AQUILA RESOURCES INC.
(A Development Stage Enterprise)

CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

DECEMBER 31, 2006 AND 2005

EDMUND CACHIA & CO.
Chartered Accountants

AQUILA RESOURCES INC.
(A Development Stage Enterprise)

CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

DECEMBER 31, 2006 AND 2005

I N D E X

EDMUND CACHIA & CO.
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AUDITORS' REPORT

To the Shareholders of
Aquila Resources Inc.
(A Development Stage Enterprise):

We have audited the consolidated balance sheets of Aquila Resources Inc. (the “Company”, A Development Stage Enterprise) as at December 31, 2006 and 2005 and the consolidated statements of loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

“*Edmund Cachia & Co. LLP*”
CHARTERED ACCOUNTANTS

Toronto, April 17, 2007

AQUILA RESOURCES INC.
(A Development Stage Enterprise)

CONSOLIDATED BALANCE SHEETS
(Expressed in Canadian Dollars)

DECEMBER 31

ASSETS

	2006	2005
CURRENT		
Cash and cash equivalents	$ 24,034,601	$ 279
Amounts receivable	105,378	7,900
Funds held in trust (note 7)	300,000	-
Prepaid expenses	54,024	12,042
	24,494,003	20,221
DEPOSITS (note 2)	116,540	-
MINERAL PROPERTY COSTS (note 2)	9,281,217	4,602,559
PROPERTY AND EQUIPMENT (note 3)	784,163	736,633
	$ 34,675,923	$ 5,359,413

LIABILITIES

	2006	2005
CURRENT		
Accounts payable and accrued liabilities (note 6)	$ 597,700	$ 236,002
Current portion of mortgages payable (note 9)	24,668	23,208
Loans payable (note 5)	-	91,311
Notes payable (note 5)	-	427,562
	622,368	778,083
LONG TERM PORTION OF MORTGAGES PAYABLE (note 9)	370,555	395,363
OBLIGATION TO ISSUE SHARES (note 4 (e))	-	9,838

SHAREHOLDERS' EQUITY

	2006	2005
SHARE CAPITAL (note 4(b))	35,253,235	4,923,871
CONTRIBUTED SURPLUS (note 1 and 4(d))	2,224,220	-
DEFICIT	(3,794,455)	(747,742)
	33,683,000	4,176,129
COMMITMENTS (note 2)		
SUBSEQUENT EVENTS (note 14)		
	$ 34,675,923	$ 5,359,413

Approved by the Board:

"*Edward J. Munden*", Director

"*Robin Dunbar*", Director

The accompanying notes are an integral part of these financial statements.

AQUILA RESOURCES INC.
(A Development Stage Enterprise)

CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT
(Expressed in Canadian Dollars)

FOR THE YEARS ENDED DECEMBER 31

	2006	2005
EXPENSES		
Amortization	$ 139	$ 9,995
Consulting fees	81,829	-
Filing and regulatory fees	25,534	-
Foreign exchange gain	(2,127)	(46,927)
Interest and bank charges	17,209	39,313
Management fees	251,480	66,428
Office, general and administration	34,418	36,718
Professional fees	150,347	12,386
Rent	10,496	-
Stock-option compensation cost (note 4 (d))	2,224,220	-
Travel and promotion	163,968	12,278
Wages	140,348	232,724
	3,097,861	362,915
Interest and other income	(51,148)	-
NET LOSS FOR THE YEAR	3,046,713	362,915
DEFICIT AT BEGINNING OF THE YEAR	747,742	384,827
DEFICIT AT END OF THE YEAR	$ 3,794,455	$ 747,742
Loss per common share		
Basic	$ 0.08	$ 0.02
Diluted	$ 0.07	$ 0.02
Weighted-average number of common shares outstanding		
Basic	39,928,038	15,951,813
Diluted	40,805,261	15,951,813

The accompanying notes are an integral part of these financial statements.

AQUILA RESOURCES INC.
(A Development Stage Enterprise)

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)

FOR THE YEARS ENDED DECEMBER 31

	2006	2005
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Net loss for the year	($ 3,046,713)	($ 362,915)
Add items not affecting cash:		
Amortization	139	9,995
Financing fee	-	20,424
Stock-option compensation cost	2,224,220	-
Net changes in non-cash operating working capital (note 11)	(77,762)	143,438
Cash used in operations	(900,116)	(189,058)
CASH USED IN INVESTING ACTIVITIES:		
Purchase of property and equipment	(52,000)	-
Deposits	(116,540)	-
Mineral properties – acquisition costs	(1,971,019)	-
Mineral properties – exploration costs	(2,696,015)	(431,465)
Cash used in investing	(4,835,574)	(431,465)
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES:		
Issuance of common shares	32,354,491	238,723
Issue costs	(2,186,158)	-
Notes payable	(283,662)	400,772
Repayment of mortgage payable	(23,348)	(22,681)
Loans payable	(91,311)	3,029
Cash provided by financing	29,770,012	619,843
INCREASE (DECREASE) IN CASH POSITION	24,034,322	(680)
CASH POSITION AT BEGINNING OF THE YEAR	279	959
CASH POSITION AT END OF THE YEAR	$ 24,034,601	$ 279
Supplemental disclosure of non-cash transactions:		
Shares issued for non-cash consideration:		
Settlement of debt	$ 87,056	$ nil
Financing fees	$ 5,902	$ 11,275
Amortization capitalized to mineral properties	$ 11,624	$ nil

The accompanying notes are an integral part of these financial statements.

NATURE AND CONTINUANCE OF OPERATIONS AND REVERSE TAKEOVER:

A reverse takeover transaction with Aquila Resources Corp. (“Aquila”) was approved by the shareholders of JML Resources Ltd. (“JML”) at a special meeting of shareholders, held on April 17, 2006, whereby the following events came into effect:

A. JML acquired all of the shares of Aquila in exchange for the issuance of 49,066,466 pre-consolidation common shares and 520,000 post consolidation warrants of JML to the former shareholders of Aquila;

B. JML consolidated its existing share capital on a one (1) for three (3) basis;

C. the articles of JML were amended to change its name to Aquila Resources Inc.;

D. the Company acquired all of the issued and outstanding securities of 2079537 Ontario Inc. on a one for one post consolidation basis. This resulted in the issuance of 10,599,500 post consolidation common shares. 10,599,500 post-consolidation warrants were also issued to these shareholders;

E. the Company issued 1,230,000 post-consolidation common shares in the Company and issued 1,230,000 post-consolidation warrants to the holders of subscription receipts of the Company which were issued pursuant to a financing of the Company completed January 17, 2006;

F. the Company issued a total of 525,425 post-consolidation common shares and issued 358,758 post-consolidation warrants to the agent as partial payment of the agent’s fees in connection with the reverse take-over.

In accordance with reverse take-over accounting, Aquila Resources Corp. was considered the acquirer. Accordingly, the comparative figures presented are those of Aquila Resources Corp. as Aquila Resources Inc. (the “Company”) is considered a continuation of Aquila Resources Corp.

In addition, the Company, a non-operating publicly listed enterprise, was acquired for accounting purposes. The Company did not meet the definition of a business under Canadian generally accepted accounting principles, as such, the reverse takeover transaction did not constitute a business combination and is instead considered to be a capital transaction. Canadian generally accepted accounting principles requires that the net assets of the public enterprises (“the Company”) be treated as a credit to equity of the consolidated enterprise.

AQUILA RESOURCES INC.
(A Development Stage Enterprise)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

NATURE AND CONTINUANCE OF OPERATIONS AND REVERSE TAKEOVER (continued):

As at May 1, 2006 (effective date of reverse take-over and acquisition), the financial position of the Company resulted in a credit to equity of the consolidated enterprise of $122,724, as follows:

	As at May 1, 2006
Assets	
Cash	$ 8,212
Accounts receivable	35,884
Advances	273,500
Total assets	317,596
Liabilities	
Accounts payable and accrued liabilities	194,872
Net assets	$ 122,724

The Company is involved in the mineral exploration business and controls mineral and surface rights at the Back Forty Project located in Menominee County, Michigan. In addition, the Company has entered into an agreement to acquire the Cedros property in Honduras.

The Company is in the business of exploring for and developing mineral properties. Substantially all of the efforts of the Company are devoted to these business activities. To date the Company has not earned significant revenue and is considered for accounting purposes to be in the development stage. The ability of the Company to carry out its business plan rests with its ability to secure equity and other financing.

1 - SIGNIFICANT ACCOUNTING POLICIES:

PRINCIPLES OF CONSOLIDATION:

Theses consolidated financial statements are prepared in accordance with generally accepted accounting principles in Canada. Summarized below are those policies considered particularly significant to the Company. References to the Company included herein are inclusive of the accounts of Aquila Resources Inc.'s wholly owned subsidiary Aquila Resources Corp. and its subsidiaries. All inter-company balances and transactions have been eliminated.

AQUILA RESOURCES INC.
(A Development Stage Enterprise)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

1 - SIGNIFICANT ACCOUNTING POLICIES (continued):

DEFERRED MINERAL PROPERTY COSTS:

Property acquisition costs and related direct exploration costs are deferred until the properties are placed into production, sold or abandoned. These costs will be amortized on the units-of-production basis over the estimated useful life of the properties following the commencement of production or written-off if the properties are sold, allowed to lapse, or abandoned.

Cost includes the cash consideration paid and the fair value of any common shares issued on the acquisition of mineral properties. Properties acquired under option agreements, whereby payments are made at the sole discretion of the Company, are recorded in the accounts at such time as the payments are made. The recorded cost of mineral claims and deferred exploration and development costs represent costs incurred and are not intended to reflect present or future values.

The Company reviews capitalized costs on its property interests on a periodic, or annual, basis and will recognize an impairment in value based upon current exploration results and upon management's assessment of the future probability of profitable revenues from the property or from the sale of the property. Management's assessment of the property's estimated current fair market value may also be based upon a review of other property transactions that have occurred in the same geographic area as that of the property under review.

Administrative costs, other than for those that are charged to deferred mineral property costs, are expensed as incurred.

PROPERTY AND EQUIPMENT:

Property and equipment consist of land and buildings, which are recorded at cost and buildings are amortized on the declining-balance basis at a rate of 4% per annum.

SHARE CAPITAL:

Common shares issued for non-monetary consideration are recorded at their fair market value based upon the price per share paid in the most recent prior sale of shares for cash.

Costs incurred to issue common shares are deducted from share capital.

USE OF ESTIMATES:

The preparation of financial statements in conformity with Canadian 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 amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the continuing viability of mineral property interests and the determination of reclamation obligations and rates for amortization. Actual results could differ from these estimates.

1 - SIGNIFICANT ACCOUNTING POLICIES (continued):

REVENUE RECOGNITION:

Interest income is recognized on an accrual basis as it is earned.

ASSET RETIREMENT OBLIGATIONS:

The Company recognizes a liability for an asset retirement obligation when it is determinable and calculates the liability based upon undiscounted future payments to be made. A corresponding amount is added to the carrying amount of the related long-lived asset, and this amount is subsequently allocated to expense over its expected life. Adjustments will also be made in subsequent periods to changes on asset retirement obligations due to changes in estimates. As at December 31, 2006, the Company does not have any asset retirement obligations.

IMPAIRMENT OF LONG-LIVED ASSETS:

Long-lived assets, including property and equipment and other assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

INCOME TAXES:

The Company accounts for and measures future tax assets and liabilities in accordance with the asset and liability method.

Under this method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the enacted or substantively-enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment of the change. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential future benefit is taken and no net asset is recognized. Assuming the Company’s operations remain at the exploration stage, such an allowance will continue to apply fully for the foreseeable future to all potential income tax assets. Accordingly, the Company’s accounting policy for future income taxes currently has no effect on the financial statements of the fiscal periods presented.

AQUILA RESOURCES INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

1 - SIGNIFICANT ACCOUNTING POLICIES (continued):

STOCK-BASED COMPENSATION:

The Company has a stock option plan, which is described in note 4(d). The Company accounts for stock-based compensation using the fair-value method. Under the fair value method, stock-based payments are measured at the fair value of equity instruments and are amortized over the vesting period. The offset to the recorded cost is contributed surplus in shareholder’s equity.

CASH AND CASH EQUIVALENTS:

Cash and short-term investments with a remaining maturity of three months or less at the date of acquisition are classified as cash and cash equivalents.

LOSS PER SHARE:

Basic loss per share is computed by dividing loss available to common shareholders by the weighted average number of common shares outstanding during the year. The treasury stock method is used to calculate diluted loss per share. Diluted loss per share is similar to basic loss per share, except that the denominator is increased to include the number of additional common shares that would have been outstanding assuming that options and warrants with an average market price for the year greater than their exercise price are exercised and the proceeds used to repurchase common shares.

TRANSLATION OF FOREIGN CURRENCIES:

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the balance sheet date. Non-monetary assets and liabilities are translated into Canadian dollars at approximate exchange rates prevailing at the transaction date. Revenue and expenses are translated at average exchange rates prevailing during the year. The resulting gains and losses are included in loss for the year.

PROPERTY OPTION AGREEMENTS:

From time to time, the Company may acquire or dispose of properties pursuant to the terms of option agreements. Due to the fact that options are typically exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as resource property costs or recoveries when the payments are made or received.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

1 - SIGNIFICANT ACCOUNTING POLICIES (continued):

MINERAL PROPERTY PRE-ACQUISITION COSTS:

The Company capitalizes pre-acquisition costs investigating potential property acquisitions. However, if the Company determines that a specific property acquisition will not be concluded, the costs associated with the specific property are charged to operations in the current period.

2 - MINERAL PROPERTY COSTS AND COMMITMENTS:

MICHIGAN, USA

Back Forty Project

During 2004, the Company acquired a 100% interest in the Back Forty Project in consideration for the issue of 7,784,431 common shares valued at US $2,069,373, and the assumption of a mortgage liability of US $217,322 and certain accounts payable balances totalling US $167,872.

The consideration of US $2,454,567 was allocated to the net identifiable assets acquired as follows:

	US$
Land (surface rights)	293,880
Buildings	75,000
Mineral rights	2,085,687
	2,454,567

During 2004, the Company also acquired additional property for consideration of US $226,416, which was allocated as follows:

	US$
Land (surface rights)	85,000
Buildings	123,924
Mineral rights	17,492
	226,416

AQUILA RESOURCES INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

2 - MINERAL PROPERTY COSTS AND COMMITMENTS (continued):

MICHIGAN, USA

Back Forty Project

The Back Forty Project consists of over 9,700 acres of surface and mineral rights owned or held under lease or option by a 100% owned U.S. subsidiary. Some lands are subject to net smelter royalties varying from 1% to 3.5%, with certain lands subject to a 2%-7% state royalty, which under state law can be renegotiated. Annual lease and option costs for 2006 were US $1,459,655. Estimated lease and option costs in each of the next three fiscal years, is as follows: 2007- US $2,235,034; 2008- US $2,880,726; and 2009- US $2,401,656. The entire project is subject to a 7% net distributable earnings royalty (“net profits after payback”) payable to a former joint-venture partner.

During 2006, the Company actively sought to increase its land position in the project area and entered into the following option agreements:

(a) On August 3, 2006, the Company entered into an option agreement to acquire a 100% interest in approximately 50 acres of surface and mineral rights in Lake Township, Menominee County, Michigan (the “MRT property”). The aggregate price payable due in annual instalments on the anniversary date and, over a nine-year option period, is as follows: A total cash payment of US $11,700,000 payable: US $1,333,333 paid upon signing, US $1,333,333 on each of the 1st and 2nd anniversaries, US $250,000 on each of the 3rd and 4th anniversaries, and US $1,440,000 on each of the 5th through 9th anniversaries.

The Company deposited cash in the amount of $116,540 (US$100,000), pursuant to an escrow agreement. The amount is being held as security for the fulfilment of obligations in accordance with the above noted option agreement.

(b) On October 7, 2006, the Company entered into an option agreement to acquire a 100% interest in 181 acres of surface and mineral rights in Lake Township, Menominee County, Michigan. In order to earn a 100% interest in the project area from the optionor, the Company entered into a three-year option agreement, for an aggregate price payable as follows: A total cash payment of US $ 2,300,000 payable: US $300,000 in year one, of which US $50,000 has been paid, US $1,000,000 in year two, US $1,000,000 in year three.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

2 - MINERAL PROPERTY COSTS AND COMMITMENTS (continued):

HONDURAS

Cedros Property

The Cedros property interest is located in Honduras. Title to this property is not currently in the Company name due to a current moratorium being undertaken by the government of Honduras regarding the status of its mining laws as they relate to foreign ownership of mineral properties. If the Company is unable to obtain legal title, 1,000,000 common shares (currently held in escrow) issued as consideration for the property purchase will be cancelled. The Company is continuing to pursue obtaining proper legal title to the subject property. Currently the application for the property is in the name of First Point de Honduras S.A. de C.V. and the Company. The Company is continuing to capitalize the ongoing costs of evaluation and monitoring this property interest.

As at December 31, 2006 and 2005, accumulated mineral property costs were comprised of:

2006	Balance, beginning of year	Acquisition	Exploration	Recoveries	Write-down	Balance, end of year
MICHIGAN, USA Back Forty Project	$ 3,833,785	$1,971,019	$ 2,707,639	$ -	$ -	$ 8,512,443
HONDURAS Cedros property	768,774	-	-	-	-	768,774
	$4,602,559	$1,971,019	$ 2,707,639	$ -	$ -	$ 9,281,217

2005	Balance, beginning of year	Acquisition	Exploration	Recoveries	Write-down	Balance, end of year
MICHIGAN, USA Back Forty Project	$ 3,391,501	$ -	$ 442,284	$ -	$ -	$ 3,833,785
HONDURAS Cedros property	768,308	-	466	-	-	768,774
	$4,159,809	$ -	$ 442,750	$ -	$ -	$ 4,602,559

AQUILA RESOURCES INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

3 - PROPERTY AND EQUIPMENT:

	2006			2005
	COST	ACCUMULATED DEPRECIATION	NET BOOK VALUE	NET BOOK VALUE
Land	$ 482,253	$ -	$ 482,253	$480,000
Buildings	327,686	25,776	301,910	256,633
	809,939	25,776	784,163	736,633

During the year, amortization amounting to $ 11,624 (2005-$nil) was capitalized to mineral property costs.

4- SHARE CAPITAL

a) Authorized
Unlimited number of common shares

b) Issued
Common shares

	Number of Common Shares	$
Issued at December 31, 2004	14,163,100	4,504,828
Private placements	2,100,000	407,768
Financing fees	58,070	11,275
Issued at December 31, 2005	16,321,170	4,923,871
Financing fees	34,312	5,902
Pre RTO Aquila shareholders	16,355,482	4,929,773
Shares issued to JML shareholders for net assets	9,109,286	122,724
Conversion of JML preference shares	1,274,377	-
Broker shares	525,435	121,754
Issued for cash to 2079537 Ontario Ltd. shareholders	10,599,500	2,119,900
Subscription receipts	1,230,000	246,000
Issue of common shares on exercise of warrants for settlement of debt	520,000	87,056
Private placement	15,515,151	25,599,999
Issued for cash / on exercise of options	633,833	190,150
Issued for cash / on exercise of warrants	13,550,247	4,198,442
Share issue cost	-	(2,362,563)
Issued at December 31, 2006	69,313,311	$ 35,253,235

(Expressed in Canadian Dollars)

4- SHARE CAPITAL (continued):

c) Warrants

The following summarizes warrants that have been issued:

	Number of Warrants	
	2006	2005
Balance, beginning of year	520,000	-
Warrants issued on issuance of shares for cash	19,587,075	-
Warrants issued on issuance of debt	-	520,000
Warrants issued as part of Broker's fees	2,175,760	-
Warrants issued as part of Agent's fees	631,047	-
Warrants exercised during the year	(14,070,247)	-
Warrants expired during the year	-	-
Balance, end of year	8,843,635	520,000

At December 31, 2006, 8,843,635 warrants expiring on December 15, 2008, with an exercise price of $2.15, were outstanding. The warrants entitle the holders to purchase the above stated number of common shares on or before the expiry date.

d) Stock-option plan

The Company maintains a Stock Option Plan (the "Plan") for the benefit of directors, officers, employees, consultants and other service providers of the Company and its subsidiaries in order to assist the Company in attracting, retaining, and motivating such persons by providing them with the opportunity, through stock options to acquire an increased proprietary interest in the Company. Under the Plan, options are non-assignable and may be granted for a term not exceeding five years. The number of common shares that may be reserved for issuance to any one person must not exceed 5% of the outstanding common shares. The exercise price of an option may not be lower than the closing price of the common shares on the TSX Venture Exchange, subject to applicable discounts, on the business day immediately proceeding the date the option is granted. The options are non-transferable.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

4- SHARE CAPITAL (continued):

d) Stock-option Plan

The fair value of each option was estimated on the date of grant. Under Black-Scholes the options issued during the year ended December 31, 2006 have been valued at $2,224,220, and expensed to income, using the following assumptions at the measurement date:

	2006	2005
Risk-free interest rate	4.14%	nil
Expected life	5 years	nil
Price volatility	115%	nil
Dividend yield	nil	nil

A summary of the status of the Company's stock option plan as of December 31, 2006 and 2005, and changes during the years are presented below:

	2006		2005	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding at beginning of the year	1,000,000	$ 0.35	1,025,000	$ 0.35
Exercised	(633,833)	0.30	-	-
Expired	(1,000,000)	0.35	(25,000)	0.35
Granted	4,280,000	0.60	-	-
Outstanding at end of the year	3,646,167	$ 0.65	1,000,000	$ 0.35

The following summarizes information on the stock options outstanding at December 31, 2006:

Weighted average exercise price	$ 0.65
Numbers outstanding as at December 31, 2006	3,646,167
Remaining contractual life	4.5 years
Options exercisable as at December 31, 2006	3,346,167

e) Obligation to issue shares:

At December 31, 2005, the Company had an obligation to issue 20,000 common shares at a value of US $3,000 as a financing fee and to issue 14,311 common shares at a value of US $2,147 as a financing fee pursuant to an arrangement with the Company's President and his spouse in connection with certain mortgages carried by those individuals for the benefit of the Company. As at December 31, 2006 there are no outstanding obligations to issue shares.

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4- SHARE CAPITAL (continued):

f) Escrowed shares

Of the Company's issued share capital, 13,808,669 shares were held in escrow pursuant to an escrow agreement as at December 31, 2006.

5 - LOANS AND NOTES PAYABLE:

During the period notes payable totalling US $ 340,000 were repaid including US $75,000 to a director of the Company and US $82,403 to companies with common directors. In addition, during the period the Company issued 520,000 common shares in settlement of debt owed by the Company for a total deemed value of $87,056 (see note 4 (b)).

6 - RELATED PARTY TRANSACTIONS:

For the year ended December 31, 2006, management fees amounting to $151,480 (2005- $nil) were charged by a company controlled by the CFO and director of the Company. As at December 31, 2006 accounts payable includes $100,000 (2005- $nil) owing to this related party.

During the year, management fees amounting to $100,000 (2005- $nil) were charged by the President and CEO of the Company. Accounts payable includes $100,000 (2005- $nil) owing to this related party at December 31, 2006.

A total of US $ 2,497,629 was charged to the operations at the Back Forty Project by a geological consulting company of which the President and CEO and another director are major shareholders. A management fee calculated on a percentage of wages payable was included in the amount charged by the geological consulting company to the Company. As at December 31, 2006 accounts payable include $189,992 (2005- $199,831) from this related party. During the year, the President and CEO charged fees of $135,864 to the geological consulting company.

During the year, the Company was charged legal fees totalling $276,212 (2005- $nil) by a law firm whose partner is a director of the Company. As at December 31, 2006 accounts payable include $80,918 (2005- $nil) due to this related party.

Administrative and management fees in the amount of $33,547 (2005- $nil) were charged by a company with common directors. As at December 31, 2006 accounts payable includes $20,034 (2005- $nil) due to this related party.

During the year, the Company was charged consulting fees amounting to $nil (2005-$95,264) from companies with common directors. As at December 31, 2006 accounts payable and accrued liabilities include $nil (2005- $96,073) due to these related parties.

Rental expenditures in the amount of $10,496 (2005-$nil) were charged by a Company with common directors.

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6 - RELATED PARTY TRANSACTIONS (continued):

See notes 4 (e), 5, 9, and 14 for additional related party information.

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 parties.

7 - FUNDS HELD IN TRUST:

In accordance with certain covenants under the terms of the Company's agency agreement related to its December 2006 private placement, $300,000 was held in trust for the benefit of the Company. Subsequent to year end the amount due was released to the Company in full.

8 - INCOME TAXES:

(a) The Company has non-capital losses of approximately $2,900,792 which expire through 2027. The benefit of these losses has not been recognized for financial statement purposes.

As at December 31, 2006 the tax effects of temporary timing differences that give rise to significant components of the future tax asset computed at current rates, were as follows:

Non-capital losses carry forward	$ 1,047,766
Mineral property	477,400
Property and equipment	3,921
Share issue costs	969,324
	2,498,411
Less: Valuation allowance	(2,498,411)
Net asset	$ -

(b) For the year ended December 31, 2006, the Company's provision for income taxes differ from the amounts computed by applying the basic current rates to loss for the year before taxes, as shown in the following table:

Statutory rate applied to loss for the year before income taxes	($1,100,473)
Increase (decrease) in taxes resulting from:	
Non-deductable stock based compensation	803,388
Non-deductible items	9,830
Change in mineral property tax pools	(111,972)
Other	(8,123)
Tax benefit not recognized on current year's losses	407,350
	$ -

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9 - MORTGAGES PAYABLE:

The President of the Company and his spouse are the mortgagors on two mortgages secured by certain buildings and land at the Back Forty property (the "mortgaged properties"). The mortgaged properties are being held in trust for the benefit of the Company and the monthly principal, interest and other amounts payable on the mortgages are billed to and paid by the Company. One mortgage with a balance of $186,530 at December 31, 2006 carries a variable interest rate determined every 3rd year on the mortgage anniversary date based on the weekly average yield of US Treasury securities, adjusted for a constant maturity of one year, plus 3.75%. The other mortgage in the amount of $157,639 at December 31, 2006 carries a fixed interest rate of 5.375%. Current monthly payments of principal and interest due under these mortgages aggregate US $3,811, and both mortgages mature in 15 years. At such time as title to the mortgaged properties is transferred to the Company, the Company must either assume or discharge the existing mortgages. As consideration for carrying the mortgages on these properties for the Company's benefit, the Company has agreed to pay the President and his spouse a financing fee based on the principal amount outstanding on the mortgaged properties on those dates.

The Company is required to make the following principal repayments in each of the next three fiscal years ending:

	US$
December 31, 2007	21,167
December 31, 2008	22,511
December 31, 2009	23,941
	67,619

10 - COMPARATIVE FIGURES:

Certain comparative figures have been reclassified to conform to the current period's presentation. These reclassifications did not affect prior year's net losses.

11 – CHANGES IN NON-CASH OPERATING WORKING CAPITAL:

	2006	2005
Amounts receivable	($ 97,478)	($ 5,067)
Funds held in trust	(300,000)	-
Prepaid expenses	(41,982)	(9,114)
Accounts payable and accrued liabilities	361,698	157,619
	($ 77,762)	$ 143,438

12 - FINANCIAL INSTRUMENTS:

Financial instruments are initially recorded at cost. The fair values of cash and cash equivalents, amounts receivable and accounts payable and accrued liabilities approximate their recorded amounts because of their short-term nature.

13 - NAME CHANGE:

By articles of amendment dated April 21, 2006 the Company changed its name from JML Resources Ltd. to Aquila Resources Inc.

14 - SUBSEQUENT EVENTS:

Subsequent to December 31, 2006, 706,167 common shares were issued for cash proceeds of $425,600 on exercise of options to certain officers, directors and consultants.

The Company issued 1,400,000 stock options with an exercise price of $2.15 from the Plan.

The Company has received conditional listing approval to list on the TSX.