



**AQUILA RESOURCES INC.**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**For the period ended September 30, 2012**

*The following discussion of performance, financial condition and future prospects should be read in conjunction with the interim unaudited condensed consolidated financial statements of Aquila Resources Inc. (the "Company" or "Aquila") for the nine months ended September 30, 2012 which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This Management Discussion and Analysis ("MD&A") includes certain statements that may be deemed "forward looking statements". All statements in this discussion, other than statements of historical fact, that address future exploration activities and events or developments that the Company expects, are forward looking statements. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in the forward-looking statements. Additional information including the Annual Information Form can be found on Sedar at [www.sedar.com](http://www.sedar.com). All amounts herein are stated in US \$ unless indicated otherwise. This MD&A is dated November 9, 2012.*

**CORPORATE HIGHLIGHTS AND ACTIVITIES**

- On July 3, 2012 the Company announced it has been informed by joint venture partner Hudbay Minerals Inc. (HudBay) that, due in part to other capital commitments on its key development projects and global economic conditions, it had decided to suspend its development activities at the Back Forty Project.
- The Exploration Alliance between HudBay and the Company has been terminated. The Company will maintain 100% interest in the four Exploration Alliance properties currently under evaluation subject to a HudBay back in right on the Bend deposit.
- The Company has reduced corporate and project expenditures to conserve its cash resources.
- The Back Forty Project is the Company's most valuable asset. Under a Preliminary Economic Assessment made public on April 26, 2012 the Back Forty Project has a base case net present value of \$73,574,000. The Company is evaluating a range of options and opportunities available to it to continue advancing the project and strengthening its position in the Great Lakes region. The Back Forty Project is in the final phases of permit preparation and remains a highly prospective development prospect with significant potential for additional growth. The Company is working with HudBay to consider strategic alternatives that are in the best interests of the Company's shareholders, other stakeholders, and the Back Forty Project.
- The Company announced drill results for its Bend and Reef projects during the third quarter.
- Work on an updated National Instrument 43-101 updated resource estimate for the Back Forty Project continued during the third quarter.



## Back Forty Project

On March 9, 2012 HudBay and the Company transferred their interests in the Back Forty Project to Back Forty Joint Venture LLC (öBFJVö), a limited liability company. BFJV is owned 49% by the Company, and 51% by HudBay via its wholly owned subsidiary HudBay Michigan Inc. The affairs of BFJV are governed by an Operating Agreement (öOperating Agreementö) entered into by the Company and HudBay, the terms of which substantially mirror the original Subscription, Option and Joint Venture Agreement the Company had with HudBay.

The results of a NI-43-101 preliminary economic analysis (öPEAö) on the Back Forty Project, indicating positive economics, were announced in a news release dated April 26, 2012 which can be viewed at [www.sedar.com](http://www.sedar.com). The study results are noted under öKey Developmentsö that follow.

## Reef Gold Project:

Encouraging drill results on the 100% owned Reef Gold Project were announced on May 8, 2012. Highlighted drill intercepts from the winter drill program at Reef include:

- 7.75 meters of 3.21 g/t gold in R12-26
- 4.34 meters of 2.02 g/t gold in R12-29
- 42.15 meters of 0.99 g/t gold in R12-30
- 18.15 meters of 1.62 g/t gold in R12-30

Further drill results were announced on July 9, 2012 indicating that the program was successful in outlining the initial framework for an open pit resource calculation in the future as well as identifying additional extensions of gold mineralization at Reef. Drilling intercepted significant gold mineralization in holes R12-38 and R12-40 including:

- 65.23 meters of 2.80 g/t gold in R12-38
  - Including 8.88 meters of 13.14 g/t gold and 0.44% copper
- 94.56 meters of 1.53 g/t gold in R12-40
  - Including 3.90 meters of 14.89 g/t gold
  - Including 6.78 meters of 6.15 g/t gold

## Bend Property:

Initial drill results at the Bend property under the Exploration Alliance were announced on June 11, 2012. A total of 5,800 meters were drilled in 12 core holes during the winter program. Results from the initial nine holes have revealed multiple intercepts of high-grade copper and gold mineralization, including

- 2.66 meters of 2.85% copper in B12-01 and
- 6.29 meters of 4.26 g/t gold in B12-03.

The program also identified broad zones of consistent lower grade mineralization potentially amenable to bulk, underground mining methods, including

- 13.26 meters of 0.70 g/t gold and 1.5% copper and 74.5 meters of 1.04 g/t gold in B12-04.



On August 2, 2012 further results were announced as follows:

<b>DDH</b>	<b>From (m)</b>	<b>To (m)</b>	<b>Interval (m)*</b>	<b>Gold g/t</b>	<b>Silver g/t</b>	<b>Copper %</b>
B12-06	447.72	519.4	71.68	1.68	0.9	0.21
<i>Including</i>	447.72	474.27	26.55	0.56	1.3	0.54
<i>Including</i>	468.17	472.43	4.26	0.86	0.05	1.11
<i>And</i>	501	519.4	18.4	5.25	1.57	0.01
<i>Including</i>	516.5	519.4	2.9	27.06	1.26	0.02
<b>DDH</b>	<b>From (m)</b>	<b>To (m)</b>	<b>Interval (m)*</b>	<b>Gold g/t</b>	<b>Silver g/t</b>	<b>Copper %</b>
B12-07A	758.57	784.85	26.28	0.85	0.17	0.02
<i>Including</i>	758.57	762.1	3.53	3.56	0.19	0.04
<i>And</i>	782.9	785.81	2.91	2.78	0.42	0.01
<b>DDH</b>	<b>From (m)</b>	<b>To (m)</b>	<b>Interval (m)*</b>	<b>Gold g/t</b>	<b>Silver g/t</b>	<b>Copper %</b>
B12-08	493.8	556.86	63.06	1.32	2.04	0.09
<i>Including</i>	529.5	556.86	27.36	2.09	0.82	0.04
<i>And</i>	551.45	556.86	5.41	6.34	1.21	0.02
<b>DDH</b>	<b>From (m)</b>	<b>To (m)</b>	<b>Interval (m)*</b>	<b>Gold g/t</b>	<b>Silver g/t</b>	<b>Copper %</b>
B12-09	325.64	403	77.36	0.67	3.73	0.18
<i>Including</i>	325.64	332.08	6.44	1.11	12.79	0.54
<i>And</i>	386.73	390.9	4.17	2.06	8.43	0.44
<b>DDH</b>	<b>From (m)</b>	<b>To (m)</b>	<b>Interval (m)*</b>	<b>Gold g/t</b>	<b>Silver g/t</b>	<b>Copper %</b>
B12-10	733	767	34	1.02	0.71	0.04
<i>Including</i>	739	744.5	5.5	2.43	1.72	0.12
<b>DDH</b>	<b>From (m)</b>	<b>To (m)</b>	<b>Interval (m)*</b>	<b>Gold g/t</b>	<b>Silver g/t</b>	<b>Copper %</b>
B12-11	633.95	670.96	37.01	1.06	1.42	0.03
<i>Including</i>	633.95	641.5	7.55	2.05	3.54	0.06

\* Reported intervals are drill thickness and do not necessarily represent true thickness

## KEY DEVELOPMENTS DURING THE NINE MONTHS ENDED SEPTEMBER 30, 2012

### Back Forty Project Preliminary Economic Assessment:

Highlights of the National Instrument 43-101 compliant Preliminary Economic Assessment (the "PEA") of the Back Forty Gold Zinc Project located in the Upper Peninsula of Michigan, USA were made public on April 26, 2012. The study outlines the construction and operation of an estimated 7 year open pit mining operation of approximately 1 million tonnes of ore per year, as well as the construction of a mill, housing a sulfide flotation circuit, an oxide leach circuit, and related infrastructure. Aquila currently holds a 49% interest in the project. HudBay Minerals Inc. has 51% of the project and can increase its ownership interest (by a further 14%) to 65% by funding and completing a feasibility study, funding and submitting a permitting application, and making outstanding specified option payments.

On July 3, 2012 HudBay advised Aquila that it was suspending further work on the Back Forty. HudBay is considering its strategic options which may include a sale of its interest in the Back Forty. Aquila has a right of first refusal on any sale of HudBay's interest in the Back Forty.



Project Economics ó Back Forty PEA:

The high grade open pit deposit provides substantial leverage to gold and zinc prices. Revenue by metal is 48% gold and 26% zinc, 18% copper and 8% silver. Using the base case metal price assumptions below the project achieves payback of capital occurs in the third year of full production. The following table outlines a price/sensitivity analysis based on the assumptions set out in the PEA.

		-15% Change to Base Case	3 Year Historical Price Base Case	+15% Change to Base Case
Gold	US\$ (oz)	1,124	1,332	1,520
Silver	US\$ (oz)	26.29	25.05	28.81
Copper	US\$ (oz)	2.92	3.44	3.96
Zinc	US\$ (oz)	0.80	0.94	1.08
Pre-tax	Cashflow	85,779,000	211,794,000	355,958,000
	NPV 8%	2,858,000	73,574,000	142,958,000
	IRR	8.4%	18.2%	26.2%

(i) Three year historic average (April 1, 2009 to March 31, 2012)

Project Resource ó Back Forty PEA:

The potential economic viability of the Back Forty deposit was evaluated using measured, indicated and inferred mineral resources and a discounted pre-tax cash flow analysis. The mine plan evaluated in the PEA assessed the mining of only parts of the near surface portion of the resource by open pit methods. Potential underground mining of deeper resources was not addressed in the PEA.



The portion of the measured mineral resources, indicated mineral resources and inferred mineral resources used for evaluation in the PEA is shown in the following table. This includes allowances for dilution and mining losses based on an assumed mining production schedule and pre-tax cash flow analysis using the Golder Associates mineral resource estimate dated November 29, 2010. The open pit mine design avoided regulated wetland disturbances, and was designed to be backfilled and reclaimed.

Metallurgical Category(1)	Type	Tonnes (000's)	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

(1) This preliminary economic assessment is preliminary in nature and includes inferred resources that are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves, and there is no certainty that the preliminary economic assessment will be realized. Mineral resources that are not mineral reserves do not have demonstrated economic viability

**Project Summary ó Back Forty PEA:**

The PEA outlined the scope for the project and a summary of the key operating and cost parameters of the project are as follows:

- Proposed life of mine is approximately 7 years at a full production rate of 3,000 tonnes per day
- Net payable gross revenue of \$786.8 million is from copper/zinc concentrates and gold-silver alloy dore
- Average unit operating costs of \$36.79 per tonne mined and processed over life of the project
- Total life of mine 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
- Project pre-tax cash flow of \$211.8 million and a Net Present Value (8%) of \$73.6 million, 18.2% Internal Rate of Return using 3 year historical metal prices
- Over the Life of Mine (LOM), Back Forty is expected to produce 295,300 ounces of gold, 2,561,700 ounces of silver contained in gold-silver alloy dore product and within the copper concentrate, 77,200 tonnes of copper concentrate, and 323,500 tonnes of zinc concentrate

### Project Recommendations ó Back Forty PEA:

Key recommendations of the report are to complete an updated resource estimate which would include drilling results from 78 holes drilled since November 2010, and will include modeling and interpretation of each mineralized domain. Additional metallurgical test work is also recommended using samples from each mineralized domain that will more accurately reflect expected production grades outlined in the PEA. Positive results from this work would support the preparation of a feasibility study for the project.

### Opportunities for improvement of the project economics were outlined and include:

- Incorporating additional mineral resources in the mine plan and design
- Increased definition and exploitation of separate mineral domains within the open pit
- Extending the mine life through definition of additional resources at depth and discovery of new resources in the immediate project area
- Further geotechnical investigation to evaluate potential reduction in stripping quantities
- Trade off study of owner operated fleet versus contract mining

Management believes there are valid opportunities for additional resources at depth as well as new resources in the immediate project area.

### Environmental Issues ó Permitting and Community Impact Back Forty PEA:

The PEA reviewed key social and environmental issues relating to the project including the proximity to the Menominee River, tailings, waste management and reclamation, water discharge, wetlands protection, archeological studies, as well as listed species and habitat protection. The report noted that environmental baseline investigations were initiated in 2007 to meet regulatory requirements and for permitting requirements. The PEA outlined the engagement of the local communities and Native American tribes. Closure plans included the back filling of the open pit, reclamation and ongoing site monitoring. The PEA notes that permitting applications could be ready for submission in 2012.

The PEA has been filed at [www.sedar.com](http://www.sedar.com). Thomas O. Quigley is the Qualified Person for Aquila regarding the content of the PEA.



## 1. Overview

Aquila (formerly JML Resources Ltd.) was incorporated in the Province of Ontario as 1223068 Ontario Limited by Articles of Incorporation dated February 17, 1997. The Company carries on the business of mineral exploration and development and is a mineral exploration company. The principal assets of the Company are: i) a 49% investment in Back Forty Joint Venture LLC, a limited liability company that holds the Back Forty Project interest which is located in Menominee County, Michigan. The Company also has ii) an interest in exploration properties subject to the former Exploration Alliance with HudBay Minerals Inc. and iii) gold exploration properties.

On August 6, 2009 Aquila announced a Subscription, Option, and Joint Venture Agreement (the "HudBay Agreement or Agreement") with HudBay. The Agreement grants HudBay the right to acquire a majority in Aquila's Back Forty Project (the "Back Forty Project"), located in Menominee County, Michigan. HudBay is a leading Canadian mining company principally focused on the discovery, production and marketing of base metals.

Under the Agreement, HudBay subscribed for 12,141,051 common shares of Aquila, a 14.9% undiluted ownership interest at the time, at a price of CDN\$0.1827 per share for an investment of CDN\$2.2 million. Completion of the subscription was subject to receipt of approval from the Toronto Stock Exchange. Upon completion of the subscription, HudBay obtained an option to acquire a 51% ownership interest in the Project through the expenditure of US\$10 million within three years and the right to further increase its ownership to 65% by completing a feasibility study, submitting an application for permitting the Project and making certain option payments. HudBay acquired a 51% interest in the Back Forty Project in September, 2010 and a joint venture was formed between the parties. HudBay is operator for the joint venture and will have marketing rights to the metal production. On October 15, 2010 HudBay announced it would subscribe for an additional \$2 million private placement of 2,226,514 common shares in Aquila which was finalized on February 16, 2011.

On March 9, 2012 HudBay and the Company transferred their interests in the Back Forty Project to BFJV. BFJV is owned 49% by the Company, and 51% by HudBay via its wholly owned subsidiary HudBay Michigan Inc. The affairs of BFJV are governed by an Operating Agreement ("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.

On July 3, 2012 the Company announced it has been informed by joint venture partner Hudbay that, due to other capital commitments on its key development projects and global economic conditions, it had decided to suspend its development activities at the Back Forty Project. Hudbay also advised that it was terminating the Exploration Alliance between Hudbay and Aquila. Aquila will maintain 100% interest in the four Exploration Alliance properties currently under evaluation. In light of these developments the Company is evaluating its strategic options with respect to the Back Forty Project and the Exploration Alliance properties in order to maximize shareholder value from Aquila's ownership interests.



### ***Back Forty Project***

The Back Forty Project is an advanced exploration project and is the primary mineral property interest of the Company. The Company ownership interest in the project is subject to the Operating Agreement and prior to that the HudBay Agreement and is currently at 49%. There have been three National Instrument (NI) 43-101 compliant resource estimates for the Back Forty Project. The first was announced by the Company on April 25, 2007, the second was dated January 15, 2009, and the third was announced October 15, 2010. The resource estimates are filed with the Company's other public documents at [www.sedar.com](http://www.sedar.com). The information contained herein is excerpted from the technical reports and other publicly available information.

Ownership of mineral interests for the Back Forty Project are by way of state and private mining leases, private fee surface and mineral ownership, and options to purchase estates subject to underlying royalty interests and applicable minority interests. The entire project is owned by BFJV, and the activities of BFJV are subject to the Operating Agreement between the Company and HudBay. There is an overriding 7% net distributable earnings royalty (net profits after payback) payable to a former joint venture partner.



**October 15, 2010 Resource**

The NI 43-101 compliant mineral resource statement is presented in Table 1 and consists of a total of 17.9 million tonnes Measured and Indicated ( M+I) and 3.4 million tonnes Inferred.

**MINERAL RESOURCE STATEMENT\* – BACK FORTY DEPOSIT  
OCTOBER 15, 2010. GOLDER ASSOCIATES, MISSISSAUGA**

Classification	Tonnes (millions)	Variance	Gold (g/t)	Silver (g/t)	Copper (%)	Zinc (%)
Open Pit «						
Measured	14.1	1%	1.59	16.97	0.15	2.54
Indicated	2.1	5%	1.53	32.8	0.41	1.17
Meas.+Ind.	16.2	1%	1.58	19	0.18	2.36
Inferred	1.4	7%	1.4	32.89	0.62	1.0
Underground r						
Measured	0.8	0%	1.67	25.83	0.24	3.45
Indicated	0.9	0%	1.28	24.72	0.34	2.85
Meas.+Ind.	1.7	0%	1.46	25.23	0.29	3.13
Inferred	2.0	-18%	1.22	18.34	0.32	2.64
Combined Open Pit and Underground						
Meas.+Ind.	17.9	1%	1.57	19.6	0.19	2.44
Inferred	3.4	-6%	1.31	25.17	0.46	1.87

\*Mineral resources are not mineral reserves and do not have demonstrated economic viability. All figures have been rounded to reflect the relative accuracy of the estimates. The cut-off grades are based on metal price assumptions of US\$0.95 per pound zinc, US\$2.50 per pound copper, US\$0.59 per pound lead, US\$900 per troy ounce gold and US\$15.00 per troy ounce silver. Metallurgical recoveries were determined and used for each of eight metallurgical domains determined for the deposit.

« Cut off grades for each of nine metallurgical domains based on NSR values, average cut-off grade for open pit resource contained within an optimized pit shell US\$20.

r Cut off grades were determined for each of five metallurgical domains based on NSR values, average cut-off grade for underground resources outside of an optimized pit shell is US\$62.

### *January 12, 2009 Resource*

The open pit mineral resources were reported at an average NSR cut-off of US\$20 and comprised a substantial tonnage (5.92 million tonnes M+I) and 620,000 tonnes inferred. The underground mineral resources were reported with an average NSR cut-off of US\$62 (assuming underground mining costs estimated at US\$43 per tonne), showing excellent zinc grade, over 9%, in the M+I category.

**Table 1. Mineral Resource Statement\* for the Back Forty Deposit, Michigan, U.S.A. SRK Consulting, January 12, 2009.**

Resource Category	Tonnage [t]	Grade					Contained Metal				
		Gold [g/t]	Zinc [%]	Silver [g/t]	Copper [%]	Lead [%]	Gold [1000 oz]	Zinc [M lbs]	Silver [1000 oz]	Copper [M lbs]	Lead [M lbs]
<b>Open Pit Resources<sup>†</sup></b>											
Measured (M)	4,660,000	2.04	3.64	29.2	0.68	0.08	305	374	4,380	70	8
Indicated (I)	1,260,000	4.03	5.63	47.3	0.37	0.30	160	156	1,872	10	8
M + I	5,920,000	2.46	4.06	33.1	0.61	0.13	465	530	6,252	80	16
Inferred	620,000	3.68	2.46	46.5	0.15	0.44	74	34	921	2	6
<b>Underground Resources<sup>‡</sup></b>											
Measured (M)	1,060,000	1.21	9.23	26.5	0.39	0.86	41	216	904	9	20
Indicated (I)	1,510,000	1.51	9.11	24.0	0.19	0.47	74	303	1,163	6	16
M + I	2,580,000	1.39	9.16	25.0	0.28	0.63	115	521	2,067	16	36
Inferred	550,000	2.03	6.62	36.4	0.28	0.67	36	80	643	3	8
<b>Combined Open Pit and Underground</b>											
M + I	8,500,000	2.13	5.61	30.6	0.51	0.28	580	1,051	8,319	96	52
Total Inferred	1,170,000	2.90	4.42	41.7	0.21	0.55	110	114	1,564	5	14

\* Mineral resources are not mineral reserves and do not have demonstrated economic viability. All figures have been rounded to reflect the relative accuracy of the estimates. The cut-off grades are based on metal price assumptions of US\$0.79 per pound zinc, US\$1.89 per pound copper, US\$0.55 per pound lead, US\$678 per troy ounce gold and US\$10 per troy ounce silver. Metallurgical recoveries were determined and used for each of eight metallurgical domains determined for the deposit.

<sup>†</sup> Cut off grades for each of eight metallurgical domains based on NSR values, average cut-off grade for open pit resource contained within an optimized pit shell US\$20.

<sup>‡</sup> Cut off grades were determined for each of eight metallurgical domains based on NSR values, average cut-off grade for underground resources outside of an optimized pit shell is US\$62.

### *Comparison of October 2010 Resource to January 2009 Resource*

The contained gold ounces in the Measured and Indicated category increased in the October, 2010 resource to over 750,000 ounces from 470,000 ounces in the January, 2009 resource. The conceptual strip ratio of Measured and Indicated resource blocks assigned through pit optimization improved to approximately 3:1 from approximately 8:1 which is a marked improvement.

### ***Metallurgical Testwork***

The Company completed and released results of metallurgical testwork which was incorporated into the updated resource estimate. The evaluation work on the Back Forty Project was performed by G&T Metallurgical Services of Kamloops, B.C. under the supervision of a metallurgical consultant to the Company. Results demonstrate that flotation testwork produces marketable concentrates of copper, zinc and lead with associated gold and silver reporting to the copper and lead circuits. Precious metal ores with negligible copper, lead and zinc show excellent gold and variable silver recovery through a combination of gravity and hydrometallurgical extraction. Work index testing indicated the ores tested are generally of the soft variety with favourable grinding characteristics and associated lower power requirements. Metallurgical testwork as part of the project development is ongoing.

A program of metallurgical drilling to provide additional drill core for metallurgical test work has also been completed and the results were summarized and incorporated in the PEA.

### ***Exploration Potential***

Drilling at the Back Forty has intersected significant gold and zinc mineralization at depth beneath the resource. Exploration targets in the Back Forty project area have been identified using airborne geophysical surveys.

Results from drilling are contained in press releases found on Sedar at [www.sedar.com](http://www.sedar.com) as well as on the Company's website at [www.aquilaresources.com](http://www.aquilaresources.com).

## **2. Operating Highlights**

### **Back Forty Project**

On July 3, 2012 the Company announced it has been informed by joint venture partner Hudbay that, due to other capital commitments on its key development projects and global economic conditions, it had decided to suspend its development activities at the Back Forty Project. Hudbay also advised that it was terminating the Exploration Alliance between Hudbay and Aquila. Aquila will maintain 100% interest in the four Exploration Alliance properties currently under evaluation subject to the right of HudBay to back in on the Bend deposit. In light of these developments the Company is evaluating its strategic options with respect to the Back Forty Project and the Exploration Alliance properties.

HudBay currently continues as the operator of the Back Forty Project and is responsible for all decisions made at the Back Forty Project including budget allocations for exploration and project development. On April 26, 2012 HudBay's results of a preliminary economic assessment were announced. Further important milestones following the preliminary economic assessment would include the completion of a prefeasibility study, a feasibility study, as well as completion and submission of permit applications.

The rights of both the Company and HudBay are governed by the terms of the Operating Agreement. The Operating Agreement provides HudBay with the right to sell its interest in the Back Forty, subject to the Company's right of first refusal.



Under the Operating Agreement should HudBay complete the feasibility study and submit permitting applications, its interest in the project would increase to 65%. Currently the interest of HudBay is 51%. HudBay is responsible for funding expenses at the Back Forty Project until such time as the feasibility study is complete, permitting is obtained, and a written notice (a "Development Notice") is provided by HudBay to the Company of HudBay's intent to develop the property into commercial production. In the event a feasibility study is completed, HudBay elects to put the Project into production and issues a Development Notice, and permitting is obtained, the Company will have 90 days to arrange financing for its share of BFJV's costs. If the Company is unable to obtain financing, or elects not to do so, HudBay, by assuming the obligation to finance 100% of the development costs, will increase its ownership in BFJV by a further 10% to a minimum of 75%. Pursuant to the Operating Agreement, the Company's 25% share of the development costs would then be deducted from the Company's proportionate share of Net Proceeds from BFJV. Until such time as profitable production commences from the Back Forty Project, and any amounts due to HudBay have been repaid, the Company will have no source of revenue from the Back Forty Project.

If HudBay does not complete the feasibility study and submit permitting applications by August 12, 2013, then Aquila has the right to acquire HudBay's 51% interest in the Back Forty by reimbursing it an amount equal to 50% of the costs expended by HudBay on the Back Forty since August 12, 2009.

The net loss recorded by the Company for the three and nine month periods ended September 30, 2012 was \$304,121 and \$626,817 respectively (June 30, 2011 - \$503,858 and \$2,025,159). The higher loss in the nine months ended June 30, 2011 was due to share based compensation in 2011 of \$1,363,681 as compared to \$Nil in 2012.

### **Exploration Alliance**

On October 15, 2010 the Company and HudBay announced the formation of a strategic alliance (the "Exploration Alliance") to explore for base metals in Michigan and other areas mutually agreed upon. As part of the Exploration Alliance, HudBay agreed to make a \$2 million equity private placement in Aquila, make a \$250,000 cash payment to Aquila and provide funding for qualifying exploration targets. The first \$2,000,000 of acquisition and exploration expenditures on each target property qualifying for the Exploration Alliance is to be funded by HudBay; thereafter, a 50/50 joint venture would be formed. HudBay had the right to earn an additional 15% interest in alliance joint ventures by funding the projects through feasibility and permit application. The Company is the operator of each of the Alliance Projects until HudBay has funded \$2,000,000 per property.

As of the date hereof Aquila has presented five targets of which four have been approved as Exploration Alliance targets. These include the Bend Deposit (Copper Gold), Turner Peridotite (Copper-Nickel-PGE), Sturgeon Falls (Copper Nickel PGE) and the Five Mile Zinc Project the acquisition of which was announced on February 27, 2012. On February 16, 2012 the Company announced that HudBay had exercised the option to extend the mandate of the Exploration Alliance by paying Aquila an additional \$250,000. These funds are to be used for the identification and initial work up of additional exploration targets.

On July 3, 2012 Hudbay advised that it was terminating the Exploration Alliance. The Company will maintain 100% interest in the four Exploration Alliance properties currently under evaluation, subject to a back-in right of up to 65 percent on the Bend property only, which HudBay is required to exercise within the sooner of 2 years, or 30 days from the date on which Aquila has completed an additional \$500,000 of expenditures. In light of these developments the Company is evaluating its strategic and commercial options with respect to the Exploration Alliance properties in order to advance the properties.



### *Bend Copper Gold Deposit*

On December 6, 2011 the Company announced the acquisition of the Bend Copper Deposit located in Marathon County, Wisconsin. The project is located 35 miles southeast of the former producing Flambeau mine and occurs within the early Proterozoic aged Penokean Volcanic Belt. The Company has been issued an exploration licence by the Bureau of Land Management for 5,560 acres of prospective Federal Lands.

The deposit contains a historic resource of 3 million tonnes of 2.4% copper and 1.4 g/t gold and a separate resource of 1.23 million tonnes of 4.7 g/t gold and 0.31% copper. The historic resource is non-NI 43-101 compliant but is believed to be relevant. It was published in 1992 by a joint venture between Asarco LLC and Lehman & Associates and was based on 33 drill holes. The deposit is open down dip and down plunge.

The Bend deposit was acquired under the terms of the Exploration Alliance with HudBay. Drilling at the deposit commenced in January 2012 in order to further define and expand the resource.

Initial drill results at the Bend property under the Exploration Alliance were announced on June 11, 2012. A total of 5,800 meters were drilled in 12 core holes during the winter program. Results from the initial nine holes have revealed multiple intercepts of high-grade copper and gold mineralization, including:

- 2.66 meters of 2.85% copper in B12-01 and
- 6.29 meters of 4.26 g/t gold in B12-03

The program also identified broad zones of consistent lower grade mineralization potentially amenable to bulk, underground mining methods, including:

- 13.26 meters of 0.70 g/t gold and 1.5% copper and 74.5 meters of 1.04 g/t gold in B12-04



On August 2, 2012 further results were announced as follows:

<b>DDH</b>	<b>From (m)</b>	<b>To (m)</b>	<b>Interval (m)*</b>	<b>Gold g/t</b>	<b>Silver g/t</b>	<b>Copper %</b>
B12-06	447.72	519.4	71.68	1.68	0.9	0.21
<i>Including</i>	447.72	474.27	26.55	0.56	1.3	0.54
<i>Including</i>	468.17	472.43	4.26	0.86	0.05	1.11
<i>And</i>	501	519.4	18.4	5.25	1.57	0.01
<i>Including</i>	516.5	519.4	2.9	27.06	1.26	0.02
<b>DDH</b>	<b>From (m)</b>	<b>To (m)</b>	<b>Interval (m)*</b>	<b>Gold g/t</b>	<b>Silver g/t</b>	<b>Copper %</b>
B12-07A	758.57	784.85	26.28	0.85	0.17	0.02
<i>Including</i>	758.57	762.1	3.53	3.56	0.19	0.04
<i>And</i>	782.9	785.81	2.91	2.78	0.42	0.01
<b>DDH</b>	<b>From (m)</b>	<b>To (m)</b>	<b>Interval (m)*</b>	<b>Gold g/t</b>	<b>Silver g/t</b>	<b>Copper %</b>
B12-08	493.8	556.86	63.06	1.32	2.04	0.09
<i>Including</i>	529.5	556.86	27.36	2.09	0.82	0.04
<i>And</i>	551.45	556.86	5.41	6.34	1.21	0.02
<b>DDH</b>	<b>From (m)</b>	<b>To (m)</b>	<b>Interval (m)*</b>	<b>Gold g/t</b>	<b>Silver g/t</b>	<b>Copper %</b>
B12-09	325.64	403	77.36	0.67	3.73	0.18
<i>Including</i>	325.64	332.08	6.44	1.11	12.79	0.54
<i>And</i>	386.73	390.9	4.17	2.06	8.43	0.44
<b>DDH</b>	<b>From (m)</b>	<b>To (m)</b>	<b>Interval (m)*</b>	<b>Gold g/t</b>	<b>Silver g/t</b>	<b>Copper %</b>
B12-10	733	767	34	1.02	0.71	0.04
<i>Including</i>	739	744.5	5.5	2.43	1.72	0.12
<b>DDH</b>	<b>From (m)</b>	<b>To (m)</b>	<b>Interval (m)*</b>	<b>Gold g/t</b>	<b>Silver g/t</b>	<b>Copper %</b>
B12-11	633.95	670.96	37.01	1.06	1.42	0.03
<i>Including</i>	633.95	641.5	7.55	2.05	3.54	0.06

\* Reported intervals are drill thickness and do not necessarily represent true thickness

#### *Sturgeon Falls, Turner, and Five Mile zinc properties*

Aquila has completed a number of VTEM airborne geophysical surveys for three other Exploration Alliance projects. Interpretation of the airborne results, including a detailed analysis of conductive responses was completed by HudBay geophysicists for the Sturgeon Falls area and the Turner Peridotite ó located in the Upper Peninsula of Michigan, as well as the Five Mile Zinc Property in Minnesota. These targets contain multiple conductive zones associated with mafic and ultramafic intrusive rocks untested by previous drilling. Land acquisition and ground geophysical follow-up are ongoing.

On February 27, 2012 the Company announced the acquisition of the Five Mile Zinc Property in the state of Minnesota. Aquila has obtained mineral lease rights to a contiguous land block controlling 1,073 acres that covers the anomalies previously revealed by Teck Resources Ltd. (öTeckö). The land package was acquired through a purchase option agreement with Agate Lake Exploration which will include yearly payments of \$20,500 each year over four years.

The Five Mile Zinc Property project area occurs within the Archean Ely Greenstone Belt and hosts widespread alteration associated with mineralization, a key characteristic of base metal deposits in the Noranda and Snow Lake districts of Canada. The project area was host to limited exploration between the 1970s and 1980s, most notably by Newmont Exploration and Teck. Teck conducted an exploration program in 1994 that consisted of geological mapping, geochemical and geophysical surveys, and minor diamond drilling.

## **Aquila Gold Properties**

### ***Michigan Gold***

The Michigan Gold Property is a package of gold properties located in the Marquette Greenstone Belt of Michigan which were acquired in November of 2010. The Michigan Gold properties have seen limited exploration work in the past but with promising historical exploration results.

On January 5, 2011 the Company announced that it had completed an initial 20 drill holes at its Michigan Gold Project. The project is approximately 70 km north of the Back Forty Project and 3 km west of the Ropes Gold Mine, a former gold producer most recently operated in the 1980s by Callahan Mining Corp.

Initial drilling at the Peninsula target focused on a zone of shearing, silicification, and gold mineralization partially defined by Callahan Mining during the operation of the Ropes Mine. The drilling was designed to further define and expand the Peninsula Shear Zone, and encountered a zone of shearing, brecciation and quartz carbonate veining. The 20 holes were drilled over a strike length of approximately 300 meters. Results for the initial 20 drill holes included some impressive intercepts including:

- 4.48 grams/tonne (g/t) gold over 3.08 meters in Pen 10-9
- 3.72 g/t gold over 4.88 meters in Pen 10-10
- 9.47 g/t gold over 16.67 meters in Pen 10-11
- 8.62 g/t gold over 2.88 meters in Pen 10-13
- 18.57 g/t gold over 8.0 meters in Pen 10-14
- 35.93 g/t gold over 4.5 meters in Pen 10-20

On January 25, 2012 the Company released additional drill results from the Peninsula Property which is part of the Michigan Gold portfolio. The highlighted intercepts from the second round of drilling at Peninsula include:

- 8.84 g/t gold over 3.5 meters in PEN-11-23
  - 7.48 g/t gold over 3.0 meters in PEN-11-26
  - 5.31 g/t gold over 4.59 meters in PEN-11-30
  - 10.37 g/t gold over 4.48 meters in PEN-11-36
- Including 23.4 g/t gold over 1.97 meters*

In total an additional 23 holes were completed to build upon the 20 wide-spaced holes drilled by the Company in 2010. Drilling from the first round identified a mineralized shear zone along a strike length of 300 meters and to a depth of 70 meters (as outlined in a press release dated January 19, 2011). Results from the second round of drilling have expanded the gold-bearing structure down dip to a depth of 150 meters. The Peninsula shear zone remains open along strike and at depth.



Aquila's strategy for its Michigan Gold Project is to demonstrate the highly prospective nature of the Marquette Greenstone Belt and to build significant gold resources in the area. Follow up drilling is tentatively planned subject to financing based on the results of drilling completed to date.

### ***Reef Gold***

The Company continued its exploration of the Reef Gold Project during the nine months ended September 30, 2012.

Initial highlighted assay results from the Reef Gold Project announced on September 29, 2011 include:

- 3.0 meters of 8.12 g/t gold in GBP-3
- 12.47 meters of 1.07 g/t gold in R11-6
- 10.50 meters of 1.70 g/t gold in R11-9
- 14.76 meters of 14.41 g/t gold and 0.30% copper in R11-11  
*Including 9.26 meters of 21.28 g/t gold and .33% copper*

The assay results were from 12 holes that were drilled to the southwest of the existing historical resource. Results were considered encouraging as the same style of mineralization note in the historical resource was encountered. Further drill results were announced on January 26, 2012.

Highlights from the Reef drill results announced on January 26, 2012 include the following intervals;

- 2.10 meters of 8.43 g/t gold and 0.23% copper in R11-15
- 9.90 meters of 2.53 g/t gold and 0.20% copper in R11-17  
*Including 3.90 meters of 5.07 g/t Gold and 0.27% copper*
- 14.54 meters of 3.23 g/t gold in R11-23  
*Including 3.50 meters of 13.05 g/t gold*

Further encouraging drill results on the Reef Gold Project were announced on May 8, 2012. Highlighted drill intercepts from the drill program included:

- 7.75 meters of 3.21 g/t gold in R12-26
- 4.34 meters of 2.02 g/t gold in R12-29
- 42.15 meters of 0.99 g/t gold in R12-30
- 18.15 meters of 1.62 g/t gold in R12-30

Aquila originally announced the acquisition of the Reef Gold Project on March 7, 2011. The project is located in Marathon County, Wisconsin. The Reef Project hosts a high grade (+10 g/t gold) historical resource which is open in all directions with the potential for significant expansion. The acquisition of the Reef Project is part of a broader strategy to accumulate 100% owned high quality gold assets in the Great Lakes region.





The Reef Project area was the focus of historic exploration by Noranda Exploration and others in the 1970s and 1980s. Noranda identified several zones of gold mineralization in the Reef project area and calculated a non NI 43-101 compliant historic resource estimate of 454,600 tons of 10.6 g/t gold and 0.28% copper. In the resource estimate, mineralization at the Reef project consists mostly of pyrrhotite, pyrite, and chalcopyrite with native gold, electrum, and telluride minerals within quartz-sulfide veins and vein selvages. Other minor sulfides include sphalerite, chalcocite, cubanite, and rare molybdenite. Using a cut off of 3.4 g/t gold, individual lenses have an average true thickness of 2.4 meters with reported grades ranging from 3.4 g/t to 47 g/t.

Aquila believes the mineral resource estimate is relevant and is based on a reliable historical report. The Company has acquired and verified Reef drill core for geological characteristics and gold content. Aquila's review of historic drilling information has determined that projections of the mineralized zones to surface, at depth, and along strike leave significant room for resource expansion.

Aquila has acquired privately held surface and mineral rights at the Reef project, covering the extent of previous drilling and potential extensions of mineralization. The mineral rights acquired by Aquila enable it to acquire a 100% interest in the property which is subject only to the land owners' reserved production royalty. The first year land payments are \$42,362 with future payments at the option of Aquila based on an approximate cost of \$50 per acre. Aquila has completed a VTEM airborne geophysical survey over the project area to guide further exploration and evaluate the excellent potential for additional gold and base metal mineralization.

The State of Wisconsin hosts several significant un-mined deposits and presents significant opportunities for mineral development. In recent years, mining projects have not been permitted in Wisconsin. Aquila intends to be a first mover in the state to acquire mineral properties and work towards permitting and commercial development.

The Company continues to evaluate possible additions to the gold portfolio in various parts of the continental United States and has begun land assembly in certain areas.



### 3. Selected Financial Information

As an exploration company, the Company has no revenue from operations. The Company is dependent on the equity markets to fund its exploration activities.

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

	<i>Three months ended September 30, 2012</i>	<i>Three months ended September 30, 2011</i>	<i>Nine months ended September 30, 2012</i>	<i>Nine months ended September 30, 2011</i>
	\$	\$	\$	\$
<i>Interest and other income</i>	66,518	1,540	92,113	4,839
<i>Operating expenses</i>	192,964	374,504	845,376	2,402,962
<i>Net loss</i>	126,446	372,964	753,263	2,398,123
<i>Basic and diluted loss per share</i>	0.00	0.00	0.01	0.00
<i>Total assets</i>	32,840,969	31,373,717	32,840,969	31,373,717

### 4. Results from Operations

The Company's operations involve management of its interest in the Back Forty Project located in Menominee County, Michigan. In addition, the Company is involved in acquisition and development of base metal projects in Michigan and the Great Lakes Region. The Company is also involved in the acquisition and exploration of gold properties in the United States. The Company has no income from its operations. During the nine month period ended September 30, 2012, the Company incurred a loss of \$753,263 (September 30, 2011 - \$2,398,123). The higher loss in the 2011 period is primarily due to higher Share-based compensation expense, and generally higher costs overall due to higher activity levels in 2011.

### 5. Revenue

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. From time to time the Company will earn interest from funds on deposit.

### 6. Expenses

During the nine month period ended September 30, 2012 the Company incurred total expenses in the amount of \$845,376 (September 30, 2011 - \$2,402,962). The higher costs in the 2011 period were primarily due to higher Share-based compensation expense, and generally higher costs overall due to higher activity levels in 2011. The Company has implemented cuts to project expenditures, salaries and overhead in order to conserve cash.



Notable expense items are outlined in the table that follows:

	<b>For the three month period ended September 30, 2012 \$</b>	<b>For the three month period ended June 30, 2011 \$</b>	<b>For the nine month period ended September 30, 2012 \$</b>	<b>For the nine month period ended June 30, 2011 \$</b>
Consulting fees	9,875	17,353	32,981	85,047
Filing and regulatory fees	(3,669)	132	47,158	74,147
Foreign exchange loss (gain)	(17,747)	91,458	(23,587)	64,197
Professional fees	40,388	43,132	188,896	177,844
Salaries and benefits	66,068	101,615	252,172	336,903
Stock-based compensation	-	-	-	1,363,681
Travel and Promotion	37,229	42,301	107,214	85,836
Other	60,820	78,513	240,542	215,307
<b>Total expenses</b>	<b>192,964</b>	<b>374,504</b>	<b>845,376</b>	<b>2,402,962</b>

## 7. Acquisition and Exploration Expenditures

### Back Forty Project

Until March 2012 acquisition costs for the Back Forty Project were capitalized and accounted for on the balance sheet as mineral property interests. On March 9, 2012 the Company's 49% interest in the Back Forty Project was transferred into a company called Back Forty Joint Venture LLC and development activities continue on the Project with HudBay as the project operator. The legal form of the Back Forty Project has been converted to a legal entity in which the Company has a 49% interest, and that explains why it is now being accounted for as an investment.

A significant portion of the Back Forty Project land was optioned under what is referred to as the MRT Option Agreement. The MRT Option Agreement on the MRT Property was entered into during the third quarter of 2006. During 2012 an annual option payment of US\$1,440,000 (2011 - \$1,440,000) was paid on August 1, 2012. The total option payments remaining to be paid to complete the MRT option are US\$4,320,000 through August, 2015. Total future estimated lease, option and property acquisition costs on the Back Forty project over the next five years, including the MRT payments, total \$5,657,304. The MRT Property and other acquisition costs related to the Back Forty Project are funded by HudBay under the HudBay Agreement as long as HudBay remains the project operator.

### Exploration Alliance Properties

During the nine month period ended September 30, 2012 total Acquisition and Exploration expenditures of \$1,931,719 were made on the Exploration Alliance properties, all of which were funded by HudBay. HudBay financing for the former Exploration Alliance properties has ceased.



## Aquila Gold Properties

Presented below are Acquisition and Exploration expenditures incurred by Aquila for its sole account (not reimbursed by HudBay) on Aquila Gold Properties for the nine month period ended September 30, 2012 of \$1,076,597 (2011 - \$1,750,164). Expenditures split out by projects during the nine month period ended September 30, 2012 are as follows: Michigan Gold - \$159,093; Reef - \$744,162; and Other - \$173,342.

	For the nine month period ended September 30, 2012 \$	For the nine month period ended September 30, 2011 \$
Wages	148,029	197,462
Assays	138,887	164,824
Geophysics	9,450	122,456
Drilling	353,199	697,885
Consulting, Legal, and Environmental Operator	45,173	35,032
Property Interests	100,245	109,384
	281,614	423,121
<b>Total</b>	<b>1,076,597</b>	<b>1,750,164</b>

## 8. Summary of Quarterly Results

Selected financial information for the previous eight fiscal quarters is presented below:

	2012 Q3 \$	2012 Q2 \$	2012 Q1 \$	2011 Q4 \$
Interest and Other Income	66,518	25,096	500	1,744
Net loss	126,446	304,121	322,696	72,716
Basic and fully diluted loss per share	0.00	0.00	0.00	0.00

  

	2011 Q3 \$	2011 Q2 \$	2011 Q1 \$	2010 Q4 \$
Interest and Other Income	1,540	1,759	1,540	2,052
Net loss	372,964	503,858	1,521,300	287,151
Basic and fully diluted loss per share	0.00	0.01	0.02	0.01

### Comments on quarterly results

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

Q2 2012 ó No unusual items.

Q1 2012 ó No unusual items.



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

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

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

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

Q4 2010 ó The only unusual item was a foreign exchange loss recorded in the quarter in the amount of \$134,197.

## **9. Financial Condition**

### ***Liquidity and Capital Resources***

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

The Company uses cash on hand to fund operations. The cash balance as at September 30, 2012 was \$523,205 (December 31, 2011- \$1,926,624).

Liabilities at September 30, 2012 consist of short term trade payables and accrued liabilities of \$85,351 (December 31, 2011- \$62,337).

The Company has sufficient funds on hand to finance the operations of the Company in the near term. However, the Company remains dependent on equity financing to fund its ongoing requirements in the future. Alternative sources of capital include, but are not limited to, funding from capital markets or other industry partners.

## **10. Operations**

The Company has a number of contractual obligations at its operations. The Company has a rental commitment on a month to month basis for office space and administrative support in Toronto of approximately \$1,500 per month. At the U.S. site operations the Company has total monthly lease commitments of US\$4,500.



## ***Property***

The Company anticipates that it will acquire additional land and mineral rights in the future. The Company will continue to incur acquisition costs for its 100% owned Michigan Gold and Reef property interests.

It is in the normal course of business for the Company to add or to drop mineral interests based on exploration results and other material factors.

## **11. Share Capital**

### ***Common Shares***

As at September 30, 2012, and the date hereof, there are 90,945,168 common shares of the Company outstanding (December 31, 2011 ó 90,739,168). During the nine months ended September 30, 2012 a total of 206,000 shares were issued; 200,000 shares were issued in connection with a property acquisition related to the Michigan Gold property relating to a prior period commitment and 6,000 shares were issued in connection with options that were exercised. There were no shares issued during the three month period ended September 30, 2012.

### ***Warrants***

There are a total of 515,140 broker warrants outstanding at September 30, 2012, and the date hereof. Each warrant is convertible into one common share at a weighted average exercise price of \$0.51. The warrants expire between June 2013 and October 2014.

### ***Options***

There are a total of 3,722,250 stock options outstanding at September 30, 2012, and the date hereof, with a weighted average exercise price \$0.50. During the nine month period ended September 30, 2012, 6,000 options were exercised, 1,200,000 options expired, and no options were granted. There was no activity with respect to options during the three months ended September 30, 2012.

## **12. Off-Balance Sheet Arrangements**

As at September 30, 2012 the Company does not have any off-balance sheet arrangements.

## **13. Transactions with Related Parties**

During the nine months ended September 30, 2012 management fees amounting to \$43,458 (2011- \$47,761) were charged by a company controlled by the CFO and a director of the Company.

During the nine months ended September 30, 2012 key management, and a related individual, received remuneration consisting of management fees, salaries and benefits. Total remuneration for the nine months amounted to \$267,231 (2011- \$266,442). There were no outstanding balances with these related parties at September 30, 2012 and December 31, 2011.



During the nine months ended September 30, 2012 a total of \$128,392 (2011-\$309,988) was billed to the Company by a geological consulting company of which the President and CEO and another director are major shareholders. This amount was capitalized to the Mineral properties and is broken down as follows; \$108,515 for analytical services and sample preparation and analysis, \$19,877 for other. As at September 30, 2012, accounts payable includes \$Nil (December 31, 2011- \$27,333) owing to this related party. All of the Michigan Gold properties, as described in Note 5(c) to the Company's September 30, 2012 financial statements, are optioned by this geological consulting company.

During the nine months ended September 30, 2012, the Company was charged Directors' fees totaling \$35,367 (2011- \$28,483) by non-executive directors. Accounts payable at September 30, 2012 includes \$Nil (2011- \$10,500) owing to these related parties.

During the nine months ended September 30, 2012, the Company was charged legal fees totaling Cdn \$45,489 (2011- \$57,159) by a law firm whose partner is an officer of the Company. As at September 30, 2012 accounts payable includes \$Nil (2011-\$Nil) due to this related party.

During the nine months ended September 30, 2012 rental expenditures in the amount of Cdn \$10,800 (2011-\$10,800) were charged by a Company with common directors. As of September 30, 2012, accounts payable includes \$Nil (2011-\$Nil) owing to this related party.

During the nine months ended September 30, 2012 rental expenditures in the amount of \$8,050 (2011-\$Nil) were paid to a company of which the President and CEO and certain related individuals are part owners. As of September 30, 2012, accounts payable includes \$Nil (2011-\$Nil) owing to this related party.

During the nine months ended September 30, 2012 exploration and evaluation expenditures in the amount of \$3,530,185 (2010 - \$6,351,449) were reimbursed by HudBay, a company that has an approximate 15.8% interest in the Company. The re-imbusement was pursuant to the terms of the HudBay Option and Joint Venture and the Exploration Alliance agreement described in Note 5 to the Company's September 30, 2012 financial statements. Management believes these transactions are in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

#### **14. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amount of expenses during the reporting period. Actual results could differ from those estimates.

#### **15. Management's Evaluation of Disclosure Controls and Procedures and Evaluation of Internal Control over Financial Reporting**

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



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

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

Based on that evaluation, the CEO and the CFO have concluded that the design and operation of the system of disclosure controls and procedures was effective as of September 30, 2012.

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

### ***Internal Control over Financial Reporting***

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

The control framework has been designed by management with assistance by independent accounting consultants. Based on a review of its internal control procedures at the end of the period covered by this MD&A, the conclusion of management is that the internal control is appropriately designed and effective as of September 30, 2012.

### **16. New Accounting Standards and Policies**

The Company's interim unaudited consolidated financial statements are presented in accordance with International Financial Reporting Standards (IFRS). IFRS represents standards and interpretations approved by the International Accounting Standards Board (IASB), and are comprised of IFRSs, International Accounting Standards (IASs), and interpretations issued by the IFRS Interpretations Committee (IFRICs) or the former Standing Interpretations Committee (SICs). There have been no new accounting policies and standards implemented during the nine month period ended September 30, 2012.



Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods on or after October 1, 2012. Many are not applicable or do not have a significant impact to the Company and have been excluded below. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

- (i) IFRS 9 ó Financial instruments (óIFRS 9ö) was issued by the IASB in October 2010 and will replace IAS 39 Financial Instruments: Recognition and Measurement (óIAS 39ö). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2015.
- (ii) IFRS 10 ó Interim unaudited consolidated financial statements (óIFRS 10ö) was issued by the IASB in May 2011. IFRS 10 is a new standard which identifies the concept of control as the determining factor in assessing whether an entity should be included in the interim unaudited consolidated financial statements of the parent company. Control is comprised of three elements: power over an investee; exposure to variable returns from an investee; and the ability to use power to affect the reporting entity's returns. IFRS 10 is effective for annual periods beginning on or after January 1, 2013. Earlier adoption is permitted.
- (iii) IFRS 11 ó Joint arrangements (óIFRS 11ö) was issued by the IASB in May 2011. IFRS 11 is a new standard which focuses on classifying joint arrangements by their rights and obligations rather than their legal form. Entities are classified into two groups: parties having rights to the assets, and obligations for the liabilities, of an arrangement; and parties having rights to the net assets of an arrangement. Entities in the former case account for assets, liabilities, revenues and expenses in accordance with the arrangement, whereas entities in the latter case account for the arrangement using the equity method. IFRS 11 is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted.
- (iv) IFRS 12 ó Disclosure of interests in other entities (óIFRS 12ö) was issued by the IASB in May 2011. IFRS 12 is a new standard which provides disclosure requirements for entities reporting interests in other entities, including joint arrangements, special purpose vehicles, and off balance sheet vehicles. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted.
- (v) IFRS 13 ó Fair value measurement (óIFRS 13ö) was issued by the IASB in May 2011. IFRS 13 is a new standard which provides a precise definition of fair value and a single source of fair value measurement considerations for use across IFRSs. The key points of IFRS 13 are as follows:
  - fair value is measured using the price in a principal market for the asset or liability, or in the absence of a principal market, the most advantageous market;
  - financial assets and liabilities with offsetting positions in market risks or counter party credit risks can be measured on the basis of an entity's net risk exposure;
  - disclosures regarding the fair value hierarchy has been moved from IFRS 7 to IFRS 13, and further guidance has been added to the determination of classes of assets and liabilities;

- a quantitative sensitivity analysis must be provided for financial instruments measured at fair value;
- a narrative must be provided discussing the sensitivity of fair value measurements categorized under Level 3 of the fair value hierarchy to significant unobservable inputs; and
- information must be provided on an entity's valuation processes for fair value measurements categorized under Level 3 of the fair value hierarchy.

IFRS 13 is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted.

- (vi) IAS 1 ó Presentation of financial statements (óIAS 1ö) was amended by the IASB in June 2011 in order to align the presentation of items in other comprehensive income with US GAAP standards. Items in other comprehensive income will be required to be presented in two categories: items that will be reclassified into profit or loss and those that will not be reclassified. The flexibility to present a statement of comprehensive income as one statement or two separate statements of profit and loss and other comprehensive income remains unchanged. The amendments to IAS 1 are effective for annual periods beginning on or after July 1, 2012.
- (vii) IAS 27 ó Consolidated and separate financial statements (óIAS 27ö) was amended by the IASB in May 2011. Consolidation requirements forming part of IAS 27 have been revised and are now contained in IFRS 10. The amendments to IAS 27 are effective for annual periods beginning on or after January 1, 2013. Earlier adoption is permitted.

## **17. Risks and Uncertainties**

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

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

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

### ***Environmental Risks and Hazards***

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

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

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

### **18. Subsequent Event**

Payments required by the Company (\$25,000 and 100,000 shares) on October 21, 2012 pursuant to the option agreement it has with a related party, as disclosed in Note 5(c) to the Company's interim unaudited consolidated financial statements at September 30, 2012 have not been made. The decision as to whether to continue with the property option has not been decided as of the date hereof.



## **19. Officers and Directors**

The officers and directors of the Company are:

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

Thomas O. Quigley, P.Geo, is the Qualified Person for Aquila Resources Inc.

## **20. Additional Information**

The Company is a reporting issuer in Ontario, British Columbia, Alberta, Saskatchewan and Nova Scotia. The Company listed on the TSX in 2007. Previously the Company was listed on the TSX Venture Exchange. The Company commenced trading on the OTCQX on June 6, 2011 under the symbol ñAQARFö.

Additional information about the Company including financial statements, press releases and other filings are available on SEDAR at [www.sedar.com](http://www.sedar.com). The Company website is [www.aquilaresources.com](http://www.aquilaresources.com).