AQUILA RESOURCES INC.
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2013

The following management discussion and analysis ("MD&A") of financial results is dated March 31, 2014 and reviews the business of Aquila Resources Inc. (the "Company" or "Aquila") for the year ended December 31, 2013, and should be read in conjunction with the accompanying audited annual consolidated financial statements and related notes for the year ended December 31, 2013. This MD&A and the accompanying audited annual financial statements and related notes for the year ended December 31, 2013 have been reviewed by the Company's Audit Committee and approved by the Company's Board of Directors.

This MD&A contains certain forward looking statements, such as statements regarding potential mineralization, resources and exploration results and future plans and objectives of the Company, that are subject to various risks and uncertainties. There can be no assurance that such statements will prove to be accurate, and actual results and future events could differ materially from those anticipated in such statements. Readers are cautioned not to place undue reliance on these forward looking statements. Forward-looking statements contained are made as of the date of this MD&A and the Company disclaims, other than as required by law, any obligation to update any forward-looking statements whether as a result of new information, results, future events, circumstances, or if management's estimates or opinions should change, or otherwise. All amounts herein are stated in US $ unless indicated otherwise.

1. Company Overview and Going Concern

Aquila Resources Inc. was incorporated in the Province of Ontario as 1223068 Ontario Limited by Articles of Incorporation dated February 17, 1997. 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". Substantially all of the efforts of the Company are devoted to the business activities of exploring for and developing mineral properties.

The principal asset of the Company is the exploration and development of its 100% interest in the Back Forty Project located in Menominee County, Michigan. A NI 43-101 compliant PEA of the Back Forty Project was completed in 2012, the results of which indicated a pre-tax net present value ("NPV") of $73,574,000, using a discount rate of 8%, and an internal rate of return ("IRR") of 18.2%. A NI 43-101 compliant resource estimate for the Back Forty Project, which updated the resource estimate used for the PEA, was announced February 18, 2013. The PEA does not reflect the resources update that was completed in February 2013.

The Company also has two exploration projects: Reef Gold Project located in Marathon County Wisconsin and, the Bend Project located in Taylor County, Wisconsin. Reef is a gold property and Bend is a volcanogenic massive sulfide occurrence containing copper and gold.

Through the acquisition of REBgold, the Company has an 18% interest in a joint venture arrangement with Belvedere Resources ("Belvedere", TSX.V:BEL) in the Kiimala and Rantasalmi projects located in Finland.

The Company's proprietary bioleaching technology and process knowledge which utilizes bacteria in the extraction of precious and base metals from complex refractory ores and concentrates with environmental and economic benefits. To date, the BACOX technology has been used at three gold mines located in Western Australia, Tasmania and China. The Company will investigate project opportunities to leverage the proprietary technology held by the Company.

The Company is subject to the risks and challenges experienced by other companies at a comparable stage. These risks include, but are not limited to, continuing losses, dependence on key individuals and the ability to secure adequate financing or to complete corporate transactions to meet the minimum capital required to successfully complete its projects and fund other operating expenses. Advancing the Company's projects through exploration and development to the production stage will require significant financings. Given the current economic climate, the ability to raise funds may prove difficult. Refer to the Risks and Uncertainties and Liquidity and Capital Resources sections for additional information.

None of the Company's projects have commenced commercial production and, accordingly, the Company is dependent upon debt and/or equity financings and the optioning and/or sale of resource or resource-related assets for its funding. The recoverability of the carrying value of exploration and evaluation projects, and ultimately the Company's ability to continue as a going concern, is dependent upon exploration results which indicate the potential for the discovery of economically recoverable reserves and resources, and the Company's ability to finance exploration of its projects through debt or equity financings and the optioning and/or sale of resource or resource-related assets such as royalty interests for its funding.

2013 Highlights

- On November 7, 2013 the Company announced the following transactions which were subsequently completed on January 16, 2014. The transactions have been reflected as of December 30, 2013, the date on which the shareholders of Aquila and REBgold Corporation ("REBgold") approved the transactions. See "Acquisition Transactions" – Section 2.
    - 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.

    (collectively, the "Acquisition Transactions")

- On February 18, 2013, Aquila announced an updated National Instrument 43-101 – *Standards of Disclosure for Mineral Projects* ("NI 43-101") resource estimate for the Back Forty Project. The updated mineral resource expanded on and incorporated parameters derived from an April 26, 2012 Preliminary Economic Assessment ("PEA") that utilized a 2010 mineral resource. The April 26, 2012 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, an increase of 28%. The combined open pit and underground resource will provide the basis for future economic evaluation of Back Forty.

- The Company completed a private placement on June 26, 2013 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 net proceeds of $579,752.
- During the year the Company suspended funding on non-core projects and focused on cost containment. The Company now has three projects in the Great Lakes Region which includes the Back Forty Project, Reef and Bend.
- In March 2013, the Company announced that it had appointed a new CEO to round out the management team and to lead the Company through its next phase of development.
- 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.

Outlook

As result of the completion of the Acquisition Transactions, the Company has added a new strategic investor to the Company, Baker Steel (previously REBgold's largest shareholder), and now owns 100% of the Back Forty Project. The Company is now in a position to continue with its development plans which includes the following initiatives started in the first quarter of 2014:

- In February 2014, the Company engaged the services of Tetra Tech WEI Inc. to complete a series of trade-off studies and to develop a NI 43-101 compliant PEA for the Back Forty Project. The trade-off studies will look at a number of mine-plan scenarios and will choose the optimal path for development of the project. The Company expects that the results of this study will be available in the second quarter of 2014.
- The Company is planning a small exploration program starting in the third quarter of 2014. A number of geophysical anomalies have been identified peripheral to the known mineralization at Back Forty, and detailed ground geophysics and diamond drilling are planned to test these high priority targets.
- Subject to market conditions and available capital, the Company also plans to ramp-up activities related to its permit application for Back Forty with the Michigan Department of Environmental Quality in the latter-half of 2014. To date, the Company has completed a number of the required test programs and background studies necessary to support its permit submission. The Company continues to use the services of Foth Infrastructure and Environment, LLC based in Green Bay,WI and is targeting a submission date in the first half of 2015.

2. THE ACQUISITION TRANSACTIONS

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 defacto 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 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 included bonus and settlements of outstanding payable amounts through the issue 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.

Upon completion of the transaction, HudBay owned 18.3 % and Baker Steel owned 24.8% of the total outstanding common shares of the Company.

3. OVERVIEW OF PROJECTS

A. Active Projects

Back Forty Project

The Back Forty Project is an advanced exploration stage volcanogenic massive sulfide (VMS) discovery deposit containing gold, zinc, lead, silver and copper, located in the Upper Peninsula of Michigan, USA and is the primary mineral property interest of the Company. The Back Forty Project is a high-grade, poly-metallic project, which contains approximately 1 million ounces of gold and 1 billion pounds of zinc in the M&I categories, with additional upside potential. The Back Forty Project is directly owned by the Back Forty Joint Venture LLC ("BFJV") which 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% to 7% royalty, which includes state royalties, which under state law can be renegotiated.

Upon the completion of the HMI Acquisition (see "Acquisition Transactions" - Section 2), Aquila owned 100% of the BFJV through its 49% direct interest in BFJV and the 51% interest held through HMI . Upon the completion of the HMI Acquisition the operating agreement with HudBay (the "Operating Agreement"), certain key terms of which are described below, no longer applies.

Previous Operating Agreement with HudBay

On August 6, 2009, the Company signed a subscription, option and joint venture agreement with HudBay (the "Subscription, Option and Joint Venture Agreement"). Under the terms of the Subscription, Option and Joint Venture Agreement (and the follow-on Operating Agreement, as described below), the following events occurred and came into effect:

i. As of August 31, 2010 HudBay earned a 51% interest in the Back Forty Project by exceeding $10 million in aggregate expenditures on the Back Forty Project over a 3 year period.
ii. Pursuant to the Subscription, Option and Joint Venture Agreement, on March 9, 2012 HudBay and the Company transferred their interests in the Back Forty Project to BFJV, a limited liability company. BFJV was owned 49% by the Company, and 51% indirectly by HudBay through its wholly owned subsidiary HMI. The affairs of BFJV were governed by the Operating Agreement entered into by the Company and HudBay, the terms of which mirrored the original Subscription, Option and Joint Venture Agreement.

Pursuant to the Operating Agreement, while HudBay was the operator of the Back Forty Project, it was responsible for all decisions including budget allocations for exploration and development. HudBay and Aquila were 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. If HudBay completed a feasibility study and submitted permitting applications by August 2013, its interest in the Back Forty Project would have increased to 65%. If HudBay did not complete the feasibility study and submitted permitting applications by August 12, 2013, then Aquila had the right to acquire HudBay's 51% interest in the BFJV by reimbursing HudBay an amount equal to 50% of the costs expended by HudBay on the Back Forty Project since August 6, 2009. The Operating Agreement provided HudBay with the right to sell its interest in the BFJV, subject to the Company's right of first refusal.

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 Back Forty Project.

On November 7, 2013 the Company signed an agreement with REBgold and HudBay to buy back the 51% ownership interest in the BFJV, which was completed as a result of the HMI Acquisition. See "Acquisition Transactions" - Section 2.

Preliminary Economic Assessment

On April 26, 2012 a NI 43-101 compliant PEA of the Back Forty Project was made public. The following are key excerpts from the "Preliminary Economic Assessment Technical Report on the Back Forty Deposit, Menominee County, Michigan, USA" 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 indicated that:

- Proposed life of mine ("LOM") of approximately 7 years at a full production rate of 3,000 tonnes per day 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 Back Forty Project;
- Total LOM capital of $272.3 million, includes $224.7 million 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 Back Forty Project has a pre-tax cash flow of $211.8 million, an NPV of $73.6 million 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; and
- Net payable gross revenue of $786.8 million 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 2012 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 assessed 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).
2. The technical contents of tables 1.1 and 1.2 have been reviewed and approved by Thomas O. Quigley, the Vice President, Exploration of the Company, a "qualified person" as such term is defined in National Instrument 43-101 ("NI 43-101")

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

2013- Resource Estimate Update

A NI 43-101 compliant resource estimate, updated from the resource estimate used for the PEA for the Back Forty Project, was announced on February 18, 2013. The result of the updated mineral resource estimate for the Back Forty Project was as follows:

AQUILA RESOURCES INC. BACK FORTY RESOURCE ESTIMATE

February 2, 2013

Open Pit†							
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

Underground‡							
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. Net smelter return ("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 technical contents of Resource Estimate update has been reviewed and approved by Thomas O. Quigley, the Vice President, Exploration of the Company, a "qualified person" as such term is defined in National Instrument 43-101 ("NI 43-101")

The updated resource was compiled by Tetra Tech of Golden Colorado with input by Aquila's 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 consisted 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 quantified mineralization outside of the open pit shell utilizing an underground NSR cut off averaging US$66.45 per tonne.

Mineral Resource Estimate Disclosure:

- **Ordinary Kriging Estimation:** Ordinary kriging (OK) by Datamine® was used to estimate the Back Forty resources. The estimate was constrained to be within interpreted geologic domain wireframes. Specific gravity was assigned to lithologic zones by regression equations using sulfur and iron content. Gold, silver, lead and zinc values were capped at levels based on interpreted composite statistics and cumulative frequency plots. Variography was used to define anisotropy of mineralization and search parameters within each lithologic zone. Mineral classification of measured, indicated and inferred was defined by a strategy of three kriging passes using increasing search ranges.
- Mineralization offering reasonable prospects for economic extraction by open pit were determined using the Lerchs-Grossman optimizing algorithm which evaluates the profitability of each resource block based on its NSR value. Optimization parameters were based on cost parameters derived in

the April PEA as well as updated metallurgical recoveries and updated metal prices. Metal grades were estimated using an ordinary kriging estimator for each mineral domain.

- Block model grade estimates were validated by comparison with nearest neighbor and inverse distance squared methodogies and visual comparison of composites and drill hole data with resource block data.

- **Open Pit Cut Off:** Cut off values based on metallurgical type for the open pit mineral resources were US$25 for flotation and US$39 for hydrometallurgical or leaching. Average cut off values for the open pit mineral resources were US$27.75.
- **Outside of Pit (Underground) Cutoff:** Cut off values based on metallurgical type for the underground mineral resources were US$65.50 for the flotation and US$79.50 for the hydrometallurgical type. Average cut off values for an underground mining scenario were US$66.45.

- **Net Smelter Return Estimation:** The Back Forty is a poly-metallic deposit with each metal contributing to the value of the mineralization. The mineral resources are therefore reported by utilizing a calculated net smelter return ("NSR"). The NSR calculations were based on the metal grades and metallurgical type designation. Key inputs for the NSR estimation include metal prices, metallurgical parameters (process recovery and product specification by metallurgical type) and concentrate and dore terms (which took into account cost estimates including smelter terms, refining costs, penalties, transportation, insurance, and marketing).

- NSR values for the 2013 resource were calculated in a similar manner as they were in the PEA dated April 26, 2012. Notable changes in the NSR calculation include updated metal prices utilizing a three year trailing average, and updated metallurgical recoveries and concentrate/dore specs. The NSR Value takes into consideration values from lead as opposed to copper in two mineral domains (Tuff Zone massive sulfide and associated stringer zone) as well as value from copper in a mineral domain where only gold and silver were previously considered (Pinwheel Gossan).

- **Updated Metallurgical Recoveries:** Metallurgical recoveries were estimated for a total of 13 metallurgical domains. Six of these domains reflect sulfide-rich flotation ores and seven represent sulfur-poor, gold-silver leach ores. The estimated recoveries were developed utilizing both past and recent metallurgical testing and reflect the best estimate of recovered metals for each individual and discrete metallurgical domain. These recoveries do not take into account 'blending' certain metallurgical zones in an open pit mining scenario. However, the detailed metallurgical domaining of the deposit and associated recoveries allows for development of a more selective mining plan with respect to both open pit and underground mining scenarios.

- **Resource Disclosure:** Because the updated mineral resource estimate does not constitute a material change, a 43-101 technical report will not be completed. Additional details about the updated resource will be available on the Company's website. Mineral resources for the deposit were classified according to the CIM Definition Standards for Mineral Resources and Mineral Reserves by Rex Bryan, Ph.D., an appropriate independent qualified person for the purpose of National Instrument 43-101.

Accounting Treatment

During 2012, the Company transferred its interest in the Back Forty Project to a limited liability company, BFJV. 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.

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

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

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.

Expenditures 2014

The Company is now in a position to continue with its development plans which includes the following initiatives started in the first quarter of 2014. The extent of these initiatives is dependent on the ability of the Company to raise the required capital financing to complete these initiatives.

In February 2014, the Company engaged the services of Tetra Tech WEI Inc. to complete a series of trade-off studies and to develop a NI 43-101 compliant PEA for the Back Forty Project. The trade-off studies will look at a number of mine-plan scenarios and will choose the optimal path for development of the Back Forty Project. The Company expects that the results of this study will be available in the second quarter of 2014.

The Company is planning a small exploration program starting in the third quarter of 2014. A number of geophysical anomalies have been identified peripheral to the known mineralization at Back Forty, and detailed ground geophysics and diamond drilling are planned to test these high priority targets.

The Company is also planning to ramp-up activities related to its permit application for Back Forty with the Michigan Department of Environmental Quality in the latter-half of 2014. The Company will continue to use the services of Foth Infrastructure and Environment, LLC based in Green Bay,WI and is targeting a submission date in the first half of 2015.

Reef Gold Project

On March 7, 2011 Aquila announced the acquisition of the Reef Gold Project located in Marathon County, Wisconsin. The Reef area was the focus of historic exploration by Noranda in the 1970's and 1980's. The Reef Gold project hosts a high grade (412,410 tonnes @ 10.6 g/t gold) historical, non NI 43-101 compliant, resource *(1*) which is ope*n* in all directions and in the view of management has potential for expansion.

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.

Since acquiring the Reef Gold 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. In addition, Aquila has completed a VTEM survey over the Reef Property.

During the year ended December 31, 2013 the Company incurred exploration expenditures of $ 1,108 ($713,375 – 2012). Acquisition costs incurred on the Reef Gold Project for the year ended December 31, 2013 was $45,961 ($47,865 – 2012) . Ongoing lease 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

Future exploration for 2014 of the property will depend on the availability of funding.

Note (1:) The historical resource estimates for the Reef Gold Project are based on prior data and reports prepared by previous owners of the properties. A qualified person has not done sufficient work to classify the historical estimates as current mineral resources under NI 43-101. The Company is not treating the historical estimates as current mineral resources or mineral reserves. The Company considers that the historical estimates should be considered only as historical references of tonnes and grades. No reliance should be placed on these historical estimates.

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

The Bend Project is located 35 miles southeast of the former producing Flambeau mine and occurs within the Penokean Volcanic Belt. The Penokean Belt is one of the most prolific VMS belts globally and hosts a number of significant deposits, including Aquila's Back Forty Project. The Bend deposit contains a historical, non NI 43-101 compliant, resource estimate *(1)*) of 2.7 million tonnes grading 2.4% copper, 1.4 g/t gold and 13.7 g/t silver, and remains open down dip and down plunge. In addition, a separate gold zone containing 1.12 million tonnes of 4.7 g/t gold and 0.31% copper was delineated in historic, non NI 43-101 compliant, technical reports *(1*) and remains open in all directions. The Company believes the historical results to be relevant.

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.

The Company had lease and/or option costs for fiscal 2013 in connection with the Bend project. During the year ended December 31, 2013 the Company incurred exploration expenditures of $44,286. Future exploration of the property will depend on the availability of funding.

Note (1:) The historical resource estimates for the Bend Project are based on prior data and reports prepared by previous owners of the properties. A qualified person has not done sufficient work to classify the historical estimates as current mineral resources under NI 43-101. The Company is not treating the historical estimates as current mineral resources or mineral reserves. The Company considers that the historical estimates should be considered only as historical references of tonnes and grades. No reliance should be placed on these historical estimates.

Finland - Kiimala and Rantasalmi Project

Agreement

In July 2011, the REBgold (a wholly owned subsidiary of the Company) entered into a definitive Shareholders' Agreement 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 a 50% interest 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% can be earned if REBgold's bioleaching technology can lead to a material improvement in the project economics.

REBgold has incurred expenditures of CDN$2.4 million since the start of the Shareholders' Agreement. In accordance with the agreement, REBgold has completed the minimum investment and as such REBgold owns 18% of the properties as of December 31, 2013.

Project Properties

The Rantasalmi Property consists of 10.1 km^2 of claims and claim applications and contains both the Osikonmäki and Pirilä gold occurrences. The main mineralized structure in the Rantasalmi area is the Osikonmäki shear zone, a shear complex, at least 3 kilometres long, hosted by a Proterozoic-aged (1.88 gigaannum) tonalitic intrusion. Most of the drilling to date has focused on the eastern 800 metres of this shear (referred to as Osikonmäki East) where the mineralization is primarily associated with a 45-degree south-dipping shear zone between 4 and 30 metres thick. A series of higher-grade chutes pitch at shallow angles across the plane of the main shear, plunging 20 degrees to the east-southeast, contain the better part of the mineralization and extend for at least 600 metres downplunge. The most recent drilling has identified the presence of hanging wall mineralization, a portion of which is included in the current resource estimate. Beyond the main shear zone, potential exists for gold mineralization in associated structures as indicated by the high-grade mineralization identified at Pirila. Mineralization remains open along strike and down dip at Osikonmäki.

The Kiimala Property consists of 7.8 km^2 of contiguous claims and claim applications with at least 7 drilled gold occurrences (K1 -- K7) occurring from surface. The Kiimala project contains numerous paleoproterezoic gold occurrences in the form of an echelon vein system, two of which (K1 and K3) have been drilled sufficiently to allow for the historical resource calculations.

Resource Estimate	Tonnes	Grade g/t	Tonnes/ ounces
Indicated resources			
Osikonmäki East	1,236,000	**1.7**	**68,000**
K1	3,850,000	**1.19**	**147,000**
Total indicated			**215,000**
Inferred resources			
Osikonmäki East	3,542,000	**2.1**	**244,000**
Total inferred			**244,000**
Historical estimates (1)			
Osikonmäki West	90,000	**4.86**	**14,000**
Pirila	300,000	**6.5**	**63,000**
K3	291,000	**2.5**	**23,000**
Total historical estimates			**244,000**

(1) The historical estimates for the Osikonmäki West, Pirila and K3 zones are based on prior data and reports prepared by previous owners of the properties. A qualified person has not done sufficient work to classify the historical estimates as current mineral resources under NI 43-101. The company is not treating the historical estimates as current mineral resources or mineral reserves. The company considers that the historical estimates should be considered only as historical references of tonnes and grades. No reliance should be placed on these historical estimates.

Subsequent to the latest resource reports, a significant amount of drilling, geochemistry and geophysics has been undertaken with the very encouraging results for expanding existing mineralization and the discovery of other deposits.

For further details of the mineral resource estimate please refer to the historical technical information posted on SEDAR by REBgold Corporation and Belvedere Resources.

B. Suspended Projects

Exploration Alliance – Sturgeon Falls and Five Mile

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. The Company presented HudBay with a minimum of five exploration targets of which four were selected to proceed. 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.

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.

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 1970's and 1980's, 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.

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 acquisition 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.

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. 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.

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

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.

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 as a result wrote off $576,641 in deferred acquisition costs for the year ended December 31, 2012.

4. SELECT ANNUAL FINANCIAL INFORMATION

The following table presents selected financial information for each of the three most recently completed financial years, and has been prepared in accordance with International Financial Reporting Standards ("IFRS").

	2013	**2012**	**2011**
	$	$	$
Net Income/(loss) for the year	(2,833,144)	(4,838,595)	(2,470,838)*
Net Income/(loss) per share	(0.03)	(0.5)	(0.03)*
Total assets	27,164,870	8,082,515	13,091,566
Total liabilities	9,699,234	44,882	312,337

*Not adjusted for change in accounting policy as described in note 13.

The significant increase in total assets in 2013 is the result of the Acquisition Transactions as described in Section 2. The increase in total liabilities in 2013 is from the contingent consideration payable by the Company as a result of the HMI Acquisition.

Loss for the period 2013 and 2012 show an equity loss pick up from the Company's investment in BFJV of $381,220 and $2,672,870, respectively. There was no equity pick up in 2011 since the property was controlled 100% by the Company.

5. RESULTS OF OPERATIONS

The following table provides selected financial information that should be read in conjunction with the financial statements of the Company. For the year end December 31:

For the years ended December 31	**2013**	2012
	$	$
Expenses		
Administrative expenses	**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	**1,031,895**	-
Equity pick up from HMI	**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

Revenues

None of the Company's 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.

Operating expenses

Operating expenses marginally increased to $1,014,334 for the year ended December 31, 2013 from $1,000,503 for the year ended December 31, 2012. Significant components and changes in this expense include:

- Salaries and benefits related costs decreased to $188,767 for the year ended December 31, 2013 from $309,795 for the year ended December 31, 2012. These costs have been significantly reduced as a result of the cost reduction and cash conservation plans. The Michigan operations had a higher head count in 2012 as a result of the higher level exploration expenditures. As a result of the reduction in exploration expenditures in 2013, the administrative overhead expenses were reduced to minimum levels.
- Share based payments, as explained in Note 13(c) to the audited annual consolidated financial statements, increased to $143,650 for the year ended December 31, 2013 from $NIL for the year ended December 31, 2012. Yearly and quarterly fluctuations in share based payments expense are dependent on a number of factors including, but not limited to, number of options granted, valuation of options, vesting period and timing. For the year ended December 31, 2013, the amount of options granted (not related to the transaction) were 1,875,000 compared to nil for the year ended December 31, 2012;
- Professional fees significantly decreased to $121,453 for year ended December 31, 2013 from $202,776 for the year ended December 31, 2012. Legal fees and professional fees were higher in the prior year as a result of the high level of project related activities in setting up the new BFJV with HudBay. Current period expenditures are mainly related to the Acquisition Transaction.
- Consulting fees significantly increased to $275,707 for year ended December 31, 2013, from $42,048 for the year ended December 31, 2012. The increase is due to the hiring of the new CEO for the Company on a full time basis.
- Director fees reduced to Nil for the year ended December 31, 2013 from $45,385 for the year ended December 31, 2012. In an effort to reduce costs in the current year, director fees were suspended.
- Travel and promotion costs were reduced to $92,821 for the year ended December 31, 2013 from $121,449 for the year ended December 31, 2012. The decrease is marginal but discretionary spending has been reduced in order to reduce expenditures.
- Office and administrative costs reduced to $87,958 for the year ended December 31, 2013 from $132,649 for the year ended December 31, 2012. Once again, the decrease reflects the reduction in discretionary spending in order to reduce overhead expenses.

Overall, the Company focused on cost reduction of overhead expenses and care and maintenance expenditures on project properties in order to conserve cash for the year ended December 3, 2013.

Mineral Property Exploration Expenditures

For the year ended December 31 2013 these expenditures reduced significantly to $125,658 from $797,562 for the year ended December 31, 2012. For the current year project related expenses were put on a care and maintenance program in order to reduce expenditures.

In the prior year, the majority of the project expense was incurred on the Reef Gold project.

Aquila Resources Inc.

6. Fourth Quarter

The Company focused on the completion of the Acquisition Transactions as described in Note 2.

The Company continued with its cost reduction efforts of overhead expenses.

7. Quarterly Information

Selected quarterly information for the eight most recently completed quarters is presented below in Canadian currency ($), and in accordance with Canadian generally accepted accounting principles.

(000's)	2013				2012			
	Q4 $	Q3 $	Q2 $	Q1 $	Q4 $	Q3 $	Q2 $	Q1 $
Transaction Costs	(1,032)	-	-	-	-	-	-	-
Income/(Loss) for the period	(682)	(303)	(539)	(277)	(4,085)	(126)	(304)	(323)
Income/(loss) per share	(0.02)	(0.00)	(0.01)	(0.00)	(0.03)	(0.00)	(0.00)	(0.00)

During the fourth quarter of 2013, the Company finalized the Acquisition Transactions (Section 2) and incurred additional transactions costs of $1.032 million. In the second quarter of 2013 the Company wrote off a mineral property and recognized approximately $280,000 as an expense in that quarter. Overall the Company focused on reducing costs in overhead and general expenses, as well as reduction in exploration and development expenditures in an effort to conserve cash. Exploration and development expenditures decreased to $125,658 for the year ended December 31, 2013 compared to $797,562 for the year ended December 31, 2012.

During the fourth quarter of 2012, interest and other income of $172,945 was recognized, primarily from recognizing the remaining balance outstanding on the Exploration Alliance advance as disclosed in Note 6(b) of the Company's December 31, 2012 financial statements. In addition, a mineral property write off, in connection with the Michigan Gold properties, was also recorded in the amount of $576,641, as well as the net adjustment for the change in accounting policy in expensing the capitalized exploration and development expenses in the amount of $797,562 that were previously capitalized in the first three quarters.

8. Liquidity and Capital Resources

At December 31, 2013, the Company had cash of $289,349 and Cash receivable from the Arrangement of $4,221,730 (See "Acquisition Transactions" - Section 2) compared to cash of $223,484 as of December 31, 2012. The Company had working capital of $2,786,429 as at December 31, 2013 compared to working capital of $256,561 as at December 31, 2012. The increase in the Company's working capital is the result of the REBgold Financing that was completed with the closing of the Acquisition Transactions and generated the Cash receivable from the Arrangement of $4,221,730 as noted on the statement of financial position.

Historically, the Company's main source of funding has been the issuance of equity securities for cash, primarily through private placement offerings to accredited investors and institutions. The Company's 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 Company's activities. There are many conditions beyond the Company's 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 “Risks and uncertainties”.

The following are the capital financings completed by the Company in the last two years;

- 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 $579,752. 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.

- As part of the Acquisition Transactions, REBgold completed a non-brokered private placement of REBgold shares for gross proceeds of a CDN$4.85 million at a price of CDN$0.13 per share (the REBgold Financing which closed on January 16, 2014 (See “Acquisition Transactions” – Section 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.

- 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.

Below is summary of the share capital transactions for Common shares of the Company:

Share Capital				
	December 31, 2013		December 31, 2012	
	Number of shares	$ Amount	Number of shares	$ Amount
Balance, beginning of year	90,945,168	42,430,879	90,739,168	42,333,037
Shares issued pursuant to a private placement	5,890,000	315,148	-	-
Shares issued for debt	506,035	50,525	-	-
Shares issued pursuant compensation arrangement	826,494	82,395	-	-
Shares issued under property agreement	-	-	200,000	96,160
Shares issued from exercise of warrants and options	-	-	6,000	893
Fair value from exercise of warrants and options	-	-	-	843
Less:				
Share issue costs	-	20,055	-	-
Balance – end of year	98,167,697	42,858,802	90,945,168	42,430,879
Plus issuable shares for Acquisitions				
Shares issued pursuant compensation arrangement	82,443	9,525	-	-
Shares issued pursuant Plan of Arrangement	64,825,568	7,923,370	-	-
Shares issued pursuant HMI Acquisition	18,650,193	2,279,538	-	-
Shares granted pursuant to Acquisitions	1,435,000	175,394	-	-
Balance including issuable shares for Acquisitions	183,160,901	53,246,629	-	-

Warrants

There are a total of 9,550,200 warrants outstanding at December 31, 2013 and as at the date hereof with a weighted average exercise price of CDN$0.72. During the year ended December 31, 2013, 315,140 warrants expired and 3,128,750 warrants were granted, and 6,221,450 warrants acquired through the REBgold transaction.

Options

As at December 31, 2013 there are a total of 14,310,000 stock options outstanding with a weighted average exercise price of CDN$0.16. During the year ended December 31, 2013, 197,250 options expired and 1,875,000 options were granted. As a result of the Acquisition Transactions, 4,615,000 options with a weighted average exercise prices of CDN$0.37 were cancelled and 13,525,000 options with a weighted average exercise price of CDN$0.15 were issued.

Commitments

The Company is not committed to any material capital expenditures at December 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 8 & 10 to the Company's December 31, 2013 financial statements. Any cash outlays required will be met from existing working capital and funding provided by capital markets or other industry partners.

9. MARKET TRENDS

The Company's 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 "Risks and uncertainties

10. OFF-BALANCE SHEET ARRANGEMENTS

As at December 31, 2013 and 2012, the Company does not have any off-balance sheet arrangements.

11. 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. 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. The re-imbursement was pursuant to the terms of the HudBay Option and Joint Venture and the Exploration Alliance agreements described in Notes 10 to the audited annual financial statements for the year ended December 31, 2013.

12. CRITICAL ACCOUNTING ESTIMATES

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continuously evaluated and are based on 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 estimation uncertainty that have a significant risk of causing material adjustment to the amounts recognized in the financial statements are:

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 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.

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.

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.

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.

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.

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.

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.

13. 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	Net Loss As reported $	Adjustment $	Net Loss 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 HMI	-	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 JV	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 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.

14. Financial Instruments

The Company has not entered into any specialized financial arrangements to minimize its investment risk, currency risk or commodity risk.

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.

15. 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:

Commodity Prices

The Company does not own any metal or other mineral producing assets. The profitability of any mining operations in which the Company has an interest will be significantly affected by changes in the market price of the particular commodity. Metal and other mineral prices fluctuate on a daily basis and are affected by numerous factors beyond the Company's control. The level of interest rates, the rate of inflation, central bank sales, world supply of metals and other minerals and stability of exchange rates, among other factors, can cause significant fluctuations in metal and other mineral prices. Such external factors are in turn influenced by changes in international investment patterns and monetary systems and political developments. The price of metals and other minerals has historically fluctuated widely and, depending on the price of metals and other minerals, revenues from mining operations may not be sufficient to offset the costs of such operations.

Lack of Cash Flow and Requirements for New Capital

The Company’s current operations do not generate any positive cash flow and it is not anticipated that any positive cash flow will be generated for some time. The Company has limited financial resources and the mining claims, leases and licenses which the Company holds and joint venture agreements to which the Company is a party impose financial obligations on the Company. There can be no assurance that additional funding will be available to allow the Company to fulfill such obligations.

Further exploration and development of the various mineral properties in which the Company holds interests depends upon the Company’s ability to obtain financing through the joint venturing of projects, debt financing, equity financing or other means. Failure to obtain additional financing on a timely basis could cause the Company to forfeit all or part of its interests in some or all of its properties or joint ventures and reduce or terminate its operations.

Exploration Risks

Exploration for metals and other minerals is speculative in nature, involves many risks and is frequently unsuccessful. Any exploration program entails risks relating to the location of economic ore bodies, development of appropriate metallurgical processes, receipt of necessary governmental approvals and construction of mining and processing facilities at any site chosen for mining. The commercial viability of a mineral deposit is dependent on a number of factors including the price of the commodities, exchange rates, the particular attributes of the deposit, such as its size, grade and proximity to infrastructure, as well as other factors including financing costs, taxation, royalties, land tenure, land use, water use, power use, import and export costs and environmental protection. The effect of these factors cannot be accurately predicted.

All of the resource properties in which the Company has an interest or right are in the exploration and development stages only and are without reserves of metals or other minerals. There can be no assurance that the current or proposed exploration or development programs on properties in which the Company has an interest will result in the discovery of economic mineralization or will result in a profitable commercial mining operation.

Lack of Operating History and Operational Control

The Company has no current source of revenue and its ultimate success will depend on its ability to generate profits from its properties. The Company currently has no producing properties and operates at a loss. The Company's commercial viability is largely dependent on the successful commercial development of its properties.

Political Regulatory Risks

Any changes in government policy may result in changes to laws affecting ownership of assets, mining policies, monetary policies, taxation, rates of exchange, environmental regulations, labour relations, repatriation of income and return of capital. This may affect both the Company's ability to undertake exploration and development activities in respect of present and future properties in the manner currently contemplated, as well as its ability to continue to explore, develop and operate those properties in which it has an interest or in respect of which it has obtained exploration and development rights to date. The possibility that future governments may adopt substantially different policies, which might extend to expropriation of assets, cannot be ruled out.

The Company has exploration projects in Wisconsin and Michigan where mining projects have been opposed in recent years. Each mining project of the Company will face unique environmental and social issues in the permitting process. There are no guarantees that permitting of a particular project will be achieved.

Competition

The Company competes with numerous other individuals and companies possessing greater financial resources and technical facilities in the search for and acquisition of attractive mineral properties.

Management; Dependence on Key Personnel

Investors will be relying on the good faith, experience and judgment of the Company's management and advisors in supervising and providing for the effective management of the business and the operations of the Company. The Company may need to recruit additional qualified personnel to supplement existing management. The Company is dependent on a relatively small number of key personnel the loss of any one of whom could have an adverse effect on the Company. In addition, while certain of the Company's officers and directors have experience in the exploration and operation of mineral producing properties, the Company will remain highly dependent upon contractors and third parties in the performance of its exploration and development activities. There can be no guarantee that such contractors and third parties will be available to carry out such activities on behalf of the Company or be available upon commercially acceptable terms. Certain directors and officers of the Company are associated with other natural resource exploration companies and may from time to time be in a conflict of interest. Directors and officers will be required pursuant to applicable corporation law to disclose any conflicts and directors will be required to abstain from voting in respect thereof.

Title Matters

The Company has investigated its rights to explore, exploit and develop its various properties and, to the best of its knowledge, those rights are in good standing. No assurance can be given that such exploration and mining authorities will not be challenged or impugned by third parties. In addition, there can be no assurance that the properties in which the Company has an interest are not subject to prior unregistered agreements, transfers or claims and title may be affected by undetected defects.

In addition, the Company's property interests do comprehensively extend to all claim units in all areas and there is a risk that commercially exploitable metal or other mineral deposits are located on adjoining properties which are not owned by the Company.

Aboriginal Land Claims

No assurance can be given that aboriginal land claims will not be asserted in the future in which event the Company operations and title to its properties may potentially be seriously adversely affected.

Environmental Risk

The Company currently has a US$100,000 deposit for potential reclamation costs as part of an agreement to acquire a property. The Company is required to remediate lands that are subject to exploration on an ongoing basis. The financial impact to the Company is expected to be minimal given any surface disturbance is limited in nature. The Company undertakes to observe and adhere by all environmental laws and exploration best practices of the jurisdictions in which it operates.

With respect to environmental regulation, environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There can be no assurance that future changes to environmental regulation, if any, will not adversely affect the Company's operations. Environmental hazards that have been caused by previous or existing owners or operators of the properties may exist on the properties in which the Company holds interests, and may contravene existing or future regulatory standards.

Currency Risk

Currency fluctuations may affect the funds available to the Company as well as the cash flow that the Company may realize from its operations, since metals and other minerals are sold in a world market in U.S. dollars. The Company's costs are incurred in U.S. dollars and Canadian dollars.

16. Disclosure Controls

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

The system of disclosure controls and procedures includes, but is not limited to, the Company Disclosure Policy, Code of Business Ethics, the effective functioning of the Audit Committee, procedures in place to systematically identify matters warranting consideration of disclosure by the Board of Directors and verification processes for individual financial and non-financial metrics and information contained in annual and interim filings, including the financial statements, MD&A's, Annual Information Forms and other documents and external communications.

As required by CSA Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures was conducted, under the supervision of Management, including the CEO and CFO, as of December 31, 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 December 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 December 31, 2013.

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.