



AQUILA RESOURCES INC.

(an exploration stage enterprise)

CONSOLIDATED FINANCIAL STATEMENTS (PREPARED BY MANAGEMENT)

For the three month and six month periods ended

June 30, 2008

Responsibility for Financial Statements:

The accompanying consolidated 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, 2007 audited consolidated financial statements. These consolidated 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 Company is responsible for both the integrity and objectivity of the consolidated financial statements, management is satisfied that these consolidated 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 consolidated financial statements for the three and six month periods ended June 30, 2008.

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Aquila Resources Inc.

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CONSOLIDATED BALANCE SHEETS**AS AT JUNE 30,**

	June 30, 2008 (Unaudited)	June 30, 2007 (Unaudited)	December 31, 2007 (audited)
ASSETS			
Current			
Cash and cash equivalents	\$ 6,961,321	\$ 20,618,352	\$ 13,416,459
Accounts receivable	49,213	56,689	78,280
Prepaid expenses and deposits	57,022	27,411	49,604
	7,067,556	20,702,452	13,544,343
Deposits	116,540	106,540	116,540
Mineral Property Costs (Note 2)	23,962,598	12,082,899	18,136,287
Capital Assets	999,316	784,037	776,005
	\$ 32,146,010	\$ 33,675,928	\$ 32,573,175
LIABILITIES			
Current			
Accounts payable and accrued liabilities	\$ 894,604	\$ 574,090	\$ 919,386
	894,604	574,090	919,386
SHAREHOLDERS' EQUITY			
Share capital (Note 3)	36,461,711	36,132,404	36,461,711
Contributed surplus (Note 4)	4,186,373	3,934,975	3,826,573
Deficit	(9,396,678)	(6,965,541)	(8,634,495)
	31,251,406	33,101,838	31,653,789
	\$ 32,146,010	\$ 33,675,928	\$ 32,573,175

Approved on Behalf of the Board'Edmund J. Munden' Director'Robin Dunbar' Director

See accompanying notes to the unaudited consolidated financial statements

Aquila Resources Inc.**CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT**

(an exploration stage enterprise)

For the three month and six month periods ended June 30, 2008 and 2007

	Three Months June 30,		Six Months June 30,		Cumulative from the date of commencement of exploration
	2008	2007	2008	2007	
Expenses					
Amortization	925	63	1,850	126	22,974
Consulting	14,100	32,230	28,500	53,080	194,570
Directors' fees	34,192	30,000	55,192	30,000	140,442
Filing and regulatory fees	8,137	185,495	30,234	211,530	270,359
Foreign exchange (gain)	159,232	872,936	1,728	980,343	1,380,536
Interest and bank charges	277	72	878	211	92,579
Licenses, taxes and fees	-	-	-	-	85,000
Management fees	18,750	18,750	37,500	37,500	567,816
Office, general and administrative	42,331	12,484	56,102	27,581	209,619
Professional fees	42,402	19,315	44,065	52,609	380,313
Rent	5,588	5,596	11,176	11,192	44,056
Salaries and wages	54,304	24,347	118,869	59,837	827,226
Stock-based compensation	51,400	-	359,800	2,139,402	4,944,327
Travel and promotion	90,481	45,660	180,478	64,319	604,323
Write-down of mineral property costs	-	-	-	-	768,774
	522,119	1,246,948	926,372	3,667,730	10,532,914
Interest and other income	(54,765)	(244,410)	(164,189)	(496,644)	(1,095,622)
Loss for the period	467,354	1,002,538	762,183	3,171,086	\$ 9,437,292
Deficit, beginning of period	8,929,324	5,963,003	8,634,495	3,794,455	
Deficit, end of period	\$ 9,396,678	\$ 6,965,541	\$ 9,396,678	\$ 6,965,541	
Loss per share					
Basic and fully diluted	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.05	
Weighted average number of shares	70,109,478	70,109,478	70,109,478	70,109,478	

See accompanying notes to the unaudited consolidated financial statements

Aquila Resources Inc.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three month and six month periods ended June 30, 2008 and 2007

	Three Months June 30,		Six Months June 30,		Cumulative from the date of commencement of exploration
	2008	2007	2008	2007	
Cash flows from operating activities					
Net loss for the period	\$ (467,354)	\$ (1,002,538)	\$ (762,183)	\$ (3,171,086)	(9,451,063)
Amortization	925	63	1,850	126	22,974
Stock-based compensation	51,400	-	359,800	2,139,402	4,944,327
Financing fee	-	-	-	-	20,424
Interest accrual	-	-	-	-	1,913
Write-off of loan payable	-	-	-	-	768,774
	(415,029)	(1,002,475)	(400,533)	(1,031,558)	(3,692,651)
Changes in non-cash working capital	(734,388)	531,417	(3,133)	361,692	664,020
Cash flows used in operating activities	(1,149,417)	(471,058)	(403,666)	(669,866)	(3,028,631)
Cash flows from investing activities					
Capital Assets	2,467	-	(225,162)	-	(337,499)
Increase in mineral properties - acquisition	(219,548)	(622,239)	(491,048)	(670,936)	(4,579,311)
Increase in mineral properties - exploration	(2,542,058)	(1,284,317)	(5,335,262)	(2,130,746)	(16,684,078)
Deposits	-	-	-	-	(116,540)
	(2,759,139)	(1,906,556)	(6,051,472)	(2,801,682)	(21,717,428)
Cash flows from financing activities					
Repayment of mortgage payable	-	(393,568)	-	(395,223)	(461,548)
Notes payable	-	-	-	-	117,110
Increase in common shares	-	34,500	-	450,522	34,165,883
Issue cost	-	-	-	-	(2,188,236)
Loans payable	-	-	-	-	74,171
	-	(359,068)	-	55,299	31,707,380
Net increase in cash	(3,908,556)	(2,736,682)	(6,455,138)	(3,416,249)	6,961,321
Cash, beginning of period	10,869,877	23,355,034	13,416,459	24,034,601	-
Cash, end of period	\$ 6,961,321	\$ 20,618,352	\$ 6,961,321	\$ 20,618,352	\$ 6,961,321

SUPPLEMENTAL CASH FLOW INFORMATION (Note 9)

See accompanying notes to the unaudited consolidated financial statements

Aquila Resources Inc.

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Notes to the Consolidated Financial Statements

(Unaudited)

Nature and continuance 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; however, at the current time the Company has not yet secured title and has fully written the value down of 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 adequate financing.

The Company uses the same methods and policies as were used in the December 31, 2007 audited financial statements except for changes outlined in note 1.

1. Change in Accounting Policies:

Financial Instruments

Effective January 1, 2008, Aquila Resources Inc. prospectively adopted the new CICA Handbook Sections 3862, Financial Instruments – Disclosures and 3863, Financial Instruments – Presentation. The purpose of these sections is to enhance the financial statement users' ability to evaluate:

- the significance of financial instruments over an entity's financial position, performance and cash flows;
- the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date; and
- how the entity manages those risks.

The new standards required additional disclosure with no effect on the financial statements.

Capital Management

Effective January 1, 2008, Aquila Resources Inc. adopted the new CICA Handbook Section 1535, Capital Disclosures for disclosure of a company's objectives, policies and processes for managing capital.

Effect of Future Changes in Accounting Policies

The CICA Accounting Standards Board has adopted the following new or amended Handbook Sections:

In February 2008, the CICA issued Section 3064, Goodwill and intangible assets, ("Section 3064") replacing Section 3062, Goodwill and other intangible assets ("Section 3062") and Section 3450, Research and development costs. Various changes have been made to other standards to be consistent with the new Section 3064. Section 3064 will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, Aquila Resources Inc. will adopt the new standards for its fiscal year beginning January 1, 2009. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill and of intangible assets. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062.

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Aquila Resources Inc. is currently evaluating the impact of the adoption of this new Section on its consolidated financial statements; however, it is not expected the adoption of this new Section will have a material impact on its consolidated financial statements.

In January 2006, the Accounting Standards Board adopted a strategic plan for the direction of accounting standards in Canada. Public companies in Canada are required to adopt International Financial Reporting Standards effective January 1, 2011.

2. Mineral property costs and commitments:**Michigan, USA***Back Forty Project*

The Back Forty Project consists of 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 estimates for 2008 are \$1,993,726 (2007 - \$2,117,244). The entire project is subject to a 7% net distributable earnings royalty ("Net Profits after Payback") payable to a former joint venture partner.

	Balance						Balance
2008	beginning of period	Acquisition	Exploration	Recoveries	Write-down		end of period
Michigan, USA							
Back Forty Project	\$ 18,136,287	\$ 491,048	\$ 5,335,262	\$ -	\$ -		\$ 23,962,597
	\$ 18,136,287	\$ 491,048	\$ 5,335,262	\$ -	\$ -		\$ 23,962,597

	Balance						Balance
2007	beginning of period	Acquisition	Exploration	Recoveries	Write-down		end of period
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

- 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 is US \$11,700,000 and is due in annual installments on the anniversary date over a nine year option period. US \$1,333,333 was paid on August 3, 2006, August 3, 2007 and subsequent to quarter end August 3, 2008. US \$250,000 is owing on each of the 3rd and 4th anniversaries, and US \$1,440,000 is due on each of the 5th through 9th anniversaries.

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.

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(Unaudited)

3. Share Capital:

- a) Authorized
Unlimited number of common shares
- b) Issued
Common shares

	Number of Common	
	Shares	\$
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 June 30, 2008 and December 31, 2007	70,109,478	\$ 36,461,711

- c) 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 preceding 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 six month period ended June 30, 2008 have been valued at \$514,000, and of that amount \$359,800 has been vested and expensed using the following assumptions at the measurement date:

	<u>2008</u>	<u>2007</u>
Risk-free interest rate	3.26%	4.12%
Expected life	5 years	4.3 years
Price volatility	115%	115%
Dividend yield	Nil	Nil

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(Unaudited)

A summary of the status of the Company's stock option plan as of June 30, 2008 and December 31, 2007 and changes during the period are presented below:

	June 2008		December 2007	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding at beginning of the period	4,550,000	1.17	3,646,167	\$ 0.35
Exercised	-	-	(796,167)	0.37
Expired	-	-	-	-
Granted	700,000	0.90	1,700,000	2.04
Outstanding at end of the period	5,250,000	1.13	4,550,000	\$ 1.17

4. Contributed Surplus:

	June		December	
	2008		2007	
Balance, beginning of the period	\$	3,826,573	\$	1,894,913
Stock-based compensation cost		359,800		2,360,307
Fair value of stock options exercised		-		(428,647)
Balance, end of the period	\$	4,186,373	\$	3,826,573

5. Capital Management:

Aquila Resources Inc.'s objectives when managing capital are:

- To safeguard Aquila Resources Inc.'s financial capacity and liquidity for future earning in order to continue to provide an appropriate return to shareholders and other stakeholders;
- To maintain a flexible capital structure which optimizes the cost of capital at an acceptable risk; and
- To enable Aquila Resources Inc. to maximize growth by meeting its capital expenditure budget and to expend its budget to accelerate projects, and take advantage of acquisition opportunities.

Aquila Resources Inc.'s capital structure includes shareholders' equity, cash and cash equivalent.

	June 2008	June 2007	December 2007
Shareholders' equity	\$ 31,251,406	\$ 33,101,838	\$ 31,653,789
Cash and cash equivalents	<u>6,961,321</u>	<u>20,618,352</u>	<u>13,416,459</u>
Capital	<u>\$ 38,212,727</u>	<u>\$ 53,720,190</u>	<u>\$ 45,070,248</u>

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(Unaudited)

Aquila Resources Inc. regularly monitors and reviews the amount of capital in proportion to risk and future development and exploration opportunities. Aquila Resources Inc. manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, Aquila Resources Inc. may issue new debt or equity or similar instruments, reduce debt levels from or make adjustments to its capital expenditure program.

Aquila Resources Inc.'s objectives with regard to capital management remain unchanged from 2007.

6. Financial Instruments:

Aquila Resources Inc. manages its exposure to a number of different financial risks arising from its operations as well as its use of financial instruments including market risks (commodity prices, foreign currency exchange rate and interest rate), credit risk and liquidity risk through its risk management strategy. The objective of the strategy is to support the delivery of Aquila Resources Inc. financial targets while protecting its future financial security and flexibility.

Financial risks are primarily managed and monitored through operating and financing activities and, if required, through the use of derivative financial instruments. Aquila Resources Inc. does not use derivative financial instruments for purposes other than risk management. The financial risks are evaluated regularly with due consideration to changes in the key economic indicators and up-to-date market information.

Aquila Resources Inc.'s risk exposure and risk management policies and procedures have not changed from 2007.

Market risk

Market risk encompasses the risk or uncertainty arising from possible market price movements and their impact on the future performance of the business. Aquila Resources Inc. may use derivative financial instruments such as foreign exchange contracts and interest rate swaps to manage certain exposures. These market risks are evaluated by monitoring changes in key economic indicators and market information on an on-going basis.

The maximum exposure to credit risk is equal to the carrying amount of financial instruments classified as receivables.

Liquidity risk

Liquidity risk encompasses the risk that a company cannot meet its financial obligations in full. Aquila Resources Inc.'s main sources of liquidity are its common stock issuances. These funds are primarily used to finance working capital, operating expenses, capital expenditures, dividends and acquisitions.

Aquila Resources Inc. manages its liquidity risk by regularly monitoring its cash flows from operating activities, holding adequate amounts of cash and cash equivalents. The current year's budget will be funded by cash and cash equivalents.

Accounts payable and accrued liabilities are current financial instruments expected to be settled in the normal course of operations.

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(Unaudited)

Fair value

The carrying value and fair value of these financial instruments at June 30, 2008 is disclosed below by financial instrument category.

Financial Instrument	Period ended June 30, 2008		Int./Carrying Expense	Year ended December 31, 2007	
	Carrying Value	Fair Value		Fair Value	Fair Value
Financial Assets					
<i>Held for trading</i>					
Cash and cash equivalents	\$ 6,961,321	\$ 6,961,321	\$ -	\$ 13,416,459	\$ 13,416,459
<i>Loan and receivable</i>					
Accounts receivable	\$ 49,213	\$ 49,213	\$ -	\$ 78,280	\$ 78,280
Financial Liabilities					
Other liabilities					
Accounts payable and accrued liabilities	\$ 894,604	\$ 894,604	\$ -	\$ 919,386	\$ 919,386

There has been no change to the classification of financial instruments since inception on January 1, 2007.

The fair values of financial instruments were calculated on the basis of market information available on the balance sheet date using the methods and premises presented below.

a) Cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities

Due to the short term nature of these financial instruments, fair value approximates carrying value.

7. Related party transactions:

For the three month period ended June 30, 2008 management fees amounting to \$18,750 (2007 - \$18,750) were charged by a company controlled by the CFO and a director of the Company.

During the three month period ended June 30, 2008, the President and CEO received salary of US \$48,499 (2007 - US \$38,777).

During the three month period the Assistant Corporate Secretary received salary of \$15,505.

During the three month period, a total of US \$172,323 (2007 - US \$296,056) 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.

During the three month period ended June 30, 2008 the Company was charged Directors' fees totaling \$34,192 (2007 - \$30,000) by non-executive directors.

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Notes to the Consolidated Financial Statements

(Unaudited)

During the three month period ended June 30, 2008, the Company was charged legal fees totaling \$32,800 (2007-\$21,190) by a law firm whose partner is a director of the Company.

Rental expenditures in the amount of \$5,588 (2007-\$5,596) were charged by a Company with common directors.

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.

8. Income taxes:

The Company has non-capital losses of approximately \$3,679,859 which expire through 2028. The benefit of these losses has not been recognized for financial statement purposes.

For the three month period ended June 30, 2008, 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	\$	(168,247)
Increase in taxes resulting from:		
Non-deductible stock based compensation		18,504
Non-deductible items		-
Write down of mineral property		-
Share issue costs		-
Tax benefit not recognized on current year's losses		149,743
	\$	-

The company has provided a full valuation allowance against future tax assets as at June 30, 2008 due to uncertainties in the Company's ability to utilize its net operating losses.

9. Changes in non-cash operating working capital:

	June 30 3 months 2008	June 30 6 months 2008
Accounts receivable	\$ (21,735)	\$ 29,067
Funds held in trust	-	-
Prepaid expenses	10,773	(7,418)
Accounts payable and accrued liabilities	(723,426)	(24,782)
	\$ (734,388)	\$ (3,133)

10. Subsequent events:

On August 3rd, 2008 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.

Subsequent to quarter end the Company purchased the River Park property for US \$105,000.

11. 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.