AQUILA RESOURCES INC.
(A Development Stage Enterprise)

INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
(Unaudited – Prepared by Management)

JUNE 30, 2006

UNAUDITED FINANCIAL STATEMENTS: In accordance with National Instrument 51 – 102 of the Canadian securities administrators, the Company discloses that its auditors have not reviewed the unaudited interim consolidated financial statements for the period ended June 30, 2006.

AQUILA RESOURCES INC.
(A Development Stage Enterprise)

INTERIM CONSOLIDATED BALANCE SHEET
(Unaudited – Prepared by Management)

	June 30, 2006 (Unaudited)	Dec. 31, 2005
ASSETS		
CURRENT		
Cash	$2,296,645	$ 279
Accounts receivable	41,202	7,900
Prepaid expenses	15,112	12,042
	$2,352,959	$ 20,221
PROPERTY AND EQUIPMENT (note 4)	731,937	736,633
MINERAL PROPERTIES (note 5)	5,536,535	4,602,559
	$8,621,431	$5,359,413
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	$ 528,343	$ 236,002
Current-portion of mortgage payable (note 6)	22,538	23,208
Notes payable (note 7)	184,182	427,562
Loans payable (note 7)	0	91,311
	$ 735,063	$ 778,083
LONG-TERM PORTION OF MORTGAGE PAYABLE (note 6)	361,806	395,363
OBLIGATION TO ISSUE SHARES	5,796	9,838
SHAREHOLDER’S EQUITY		
SHARE CAPITAL (note 8)	8,616,493	4,923,871
CONTRIBUTED SURPLUS (note 8e)	1,839,626	-
DEFICIT	(2,937,353)	(747,742)
	7,518,766	4,176,129
	$8,621,431	**$5,359,413**

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

AQUILA RESOURCES INC.
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INTERIM CONSOLIDATED BALANCE SHEET
(Unaudited – Prepared by Management)

	Three month ended June 30		Six months ended June 30	
	2006	2005	2006	2005
EXPENSES				
Amortization	$ 2,314	$ 2,625	$ 4,695	$ 5,096
Business development	945	364	945	975
Consulting fees	123,494	-	123,494	-
Financing fees	-	-	2,381	14,466
Foreign exchange loss (gain)	(20,165)	120	(47,820)	221
General, office and administration	31,363	1,667	33,439	7,760
Interest and bank charges	11,771	7,066	28,447	20,236
Management fees	6,105	-	14,111	42,335
Professional fees	57,079	-	62,471	2,009
Rent	3,002	-	3,002	-
Stock-option Compensation cost	1,839,626	-	1,839,626	-
Telecommunications	412	1,433	1,600	4,420
Travel and promotion	29,193	5,097	37,590	7,487
Wages	48,678	65,473	85,630	130,286
NET LOSS FOR THE PERIOD	(2,133,817)	(83,845)	(2,189,610)	(235,291)
DEFICIT AT BEGINNING OF THE PERIOD	(803,536)	(536,273)	(747,742)	(384,827)
DEFICIT AT END OF THE PERIOD	**(2,937,353)**	**(620,118)**	**(2,937,353)**	**(620,118)**
Basic and diluted loss per share	**($0.05)**	**($0.01)**	**($.015)**	**($0.02)**

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

AQUILA RESOURCES INC.
(A Development Stage Enterprise)

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

	Three months ended June 30, 2006		Six months ended June 30, 2006	
	2,006	2,005	2,006	2,005
CASH PROVIDED BY OPERATING ACTIVITIES				
Net loss for the period	($2,133,817)	($83,845)	($2,189,610)	($235,291)
Add items not affecting cash:				
Amortization	2,314	2,625	4,695	5,096
Stock-option compensation cost	1,839,626	-	1,839,626	-
Financing fees	-	-	2,381	14,466
Net changes in working capital balances:				
Decrease (increase) in accounts receivable	(32,754)	800	(33,302)	(2,988)
Decrease (increase) in prepaid expenses	706	-	(3,062)	(2,274)
Due to related parties	-	-	-	47,609
Increase (decrease) in accounts payable and accrued liabilities	200,173	29,222	292,340	171,739
Cash provided by (used in) operations	(123,752)	(51,198)	(86,933)	(1,643)
CASH USED IN INVESTING ACTIVITIES:				
Increase in property and equipment	-	-	(871)	-
Mineral property expenditures	(606,194)	(150,182)	(933,976)	(249,847)
Cash used in investing	(606,194)	(150,182)	(934,847)	(249,847)
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES:				
Decrease in mortgages payable	(28,983)	-	(34,227)	(11,385)
Loans and advances	(629,100)	-	(331,785)	2,923
Notes payable	(2,787)	-	119	-
Issue of common shares	3,686,826	259,438	3,686,826	259,438
Cash used in financing	3,025,956	259,438	3,318,146	250,976
INCREASE (DECREASE) IN CASH POSITION	2,296,010	(386)	2,296,366	(514)
CASH POSITION AT BEGINNING OF THE PERIOD	635	959	279	959
CASH POSITION AT END OF THE PERIOD	$2,296,645	$445	$2,296,645	$445

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

AQUILA RESOURCES INC.
(A Development Stage Enterprise)

NOTES TO FINANCIAL STATEMENTS
(Unaudited)

June 30, 2006

1 - 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 for three (1:3) 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 (1:1) 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. issued 1,230,000 post-consolidation common shares in the Company and 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. issued a total of 525,425 post-consolidation common shares and 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.

2 – NATURE OF OPERATIONS:

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.

AQUILA RESOURCES INC.
(A Development Stage Enterprise)

NOTES TO FINANCIAL STATEMENTS
(Unaudited)

June 30, 2006

3 - SIGNIFICANT ACCOUNTING POLICIES:

These financial statements are reported in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles.

BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of Aquila Resources Inc.'s wholly owned subsidiary Aquila Resources Corp. and its subsidiaries.

ESTIMATES

The financial statements of the Company have been prepared in accordance with generally accepted accounting principles in Canada. Precise determination of amounts of some assets and liabilities is dependent on future events. This requires that management make estimates in the preparation of financial statements. Actual results could vary from the estimates.

PROPERTY AND EQUIPMENT

Property and equipment consists of land and building and are recorded at cost. Buildings are amortized on the declining balance basis at a rate of 4% per annum.

MINERAL PROPERTIES

Mineral properties, including acquisition and exploration expenditures, have been recorded at cost. These costs are deferred, or capitalized, until commencement of commercial mining operations, when the deferred costs applicable to the specific property will be amortized on the unit of production basis. If in any year the interests in specific properties are disposed of, or abandoned, the applicable deferred expenditures will be written off in that year.

Costs include the cash consideration paid and the fair market value of any common shares issued on the acquisition of mineral properties.

FINANCIAL INSTRUMENTS

Financial instruments are initially recorded at cost. The carrying value of accounts receivable and accounts payable and accrued liabilities approximates fair value due to their short-term nature.

Fair value estimates are made at each balance sheet date based on relevant market information and information about the financial instruments.

AQUILA RESOURCES INC.
(A Development Stage Enterprise)

NOTES TO FINANCIAL STATEMENTS
(Unaudited)

June 30, 2006

3 - SIGNIFICANT ACCOUNTING POLICIES (continued):

INCOME TAXES

Future income tax assets and liabilities are determined based on differences between the financial statements carrying values and their respective income tax basis generally using the enacted income tax rates at each balance sheet date. Future income tax assets also arise from unused loss carry forwards and other deductions. The amount of the future income tax asset recognized is limited to the amount that is more likely than not to be realized. The estimated realizable amount is reviewed annually and adjusted, if necessary, by use of a valuation allowance.

STOCK-BASED COMPENSATION PLAN

At June 30, 2006 the Company has certain stock options outstanding. The Company has adopted the recommendations of the CICA handbook regarding accounting of stock-based compensation plans. Therefore, the Company adopted the fair value based method of accounting for stock-based compensation. Amounts recognized as stock-based compensation expense in a period are included as an addition to Contributed Surplus.

LOSS PER SHARE

Basic loss per share is computed using the weighted average number of common shares outstanding during the year. Diluted loss per share is calculated giving effect to the potential dilution that would occur if securities or other contracts to issue common shares were exercised or converted to common shares using the treasury stock method. The treasury stock method assumes that proceeds received from the exercise of stock options and warrants are used to redeem common shares at the prevailing market value.

FLOW-THROUGH SHARES

The Company finances a portion of its exploration program with flow-through common shares issues. Income tax deductions relating to these expenditures are claimable only by the investors. Proceeds from common share issues pursuant to flow-through financings are credited to capital stock.

ASSET RETIREMENT OBLIGATION

Effective January 1, 2005 the Company adopted the CICA Handbook Section 3110, “Asset Retirement Obligations”, which established standards for asset retirement obligations and the associated retirement costs related to site reclamation and abandonment. The fair value of the liability for an asset retirement obligation is recorded when it is incurred or can be reasonable estimated, and the corresponding increase to the asset is depreciated over the life of the asset. The liability is increased over time to reflect an accretion element considered in the initial measurement at fair value. As at June 30, 2006, the Company has not incurred or committed any asset retirement obligations related to the development of its exploration properties.

AQUILA RESOURCES INC.
(A Development Stage Enterprise)

NOTES TO FINANCIAL STATEMENTS
(Unaudited)

June 30, 2006

4 - PROPERTY AND EQUIPMENT:

	June 30, 2006		
	Cost	**Accumulated Amortization**	**Net Book Value**
Land	$ 480,000	$ -	$ 480,000
Buildings	271,365	19,428	251,937
Total assets	$ 751,365	$ 19,428	$ 731,937

	December 31, 2005		
	Cost	**Accumulated Amortization**	**Net Book Value**
Land	$ 480,000	$ -	$ 480,000
Buildings	271,366	14 ,733	256,633
Total assets	$ 751,366	$ 14,733	$ 736,633

5 - MINERAL PROPERTIES:

Mineral properties are carried at cost and capitalized costs include acquisition and exploration costs as follows

	June 30, 2006	December 31, 2005
Back Forty	$ 4,767,762	$ 3,833,786
Cedros	768,773	768,773
	$ 5,536,535	$ 4,602,559

The title to the Cedros Property, located in Honduras, is not currently in the Company name due to a current moratorium by the government of Honduras regarding the status of its mining laws and issue and transfer of mineral concessions. If the Company is unable to obtain legal title, 1,000,000common shares (currently held in escrow) issued as consideration for the property purchase will be cancelled.

AQUILA RESOURCES INC.
(A Development Stage Enterprise)

NOTES TO FINANCIAL STATEMENTS
(Unaudited)

June 30, 2006

6 - MORTGAGES PAYABLE:

The President and Assistant Corporate Secretary are the mortgagors on two mortgages secured by certain buildings and land at the Back Forty property. These mortgaged properties are being held in trust for the benefit of the Company and the monthly principal, interest, taxes and other amounts payable on the mortgages are billed to the Company. As consideration for carrying these mortgages for the Companies benefit, it has agreed to pay the director and his spouse a financing fee based on the principal amounts outstanding on the mortgages.

In addition, the Company has agreed to pay a corporate shareholder of the Company a financing fee of $6,000 per annum for granting the company an option on property it may require for the development of the Back Forty property.

7 - LOANS and NOTES PAYABLE:

During the period notes payable totalling US$340,000 were repaid including US$ 325,000 to a director of the Company.

8- SHARE CAPITAL

a) Authorized

Unlimited number of common shares.

b) Issued

Common shares

	2005	
	Shares	**Amount**
Balance, December 31, 2005	27,326,908	$3,706,902
1:3 Consolidation	9,109,271	3,861,462
Broker Shares	525,435	121,754
Conversion of preference shares	1,274,377	764,627
Pre RTO Aquila shareholders	16,355,482	-
Issued for cash to 2079537 Ontario Ltd. shareholders	10,599,500	2,119,900
Subscription receipts	1,230,000	246,000
Exercise of warrants	5,009,500	1,502,750
Balance, June 30, 2006	44,103,246	$8,616,493

c) Preference shares

At December 31, there were 3,823,130 preference shares issued and outstanding with a stated capital amount of $764,627. These were converted to common shares during the period which resulted in the issuance of 1,274,377 post consolidation common shares.

d) Warrants

The following warrants are outstanding as at June 30, 2006:

Number Outstanding After Merger	Exercised during Period	Balance as at June 30, 2006	Exercise Price	Expiry Date
272,279	0	272,279	$0.90	December 31, 2006
520,000	0	520,000	$0.15 (US)	December 29, 2006
13,277,968(1)	5,009,368	8,268,632	$0.30	Nov.29,2007 to Jan.18,2008
14,070,247	5,009,368	9,060,911		

(1) Warrants can be accelerated if the share price exceeds $0.45 for 20 business days.

e) Stock options

The company granted 3,880,000 options to directors, officers and consultants. Of the options are 3,600,000 are fully vested. The Company recorded compensation expense in the amount of $1,839,626 using the fair value method.

The fair value is determined using the Black-Scholes pricing method with the following assumptions:

Expected life	4.54 years
Price volatility	115%
Dividend yield	0
Risk-free interest rate	4.14

3,880,000 options were issued during the period with a weighted average exercise price of $0.49 and a weighted average life of approximately 4.5 years.

9 - INCOME TAXES:

The company has provided a full valuation allowance against future tax assets as at June 30, 2006 due to uncertainties in the Company's ability to utilize these future tax benefits.

The Company has approximately $1,980,000 of non-capital losses carried forward to reduce future taxable income. These losses fully expire in 2015.

10 - RELATED PARTY TRANSACTIONS:

For the quarter ended June 30, 2006, management fees paid of $12,000 were paid to a company controlled by an officer and director of the Company.

A total of US$569,930 was paid for operations at the Back Forty Project to a geological consulting company of which the President and a director were major shareholders. A management fee calculated on a percentage of wages payable was included in the amount paid to the geological consulting firm.

The Company paid legal fees of $19,296 for the quarter to a firm in which an officer of the Company is also a partner of the law firm.

AQUILA RESOURCES INC.
(A Development Stage Enterprise)

NOTES TO FINANCIAL STATEMENTS
(Unaudited)

June 30, 2006

Rental expenditures in the amount of $3,903 were charged to a company of which a director is also a director of the Company.

A portion of notes payable are due to a company of which a director is also a director of the Company.

Transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

11 - PRO FORMA LOSS PER SHARE:

Loss per share has been adjusted to reflect the share transactions pursuant to the terms of the Transaction as described in note 1 as set out below:

	June 30,2006
Basic and diluted pro forma loss per share computation	
Pro forma loss for the period	$ 2,133,817
Aquila common shares outstanding before acquisition	16,355,482
Aquila common shares 1 for 3	49,066,466
Common shares of JML outstanding	27,326,908
Mustang preferred shares converted into common shares 1 for 1	3,823,130
Total common shares outstanding before consolidating JML shares 3 to 1	80,216,504
Common shares consolidated 3 to1	26,738,834
Common shares issued for cash	16,839,000
Pro forma weighted-average common shares outstanding	41,598,565
Basic and diluted pro forma loss per share computation	$ 0.05