Aquila Resources Inc.

AQUILA RESOURCES INC.
MANAGEMENT DISCUSSION AND ANALYSIS
Second Quarter Ended June 30, 2009

Introduction

The following discussion of performance, financial condition and future prospects should be read in conjunction with the unaudited financial statements of the Company for the period dated June 30, 2009 and 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 August 14, 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.

On August 6, 2009 Aquila announced a Subscription, Option, and Joint Venture Agreement (the "Agreement") with HudBay Minerals Inc. ("HudBay") (TSX: HBM). The Agreement grants HudBay the right to acquire a majority interest in Aquila's Back Forty Project (the "Back Forty Project"), located in Menominee County, Michigan. HudBay is a leading Canadian mining company principally focused on the discovery, production and marketing of base metals.

Under the agreement, HudBay has agreed to subscribe for 12,141,051 common shares of Aquila, a 14.9% undiluted ownership interest, at a price of CDN$0.1827 per share for an investment of CDN$2.2 million. Completion of the subscription was subject to receipt of approval from the Toronto Stock Exchange. Upon completion of the subscription, HudBay obtained an option to acquire a 51% ownership interest in the Project through the expenditure of US$10 million within three years and the right to further increase its ownership to 65% by completing a feasibility study, submitting an application for permitting the Project and making certain option payments. Upon HudBay acquiring a 51% interest in the "Back Forty Project", a joint venture will be formed between the parties. HudBay will act as operator for the joint venture and will have marketing rights to the metal production from the Project.

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Prior to the Subscription, Option and Joint Venture with HudBay Minerals Inc. the corporate history is as follows. 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 or joint venture 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 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 M+I of 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 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 valuation work on the Back Forty Project 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 produced 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.

Resource Classification

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.

Exploration Potential

Results of significant intervals for the remaining drill holes completed in 2008 were announced on March 2, 2009. The results showed that significant gold and zinc values occur as extensions to existing zones of mineralization and in previously unknown areas both near surface and at depth. They illustrate the strong potential for expansion of both the gold and base metal resource at the Back Forty Project.

The last drill results announced by the Company on March 2, 2009 included results from the PM Zone, Deep Zone and NS Gold Zone, and included the following:

PM Zone	- 13.8 meters of 2.83 g/t gold in LK-333
Deep Zone	- 2.3 meters of 18.77 g/t gold and 101.6 g/t silver in LK-192 extension - 79.0 meters of 0.62 g/t gold, 19.5 g/t silver and 0.29% copper in LK-207 extension
NS Zone	- 7.9 meters of 5.42 g/t gold in LK-274

The results announced March 2, 2009 were not included in the resource estimate of January 22, 2009.

In the opinion of management, exploration to date 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. Future exploration at the project will be conducted under the joint venture with Hudbay Minerals.

2. Operating Highlights

During the second quarter ended June 30, 2009 the Company continued with certain key project activities focusing on advancing the Back Forty Project to a production decision. The Company, through its consultants, continued baseline environmental monitoring activities. Two years of baseline data collection are required as a prerequisite for permitting activities in Michigan. The body of work includes monitoring data on water, air, soil, flora and fauna as well as cultural aspects of the Back Forty Project site. This baseline data which commenced in July 2007 will form the basis for future environmental assessments and permitting activities.

The Company is committed to environmentally responsible practices in strict conformance with all local, state and federal laws and guidelines. The Company has adopted a good neighbor policy and is committed to working with local communities to protect their diverse interests in addition to providing local jobs, taxes and other social and economic development opportunities.
The Company holds regular monthly meetings with local residents and interested stakeholders to inform and educate the public of project activities.

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Other than continuation of baseline environmental studies, the Company curtailed most major project activity at the Back Forty Project. The Company focused attention on negotiations leading to the agreement with HudBay Minerals.

The company press releases can be found on Sedar at www.sedar.com as well as on the Company's website at www.aquilaresources.com.

The net loss recorded by the Company for the quarter ending June 30, 2009 was $137,349 compared to the net loss of $467,354 for the quarter ended June 30, 2008.

The company is a reporting issuer in Ontario, British Columbia, Alberta, Saskatchewan and Nova Scotia. During 2007 the Company listed on the TSX Exchange. 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 quarter the Company realized interest of $2,777 from funds on deposit.

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

	Three months ended June 30, 2009	*Three months ended June 30, 2008*	*Year ended December 31, 2008*	*Year ended December 31, 2007*
Interest and other income	$(2,777)	$(54,765)	$ (268,454)	$(880,285)
Operating expenses	$140,126	$522,119	$960,628	$5,720,325
Net loss (income)	$137,349	$467,354	$692,174	$4,840,040
Loss per share	$0.01	$0.01	$0.01	$0.07
Mining interest	$29,164,691	$23,962,598	$28,252,770	$18,136,287
Cash and cash equivalents	$843,636	$6,961,321	$2,138,518	$13,416,459
Total assets	$31,171,189	$32,146,010	$31,635,844	$32,573,175

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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 quarter ended June 30, 2009 the Company incurred a loss of $0.01 per share (basic and fully diluted). The comparable loss per share for the prior period was $0.01.

The loss before interest and other income was $140,126 (2008 - $522,119). No write-down of mineral property costs was incurred during the quarter.

The Company reduced discretionary expenditure relating to non-core activities and significantly lowered exploration expenditures in order to conserve cash.

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 quarter was $2,777 (2007 - $54,765).

6. Expenses

	For the quarter ending June 30, 2009	For the quarter ending June 30, 2008
Stock option compensation cost	$15,299	$51,400
Foreign exchange loss (gain)	13,646	159,232
Office, general and administrative	12,413	42,331
Travel and promotion	2,780	90,481
Directors' fees	NIL	34,192
Filing and regulatory fees	(1,520)	8,137

During the quarter ending June 30, 2009, the Company incurred total expenses in the amount of $140,126 (2008 - $522,119). Notable expense items and material variance are noted in the table above. Travel and promotion was significantly reduced due to cancellation of investor relation contracts. Directors' fees were cancelled at the end of 2008 pending raising of additional capital. Filing and regulatory fees are in a credit balance due to a refund on the 2008 year end filing deposit.

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 in the month of August. 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. The payment of the US$250,000 option payment due for the MRT Property has been made.

8. Exploration Expenditures

Drilling and other exploration expenditures are capitalized. Project expenditures for the quarter ended June 30, 2009 consumed a significant portion of the cash resources of the Company. The largest expenditures were to continue baseline environmental activities at the project. A two year period of baseline studies is required in Michigan. Aquila commenced baseline environmental monitoring and activities in July 2007. The Company has also continued with community engagement activities at the project. No drilling was completed during the quarter although the Company believes that there remains significant potential to expand the mineral resources at the project. A breakdown of deferred exploration costs for the quarters ended June 30, 2009 and June 30, 2008 are presented below.

Back Forty Project (CDN$)

	June 30, 2009	June 30, 2008
Wages	$93,821	$208,527
Assays	8,225	290,989
Geophysics	6,105	186,524
Drilling	-	991,811
Consult/Legal/Environmental	201,562	616,675
Property Interests	66,819	44,919
Administration	17,991	34,932
Operator	-	26,631
Other	31,613	386,931
Total	$426,136	$2,542,058

9. Summary of Quarterly Results

Selected financial information for the last eight fiscal quarters of 2009, 2008 and 2007 are presented below:

Quarterly Financial Information (unaudited)

		2009 Q2		2009 Q1		2008 Q4		2008 Q3
(a) Interest and Other Income	$	2,777	$	5,102	$	63,207	$	41,058
(b) Net Income (loss)	$	(137,349)	$	(435,114)	$	110,231	$	(40,222)
(c) Net Income (loss) per share (Basic)	$	(0.01)	$	(0.01)	$	(0.01)	$	(0.01)

		2008 Q2		2008 Q1		2007 Q4		2007 Q3
(a) Interest and Other Income	$	54,765	$	109,424	$	163,774	$	219,866
(b) Net Income (loss)	$	(467,354)	$	(294,829)	$	(1,194,160)	$	(695,699)
(c) Net Income (loss) per share (Basic)	$	(0.01)	$	(0.01)	$	(0.01)	$	(0.02)

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 quarter the Company utilized cash on hand to fund operations. The cash balance as at June 30, 2009 was $843,636 (2008 - $6,961,321).

Liabilities as at June 30, 2009 consist of short term trade payables and accrued liabilities of $44,480 (2008 - $894,604).

The Company has sufficient funds on hand to finance the operations of the Company in the near term. However, the Company has significant long term commitments and remains dependent on future financing to fund its ongoing requirements.

Operations

The Company has contractual obligations for employees at its operations. The Company routinely enters into 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. 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 2008, 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, with the 2009 option payment made on August 3. 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. These amounts may change as the Company adds or drops property or accelerates option payments on certain parcels of property.

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 June 30, 2009 there were 69,609,478 common shares of the Company outstanding. No shares were issued during the period. (see Subsequent Events regarding issuance of additional shares).

Warrants

There are NIL warrants and NIL broker warrants outstanding as at June 30, 2009 (2008 – 8,843,365). The warrants that were outstanding in 2008 expired on December 15, 2008 and were exercisable at $2.15.

Options

There are a total of 6,525,000 stock options outstanding as at June 30, 2009 with exercise prices ranging from $0.15 to $2.15. During the quarter 150,000 options to purchase common shares at a price of $0.30 vested and were issued maturing August 12, 2011 pursuant to a financing agreement based on the share price as of August 12, 2008. An additional 150,000 on the same terms vested subsequent to quarter end.

12. Off-Balance Sheet Arrangements

As at June 30, 2009 the Company does not have any off-balance sheet arrangements.

13. Transactions with Related Parties

For the quarter ended June 30, 2009 management fees amounting to $9,375 (2008-$18,750) were charged by a company controlled by the CFO and a director of the Company. As at June 30, 2009 accounts payable includes $6,961 (2008-$1,102) owing to this related party.

During the quarter ended June 30, 2009 the President and CEO, and related individuals received remuneration consisting of management fees and salaries. Total remuneration for the period was $38,768 (2008-$64,004). Accounts payable includes $NIL owing to these related parties at June 30, 2009 (2008-$NIL).

A total of US $29,553 (2008-US $172,323) was charged in the operations at the Back Forty Project by a geological consulting company of which the President and CEO and another director are major shareholders. A management fee calculated on a percentage of wages payable was included in the amount charged by the geological consulting company to the Company. As at June 30, 2009 accounts payable includes US$NIL owing to this related party.

During the quarter, the Company was charged Directors' fees totaling $NIL (2008 - $7,442) by non-executive directors. Accounts payable includes $NIL owing to these related parties.

During the quarter, the Company was charged legal fees totaling $19,659 (2008-$32,800) by a law firm whose partner is an officer of the Company. As at June 30, 2009 accounts payable includes $11,362 due to this related party.

Rental expenditures in the amount of $5,621 (2008-$5,588) were charged by a Company with common directors. As at June 30, 2009 accounts payable includes $5,621 due to this related party.

See note 3 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 June 30, 2009. 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 June 30, 2009.

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. Changes in Accounting Policies

Going Concern

During the quarter 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.

Goodwill and Intangible Assets

Section 3064 – Goodwill and Intangible Assets ensures that intangible assets meet the definition of an asset, and eliminates the “matching” principle, whereby certain costs were being deferred and expensed to match with revenue earned. The new standard applies for interim and annual financial statements for years beginning on or after October 1, 2008. The adoption of this standard did not have an impact on the Company’s consolidated financial statements.

Future Accounting Changes

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 31, 2010. The Company is currently assessing the impact of IFRS on it's consolidated financial statements.

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 does not expect the adoption of these new standards to have an impact 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. 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.

19. 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.

20. Subsequent Events

The 2009 option payment for the MRT Property of US$250,000 was paid on August 3, 2009.

Aquila announced a Subscription Option and Joint Venture Agreement with Hudbay Minerals on August 6, 2009. Key terms of the agreement are as follows:

- HudBay will subscribe for 12,141,051 common shares of Aquila, a 14.9% undiluted ownership interest, at a price of CDN $0.1827 per share for an investment of CDN $2.2 million, subject to regulatory approval. The common shares issued to HudBay will be subject to a four month hold period.

- While HudBay maintains at least a 10% ownership interest, HudBay will have the right to nominate a director to Aquila's Board of Directors and will have pre-emptive rights to maintain its ownership interest. HudBay has also agreed to provisions related to the orderly disposition of its interest in Aquila, should HudBay choose to make such a disposition.

- To acquire a 51% ownership interest in the Project, HudBay must complete expenditures of US$10 million on the Project prior to the third anniversary of the Agreement, made up of US$3 million by the first anniversary, US$3 million by the second anniversary, and the final US$4 million by the third anniversary. HudBay is not obliged to make those expenditures if it chooses not to exercise its option, and HudBay may accelerate the expenditures if it chooses.

- HudBay may increase its interest in the Project from 51% to 65% by (i) funding and completing a feasibility study; (ii) funding and submitting a permitting application; and (iii) making outstanding specified option payments, if any. Expenditures on these activities can also contribute towards HudBay's requirement to spend US$10 million to acquire a 51% interest.

- Once a feasibility study is complete and permitting applications are submitted, if HudBay elects to put the Project into production, and following issuance of a development notice Aquila will have 90 days to arrange financing for its share of project costs. If Aquila is unable or elects not to obtain such 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%. Aquila's 25% share of the development costs would then be deducted from Aquila's share of distributable cash flow from the Project.

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

- If the feasibility study is not completed and all applications for permitting are not submitted on or before the fourth anniversary of the Agreement, Aquila has the right to re-acquire

HudBay's 51% JV 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, Aquila may re-acquire HudBay's 65% JV interest by reimbursing HudBay 50% of its total Project expenditures incurred after execution of the Agreement.

Management believes the transaction will provide a platform for future growth of the Company.

The Company incurred a US$250,000 success fee payable to a third party for negotiation services in conjunction with the HudBay agreement. An additional 150,000 options to purchase shares of the Company at a price of $0.30 vested on closing of the transaction which expires August 12, 2011.

On August 3, 2009 the Company made an option payment of US$250,000 on a 50 acre parcel of surface and mineral rights which is part of the Back Forty Project.