AQUILA RESOURCES INC.
(A Development Stage Enterprise)
FINANCIAL STATEMENTS (PREPARED BY MANAGEMENT)
September 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 nine month period ending September 30, 2007.

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AQUILA RESOURCES INC.
(A Development Stage Enterprise)

BALANCE SHEET
AS AT SEPTEMBER 30, 2007

	September 30, **2007** (Unaudited)	December 31, **2006** (Audited)
Assets		
Current		
Cash and cash equivalents	$ 16,201,101	$ 24,034,601
Accounts receivable	92,925	105,378
Funds held in trust	-	300,000
Prepaid expenses	16,689	54,024
	16,310,715	24,494,003
DEPOSITS	100,520	116,540
MINERAL PROPERTY COSTS, note 3	16,237,891	9,281,217
Capital		
Capital assets, note 5	786,873	784,163
	$ 33,435,999	$ 34,675,923
LIABILITIES		
Current		
Accounts payable and accrued liabilities	$ 808,955	$ 597,700
Current portion of mortgage payable	-	24,668
	808,955	622,368
Long term portion of mortgage payable	-	370,555
SHAREHOLDER'S EQUITY		
Shareholders' capital, note 7a	36,132,404	35,253,235
Contributed surplus, note 7d	4,155,880	2,224,220
Deficit	(7,661,240)	(3,794,455)
	32,627,044	33,683,000
	$ 33,435,999	$ 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.
(A Development Stage Enterprise)

STATEMENT OF LOSS
(Unaudited)
FOR THE PERIODS ENDED SEPTEMBER 30, 2007

	Three Months, September 30, **2007**	Three Months, September 30, **2006**	Nine Months, September 30, **2007**	Nine Months, September 30, **2006**	**Cumulative from the date of commencement of development stage April 1, 2006**
Expenses					
Stock based compensation	$ 220,905	$ -	$ 2,360,307	$ 1,839,626	$ 4,363,622
Amortization	63	2,314	189	7,009	328
Wages	67,899	44,106	111,872	129,736	252,220
Travel and promotion	15,131	11,853	34,872	37,590	198,840
Business development	41,465	-	86,043	-	86,043
Interest and bank charges	1,172	20,639	1,383	49,086	18,592
Regulatory fees	10,244	-	217,143	-	242,677
Office, general and administration	11,219	3,705	38,800	51,542	73,218
Professional fees	25,763	53,179	78,372	118,031	228,719
Director's fees	34,500	-	64,500	-	64,500
Management fees	18,750	24,980	56,250	39,091	307,730
Consulting fees	14,150	11,900	67,230	135,394	149,059
Rent	5,596	1,874	16,788	4,876	27,284
Transfer agent's fees	1,463	-	6,094	-	6,094
Foreign exchange loss (gain)	447,245	7,289	1,443,452	(40,531)	1,441,325
	915,565	181,839	4,583,295	2,371,450	7,460,251
Interest and other income	(219,866)	-	(716,510)	-	(767,658)
NET LOSS FOR THE PERIOD	695,699	181,839	3,866,785	2,371,450	6,692,593
Deficit, beginning of period	6,965,541	2,937,353	3,794,455	747,742	
Deficit, end of period	$7,661,240	$3,119,192	$7,661,240	$3,119,192	
Loss per share					
Basic and fully diluted	$(0.01)	$(0.003)	$(0.06)	$(0.07)	
Weighted average number of shares	70,109,478	53,171,952	70,109,478	53,171,952	

See accompanying notes to the financial statements

AQUILA RESOURCES INC.
(A Development Stage Enterprise)

STATEMENT OF CASH FLOWS
(Unaudited)
SEPTEMBER 30, 2007

	Three Months, September 30, **2007**	Three Months, September 30, **2006**	Nine Months, September 30, **2007**	Nine Months, September 30, **2006**	**Cumulative from the date of commencement of development stage April 1, 2006**
Cash flows from operating activities					
Net loss for the period	$ (695,699)	$ (181,839)	$ (3,866,785)	$ (2,371,450)	$ (6,692,593)
Adjustments for:	-				
Amortization	63	2,314	188	7,009	327
Financing fee	-	-	-	2,381	-
Stock based compensation	220,905	2,360,307	2,360,307	1,839,626	4,584,527
	(474,731)	2,180,782	(1,506,290)	(522,434)	(2,107,739)
Changes in non-cash working capital, note 6	215,373	(376,818)	577,063	(120,849)	382,763
Cash used in operating activities	(259,358)	1,803,964	(929,227)	(643,283)	(1,724,976)
Cash flows from investing activities					
Purchase of capital assets	(2,899)	-	(2,899)	(871)	(54,899)
Mineral properties - acquisition	(1,392,906)	(2,377,420)	(2,063,842)	(3,311,396)	(4,034,861)
Mineral properties - exploration	(2,762,088)	-	(4,892,831)	-	(7,588,848)
	(4,157,893)	(2,377,420)	(6,959,572)	(3,312,267)	(11,678,608)
Cash flows from financing activities					
Issue cost	-	-	-	-	(2,186,158)
Options expired and exercised	-	-	(428,647)	-	(428,647)
Loans and advances	-	-	-	(91,311)	(91,311)
Notes payable	-	-	-	(427,562)	(283,662)
Decrease in mortgage payable	-	(3,142)	(395,223)	(37,369)	(418,571)
Issuance of common shares	-	2,728,810	879,169	6,415,881	33,012,755
	-	2,725,668	55,299	5,859,639	29,604,406
Net increase in cash	(4,417,251)	(392,277)	(7,833,500)	1,904,089	16,200,822
Cash, beginning of period	20,618,352	2,296,645	24,034,601	279	279
Cash, end of period	$ 16,201,101	$ 1,904,368	$ 16,201,101	$ 1,904,368	$ 16,201,101

See accompanying notes to the financial statements

1. Summary of Significant Accounting Policies

a) 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 (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. 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.

b) 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 and nine month periods ended September 30, 2007 and 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007.

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 equity as a component of other comprehensive income. These amounts will be reclassified from 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 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 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.

3. MINERAL PROPERTY COSTS AND COMMITMENTS (con't)

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 September 30, 2007 and December 31, 2006, accumulated mineral property costs were comprised of:

September 30, 2007

	Balance, beginning of period	Acquisition	Exploration	Recoveries	Write-downs	Balance, end of period
MICHIGAN U.S.A.						
Back Forty Project	$ 8,512,443	$ 2,063,842	$ 4,892,832	$ -	$ -	$ 15,469,117
HONDURAS						
Cedros property	768,774	-	-	-	-	768,774
	$ 9,281,217	$ 2,063,842	$ 4,892,832	$ -	$ -	$16,237,891

December 31, 2006

	Balance, beginning of year	Acquisition	Exploration	Recoveries	Write-downs	Balance, end of year
MICHIGAN U.S.A.						
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

4. RELATED PARTY ADVANCES AND TRANSACTIONS

The quarter ended September 30, 2007 management fees amounting to $18,750 (2006 - $24,980) were charged by a company controlled by the C.F.O. of the Company.

A total of US $558,960 was charged to the operations at the Back Forty Project by a geological consulting company of which the President and CEO and another director are major shareholders. A management fee calculated on a percentage of wages payable was included in the amount charged by the geological consulting company to the Company. During the quarter US$ 36,231 was paid to the President and CEO for management and project management services.

During the nine month period, the Company was charged legal fees totaling $59,408 by a law firm whose partner is a officer of the Company.

Rental expenditures in the amount of $5,596 were charged by a Company with common directors during the quarter.

5. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated Amortization	September 30, 2007 Net Book Value	December 31, 2006 Net Book Value
Land	$ 482,254		$ 482,254	$ 482,253
Buildings	326,293	22,802	303,491	301,910
Computer equipment	1,393	265	1,128	-
	$ 809,940	$ 22,537	$ 786,873	$ 784,163

6. SUPPLEMENTAL CASH FLOW INFORMATION

	September 30 Three Months 2007	September 30 Three Months 2006	September 30, Nine Months 2007	September 30, Nine Months 2006
Changes in non-cash working capital balances				
Accounts receivable	$ (36,236)	(32,754)	$ 12,453	$ (33,302)
Funds held in trust	-		300,000	-
Prepaid expenses and deposits	10,722	706	37,335	(3,062)
Deposits	6,020	-	16,020	
Accounts payable and accrued liabilities	234,867	200,173	211,255	292,340
	$ 215,373	$ 168,125	$ 577,063	$ 255,976
Net interest paid (received)	$ (219,866)	$ -	$ (716,510)	$ -
Income taxes paid	$ -	$ -	$ -	$ -

7(a) CAPITAL STOCK

Authorized
Unlimited Common shares without par value

Common shares	Number of Shares	Amount
Balance, 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
Issued for cash / on exercise of warrants	13,550,247	4,198,442
Share issue cost	-	(2,362,563)
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	-	(2,078)
Balance September 30, 2007	70,109,478	$ 36,132,404

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		1,700,000	1.53
Exercised	Q1	(681,167)	0.66
Exercised	Q2	(115,000)	
	Q3	-	
Balance, September 30, 2007		4,550,000	$ 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:

	September 30, 2007
Risk-free interest rate	4.625%
Expected life	2.0 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.	$ 1.53
Dividend yield	nil

7(c) **Warrant**s

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

	Number of Warrants	Exercise Price	Expiry Date
Balance, January 1, 2006	520,000		
Issued on private placement;			
For cash	9,587,075		
Brokers' fees	2,175,760		
Agents' fees	631,047		
Warrants exercised	14,070,247)		
Balance, December 31, 2006 and September 30, 2007	8,843,635	$ 2.15	December 15, 2008

At September 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. The warrants can be accelerated by the Company if the price of the common shares exceeds $2.65 for a period of 20 consecutive trading days days.

7(d) **CONTRIBUTED SURPLUS**

Balance, December 31, 2006	$ 2,224,220
Options expired and exercised	(428,647)
Options granted	2,139,402
Balance, September 30, 2007	$ 3,934,975

8 SUBSEQUENT EVENT

Subsequent to the quarter end, 8,258,211 escrow shares held under a TSX Venture Exchange value escrow were released.

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.