AQUILA RESOURCES INC.
MANAGEMENT DISCUSSION AND ANALYSIS
Period Ended September 30, 2010

Introduction

The following discussion of performance, financial condition and future prospects should be read in conjunction with the unaudited financial statements of the Company for the period dated September 30, 2010 and 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). Financial information for Aquila Resources Inc. is filed at www.sedar.com. The Company's shares are listed on the TSX under the symbol AQA, and its reporting currency is the Canadian dollar. Previously certain financial disclosure of the Company had been in U.S. dollars. All amounts following are expressed in Canadian dollars unless otherwise stated. This Management Discussion and Analysis (MD&A) is dated November 15th, 2010.

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. – "the Company" or "Aquila") was incorporated in the Province of Ontario as 1223068 Ontario Limited by Articles of Incorporation dated February 17, 1997. The Company carries on the business of mineral exploration and development and is a mineral exploration company. The principal focus of the Company is the exploration of the Back Forty Project located in Menominee County, Michigan.

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.

HudBay acquired a 51% interest in the Back Forty Project in September, 2010 and a joint venture is legally formed between the parties. HudBay is 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

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.

Back Forty Project

The Back Forty Project is an advanced exploration project. A National Instrument (NI) 43-101 compliant resource estimate was announced by the Company on October 15, 2010 which updated the previous resource estimate dated February 25, 2009. The resource estimate will be filed with the Company's other public documents at www.sedar.com. The October resource estimate announced October 15, 2010 was completed by Greg Greenough, P.Geo. Senior Resource Geologist of Golder Associates.

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.

Back Forty NI 43-101 Resource Estimate Revisions

In the press release of October 15, 2010 the Company announced a new resource estimate. The Qualified Person for Aquila is Thomas O. Quigley, P.Geo. Information on the resource was provided by HudBay Minerals and Greg Greenough, P.Geo., Senior Resource Geologist with Golder Associates who calculated the resource estimate. A revision to the resource estimate of 1 million tonnes Measured and Indicated (18.1 to 17.1 million tonnes; -6% total metal content variance) and 0.4 million tonnes Inferred (3.2 million tonnes to 2.8 million tonnes) was subsequently advised to Aquila (using the same metal prices). The resource estimate report to be completed will use different metal prices (see below).

Aquila Resources Inc.

NI 43-101 October 15, 2010 Resource Estimate
Revisions of Price Estimates

The revised NI 43-101 mineral resource estimate is presented in Table 1 and consists of a total of 17.9 million tonnes Measured and Indicated (M+I) and 3.4 million tonnes Inferred. The resource uses metal prices of US$900 gold; $15 silver; $2.50 copper and $0.95 zinc. The price estimates are higher than the prices used in the resource announced October 15, 2010 of US$866 gold, $13.95 silver, $2.05 copper and $0.85 zinc.

October 15, 2010 Resource Estimate - Golder Associates

Grade						Contained Metal			
Classification	Tonnes (millions)	Gold (g/t)	Silver (g/t)	Copper (%)	Zinc (%)	Gold (oz)	Silver (oz)	Copper (lbs)	Zinc (lbs)
Open Pit Resource									
Measured (M)	14.1	1.59	16.97	0.15	2.54	720,788	7,692,934	46,624,371	789,506,021
Indicated (I)	2.1	1.53	32.8	0.41	1.17	103,300	2,214,543	18,980,418	54,163,631
M + I	16.2	1.58	19	0.18	2.36	822,931	9,896,000	64,282,112	842,809,912
Inferred	1.4	1.4	32.89	0.62	1	63,015	1,480,413	19,134,730	30,862,468
Underground Resource									
Measured (M)	0.8	1.67	25.83	0.24	3.45	42,953	664,363	4,232,567	60,843,151
Indicated (I)	0.9	1.28	24.72	0.34	2.85	37,038	715,290	6,745,654	56,544,450
M + I	1.7	1.46	25.23	0.29	3.13	79,798	1,378,978	10,867,998	117,299,423
Inferred	2	1.22	18.34	0.32	2.64	78,448	1,179,289	14,108,557	116,395,594
Combined Open Pit and Underground									
M + I	17.9	1.57	19.6	0.19	2.44	903,532	11,279,768	74,973,753	962,820,823
Inferred	3.4	1.31	25.17	0.46	1.87	143,199	2,751,397	34,477,786	140,159,694

* 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$0.95 per pound zinc, US$2.50 per pound copper, US$0.70 per pound lead, US$900 per troy ounce gold and US$15 per troy ounce silver. Metallurgical recoveries were determined and used for each of eight metallurgical domains determined for the deposit.

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

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

January 2009 Resource

A previous resource was announced on January 15, 2009. The open pit mineral resources were reported at an average NSR cut-off of US$20 and comprised a substantial tonnage (5.92 million tonnes M+I) and 620,000 tonnes inferred. The underground mineral resources were reported with an average NSR cut-off of US$62 (assuming underground mining costs estimated at US$43 per tonne), showed excellent zinc grade, over 9%, in the M+I category.

Table 1. Mineral Resource Statement* for the Back Forty Deposit, Michigan, U.S.A.

SRK Consulting, February 25, 2009.

		Grade					Contained Metal				
Resource Category	Tonnage [t]	Gold [g/t]	Zinc [%]	Silver [g/t]	Copper [%]	Lead [%]	Gold [1000 oz]	Zinc [M lbs]	Silver [1000 oz]	Copper [M lbs]	Lead [M lbs]
Open Pit Resources†											
Measured (M)	4,660,000	2.04	3.64	29.2	0.68	0.08	305	374	4,380	70	8
Indicated (I)	1,260,000	4.03	5.63	47.3	0.37	0.30	160	156	1,872	10	8
M + I	5,920,000	2.46	4.06	33.1	0.61	0.13	465	530	6,252	80	16
Inferred	620,000	3.68	2.46	46.5	0.15	0.44	74	34	921	2	6
Underground Resources‡											
Measured (M)	1,060,000	1.21	9.23	26.5	0.39	0.86	41	216	904	9	20
Indicated (I)	1,510,000	1.51	9.11	24.0	0.19	0.47	74	303	1,163	6	16
M + I	2,580,000	1.39	9.16	25.0	0.28	0.63	115	521	2,067	16	36
Inferred	550,000	2.03	6.62	36.4	0.28	0.67	36	80	643	3	8
Combined Open Pit and Underground											
M + I	8,500,000	2.13	5.61	30.6	0.51	0.28	580	1,051	8,319	96	52
Total Inferred	1,170,000	2.90	4.42	41.7	0.21	0.55	110	114	1,564	5	14

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

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

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

Comparison of October 2010 Resource to January 2009 Resource

The contained gold ounces in the Measured and Indicated category increased in the October 2010 resource to over 750,000 ounces from 470,000 ounces in the January 2009 resource. The conceptual strip ratio off measured and indicated resource blocks assigned through pit optimization improved to approximately 3:1 from approximately 8:1 which is a marked improvement. The increased resources are a combined result of additional diamond drilling, and the inclusion of lower grade material not outlined in the previous estimate.

Summary of Metallurgical Testwork

During 2009 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 is ongoing as part of overall project development.

Exploration Potential

The current resource has not closed off the Back Forty Deposit. The Joint Venture has initiated exploration to find additional resources. The announced targets are to:

1) Explore for depth extensions to the deposit
2) Test for on strike extensions of the deposit
3) Test new targets generated by airborne and ground geophysics

Drill hole LK-479 was announced October 15, 2010 which intercepted two massive sulfide zones. The upper zone returned 8.14 g/t gold, 312 g/t silver and 8.0% zinc over 6.02 meters. The lower zone returned 1.1 g/t gold, 27 g/t silver, 0.41% copper and 1.3% zinc over 69.7 meters and also contained a 6.23 meter interval of 6.39 g/t gold and 94.2 g/t silver between 793.1 and 799.3 meters. The depth potential of the deposit is considered excellent based on this result.

2. Operating Highlights

During the third quarter ended September 30, 2010 the Company continued activities at the Back Forty Project with project operator HudBay Minerals and also with evaluation of new project opportunities.

The Company and HudBay announced on July 29, 2010 the timetable to complete a feasibility study and submit required permitting applications had been revised for a completion date by the end of 2011. The new timetable recognized the delays that were necessitated by the successful drill out of the Back Forty Deposit since the calculation of the February 25, 2009 resource. Until the Company obtains revenues from the Back Forty Project, it will have no source of revenue.

The net loss recorded by the Company for the quarter ending September 30, 2010 was $164,758 compared to the net loss of $474,477 for the quarter ended September 30, 2009. Project expenses covered under the Agreement with HudBay are either directly funded by HudBay or if funded by the Company are reimbursed by HudBay.

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.

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

Exploration

The Company announced additional drill results from the project during the third quarter. The Company announced on October 15 that three drills would be active at Back Forty. Results from drilling are contained in press releases found on SEDAR at www.sedar.com as well as on the Company's website at www.aquilaresources.com.

Project Development

On July 29, 2010 Aquila announced a project timeline that had been jointly agreed with HudBay which updated the previously announced timetable announced November 11, 2009.

Key project activities, ongoing through the third quarter of 2010, 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.

In the press release of July 29, 2010 the Company noted that Kennecott Minerals, a subsidiary of Rio Tinto PLC has announced plans to move forward with construction at their Eagle nickel-copper deposit which is also located in the Upper Peninsula of Michigan. The Eagle project is the first non-ferrous mineral project to be permitted in Michigan since new state legislation regulating non-ferrous mining was enacted in 2006.

Strategic Exploration Alliance with HudBay

Subsequent to quarter end the Company announced that a strategic exploration alliance with HudBay to explore for base metal deposits in the Upper Peninsula of Michigan and elsewhere as agreed. Under the terms of the agreement HudBay made a cash payment of US$250,000 to Aquila to be used for project generation. HudBay will also fund a $2 million private placement to Aquila. Aquila will source exploration properties and HudBay will have the opportunity to earn a 50% interest in the properties by funding $2 million in exploration expenditures. HudBay will also have the right to increase its interest in any given property by funding a feasibility study and permit applications for a specific project. The Exploration Alliance excludes gold and silver properties.

3. Selected Financial Information

As an exploration company, the Company has no revenue from operations. The Company is dependent on the equity markets to fund its exploration activities. During the quarter the Company realized interest of $1,600 (2009-$4,432) from funds on deposit.

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

	Quarter ended September 30, 2010	*Quarter ended September 30, 2009*
Interest and other income	$(1,600)	$(4,432)
Operating expenses	$ 166,358	$478,909
Net loss (income)	$ 164,758	$474,477
Loss per share	$0.01	$0.01
*Mining interest**	$30,361,866	$29,645,951
Cash	$1,299,732	$1,958,296
Total assets	$32,741,047	$33,002,068

* Now comprising joint venture interest (equity method of accounting) and mineral property interest.

4. Results from Operations

The Company's operations involve exploration of its mineral exploration property located in Menominee County, Michigan. The Company has no income from its operations. During the quarter ended September 30, 2010 the Company incurred a loss of $0.01 per share (basic and fully diluted). The comparable loss per share for the prior quarter was $0.01.

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 quarter was $1,600 compared to the previous year quarter when $4,432 was earned from interest. Cash balances available for investment were reduced during the quarter.

6. Expenses

	For the quarter ending September 30, 2010	For the quarter ending September 30, 2009
Stock option compensation cost	$ Nil	$ 127,179
Directors' fees	8,182	Nil
Foreign exchange loss (gain)	12,361	(3,480)
Office, general and administrative	24,197	23,002
Travel and promotion	19,904	2,916
Filing and regulatory fees	3,536	6,782
Consulting fees	9,495	10,000
Mineral property expense	-	Nil
Professional fees	26,692	375,154

During the quarter ending September 30, 2010, the Company incurred total expenses in the amount of $166,358. Notable expense items and material variances are noted in the table above.

7. Acquisition Costs

Acquisition costs include option payments on mineral and surface rights for the Back Forty Project and other projects which are capitalized. During the third quarter, a total of US$250,000 in option payments was made. The Company entered into an Option Agreement on the MRT Property during the third quarter of 2006 and during 2010 made the fifth required option payment of US$250,000 (2009-US$250,000). The payment for 2011 is US$1,440,000, due August, 2011. The total option payments remaining to be paid to complete the MRT option are US$7.2 million through August, 2015.

8. Exploration Expenditures

Exploration and development expenditures incurred by Aquila for the quarter ended September 30, 2010 totaled $59,451 (2009-$479,348). Expenditures include acquisition costs of property not related to the Back Forty Project and certain expenses incurred not covered by the HudBay Agreement. A total of $1,688,157 (2009-$620,498) in exploration and project development related expenditures for the Back Forty Project were incurred by the Company and refunded by HudBay under the HudBay Agreement. Other expenditures for the project are incurred by HudBay directly. A breakdown of exploration expenses incurred directly by the Company for the Back Forty Project during the 3 month period is presented below.

	Exploration Expenditures	
	September 30, 2010	September 30, 2009
Wages	$ -	$156,741
Assays	-	3,291
Geophysics	-	971
Consult/Legal/Environmental	-	243,032
Operator	-	1,403
Property Interests	-	0
Administration	-	25,062
Scoping Study	-	11,272
Other	2,196	37,576
Total Back Forty Project	2,196	$479,348
Other Properties	59,451	-
Total	$61,647	$479,348

A portion of the office overhead and staff costs are included in the amounts reimbursed by HudBay.

9. Summary of Quarterly Results

Selected financial information for the previous eight fiscal quarters is presented below:

Quarterly Financial Information (unaudited)

		2010 Q3		2010 Q2		2010 Q1		2009 Q4
(a) Interest and Other Income	$	1,600	$	1,636	$	1,594	$	2,858
(b) Net Income (loss)	$	(164,758)	$	(282,099)	$	(201,434)	$	177,699
(c) Net Income (loss) per share (Basic)	$	(0.01)	$	(0.01)	$	(0.01)	$	(0.01)

		2009 Q3		2009 Q2		2009 Q1		2008 Q4
(a) Interest and Other Income	$	4,432	$	2,777	$	5,102	$	63,207
(b) Net Income (loss)	$	(474,477)	$	(137,349)	$	(435,114)	$	110,231
(c) Net Income (loss) per share (Basic)	$	(0.01)	$	(0.01)	$	(0.01)	$	(0.01)

10. Financial Condition

Liquidity and Capital Resources

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

During the quarter the Company utilized cash on hand and funds from HudBay under the HudBay Agreement to fund operations. The cash balance as at September 30, 2010 was $1,299,732 (2009 - $1,958,296).

Liabilities as at September 30, 2010 consist of short term trade payables and accrued liabilities of $68,331 (2009 - $101,487). Amounts due from HudBay of $45,723 were included in quarter 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 a number of contractual obligations 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$789,673 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 will 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 September 30, 2010 there were 82,296,013 (2009-81,770,529) common shares of the Company outstanding. Share issuances during the quarter were 504,234, issued on exercise of options.

Warrants

There are no warrants or broker warrants issued during or outstanding as at September 30, 2010 (2009 – Nil).

<u>Options</u>

There are a total of 5,724,516 stock options outstanding as at September 30, 2010 with exercise prices ranging from $0.15 to $2.15. During the quarter 504,234 options were exercised, 800,000 options expired and Nil new options were granted.

12. Off-Balance Sheet Arrangements

As at September 30, 2010 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 quarter are considered in the normal course of business and are billed at market rates.

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 director of the Company.

During the quarter the President and CEO and other related parties received remuneration consisting of management fees and salary. Total remuneration was US$70,000 (2009- US$61,123).

A total of US$Nil (2009 – US$62,663) 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 quarter the Company expensed Directors' fees totalling $8,182 (2009 - $Nil) by non-executive directors.

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

Rental expenditures in the amount of $3,600 (2009 - $5,621) 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 Control over Financial Reporting

Management (the Chief Executive Officer and the Chief Financial Officer) 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 September 30, 2010. The evaluation included documentation review, enquiries and other procedures considered by Management to be appropriate in the circumstances.

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 September 30, 2010.

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

Evaluation of Internal Control over Financial Reporting

The Chief Executive Officer and the Chief Financial Officer of the Company 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 by 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.

There has been no change in the third quarter of 2010 in the internal controls over financial reporting of the Company.

16. New Accounting Standards and Policies

Financial Instruments

Effective January 1, 2009, Aquila prospectively adopted the new CICA Handbook Sections 3862, *Financial Instruments – Disclosures* and 3863, *Financial Instruments – Presentation.* The purpose of these sections is to enhance the financial statement users' ability to evaluate:

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

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

Capital Management

Effective January 1, 2009, 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 statements, subsequent to a business combination. These standards apply to interim and annual consolidated financial statements relating to fiscal quarters beginning on or after January1, 2011. Earlier adoption is permitted as of the beginning of a fiscal quarter.

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, 2009, 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 quarters 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 second 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 September 30, 2010, 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 IFRSs, 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 September 30, 2010 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 the 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

Aquila and HudBay announced the 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.

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
Edward Munden – Director
Peter M.D. Bradshaw – Chairman of the Board and Director
William J. West – 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. The Company's website is www.aquilaresources.com.