



AQUILA RESOURCES INC.

(an exploration stage enterprise)

CONSOLIDATED INTERIM FINANCIAL STATEMENTS (PREPARED BY MANAGEMENT)

(Expressed in Canadian Dollars, unless otherwise stated)

For the three month and nine month periods ended

September 30, 2010

(unaudited)

Responsibility for Financial Statements:

The accompanying consolidated financial statements for Aquila Resources Inc. have been prepared by management in accordance with Canadian generally accepted accounting principles consistently applied. The most significant of these policies have been set out in the December 31, 2009 audited consolidated financial statements. These consolidated statements are presented on an accrual basis of accounting. Accordingly, a precise determination of many assets and liabilities is dependent upon future events. Therefore, estimates and approximations have been made using careful judgment.

Recognizing that the Company is responsible for both the integrity and objectivity of the consolidated financial statements, management is satisfied that these overall consolidated financial statements have been fairly stated.

Disclosure Required Under National Instrument 51-102 Continuous Disclosure Obligations - Part 4.3(3)(a)

The auditor of Aquila Resources Inc. has not performed a review of the unaudited comparative consolidated financial statements for the three and nine months periods ended September 30, 2010.

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Aquila Resources Inc.

(an exploration stage enterprise)

CONSOLIDATED BALANCE SHEETS

(Expressed in Canadian Dollars)

AS AT

	September 30, 2010 (Unaudited)	September 30, 2009 (Unaudited)	December 31, 2009 (audited)
ASSETS			
Current			
Cash and cash equivalents	\$ 1,299,732	\$ 1,958,296	\$ 1,866,125
Accounts receivable	56,245	257,638	105,063
Prepaid expenses	6,821	12,809	37,379
	1,362,798	2,228,743	2,008,567
Security deposit (Note 3)	136,633	133,661	124,415
Investment in joint venture (Notes 3, 13)	30,180,709	-	-
Mineral property costs (Note 3)	99,451	29,645,951	30,120,135
Capital assets (Note 4)	961,456	993,713	976,180
	\$ 32,741,047	\$ 33,002,068	\$ 33,229,297
LIABILITIES			
Current			
Accounts payable and accrued liabilities (Note 5)	\$ 68,331	\$ 101,487	\$ 108,733
SHAREHOLDERS' EQUITY			
Share capital (Note 6)	38,664,725	38,510,133	38,510,133
Contributed surplus (Note 7)	4,853,317	4,764,057	4,806,341
Deficit	(10,845,326)	(10,373,609)	(10,195,910)
	32,672,716	32,900,581	33,120,564
	\$ 32,741,047	\$ 33,002,068	\$ 33,229,297

Nature of operations and going concern considerations (Note 1)

Commitments (Notes 3 and 8)

Approved on Behalf of the Board

'Edward J. Munden' Director

'Robin Dunbar' Director

Aquila Resources Inc.

(an exploration stage enterprise)

CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT

(Expressed in Canadian Dollars)

FOR THE

	Three Months September 30,		Nine Months September 30,		Cumulative from the date of commencement of exploration
	2010	2009	2010	2009	
Expenses					
Depreciation	\$ 5,013	\$ 616	\$ 15,109	\$ 2,173	\$ 69,417
Consulting fees	9,495	10,000	24,495	29,700	314,562
Directors' fees (Note 5)	8,182	-	36,975	-	213,832
Filing and regulatory fees	3,536	6,782	28,408	28,629	339,558
Foreign exchange (gain)/loss	12,361	(3,480)	2,343	57,964	948,042
Interest and bank charges	1,409	975	3,005	1,396	99,821
Licenses, taxes and fees	-	-	-	-	85,000
Mineral property expense	-	-	81,755	-	81,755
Management fees (Note 5)	16,625	9,375	35,375	28,125	690,066
Office, general and administrative	24,197	23,002	67,174	48,247	388,978
Professional fees	26,692	375,154	72,211	447,927	557,412
Rent (Note 5)	3,600	5,621	10,800	16,970	88,623
Salaries and wages	35,344	20,769	110,707	81,592	1,182,608
Stock-based compensation (Note 6(d))	-	27,179	112,620	302,136	5,504,167
Travel and promotion	19,904	2,916	53,206	14,049	732,534
Write-down of mineral property costs	-	-	-	-	768,774
	166,358	478,909	654,183	1,058,908	12,065,149
Interest and other income	(1,600)	(4,432)	(4,767)	(11,968)	(1,219,823)
Loss for the period	164,758	474,477	649,416	1,046,940	\$ 10,845,326
Deficit, beginning of period	10,680,568	9,899,132	10,195,910	9,326,669	
Deficit, end of period	\$ 10,845,326	\$ 10,373,609	\$ 10,845,326	\$ 10,373,609	
Loss per share					
Basic and fully diluted	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.01	0.01
Weighted average number of shares	81,852,808	69,609,478	81,852,808	69,609,478	

See accompanying notes to the unaudited consolidated financial statements

Aquila Resources Inc.

(an exploration stage enterprise)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in Canadian Dollars)

FOR THE

	Three Months September 30,		Nine Months September 30,		Cumulative from the date of commencement of exploration
	2010	2009	2010	2009	
Cash flows from operating activities					
Net loss for the period	\$ (164,758)	\$ (474,477)	\$ (649,416)	\$ (1,046,940)	(10,845,326)
Adjustment for:					
Depreciation	5,013	616	15,109	2,173	69,417
Stock-based compensation (Notes 6)	-	27,179	112,620	302,136	5,504,167
Financing fee	-	-	-	-	20,424
Interest accrual	-	-	-	-	1,913
Write-off of loan payable	-	-	-	-	768,774
	(159,745)	(446,682)	(521,687)	(742,631)	(4,480,631)
Changes in non-cash working capital (Note 9)	64,492	(182,732)	26,756	(281,249)	(46,875)
Cash flows used in operating activities	(95,253)	(629,414)	(494,931)	(1,023,880)	(4,527,506)
Cash flows from investing activities					
Capital assets	-	-	(1,642)	-	(368,676)
Increase in mineral properties - acquisition (Note 3)	-	-	(40,000)	(6,354)	(7,583,501)
Increase in mineral properties - exploration (Note 3)	(61,647)	(479,348)	(118,383)	(1,373,410)	(22,497,492)
Recovery from (investment in) JML Resources	-	-	-	-	2,379,774
Cash flows used in investing activities	(61,647)	(479,348)	(160,025)	(1,379,764)	(28,189,875)
Cash flows from financing activities					
Issuance in common shares	85,635	2,223,422	88,563	2,223,422	36,475,616
Issue cost	-	-	-	-	(2,188,236)
Notes payable	-	-	-	-	117,110
Repayment of mortgages payable	-	-	-	-	(461,548)
Loans payable	-	-	-	-	74,171
Cash flows provided from financing activities	85,635	2,223,422	88,563	2,223,422	34,017,113
Net increase in cash	(71,265)	1,114,660	(566,393)	(180,222)	1,299,732
Cash, beginning of period	1,370,997	843,636	1,866,125	2,138,518	-
Cash, end of period	\$ 1,299,732	\$ 1,958,296	\$ 1,299,732	\$ 1,958,296	\$ 1,299,732

See accompanying notes to the unaudited consolidated financial statements

Aquila Resources Inc.

(an exploration stage enterprise)

Notes to the Consolidated Interim Financial Statements

(Expressed in Canadian Dollars, unless otherwise stated)

(Unaudited)

1. Nature of operations and going concern considerations:

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

The Company is listed on The Toronto Stock Exchange ("TSX") and is in the business of exploring for and developing mineral properties. Substantially all of the efforts of the Company are devoted to these business activities. To date the Company has not earned significant revenues and is considered an exploration stage company. For the nine month period ended September 30, 2010, the Company incurred a loss of \$649,416 (2009-1,046,940) and had an accumulated deficit of \$10,845,326 (2009 - \$10,373,609). The ability of the Company to carry out its business plan rests with its ability to secure equity and other financing.

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

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

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

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

2. Significant Accounting Policies:

Principles of consolidation:

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

Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates related to the continuing viability of mineral property interests, the determination of reclamation obligations, and rates for depreciation on capital assets, and assumptions used in the determination of the fair value of stock based compensation. Actual results could differ from these estimates. Management believes that the estimates are reasonable.

Aquila Resources Inc.

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Notes to the Consolidated Interim Financial Statements

(Expressed in Canadian Dollars, unless otherwise stated)

(Unaudited)

2. Significant Accounting Policies: (con't)

Investments:

Investments in entities where the Company exercises significant influence are accounted for using the equity method. These investments are recorded at cost and adjusted to recognize the Company's share of earnings or loss in the investment less any dividends received.

Deferred mineral property costs:

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

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

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

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

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

The proceeds of options granted on a mineral property are recorded as a reductions of the amounts recorded for the mineral property costs and any excess is recorded in the Statements of Loss, Comprehensive Loss and Deficit.

Capital assets:

Capital assets consist of land and buildings, which are recorded at cost and buildings are depreciated on the declining-balance basis at a rate of 4% per annum.

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

Share capital:

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

Aquila Resources Inc.

(an exploration stage enterprise)

Notes to the Consolidated Interim Financial Statements

(Expressed in Canadian Dollars, unless otherwise stated)

(Unaudited)

2. Significant Accounting Policies: (con't)

Revenue recognition:

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

Assets retirement obligation:

The Company recognizes a liability for an asset retirement obligation when it is determinable and calculates the liability based upon undiscounted future payments to be made. A corresponding amount is added to the carrying amount of the related long-term asset, and this amount is subsequently allocated to expense over its expected life. Adjustments will also be made in subsequent periods to changes in asset retirement obligations due to changes in estimates. As at September 30, 2010, the Company does not have any asset retirement obligations.

Impairment of long-lived assets:

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

Future income taxes:

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

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

Stock-based compensation:

The Company has a stock option plan, which is described in note 6(d). The Company uses the Black-Scholes option pricing model to estimate the fair value of each stock-option at the date of grant. Stock options that vest immediately are recorded at the date of grant. Stock options that vest over time are recorded over the vesting period using straight-line method. Stock option compensation is recognized as expense with a corresponding increase in contributed surplus. On exercise of the stock option, consideration received and the estimated fair value previously recorded in contributed surplus is recorded as share capital.

Aquila Resources Inc.

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Notes to the Consolidated Interim Financial Statements

(Expressed in Canadian Dollars, unless otherwise stated)

(Unaudited)

2. Significant Accounting Policies: (con't)

Cash and cash equivalents:

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

Cash and cash equivalents comprise the following balance sheet amounts:

	September 30,	
	2010	2009
Cash on hand and balances with banks	\$ 1,299,732	\$ 1,958,296
Short-term interest bearing investments	-	-
	<u>\$ 1,299,732</u>	<u>\$ 1,958,296</u>

Loss per share:

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

Diluted loss per share:

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

Translation of foreign currencies:

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

Property option agreements:

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

Mineral property pre-acquisition costs:

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

Aquila Resources Inc.

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Notes to the Consolidated Interim Financial Statements

(Expressed in Canadian Dollars, unless otherwise stated)

(Unaudited)

2. Significant Accounting Policies: (con't)

Financial assets and liabilities:

Assets or liabilities held-for-trading

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

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

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

Available-for-sale

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

Classification of financial instruments:

The Company designates its cash and cash equivalents as held-for-trading, which is measured at fair value. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities which are measured at amortized cost. Due to the short-term nature of these instruments, their carrying value approximates their fair value.

Cumulative information for exploration stage companies:

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

Financial instruments - recognition and measurement:

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

Comprehensive income:

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

Aquila Resources Inc.

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Notes to the Consolidated Interim Financial Statements

(Expressed in Canadian Dollars, unless otherwise stated)

(Unaudited)

2. Significant Accounting Policies: (con't)

Capital disclosures:

Section 1535 specifies the disclosures of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such noncompliance. The Company has included disclosures recommended by the new Handbook section in Note 10 to these consolidated financial statements.

Financial instruments - disclosure and presentation:

Section 3862 and 3863 replace Section 3861, Financial Instruments - Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The Company has included disclosures recommended by the new section in Note 11 to these consolidated financial statements.

Recent accounting pronouncements:

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

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

Mining exploration costs:

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

Goodwill and intangible assets:

Effective November 1, 2008 the Company adopted Section 3064 - Goodwill and Intangible Assets which replaced CICA Handbook sections 3062 and 3450, EIC 27 and part of Accounting Guidelines 11. Under previous Canadian standards, more items were recognized as assets than under International Financial Reporting Standards ("IFRS"). The objectives of CICA 3064 are to reinforce the principle based approach to the recognition of assets only in accordance with the definition of an asset and the criteria for asset recognition and to clarify the application of the concept of matching revenues and expenses such that the current practice of recognizing asset items that do not meet the definition and recognition criteria is eliminated. The portions in the new standard with respect to Goodwill remain unchanged. The provisions relating to the definition and initial recognition of intangible assets intends to reduce the differences with IFRS in the accounting for intangible assets. The new standard guidance for the recognition of internally developed intangible assets (including research and development activities), ensuring consistent treatment of all assets. The adoption of this standard had no impact on the Company's presentation of its financial position or results of operations as at and for the six month period ended September 30, 2010.

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

In June 2007, the CICA amended Handbook Section 1400, Going Concern, to include additional requirements to assets and disclose an entity's ability to continue as a going concern. Section 1400 is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. The adoption of this standard had no impact on the Company's presentation of its financial position or results of operations as at September 30, 2010.

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(an exploration stage enterprise)

Notes to the Consolidated Interim Financial Statements

(Expressed in Canadian Dollars, unless otherwise stated)

(Unaudited)

2. Significant Accounting Policies: (con't)

Fair value hierarchy and liquidity risk disclosure:

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

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

	Level One	Level Two	Level Three
Cash and cash equivalents	\$ 1,299,732	\$ -	\$ -
Accounts receivable	\$ -	\$ 56,245	\$ -
Security deposit	\$ -	\$ 136,633	\$ -
Accounts payable and accrued liabilities	\$ -	\$ 68,329	\$ -

Future accounting changes:

Business Combinations

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

The Company does not expect the adoption of this new standard to have an impact on 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.

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(an exploration stage enterprise)

Notes to the Consolidated Interim Financial Statements

(Expressed in Canadian Dollars, unless otherwise stated)

(Unaudited)

2. Significant Accounting Policies: (con't)

International Financial Reporting Standards ("IFRS"):

In January 2006, the CICA's Accounting Standards Board ("AcSB") formally adopted the strategy of replacing financial reporting under Canadian GAAP with financial reporting under IFRS, for Canadian enterprises with public accountability. The current conversion timetable calls for financial reporting under IFRS for accounting periods commencing on or after January 1, 2011.

In February 2008, AcSB confirmed that publicly accountable enterprises will be required to adopt IFRS for fiscal years beginning on or after January 1, 2011. Accordingly, the conversion to IFRS will be applicable to the Company's interim fiscal quarter ending March 31, 2011 with restatement of comparative information presented.

The conversion to IFRS could potentially have an impact on the Company's accounting policies, information technology and data systems, internal control over reporting, disclosure controls and procedures. The transition may also have an impact on business activities, such as contractual arrangements, foreign translation and capital requirements. While the Company has begun assessing the adoption of IFRS for fiscal 2011, the financial reporting impact of the transition to IFRS can not be reasonably estimated at this time.

3. Mineral property costs and commitments:

Total accumulated deferred mineral property costs are detailed as follows:

Mineral property costs:

2010	Balance beginning of year	Acquisition	Exploration	HudBay Option Agreement	Reclassification or Write-down	Balance end of period
a) Back Forty Project	\$ 30,120,135	\$ 607,567	\$ 1,141,164	\$(1,688,157)	\$(30,180,709)	\$ -
b) Other Properties	-	40,000	59,451	-	-	99,451
	\$ 30,120,135	\$ 647,567	\$ 1,200,615	\$(1,688,157)	\$(30,180,709)	\$ 99,451

2009	Balance beginning of year	Acquisition	Exploration	HudBay Option Agreement	Write-down	Balance end of year
a) Back Forty Project	\$ 28,252,770	\$ 1,392,857	\$ 2,943,146	\$(2,468,638)	\$ -	\$30,120,135
b) Other Properties	-	-	-	-	-	-
	\$ 28,252,770	\$ 1,392,857	\$ 2,943,146	\$2,468,638)	\$ -	\$30,120,135

a) Back Forty Project Michigan USA

The Back Forty Project controls approximately 9,300 acres of surface and mineral rights which are owned or held under lease or option by a 100% owned U.S. subsidiary. Some lands are subject to net smelter royalties varying from 1% to 3.5%, with certain lands subject to a 2% - 7% state royalty, which under state law can be renegotiated. A total of \$940,702 was reimbursed by HudBay to the Company during the nine month period. As at September 30, 2010 the HudBay agreement is in good standing. The entire project is subject to a 7% net distributable earnings royalty ("Net Profits after Payback") payable to a former joint venture partner.

Aquila Resources Inc.

(an exploration stage enterprise)

Notes to the Consolidated Interim Financial Statements

(Expressed in Canadian Dollars, unless otherwise stated)

(Unaudited)

3. Mineral property costs and commitments: (con't)

HudBay Option Agreement

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

- I) HudBay subscribed for 12,141,051 common shares of the Company at \$0.1827 per share for gross proceeds of \$2,218,170 (see note 6). These shares were subject to a four month hold period.
- II) While HudBay maintains at least a 10% ownership interest, HudBay will have the right to nominate a director to the Company's Board of Directors and will have pre-emptive rights to maintain its ownership interest. In addition, should HudBay choose to dispose of its equity interest in the Company, HudBay has agreed to do so in an orderly manner pursuant to the Agreement.
- III) HudBay can earn a 51% interest in the Back Forty Project (the "Project") by expending a minimum of \$10 million in aggregate over a 3-year period with a minimum of US\$3 million by the first anniversary, an additional US\$3 million by the second anniversary, and an additional US\$4 million by the third anniversary (51% earned by HudBay September 30, 2010).
- IV) After HudBay completes the initial 51% interest, HudBay and the Company will form a joint venture reflective of their proportionate ownership interest in the Project.
- V) Subsequent to HudBay earning the initial 51% interest, HudBay will have the option to increase its interest in the Project to 65% by funding and completing a feasibility study, funding and submitting a permitting application, and making outstanding specified option payments.
- VI) In the event a feasibility study is completed and permitting applications are submitted, and HudBay elects to put the Project into production and issues a Development Notice, the Company will have 90 days to arrange financing for its share of project costs. If the Company is unable or elects not to obtain financing, HudBay, by assuming the obligation to finance 100% of the development costs, will increase its ownership in the Project by a further 10% to 75%. Pursuant to the Agreement, the Company's 25% share of the development costs would then be deducted from the Company's proportionate share from Net Proceeds from the Project.
- VII) While HudBay retains the largest ownership interest in the Project, HudBay will be the manager and operator. HudBay will also have exclusive marketing rights to sell production to HudBay or third parties on commercial terms.
- VIII) If the feasibility study is not completed and all applications for permitting are not submitted on or before the fourth anniversary of the Agreement, the Company has the right to re-acquire HudBay's 51% joint venture interest by reimbursing HudBay 50% of its total expenditures in respect of the Project incurred from the execution of the Agreement. If the Project is not brought into commercial production within four years from the grant of mining permits, the Company may re-acquire HudBay's 65% joint venture interest by reimbursing HudBay 50% of its total Project expenditures incurred after execution of the Agreement. Notwithstanding the Company exercising the foregoing right, HudBay shall retain the marketing rights and the product rights as provided for in the Agreement. In addition, if the Company exercises this right after HudBay earns a 51% interest in the Project, then HudBay shall have its participating interest converted to a 1% NSR.

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(Expressed in Canadian Dollars, unless otherwise stated)

(Unaudited)

3. Mineral property costs and commitments: (con't)

During the three month period, a total of \$604,197 was expended by HudBay on the Back Forty Project of which the Company paid and was reimbursed \$558,047. As at September 30, 2010 \$46,150 was receivable from HudBay for costs incurred by the Company on the Project.

During 2009, in connection with securing the Agreement with HudBay, fees of US\$305,000 were paid in cash, and 300,000 stock options were issued valued at \$60,600 using the Black Scholes option pricing model.

On August 31, 2010, HudBay earned a 51% interest in the Back Forty Project resulting in a joint venture being formed. As a result, the Company has reclassified its interest in the Back Forty Project as outlined in Note 13 to these consolidated interim financial statements.

b) MRT Property

On August 3, 2006, the Company entered into an option agreement to acquire a 100% interest in approximately 50 acres of surface and mineral rights in Lake Township, Menominee County, Michigan (the "MRT property"). The aggregate price payable of US\$11,700,000 is due in annual installments on the anniversary date over a nine year option period as follows:

Due date	Amount US \$
August 3, 2006 (paid)	\$ 1,333,334
August 3, 2007 (paid)	\$ 1,333,333
August 3, 2008 (paid)	\$ 1,333,333
August 3, 2009 (paid)	\$ 250,000
August 3, 2010 (paid)	\$ 250,000
August 3, 2011	\$ 1,440,000
August 3, 2012	\$ 1,440,000
August 3, 2013	\$ 1,440,000
August 3, 2014	\$ 1,440,000
August 3, 2015	\$ 1,440,000
	\$ 11,700,000

The Company maintains a cash deposit in the amount of \$136,633 (2009-\$133,661), pursuant to escrow agreements. The amount is being held as security for the fulfillment of obligations in accordance with the above noted option agreement. During the three month period, the deposit accrued interest of \$1,600 (2009-\$4,432).

c) Metallic mineral leases

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

In order to retain its interest in these state leases, the Company must make annual payments for the remainder of 2010 and for 2011 and 2012 are as follows:

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

Future Commitments

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

2010 - US\$789,673; 2011 - US\$1,582,609; 2012 - US\$1,599,761

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

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Notes to the Consolidated Interim Financial Statements

(Expressed in Canadian Dollars, unless otherwise stated)

(Unaudited)

4. Capital assets:

	2010		2009	
	Cost	Accumulated depreciation	Net book value	Net book value
Land	\$ 503,962	\$ -	\$ 503,962	\$ 503,962
Buildings	528,838	89,748	439,090	465,827
Furniture, fixtures and equipment	31,446	13,042	18,404	23,924
	\$ 1,064,246	\$ 102,790	\$ 961,456	\$ 993,713

5. Related party transactions:

For the quarter ended September 30, 2010 management fees amounting to \$16,625 (2009 - \$9,375) were charged by a company controlled by the CFO and a director of the Company.

During the quarter the Company was charged Directors' fees totaling \$8,182 (2009 - \$Nil) by non-executive directors. Accounts payable include \$2,737 (2009 - Nil) owing to the directors.

During the quarter ended September 30, 2010, the President and CEO, and related individuals received remuneration consisting of management fees and salaries. Total remuneration for the period ended September 30, 2010 was US\$70,000 (2009-US\$61,123).

During the quarter ended September 30, 2010 US\$Nil (2009 - US\$62,663) 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.

During the quarter, the Company was charged legal fees totaling \$10,173 (2009-\$60,802) by a law firm whose partner is an officer of the Company.

During the quarter, rental expenditures in the amount of \$3,600 (2009-\$5,621) were charged by a Company with common directors.

Management believes these transactions are in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

6. Share capital:

a) Authorized

Unlimited number of common shares

b) Issued

Common shares

	Number of Common	
	Shares	Amount
Issued at December 31, 2007	70,109,478	\$ 36,461,711
Cedros Property settlement	(500,000)	(175,000)
Issued at December 31, 2008 and March 31, 2009	69,609,478	\$ 36,286,711
Shares issued to HudBay for cash (See Note 3 (a))	12,141,051	\$ 2,218,170
Issued for cash / on exercise of options	20,000	\$ 3,000
Fair value of options exercised reallocated from contributed surplus	-	\$ 2,252
Issued at December 31, 2009	81,770,529	\$ 38,510,133
Issued for cash / on exercise of options	21,250	\$ 3,313
Fair value of options exercised / reallocated from contributed surplus	-	\$ 2,473
Issued for cash / on exercise of options	504,234	\$ 85,635
Fair value of options exercised / reallocated from contributed surplus	-	\$ 63,171
Issued at September 30, 2010	82,296,013	\$ 38,664,725

Aquila Resources Inc.

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Notes to the Consolidated Interim Financial Statements

(Expressed in Canadian Dollars, unless otherwise stated)

(Unaudited)

c) Warrants:

There were NIL warrants outstanding at September 30, 2010 and September 30, 2009.

d) Stock-option plan:

The Company maintains a Stock Option Plan (the "Plan") for the benefit of directors, officers, employees, consultants and other service providers of the Company and its subsidiaries in order to assist the Company in attracting, retaining, and motivating such persons by providing them with the opportunity, through stock options to acquire an increased proprietary interest in the Company. Under the Plan, options are non-assignable and may be granted for a term not exceeding five years. The number of common shares that may be reserved for issuance to any one person must not exceed 5% of the outstanding common shares. The exercise price of an option may not be lower than the closing price of the common shares on the TSX, subject to applicable discounts, on the business day immediately proceeding the date the option is granted. The options are non-transferable.

The fair value of each option was estimated on the date of grant. Under Black-Scholes the options issued and vested during the period ended September 30, 2010 have been valued at \$112,620 (2009 - \$259,658) and expensed to loss, using the following assumptions at the measurement date:

	2010	2009
Risk-free interest rate	2.71%	1.92%
Expected life	5 years	5 years
Price volatility	90%	115%
Dividend yield	Nil	Nil

A summary of the status of the Company's stock option plan as of September 30, 2010 and 2009, and changes during the periods are presented below:

	September 30, 2010		September 30, 2009	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Balance, beginning of the period	7,705,000	0.73	6,525,000	\$ 0.85
Exercised	(525,484)	0.17	(20,000)	-
Expired	(1,455,000)	0.97	-	-
Granted	-	-	150,000	0.30
Balance, end of the period	5,724,516	0.72	6,655,000	\$ 0.84

Aquila Resources Inc.

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(Expressed in Canadian Dollars, unless otherwise stated)

(Unaudited)

6. Share capital: (con't)

As at September 30, 2010, common share stock options held by directors, officers, employees and consultants are as follows:

Exercise Price	Outstanding		Exercisable	
	Number of Options	Expiry Date	Number of Options	
\$ 0.30	1,300,000	May 10, 2011	1,300,000	
\$ 0.70	500,000	May 14, 2011	500,000	
\$ 1.00	100,000	June 08, 2011	100,000	
\$ 2.15	1,275,000	February 8, 2012	1,275,000	
\$ 0.15	1,405,766	March 2, 2014	1,405,766	
\$ 0.30	300,000	August 12, 2014	300,000	
\$ 0.25	843,750	November 10, 2014	431,250	
	<u>5,724,516</u>		<u>5,312,016</u>	

7. Contributed surplus:

	September 30, 2010	September 30, 2009
Balance beginning of the period	\$ 4,806,341	\$ 4,739,130
Stock-based compensation cost	112,620	27,179
Fair value of stock options exercised	(65,644)	(2,252)
Balance end of the period	<u>\$ 4,853,317</u>	<u>\$ 4,764,057</u>

8. Commitments:

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

2010	US \$	12,000
2011	US \$	48,000
2012	US \$	48,000
2013	US \$	32,000

9. Changes in non-cash operating working capital:

	Three Months September 30,		Nine Months September 30,	
	2010	2009	2010	2009
Accounts receivable	\$ 27,624	\$ (250,647)	\$ 48,818	\$ (192,829)
Prepaid expenses	10,299	(12,464)	30,558	26,288
Deposits	1,927	1,556	(12,218)	(4,566)
Accounts payable and accrued liabilities	24,642	78,823	(40,402)	(110,142)
	<u>\$ 64,492</u>	<u>\$ (182,732)</u>	<u>\$ 26,756</u>	<u>\$ (281,249)</u>

Aquila Resources Inc.

(an exploration stage enterprise)

Notes to the Consolidated Interim Financial Statements

(Expressed in Canadian Dollars, unless otherwise stated)

(Unaudited)

10. Capital management:

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

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

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

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

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

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

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

There were no changes in the Company's approach to capital management during the period ended September 30, 2010.

11. Financial instruments and financial risk factors:

Financial Risks

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

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

Credit risk

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

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Notes to the Consolidated Interim Financial Statements

(Expressed in Canadian Dollars, unless otherwise stated)

(Unaudited)

11. Financial instruments and financial risk factors: (con't)

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at September 30, 2010, the Company had cash and cash equivalents of \$1,299,732 (2009 - \$1,958,296) to settle accounts payable and accrued liabilities of \$68,331 (2009 - \$101,487). The ability of the Company to continue to pursue its exploration activities is dependant on its ability to secure additional equity or other financing. All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

Market risk

(a) Interest rate risk

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

(b) Foreign currency risk

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

(c) Price risk

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

Sensitivity analysis

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

- i) The Corporation is exposed to foreign currency risk on fluctuations of financial instruments related to cash and cash equivalents, receivables, and accounts payable and accrued liabilities that are denominated predominantly in United States Dollars. Sensitivity to a plus or minus 10% change in the foreign currency rate would affect net loss by approximately \$2,200.
- ii) Commodity price risk could adversely affect the Company. In particular, the Company's future profitability and viability from mineral exploration depends upon the world market price of valuable minerals. Commodity prices have fluctuated significantly in recent years. There is no assurance that, even as commercial quantities of minerals may be produced in the future, a profitable market will exist for them.

As of September 30, 2010, the Company is not a producer of minerals. As a result, commodity price risk may affect the completion of future equity transactions such as equity offerings and the exercise of stock options and warrants. This may affect the Company's liquidity and its ability to meet its ongoing obligations. As at September 30, 2010, the carrying value amounts of financial instruments approximates their fair value.

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(Expressed in Canadian Dollars, unless otherwise stated)

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12. Comparative Figures:

Certain comparative figures have been reclassified to conform to the current period's financial statement presentation.

13. Investment in Joint Venture:

	September 30, 2010	September 30, 2009
Balance, beginning of the period	\$ 30,180,709	\$ -
Initial investment	-	-
Exploration contribution	-	-
Recoveries	-	-
Equity loss in joint venture	-	-
Balance, end of the period	\$ 30,180,709	\$ -

On August 31, 2010, the Company entered into a Joint Venture Agreement with HudBay Minerals Inc. in Michigan, USA. The purpose of the joint venture is to continue development of the Back Forty Project in Michigan. With the reclassification of the Back Forty investment, the Company's 49% interest in the current operating loss of the Project will now be consolidated as "Equity Loss on Joint Venture" on the statement of loss, comprehensive loss and deficit.

The Company has recorded as its initial investment in the joint venture, which represents costs incurred by the Company on the Back Forty Project.

In addition to the general terms of the agreement as outlined in Note 3 to these consolidated financial statements, the Company may continue to incur certain costs on its own behalf in the Back Forty Project in order to monitor and supervise its 49% interest in its investment in the Back Forty Project.

14. Subsequent events:

Aquila and HudBay announced formation of an Exploration Alliance, as well as a new NI 43-101 resource estimate and drill results for the Back Forty Project, on October 15, 2010.