



## **AQUILA RESOURCES INC. REVISED MANAGEMENT DISCUSSION AND ANALYSIS Year Ended December 31, 2009**

### **Introduction**

The following discussion of performance, financial condition and future prospects should be read in conjunction with the audited financial statements of the Company dated December 31, 2009, which were prepared in accordance with generally accepted accounting principles in Canada (Canadian GAAP). Information for the period from January 1 to March 31, 2010 is contained in the unaudited financial statements and management discussion and analysis dated May 15, 2010 and is referenced in order to ensure the information contained and referenced herein is current. Financial information for Aquila Resources Inc. is filed at [www.sedar.com](http://www.sedar.com). The Company's shares are listed on the TSX under the symbol AQA, and its reporting currency is the Canadian dollar. Previously certain financial disclosure of the Company had been in U.S. dollars. All amounts following are expressed in Canadian dollars unless otherwise stated. This Management Discussion and Analysis (MD&A) is dated March 30, 2010.

Revisions – This revised Management Discussion and Analysis (“MD&A”) replaces the Management Discussion and Analysis for the Year Ended December 31, 2009 filed on Sedar on March 31, 2010. The purpose of the filing of the revised revision is to correct the omission of the certifying officers conclusion of their evaluation of the internal controls over financial reporting of the Company which are that the controls are effective. The revisions to the MD&A are contained above and in Section 15 herein.

#### ***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 subscribed 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. 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 development and is a mineral exploration company. Exploration and development 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. A National Instrument (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](http://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 the Option and Joint Venture with HudBay Minerals Inc. and 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.**

Resource Category	Tonnage [t]	Grade					Contained Metal				
		Gold [g/t]	Zinc [%]	Silver [g/t]	Copper [%]	Lead [%]	Gold [1000 oz]	Zinc [M lbs]	Silver [1000 oz]	Copper [M lbs]	Lead [M lbs]
<b>Open Pit Resources<sup>†</sup></b>											
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
<b>Underground Resources<sup>‡</sup></b>											
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
<b>Combined Open Pit and Underground</b>											
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.

<sup>†</sup> 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.

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

A previous NI 43-101 compliant resource published in March of 2007 contained a Measured plus Indicated resource 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 estimate places the Back Forty resource in the top 20<sup>th</sup> 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, the



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 %
<b>Massive Sulfide (Main Zone)</b>							
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
<b>Massive Sulfide (Tuff Zone)</b>							
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
<b>Massive Sulfide (Pinwheel Zone)</b>							
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
<b>Stringer Sulfide (Stringer Zone)</b>							
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
<b>Oxide (Pinwheel Gossan)</b>							
Measured + Indicated	29	200,000	7.83	153.8	0.99	0.07	0.01
Inferred	29	0					
<b>Oxide (East Gossan)</b>							
Measured + Indicated	24	80,000	17.98	7.5	0.04	0.02	0.01
Inferred	24	0					
<b>Gold (90 Gold Zone)</b>							
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
<b>Gold (PM Gold Zone)</b>							
Measured + Indicated		0					
Inferred	24	160,000	7.46	68.1	0.12	0.78	0.3
<b>Totals</b>							
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 <sup>†</sup> [US\$NSR]	Quantity Tonnes	Gold g/t	Silver g/t	Copper %	Lead %	Zinc %
<b>Massive Sulfide (Main Zone)</b>							
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
<b>Massive Sulfide (Tuff Zone)</b>							
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
<b>Massive Sulfide (Pinwheel Zone)</b>							
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
<b>Stringer Sulfide (Stringer Zone)</b>							
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
<b>Gold (PM Gold Zone)</b>							
Measured + Indicated	67						
Inferred	67	30,000	8.8	66.3	0.10	1.00	0.06
<b>Totals</b>							
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.

<sup>†</sup>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.

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.

### ***Summary of Metallurgical Testwork***

During 2008 the Company released results of metallurgical testwork which was incorporated into the updated resource estimate. The evaluation work on the Back Forty was performed by G&T Metallurgical Services of Kamloops B.C. under the supervision of a metallurgical consultant to the Company. Results demonstrate that flotation testwork produces marketable concentrates of copper, zinc and lead with associated gold and silver reporting to the copper and lead circuits. Precious metal ores with negligible copper, lead and zinc show excellent gold and variable silver recovery through a combination of gravity and hydrometallurgical extraction. Work index testing indicated the ores tested are generally of the “soft” variety with favourable grinding characteristics and associated lower power requirements. Metallurgical testwork continued during 2009 and is ongoing as part of overall project development.



### ***Exploration Potential***

The current resource has not closed off the Back Forty resource. A number of zones of the deposit remain open for expansion and there are targets to be tested in the immediate vicinity of the deposit and in the overall project area. Broadly defined exploration targets are:

- 1) The Main Zone massive sulfide which 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.
- 2) Gold zones including the 90 Zone, NS Gold and PM Gold zones remain open.
- 3) Extensions of the Pinwheel Zone remain open.
- 4) Mineralization discovered in early 2010, approximately 600 meters to the east of the deposit, require follow up.
- 5) A number of regional targets identified by heliborne EM require follow up. Since the mid part of 2009 the Company has primarily been focused on defining the potential of the open pit to maximize the pit resource. The Company recently announced that it would commence more active exploration of targets outside the pit resource.

## **2. Operating Highlights**

Key developments during 2009 were the release of an updated resource estimate for the project and the signing of the agreement with HudBay Minerals Inc.

The Subscription, Option, and Joint Venture Agreement (the "Agreement") with HudBay Minerals Inc. ("HudBay") was announced on August 6, 2009. 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. The Agreement with HudBay is a strategic fit for both companies. HudBay provides technical expertise in mine development along with a strong balance sheet to fund the required work. Aquila has an established geological team and a local operating presence in the project area.

### ***Exploration***

At the beginning of 2009 the Company released final results from the drilling completed in 2008. Drilling was halted in order to conserve cash. The Company released results from drilling at the gold bearing NS Zone on March 2. Significant results included LK-344 - 34.4 meters of 4.48 g/t gold and LK-346 - 18.8 meters of 2.51 g/t gold. The Company resumed drilling in October 2009 after the HudBay Agreement was signed. The initial focus of exploration drilling was to follow up on near surface gold and silver zones that could have positive impact on the economics of the proposed open pit. Additional results from the NS Zone were released in November 2009 and were extremely positive with high grade gold intervals intercepted near surface. As of the end of 2009 the Company had released results up to drill hole LK- 359 with additional results from drill holes pending. Results from drilling are contained in press releases found on Sedar at [www.sedar.com](http://www.sedar.com) as well as on the Company's website at [www.aquilaresources.com](http://www.aquilaresources.com). The Company announced subsequent to year end that it expected a new resource estimate would be completed.



### ***Project Development***

On November 11, 2009 Aquila announced a project timeline that had been jointly agreed with HudBay. The parties announced they had formed a technical advisory committee to establish a project schedule and development timeline with a target date for the completion of a feasibility study and potential submission of mining permit by the fourth quarter of 2010 (subsequently extended to early in 2011).

Key project activities ongoing through 2009 included baseline environmental monitoring, metallurgical testwork, geotechnical studies, cultural studies and resource modeling. In addition the company continued its emphasis on social aspects of the project including outreach efforts with the local populace and consultation with all levels of government up to the state level.

The net loss recorded by the Company for the year ending December 31, 2009 was \$869,241 compared to the net loss of \$692,174 for the year ended December 31, 2008.

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

### **3. Selected Financial Information**

As an exploration company, the Company has no revenue from operations. The Company is dependent on the equity markets to fund its exploration activities. During the year the Company realized interest of \$15,169 from funds on deposit (2008 - \$268,454).

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

	<i>Year ended December 31, 2009</i>	<i>Year ended December 31, 2008</i>
<i>Interest and other income</i>	\$(15,169)	\$ (268,454)
<i>Operating expenses</i>	884,410	\$960,628
<i>Net loss(income)</i>	\$869,241	\$692,174
<i>Loss per share</i>	\$0.01	\$0.01
<i>Mining interest</i>	\$30,120,135	\$28,252,770
<i>Cash</i>	\$1,866,125	\$2,138,518
<i>Total assets</i>	\$33,229,297	\$31,635,844





#### 4. Results from Operations

The Company's operations involve exploration of its mineral exploration property located in Menominee County, Michigan. The Company has no income from its operations. During the year ended December 31, 2009 the Company incurred a loss of \$0.01 per share (basic and fully diluted). The comparable loss per share for the prior year was \$0.01.

A significant component to the loss for the year was attributable in large part to the stock based compensation (a non cash cost incurred as a result of granting of stock options), an expense of \$344,420 (2008 - \$462,600). The loss before interest and other income was \$884,410 (2008 - \$960,628). No write-down of mineral property costs was incurred during the year.

#### 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. From time to time the Company will earn interest from funds on deposit. Revenue from interest for the year was \$15,169 compared to the previous year when \$268,454 was earned from interest. Cash balances available for investment were significantly reduced during the year.

#### 6. Expenses

	For the year ending December 31, 2009	For the year ending December 31, 2008
Stock option compensation cost	\$ 344,420	\$ 462,600
Foreign exchange loss (gain)	31,484	(410,208)
Office, general and administrative	66,238	88,278
Travel and promotion	25,631	229,832
Director's fees	NIL	91,607
Filing and regulatory fees	33,569	37,456
Consulting fees	35,700	88,297

During the year ending December 31, 2009, the Company incurred total expenses in the amount of \$884,410 (2008 - \$960,628). Notable expense items and material variance are noted in the table above. Foreign exchange loss is due to the change in the value of assets as a result of the increasing Canadian dollar against the US dollar. Non cash expenses included depreciation and stock based compensation.

#### 7. Acquisition Costs

Acquisition costs for the Back Forty Project are capitalized. Acquisition costs of \$1,392,857 (2008 - \$2,062,381) were incurred during the year and included purchases and option payments on mineral and surface rights and land at the Back Forty Project. The Company entered into an Option Agreement on the MRT Property during the third quarter of 2006 and during 2009 made the fourth required option payment (2009-US\$250,000; 2008 - US\$1,333,333). The payment for 2010 is US\$250,000. The total option payments remaining to be paid to complete the MRT option are US\$7.45 million through August 2015.



## 8. Exploration Expenditures

Exploration and development expenditures for the Back Forty Project are capitalized. Exploration and development expenditures for the year ended December 31, 2009 totaled \$2,943,146 (2008-\$8,054,102). Expenditures include wages of geologists, laborers, contractors for drilling, geophysical surveys and metallurgical testwork. In addition to the exploration related expenditures the Company has significant expenditures for baseline environmental studies and community engagement activities which are part of a process leading to a future permit application for the project. A breakdown of exploration expenses for the period are presented below.

	Back Forty Project (CDN\$)	
	December 31, 2009	December 31, 2008
Wages	\$ 695,948	\$1,040,304
Assays	68,267	574,091
Geophysics	71,147	427,727
Drilling	555,322	2,699,557
Consult/Legal/Environmental	1,270,825	1,961,776
Operator	1,298	55,778
Property Interests	1,392,857	2,062,381
Administration	71,802	14,573
Scoping Study	11,958	717,303
Other	186,949	551,283
Total	<u>\$4,326,373</u>	<u>\$10,104,773</u>

Under the HudBay Agreement, project costs are paid by Aquila and reimbursed or directly incurred by HudBay. A portion of the office overhead and staff costs are also reimbursed by HudBay. A total of \$3,228,106 was expended by HudBay on the Back Forty Project during 2009 of which the Company paid and was reimbursed \$2,379,774. A total of \$88,846 was receivable from HudBay at year end.

## 9. Summary of Quarterly Results

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

### Quarterly Financial Information (unaudited)

	2009 Q4	2009 Q3	2009 Q2	2009 Q1
(a) Interest and Other Income	\$ 2,858	\$ 4,432	\$ 2,777	\$ 5,102
(b) Net Income (loss)	\$ 572,473	\$ (869,241)	\$ (137,349)	\$ (435,114)
(c) Net Income (loss) per share (Basic)	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)



	<b>2008 Q4</b>	<b>2008 Q3</b>	<b>2008 Q2</b>	<b>2008 Q1</b>
(a) Interest and Other Income	\$ 63,207	\$ 41,058	\$ 54,765	\$ 109,424
(b) Net Income (loss)	\$ 110,231	\$ (40,222)	\$ (467,354)	\$ (294,829)
(c) Net Income (loss) per share (Basic )	\$ (0.01)	\$ (0.02)	\$ (0.02)	\$ (0.03)

## **10. Financial Condition**

### *Liquidity and Capital Resources*

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

During the year the Company utilized cash on hand and funds from HudBay under the HudBay Agreement to fund operations. The cash balance as at December 31, 2009 was \$1,866,125 (2008 - \$2,138,518).

Liabilities at December 31, 2009 consist of short term trade payables and accrued liabilities of \$108,733 (2008 - \$211,629). Amounts due from HudBay of \$88,846 were included in year end accounts receivable.

The Company has sufficient funds on hand to finance the operations of the Company in the near term. However, the Company remains dependent on equity financing and the HudBay Agreement to fund its ongoing requirements in the future. Alternative sources of capital include but are not limited to funding from capital markets and or other industry partners in the event that the HudBay Agreement is terminated.

### *Operations*

The Company has contractual obligations for employees at its operations. The Company has entered into several large ongoing contracts for services notably for environmental baseline work and drilling. These contracts typically entail break costs for termination but are considered in line with normal industry standards. Some of the large contracts have been assigned directly to HudBay. The Company has a rental commitment on a month to month basis for office space and administrative support in Toronto at approximately \$1,200 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. Properties that are owned by the Company have holding costs including upkeep and taxes.

Estimated total lease, option and purchase costs for mineral interests relating to the Back Forty Project are US\$410,609 for fiscal year 2010. HudBay will reimburse the Company for these expenditures. This amount is subject to change.

The Company anticipates that it may acquire additional land in the future. Under the terms of the HudBay Agreement, funding could come from HudBay. It is in the normal course of business for the Company to add or to drop mineral interests based on exploration results and other material factors.

## **11. Share Capital**

### ***Common Shares***

As at December 31, 2009 there were 81,770,529 (2008-69,609,478) common shares of the Company outstanding. Share issuances during the year included 20,000 issued on exercise of options and 12,141,051 shares issued to HudBay for cash consideration of \$2,118,170.

### ***Warrants***

There are no warrants or broker warrants issued during or outstanding as at December 31, 2009 (2008 – NIL).

### ***Options***

There are a total of 7,705,000 stock options outstanding at December 31, 2009 with exercise prices ranging from \$0.15 to \$2.15. During the year 20,000 options were exercised, 505,000 options expired and 3,400,000 new options were granted.

## **12. Off-Balance Sheet Arrangements**

As at December 31, 2009 the Company does not have any off-balance sheet arrangements.

## **13. Transactions with Related Parties**

The Company, in the normal course of business, has transactions with the President and CEO of the Company, the CFO, by a geological consulting company of which the President and CEO and another director are major shareholders and by other companies that are controlled by or have



common directors with certain directors of the Company. Related party expenditures during the year are considered in the normal course of business and are billed at market rates.

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 director of the Company.

During the year the President and CEO and other related parties received remuneration consisting of management fees and salary. Total remuneration was \$285,133 (2008-\$414,416).

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. Expenses included contract wages, travel, and miscellaneous supplies whereby an overhead fee is calculated.

During the year the Company was charged Directors' fees totalling \$NIL (2008 - \$91,607) by non-executive directors. The Company resumed paying directors fees in 2010.

During the period, the Company was charged legal fees totaling \$91,090 (2008 - \$50,985) by a law firm whose partner is an officer of the Company. A portion of the fees have been capitalized.

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

Transactions 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 and Evaluation of Internal Controls over Financial Reporting**

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, the Company Disclosure Policy, Code of Business Ethics, the effective functioning of the Audit Committee, procedures in place to systematically identify matters warranting consideration of disclosure by the Board of Directors and verification processes for individual financial and non-financial metrics and information contained in annual and interim filings, including the financial



statements, MD&As, Annual Information Forms and other documents and external communications.

As required by CSA Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures was conducted, under the supervision of Management, including the CEO and CFO, as of December 31, 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 2009.

Based on that evaluation, the CEO and the CFO have concluded that the design and operation of the system of disclosure controls and procedures was effective as of December 31, 2009.

### **Evaluation of Internal Controls over Financial Reporting**

The Chief Executive Officer and the Chief Financial Officer of the Company are the certifying officers who are responsible for designing internal controls over financial reporting, or supervising their design in order to provide reasonable assurance regarding the reliability of financial reporting and preparation of consolidated financial statements for reporting purposes in accordance with Canadian GAAP. The control framework has been designed by Management with assistance from independent accounting consultants.

For the fiscal year ended December 31, 2009 an evaluation was commissioned by the Company under the supervision of and with the participation of Management including the Chief Executive Officer and Chief Financial Officer of the effectiveness of its internal control over financial reporting. The determination and conclusion of Management was that the internal control is effective as of December 31, 2009. The evaluation and conclusion was not included in the MD&A of the Company filed on March 31, 2010.

The first quarter financial results and MD&A noted that there are no changes in the internal control over financial reporting or the management conclusion as to its effectiveness.

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](http://www.sedar.com).

## **16. New Accounting Standards and Policies**

### ***Financial Instruments***

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

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



- How the entity manages those risks.

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

### ***Capital Management***

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

### ***Future accounting changes***

#### *Section 1582*

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 its 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 states, 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 not expect the adoption of these new standards to have an impact on its financial statements.

### ***Status of Transition to International Financial reporting Standards (IFRS)***

On February 13, 2008, the CICA Accounting Standards Board (AcSB) confirmed that the changeover to IFRS from Canadian GAAP will be required for publicly accountable enterprises for interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011, including comparatives for 2010. The objective is to improve financial reporting by having one single set of accounting standards that are comparable with other entities on an international basis.

The Company commenced its IFRS conversion project during 2009 and established a project governance structure, to monitor the progress and critical decisions in the transition to IFRS. An external consultant was engaged to work with the Company's designated project staff. Regular



reporting by senior financial management has been provided to the Audit Committee of the Board of Directors. The external auditors have also been consulted throughout the process.

As previously disclosed by the Company, the Company's conversion project will be completed in four phases: preliminary study, evaluation, development, and implementation. To date, the project is progressing according to plan. During 2009 the Company completed the preliminary study phase of the project which involved a high level review of the major differences between current Canadian GAAP and IFRS as related to the Company's accounting policies. During 2009 the Company provided formalized training for senior management as a first part of its overall executive training program.

The Company commenced work on the evaluation and development phases in 2009. As part of the evaluation and development phases of the IFRS project, the Company performed the evaluation and assessment of the IFRS 1, *First-time Adoption of International Financial Reporting Standards* ("IFRS 1") transition standard with the purpose of selecting the optional exemptions allowed to the Company upon transition to IFRS. IFRS 1 sets forth guidance for the initial adoption of IFRS. IFRS 1 generally requires that first-time adopters retrospectively apply all IFRS standards and interpretations in effect as at the first annual reporting date. IFRS 1 provides for certain mandatory exceptions and optional exemptions to this general principle for first time adopters of IFRS.

The Company expects to elect the following IFRS optional exemptions and apply mandatory exemption, which may have a significant impact on the Company's results:

- to apply the requirements of IFRS 2, *Share-based payments*, to share-based payments granted which had not vested as of the Transition Date

Mandatory exemption provides that changes to estimates previously made are not permitted. The estimates previously made by the Company under Canadian GAAP will not be revised for application of IFRS except where necessary to reflect any changes resulting from differences in accounting policies.

During 2009 the Company completed a preliminary in-depth review of its accounting policies and the impact from adopting IFRS, as well as the associated impact of the IFRS transition on business activities. As a result, IFRS-compliant accounting policies were developed by the Company, subject to future changes or revisions that may be needed as a result of updates to the IFRS standards as determined by the International Accounting Standard Board ("IASB") 43 and the Accounting Standards Board (Canada). These IFRS-compliant accounting policies will be presented and discussed with management and the Audit Committee of the Board of Directors.

As of December 31, 2009, the Company had substantially completed the evaluation and development phases of its IFRS conversion project. The following areas have been identified where the accounting differences, including presentation and disclosures, between Canadian GAAP and existing IFRS may have an impact on the Company's financial statements. The accounting differences described below should not be regarded as a complete list of areas that may be impacted by the transition to IFRS. Analysis of accounting policies is still in progress and may be subject to changes as the Company continues with the implementation phase of the project, particularly where choices of accounting policies are available.





**Property and equipment** – Separate accounting for components of property and equipment is more vigorously applied and broader under IFRS. Costs are allocated to significant parts of an asset if the useful lives differ, and each part is then separately depreciated.

**Exploration and evaluation** – IFRS 6, *Exploration for and Evaluation of Mineral Resources*, allows an entity to either develop a new accounting policy for exploration and evaluation expenditures consistent with IFRS requirements or continue to follow the Company's existing policy.

**Income taxes** – Existing IFRS requires the recognition of deferred taxes in situations not required under Canadian GAAP. Specifically, a deferred tax liability (asset) is recognized for exchange gains and losses relating to foreign non-monetary assets and liabilities that are re-measured into the functional currency using historical exchange rates. Similar timing differences are also recognized for the difference in tax bases between jurisdictions as a result of intra-group transfer of assets.

**Asset impairment** – Under IFRS, assets are tested for impairment either individually or within cash generating units. This approach reflects the smallest group of assets capable of generating largely independent cash inflows, which may differ from asset groups under Canadian GAAP. Impairment charges relating to long-lived assets may be more frequent under IFRS as the cash flow test for recoverability is based on a one step discounted cash flow approach. Impairment under IFRS is recognized if the carrying amount exceeds the higher of fair value less cost to sell, or value in use. Unlike Canadian GAAP, reversal of impairment charges is required under IFRS if the circumstances leading to the impairment no longer exist.

**Share-based payments** – While there is convergence in that share based payments are recognized as an expense, there are a number of measurement differences. IFRS requires that cash-settled share based payments be accounted for using a fair value method, as opposed to an intrinsic value under Canadian GAAP. IFRS requires that when the employee has the choice of settling for cash or shares, the entity has been deemed to have granted a compound instrument and this must separately account for the debt and equity components. Unlike IFRS, Canadian GAAP requires that when the employee has the choice of settling for cash or shares, the award is accounted for as a liability based on its intrinsic value. If modifications are made to share based payments, differences could arise due to the specific guidance in IFRS that is absent from Canadian GAAP.

**Presentation of Financial Statements** – The conversion to IFRS will impact the way the Company presents its financial results. The first financial statements prepared using IFRS (i.e. interim financial statements for the three months ended March 31, 2011) will include numerous notes disclosing extensive transitional information with continuity reconciliations and full disclosure of all new IFRS accounting policies.

During 2009 the Company performed an assessment of the information technology systems that support consolidation and financial reporting. During the assessment, the Company carried out testing and developed alternative structures within the consolidation system to allow for parallel and dual reporting under Canadian GAAP and IFRS standards commencing in the first quarter of 2010. From the assessment performed and changes already made, the Company does not anticipate requiring further significant changes to the information technology systems.

The Company performed an initial assessment and evaluation of internal control design and



effectiveness for all accounting policy changes identified. From the assessment and evaluation performed, the Company does not anticipate any significant impact on internal controls. With the completion of the evaluation and development phases, the Company is currently working through the implementation phase, which includes a plan to quantify, where possible, the impact these new policies have on our financial statements, and document the related internal controls. This exercise will either validate our accounting policy choices or indicate where modifications are required. The Company will adjust its Canadian GAAP balance sheet to IFRS during the implementation phase as its IFRS opening balance sheet as at the transition date of January 1, 2010.

Commencing for the period ended March 31, 2011 the Company will restate its comparative fiscal 2010 financial statements for annual and interim periods to be consistent with IFRS. In addition, the Company will reconcile equity and net earnings from the previously reported fiscal 2010 Canadian GAAP amounts to the restated 2010 IFRS amounts.

The Company continues to monitor standards development as issued by the IASB and the Accounting Standards Board (Canada) as well as regulatory developments as issued by the Canadian Securities Administrators, which may affect the timing, nature or disclosure of the Company's adoption of IFRS.

Additional recent accounting pronouncements are disclosed in Note 2 to the Company's December 31, 2009 financial statements.

Aquila Resources Inc. is monitoring the impact of the IFRS conversion on various functional activities of the Company. IFRS disclosure in the MD&A will be updated throughout the project. Given the progress of the project and outcomes identified, the Company could modify choices made between the time of communicating these key milestones and the changeover date. Further, changes in regulation or economic conditions at the date of the changeover or throughout the project could result in changes to the transition plan being different from those communicated.

## **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 and or funding 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 of America. 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 there under, 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.

Under the terms of the Subscription, Option and Joint Venture Agreement HudBay Minerals Inc. may terminate the agreement with Aquila at any time. While the Company endeavours to work closely with HudBay on the project, HudBay may in future elect to terminate the Agreement for any reason. The Company would pursue alternative sources of funding in the event that HudBay terminated the Agreement.

## **18. Subsequent Events**

Subsequent to year end 8,836 common shares were issued as a result of stock options being exercised.



## **19. Officers and Directors**

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

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

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

## **20. Additional Information**

Additional information about the Company including financial statements, press releases and other filings are available on SEDAR at [www.sedar.com](http://www.sedar.com). The Company website is [www.aquilaresources.com](http://www.aquilaresources.com)