AQUILA RESOURCES INC.
MANAGEMENT DISCUSSION AND ANALYSIS
Year Ended December 31, 2008

Introduction

The following discussion of performance, financial condition and future prospects should be read in conjunction with the audited financial statements of the Company dated December 31, 2008, which were prepared in accordance with generally accepted accounting principles in Canada (Canadian GAAP). Financial information for Aquila Resources Inc. is filed at www.sedar.com. The Company's shares are listed on the TSX under the symbol AQA, and its reporting currency is the Canadian dollar. Previously certain financial disclosure of the Company had been in U.S. dollars. All amounts following are expressed in Canadian dollars unless otherwise stated. This Management Discussion and Analysis (MD&A) is dated March 30, 2009.

Forward Looking Statements

This report may contain forward-looking statements that involve a number of risks and uncertainties including statements regarding the outlook for the Company's business and operational results. By nature, these risks and uncertainties could cause actual results to differ materially from what has been indicated. Factors that could cause actual results to differ materially from any forward-looking statement include, but are not limited to, failure to establish estimated resources and reserves, the grade and recovery of ore which is mined from estimates, capital and operating costs varying significantly from estimates, aboriginal challenges, delays in or failure to obtain governmental, environmental or other project approvals and other factors including those risks and uncertainties identified above. The Company undertakes no obligation to update publicly or otherwise revise any forward-looking information as a result of new information, future results or other such factors which affect this information, except as required by law.

1. Overview

Aquila Resources Inc. (formerly JML Resources Ltd.) was incorporated in the Province of Ontario as 1223068 Ontario Limited by Articles of Incorporation dated February 17, 1997.

At a Special Meeting of shareholders of JML Resources Ltd. (JML) held on April 17, 2006, it was approved that JML:

(a) Amend its Articles to change its name to Aquila Resources Inc.
(b) Consolidate its common shares on a one for three (1:3) basis
(c) Acquire the issued and outstanding shares of Aquila Resources Corp. and 2079537 Ontario Ltd. (Cashco) as a reverse takeover of JML

The Company carries on the business of mineral exploration and is a mineral exploration company. Exploration expenditures on the Company's projects are funded from the equity capital raised by the Company. Aquila Resources Corp. entered into a reverse takeover transaction with JML (the "RTO") for the purpose of becoming a public reporting issuer, raising financing and continuing mineral exploration with the focus on a volcanogenic massive sulfide (VMS) project located in the state of Michigan, U.S.A. (the "Back Forty Project"). The principal focus of the resulting company is the exploration of the Back Forty Project located in Menominee County, Michigan.

Back Forty Project

The Back Forty Project is an advanced exploration project and at the date hereof the sole mineral property of the Company. An updated NI 43-101 compliant resource estimate was announced by the Company on January 15, 2009 which updated the previous resource estimate dated April 25, 2007. The resource estimate was dated February 25, 2009 and is filed with the Company's other public documents at www.sedar.com. The updated resource was compiled by SRK Consulting (Canada) Inc. ("SRK"). The information contained herein is excerpted from the technical report and other publicly available information.

Ownership of mineral interests are 100% by way of state and private mining leases, private fee surface and mineral ownership, and options to purchase estates subject to underlying royalty interests and applicable minority interests. The entire project is subject to an overriding 7% net distributable earnings royalty ("net profits after payback") payable to a former joint venture partner. The Company has annual commitments for state lease payments and option payments for the property that comprises the Back Forty Project (see section 10 – *Property*).

NI 43-101 Resource Estimate

The NI 43-101 compliant mineral resource statement is presented in Table 1 and consists of a total of 8.5 million tonnes measured and indicated (M+I) and an additional 1.17 million tonnes inferred. The mineral resource statement is reported at various NSR cut-off grades reflecting metallurgical recoveries, long term metal price projections, and estimated operating costs, and reflects reasonable prospects for economic extraction.

The open pit mineral resources are reported at an average NSR cut-off of US$20 and comprise a substantial tonnage (5.92 million tonnes M+I) and 620,000 tonnes inferred that is potentially minable by surface methods. The underground mineral resources, reported with an average NSR cut-off of US$62 (assuming underground mining costs estimated at US$43 per tonne), show excellent zinc grade, over 9%, in the indicated M+I category.

Table 1. Mineral Resource Statement* for the Back Forty Deposit, Michigan, U.S.A., SRK Consulting, January 12, 2009.

		Grade					Contained Metal				
Resource Category	Tonnage [t]	Gold [g/t]	Zinc [%]	Silver [g/t]	Copper [%]	Lead [%]	Gold [1000 oz]	Zinc [M lbs]	Silver [1000 oz]	Copper [M lbs]	Lead [M lbs]
Open Pit Resources†											
Measured (M)	4,660,000	2.04	3.64	29.2	0.68	0.08	305	374	4,380	70	8
Indicated (I)	1,260,000	4.03	5.63	47.3	0.37	0.30	160	156	1,872	10	8
M + I	5,920,000	2.46	4.06	33.1	0.61	0.13	465	530	6,252	80	16
Inferred	620,000	3.68	2.46	46.5	0.15	0.44	74	34	921	2	6

Underground Resources‡										
Measured (M)	1,060,000	1.21	9.23	26.5	0.39	0.86	41	216	904	9	20
Indicated (I)	1,510,000	1.51	9.11	24.0	0.19	0.47	74	303	1,163	6	16
M + I	2,580,000	1.39	9.16	25.0	0.28	0.63	115	521	2,067	16	36
Inferred	550,000	2.03	6.62	36.4	0.28	0.67	36	80	643	3	8
Combined Open Pit and Underground											
M + I	8,500,000	2.13	5.61	30.6	0.51	0.28	580	1,051	8,319	96	52
Total Inferred	1,170,000	2.90	4.42	41.7	0.21	0.55	110	114	1,564	5	14

* Mineral resources are not mineral reserves and do not have demonstrated economic viability. All figures have been rounded to reflect the relative accuracy of the estimates. The cut-off grades are based on metal price assumptions of US$0.79 per pound zinc, US$1.89 per pound copper, US$0.55 per pound lead, US$678 per troy ounce gold and US$10 per troy ounce silver. Metallurgical recoveries were determined and used for each of eight metallurgical domains determined for the deposit.

† Cut off grades for each of eight metallurgical domains based on NSR values, average cut-off grade for open pit resource contained within an optimized pit shell US$20.

‡ Cut off grades were determined for each of eight metallurgical domains based on NSR values, average cut-off grade for underground resources outside of an optimized pit shell is US$62.

A previous NI 43-101 compliant resource published in March of 2007 contained a measured plus indicated 6.64 million tonnes at 5.32% zinc, 2.28 g/t gold, 28.8 g/t silver, and 0.52 % copper and 1.75 million tonnes inferred at 2.61% zinc, 2.82 g/t gold, 32.4 g/t silver, and 0.15% copper. This resource did not use NSR parameters to determine the prospect for economic extraction.

The new mineral resource statement places the Back Forty Deposit in the top 20th percentile in terms of size and contained zinc when compared to 137 Canadian VMS deposits with reported production and reserves, and in the top 10 percent of deposits in terms of contained gold in the mineral resource. When compared to published geologic tonnages for 846 VMS deposits worldwide, Back Forty ranks in the top 18 percent for size, the top 16 percent for contained zinc, and the top 10 percent for contained gold (Source: Geological Survey of Canada, Mineral Deposits of Canada: Synthesis of mineral deposits knowledge, Volcanogenic-Associated Massive Sulfide Deposits, Appendix 1).

The quantities of material offering reasonable prospects for economic extraction by open pit were determined using Mintec's Minesight and the Lerchs-Grossman optimizing algorithm, which evaluates the profitability of each resource block based on its NSR value. The optimization parameters are based on ongoing scoping studies for the project as well as by survey of similar deposits. Metal price assumptions are as follows: US$0.79 per pound zinc, US$1.89 per pound copper, US$0.55 per pound lead, US$678 per troy ounce gold and US$10 per troy ounce silver.

The drill hole database used for grade estimation consists of approximately 5,170 assay intervals from 336 diamond drill holes.

Resource by Metallurgical Domain and Zone

Metallurgical studies of the Back Forty conducted by G&T Metallurgical Services Ltd. of Kamloops, B.C., released in 2008, defined eight metallurgical domains based on the dominant economic minerals and metal recovery method that correspond to the different mineralized zones.

For example, higher grade zinc zones, such as the Main Zone massive sulfide, were separated from high gold, low base metal zones, e.g. the 90 Zone. Mineral resources were estimated separately for each metallurgical zone to determine an appropriate NSR cut-off grade for reporting each resource block.

The mineral resources by metallurgical zones are shown in Tables 2 and 3. The open pit indicated M+I resource of 5.92 million tonnes can thus be viewed as a combination of 3.39 million tonnes M+I of higher grade zinc material (6.29% zinc), 1.24 million tonnes M+I of copper-rich resource (1.81% copper) and a further 620,000 tonnes M+I of high grade gold zones averaging 6.5 g/t gold plus stringer and Tuff Zone material. The underground resource consists largely of zinc-rich Main Zone (in the South Limb) and Pinwheel massive sulfide with accessory material contributed by the Tuff, Stringer, and PM Zones.

Table 2. Open Pit Mineral Resources* - Metallurgical Domains and Zones

Metallurgical Domain/Zone	Cut-off† [US$NSR]	Quantity Tonnes	Gold g/t	Silver g/t	Copper %	Lead %	Zinc %
Massive Sulfide (Main Zone)							
Measured + Indicated	19	3,390,000	2.00	15.7	0.30	0.09	6.29
Inferred	19	100,000	1.94	16.2	0.21	0.21	9.22
Massive Sulfide (Tuff Zone)							
Measured + Indicated	19	90,000	1.92	108.7	0.10	2.92	10.81
Inferred	19	30,000	1.53	94.8	0.07	2.8	11.41
Massive Sulfide (Pinwheel Zone)							
Measured + Indicated	19	1,240,000	1.85	62.1	1.81	0.06	0.97
Inferred	19	10,000	1.20	123.4	0.45	0.14	2.00
Stringer Sulfide (Stringer Zone)							
Measured + Indicated	19	580,000	2.19	10.4	0.26	0.05	0.76
Inferred	19	170,000	2.39	9.9	0.27	0.05	0.71
Oxide (Pinwheel Gossan)							
Measured + Indicated	29	200,000	7.83	153.8	0.99	0.07	0.01
Inferred	29	0					
Oxide (East Gossan)							
Measured + Indicated	24	80,000	17.98	7.5	0.04	0.02	0.01
Inferred	24	0					
Gold (90 Gold Zone)							
Measured + Indicated	24	340,000	3.05	53.8	0.02	0.17	0.25
Inferred	24	150,000	2.86	70.4	0.02	0.23	0.50
Gold (PM Gold Zone)							
Measured + Indicated		0					
Inferred	24	160,000	7.46	68.1	0.12	0.78	0.3
Totals							
Measured + Indicated		5,920,000	2.46	33.1	0.61	0.13	4.06
Inferred		620,000	3.68	46.5	0.15	0.44	2.46

*Mineral resources are not mineral reserves and do not have demonstrated economic viability. All figures have been rounded to reflect the relative accuracy of the estimates, values of zero indicate quantities below the relative accuracy of the estimate. The cut-off grades are based on metal price assumptions of US$0.79 per pound Zn, US$1.89 per pound copper, US$0.55 per pound lead, US$678 per troy ounce gold and US$10 per troy ounce silver. Metallurgical recoveries were determined and used for each of eight metallurgical domains for the deposit.

†Cut off grades for each of eight metallurgical domains based on NSR values, cut-off grade for open pit resource contained within an optimized pit shell.

Table 3. Underground Mineral Resources*- Metallurgical Domains and Zones

Metallurgical Domain/Zone	Cut-off† [US$NSR]	Quantity Tonnes	Gold g/t	Silver g/t	Copper %	Lead %	Zinc %
Massive Sulfide (Main Zone)							
Measured + Indicated	62	1,410,000	1.57	20.7	0.22	0.29	8.93
Inferred	62	370,000	1.69	29	0.34	0.42	6.7
Massive Sulfide (Tuff Zone)							
Measured + Indicated	62	160,000	1.28	52.3	0.06	1.97	9.63
Inferred	62	100,000	1.49	36.3	0.05	1.73	8.41
Massive Sulfide (Pinwheel Zone)							
Measured + Indicated	62	980,000	1.02	26.8	0.4	0.91	9.65
Inferred	62	40,000	0.53	88.4	0.42	0.16	7.52
Stringer Sulfide (Stringer Zone)							
Measured + Indicated	62	30,000	5.36	21.2	0.11	0.19	1.35
Inferred	62	10,000	5.57	10.9	0.12	0.11	1.94
Gold (PM Gold Zone)							
Measured + Indicated	67						
Inferred	67	30,000	8.8	66.3	0.10	1.00	0.06
Totals							
Measured + Indicated		2,580,000	1.39	25.0	0.28	0.63	9.16
Inferred		550,000	2.03	36.4	0.28	0.67	6.62

*Mineral resources are not mineral reserves and do not have demonstrated economic viability. All figures have been rounded to reflect the relative accuracy of the estimates, values of zero indicate quantities below the relative accuracy of the estimate. The cut-off grades are based on metal price assumptions of US$0.79 per pound Zn, US$1.89 per pound copper, US$0.55 per pound lead, US$678 per troy ounce gold and US$10 per troy ounce silver. Metallurgical recoveries were determined and used for each of eight metallurgical domains for the deposit.

†Cut off grades were determined for each of eight metallurgical domains based on NSR values, cut-off grade for underground resources outside of an optimized pit shell.

Summary of Metallurgical Testwork

During 2008 the Company released results of metallurgical testwork which was incorporated into the updated resource estimate. The evaluation work on the Back Forty was performed by G&T Metallurgical Services of Kamloops B.C. under the supervision of a metallurgical consultant to the Company. Results demonstrate that flotation testwork produces marketable concentrates of copper, zinc and lead with associated gold and silver reporting to the copper and lead circuits. Precious metal ores with negligible copper, lead and zinc show excellent gold and variable silver recovery through a combination of gravity and hydrometallurgical extraction. Work index testing indicated the ores tested are generally of the "soft" variety with favourable grinding characteristics and associated lower power requirements.

Exploration Potential

The current resource has not closed off the Back Forty Deposit. The Main Zone massive sulfide remains open at depth and to the west. Deep drilling on the Main Zone indicates that zinc mineralization continues. DDH LK-291 was one of the last step-out holes on the Main Zone and intersected 7.7 meters of over 10% zinc at a depth of 400 meters. The 90 and PM gold zones also remain open and a new gold zone, the Near Surface, or "NS," Zone remains to be delineated and modeled into the resource. In addition, airborne VTEM targets are currently being evaluated.

Mineral resources for the deposit were classified according to the CIM Definition Standards for Mineral Resources and Mineral Reserves (December 2005) by G. David Keller, P.Geo (APGO #1235), an appropriate independent qualified person for the purpose of National Instrument 43-101. Mineral resources are not mineral reserves and do not have demonstrated economic viability. There is no certainty that all or any part of the mineral resource will be converted into mineral reserve.

2. Operating Highlights

The exploration program during 2008 focused on continued expansion and definition of resources. As of the end of 2008 the Company had released results up to drill hole LK-314E with additional results from drill holes pending. Results from drilling are contained in press releases found on Sedar at www.sedar.com as well as on the Company's website at www.aquilaresources.com. Subsequent to year end, as of the date hereof, all material results from drilling have been publicly released.

The net loss recorded by the Company for the year ending December 31, 2008 was $692,174 compared to the net loss of $4,840,040 for the year ended December 31, 2007 (Note 6).

The Company is a reporting issuer in Ontario, British Columbia, Alberta, Saskatchewan and Nova Scotia. During 2007 the Company listed on the TSX. Previously the Company was listed on the TSX Venture Exchange.

3. Selected Financial Information

As an exploration company, the Company has no revenue from operations. The Company is dependent on the equity markets to fund its exploration activities. During the year the Company recorded significant interest from funds on deposit.

The following table provides selected financial information that should be read in conjunction with the financial statements of the Company.

	Year ended December31, 2008	*Year ended December 31, 2007*
Interest and other income	$ (268,454)	$(880,285)
Operating Expenses	$960,628	$5,720,325
Net loss(income)	$692,174	$4,840,040
Loss per share	$0.01	$0.07
Mining interest	$28,252,770	$18,136,287
Cash and Cash Equivalents	$2,138,518	$13,416,459
Total assets	$31,635,844	$32,573,175

4. Results from Operations

The Company's operations involve exploration of its mineral exploration property located in Menominee County, Michigan. The Company has no income from its operations. During the year ended December 31, 2008 the Company incurred a loss of $0.01 per share (basic and fully diluted). The comparable loss per share for the prior year was $0.07

A significant component to the loss for the year was attributable in large part to the Stock-based compensation (a cost incurred as a result of granting of stock options), an expense of $462,600 (2007 - $2,360,307). The loss before interest and other income was $960,628 (2007 - $5,720,325). A write-down of mineral property costs was incurred during the year of $Nil (2007 - $768,774). The property written down during 2007 was the Cedros Property in Honduras. The cost basis of Cedros was reduced to $Nil from $768,774 as title to the property had not been obtained by the Company. The Company entered into an agreement to terminate any rights and obligations with respect to the Cedros Property during 2008. Foreign exchange loss(gain) for the year was $(410,208) for the year (2007 - $1,412,468).

5. Revenue

None of the Company's properties have advanced to the point where a production decision can be made. As a consequence, the Company has no producing properties and no sales or revenues. The Company will from time to time earn interest from funds on deposit. Revenue from interest for the year was $268,454 compared to the previous year when $880,285 was earned from interest. Cash balances available for investment were significantly reduced year over year.

6. Expenses

	For the year ending December 31, 2008	For the year ending December 31, 2007
Stock option compensation cost	$ 462,600	$ 2,360,307
Foreign exchange loss (gain)	(410,208)	1,412,468
Office, general and administrative	88,278	68,747
Travel and promotion	229,832	204,416
Write-down of mineral property	NIL	768,774
Directors' fees	91,607	85,250
Filing and regulatory fees	37,456	214,237
Licences, taxes and fees	NIL	85,000

During the year ending December 31, 2008, the Company incurred total expenses in the amount of $960,628 (December 31, 2007 - $ 5,720,325). Notable expense items and material variance are noted in the table above. Foreign exchange gain is due to the change in the value of US denominated assets as a result of the decreasing Canadian dollar against the US dollar. The 2007 filing and regulatory fees included a one time payment of $175,000 paid to the TSX for listing on the exchange.

7. Acquisition Costs

Acquisition costs include option payments on mineral and surface rights at the Back Forty Project. The Company entered into an Option Agreement on the MRT Property during the third quarter of 2006 and during 2008 made a third option payment of US$1,333,333. The payments for 2009 and 2010 are US$250,000 each. The total option payments remaining to be paid to complete the MRT option are US$7.7 million over the next seven years to August 2015 (2009- $250,000).

8. Exploration Expenditures

Drilling and other exploration expenditures are capitalized. Exploration expenditures for the year ended December 31, 2008 consumed a significant portion of the cash resources of the Company reflecting the goal of the Company being to expand and delineate the resource at the Back Forty Project. This reflects the primary goal of the Company which is to expand and delineate the resource at the Back Forty Project as part of the goal of completing a NI 43-101 Preliminary Economic Analysis (scoping study) for the project. Expenditures include wages of geologists, laborers, contractors for drilling, geophysical surveys and metallurgical testwork. In addition to the exploration related expenditures the Company has significant expenditures for baseline environmental studies and community engagement activities which are part of a process leading to a future permit application for the project. A breakdown of deferred exploration costs for the years ended December31, 2007 and December 31, 2008 are presented below.

	Back Forty Project (CDN$)	
	December 31, 2008	December 31, 2007
Wages	$1,040,304	$714,848
Assays	574,091	370,446
Geophysics	427,727	665,842
Drilling	2,699,557	3,360,242
Consult/Legal/Environmental	1,961,776	1,540,275
Operator	55,778	134,721
Property Interests	2,062,381	2,117,244
Administration	14,573	201,100
Scoping Study	717,303	-
Other	551,283	517,126
Total	$10,104,773	$9,623,844

9. Summary of Quarterly Results

Selected financial information for the eight fiscal quarters of 2008 and 2007 are presented below:

Quarterly Financial Information (unaudited)

		2008 Q4		**2008 Q3**		**2008 Q2**		**2008 Q1**
(a) Interest and Other Income	$	63,207	$	41,058	$	54,765	$	109,424
(b) Net Income (loss)	$	110,231	$	(40,222)	$	(467,354)	$	(294,829)
(c) Net Income (loss) per share (Basic)	$	(0.01)	$	(0.01)	$	(0.01)	$	(0.01)

		2007 Q4		**2007 Q3**		**2007 Q2**		**2007 Q1**
(a) Interest and Other Income	$	163,774	$	219,866	$	244,410	$	252,235
(b) Net Income (loss)	$	(1,194,160)	$	(695,699)	$	(1,002,538)	$	(2,168,548)
(c) Net Income (loss) per share (Basic)	$	(0.01)	$	(0.02)	$	(0.02)	$	(0.03)

10. Financial Condition

Liquidity and Capital Resources

The Company has no significant revenues and no expectation of significant revenues in the near term. In order to manage this risk the Company closely monitors its cash requirements and expenditures to maintain sufficient liquidity.

During the year the Company utilized cash on hand to fund operations. The cash balance as at December 31, 2008 was $2,138,518 (December 31, 2007 - $13,416,459).

Liabilities at December 31, 2008 consist of short term trade payables and accrued liabilities of $211,629 (December 31, 2007 - $919,386).

The Company has sufficient funds on hand to finance the operations of the Company in the near term. However, the Company remains dependent on equity financing to fund its ongoing requirements in the future. Alternative sources of capital include but are not limited to funding from industry partners through joint ventures.

Operations

The Company has contractual obligations for employees at its operations. The Company has entered into several large ongoing contracts for services notably for environmental baseline work and drilling. These contracts typically entail break costs for termination but are considered in line with normal industry standards. Subsequent to the year end the Company ended its investor relations contract which had required payment of monthly fees in the amount of $3,000. The Company has a rental commitment on a month to month basis for office space and administrative support in Toronto at approximately $1,800 per month. At the U.S. site operations the Company owns office and storage facilities and has a monthly commitment of US$4,000 for core storage facilities.

Property

The Company has contractual obligations with respect to the Back Forty Project located in Menominee County, Michigan. Title of private landholdings in the State of Michigan is divided into surface rights and mineral rights. The Company has acquired options on both surface and mineral rights from private owners in the project area and has leases from the State of Michigan. The options generally provide the Company with a period of time to assess the mineral potential of the acreage with a right to purchase both the surface and mineral rights for a price based on market price at the time of purchase. Other mineral rights are leased from the State.

During the year an option payment for the MRT Property of US$1,333,333 was paid on August 3, 2008. The payments for 2009 and 2010 are US$250,000 each. The total option payments remaining are US$7.7 million over the next seven years to August 2015.

Estimated total lease, option and purchase costs for mineral interests relating to the Back Forty Project are US$396,323 for fiscal year 2009.

It is in the normal course of business for the Company to add or to drop mineral interests based on exploration results and other material factors.

11. Share Capital

Common Shares

As at December 31, 2008 there were 69,609,478 common shares of the Company outstanding. There were 500,000 common shares cancelled during the year as part of the Cedros Property settlement agreement.

Warrants

There are Nil warrants and Nil broker warrants outstanding as at December 31, 2008 (December 31, 2007 – 8,843,635). The warrants that were outstanding in 2007 expired December 15, 2008 and were exercisable at $2.15.

Options

There are a total of 4,830,000 stock options outstanding as at December 31, 2008 with exercise prices ranging from $0.30 to $2.15. During the year 420,000 options expired and 700,000 options were granted during the year. In January 2009 the Company granted an additional 1,850,000 options exercisable at a price of $0.15 for a term of five years. An additional 300,000 options were reserved for issuance issuable on certain conditions to a consultant.

12. Off-Balance Sheet Arrangements

As at December 31, 2008 the Company does not have any off-balance sheet arrangements.

13. Transactions with Related Parties

For the year ended December 31, 2008 management fees amounting to $71,875 (2007 - $95,000) were charged by a company controlled by the CFO and a director of the Company. As at December 31, 2008 accounts payable includes $3,281 (2007-$27,852) owing to this related party.

During 2008 and 2007 the President and CEO, and related individuals received remuneration consisting of management fees and salaries. Total remuneration for 2008 was $414,416 (2007-$308,202). Accounts payable includes $Nil (2007-$50,000) owing to these related parties at December 31, 2008.

A total of US$729,853 (2007 - US $2,050,818) 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, 2008 accounts payable includes $12,400 (2007-$327,596) owing to this related party.

During the year, the Company was charged Directors' fees totaling $91,607 (2007 - $85,250) by non-executive directors. Accounts payable includes $Nil (2007- $20,000) owing to these related parties.

During the year, the Company was charged legal fees totaling $50,985 (2007-$72,330) by a law firm whose partner is an officer of the Company. As at December 31, 2008 accounts payable includes $2,954 (2007-$1,360) due to this related party.

Rental expenditures in the amount of $22,352 (2007-$22,384) were charged by a Company with common directors.

See notes 3 and 17 of the Audited Financial Statements for the years ended December 31, 2008 and 2007 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.

14. Use of Estimates

The preparation of financial statements in conformity with 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 amount of expenses during the reporting period. Actual results could differ from those estimates.

15. Management's Evaluation of Disclosure Controls and Procedures

Management is responsible for establishing and maintaining a system of controls and procedures over the public disclosure of financial and non-financial information regarding the Company. Such controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported, on a timely basis, to senior management, including the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO), so that appropriate decisions can be made by them regarding public disclosure.

The system of disclosure controls and procedures includes, but is not limited to, our Disclosure Policy, our Code of Business Ethics, the effective functioning of our Audit Committee, procedures in place to systematically identify matters warranting consideration of disclosure by the Board of Directors and verification processes for individual financial and non-financial metrics and information contained in annual and interim filings, including the financial statements, MD&As, Annual Information Forms and other documents and external communications.

As required by CSA Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures was conducted, under the supervision of Management, including the CEO and CFO, as of December 31, 2008. The evaluation included documentation review, enquiries and other procedures considered by Management to be appropriate in the circumstances. Further review and evaluation of the system of controls and procedures over the public disclosure of financial and non-financial information of the Company was conducted during 2008.

Based on that evaluation, the CEO and the CFO have concluded that the design and operation of the system of disclosure controls and procedures was effective as of December 31, 2008.

The CEO and CFO are also required, under Multilateral Instrument 52-109, to file certifications of our annual filings. Copies of these certifications may be found on SEDAR at www.sedar.com.

16. New Accounting Standards and Policies

Financial Instruments

Effective January 1, 2008, Aquila 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 if 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.

International Financial Reporting Standards ("IFRS")

In January 2006, the AcSB formally adopted the strategy of replacing financial reporting under Canadian GAAP with financial reporting under IFRS, for Canadian enterprises with public accountability. The current conversion timetable calls for financial reporting under IFRS for accounting periods commencing on or after January 1, 2011. On February 13, 2008, the AcSB confirmed that the use of IFRS will be required in 2011 for publicly accountable for-profit enterprises. Financial reporting under IFRS will be required for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company will be required to prepare comparative financial statements in accordance with IFRS beginning with the three-month period ended March 30, 2010. The Company is currently assessing the impact on its financial statements.

Capital Management

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

Future accounting changes

i) During the year the CICA amended Section 1400 to include requirements to assess and disclose an entity's ability to continue as a going-concern. When financial statements are not prepared on a going concern basis, that fact shall be disclosed together with the basis on which the financial statements are prepared and the reason why the company is not considered a going-concern. The new requirements are effective for the Company for interim and annual financial statements beginning January 1, 2009. The Company is currently evaluating the impact of this new standard.

ii) The CICA issued Section 3064 - Goodwill and Intangible Assets replacing Section 3450, Research and Development Costs. The new standard, which the Company will adopt in fiscal 2009, establishes guidelines for the recognition, measurement, presentation and disclosure of research and development costs. Management is in the process of assessing the impact of this new standard and the impact on the Company's consolidated financial statements has not yet been determined.

iii) Section 1601 Consolidated Financial Statements. This new Section will be applicable to financial statements relating to the Company's interim and fiscal year beginning on or after January 1, 2011. Early adoption is permitted. This section establishes standards for the preparation of consolidated financial statements. The Company has not yet determined the impact of the adoption of this new section on the consolidated financial statements.

17. Risks and Uncertainties

The Back Forty Project is the material mineral project of the Company and consequently unless the Company acquires additional similar quality properties or projects any adverse development affecting the Back Forty Project could have a material adverse effect on the Company.

The business of the Company involves many risks and uncertainties. Mineral exploration involves a high level of risk. Some of the risks include the lack of revenues as the Company is a development stage enterprise. Other risks include the difficulty of finding economically viable mineral deposits, intense competition in the sector from both large and small competitors, fluctuations in metal prices and the possibility of legal challenges that delay or stop from environmental and aboriginal groups. These are not an exhaustive list of the risks associated with the business.

Environmental Risks and Hazards

All phases of the Company's mineral exploration operations are subject to environmental regulations pertaining to the County of Menominee, the State of Michigan and the United States. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations. Environmental hazards may exist on the properties on which the Company holds interests which are unknown to the Company at present and which have been caused by previous or existing owners or operators of the properties. The Company may become liable for such environmental hazards caused by previous owners and operators of the properties even where it has attempted to contractually limit its liability. Government approvals and permits are currently, and may in the future be, required in connection with the Company's operations. To the extent such approvals are required and not obtained, the Company may be curtailed or prohibited from proceeding with planned exploration or development of mineral properties. Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

The future costs of retiring mining assets include dismantling, remediation, ongoing treatment and monitoring of the site. These are reconciled and recorded as a liability at fair value. The liability is accreted, over time, through periodic charges to earnings. In addition, asset retirement costs are capitalized as part of the asset's carrying value and amortized over the asset's useful life. As the Company has not yet begun mining or milling operations, the Company currently has no identifiable obligations relating to the retirement of its assets.

Amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in exploration expenses, capital expenditures or production costs or reduction in levels of production at producing properties or require abandonment or delays in development of new mining properties. Production of mineral properties may involve the use of dangerous and hazardous substances such as sodium cyanide. While all steps will be taken to prevent discharges of pollutants into the ground water and the environment, the Company may become subject to liability for hazards that cannot be insured against. The Company is subject to all environmental acts and regulations at the federal and state levels.

18. Subsequent Events

The Company granted 1,850,000 incentive options exercisable at $0.15 per share in January 2009 and reserved a further 300,000 incentive options exercisable at $0.30 per share (see section 11).

The Company announced the results of the updated mineral resource estimate on January 15, 2009 which results are incorporated herein (see section 1).

19. Officers and Directors

As of the date hereof the current officers and directors of the Company are:

Thomas O. Quigley – President, CEO and Director
Robin E. Dunbar – CFO and Director
Nadim Wakeam – Corporate Secretary
Robin Quigley – Assistant Corporate Secretary
Alvin W. Jackson – Director
Edward Munden – Director
Peter M.D. Bradshaw – Chairman of the Board and Director
William J. West – Director
Michael L. Surratt – Director

Thomas O. Quigley, P.Geo., is the Qualified Person for Aquila Resources Inc.

20. Additional Information

Additional information about the Company including financial statements, press releases and other filings are available on SEDAR at www.sedar.com.
The Company website is www.aquilaresources.com