AQUILA RESOURCES INC.

(an exploration stage enterprise)

CONSOLIDATED FINANCIAL STATEMENTS (PREPARED BY MANAGEMENT)

For the three month and nine month periods ended

September 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 nine months periods ended September 30, 2008.

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Aquila Resources Inc.
(an exploration stage enterprise)
CONSOLIDATED BALANCE SHEETS
AS AT

		September 30, 2008 (Unaudited)		September 30, 2007 (Unaudited)		December 31, 2007 (audited)
ASSETS						
Current						
Cash and cash equivalents	**$**	**3,656,286**	$	16,201,101	$	13,416,459
Accounts receivable		**61,416**		92,925		78,280
Prepaid expenses and deposits		**11,977**		16,689		49,604
		3,729,679		16,310,715		13,544,343
Deposits		**116,540**		100,520		116,540
Mineral Property Costs (Note 3)		**26,723,560**		16,237,891		18,136,287
Capital Assets		**997,703**		786,873		776,005
	$	**31,567,482**	$	33,435,999	$	32,573,175
LIABILITIES						
Current						
Accounts payable and accrued liabilities	**$**	**304,898**	$	808,955	$	919,386
		304,898		808,955		919,386
SHAREHOLDERS' EQUITY						
Share capital (Note 4)		**36,461,711**		36,132,404		36,461,711
Contributed surplus (Note 5)		**4,237,773**		4,155,880		3,826,573
Deficit		**(9,436,900)**		(7,661,240)		(8,634,495)
		31,262,584		32,627,044		31,653,789
	$	**31,567,482**	$	33,435,999	$	32,573,175

Approved on Behalf of the Board

'Edward 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 Months September 30, 2008	Three Months September 30, 2007	Nine Months September 30, 2008	Nine Months September 30, 2007	Cumulative from the date of commencement of exploration
Expenses					
Amortization	**$ 925**	$ 63	**$ 2,775**	$ 189	$ 23,899
Consulting fees	**51,091**	14,150	**79,591**	67,230	245,661
Directors' fees	**24,000**	34,500	**85,107**	64,500	170,357
Filing and regulatory fees	**2,842**	11,707	**33,075**	223,237	273,200
Foreign exchange (gain)	**(193,351)**	447,245	**(190,623)**	1,443,452	1,188,185
Interest and bank charges	**273**	1,172	**1,151**	1,383	92,852
Licenses, taxes and fees	**-**	-	**-**	-	85,000
Management fees	**18,750**	18,750	**56,250**	56,250	586,566
Office, general and administrative	**14,944**	11,219	**63,221**	38,800	182,232
Professional fees	**13,890**	25,763	**57,955**	78,372	394,203
Rent	**5,588**	5,596	**16,764**	16,788	49,644
Salaries and wages	**62,591**	67,899	**179,371**	111,872	887,728
Stock-based compensation	**51,400**	220,905	**411,200**	2,360,307	4,995,727
Travel and promotion	**28,337**	56,596	**211,815**	120,915	635,660
Write-down of mineral property costs	**-**	-	**-**	-	768,774
	81,280	915,565	**1,007,652**	4,583,295	10,579,688
Interest and other income	**(41,058)**	(219,866)	**(205,247)**	(716,510)	(1,136,680)
Loss for the period	**40,222**	695,699	**802,405**	3,866,785	$ 9,443,008
Deficit, beginning of period	**9,396,678**	6,965,541	**8,634,495**	3,794,455	
Deficit, end of period	**$ 9,436,900**	$ 7,661,240	**$ 9,436,900**	$ 7,661,240	
Loss per share					
Basic and fully diluted	**$ (0.01)**	$ (0.01)	**$ (0.07)**	$ (0.07)	
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.

(an exploration stage enterprise)

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE

		Three Months September 30, 2008		2007		Nine Months September 30, 2008		2007		Cumulative from the date of commencement of exploration
Cash flows from operating activities										
Net loss for the period	**$**	**(40,222)**	$	(695,699)	**$**	**(802,405)**	$	(3,866,785)		(9,491,285)
Amortization		**925**		63		**2,775**		188		23,899
Stock-based compensation		**51,400**		220,905		**411,200**		2,360,307		4,995,727
Financing fee		**-**		-		**-**		-		20,424
Interest accrual		**-**		-		**-**		-		1,913
Write-off of loan payable		**-**		-		**-**		-		768,774
		12,103		(474,731)		**(388,430)**		(1,506,290)		(3,680,548)
Changes in non-cash working capital		**(556,864)**		215,373		**(559,996)**		577,063		107,157
Cash flows used in operating activities		**(544,761)**		(259,358)		**(948,426)**		(929,227)		(3,573,391)
Cash flows from investing activities										
Capital Assets		**687**		(2,899)		**(224,474)**		(2,899)		(336,811)
Increase in mineral properties - acquisition		**(1,443,896)**		(1,392,906)		**(1,934,944)**		(2,063,842)		(6,023,207)
Increase in mineral properties - exploration		**(1,317,065)**		(2,762,088)		**(6,652,329)**		(4,892,831)		(18,001,145)
Deposits		**-**		-		**-**		**-**		(116,540)
Cash flows used in investing activities		**(2,760,274)**		(4,157,893)		**(8,811,747)**		(6,959,572)		(24,477,703)
Cash flows from financing activities										
Repayment of mortgage payable		**-**		-		**-**		(395,223)		(461,548)
Notes payable		**-**		-		**-**		-		117,110
Increase in common shares		**-**		-		**-**		879,169		34,165,883
Issue cost		**-**		-		**-**		-		(2,188,236)
Loans payable		**-**		-		**-**		-		74,171
Option expired and exercised		**-**		-		**-**		(428,647)		-
Cash flows provided from financing activities		**-**		-		**-**		55,299		31,707,380
Net increase in cash		**(3,305,035)**		(4,417,251)		**(9,760,173)**		(7,833,500)		3,656,286
Cash, beginning of period		**6,961,321**		20,618,352		**13,416,459**		24,034,601		-
Cash, end of period	**$**	**3,656,286**	$	16,201,101	**$**	**3,656,286**	$	16,201,101	$	3,656,286

SUPPLEMENTAL CASH FLOW INFORMATION (Note 9)

See accompanying notes to the unaudited consolidated financial statements

1. 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.

2. 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.

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.

3. 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 $2,374,471 (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.

2008	Balance beginning of period	Acquisition	Exploration	Recoveries	Write-down	Balance end of period
Michigan, USA						
Back Forty Project	$18,136,287	$ 1,934,944	$ 6,652,329	$ -	$ -	$26,723,560
	$18,136,287	$ 1,934,944	$ 6,652,329	$ -	$ -	$26,723,560

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

4. 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 September 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 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 nine month period ended September 30, 2008 have been valued at $514,000, and of that amount $411,200 has been vested and expensed using the following assumptions at the measurement date:

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

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

	September 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	(415,000)	-	-	-
Granted	700,000	0.90	1,700,000	2.04
Outstanding at end of the period	4,835,000	$ 1.13	4,550,000	$ 1.17

5. Contributed Surplus:

	September 2008	December 2007
Balance, beginning of the period	$ 3,826,573	$ 1,894,913
Stock-based compensation cost	411,200	2,360,307
Fair value of stock options exercised	-	(428,647)
Balance, end of the period	$ 4,237,773	$ 3,826,573

6. Capital Management:

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

a) 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;

b) To maintain a flexible capital structure which optimizes the cost of capital at an acceptable risk; and

c) 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.

	September 2008	September 2007	December 2007
Shareholders' equity	$ 31,262,584	$ 32,627,044	$ 31,653,789
Cash and cash equivalents	3,656,286	16,201,101	13,416,459
Capital	$ 34,918,870	$ 48,828,145	$ 45,070,248

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.

7. 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.

Fair value

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

	Period ended September 30, 2008			Year ended December 31, 2007		
Financial Instrument	**Carrying Value**	**Fair Value**	**Interest Expense**	**Carrying Value**	**Fair Value**	**Interest Expense**
Financial Assets						
Held for trading						
Cash and cash equivalents	$ 3,656,286	$ 3,656,286	$ -	$13,416,459	$13,416,459	$ -
Loan and receivable						
Accounts receivable	$ 61,416	$ 61,416	$ -	$ 78,278	$ 78,278	$ -
Financial Liabilities						
Other liabilities						
Accounts payable and accrued liabilities	$ 304,899	$ 304,899	$ -	$ 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.

8. Related party transactions:

For the three month period ended September 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 September 30, 2008, the President and CEO received salary of US $56,485 (2007 - US $36,231).

During the three month period the Assistant Corporate Secretary received salary of $18,117.

During the three month period, a total of US $79,420 (2007 - US $558,960) 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 September 30, 2008 the Company was charged Directors' fees totaling $24,000 (2007 - $34,500) by non-executive directors.

During the three month period ended September 30, 2008, the Company was charged legal fees totaling $13,890 (2007-$25,763) by a law firm whose partner is a officer 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.

9. Changes in non-cash operating working capital:

	September 30 3 months 2008	September 30 9 months 2008
Accounts receivable	$ (12,203)	$ 16,864
Funds held in trust	-	-
Prepaid expenses	45,045	37,627
Accounts payable and accrued liabilities	(589,706)	(614,488)
	$ (556,864)	$ (559,997)

10. Subsequent events:

No material subsequent events have occurred as of the date hereof.

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.