

**AQUILA RESOURCES INC.**  
(A Development Stage Enterprise)  
**FINANCIAL STATEMENTS (PREPARED BY MANAGEMENT)**  
**June 30, 2007**  
**(Unaudited)**

**Responsibility for Financial Statements**

The accompanying financial statements for Aquila Resources Inc. have been prepared by management in accordance with Canadian Generally Accepted Accounting Principles consistently applied. The most significant of these policies have been set out in the December 31, 2006 audited financial statements. These statements are presented on an accrual basis of accounting. Accordingly, a precise determination of many assets and liabilities is dependent upon future events. Therefore, estimates and approximations have been made using careful judgment. Recognizing that the Corporation is responsible for both the integrity and objectivity of the financial statements, management is satisfied that these financial statements have been fairly stated.

**Disclosure Required Under National Instrument 51-102 - Continuous Disclosure Obligations - Part 4.3(3)(a)**

The auditor of Aquila Resources Inc. has not performed a review of the unaudited comparative financial statements for the three month and six month periods ending June 30, 2007.

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**AQUILA RESOURCES INC.**  
(A Development Stage Enterprise)  
**BALANCE SHEET**  
**AS AT JUNE 30, 2007**

	June 30, <b>2007</b> (unaudited)	December 31, <b>2006</b> (audited)
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 20,618,352	\$ 24,034,601
Accounts receivable	56,689	105,378
Funds held in trust	-	300,000
Prepaid expenses	<u>27,411</u>	<u>54,024</u>
	<u>20,702,452</u>	<u>24,494,003</u>
<b>DEPOSITS</b>	106,540	116,540
<b>MINERAL PROPERTY COSTS</b> , note 3	12,082,899	9,281,217
<b>Capital</b>		
Capital assets, note 5	<u>784,037</u>	<u>784,163</u>
	<u>\$ 33,675,928</u>	<u>\$ 34,675,923</u>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 574,090	\$ 597,700
Current portion of mortgages payable	<u>-</u>	<u>24,668</u>
	<u>574,090</u>	<u>622,368</u>
Long term portion of mortgage payable	<u>-</u>	<u>370,555</u>
<b>Commitments and contingent liability</b> , note 3		
<b>SHAREHOLDERS' EQUITY</b>		
Share capital, note 7a	36,132,404	35,253,235
Contributed surplus, note 7d	3,934,975	2,224,220
Deficit	<u>(6,965,541)</u>	<u>(3,794,455)</u>
	<u>33,101,838</u>	<u>33,683,000</u>
	<u>\$ 33,675,928</u>	<u>\$ 34,675,923</u>

**Approved on behalf of the board:**

"Edward J. Munden" Director

"Robin Dunbar" Director

See accompanying notes to the financial statements

**AQUILA RESOURCES INC.**  
(A Development Stage Enterprise)  
**STATEMENT OF LOSS**  
**FOR THE PERIOD ENDED JUNE 30, 2007**  
(Unaudited)

	Three Months June 30, 2007	Three Months June 30, 2006	Six Months June 30, 2007	Six Months June 30, 2006
<b>Expenses</b>				
Transfer agent's fees	3,215	-	4,631	-
Regulatory fees	182,280	-	206,899	-
Director's fees	30,000	-	30,000	-
Stock-based compensation	-	1,839,626	2,139,402	1,839,626
Amortization	63	2,314	126	4,695
Travel and promotion	14,422	29,193	19,741	37,590
Business development	31,238	945	44,578	945
Interest and bank charges	72	11,771	211	30,828
Office, general and administration	12,484	31,775	27,581	35,039
Professional fees	19,315	57,079	52,609	62,471
Management fees	18,750	6,105	37,500	14,111
Consulting fees	32,230	123,494	53,080	123,494
Rent	5,596	3,002	11,192	3,002
Wages	24,347	48,678	59,837	85,630
Foreign exchange loss (gain)	<u>872,936</u>	<u>(20,165)</u>	<u>980,343</u>	<u>(47,820)</u>
	<u>1,246,948</u>	<u>2,133,817</u>	<u>3,667,730</u>	<u>2,189,611</u>
Interest and other income	244,410	-	496,644	-
<b>Net income (loss) for the period</b>	(1,002,538)	(2,133,817)	(3,171,086)	(2,189,611)
Deficit, beginning of period	<u>5,963,003</u>	<u>803,536</u>	<u>3,794,455</u>	<u>747,742</u>
Deficit, end of period	<u>\$ 6,965,541</u>	<u>\$ 2,937,353</u>	<u>\$ 6,965,541</u>	<u>\$ 2,937,353</u>
<b>Loss per share</b>				
Basic and fully diluted	<u>(0.01)</u>	<u>(0.05)</u>	<u>(0.05)</u>	<u>(0.02)</u>
Weighted average number of shares	<u>70,109,478</u>	<u>44,103,247</u>	<u>70,109,478</u>	<u>44,103,247</u>

See accompanying notes to the financial statements

**AQUILA RESOURCES INC.**  
(A Development Stage Enterprise)  
**STATEMENT OF CASH FLOWS**  
**FOR THE PERIOD ENDED JUNE 30, 2007**  
(Unaudited)

	Three Months June 30, 2007	Three Months June 30, 2006	Six Months June 30, 2007	Six Months June 30, 2006
<b>Cash flows from operating activities</b>				
Net loss for the period	\$ (1,002,538)	\$ (2,133,817)	\$ (3,171,086)	\$ (2,189,611)
Adjustments for:				
Amortization	63	2,314	126	4,695
Stock based compensation cost	-	1,839,626	2,139,402	1,839,626
Financing fees	-	-	-	2,381
	<u>(1,002,475)</u>	<u>(291,877)</u>	<u>(1,031,558)</u>	<u>(342,909)</u>
Changes in non-cash working capital balances, note 6	<u>531,417</u>	<u>168,125</u>	<u>361,692</u>	<u>255,976</u>
Cash flows used in operating activities	<u>(471,058)</u>	<u>(123,752)</u>	<u>(669,866)</u>	<u>(86,933)</u>
<b>Cash flows from investing activities</b>				
Purchase of capital assets	-	-	-	(871)
Mineral properties - acquisition costs	(622,239)	(606,194)	(670,936)	(933,976)
Mineral properties - exploration costs	<u>(1,284,317)</u>	<u>-</u>	<u>(2,130,746)</u>	<u>-</u>
	<u>(1,906,556)</u>	<u>(606,194)</u>	<u>(2,801,682)</u>	<u>(934,847)</u>
<b>Cash flows from financing activities</b>				
Decrease in mortgage payable	(393,568)	(28,983)	(395,223)	(34,227)
Proceeds of notes payable	-	(2,787)	-	119
Increase in common shares	34,500	3,686,826	450,522	3,686,826
Increase (decrease) in loans and advances	<u>-</u>	<u>(629,100)</u>	<u>-</u>	<u>(331,785)</u>
	<u>(359,068)</u>	<u>3,025,956</u>	<u>55,299</u>	<u>3,318,146</u>
Net increase in cash	(2,736,682)	2,296,010	(3,416,249)	2,296,366
Cash , beginning of period	<u>23,355,034</u>	<u>635</u>	<u>24,034,601</u>	<u>279</u>
<b>Cash, end of period</b>	<u><b>\$20,618,352</b></u>	<u><b>\$ 2,296,645</b></u>	<u><b>\$20,618,352</b></u>	<u><b>\$ 2,296,645</b></u>

See accompanying notes to the financial statements

**AQUILA RESOURCES INC.**  
(A Development Stage Enterprise)  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2007**  
**(Unaudited)**

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**NATURE AND CONTINUANCE OF OPERATIONS AND 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. (the "Company");
- 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 Aquila Resources Inc. (the "Company") is considered a continuation of Aquila Resources Corp.

**1. BASIS OF PRESENTATION**

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements and follow the same accounting policies and methods of application as the most recent annual consolidated financial statements dated December 31, 2006, except for the items discussed in note 2 below. These financial statements should be read in conjunction with those annual financial statements and notes thereto. Accordingly they do not include all of the information and footnotes required by accounting principles generally accepted in Canada for complete financial statements. In the opinion of management all adjustments (consisting primarily of normal recurring adjustments) considered necessary for fair presentation have been included. Operating results for the three month periods ended June 30, 2007 and 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007.

**AQUILA RESOURCES INC.**  
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**2. CHANGES IN ACCOUNTING POLICIES**

Effective January 1, 2007 the Company has adopted two new accounting standards related to financial instruments that were issued by the Canadian Institute of Chartered Accountants. These accounting policy changes were adopted a prospective basis with no restatement of prior period financial statements. The new standards and accounting policy changes are as follows:

*Financial instruments - Recognition and Measurement (Section 3855)*

In accordance with this new standard, the Company now classifies all financial instruments as either held-to-maturity, available-for-sale, held-for-trading, loans and receivable, or other financial liabilities. Financial assets held-to-maturity, loans and receivables and financial liabilities other than those held-for-trading are measured at amortized cost. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Instruments classified as held-for-trading are measured at fair value with unrealized gains and losses recognized on the statement of loss.

Upon adoption of this new standard, the Company has designated its cash as held-for-trading, which is measured at fair value. Exploration advances and other receivables are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities which are measured at amortized cost. The Company has classified its investment in a public company as available-for-sale and therefore carries it at fair market value, with the unrealized gain or loss recorded in shareholders' equity as a component of other comprehensive income. These amounts will be reclassified from shareholders' equity to net income when the investment is sold. Previously the Company did not have any available-for-sale investments and therefore no adjustments were required as at January 1, 2007.

*Comprehensive Income (Section 1530)*

Comprehensive income is the change in shareholders' equity during a period from transactions and other events and circumstances from non-owner sources. In accordance with this new standard, the Company now reports a consolidated statement of comprehensive loss and a new category, accumulated other comprehensive income, in the shareholders' equity section of the consolidated balance sheet. The components of this new category will include unrealized gains and losses on financial assets classified as available-for-sale.

**3. MINERAL PROPERTY COSTS AND COMMITMENTS**

**MICHIGAN USA**

Back Forty Project

The Back Forty Project consists of over 9,700 acres of surface and mineral rights owned or held under lease or option by a 100% owned U.S. subsidiary. Some lands are subject to net smelter royalties varying from 1% to 3.5%, with certain lands subject to a 2%-7% state royalty, which under state law can be renegotiated. The entire project is subject to a 7% net distributable earnings royalty ("net profits after payback") payable to a former joint venture partner.

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**HONDURAS**

Cedros Property

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

As at June 30, 2007 and December 31, 2006, accumulated mineral property costs were comprised of:

June 30, 2007

	Balance, beginning of period	Acquisition	Exploration	Recoveries	Write-downs	Balance, end of period
<b>MICHIGAN U.S.A.</b>						
Back Forty Project	\$ 8,512,443	\$ 670,936	\$ 2,130,746	\$ -	\$ -	\$ 11,314,125
<b>HONDURAS</b>						
Cedros property	<u>768,774</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>768,774</u>
	<u>\$ 9,281,217</u>	<u>\$ 670,936</u>	<u>\$ 2,130,746</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$12,082,899</u>

December 31, 2006

	Balance, beginning of year	Acquisition	Exploration	Recoveries	Write-downs	Balance, end of yeat
<b>MICHIGAN U.S.A.</b>						
Back Forty Project	\$ 3,833,785	\$ 1,971,019	\$ 2,707,639	\$ -	\$ -	\$ 8,512,443
<b>HONDURAS</b>						
Cedros property	<u>768,774</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>768,774</u>
	<u>\$ 4,602,559</u>	<u>\$ 1,971,019</u>	<u>\$ 2,707,639</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,281,217</u>

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**4. RELATED PARTY ADVANCES AND TRANSACTIONS**

The quarter ended June 30, 2007 management fees amounting to \$18,750 (2006 - \$14,111) were charged by a company controlled by the C.F.O. of the Company. Subject to quarter end, the Company repaid principal and interest amount for two mortgages held in Trust for the Company by the President and his spouse, totaling \$393,568.

A total of US \$729,439 was charged to the operations at the Back Forty Project by a geological consulting company of which the President and CEO and another director are major shareholders. A management fee calculated on a percentage of wages payable was included in the amount charged by the geological consulting company to the Company. During the quarter US\$ 38,777 was paid to the President and CEO for management and project management services.

During the six month period, the Company was charged legal fees totaling \$21,190 by a law firm whose partner is a officer of the Company.

The Company exercised an option to purchase a mineral property owned by Mineral Processing Corporation. The purchase price was \$586,431.

Rental expenditures in the amount of \$ 11,192 were charged by a Company with common directors.

**5. PROPERTY, PLANT AND EQUIPMENT**

	Cost	Accumulated Amortization	June 30, 2007 Net Book Value	December 31,, 2006 Net Book Value
Land	\$ 482,254	\$ -	\$ 482,254	\$ 482,253
Buildings	326,293	25,638	300,655	301,910
Computer equipment	<u>1,393</u>	<u>265</u>	<u>1,128</u>	<u>-</u>
	<u>\$ 809,940</u>	<u>\$ 25,373</u>	<u>\$ 784,037</u>	<u>\$ 784,163</u>

**6. SUPPLEMENTAL CASH FLOW INFORMATION**

	June 30 Three Months 2007	June 30 Three Months 2006	June 30, Six Months 2007	June 30, Six Months 2006
Changes in non-cash working capital balances				
Accounts receivable	\$ 61,075	(32,754)	\$ 48,689	\$ (33,302)
Funds held in trust	300,000		300,000	-
Prepaid expenses and deposits	2,997	706	26,613	(3,062)
Deposits	10,000	-	10,000	
Accounts payable and accrued liabilities	<u>157,345</u>	<u>200,173</u>	<u>(23,610)</u>	<u>292,340</u>
	<u>\$ 531,417</u>	<u>\$ 168,125</u>	<u>\$ 361,692</u>	<u>\$ 255,976</u>



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7(a) **CAPITAL STOCK**

Authorized  
Unlimited Common shares without par value

<b>Common shares</b>	Number of Shares	Amount
Balance, December 31, 2004	14,163,100	\$ 4,504,828
Private placements	2,100,000	407,768
Financing fees	<u>58,070</u>	<u>11,275</u>
Issued at December 31, 2005	16,321,170	4,923,871
Financing fees	<u>34,312</u>	<u>5,902</u>
Pre RTO Aquila shareholders	16,355,482	4,929,773
Shares issued to JML shareholders for net assets	9,109,286	122,724
Conversion of JML preference shares	1,274,377	-
Broker shares	525,435	121,754
Issued for cash to 2079537 Ontario Ltd. shareholders	10,599,500	2,119,900
Subscription receipts	1,230,000	246,000
Issue of common shares on exercise of warrants for settlement of debt	520,000	87,056
Private placement	15,515,151	25,599,999
Issued for cash / on exercise of options	633,833	190,150
Issued for cash / on exercise of warrants	13,550,247	4,198,442
Share issue cost	<u>-</u>	<u>(2,362,563)</u>
Issued at December 31, 2006	69,313,311	35,253,235
Issue of common shares on exercise of options	681,167	418,100
Reallocation from Contributed Surplus relating to the options exercised	-	428,647
Issue of common shares on exercise of options	115,000	34,500
Financing fees	<u>-</u>	<u>(2,078)</u>
Balance June 30, 2007	<u>70,109,478</u>	<u>\$ 36,132,404</u>

**AQUILA RESOURCES INC.**  
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**7(b) STOCK OPTIONS**

The Company has a stock option plan to provide employees, directors and consultants with options to purchase common shares of the Company. Under the plan, the exercise price of each option equals the market price of the Company's stock on the day of grant and the maximum term of option is five years. The maximum number of shares which may be issued under the program shall not exceed 10% of the issued and outstanding shares. The following summarizes the employees, directors and consultants stock options, that have been granted, exercised or forfeited during the years ended 2007 and 2006:

	Options	Weighted average exercise price
Balance, December 31, 2006	3,646,167	\$ 0.65
Granted	1,400,000	1.53
Exercised Q1	(681,167)	0.66
Exercised Q2	<u>(115,000)</u>	0.30
Balance, June 30, 2007	<u>4,250,000</u>	1.13

The Company provides compensation to directors, employees and consultants in the form of stock options and fees. The fair value of the options granted are estimated on the dates of grant using a Black-Scholes option pricing model with the following assumptions:

	June 30 2007
Risk-free interest rate	4.16%
Expected life	5.0 years
Estimated volatility in the market price of the common shares	115%
Weighted average grant date fair value per share of options granted during the year.	\$ 1.89
Dividend yield	nil

**AQUILA RESOURCES INC.**  
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**7(c) Warrants**

The following table summaries warrants that have been issued, exercised or have expired during the years ended December 31, 2005 and December 31, 2006 and June 30, 2007.

	Number of Warrants		
Balance, January 1, 2006	520,000		
Issued on private placement;			
For cash	19,587,075		
Brokers' fees	2,175,760		
Agents' fees	631,047		
Warrants exercised	<u>(14,070,247)</u>		
Balance, December 31, 2006 and June 30, 2007	<u>8,843,635</u>	Exercise Price	Expiry Date
		\$ 2.15	December 15, 2008

At June 30, 2007 8,843,635 warrants were outstanding. The warrants entitle the holders to purchase the stated number of common shares at the exercise price of \$2.15 on or before the expiry date December 15, 2008.

**7(d) CONTRIBUTED SURPLUS**

Balance, December 31, 2006	\$ 2,224,220
Options expired and exercised	(428,647)
Options granted	<u>2,139,402</u>
Balance, June 30, 2007	<u>\$ 3,934,975</u>

**8 SUBSEQUENT EVENT**

The Company made an option payment of US \$ 1,333,333 on a 50 acre parcel of surface and mineral rights which is part of the Back Forty Project.

**9 COMPARATIVE FIGURES**

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