

AQUILA RESOURCES INC.
(A Development Stage Enterprise)

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

FOR THE NINE MONTHS ENDED

SEPTEMBER 30, 2006 AND 2005

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 September 30, 2006.

AQUILA RESOURCES INC.
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INTERIM CONSOLIDATED BALANCE SHEETS
(Unaudited- Prepared by Management)

	September 30, 2006 (unaudited)	December 31, 2005
ASSETS		
CURRENT		
Cash	\$ 1,904,368	\$ 279
Deposit and accounts receivable	161,342	7,900
Prepaid expenses	<u>15,112</u>	<u>12,042</u>
	2,080,822	20,221
PROPERTY AND EQUIPMENT (note 4)	729,623	736,633
MINERAL PROPERTIES (note 5)	<u>7,913,955</u>	<u>4,602,559</u>
	<u>\$ 10,724,400</u>	<u>\$ 5,359,413</u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 271,665	\$ 236,002
Current portion of mortgages payable (note 6)	22,538	23,208
Notes payable (note 7)	-	427,562
Loans payable (note 7)	<u>-</u>	<u>91,311</u>
	294,203	778,083
LONG TERM PORTION OF MORTGAGES PAYABLE (note 6)	358,664	395,363
OBLIGATION TO ISSUE SHARES	5,796	9,838
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (note 8)	11,345,303	4,923,871
CONTRIBUTED SURPLUS (note 8(d))	1,839,626	-
DEFICIT	<u>(3,119,192)</u>	<u>(747,742)</u>
	<u>10,065,737</u>	<u>4,176,129</u>
	<u>\$ 10,724,400</u>	<u>\$ 5,359,413</u>
Approved by the Board:		
"Edward Munden" _____ Director		
"Robin E. Dunbar" _____ Director		

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

AQUILA RESOURCES INC.
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INTERIM CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT
(Unaudited- Prepared by Management)

	Three months ended September 30,		Nine months ended September 30,	
	2006	2005	2006	2005
EXPENSES				
Amortization	\$ 2,314	\$ 2,476	\$ 7,009	\$ 7,572
Consulting fees	11,900	-	135,394	-
Financing fee	-	-	2,381	10,660
Foreign exchange loss (gain)	7,289	(3,821)	(40,531)	215
General, office and administration	3,705	3,816	51,542	16,962
Interest and bank charges	20,639	9,654	49,086	29,890
Management fees	24,980	16,972	39,091	59,307
Professional fees	53,179	10,247	115,650	12,256
Rent	1,874	-	4,876	-
Stock-option compensation cost	-	-	1,839,626	-
Travel and promotion	11,853	2,242	37,590	9,729
Wages	<u>44,106</u>	<u>60,311</u>	<u>129,736</u>	<u>190,597</u>
NET LOSS FOR THE PERIOD	(181,839)	(101,897)	(2,371,450)	(337,188)
DEFICIT AT BEGINNING OF THE PERIOD	(<u>2,937,353</u>)	(<u>620,118</u>)	(<u>747,742</u>)	(<u>384,827</u>)
DEFICIT AT END OF THE PERIOD	(\$ <u>3,119,192</u>)	(\$ <u>722,015</u>)	(\$ <u>3,119,192</u>)	(\$ <u>722,015</u>)
Basic and diluted loss per share	(\$ <u>0.00</u>)	(\$ <u>0.01</u>)	(\$ <u>0.07</u>)	(\$ <u>0.03</u>)

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AQUILA RESOURCES INC.
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INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited- Prepared by Management)

	Three months ended September 30,		Nine months ended September 30,	
	2006	2005	2006	2005
CASH PROVIDED BY (USED IN)				
OPERATING ACTIVITIES:				
Net loss for the period	(\$ 181,839)	(\$ 101,897)	(\$ 2,371,450)	(\$ 337,188)
Add items not affecting cash:				
Amortization	2,314	2,476	7,009	7,572
Financing fee	-	-	2,381	10,660
Stock-option compensation cost	-	-	1,839,626	-
Net changes in non-cash working capital balances:				
Increase in accounts receivable	(120,140)	(1,582)	(153,442)	(4,564)
Due to related parties	-	16,107	-	63,716
Increase in prepaid expenses	-	(2,985)	(3,070)	(5,259)
Increase (decrease) in accounts payable and accrued liabilities	<u>(256,678)</u>	<u>7,875</u>	<u>35,663</u>	<u>183,420</u>
Cash used in operations	<u>(556,343)</u>	<u>(80,006)</u>	<u>(643,283)</u>	<u>(81,643)</u>
CASH USED IN				
INVESTING ACTIVITIES:				
Increase in property and equipment	-	-	(871)	-
Mineral properties	<u>(2,377,420)</u>	<u>(64,874)</u>	<u>(3,311,396)</u>	<u>(314,727)</u>
Cash used in investing	<u>(2,377,420)</u>	<u>(64, 874)</u>	<u>(3,312,267)</u>	<u>(314,727)</u>
CASH PROVIDED BY (USED IN)				
FINANCING ACTIVITIES:				
Loans and advances	-	147,150	(91,311)	152,492
Notes payable	(184,182)	3,060	(427,562)	3,060
Decrease in mortgage payable	(3,142)	(5,663)	(37,369)	(17,048)
Issue of common shares	<u>2,728,810</u>	<u>-</u>	<u>6,415,881</u>	<u>257,019</u>
Cash provided by financing	<u>2,541,486</u>	<u>144,547</u>	<u>5,859,639</u>	<u>395,523</u>
INCREASE (DECREASE) IN CASH POSITION DURING THE PERIOD	(392,277)	(333)	1,904,089	(847)
CASH POSITION AT BEGINNING OF THE PERIOD	<u>2,296,645</u>	<u>445</u>	<u>279</u>	<u>959</u>
CASH POSITION AT END OF THE PERIOD	<u><u>\$ 1,904,368</u></u>	<u><u>\$ 112</u></u>	<u><u>\$1,904,368</u></u>	<u><u>\$ 112</u></u>

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

AQUILA RESOURCES INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005
(Unaudited- Prepared by Management)

1 - REVERSE TAKEOVER:

A reverse takeover transaction ("RTO") 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. 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 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.

3 - SIGNIFICANT ACCOUNTING POLICIES:

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

AQUILA RESOURCES INC.
(A Development Stage Enterprise)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005
(Unaudited- Prepared by Management)

3 - SIGNIFICANT ACCOUNTING POLICIES (continued):

BASIS OF CONSOLIDATION

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

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.

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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005
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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 September 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.

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 reasonably 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 September 30, 2006, the Company has not incurred or committed any asset retirement obligations related to the development of its exploration properties.

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4 - PROPERTY AND EQUIPMENT:

	Period ended September 30, 2006		
	Cost	Accumulated Amortization	Net Book Value
Land	\$ 480,000	\$ -	\$ 480,000
Buildings	<u>271,365</u>	<u>21,742</u>	<u>249,623</u>
Total assets	<u>\$ 751,365</u>	<u>\$ 21,742</u>	<u>\$ 729,623</u>

	Year ended December 31, 2005		
	Cost	Accumulated Amortization	Net Book Value
Land	\$ 480,000	\$ -	\$ 480,000
Buildings	<u>271,366</u>	<u>14,733</u>	<u>256,633</u>
Total assets	<u>\$ 751,366</u>	<u>\$ 14,733</u>	<u>\$ 736,633</u>

5 - MINERAL PROPERTIES:

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

	Period ended September 30, 2006	Year ended December 31, 2005
Back Forty	\$ 7,145,182	\$ 3,833,786
Cedros	<u>768,773</u>	<u>768,773</u>
	<u>\$ 7,913,955</u>	<u>\$ 4,602,559</u>

The title to the Cedros property, located in Honduras, 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.

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6 - MORTGAGES PAYABLE:

A director of the Company and an officer of the company 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 Company's benefit, it has agreed to pay the related parties 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 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 advanced by a director of the Company. In addition, during the period the Company retired a US \$75,000 (C\$ 87,056) note on exercise of 520,000 US \$0.15 share purchase warrants. Liabilities due to a company with a related director were also repaid during the period.

8 - SHARE CAPITAL:

a) Authorized

Unlimited number of common shares

b) Issued

Common shares

	Shares	Amount
Balance, December 31, 2005 - JML	<u>27,326,908</u>	<u>\$ 3,706,902</u>
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
Exercise of options	151,333	45,399
Exercise of warrants	13,406,554	4,099,105
Issue of common shares on exercise of warrants for debt	520,000	87,056
Subscription receipts	<u>1,230,000</u>	<u>246,000</u>
Balance, September 30, 2006	<u>53,171,952</u>	<u>\$11,345,303</u>

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8 - SHARE CAPITAL (continued):

c) Issued (continued)

Preference shares

At December 31, 2005 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) Stock options

During the current period, the Company has outstanding 3,880,000 options granted to directors, officers and consultants. The options 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. During the period 151,333 options were exercised for cash consideration.

The following summarizes information on the stock options outstanding at September 30, 2006:

Weighted average exercise price	\$ 0.49
Numbers outstanding as at September 30, 2006	3,728,667
Remaining contractual life	4.5 years
Options exercisable as at September 30, 2006	3,728,667

e) Warrants:

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

Number Outstanding After RTO	Exercised during the period	Balance as at September 30, 2006	Exercise Price	Expiry Date
272,279	128,572	143,707	\$0.90	December 31, 2006
520,000	520,000	-	\$0.15(US)	December 29, 2006
13,277,968 ⁽¹⁾	13,277,968	-	\$0.30	Nov. 29, 2007 to Jan. 18, 2008
<u>14,070,247</u>	<u>13,926,540</u>	<u>143,707</u>		

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

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9 - INCOME TAXES:

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

The Company has approximately \$2,160,000 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 September 30, 2006, management and consulting fees of \$24,980 were charged to the Company by a Company controlled by officers and directors of the Company.

A total of US \$ 704,820 was charged to the operations at the Back Forty Project by a geological consulting Company of which the President and Directors are major shareholders in the Company. A management fee calculated on a percentage of wages payable was included in the amount charged by the geological consulting firm.

The Company were charged legal fees of \$31,016 for the quarter by a law firm whose partner is a director of the Company.

Rental expenditures in the amount of \$1,874 were charged by a Company with common directors.

See note 7 for additional related party information.

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

11- 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.

12- SUBSEQUENT EVENTS:

The Company purchased two properties for the Back Forty Project area for US\$353,500 and also entered into three option agreements for cash consideration totalling US\$105,000.

The Company has entered into an agreement for a brokered financing to raise up to \$25.6 million.