AQUILA RESOURCES INC.
(an exploration stage enterprise)

CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

DECEMBER 31, 2007

INDEX

AUDITORS' REPORT

To the Shareholders of
Aquila Resources Inc.:
(an exploration stage enterprise)

We have audited the consolidated balance sheets of Aquila Resources Inc. (the "Company", an exploration stage enterprise) as at December 31, 2007 and 2006 and the consolidated statements of loss, 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, 2007 and 2006 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"Edmund Cachia & Co. LLP"
CHARTERED ACCOUNTANTS
Licensed Public Accountants
Toronto, Ontario
February 21, 2008, Except as to Note 16 which is as of March 27, 2008

AQUILA RESOURCES INC.

(an exploration stage enterprise)

Consolidated Balance Sheets

(Expressed in Canadian Dollars)

As at December 31

	2007	2006
Assets		
Current		
Cash and cash equivalents	**$ 13,416,459**	$ 24,064,837
Accounts receivable	**78,280**	75,142
Funds held in trust (Note 7)	-	300,000
Prepaid expenses and deposits	**49,604**	54,024
	13,544,343	24,494,003
Deposits (Note 2)	**116,540**	116,540
Mineral property costs (Note 2)	**18,136,287**	9,281,217
Capital Assets (Note 3)	**776,005**	784,163
	$ 32,573,175	$ 34,675,923
Liabilities		
Current		
Accounts payable and accrued liabilities (Note 6)	**$ 919,386**	$ 597,700
Current portion of mortgages payable (Note 9)	-	24,668
	919,386	622,368
Long term portion of mortgages payable (Note 9)	-	370,555
Shareholders' Equity		
Share capital (Note 4)	**36,461,711**	35,582,542
Contributed surplus (Note 5)	**3,826,573**	1,894,913
Deficit	**(8,634,495)**	(3,794,455)
	31,653,789	33,683,000
	$ 32,573,175	$ 34,675,923

Approved on Behalf of the Board:

"*Edward J. Munden*" Director

"*Robin Dunbar*" Director

See accompanying notes to the financial statements.

AQUILA RESOURCES INC.

(an exploration stage enterprise)

Consolidated Statements of Loss and Deficit

(Expressed in Canadian Dollars)
for the years ended December 31

	2007	2006	Cumulative from the date of commencement of exploration stage January 16, 2004
Expenses			
Stock based compensation	**$ 2,360,307**	$ 2,224,220	$ 4,584,527
Amortization	**252**	139	21,124
Salaries and wages	**147,938**	140,348	708,357
Travel and promotion	**204,416**	163,968	423,845
Interest and bank charges	**1,671**	17,209	91,701
Filing and regulatory fees	**214,237**	25,534	240,125
Office, general and administration	**68,747**	34,418	167,288
Professional fees	**119,640**	150,347	336,248
Director's fees	**85,250**	-	85,250
Management fees	**145,000**	251,480	530,316
Consulting fees	**84,241**	81,829	166,070
Licenses, taxes and fees	**85,000**	-	85,000
Rent	**22,384**	10,496	32,880
Write-down of mineral property costs	**768,774**	-	768,774
Foreign exchange loss (gain)	**1,412,468**	(2,127)	1,378,808
Loss before undernoted	**5,720,325**	3,097,861	9,620,313
Interest and other income	**(880,285)**	(51,148)	(931,433)
Net loss for the period	**4,840,040**	3,046,713	$ 8,688,880
Deficit, beginning of period	**3,794,455**	747,742	
Deficit, end of period	**$ 8,634,495**	$ 3,794,455	
Loss per common share			
Basic and Diluted (Note 1)	**$ 0.07**	$ 0.08	
Basic	**69,954,477**	39,928,038	
Diluted	**70,586,619**	40,805,261	

See accompanying notes to the financial statements.

Consolidated Statements of Cash Flows

(Expressed in Canadian Dollars)
for the years ended December 31

	2007	2006	Cumulative from the date of commencement of exploration stage January 16, 2004
Cash flows from operating activities			
Net loss for the period	**$ (4,840,040)**	$ (3,046,713)	$ (8,688,880)
Adjustments for:			
Amortization	**252**	139	21,124
Financing fee	-	-	20,424
Stock based compensation	**2,360,307**	2,224,220	4,584,527
Write-down of mineral property costs	**768,774**	-	768,774
Interest accrual	-	-	1,913
Changes in non-cash working capital (Note 11)	**620,626**	(47,526)	667,153
Cash used in operations	**(1,090,081)**	(869,880)	(2,624,965)
Cash flows from investing activities			
Purchase of capital assets	**-**	(52,000)	(112,337)
Deposits	**-**	(116,540)	(116,540)
Mineral properties - acquisition	**(2,117,244)**	(1,971,019)	(4,088,263)
Mineral properties - exploration	**(7,496,351)**	(2,696,015)	(11,348,816)
Cash used in investing	**(9,613,595)**	(4,835,574)	(15,665,956)
Cash flows from financing activities			
Issuance of common shares	**452,600**	32,354,491	34,165,883
Issue cost	**(2,078)**	(2,186,158)	(2,188,236)
Notes payable	**-**	(283,662)	117,110
Repayment of mortgages payable	**(395,224)**	(23,348)	(461,548)
Loans payable	-	(91,311)	74,171
Cash provided by financing	**55,298**	29,770,012	31,707,380
Net increase (decrease) in cash	**(10,648,378)**	24,064,558	(18,290,921)
Cash and cash equivalents, beginning of period	**24,064,837**	279	-
Cash and cash equivalents, end of period	**$ 13,416,459**	$ 24,064,837	$ (18,290,921)

Supplemental cash flow information (Note 14)

See accompanying notes to the financial statements.

(Expressed in Canadian Dollars) for the years end December 31, 2007 and 2006

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. (the "Company");

the Company acquired all of the issued and outstanding securities of 2079537 Ontario Inc. on a one (1) for one (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. The Company 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. The Company 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.

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 considered to be a capital transaction. Canadian generally accepted accounting principles requires that the net assets of the public enterprise (the "Company") be treated as a credit to equity of the consolidated enterprise.

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; however, at the current time has decided not to proceed with the project and has fully written down the property.

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 exploration 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:

These consolidated financial statements are prepared in accordance with generally accepted accounting principles in Canada. Summarized below are these policies considered 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.

Deferred mineral property costs:

Property acquisition costs and related direct exploration costs are deferred until the properties are placed into mineral 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 market 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 and the assessment of the ability to recover capitalized costs based on technical, social and environmental issues.

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

Capital Assets:

Capital assets 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 the 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 related 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.

Revenue recognition:

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

Assets retirement obligation:

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-term asset, and this amount is subsequently allocated to expense over its expected life. Adjustments will also be made in subsequent periods to changes in asset retirement obligations due to changes in estimates. As at December 31, 2007, the Company does not have any asset retirement obligations.

Impairment of long-lived assets:

Long-lived assets, including capital assets and other assets, are reviewed for impairment whenever events or changes in circumstances indicates that the carrying mount 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 substantially-enacted tax rates expected to apply to taxable income in the years in which those temporary difference are expected to be reversed 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 the future income taxes currently has no effect on the consolidated financial statements of the fiscal periods presented.

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 shareholders 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: 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. The fully diluted loss per share has not been computed, as the effect would be anti-dilutive.

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.

Mineral property pre-acquisition costs:

The Company capitalizes pre-acquisition costs investigating potential property acquisition. 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.

New accounting pronouncements

Comprehensive income and equity:

Effective January 1, 2007, the Company adopted on a prospective basis, the new recommendations of CICA Handbook Section 1530, "Comprehensive Income" and Section 3251, "Equity". These sections establish standards for reporting and presenting certain gains and losses normally not included in net earnings or losses, such as unrealized gains and loses related to available-for-sale investments in a statement of comprehensive income. There was no impact on the consolidated financial statements in the current year.

Cumulative information for exploration stage companies:

The Company has adopted CICA Handbook Accounting Guideline #11 with respect to financial statement presentation for exploration stage companies. Accordingly, the statements of loss and cash flows have been altered to include a column outlining the cumulative revenues, expenses and cash flows from the date of commencement of exploration stage activities being January 16, 2004 to the fiscal year end date of the consolidated financial statements.

2. Mineral property costs and commitments:

Michigan, USA

Back Forty Project

The Back Forty Project controls approximately 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 option and property acquisition costs for 2007 were $2,117,244 (2006-$1,971,019). The entire project is subject to a 7% net distributable earnings royalty ("Net Profits after Payback") payable to a former joint venture partner.

(Expressed in Canadian Dollars) for the years end December 31, 2007 and 2006

2007	Balance beginning of year	Acquisition	Exploration	Recoveries	Write-down	Balance end of year
Michigan, USA						
Back Forty Project	$ 8,512,443	$ 2,117,244	$ 7,506,600	$ -	$ -	$ 18,136,287
Honduras						
Cedros Property	768,774	-	-	-	(768,774)	-
	$ 9,281,217	$ 2,117,244	$ 7,506,600	$ -	$ (768,774)	$ 18,136,287

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

Michigan, USA

Back Forty Project

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 installments 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 which was paid August 3, 2006, 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. During 2007 the Company made a cash payment of US $1,333,333 to maintain its interest in the property.

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

b) The Company purchased a property, held under option by a Geological Consulting Company of which the President, CEO and another Director are major shareholders for $586,421, including costs. The Company had made a $50,000 option payment on this property in 2006.

c) 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 option, the Company entered into a three-year option agreement, for an aggregate price payable 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, and US $1,000,000 in year three.

The Company renegotiated the option payment to US$12,000 for 2007 for a short term extension. Subsequent to year end the Company elected to terminate the option (see Note 16). No further commitments or encumbrances remain.

(Expressed in Canadian Dollars) for the years end December 31, 2007 and 2006

Honduras

Cedros Property

d) The Cedros property is located in Honduras. Title to this property is not currently in the Company's name due to a Honduras government moratorium on the 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. During 2007, the Company continued 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. In December 2007, the Company decided to write down the property by $768,774.

Future Commitments

Estimated lease, option and property acquisition costs in each of the next two fiscal years are as follows:
2008 - US$2,108,726; 2009 - US$318,323.

3. Capital Assets:

	2007			2006
	Cost	**Accumulated amortization**	**Net book value**	Net book value
Land	**$ 482,253**	**$ -**	**$ 482,253**	$ 482,253
Buildings	**329,079**	**35,327**	**293,752**	301,910
	$ 811,332	**$ 35,327**	**$ 776,005**	$ 784,163

During the year, amortization amounting to $10,249 (2006 $11,624) 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

(Expressed in Canadian Dollars) for the years end December 31, 2007 and 2006

Issued for cash / on exercise of warrants	13,550,247	4,198,442
Fair value of options exercised	-	329,307
Share issue costs	-	(2,362,563)
Issued at December 31, 2006	69,313,311	35,582,542
Issued for cash / on exercise of options	796,167	452,600
Fair value of options exercised	-	428,647
Issue costs	-	(2,078)
Issued at December 31, 2007	70,109,478	$ 36,461,711

c) Warrants

The following summarizes warrants that have been issued:

	Number of Warrants	
	2007	**2006**
Balance, beginning of year	**8,843,635**	520,000
Warrants issued on issuance of shares for cash	**-**	19,587,075
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**	8,843,635

As at December 31, 2007, 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, subject to applicable discounts, on the business day immediately proceeding the date the option is granted. The options are non-transferable.

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, 2007 have been valued at $2,306,307, and expensed to loss, using the following assumptions at the measurement date:

	2007	2006
Risk-free interest rate	4.12%	4.14%
Expected life	4.3 years	5 years
Price volatility	115%	115%
Dividend yield	Nil	Nil

(Expressed in Canadian Dollars) for the years end December 31, 2007 and 2006

A summary of the status of the Company's stock option plan as of December 31, 2007 and 2006, and changes during the years are presented below:

	2007		2006		
	Shares	Weighted average exercise price	Shares		Weighted average exercise price
Outstanding at beginning of the year	3,646,167	0.35	1,000,000	$	0.35
Exercised	(796,167)	0.37	(633,833)		0.30
Expired	-	-	(1,000,000)		0.35
Granted	1,700,000	2.04	4,280,000		0.60
Outstanding at end of the year	4,550,000	1.17	3,646,167	$	0.65

The following summarizes information on the stock options outstanding at December 31, 2007:

Weighted average exercise price	$ 1.17
Options outstanding as at December 31, 2007	4,550,000
Remaining contractual life	3.92 years
Options exercisable as at December 31, 2007	4,550,000

e) Escrowed shares

Of the Company's issued share capital, 13,808,669 common shares were held in escrow pursuant to an escrow agreement as at December 31, 2006. During 2007, these shares were released from escrow.

5. Contributed Surplus:

		2007		2006
Balance, beginning of the year	$	1,894,913	$	-
Stock-based compensation cost		2,360,307		2,224,220
Fair value of stock options exercised		(428,647)		(329,307)
Balance, end of the year	$	3,826,573	$	1,894,913

6. Related party transactions:

For the year ended December 31, 2007 management fees amounting to $95,000 (2006 - $151,480) were charged by a company controlled by the CFO and a director of the Company. As at December 31, 2007 accounts payable includes $27,852 (2006-$100,000) owing to this related party.

During the year, the President and CEO received remuneration consisting of management fees and salary. Total remuneration for 2007 was $199,116 (2006 $235,864). Accounts payable includes $50,000 (2006 $100,000) owing to this related party at December 31, 2007. The spouse of the President and CEO of the Company is the Assistant Corporate Secretary who received salary and fees of $64,770.

A total of US $2,050,818 (US $2,497,629) was charged in 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, 2007 accounts payable includes $327,596 (2006-$189,992) owing to this related party.

(Expressed in Canadian Dollars) for the years end December 31, 2007 and 2006

During the year, the Company was charged Directors' fees totaling $85,250 (2006 - $Nil) by non-executive directors. Accounts payable includes $20,000 (2006 - $NIL) owing to these related parties.

During the year, the Company was charged legal fees totaling $72,330 (2006-$276,212) by a law firm whose partner is a director of the Company. As at December 31, 2007 accounts payable includes $1,360 (2006-$80,918) due to this related party.

Administrative and management fees in the amount of $NIL (2006-$33,547) were charged by a company with common directors. As at December 31, 2007 accounts payable includes $NIL (2006-$20,034) due to this related party.

Rental expenditures in the amount of $22,384 (2006-$10,496) were charged by a Company with common directors.

See notes 2 and 9 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 related 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. During 2007 the amount due was released to the Company in full.

8. Income taxes:

The Company has non-capital losses of approximately $4,722,043 which expire through 2027. The benefit of these losses has not been recognized for financial statement purposes.

As at December 31, 2007 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	$	1,705,602
Mineral property		755,081
Capital assets		3,921
Share issue costs		1,033,257
		3,497,861
Less: Valuation allowance		(3,497,861)
Net asset	$	-

For the year ended December 31, 2007, 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	$	(1,748,223)
Increase in taxes resulting from:		
Non-deductible stock based compensation		852,543
Non-deductible items		722
Write down of mineral property		277,681
Share issue costs		63,210
Tax benefit not recognized on current year's losses		554,067
	$	-

(Expressed in Canadian Dollars) for the years end December 31, 2007 and 2006

9 Mortgages payable:

During 2007 the Company repaid the outstanding mortgages. The mortgages were discharged and title to the mortgaged properties was transferred to the Company.

The President of the Company and his spouse were the mortgagors on two mortgages secured by certain buildings and land at the Back Forty property (the "mortgaged properties"). The mortgaged properties were being held in trust for the benefit of the Company and the monthly principal, interest and other amounts payable on the mortgages were billed to and paid by the Company. One mortgage with a balance of US$186,530 at December 31, 2006 carried a variable interest rate determined every third 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 US$157,639 at December 31, 2006 carried a fixed interest rate of 5.375%. Current monthly payments of principal and interest due under these mortgages were US $3,811, and both mortgages matured in 15 years. As consideration for carrying the mortgages on these properties for the Company's benefit, the Company had agreed to pay the President and his spouse a financing fee based on the principal amount outstanding on the mortgaged properties on those dates.

10. Comparative figures:

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

11. Changes in non-cash operating working capital:

	2007	2006
Accounts receivable	$ 3,138	$ (67,242)
Funds held in trust	300,000	(300,000)
Prepaid expenses	4,421	(41,982)
Accounts payable and accrued liabilities	313,067	361,698
	$ 620,626	$ (47,526)

12. Financial instruments:

a) Fair Value

The Company has determined the estimated fair value of its financial instruments based on estimates and assumptions. The actual results may differ from those estimates and the use of different assumptions or methodologies may have a material effect on the estimated fair value amounts.

The fair value of cash and equivalents, accounts receivable and accounts payable and accrued liabilities are comparable to their carrying value due to the relatively short period to maturity of these instruments.

b) Credit Risk

The Company does not have any material risk exposure to any debtor or group of debtors.

c) Commodity price risk

The ability of the Company to develop its properties and the future profitability of the Company is directly related to the market price of certain minerals.

(Expressed in Canadian Dollars) for the years end December 31, 2007 and 2006

d) Foreign exchange risk

Certain of the Company's expenses are incurred in foreign currencies and are therefore subject to gains or losses due to fluctuations in these currencies.

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. Supplemental cash flow information:

Non-cash activities were as follows:

	2007	2006
Shares issued for non-cash consideration	$ -	$ -
Settlement of debt	-	87,056
Financing fees	-	8,902
Amortization capitalized to resource properties	10,249	11,624

15. Segmented information:

The Company operates in a single reportable operating segment, the exploration and development of mineral properties. Segmented geographic information is as follows:

As at December 31	2007	2006
Canada	$ 14,521,313	$ 24,419,304
United States	18,051,862	9,487,845
Honduras	-	768,774
Total assets	$ 32,573,175	$ 34,675,923

The following table allocates net loss by segment:

Year ended December 31	2007	2006
Canada	$ (3,826,357)	$ (2,849,766)
United States	(244,909)	(196,947)
Honduras	(768,774)	-
Net loss	$ (4,840,040)	$ (3,046,713)

16. Subsequent events:

1. The Company purchased land and building for administration and office facilities for an aggregate purchase price of US$225,000.

2. The Company allowed the option to expire on 181 acres of surface and mineral rights, in Lake Township Menomimee County Michigan, that required total option payments of US$2,300,000. The associated costs capitalized to mineral property costs were written off in the first quarter of 2008.

See Note 2(c) for subsequent event information.