AQUILA RESOURCES INC.

(an exploration stage enterprise)

CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian Dollars, unless otherwise stated)

DECEMBER 31, 2009

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AUDITORS' REPORT

To the Shareholders of
Aquila Resources Inc.:
(an exploration stage enterprise)

We have audited the consolidated balance sheets of Aquila Resources Inc. (the "Company", an exploration stage enterprise) as at December 31, 2009 and 2008 and the consolidated statements of loss, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"Edmund Cachia & Co. LLP"
CHARTERED ACCOUNTANTS
Licensed Public Accountants
Toronto, Ontario
March 24, 2010

AQUILA RESOURCES INC.

(an exploration stage enterprise)

Consolidated Balance Sheets

(Expressed in Canadian Dollars)
As at December 31

	2009	2008
Assets		
Current		
Cash and cash equivalents	**$ 1,866,125**	$ 2,138,518
Accounts receivable	**105,063**	64,809
Prepaid expenses	**37,379**	39,097
	2,008,567	2,242,424
Security deposit (Note 3)	**124,415**	129,095
Mineral Property Costs (Note 3)	**30,120,135**	28,252,770
Capital Assets (Note 4)	**976,180**	1,011,555
	$ 33,229,297	$ 31,635,844
Liabilities		
Current		
Accounts payable and accrued liabilities (Note 7)	**$ 108,733**	$ 211,629
Shareholders' Equity		
Share capital (Note 5)	**38,510,133**	36,286,711
Contributed surplus (Note 6)	**4,806,341**	4,464,173
Deficit	**(10,195,910)**	(9,326,669)
	33,120,564	31,424,215
	$ 33,229,297	$ 31,635,844

Nature of operations and going concern considerations (Note 1)
Committments (Note 3 and 8)
Subsequent event (Note 15)

Approved on Behalf of the Board:

"*Edward J. Munden*" Director

"*Robin Dunbar*" Director

The accompanying notes are an integral part of the consolidated financial statements.

AQUILA RESOURCES INC.

(an exploration stage enterprise)

Consolidated Statements of Loss, Comprehensive Loss and Deficit

(Expressed in Canadian Dollars)

for the years ended December 31

	2009	2008	Cumulative from the date of commencement of exploration stage January 16, 2004
Expenses			
Depreciation	**$ 25,745**	$ 7,439	$ 54,308
Consulting fees	**35,700**	88,297	290,067
Directors' fees (Note 7)	**-**	91,607	176,857
Filing and regulatory fees	**33,569**	37,456	311,150
Foreign exchange (gain) loss	**31,484**	(410,208)	945,699
Interest and bank charges	**1,356**	3,759	96,816
Licenses, taxes and fees	**-**	-	85,000
Management fees (Note 7)	**52,500**	71,875	654,691
Office, general and adminstrative	**66,238**	88,278	321,804
Professional fees	**64,692**	84,261	485,201
Rent (Note 7)	**22,591**	22,352	77,823
Salaries and wages	**180,464**	183,080	1,071,901
Stock-based compensation (Note 5)	**344,420**	462,600	5,391,547
Travel and promotion	**25,651**	229,832	679,328
Write-down of mineral property costs	**-**	-	768,774
Loss before undernoted	**884,410**	960,628	11,410,966
Interest and other income	**(15,169)**	(268,454)	(1,215,056)
Net loss and comprehensive loss for the period	**869,241**	692,174	$ 10,195,910
Deficit, beginning of period	**9,326,669**	8,634,495	
Deficit, end of period	**$ 10,195,910**	$ 9,326,669	
Loss per common share			
Basic and Diluted (Note 2)	**$ 0.01**	$ 0.01	
Basic	**74,676,583**	70,097,149	
Diluted	**74,676,583**	70,097,149	

The accompanying notes are an integral part of the consolidated financial statements.

AQUILA RESOURCES INC.

(an exploration stage enterprise)

Consolidated Statements of Cash Flows

(Expressed in Canadian Dollars)

For the years ended December 31

	2009	2008	Cumulative from the date of commencement of exploration stage January 16, 2004
Cash flows from operating activities			
Net loss for the period	**$ (869,241)**	$ (692,174)	$ (10,195,910)
Adjustments for:			
Depreciation	**25,745**	7,439	54,308
Financing fee	**-**	-	20,424
Stock-based compensation	**344,420**	462,600	5,391,547
Interest accrual	**-**	-	1,913
Write-down of mineral property costs	**-**	-	768,774
Changes in non-cash working capital (Note 10)	**(52,568)**	(688,216)	(73,631)
Cash used in operations	**(551,644)**	(910,351)	(4,032,575)
Cash flows from investing activities			
Purchase of capital assets	**-**	(254,697)	(367,034)
Security deposit	**4,680**	(8,120)	(119,980)
Mineral properties - acquisition	**(1,392,857)**	(2,062,381)	(7,543,501)
Mineral properties - exploration	**(2,933,516)**	(8,042,392)	(22,379,109)
Recovery of mineral property costs (Note 3)	**2,379,774**	-	2,379,774
Cash used in investing	**(1,941,919)**	(10,367,590)	(28,029,850)
Cash flows from financing activities			
Issuance of common shares	**2,221,170**	-	36,387,053
Issue cost	**-**	-	(2,188,236)
Notes payable	**-**	-	117,110
Repayment of mortgages payable	**-**	-	(461,548)
Loans payable	**-**	-	74,171
Cash provided by financing	**2,221,170**	-	33,928,550
Net increase (decrease) in cash	**(272,393)**	(11,277,941)	1,866,125
Cash and cash equivalents, beginning of period	**2,138,518**	13,416,459	-
Cash and cash equivalents, end of period	**$ 1,866,125**	$ 2,138,518	$ 1,866,125

Supplemental cash flow information (Note 13)

The accompanying notes are an integral part of the consolidated financial statements.

1. Nature of operations and going concern considerations:

Aquila Resources Inc. (the "Company") was incorporated under the Business Corporations Act ("Canada") and is involved in the mineral exploration business and controls mineral and surface rights at the Back Forty Project located in Menominee County, Michigan.

The Company is listed on The Toronto Stock Exchange ("TSX") and 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 revenues and is considered an exploration stage company. For the year ended December 31, 2009, the Company incurred a loss of $869,241 (2008- $692,174) and had an accumulated deficit of $10,195,910 (2008- $9,326,669). These circumstances may cast significant doubt as to the Company's ability to continue as a going concern and the appropriateness of the use of accounting principles applicable to a going concern.

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a "going concern", which assume that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. The business of mining and exploring for minerals involves a high degree of risk and there is no guarantee that the Company's exploration programs will yield positive results or that the Company will be able to obtain the necessary financing to carry out the exploration and development of its mineral property interests.

These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities, or the reported expenses and balance sheet classifications that would be necessary should the going concern assumption be inappropriate. These adjustments could be material.

The recoverability of the carrying value of exploration properties and the Company's continued existence is dependent upon the preservation of its interests in the underlying properties, the development of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to raise additional financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write-downs of the carrying values.

Although the Company has taken steps to verify title to the properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to government licensing requirements or regulations, unregistered prior agreements, undetected defects, unregistered claims, native land claims, and non-compliance with regulatory and environmental requirements.

2. Significant Accounting Policies:

Principles of consolidation:

These consolidated financial statements are prepared in accordance with generally accepted accounting principles in Canada. Summarized below are these policies considered significant to the Company. References to the Company included herein are inclusive of the accounts of Aquila Resources Inc.'s wholly-owned subsidiary Aquila Resources Corp. and its subsidiaries. All significant inter-company balances and transactions have been eliminated. All amounts are reported in Canadian dollars, unless otherwise stated.

Use of estimates:

The preparation of financial statements in conformity with Canadian 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 amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates include the continuing viability of mineral property interests, the determination of reclamation obligations, the recoverability of accounts receivable, the fair value of financial assets and liabilities, rates for depreciation on capital assets, and assumptions used in the determination of the fair value of stock based compensation. Actual results could differ from these estimates. Management believes that the estimates are reasonable.

2. Significant Accounting Policies (Continued):

Deferred mineral property costs:

Property acquisition costs and related direct exploration costs are deferred until the properties are placed into mineral production, sold or abandoned. These costs will be amortized on the units-of-production basis over the estimated useful life of the properties following the commencement of production or written-off if the properties are sold, allowed to lapse, or abandoned.

Cost includes the cash, consideration paid and the fair market value of any common shares issued on the acquisition of mineral properties. Properties acquired under option agreements, whereby payments are made at the sole discretion of the Company, are recorded in the accounts at such time as the payments are made. The recorded cost of mineral claims and deferred exploration and development costs represent costs incurred and are not intended to reflect present or future values.

The recoverability of costs incurred on the exploration properties is dependent upon numerous factors including exploration results, environmental risks, commodity risks, political risks, and the Company's ability to attain profitable production. It is reasonably possible, based on existing knowledge, that changes in future conditions in the near-term could require a change in the determination of the need for, and amount of, any write down.

The Company reviews capitalized costs on its property interests on a periodic, or annual, basis and will recognize an impairment in value based upon current exploration results and upon management's assessment of the future probability of profitable revenues from the property or from the sale of the property. Management's assessment of the property's estimated current fair market value may also be based upon a review of other property transactions that have occurred in the same geographic area as that of the property under review and the assessment of the ability to recover capitalized costs based on technical, social and environmental issues.

Administrative costs, other than for those that are charged to deferred mineral property costs, are expensed as incurred.

The proceeds of options granted on a mineral property are recorded as a reduction of the amounts recorded for mineral property costs and any excess is recorded in the statement of operations.

Capital assets:

Capital assets consist of land, buildings, and furniture, fixtures and equipment which are intially recorded at cost. Buildings are depreciated on the declining-balance basis at a rate of 4% per annum. Furniture, fixtures and equipment are depreciated on the declining-balance basis at a rate of 20% per annum. In the year of aquisition one-half of depreciation is taken.

Depreciation on assets used in exploration are capitalized to mineral property costs.

Share capital:

Common shares issued for non-monetary consideration are recorded at their fair market value based upon the price per share paid in the most recent prior sale of shares for cash. Costs incurred to issue common shares are deducted from share capital.

Revenue recognition:

Interest income is recognized on an accrual basis as it is earned.

Assets retirement obligation:

The Company recognizes a liability for an asset retirement obligation when it is determinable and calculates the liability based upon undiscounted future payments to be made. A corresponding amount is added to the carrying amount of the related long-term asset, and this amount is subsequently allocated to expense over its expected life. Adjustments will also be made in subsequent periods to changes in asset retirement obligations due to changes in estimates. As at December 31, 2009, the Company does not have any asset retirement obligations.

2. Significant Accounting Policies (Continued):

Impairment of long-lived assets:

Long-lived assets, including capital assets and other assets, are reviewed for impairment whenever events or changes in circumstances indicates that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

Future income taxes:

The Company accounts for and measures future tax assets and liabilities in accordance with the asset and liability method.

Under this method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the enacted or substantially-enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be reversed or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment of the change. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential future benefit is taken and no net asset is recognized. Assuming the Company's operations remain at the exploration stage, such an allowance will continue to apply fully for the foreseeable future to all potential income tax assets. Accordingly, the Company's accounting policy for the future income taxes currently has no effect on the consolidated financial statements of the fiscal periods presented.

Stock-based compensation:

The Company has a stock option plan, which is described in note 5(d). The Company uses the Black-Scholes option pricing model to estimate the fair value of each stock-option at the date of grant. Stock options that vest immediately are recorded at the date of grant. Stock options that vest over time are recorded over their vesting period. Stock option compensation is recognized as expense with a corresponding increase in contributed surplus. On exercise of the stock option, consideration received and the estimated fair value previously recorded in contributed surplus is recorded as share capital.

Cash and cash equivalents:

Cash and short-term investments with a remaining maturity of three months or less at the date of acquisition are classified as cash and cash equivalents. The Company places its cash and cash investments with institutions of high-credit worthiness.

Cash and cash equivalents comprise the following balance sheet amounts:

		2009		2008
Cash on hand and balances with banks	$	1,866,125	$	70,228
Short-term interest bearing investments		-		2,068,290
	$	1,866,125	$	2,138,518

Loss per share:

Basic loss per share is computed by dividing loss available to common shareholders by the weighted average number of common shares outstanding during the year. The treasury stock method is used to calculate diluted loss per share.

2. Significant Accounting Policies (Continued):

Diluted loss per share:

Diluted loss per share is similar to basic loss per share, except that the denominator is increased to include the number of additional common shares that would have been outstanding assuming that options and warrants with an average market price for the year greater than their exercise price are exercised and the proceeds used to repurchase common shares. The fully diluted loss per share has not been computed, as the effect would be anti-dilutive.

Translation of foreign currencies:

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the balance sheet date. Non-monetary assets and liabilities are translated into Canadian dollars at approximate exchange rates prevailing at the transaction date. Revenue and expenses are translated at average exchange rates prevailing during the year. The resulting gains and losses are included in loss for the year.

Property option agreements:

From time to time, the Company may acquire or dispose of properties pursuant to the terms of option agreements. Due to the fact that options are typically exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as resource property costs or recoveries when the payments are made or received.

Mineral property pre-acquisition costs:

The Company capitalizes pre-acquisition costs investigating potential property acquisition. However, if the Company determines that a specific property acquisition will not be concluded, the costs associated with the specific property are charged to operations in the current period.

Financial assets and liabilities:

Assets or liabilities held-for-trading

Financial instruments classified as assets or liabilities held-for-trading are reported at fair value at each balance sheet date, and any change in fair value is recognized in net income (loss) in the period in which the change occurs.

Held-to-maturity investments, loans and receivables and other financial liabilities

Financial instruments classified as loans and receivables, held-to-maturity investments and other financial liabilities are carried at amortized costs using the effective interest method. Interest income or expenses is included in net income (loss) over the expected life of the instrument.

Available-for-sale

Financial instruments classified as available-for-sale are recorded at fair value at each balance sheet date and any change in fair value is recognized in other comprehensive income in the period in which these changes occur. Securities classified as available-for-sale and with no quoted market price in an active market are carried at cost. Available-for-sale securities are written down to fair value (impairment recognized in loss) when it is necessary to reflect an other-than-temporary impairment. Upon derecognition, any accrued gains or losses in accumulated other comprehensive income are then recognized in net income (loss).

Classification of financial instruments:

The Company designates its cash and cash equivalents as held-for-trading, which is measured at fair value. Accounts receivable 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. Due to the short-term nature of these instruments, their carrying value approximates their fair value.

2. Significant Accounting Policies (Continued):

Cumulative information for exploration stage companies:

The Company follows CICA Handbook Accounting Guideline #11 with respect to financial statement presentation for exploration stage companies. Accordingly, the statements of loss, comprehensive loss and deficit and cash flows have been altered to include a column outlining the cumulative revenues, expenses and cash flows from the date of commencement of exploration stage activities being January 16, 2004 to the fiscal year end date of the consolidated financial statements.

Financial instruments - recognition and measurement:

Section 3855 requires that all financial assets, except those classified as held-to-maturity, and derivative financial instruments, must be measured at fair value. All financial liabilities must be measured at fair value when they are classified as held-for-trading; otherwise, they are measured at cost. Investments classified as available-for-sale are reported at fair market value based on quoted market prices with unrealized gains or losses excluded from earnings and reported as other comprehensive income or loss.

Comprehensive income:

This standard introduces new rules for the reporting and display of comprehensive income. Comprehensive income represents a change in shareholders' equity (net assets) of an enterprise during a reporting period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. These items include holding gains and losses on certain investments, gains and losses on certain derivative instruments, and foreign currency gains and losses related to self-sustaining foreign operations.

Capital disclosures:

Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such noncompliance. The Company has included disclosures recommended by the new Handbook section in note 11 to these consolidated financial statements.

Financial instruments - disclosure and presentation:

Sections 3862 and 3863 replace Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The Company has included disclosures recommended by the new section in note 12 to these consolidated financial statements.

Recent accounting pronouncements:

Credit risk and the fair value of financial assets and financial liabilities:

In January 2009, the CICA approved EIC 173 Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. This guidance clarified that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments. This guidance is applicable to fiscal periods ending on or after January 20, 2009. The application of this new standard had no impact on the Company's operating results or financial position.

2. Significant Accounting Policies (Continued):

Recent accounting pronouncements (Continued):

Mining exploration costs:

On March 27, 2009, the CICA approved EIC 174, "Mining Exploration Costs". This provides guidance on capitalization of exploration costs related to mining properties in particular and on impairment of long lived assets in general. The Company has applied this new abstract for the year ended December 31, 2009 resulting in no impact on the Company's financial statements.

Goodwill and intangible assets:

Effective November 1, 2008, the Company adopted Section 3064 – Goodwill and Intangible Assets which replaced CICA Handbook sections 3062 and 3450, EIC 27 and part of Accounting Guideline 11. Under previous Canadian standards, more items were recognized as assets than under International Financial Reporting Standards ("IFRS"). The objectives of CICA 3064 are to reinforce the principle based approach to the recognition of assets only in accordance with the definition of an asset and the criteria for asset recognition and to clarify the application of the concept of matching revenues and expenses such that the current practice of recognizing asset items that do not meet the definition and recognition criteria is eliminated. The portions in the new standard with respect to Goodwill remain unchanged. The provisions relating to the definition and initial recognition of intangible assets intends to reduce the differences with IFRS in the accounting for intangible assets. The new standard also provides guidance for the recognition of internally developed intangible assets (including research and development activities), ensuring consistent treatment of all intangible assets.

The adoption of this standard had no impact on the Company's presentation of its financial position or results of operations as at and for the year ended December 31, 2009.

Amendments to section 1400 – general standards of financial statement presentation:

In June 2007, the CICA amended Handbook Section 1400, Going Concern, to include additional requirements to assess and disclose an entity's ability to continue as a going concern. Section 1400 is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008.

The adoption of this standard had no impact on the Company's presentation of its financial position or results of operations as at December 31, 2009.

Fair value hierarchy and liquidity risk disclosure:

In June 2009, the CICA issued an amendment to Handbook Section 3862 to provide improvements to fair value and liquidity risk disclosures. The amendment applies to the Company's fiscal year ending December 31, 2009. This adoption resulted in additional disclosure as provided below.

The following summarizes the methods and assumptions used in estimating the fair value of the Company's financial instruments where measurement is required. The fair value of short-term financial instruments approximates their carrying amounts due to the relatively short period to maturity. These include cash and cash equivalents, receivables and accounts payable and accrued liabilities. Equity investments classified as available for sale that do not have an active trading market are recorded at cost. Fair value amounts represent point-in-time estimates and may not reflect fair value in the future. The measurements are subjective in nature, involve uncertainties and are a matter of significant judgment. The methods and assumptions used to develop fair value measurements, for those financial instruments where fair value is recognized in the balance sheet, have been prioritized into three levels as per the fair value hierarchy included in GAAP. Level one includes quoted prices (unadjusted) in active markets for identical assets or liabilities. Level two includes inputs that are observable other than quoted prices included in level one. Level three includes inputs that are not based on observable market data.

2. Significant Accounting Policies (Continued):

Recent accounting pronouncements (Continued):

Fair value hierarchy and liquidity risk disclosure (Continued):

	Level One	Level Two	Level Three
Cash and cash equivalents	$ -	$ 1,866,125	$ -
Accounts receivable	$ -	$ 105,063	$ -
Security deposit	$ -	$ 124,415	$ -
Accounts payable and accrued liabilities	$ -	$ 108,733	$ -

Future accounting changes:

Business Combinations:

The new Section 1582 - Business Combinations, which replaces Section 1581 - Business Combinations, establishes standards for the measurement of a business combination and the recognition and measurement of assets acquired and liabilities assumed. The new standard applies to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Earlier application is permitted.

The Company does not expect the adoption of this new standard to have an impact on it's consolidated financial statements.

Section 1601 & 1602 - The new Sections 1601 - Consolidated Financial Statements and Section 1602 - Non-Controlling Interest, together replace Section 1600 - Consolidated Financial Statements. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes the accounting for a non-controlling interest in a subsidiary, in the consolidated financial statements, subsequent to a business combination. These standards apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year.

The Company does no expect the adoption of these new standards to have an impact on it's consolidated financial statements.

International Financial Reporting Standards ("IFRS"):

In January 2006, the Canadian Accounting Standards Board (“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.

In February 2008, AcSB confirmed that publicly accountable enterprises will be required to adopt IFRS for fiscal years beginning on or after January 1, 2011, with earlier adoption permitted. Accordingly, the conversion to IFRS will be applicable to the Company’s reporting no later than the first quarter of 2011, with restatement of comparative information presented.

The conversion to IFRS could potentially have an impact on the Company’s accounting policies, information technology and data systems, internal control over financial reporting, and disclosure controls and procedures. The transition may also have an impact on business activities, such as certain contractual arrangements, foreign translation and capital requirements. The Company is currently evaluating the future impact of IFRS on its financial statements and has initiated a preliminary IFRS transition plan with a proposed timeline for the execution and completion of the transition to IFRS. The transition plan was established following a preliminary assessment of the differences between Canadian GAAP and IFRS and the potential effects of IFRS on the Company’s accounting and reporting processes, information systems, business processes and external disclosures. During 2009, the Company continues to focus its efforts on identifying specific Canadian GAAP and IFRS differences, selecting ongoing IFRS policies, determining any information technology issues and considering the impact of the transition to IFRS on internal control over financial reporting and business activities. External advisors will be retained, if necessary, to assist management with the transition.

3. Mineral property costs and commitments:

Total accumulated deferred mineral property costs are detailed as follows:

2009	Balance beginning of year	Acquisition	Exploration	Option Agreement	Write-down	Balance end of year
Michigan, USA				(See Note 3(a))		
Back Forty Project	$ 28,252,770	$ 1,392,857	$ 2,943,146	$(2,468,638)	$ -	$ 30,120,135

2008	Balance beginning of year	Acquisition	Exploration	Option Agreement	Write-down	Balance end of year
Michigan, USA				(See Note 3(a))		
Back Forty Project	$ 18,136,287	$ 2,062,381	$ 8,054,102	$ -	$ -	$ 28,252,770

Michigan, USA

Back Forty Project

The Back Forty Project controls approximately 9,300 acres of surface and mineral rights which are 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 costs for 2009 were $1,392,857 (2008-$2,062,381). The entire project is subject to a 7% net distributable earnings royalty ("Net Profits after Payback") payable to a former joint venture partner.

a) *Hudbay Option Agreement*

On August 6, 2009, the Company signed a Subscription, Option and Joint Venture Agreement (the "Agreement") with HudBay Minerals Inc. ("HudBay"). Under the terms of the agreement, the following events came into effect:

I) HudBay subscribed for 12,141,051 common shares of the Company at $0.1827 per share for gross proceeds of $2,218,170 (see note 5). These shares were subject to a four month hold period.

II) While HudBay maintains at least a 10% ownership interest, HudBay will have the right to nominate a director to the Company's Board of Directors and will have pre-emptive rights to maintain its ownership interest. In addition, should HudBay choose to dispose of its equity interest in the Company, HudBay has agreed to do so in an orderly manner pursuant to the Agreement.

III) HudBay can earn a 51% interest in the Back Forty Project (the "Project") by expending a minimum of $10 million in aggregate over a 3-year period with a minimum of US $3 million by the first anniversary, an additional US $3 million by the second anniversary, and an additional US $4 million by the third anniversary.

IV) After HudBay completes its earn-in of the initial 51% interest, HudBay and the Company will form a joint venture reflective of their proportionate ownership interest in the Project.

V) Subsequent to HudBay earning the initial 51% interest, HudBay will have the option to increase its interest in the Project to 65% by funding and completing a feasibility study, funding and submitting a permitting application, and making outstanding specified option payments, if any.

VI) In the event a feasibility study is completed and permitting applications are submitted, and HudBay elects to put the Project into production and issues a Development Notice, the Company will have 90 days to arrange financing for its share of project costs. If the Company is unable or elects not to obtain financing, HudBay, by assuming the obligation to finance 100% of the development costs, will increase its ownership in the Project by a further 10% to 75%. Pursuant to the Agreement, the Company's 25% share of the development costs would then be deducted from the Company's proportionate share from Net Proceeds from the Project.

3. Mineral property costs and commitments (Continued):

Michigan, USA

Back Forty Project (Continued)

VII) While HudBay retains the largest ownership interest in the Project, HudBay will be the manager and operator. HudBay will also have exclusive marketing rights to sell production to HudBay or third parties on commercial terms.

VIII) If the feasibility study is not completed and all applications for permitting are not submitted on or before the fourth anniversary of the Agreement, the Company has the right to re-acquire HudBay's 51% joint venture interest by reimbursing HudBay 50% of its total expenditures in respect of the Project incurred from the execution of the Agreement. If the Project is not brought into commercial production within four years from the grant of mining permits, the Company may re-acquire HudBay's 65% joint venture interest by reimbursing HudBay 50% of its total Project expenditures incurred after execution of the Agreement. Notwithstanding the Company exercising the foregoing right, HudBay shall retain the marketing rights and the product rights as provided for in the Agreement. In addition, if the Company exercises this right after HudBay earns a 51% interest in the Project, then HudBay shall have its participating interest converted to a 1% NSR.

During the year, a total of $3,228,106 was expended by HudBay on the Back Forty Project of which the Company paid and was reimbursed $2,468,638. As at December 31, 2009, aggregate reimbursements of $88,846 were receivable from HudBay for costs incurred by the Company on the Project.

In connection with securing the Agreement with Hudbay, fees of US $305,000 were paid in cash, and 300,000 stock options were issued valued at $60,600 using the Black Scholes option pricing model (see note 5).

b) MRT Property

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 of US$11,700,000 is due in annual installments on the anniversary date over a nine year option period as follows:

Due date	Amount
August 3, 2006 (fulfilled)	US $1,333,333
August 3, 2007 (fulfilled)	US $1,333,333
August 3, 2008 (fulfilled)	US $1,333,333
August 3, 2009 (fulfilled)	US $ 250,000
August 3, 2010	US $ 250,000
August 3, 2011	US $1,440,000
August 3, 2012	US $1,440,000
August 3, 2013	US $1,440,000
August 3, 2014	US $1,440,000
August 3, 2015	US $1,440,000

The Company maintains a cash deposit in the amount of $124,415 (2008- $129,095), 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. During the year, the deposit accrued interest of $6,120 (2008-$8,120).

3. Mineral property costs and commitments (Continued):

Michigan, USA

Back Forty Project (Continued)

c) Metallic mineral leases

On December 7, 2006, 27 state metallic mineral leases were assigned to the Company from a Company of which the President and CEO and another Director are major shareholders.

In order to retain its interest in these state leases, the Company must make annual lease payments over the next three years as follows:

2010 - US$35,589; 2011 - US$35,589 and 2012 - US$42,741

Future Commitments

Estimated lease, option and property acquisition costs related to the Back-Forty Project in each of the next three fiscal years are as follows:

2010 -US$410,609; 2011 - US$1,555,609; 2012 - US$1,562,761

See Note 8 for additional mineral property commitment detail that is included in the above figures.

Honduras

Cedros Property

During 2008, the Company ended its contractual obligation to acquire the Cedros Property. An agreement to acquire title to the Cedros Property had been entered into in 2005. Subject to the satisfactory transfer of title, 1,000,000 common shares had been held in escrow pending transfer. In December 2008, the Company entered into a settlement agreement with First Point Minerals Corp. (the parent of the Honduran company which holds title to the Honduras property interest) that was to transfer the rights to the Property. Under the terms of agreement, the Company cancelled 500,000 of the shares held in escrow and released the balance of the shares to First Point Minerals Corp. The Company has no further rights or obligations with respect to the Cedros Property. In 2007, the Property was fully written down. First Point Minerals Corp. and the Company have one common director.

During 2008, 1,000,000 common shares that were held in escrow relating to the Cedros Property were released.

4. Capital assets:

	2009			2008
	Cost	**Accumulated depreciation**	**Net book value**	Net book value
Land	**$ 503,962**	**$ -**	**$ 503,962**	$ 503,962
Buildings	**528,838**	**76,236**	**452,602**	481,492
Furniture, fixtures and equipment	**29,584**	**9,968**	**19,616**	26,101
	$ 1,062,384	**$ 86,204**	**$ 976,180**	$ 1,011,555

During the year, depreciation amounting to $9,628 (2008 - $11,710) was capitalized to mineral property costs.

5. Share capital:

a) Authorized
Unlimited number of common shares

b) Issued
Common shares

	Number of Common Shares		Amount
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
Fair value of options exercised	-		329,307
Share issue costs	-		(2,362,563)
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 December 31, 2007	70,109,478	$	36,461,711
Cedros Property settlement (Note 3)	(500,000)		(175,000)
Issued at December 31, 2008	69,609,478		36,286,711
Shares issued to HudBay for cash (See Note 3 (a))	12,141,051		2,218,170
Issued for cash / on exercise of options	20,000		3,000
Fair value of options exercised reallocated from contributed surplus	-		2,252
Issued at December 31, 2009	81,770,529	$	38,510,133

c) Warrants:

The following summarizes the warrants that were outstanding during the year:

	Number of Warrants	
	2009	2008
Balance, beginning of the year	-	8,843,635
Warrants expired during the year	-	(8,843,635)
Balance, end of the year	-	-

On December 15, 2008, 8,843,635 warrants with an exercise price of $2.15, expired. Each warrant entitled the holder to purchase the above stated number of common shares on or before the expiry date.

5. Share capital (Continued):

d) 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 vested during the year ended December 31, 2009 have been valued at $344,420 (2008 - $462,600), and expensed to loss, using the following assumptions at the measurement date:

	2009	2008
Risk-free interest rate	**1.91%-3.26%**	3.26%
Expected life	**5 years**	5 years
Price volatility	**115%-145%**	115%
Dividend yield	**Nil**	Nil

The Black-Scholes pricing model used by the Company to determine fair values was developed for use in estimating the fair value of freely traded options which are fully transferable and have no vesting restrictions. In addition, this pricing model requires the use of estimates, including management's assumptions about future stock price volatility and expected time until exercise. The Company's outstanding stock options have characteristics which are significantly different from those of traded options, and changes in any of the assumptions can materially affect fair value estimates.

A summary of the status of the Company's stock option plan as of December 31, 2009 and 2008, and changes during the years are presented below:

	2009		2008		
	Number of Options	Weighted average exercise price	Number of Options		Weighted average exercise price
Balance, beginning of the year	**4,830,000**	**1.13**	4,550,000	$	1.17
Options Exercised	**(20,000)**	**0.15**	-		-
Options Expired	**(505,000)**	**0.82**	(420,000)		1.29
Options Granted	**3,400,000**	**0.19**	700,000		0.90
Balance, end of the year	**7,705,000**	**0.73**	4,830,000	$	1.13

5. Share capital (Continued):

d) Stock-option plan (Continued):

As at December 31, 2009, common share stock options held by directors, officers, employees and consultants are as follows:

	Outstanding		Exerciseable
Exercise Price	Number of options	Expiry Date	Number of options
$ 0.30	1,550,000	May 10, 2011	1,550,000
0.70	500,000	May14, 2011	500,000
1.00	100,000	June 8, 2011	100,000
2.15	1,375,000	February 8, 2012	1,375,000
1.55	300,000	July 26, 2012	300,000
0.90	700,000	February 26, 2013	700,000
0.15	1,830,000	March 2, 2014	1,830,000
0.30	300,000	August 12, 2014	300,000
0.25	1,050,000	November 10, 2014	-
	7,705,000		6,655,000

See Note 15 for additional stock option information.

6. Contributed surplus:

	2009	2008
Balance, beginning of the year	**$ 4,464,173**	$ 3,826,573
Stock-based compensation cost	**344,420**	462,600
Fair value of stock options exercised	**(2,252)**	-
Shares cancelled (Note 3)	**-**	175,000
Balance, end of the year	**$ 4,806,341**	$ 4,464,173

7. Related party transactions:

For the year ended December 31, 2009, management fees amounting to $52,500 (2008 - $71,875) were charged by a company controlled by the CFO and a director of the Company. As at December 31, 2009 accounts payable and accrued liabilities includes $Nil (2008-$3,281) owing to this related party.

During 2009, the President and CEO, and related individuals received remuneration consisting of management fees and salaries. Total remuneration for 2009 was $285,133 (2008-$414,416). Accounts payable and accrued liabilities includes $1,397 (2008-$Nil) owing to these related parties at December 31, 2009.

A total of US $82,441 (2008 - US $729,853) 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. As at December 31, 2009 accounts payable and accrued liabilities includes $30,165 (2008-$12,400) owing to this related party.

During the year, the Company was charged Directors' fees totaling $Nil (2008- $91,607) by non-executive directors.

7. Related party transactions (Continued):

During the year, the Company was charged legal fees totaling $91,090 (2008-$50,985) by a law firm whose partner is an officer of the Company. As at December 31, 2009 accounts payable and accrued liabilities includes $Nil (2008-$2,954) due to this related party.

Rental expenditures in the amount of $22,591 (2008-$22,352) were charged by a Company with common directors.

See note 3 for additional related party information, unless otherwise stated.

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. Commitments:

Future minimum warehouse lease payments under a non-cancelable lease are as follows:

Year		Amount
2010	US $	48,000
2011	US $	48,000
2012	US $	48,000
2013	US $	32,000

9. Income taxes:

(a) 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:

		2009		2008
Statutory rate applied to loss for the year before income taxes	$	(286,850)	$	(228,417)
Increase (decrease) in taxes resulting from:				
Stock-based compensation cost		113,659		152,658
Amortization of exploration costs		(615,978)		(407,807)
Share issue costs		(177,541)		(179,020)
Other items		132		(22,045)
Loss not tax-benefited		966,578		684,631
Future income tax (recovery)	$	-	$	-

(b) The tax effects of temporary differences that give rise to future income tax assets and liabilities at December 31, 2009 and 2008 are as follows:

		2009		2008
Future tax assets (liabilities):				
Non-capital losses carry forward	$	4,074,762	$	3,126,010
Mineral property		(510,515)		105,464
Capital assets		248		195
Share issue costs		350,300		527,841
		3,914,795		3,759,510
Less: valuation allowance		(3,914,795)		(3,759,510)
Net asset	$	-	$	-

9.. Income taxes (Continued):

(c) The Company has non-capital losses of approximately $12,347,765 which expire through 2029. The benefit of these losses has not been recognized for financial statements purposes.

(d) During the year, the Company paid $ Nil (2008 - $Nil) in respect of income taxes.

10. Changes in non-cash operating working capital:

		2009		2008
Accounts receivable	**$**	**48,610**	$	13,471
Prepaid expenses		**1,718**		6,070
Accounts payable and accrued liabilities		**(102,896)**		(707,757)
	$	**(52,568)**	$	(688,216)

11. Capital management:

The Company considers its capital to include components of shareholders' equity.

The Company's objectives in managing its capital are: to maintain adequate levels of funding to support its expenditures arising from the Company's investments; to safeguard the Company's ability to continue as a going concern in order to pursue the exploration of its properties; to maintain a flexible capital structure for its projects for the benefit of its stakeholders; to maintain corporate and administrative functions necessary to support the Company's operations and corporate functions; and to seek out and acquire new projects of merit.

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company in order to support the acquisition, exploration and development of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geological or economic potential and if it has adequate financial resources to do so.

The Company's investment policy is to invest excess cash in low risk, highly liquid, short-term interest bearing investments, selected with regards to the expected timing of upcoming expenditures.

The Company expects its current capital resources will be sufficient to carry out its exploration plans, operation plans and operations through its current operating period.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the year ended December 31, 2009.

12. Financial instruments and financial risk factors:

Financial Risks

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk, market risk, including interest rate, foreign exchange rate, and commodity price risk.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and cash equivalents and receivables. Cash and cash equivalents are held with reputable financial institutions which are closely monitored by management. Financial instruments included in receivables consist of GST recoverable and amounts reimbursable from Hudbay with respect to certain costs associated with the Back Forty Project. Management believes that the credit risk concentration with respect to financial instruments included in cash and cash equivalents and receivables is minimal. The cash and cash equivalents are invested with a Canadian Chartered bank.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2009, the Company had cash and cash equivalents of $1,866,125 (2008 - $2,138,518) to settle accounts payable and accrued liabilities of $108,733 (2008 - $211,629). The ability of the Company to continue to purse its exploration activities is dependant on its ability to secure additional equity or other financing. All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

Market risk

(a) Interest rate risk

The Company has cash and cash equivalents bearing fixed interest rates and no interest bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

(b) Foreign currency risk

The Company is exposed to currency risk arising from fluctuations in foreign exchange rates. The Company raises funds from equity financing primarily in Canadian dollars and pays for a significant amount of expenditures relating to its mineral property interests in U.S. dollars.

(c) Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company monitors commodity prices, as it relates to minerals and individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

11. Financial instruments and financial risk factors (Continued):

Sensitivity analysis

The Company designated its cash and cash equivalents as held-for-trading, which are measured at fair value. 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 carrying values of cash and cash equivalents, receivables and accounts payable and accrued liabilities approximate their fair values due to the relatively short periods to maturity of these financial instruments. Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over a three month period.

i) The Corporation is exposed to foreign currency risk on fluctuations of financial instruments related to cash and cash equivalents, receivables, and accounts payable and accrued liabilities that are denominated predominantly in United States Dollars. Sensitivity to a plus or minus 10% change in the foreign exchange rate would affect net loss by approximately $13,000.

ii) Commodity price risk could adversely affect the Company. In particular, the Company's future profitability and viability from mineral exploration depends upon the world market price of valuable minerals. Commodity prices have fluctuated significantly in recent years. There is no assurance that, even as commercial quantities of minerals may be produced in the future, a profitable market will exist for them.

As of December 31, 2009, the Company is not a producer of minerals. As a result, commodity price risk may affect the completion of future equity transactions such as equity offerings and the exercise of stock options and warrants. This may also affect the Company's liquidity and its ability to meet its ongoing obligations.

13. Supplemental cash flow information:

Non-cash activities were as follows:

		2009		2008
Fair value of options exercised reallocated from contributed surplus to share capital	**$**	**2,252**	$	-
Recovery of mineral property costs included in receivables	**$**	**88,864**	$	-
Depreciation capitalized to resource properties	**$**	**9,628**	$	11,710
Cancellation of escrowed shares	**$**	**-**	$	175,000

14. Segmented information:

The Company operates in a single reportable operating segment, the exploration and development of mineral properties. Segmented geographic information is as follows:

The following table allocates assets by segment:

As at December 31		**2009**		2008
Canada	**$**	**1,900,844**	$	5,111,299
United States		**31,328,453**		26,524,545
Total assets	**$**	**33,229,297**	$	31,635,844

The following table allocates net loss by segment:

Year ended December 31		**2009**		2008
Canada	**$**	**(628,096)**	$	(638,110)
United States		**(241,145)**		(54,064)
Net loss	**$**	**(869,241)**	$	(692,174)

15. Subsequent event:

On February 2, 2010, 8,836 common shares were issued as a result of stock options being exercised for cash consideration of $1,325, in aggregate.

16. Comparative figures:

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