as of December 30th, 2013. As the shares were not legally issued until after year-end, they have been reflected as shares to be issued.

Transaction compensation costs include issuance of shares and disbursement of cash, as well as the issue of stock options to directors, consultants and officers for both REBgold and Aquila. These costs totaled $1,031,895 of which $284,000 was disbursed through cash. Costs relating to past service are incremental to the transactions, have been reflected as part of the consideration given on the acquisition.

Acquisition of REBgold:

The transaction was accounted for as an asset acquisition as it did not meet the definition of a business under IFRS 3. The purchase consideration was as follows:

	Number of Shares	Value $
Common shares by Aquila issued on Acquisition	64,825,568	7,923,370
Transaction costs		950,657
Total Consideration given		8,874,027

The allocation of the purchase price to the assets acquired and liabilities assumed is based upon estimated values at the date of acquisition, as set out below.

	Value $
Cash and cash equivalents	129,084
Cash realized in Arrangement	4,506,611
Other receivables	158,353
Capital Asset	2,236
Mineral property	5,513,104
Accounts payable and accrued liabilities	(343,503)
Conversion feature on convertible debenture	(195,656)
Warrant liability	(143,409)
Long term debenture payables	(740,758)
Warrant reserve from REBgold Financing	(12,035)
Net assets and liabilities acquired	8,874,027

Acquisition of HMI:
The transaction was accounted for as an asset acquisition as it did not meet the definition of a business under IFRS 3. The purchase consideration was as follows:

	Number of Shares	Value $
Common shares by Aquila to HudBay Minerals Inc.	18,650,193	2,279,538
Fair value of future installment payments		3,700,000
Fair value of 1% NSR royalty		3,300,000
Transaction costs		320,044
Total Consideration given		9,599,582

The consideration to acquire 100 per cent of the shares of HudBay Michigan Inc., HudBay's wholly owned subsidiary which owns the 51% share in the BFJV is made up of the following:

- $2.28-million of Common Shares of Aquila: this was determined to be the lessor of CDN$2.5-million or 50 per cent of the REBgold Financing issued upon closing of the Back Forty acquisition. Pricing of shares was at the of the REBgold Financing;
- Fair value of future installments is based on CDN$9.0 million in future installments tied to development of the Back Forty Project as follows:
    - i. CDN$3.0 million payable upon completion of any form of financing for purposes including the commencement of construction of Back Forty (up to 50 per cent of such amount to be payable, at Aquila's option, in Aquila shares with the balance payable in cash);
    - ii. CDN$2.0 million in cash payable 90 days after the commencement of commercial production;
    - iii. CDN$2.0 million in cash payable 270 days after commencement of commercial production;
    - iv. CDN$2.0 million in cash 450 days after commencement of commercial production;
- Fair value of the 1 per-cent net smelter return (NSR) royalty on production from certain land parcels on the Back Forty property, capped at CDN$7-million.

Key estimates on the valuation, using discounted cash flow model, of the contingent consideration were a 25% discount rate for the milestone payment and an 8% discount rate on the NSR. The milestone payments are estimated to commence in 2015 with production starting in 2018. When performing a sensitivity analysis, if discount rates used in the valuation were increased or decreased by 1%, the impact on the fair value of the contingent consideration would be an increase or decrease of an estimated $375,000. If another key assumption, being the commencement of the milestone payments and the commencement of production, were respectively pushed to 2016 and 2019, the impact on fair value would be a decrease of an estimated $990,000.

The allocation of the purchase price to the assets acquired and liabilities assumed is based upon estimated values at the date of acquisition, as set out below.

	US $
Cash and cash equivalents	93,456
Mineral property	9,507,550
Capital assets	192,779
Accounts payable and accrued liabilities	(194,203)
Net assets and liabilities acquired	9,599,582

9. Investment in Back Forty Project

During 2012, the Company transferred its interest in the Back Forty Project to a limited liability company called Back Forty Joint Venture LLC (“BFJV” and as described in Note 10- Mineral Properties - Back Forty). In consideration of the transfers of their respective property interests, the Company and HudBay took back a 49% and 51% interest, respectively, in BFJV. The Company accounted for the transaction as a transfer between mineral properties and investments at carrying value during 2012. The Company has significant influence over BFJV and accounted for the investment using the equity method.

The Mineral property costs accumulated by the Company on the Back Forty Project up to the time it acquired the 49% interest in BFJV on March 9, 2012 amounted to $9,294,235, and that amount has been reflected as the Company’s Investment in BFJV. This initial investment amount is adjusted based on the Company’s share of the income or losses reported by BFJV.

	US $
Opening Balance, Investment in BFJC	9,294,235
Plus 49% of annual loss from 2012 from BFJV	(2,672,870)
Ending Balance, December 31, 2012	6,621,365
Add 49% of annual loss from 2013	(381,220)
Transfer to Mineral property	(6,240,145)
Ending Balance, December 30, 2013	-

On December 30, 2013 the Company effectively controlled 100% of the Back Forty Project and changed the classification of the investment to mineral property.

10. Mineral Property Costs

Total accumulated deferred mineral property costs, and property descriptions, are detailed as follows:

Year ended December 31, 2013	Balance beginning of period $	Acquisition $	Reimbursed Exploration $	Acquisitions (note 8) $	Adjustment/ Write-off $	Balance end of period $
Exploration Alliance	-	12,162	-	-	(12,162)	-
Bend**	-	-	-	-	-	-
Reef	101,051	45,961	-	-	-	147,012
Back Forty Project	-	-	-	9,507,550	6,240,145	15,747,695
REBgold acquisition	-	-	-	5,513,104		5,513,104
Other	233,696	6,000	-	-	(239,696)	-
	334,747	64,123	-	15,020,654	5,988,287	21,407,811

Year ended December 31, 2012	Balance beginning of year $	Acquisition $	Reimbursed Exploration $	Reimbursements $	Transfer to investment/ write-off (see Notes 8,9, &10) $	Balance end of year $
Exploration Alliance	-	126,306	1,954,979	(2,081,285)	-	-
Reef	53,186	47,865	-	-	-	101,051
Back Forty Project	9,296,985	1,472,026	44,154	(1,518,930)	(9,294,235)	-
Michigan Gold	400,111	176,530	-	-	(576,641)	-
Other	138,696	95,000	-	-	-	233,696
	9,888,978	1,917,727	1,999,133	(3,600,215)	(9,870,876)	334,747

**Formerly an Exploration Alliance property

(a) Back Forty Project

The Back Forty Project (the "Project") controls approximately 7,600 acres of surface and mineral rights which are owned or held under lease or option by BFJV. Some lands are subject to net smelter royalties varying from 1% to 3.5%, with certain lands subject to a 2% - 7% state royalty, which under state law can be renegotiated. The Project is subject to a 7% net distributable earnings royalty ("Net Profits after Payback") payable to a former joint venture partner.

On August 6, 2009, the Company signed a Subscription, Option and Joint Venture Agreement (the "Agreement") with HudBay Minerals Inc. ("HudBay"). Under the terms of the Agreement (and a follow-on Operating Agreement), the following events occurred and came into effect:

i. As of August 31, 2010 HudBay earned a 51% interest in the Project by exceeding $10 million in aggregate expenditures on the Project over a 3 year period.

ii. Pursuant to the Agreement, on March 9, 2012 HudBay and the Company transferred their interests in the Project to BFJV, a limited liability company. BFJV was owned 49% by the Company, and 51% by HudBay via its wholly owned subsidiary HudBay Michigan Inc. The affairs of BFJV were governed by an Operating Agreement entered into by the Company and

HudBay, the terms of which mirror the original Subscription, Option and Joint Venture Agreement the Company had with HudBay.

During 2012, the Company transferred its interest in the Back Forty Project ("the Project") to a limited liability company, Back Forty Joint Venture LLC ("BFJV") as contemplated under an operating agreement ("Operating Agreement") signed by the Company and Hudbay The Company accounted for the transaction as a transfer between mineral properties and investments at carrying value. The Company has significant influence over BFJV and accounts for the investment using the equity method

The Mineral property costs accumulated by the Company on the Back Forty Project up to the time it acquired the 49% interest in BFJV on March 9, 2012 amounted to $9,294,235, and that amount has been reflected as the Company's Investment in BFJV.

On July 3, 2012 the Company announced it had been informed by Hudbay that it had decided to suspend its development activities on the Back Forty Project and would be considering its strategic alternatives with respect to the Project.

On November 7, 2013 the Company signed an agreement, along with REBgold, with HudBay Minerals Inc. to buy back the 51% ownership interest in the Back Forty Joint Venture. Please refer to Note 8 - Acquisition Transactions- REBgold and HudBay Michigan Inc..

As of December 30, the Company effectively owns 100% of the Back Forty Joint Venture through its 100% share ownership in HudBay Michigan Inc. which owns 51%, and the 49% directly held by the Company in the BFJV.

Estimated lease, option and property acquisition costs related to the Back Forty Project for 2014 to 2017, for which the Company is materially liable throughout the duration of the agreement, are as follows:

Year	Amount
2014	$1,570,549
2015	$1,585,384
2016	$320,718
2017	$148,053

(b) Bend *(previously known as Exploration Alliance)*

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. HudBay made an initial advance to the Company of $250,000, which the Company used to identify exploration properties. The Company was obligated to present HudBay with a minimum of five exploration targets. Subject to an approval process under the agreement HudBay would fund any such target up to $2,000,000, following which the parties would form a 50/50 joint venture with respect to the target property. HudBay would then be able to increase its interest on each target to 65% by funding and completing a feasibility study and required mine permit applications.

During 2011 the Company presented five qualifying target properties to HudBay as required by the agreement. The Company and HudBay agreed to proceed with four of them. HudBay made a second

advance to the Company of $250,000, under which the Company was to seek out an additional five target properties. The advances were non-refundable and were reduced dollar for dollar as expenditures were incurred on target properties.

On July 3, 2012 HudBay notified the Company of its intent to terminate the Exploration Alliance agreement. As a result of the termination:

(i) The Company maintained a 100% interest in three properties (properties known as Sturgeon Falls, Five Mile Lake and Bend), that were formerly Exploration Alliance properties, subject to a back-in right on the Bend Property under which HudBay has a right to re-acquire its interest; should HudBay exercise its right it could achieve up to a 65% interest in the Bend property. The back-in right is exercisable no later than July 18, 2014.

(ii) There was a balance outstanding on the second advance in the amount of $142,606 effective as of the notification date that was included in the December 31, 2012 consolidated statement of loss and comprehensive loss, as interest and other income.

(iii) There are no further obligations to HudBay in connection with the Exploration Alliance.

During the year ended December 31, 2013 the Company terminated the agreements for the Sturgeon Falls, and Five Mile Lake properties and as a result wrote off $12,162 of deferred costs. The remaining value on the former Exploration Alliance properties at December 31, 2013 as pertains entirely to the Bend property reflect no amount, though the Company is continuing on its own with this project.

(c) Michigan Gold

On October 21, 2010, the Company entered into an option agreement with Minerals Processing Corporation (“MPC”), a related party (MPC and the Company have common directors and officers), to earn a 100% interest in certain surface and mineral rights located in Marquette County, Michigan.

During 2012, the Company issued 200,000 shares as a payment of the 2010 and 2011 obligations.

Subsequent to December 31, 2012 the Company decided not proceed with this agreement and did not exercise its option on the property. This resulted in a $576,641 write off of capitalized acquisition costs for the year ended December 31, 2012.

(d) Reef Gold Project

The Company entered into a series of agreements with private landholders in Marathon County, Wisconsin for the optioning of surface and mineral rights. The agreements consist of mining leases and exploration agreements with an option to purchase. Currently there are a total of 803 acres under these agreements which have terms from 2 to 20 years up to 2031.

A variable net smelter royalty up to 2% is payable in the event of mineral production on the property. Estimated lease and/or option costs related to the Reef Project for 2014 to 2017, which are at the Company’s option, are as follows:

Year	Amount
2014	$46,031
2015	$419,381
2016	$39,531
2017	$39,531

(e) Other – Vindicator and Moose Pasture

The company owns exploration rights to two early stage gold properties located in the Carolina Slate Belt. They are prospective given their geological locations and associated anomalous gold values. The Royal Vindicator property is located in Haralson County, Georgia where the Company has acquired a 100% interest in approximately 600 acres. The Moose Pasture property is in Anson County, North Carolina where the Company has acquired 917 acres of mineral and surface rights.

During the year ended December 31, 2013 the Company decided not to maintain the Vindicator and Moose Pasture properties and as a result wrote off $239,696 of capitalized acquisition costs that had been incurred on those properties.

(f) Finland – Rantasalmi and Kiimala Properties

In July 2011, REBgold (a subsidiary of Aquila) entered into a definitive Shareholders' Agreement as contemplated by the Letter of Intent ("LOI"), signed in March 2011 with Belvedere Resources Finland oy ("BelFin"), a wholly-owned subsidiary of Belvedere Resources ("Belvedere", TSX.V:BEL) for REBgold to earn an interest in two of BelFin's gold properties in Central Finland, the Kiimala and Rantasalmi properties (the "Properties").

Under the terms of the Shareholders' Agreement, REBgold has the right to earn up to a 50% interest (in increments of 1%) in a special purpose joint venture company which holds the Kiimala and Rantasalmi projects by contributing expenditures of CDN $6.0 million in a 4 year period. During the first year, REBgold must spend a minimum of CDN $1.5 million on the Properties. After the earn-in has been completed, REBgold can increase its interest to between 55% and 75%, depending on the level of BelFin's contribution to a Feasibility Study. A further 5 per cent can be earned if REBgold's bioleaching technology can lead to a material improvement in the project economics.

All contributions made are recorded to the respective property until such time as they qualify for a 1% share interest in the joint venture. As at December 31, 2013, the cumulative contributions made by REBgold to the joint venture were CDN$2,282,775. REBgold has earned and received a total of 18% ownership interest in BRGM to date. The interest continues to be classified as acquisition costs.

As at December 31, 2013, REBgold had contributed an additional CDN$122,738 which may be attributed toward the next incremental 1% ownership interest valued at CDN$120,000.

11. Capital Assets

Cost	**Land** $	**Buildings** $	**Furniture and Fixtures** $	**Total** $
Balance December 31, 2011	**426,380**	**527,899**	**31,361**	**985,640**
Disposal(a)	(45,500)	(179,661)	-	(225,161)
Balance December 31, 2012	**380,880**	**348,238**	**31,361**	**760,479**
Acquisition REBgold Corporation (note 8)	-	-	2,236	2,236
Acquisition HudBay Michigan Inc. (note 8)	-	192,779	-	192,779
Adjustment	-	-	(215)	(215)
Balance, December 31, 2013	**380,880**	**541,017**	**33,382**	**955,279**

Accumulated depreciation	**Land** $	**Buildings** $	**Furniture and Fixtures** $	**Total** $
Balance December 31, 2011	**-**	**99,504**	**17,519**	**117,023**
Depreciation	-	12,169	3,007	15,176
Disposal (a)	-	(30,256)	-	(30,256)
Balance December 31, 2012	**-**	**81,417**	**20,526**	**101,943**
Adjustment	-	-	(215)	(215)
Additions	-	5,172	2,649	7,821
Balance, December 31, 2013	**-**	**86,589**	**22,960**	**109,549**

Net book value, December 31, 2011	**426,380**	**428,395**	13,842	**868,617**
Net book value, December 31, 2012	**380,880**	**266,821**	10,835	**658,536**
Net book value, December 31, 2013	**380,880**	**454,428**	10,422	**845,730**

(A) During 2012 an office building was sold for $220,000, giving rise to a gain on sale of $25,095

12. Debentures Payable

	As at December 31 2012 $
Convertible debenture maturing April 2, 2015	394,940
Convertible debenture maturing April 13, 2015	345,818
Total debentures payable	740,758

Convertible Debenture Maturing April 2, 2015

On April 2, 2013, REBgold (a subsidiary of the Company) closed CDN$510,000 of convertible debentures bearing interest at 8% per annum, compounded and payable upon the maturity date of April 2, 2015. The debentures are convertible into common shares by the holders at any time at a price of CDN$0.15 per common share.

Convertible Debenture Maturing April 13, 2015

On October 13, 2010, REBgold closed CDN$430,000 convertible, redeemable debentures that bear interest at a fixed rate of 18% per year and are convertible into 430,000 common shares of the Company at a price of $1.00 per share. In addition, REBgold issued 430,000 common share purchase warrants to the debenture holders with an exercise price of CDN$1.20.

On December 6, 2010 REBgold completed a Plan of Arrangement with a company called BacTech Environmental Corporation ("BEC"), whereby BEC assumed 20% of the debenture obligation from REBgold. On December 6, 2010, 20% of the book value of the debenture obligation was CDN$66,642; this would accrete to CDN$86,000 over the remaining life of the debenture. Upon maturity, REBgold would repay the debenture obligation and accrued interest to the debenture holders and receive from BEC 20% of the principal plus 20% of the interest accrued from December 2, 2010 to maturity.

On April 17, 2012, REBgold extended the maturity date of the CDN$410,000 principal amount of the outstanding convertible debentures and 410,000 common share purchase warrants described in Note 14, with an original maturity date of April 13, 2012, to April 13, 2015.

The debentures were measured on the acquisition of REBgold at their fair value, with the conversion feature considered to be an embedded derivative, being valued first, and the residual assigned to the debentures.

The Company uses the Black-Scholes Option Pricing Model to estimate the fair value of the Canadian dollar conversion option of the debenture:

For the year ended December 31, 2013	**2013**	2012
Risk-free interest rate	**1.62%**	-
Expected life	**1 years**	-
Price volatility	**100-106%**	-
Share price (CDN $)	**0.13**	-
Dividend yield	**Nil**	-

13. Share Capital

A. Authorized

Unlimited number of common shares.

Issued and outstanding:

	Number of Share	Total $
December 31, 2011	**90,739,168**	**42,333,037**
December 31, 2012	**90,945,168**	**42,430,879**
December 31, 2013	**98,167,697**	**42,858,892**

1. During the year ended December 31, 2013 the Company completed a private placement and issued 5,890,000 units consisting of a common share and a half warrant at a price per unit of Cdn $0.10 for gross proceeds of $579,753. Each full warrant entitles the holder to purchase a common share of the Company for a period of 5 years from date of issue at an exercise price of Cdn $0.20 per share. In addition 183,750 broker warrants were issued entitling the holder to purchase a common share of the Company for a period of 5 years from date of issue at an exercise price of Cdn $0.12 per share. Cash share issue costs in the amount of $20,055 were incurred. A fair value of $264,604 was estimated and assigned to the warrants. The fair value was estimated using the Black-Scholes valuation model under the following assumptions; risk free interest rate 1.66%, expected life 5 years, price volatility 123%, share price CDN $0.105, dividend yield nil. The Company estimated volatility based on the Company's five year historical volatility prior to the grant.
2. During the year ended December 31, 2013, 826,494 common shares were issued and 82,443 common shares are issuable with values of $82,395 and $9,525 respectively. The shares were issued under a compensation agreement and the value was equal to the value of the services received.
3. During the year ended December 31, 2013 506,035 common shares were issued with a value of $50,525. The shares were issued in satisfaction of obligations payable to vendors for services rendered. The value was equal to the value of the services.

B. Shares Issuable under Plan of Arrangement and Acquisition of HudBay Michigan Inc.

1. As per the terms of the Plan of Arrangement explained in Note 8 to the financial statements, Aquila issued 64,825,568 shares in exchange for all of the outstanding shares of REBgold.
2. As per the terms of the arrangement explained in Note 8 to the financial statements, Aquila issued 18,650,193 to HudBay Minerals Inc. for the acquisition of 51% of the Back Forty Joint Venture LLC.
3. In conjunction with the notes 1 and 2 above, Aquila issued 1,435,000 shares granted to directors, officers and consultants of Aquila and REBgold.

C. Stock-option plan and share-based compensation:

The Company maintains a Stock Option Plan (the "Plan") for the benefit of directors, officers, employees, consultants and other service providers of the Company and its subsidiaries in order to assist the Company in attracting, retaining, and motivating such persons by providing them with the

opportunity, through stock options to acquire an increased proprietary interest in the Company. Under the Plan, options are non-assignable and may be granted for a term not exceeding five years. The number of common shares that may be reserved for issuance to any one person must not exceed 5% of the outstanding common shares. The exercise price of an option may not be lower than the closing price of the common shares on the TSX, subject to applicable discounts, on the business day immediately before the date the option is granted. The options are non-transferable.

A summary of the Company's stock option, and changes during the year ended December 31, are presented below:

	2013		2012	
	Options	Weighted average exercise price (CDN $)	Options	Weighted average exercise price (CDN $)
Balance outstanding January 1	**3,722,250**	**$ 0.50**	4,928,250	$ 0.90
Exercised	**-**		(6,000)	0.15
Expired	**(197,250)**	**0.66**	(1,200,000)	2.15
Granted	**1,875,000**	**0.15**	-	-
Cancelled from Plan of Arrangement	**(4,615,000)**	**0.37**	-	-
Granted from Plan of Arrangement	**13,525,000**	**0.15**	-	-
Balance outstanding end of year	**14,310,000**	**$ 0.16**	3,722,250	$ 0.50

As at December 31, 2013, common share stock options held by directors, officers, employees and consultants are as follows:

Number of options outstanding	CDN$ Exercise Price	Expiry Date	Number of options exercisable	Weighted average life (yrs)
245,000	0.15	March 2, 2014	245,000	0.17
120,000	0.25	November 10, 2014	120,000	0.86
245,000	0.90	February 2, 2016	245,000	2.09
175,000	0.15	July 22, 2018	175,000	4.56
13,525,000*	0.15	January 16, 2019	13,525,000	5.00
14,310,000			14,310,000	2.40

* Issuable under plan of arrangement.

There were 14,310,000 (2012 – 3,772,250) with vesting terms ranging from immediately to three years and granted at a weighted average price of CDN$0.15 (2012 – Nil). Furthermore, 4,812,250 (2012 – 1,200,000) options were cancelled at a weighted average price of CDN$0.38 (2012 – CDN$2.15). The vested options had an estimated fair value using the following assumptions options at the measurement date:

For the nine months ended September 30	**2013**	2012
Risk-free interest rate	**1.16- 1.18%**	-
Expected life	**5 years**	-
Price volatility	**99- 101%**	-
Share price (CDN$)	**0.13 to 0.15**	-
Dividend yield	**Nil**	-

14. Warrants

The movements in the number and estimated fair value of outstanding broker warrants and share purchase warrants are as follows:

	2013		2012	
	Warrants	Weighted average exercise Price (CDN $)	Warrants	Weighted average exercise price (CDN $)
Balance, beginning of year	**515,140**	**$ 0.51**	515,140	$ 0.51
Exercised	**-**	**-**	-	-
Expired	**(315,140)**	**0.51**	-	-
Granted by Aquila	**3,128,750**	**0.20**	-	-
Acquired through REBgold	**6,221,450**	**0.99**	-	-
Balance, end of year	**9,550,200**	**$ 0.72**	515,140	$ 0.51

The exercise price, expiry date, and warrants issued and outstanding as at December 31, 2013 are as follows:

Number of warrant outstanding	CDN$ Exercise Price	Expiry Date	Weighted average life (yrs)
200,000	0.51	October 1, 2014	0.75
2,945,000	0.20	May 17 to June 21, 2018	4.47
183,750	0.12	May 17 to June 21, 2018	4.48
410,000	1.20	April 15, 2015*	1.28
1,701,500	1.00	June 17, 2015*	1.46
2,000,000	1.00	November 10, 2016*	2.86
1,950,000	1.00	November 10, 2016*	2.86
159,950	0.15	January 16, 2019*	2.04
9,550,200			2.25

* Warrants from REBgold issuable under plan of arrangement.

During the year ended December 31, 2013, 3,128,750 warrants were granted with a grant date fair value of $264,604 and 315,140 warrants expired with a value of $121,433, which amount reduced the warrant reserve account and reduced the deficit. As a result of the Plan of Arrangement with REBgold, the REBgold warrants that are exercised will be converted to Aquila Shares. The fair value of the warrants issued during the year ended December 31, 2013 was estimated using the Black-Sholes option pricing model with the following assumptions.

For the year ended December 31, 2013	**2013**	2012
Risk-free interest rate	**1.66%**	-
Expected life	**5 years**	-
Price volatility	**123%**	-
Share price (CDN $)	**0.10**	-
Dividend yield	**Nil**	-

Pursuant to an Plan of Arrangement between REBgold and BacTech Environmental Company ("BEC") that was completed on December 6, 2010. REBgold has certain obligations pursuant to the warrants in existence at the time of the December 6, 2010 Plan of Arrangement, which upon being exercised, shall be satisfied by the issuance of one common share from the Company and two common shares of BEC. Upon the exercise of any of these warrants, the Company shall pay to BEC 17% of the exercise proceeds as consideration for the issuance of the BEC common shares. The Company shall retain the balance of the aggregate exercise price as consideration for the issuance of its common shares from the exercise of the warrant

15. Derivative liabilities

Warrants

Equity offerings were completed in previous periods whereby warrants were issued with exercise prices denominated in Canadian dollars. As the warrants have an exercise price denominated in a currency which is different from the functional currency of the Company (US dollar), the warrants are treated as a financial liability. The Company's share purchase warrants are classified and accounted for as a financial liability at fair value with changes in fair value recognized in net earnings. The warrant derivative liability is classified as level 2 in the fair value hierarchy. The Company uses the Black-Scholes Option Pricing Model to estimate the fair value of the Canadian dollar denominated warrants.

For the year ended December 31, 2013	**2013**	2012
Risk-free interest rate	**1.62%**	-
Expected life	**1-3 years**	-
Price volatility	**100-106%**	-
Share price (CDN $)	**0.13**	-
Dividend yield	**Nil**	-

Black-Scholes pricing models require the input of highly subjective assumptions. Volatility was estimated based on average daily volatility based on historical share price observations over the expected term of the option grant.

16. Related Party Transactions

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. During the nine months ended December 31, 2013, director's fees, professional fees and other compensation of directors and key management personnel were as follows:

	Year ended December 31,	
	2013	2012
	$	**$**
Short-term compensation and benefits	**537,400**	419,752
Share-based payments (fair value of stock option benefits and share based payments)	**120,000**	-
	657,400	419,752

As at December 31, 2013 $489,233 (2012 - $Nil) is included in accounts payable in connection with amounts due to key management personnel.

During the year ended December 31, 2013 a total of $24,598 (2012 - $141,402) was billed to the Company by a geological consulting company of which the President of the Company's Aquila USA Inc. subsidiary and another director are major shareholders. This amount was for professional services provided and reimbursement of out-of-pocket costs.

During the year ended December 31, 2013, the Company was charged legal fees totaling CDN$162,836 (2012 - $84,140) by a law firm whose partner is an officer of the Company.

During the year ended December 31, 2013 rental expenditures in the amount of CDN$15,916 (2012 - $11,500) were charged by a Company with common directors.

During the year ended December 31, 2013 rental expenditures in the amount of $14,400 (2012-$14,400) were paid to a company of which the President and certain related individuals are part owners.

During the year ended December 31, 2013 exploration and evaluation expenditures in the amount of $Nil (2012 - $3,600,215) 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 8 & 10.

17. Administrative expenses

For the years ended December 31	2013	2012
	$	$
Amortization	**7,821**	15,176
Consulting fees	**275,707**	42,048
Directors' fees	**-**	45,385
Filing and regulatory fees	**34,523**	57,189
Foreign exchange (gain) loss	**(965)**	(19,527)
Interest and bank charges	**7,372**	8,292
Management fees	**22,523**	57,890
Office, general and administrative	**87,958**	132,649
Professional fees	**121,453**	202,776
Rent	**32,704**	27,381
Salaries and benefits	**188,767**	309,795
Share-based compensation	**143,650**	-
Travel and promotion	**92,821**	121,449
Total administrative expense	**1,014,334**	1,000,503

Prior year items were presented separately on the statement of Loss

18. Income taxes

The Company's provision for income taxes differs from the amounts computed by applying the basic current rate of 26.50% (2012 – 26.25%) to the loss for the year before taxes as shown in the following table at December 31:

	2013	2012
Loss before taxes	$	$
	2,833,144	4,838,595
Expected income tax benefit based on statutory rate	**(750,800)**	(1,282,200)
Increase(decrease) to the income tax benefit resulting from:		
Stock based compensation	**38,000**	-
Non-deductible and permanent differences	**101,000**	39,400
Foreign exchange difference	**223,100**	(18,000)
True up of previous year's tax attributes	**(620,700)**	459,900
Record non-capital losses of REBgold and HMI	**(7,836,200)**	-
Effect of higher tax rates in foreign jurisdiction	**(147,600)**	(205,050)
Change in tax rates and other	**-**	(169,200)
Increase in unrecognized portion of deferred tax assets	**8,993,200**	1,175,150
Total assets	**$ -**	$ -

The tax effects of temporary differences that give rise to deferred income tax assets are as follows at December 31:

	2013	2012
Deferred income tax assets (liabilities)	**$**	$
Non-capital losses carry forward	**15,543,400**	6,275,950
Mineral property	**5,317,000**	8,390,450
Investment in BFJV	**-**	(2,530,700)
Capital assets	**(6,580)**	(9,600)
Share issue costs	**16,650**	24,650
Transaction costs	**273,450**	-
	21,143,920	12,150,750
Tax benefit of losses not recognized	**(21,143,920)**	(12,150,750)
Deferred income tax	**-**	-

The Company has non-capital losses of approximately $22,490 (2012 - $18,710,000) which expire through 2032. The benefit of these losses has not been recognized for financial statements purposes.

During the year, the Company paid $ Nil (2012 - $Nil) in respect of income taxes.

19. Segmented information

The Company operates in a single reportable operating segment, the exploration and development of mineral properties. Segmented geographic information is as follows:

		2013	2012
Canada	- current assets	**$ 4,650,515**	$ 267,093
	- long term assets	**2,634**	398
Canada	- total assets	**4,653,149**	267,491
United States	- current assets	**94,390**	34,350
	- long term assets	**16,904,227**	7,780,674
United States	- total assets	**16,998,617**	7,815,024
Finland	- current assets	**-**	-
	- long term assets	**5,513,104**	-
Finland	- total assets	**5,513,104**	-
Total assets		**$ 27,164,870**	$ 8,082,515

The following table allocates net loss for the year ended December 31, by segment:

	2013	**2012**
Canada	**$ 712,800**	**$ 416,109**
United States	**2,120,344**	**4,422,486**
Net loss	**$2,833,144**	**$ 4,838,595**

20. Capital Management

The Company considers its capital to include all of the components of its shareholders' equity.

The Company's objectives in managing its capital are: to maintain adequate levels of funding to support its expenditures arising from the Company's investments; to safeguard the Company's ability to continue as a going concern in order to pursue the exploration of its properties; to maintain a flexible capital structure for its projects for the benefit of its stakeholders; to maintain corporate and administrative functions necessary to support the Company's operations and corporate functions; to seek out and acquire new projects of merit.

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company in order to support the acquisition, exploration and development of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

The Company's investment policy is to invest excess cash in low risk, highly liquid, short-term interest bearing investments, selected with regards to the expected timing of upcoming expenditures.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

21. Financial Instruments

The carrying amounts for cash, accounts receivable, cash receivable from Arrangement 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 and accrued liabilities 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.

Warrants, contingent consideration and the debenture conversion feature are carried at fair value.

The Company's risk exposures and the impact on its financial investments as summarized below, have not changed significantly for the year ended December 31, 2013.

Credit Risk
The Company's 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, 2013, the Company had current assets of $4,744,905 (December 31, 2012 - $301,443) to settle current liabilities of $1,958,476 (2012 - $44,882). All of the Company's financial liabilities have contractual maturities that are subject to normal trade terms and are due within one year, other than the debentures which are payable in 2015. The payment of the contingent consideration is subject to certain conditions being present as described in Note 8.

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.

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
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 significantly affect net loss.

Fair value hierarchy

The following is an analysis of the Company's assets and liabilities measured at fair value on recurring and non-recurring basis:

	Level 1	**Level 2**	**Level 3**
Cash	289,349		
Warrants liability		378,459	
Conversion feature of Debentures		195,656	
Contingent consideration			7,000,000

22. Subsequent Event

Subsequent to December 31, 2013, 40,273 common shares were issued with a value of $4,700. The shares were issued under a compensation agreement and the value was equal to the value of the services received.