AQUILA RESOURCES INC.
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2006 (Q2)

The following discussion of performance, financial condition and future prospects should be read in conjunction with the consolidated financial statements of the Company dated June 30, 2006, which were prepared in accordance with generally accepted accounting principals (GAAP) in Canada. Additional information is contained in the Annual and Special Meeting and Management Proxy and Information Circular of JML Resources Ltd. and Aquila Resources Corp. dated March 22, 2006. The Company's shares are listed on the TSX Venture Exchange under the symbol AQA, and its reporting currency is the Canadian dollar. Prior to the current period the reporting currency has been U.S. dollars. All amounts following are expressed in Canadian dollars unless otherwise stated. This Management, Discussion and Analysis (MD&A) is dated August 29, 2006.

Forward Looking Statements

This report may contain forward-looking statements that involve a number of risks and uncertainties including statements regarding the outlook for the Company's business and operational results. By nature, these risks and uncertainties could cause actual results to differ materially from what has been indicated. Factors that could cause actual results to differ materially from any forward-looking statement include, but are not limited to, failure to establish estimated resources and reserves, the grade and recovery of ore which is mined from estimates, capital and operating costs varying significantly from estimates, delays in or failure to obtain governmental, environmental or other project approvals and other factors including those risks and uncertainties identified above. The Company undertakes no obligation to update publicly or otherwise revise any forward-looking information as a result of new information, future results or other such factors which affect this information, except as required by law.

1. Overview

Aquila Resources Inc. (formerly JML Resources Ltd.) was incorporated in the Province of Ontario as 1223068 Ontario Limited by Articles of Incorporation dated February 17, 1997.

At a Special Meeting of shareholders of JML Resources Ltd (JML) held on April 17, 2006. It was approved that JML:

(a) Amend its Articles to change its name to Aquila Resources Inc.
(b) Consolidate its common shares on a one for three (1:3) basis.
(c) Acquire the issued and outstanding shares of Aquila Resources Corp. and 2079537 Ontario Ltd. (Cashco) as a reverse takeover of JML.

The Company carries on the business of mineral exploration and is a mineral exploration company. Exploration expenditures on the Company's projects are funded from the equity capital raised by the Company. Aquila Resources Corp. entered into a reverse takeover transaction with JML (the "Merger") for the purpose of becoming a public reporting issuer, raising financing and continuing mineral exploration with the focus on a volcanogenic massive sulfide (VMS) project located in the state of Michigan, U.S.A. The principal focus of the resulting company is the exploration of the Back Forty Project located in Menominee County, Michigan.

The Back Forty Project is an advanced exploration project with an identified inferred resource of 3.1 million tonnes with grades of 6.8% zinc, 0.25% copper, 32 grams/tonne (g/t) silver, and 2.0 g/t gold. The resource estimate was confirmed and deemed creditable pursuant to National Instrument 43-101 standards in a technical report dated August 17, 2005 by DeMatties and Monroe Geological Consultants and first reported in a press release dated August 25, 2005 by JML Resources Ltd. The Back Forty Project is located within early Proterozoic aged volcanic rocks of Michigan, the eastern extension of the Penokean Volcanic Belt ("PVB") of the Southern Province of the Superior Craton. The PVB hosts several other significant VMS deposits including the Flambeau and the Crandon deposits which lie approximately 50 miles west of the Back Forty Project area.

At the Back Forty Project, three lenses of zinc and gold-rich massive sulfide and associated gossan mineralization have been identified to date in a thick, intensely altered, and locally gold-bearing sequence of rhyolites, tuffaceous sediments, and intrusive porphyries. Aquila currently controls approximately 9,400 acres (3,807 hectares) of mineral and surface rights in the immediate vicinity of the sulfide mineralization, as well as along the trend of prospective host rocks. The known sulfide zones are open to expansion and ground and airborne geophysical surveys indicate potential extensions of known zones as well as possible additional horizons.

Ownership of mineral interests are 100% 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. There is an overriding 7% net distributable earnings royalty payable to a former joint venture partner.

2. Operating Highlights

The current exploration is targeting extensions of previously discovered gold mineralization and zinc bearing volcanogenic massive sulfides. As of the date hereof the Company has released drill results from drill holes LK-72 through LK-87. Results from drilling are contained in press releases found on SEDAR at www.sedar.com as well as on the Company's website at www.aquilaresource.com.

The net loss recorded by the Company for the three month period ending June 30, 2006 was $2,133,817 compared to the net loss of $83,845 for the comparable 2005 quarter. The net loss recorded for the six months ended June 30, 2006 was $2,189,611 compared to a net loss of $235,291 for the 2005 six month period. The 2006 period post May 2, 2006 marked the start of the Company operating as a public company following the Merger.

The Company is a reporting issuer in Ontario, B.C., Alberta, Saskatchewan and Nova Scotia.

3. Selected Financial Information

As an exploration company, the Company has no revenues. 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.

	QUARTER ENDED JUNE 30		*YEAR ENDED DECEMBER 31*	
	2006	*2005*	*2005*	*2004*
Interest and other income and gain on sale of marketable securities	$ -	$ -	$ -	$ -
Operating Expenses	$2,133,817	$83,845	$520	US$326,378
Net loss (gain)	$2,133,817	$83,845	$441,508	US$326,378
Loss (gain) per share	$(0.04)	$(0.01)	$(0.02)	US$(0.03)
Mining interest	$5,536,535	$3,860,523	$4,602,559	US$3,223,818
Cash	$2,296,645	$445	$279	US$786
Total assets	$8,621,431	$3,817,880	$5,359,413	US$3,806,869

4. Results from Operations

The Company's operations involve exploration of its mineral exploration property located in Menominee County, Michigan. The Company has no income from its operations. During the six month period ending June 30, 2006 the Company incurred a loss of $2,133,817 ($0.04) per share. The comparable loss for the prior year period was $83,845. The Company commenced operations as a public company May 2, 2006 with proceeds of the financing arranged as part of the reverse takeover transaction of JML Resources Ltd. by Aquila Resources Corp. The large net loss for the period was attributable to the Stock Option Compensation cost of $1,839,626 booked during the period.

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.

6. Expenses

	For the quarter ending June 30, 2006	For the quarter ending June 30, 2005
Stock Option Compensation Cost	$1,839,626	$0
Consulting Fees	123,494	0
Foreign Exchange loss (gain)	(20,165)	120
General Office Administration	31,363	1,667
Travel and Promotion	29,192	5,097
Professional fees	57,079	0

During the quarter ending June 30, 2006, the Company incurred total expenses in the amount of $2,133,817. Material variances were noted in the expense categories presented above as the Company incurred additional costs relating to the business commencing operation as a public company. Stock Option Compensation Cost and Consulting Fees (unrelated to mineral interests) were material factors. Travel and promotion increased significantly as did professional fees.

7. Exploration Expenditures

Drilling and other exploration expenditures are capitalized. Exploration expenditures in the quarter ended June 30, 2006 showed increased levels as the Company commenced a drilling program aimed at expanding the Back Forty Project mineral resource and discovering new resources. A breakdown of exploration expense for the quarter is presented below. All of the exploration expenditures were incurred on the Back Forty Project.

8. Exploration and Development Expenditures for the Quarter

	Back Forty Project
Wages	$77,086
Assays	$18,684
Geophysics	$24,413
Drilling	$341,745
Consulting	$8,043
Operator	$82,457
Other	$17,322
Total	$569,930

9. Summary of Quarterly Results

Selected financial information for the eight fiscal quarters of 2006 and 2005 are presented below:

Quarterly Financial Information (unaudited)

	2006 Q2	**2006 Q1**	**2005 Q4**	**2005 Q3**
(a) Revenue	-	-	-	-
(b) Net Income (loss)	($2,133,817)	(55,793)	US$(56,471)	$(66,094)
(c) Net Income (loss) per share (Basic & Fully Diluted)	($2,133,817)	($0.01)	($0.01)	$(0.01)
	2005 Q2	**2005 Q1**	**2004 Q4**	**2004 Q3**
(a) Revenue	-	-		
(b) Net Income (loss)	$(83,845)	$(151,446)	US$(50,875)	*US$(275,403)
(c) Net Income (loss) per share (Basic & Fully Diluted)	$(0.01)	$(0.01)	(US$0.01)	(US$0.03)

** from period of inception to Sept.30,2005*

10. Financial Condition

Liquidity and Capital Resources

The Company has no significant revenues and no expectation of significant revenues in the near term.

The proceeds of the financing related to the merger that was held in escrow were released to the Company. Net of accrued expenses the approximate net proceeds available to the Company from the financing were $1.4 million. Additional funds were received from the exercise of warrants during the period of approximately $1.5 million. The cash position at the quarter ended June 30, 2006 was $2,296,645 compared to the cash position at March 31, 2006 of $543. The Company received a GST rebate from Revenue Canada during the period of $35,310.

Liabilities at June 30, 2006 consist of trade payables of $528,343. The outstanding geological program invoice for June due to the program operator ($342,000) was the majority of this amount. Notes payable of $84,537 is due for management consulting expenses due to a company with joint directors. These amounts were billed at prevailing industry rates. There is an additional outstanding notes payable due to a private company which loaned the Company US$75,000.

The Company has sufficient funds on hand to finance the operations of the Company in the near term. The Company remains dependent on equity financing to fund its ongoing requirements beyond the closing. Alternative sources of equity is funding from industry partners through joint ventures.

Contractual Obligations

The Company has contractual obligations with respect to the Back Forty Project located in Menominee County, Michigan.

The Company entered into an Investor Relations Consulting Agreement with Clark Avenue and Co. to provide investor relations services to the Company. The contract involves a cash payment of $5,000 per month. This contract can be terminated with three months prior notice.

The Company has a rental commitment on a month to month basis for office space at approximately $1,400 per month.

The Company is required to make principal payments on mortgages for land held by the Company for the purpose of exploration of which US$19,905 are payable in 2006 and US$18,719 were payable in 2005. A total of US$344,636 is due for mineral interests during 2006 of which US$280,500 consists of the exercise of a purchase option for a parcel of private land in the project area. This purchase option is with an arms length party under the terms of the option agreement under a price determined by an independent appraiser. It is in the normal course of business for the Company to add or to drop mineral interests based on exploration results.

11. Share Capital

Common Shares

There were 27,326,908 shares outstanding as of March 31, 2006. (March 31, 2005- 26,846,908) There were also 3,823,130 voting preference shares outstanding which were all held by Mustang Minerals Corp. (2004 – 3,823,130).

Under the terms of the Merger all classes of the Company's share capital were consolidated on a one for three basis. The Company issued 16,355,482 shares at a deemed purchase price of $0.20 to the shareholders of Aquila. 10,599,500 post-consolidation units consisting of one common share and one common share purchase warrant were issued to the shareholders of 2079537 Ontario Ltd. (a single purpose finance company) and 1,230,000 post-consolidation units consisting of one common share and one common share purchase warrant were issued upon conversion of 1,230,000 subscription receipts. The Company had 39,073,764 post consolidation shares outstanding immediately following completion of the Merger including shares issued for finder's fees and broker's commission relating to the financings.

Warrants

The Company issued 11,829,500 warrants as part of the financings related to the Merger. The warrants are exercisable into one common share at the exercise price of $0.30. A total of 1,125,576 broker warrants were also issued in conjunction with the financings. There are 272,279 warrants outstanding at an exercise price of $0.90 per share and 520,000 warrants exercisable at US$0.15 per share. During the period a total of 5,009,336 warrants were exercised with proceeds of $1,502,800.

Options

There were a total of 3,880,000 stock options outstanding at June 30, 2006 with exercise prices ranging from US$0.15 to $0.90. On May 2, 2006 a total of 2,200,000 stock options were cancelled pursuant to the terms of the Merger. The balance of the outstanding stock options was consolidated on a one for three basis. After the Merger 2,600,000 post consolidated stock options at an exercise price of $0.30 were granted to officers, directors and consultants of the Company. During the quarter 500,000 options were granted at an exercise price of $0.70 per share, 500,000 were granted at an exercise price of $1.25 per share and 100,000 options were granted at an exercise price of $1.00 per share. As at the date hereof there are 3,880,000 options outstanding.

12. Off-Balance Sheet Arrangements

As at June 30, 2006, the Company does not have off-balance sheet arrangements.

13. Transactions with Related Parties

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

Related party expenditures during the six month period were in the normal course of business. A consulting company (Minerals Processing Corporation) ("MPC") and Operator of the Back Forty Project, of which the President and a director of Aquila are shareholders, was paid US$908,399 as related to project operations during the first six months of 2006 of which a portion was paid to the President and the Assistant Corporate Secretary as project management and geological consulting fees. Of this amount US$518,556 includes drilling, analyses and geophysical expenses, $154,241 includes project wages and expenses, US$62,803 includes mortgages, lease and option payments, taxes and professional and legal services, US$12,783 includes environmental services, US$64,335 for corporate charges including wages, travel, and utilities, as well as a management fee calculated on a percentage of wages payable in the amount of US$95,681.

MPC charges a financing fee of US$6,000 per year as consideration for granting the Company the option to acquire certain real estate that may be acquired in connection with the development of the Back Forty Project.

The Company paid legal fees of $29,095 for the quarter to a firm in which an officer of the Company is also a partner of the law firm.

Rental expenditures in the amount of $3,903 were charged from a company with a related director.

The President and the Assistant Corporate Secretary are mortgagors on two mortgages secured by land and buildings at the Back Forty Project. The mortgaged properties are being held in trust for the benefit of the Company and the monthly payments are billed to and paid by the Company. The Company has agreed to pay a financing fee in conjunction with this arrangement. The financing fees for 2006 are estimated at US$9,626.

Transactions 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

Management 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 Officers (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, our Disclosure Policy, our Code of Business Ethics, the effective functioning of our Disclosure and Audit Committees, procedures in place to systematically identify matters warranting consideration of disclosure by the Disclosure Committee and verification processes for individual financial and non-financial metrics and information contained in annual and interim filings, including the financial statements, MD&As, 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 June 30, 2006. 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 June 30, 2006.

The CEO and CFO are also required, under Multilateral Instrument 52-109, to file certifications of our annual filings. Copies of these certifications may be found on SEDAR at www.sedar.com.

16. Accounting Standards and Policies - Critical Accounting Estimates

Critical accounting estimates that require judgment are used in the preparation of the consolidated financial statements. The carrying values of mining interests are the lower of the historic cost and the recoverability of the recorded value of the mining interests. The recoverability of the recorded value of mining interests is based on market conditions for minerals, the minerals associated with the properties and the future costs that could be required to develop the properties or the potential for the sale to a third party of the mining interests.

The Company has adopted the recommendations of The Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3870, Stock-based Compensation and Other Stock-based Payments in 2002. The Company has elected to account for all stock options by applying the fair value-based method of accounting. Options are valued using the Black-Scholes pricing model to value options granted. The resulting value is charged against income over the vesting period of the option. The method involves the use of estimates and may not be accurate.

17. Risks and Uncertainties

The Back Forty Project is the material mineral project of the Company and consequently unless the Company acquires additional similar quality properties or projects any adverse development affecting the Back Forty Project could have a material adverse effect on the Company. The other project of the Company is the Cedros Property which is located in Honduras. The Company has entered into an agreement to acquire title to the Cedros Property. As of the date hereof the title has not been transferred to the Company. If the title is not transferred 1,000,000 of the Company's shares, which are held in escrow, will be returned to the Company and cancelled.

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 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 and the possibility of legal challenges from environmental and aboriginal groups. These are not an exhaustive list of the risks associated with the business.

18. Subsequent Events

The Company entered into an agreement to option with the right to purchase the MRT Property which contains mineralized extensions of the resource at the Back Forty Project. The Company can complete the option to purchase by making cash payments of US$11.7 million over the period of 9 years. The initial cash payment was US$1.333 million. The agreement is with a group of arm's length vendors and can be accelerated at any time at the discretion of the Company. The next payment of US$1.333 million is due in August, 2007. Total option payments of US $4.5 million are due over the first five years of the option agreement.

19. Officers and Directors

As of June 30, 2006, the current officers and directors of the Company are:

Thomas O. Quigley – President, CEO and Director
Robin E. Dunbar – CFO, Chairman and Director
Nadim Wakeam – Corporate Secretary
Robin Quigley – Assistant Corporate Secretary
Kenneth J. Lapierre – Director
Alvin W. Jackson – Director
Edward Munden – Director
Peter M.D. Bradshaw – Director
William J. West – Director

19. Additional Information

Additional information about the Company including financial statements, press releases and other filings are available on SEDAR at www.sedar.com.