Aquila Resources Inc.

AQUILA RESOURCES INC.
MANAGEMENT DISCUSSION AND ANALYSIS
Year Ended December 31, 2010

Introduction

The following discussion of performance, financial condition and future prospects should be read in conjunction with the audited financial statements of the Company for the year dated December 31, 2010 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 March 31, 2011.

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. The Company also has an Exploration Alliance with HudBay Minerals Inc. to explore for base metals and is active in gold exploration.

On August 6, 2009 Aquila announced a Subscription, Option, and Joint Venture Agreement (the "HudBay 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.

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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 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 and is the primary mineral property of the Company. The Company interest in the project is subject to the HudBay Agreement and is currently 49%. There have been three National Instrument (NI) 43-101 compliant resource estimates for Back Forty. The first was announced by the Company on April 25, 2007. The second resource was dated January 15, 2009. The third Back Forty resource estimate was announced October 15, 2010. The resource estimates are filed with the Company's other public documents at www.sedar.com. The information contained herein is excerpted from the technical reports and other publicly available information.

Ownership of mineral interests are by way of state and private mining leases, private fee surface and mineral ownership, and options to purchase estates subject to underlying royalty interests and applicable minority interests. The entire project is subject to the Option and Joint Venture with HudBay Minerals Inc. and an overriding 7% net distributable earnings royalty ("net profits after payback") payable to a former joint venture partner. The Company has annual commitments for state lease payments and option payments for the property that comprises the Back Forty Project (see Section 10 – *Property*). During the year the Company relinquished certain lands which were periphery to the Back Forty Project. These lands were considered less prospective for exploration.

October 15, 2010 Resource Estimate

The NI 43-101 compliant mineral resource statement 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.

MINERAL RESOURCE STATEMENT* – BACK FORTY DEPOSIT

OCTOBER 15, 2010. GOLDER ASSOCIATES, MISSISSAUGA

Classification	Tonnes (millions)	Variance	Gold (g/t)	Silver (g/t)	Copper (%)	Zinc (%)
Open Pit †						
Measured	14.1	1%	1.59	16.97	0.15	2.54
Indicated	2.1	5%	1.53	32.8	0.41	1.17
Meas.+Ind.	16.2	1%	1.58	19	0.18	2.36
Inferred	1.4	7%	1.4	32.89	0.62	1.0
Underground ‡						
Measured	0.8	0%	1.67	25.83	0.24	3.45
Indicated	0.9	0%	1.28	24.72	0.34	2.85
Meas.+Ind.	1.7	0%	1.46	25.23	0.29	3.13
Inferred	2.0	-18%	1.22	18.34	0.32	2.64
Combined Open Pit and Underground						
Meas.+Ind.	17.9	1%	1.57	19.6	0.19	2.44
Inferred	3.4	-6%	1.31	25.17	0.46	1.87

*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$0.59 per pound lead, US$900 per troy ounce gold and US$15.00 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 six 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 five metallurgical domains based on NSR values, average cut-off grade for underground resources outside of an optimized pit shell is US$62.

January 12, 2009 Resource

A previous resource was calculated on January 12, 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.

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Table 1. Mineral Resource Statement* for the Back Forty Deposit, Michigan, U.S.A. SRK Consulting, January 12, 2009.

Resource Category	Tonnage [t]	Grade: Gold [g/t]	Grade: Zinc [%]	Grade: Silver [g/t]	Grade: Copper [%]	Grade: Lead [%]	Contained Metal: Gold [1000 oz]	Contained Metal: Zinc [M lbs]	Contained Metal: Silver [1000 oz]	Contained Metal: Copper [M lbs]	Contained Metal: 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.

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, as part of the project development, is ongoing.

Exploration Potential

During 2010 the Company continued exploration drilling at the Back Forty. On October 15, 2010 the Company announced the first drill hole from a deep drilling program which commenced in late August 2010 which intercepted two zones of mineralization. An upper zone from 408.5 meters to 414.5 meters returned 8.14 g/t gold 312 g/t silver and 8.0% zinc over 6.02 meters. The lower zone of the hole returned 1.1 g/t gold. 27 g/t silver, 0.41% copper and 1.3% zinc over 69.7 meters. A 6.23 meter interval of the lower zone returned 6.39 g/t gold 94.2 g/t silver between 793.1 and 799.3 meters. This intercept represented a step-out of approximately 100 meters from the modeled edge of the resource to the east. Additional deep drilling results were announced on March 3, 2011 and included 12.0 meters of 15.29 g/t gold and 66.49 g/t silver.

Other exploration targets at depth and along strike from the deposit have been identified and modeled using surface and airborne EM surveys and are potential drill targets. Overall the exploration upside of the project is considered highly prospective.

The Company announced on January 5, 2010 that the 2011 budget for Back Forty is $16 million including $5 million for exploration drilling (24,000 meters) with the balance for development activities for the project.

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.

2. Operating Highlights

During the year ended December 31, 2010 the Company continued activities at the Back Forty Project with Back Forty Project operator HudBay Minerals and also with evaluation of new project opportunities under the Exploration Alliance (for base metals) and for gold.

The Company and HudBay also 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. During the period and 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 year ended December 31, 2010 was $972,275 compared to the net loss of $869,241 for the year ended December 31, 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.

Project Development

Key project activities which were ongoing through the 2010 year 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.

HudBay is the operator at the Back Forty Project. Certain Aquila personnel are seconded to the project and are involved in many aspects of the project on a day to day basis. Final decision making and project development is under the ultimate authority of HudBay.

Exploration Alliance

On October 15, 2011 the Company and HudBay announced the formation of a strategic alliance (the "Exploration Alliance") to explore for base metals in Michigan and other areas mutually agreed upon. As part of the Exploration Alliance, HudBay agreed to make a $2 million equity private placement in Aquila, make a $250,000 cash payment to Aquila and provide funding for qualifying exploration targets. Targets qualifying as alliance targets are to be funded by HudBay until US$2 million have been expended upon which time a 50/50 joint venture would be formed. HudBay will have the right to earn an additional 15% interest in alliance joint ventures by funding the projects through feasibility and permit application.

The Exploration Alliance has acquired a number of properties prospective for base metals. To date, the Company has announced the acquisition of the Sturgeon Falls project in the Upper Peninsula of Michigan where the target is copper-nickel-platinum group metals mineralization and the Turner Peridotite Project located about 70 kilometers north of the Back Forty Project. The target is also copper-nickel-platinum group metals. The Company has completed a VTEM survey over both properties funded by the Exploraton Alliance.

The Company has several other properties in advanced stages of acquisition which are targeted for the Alliance.

Gold Properties

On November 1, 2010 the Company announced that it had acquired under option a package of gold properties located in the Marquette Greenstone Belt of Michigan. The acquisition is part of the Company strategy to diversify its asset base and expand its asset portfolio of exploration interests. The Michigan Gold properties have seen limited exploration work in the past but with promising results. Drilling commenced shortly after acquisition at the Peninsula Property and initial results were announced on March 3, 2011 and included 16.67 meters of 9.47 g/t gold among other intervals near surface. Follow up drilling announced February 8, 2011 included an intercept of 8.02 meters of 18.57 g/t gold. The Peninsula Gold target remains open at depth and along strike. Additional follow up drilling is planned.

On March 7, 2011 Aquila announced the acquisition of the Reef Gold Project located in Marathon County, Wisconsin. Reef hosts a historical gold resource of +10 g/t gold which is open in all directions. The Reef area was the focus of historic exploration by Noranda in the 1970's and 1980's. Aquila acquired 336 acres of mineral rights and 276 acres of privately held surface rights at Reef covering the extent of previous drilling and potential extensions. The first year land payment is $32,217 with future payments at the option of Aquila based on approximately $50 per acre. Aquila has completed a VTEM survey over the Reef Property.

The Company continues to evaluate possible additions to the gold portfolio and has begun land assembly in certain areas.

3. Selected Financial Information

As an exploration company, the Company has no revenue from operations. The Company is dependent on the equity markets to fund its exploration activities. During the year the Company realized interest of $6,857 from funds on deposit.

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

	Year ended December 31, 2010	*Year ended December 31, 2009*
Interest and other income	$(6,857)	$(15,169)
Operating expenses	$979,132	$884,410
Net loss (income)	$972,275	$869,241
Loss per share	$0.01	$0.01
Mining interest	$30,676,113	$30,120,135
Cash	$1,029,747	$1,866,125
Total assets	$32,918,493	$33,229,297

4. Results from Operations

The Company's operations involve exploration of its mineral exploration property located in Menominee County, Michigan. The Company has no income from its operations. During the year ended December 31, 2010 the Company incurred a loss of $0.01 per share (basic and fully diluted). The comparable loss per share for the prior year period 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 funds held on deposit for the year was $6,857 (2009 - $15,169).

6. Expenses

	For the year ending December 31, 2010	For the year ending December 31, 2009
Stock option compensation cost	$ 197,137	$ 344,420
Directors' fees	33,188	Nil
Foreign exchange loss (gain)	(9,489)	31,484
Office, general and administrative	95,168	66,238
Travel and promotion	110,182	25,651
Filing and regulatory fees	32,527	33,569
Consulting fees	56,495	35,700

During the year ended December 31, 2010, the Company incurred total expenses in the amount of $979,132 (2009 - $884,410). Notable expense items and material variance are noted in the table above.

7. Acquisition Costs

Acquisition costs for the Back Forty Project and other projects are capitalized. The Company entered into an Option Agreement on the MRT Property during the third quarter of 2006 and during 2010 the annual required option payment of US$250,000 (2009-US$250,000) was made under the HudBay Agreement. The total option payments remaining to be paid to complete the MRT option are US$7,200,000 through August 2015. The MRT Property and other acquisition costs related to Back Forty are funded under the HudBay Agreement. The Company made additional acquisition costs for other properties which totaled $98,617.

8. Exploration Expenditures

Exploration and development expenditures incurred by Aquila for its sole account (not refunded by HudBay) for the year ended December 31, 2010 were $775,527. Expenditures include acquisition costs and exploration costs for Michigan Gold ($324,904), amounts incurred on Back Forty and not reimbursed by HudBay under the HudBay Agreement ($161,255) and other acquisition and exploration of new properties that totaled $289,368. A total of $161,255 in exploration and project development related expenditures for the Back Forty Project were incurred by the Company and not refunded by HudBay under the HudBay Agreement. These included legal and other discretionary payments made at the option of Aquila. Other expenditures for the project are incurred by HudBay directly or incurred by Aquila and then reimbursed by HudBay. A breakdown of exploration expenses per the above for the year is presented below. The Company also incurred $37,805 in generative activities for Exploration Alliance properties.

	Aquila Property Interests	Back Forty Project (CDN$)
	December 31, 2010	December 31, 2009
Wages	$74,300	$695,948
Assays	11,148	68,267
Geophysics	0	71,147
Drilling	148,141	555,322
Consult/Legal/Environmental	304,980	1,270,825
Operator	27,395	1298

Property Interests	153,963	1,392,857
Administration	12,486	71,802
Scoping Study	0	11,958
Other	43,113	186,949
Total	$775,527	$4,326,373

Under the HudBay agreement some project costs are paid by Aquila and reimbursed by HudBay and some are incurred directly by HudBay. A portion of the office overhead and staff costs are also reimbursed by HudBay. A total of $4,772,140 was expended by HudBay on the Back Forty Project during 2010. Aquila spent $37,805 on generative activities for the Exploration Alliance and received a $250,000 payment from HudBay to offset these expenditures. (not included in the above chart).

9. Summary of Quarterly Results

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

Quarterly Financial Information (unaudited)

		2010 Q4		**2010 Q3**		**2010 Q2**		**2010 Q1**
(a) Interest and Other Income	$	2,027	$	1,600	$	1,636	$	1,594
(b) Net Income (loss)	$	(323,984)	$	(164,758)	$	(282,099)	$	(201,434)
(c) Net Income (loss) per share (Basic)	$	(0.01)	$	(0.01)	$	(0.01)	$	(0.01)

		2009 Q4		**2009 Q3**		**2009 Q2**		**2009 Q1**
(a) Interest and Other Income	$	2,858	$	4,432	$	2,777	$	5,102
(b) Net Income (loss)	$	572,463	$	(869,241)	$	(137,349)	$	(435,114)
(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 year the Company utilized cash on hand and funds from HudBay under the HudBay Agreement to fund operations. The cash balance as at December 31, 2010 was $1,029,747 (2009 - $1,866,125). A C$2 milliion private placement was completed under the terms of the Exploration Alliance and announced February 16, 2011. After the private placement HudBay owned 16.92% of the outstanding common shares of Aquila. The private placement was completed at the volume weighted 20 day moving average price of Aquila for the 20 trading days ended February 7, 2011 ($0.8916 per common share).

Liabilities at December 31, 2010 consist of short term trade payables and accrued liabilities of $384,952 (2009 - $108,733). Amounts due from HudBay of $62,012 (2009-$88,846) were included in year end accounts receivable.

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

Operations

The Company has 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$ 1,733,789 for fiscal year 2011. HudBay will reimburse the Company for these expenditures under the terms of the HudBay Agreement. This amount is subject to change.

Estimated future commitments annually for the Michigan Gold are $128,120 in 2011.

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

11. Share Capital

Common Shares

As at December 31 2010 there were 82,656,711 (2009-81,770,529) common shares of the Company outstanding. Shares were issued for the exercise of incentive stock options.

Warrants

There are no warrants or broker warrants that were issued during the year or outstanding as at December 31, 2010 (2009 – NIL).

Options

There are a total of 5,363,818 stock options outstanding at December 31, 2010 with exercise prices ranging from $0.15 to $2.15. During the year 886,182 options were exercised 1,455,000, options expired and Nil new options were granted.

12. Off-Balance Sheet Arrangements

As at December 31, 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 year are considered in the normal course of business and are billed at market rates.

For the year ended December 31, 2010, management fees amounting to $103,875 (2009 - $52,500) were charged by a company controlled by the CFO and director of the Company.

During the year the President and CEO and other related parties received remuneration consisting of management fees and salary. Total remuneration was $327,800 (2009-$285,133).

A total of US$226,325 (2009 – US$82,441) was charged to the operations at the Back Forty Project by a geological consulting company of which the President and CEO and another director are major shareholders. A management fee calculated on a percentage of wages payable was included in the amount charged by the geological consulting company to the Company.

During the year the Company expensed Directors' fees totalling $33,804 (2009 - $Nil) by non-executive directors.

During the period, the Company was charged legal fees totaling $38,503 (2009 - $91,090) by a law firm whose partner is an officer of the Company. A portion of the fees have been capitalized.

Rental expenditures in the amount of $14,400 (2009 - $22,591) 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&A's, Annual Information Forms and other documents and external communications.

As required by CSA Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures was conducted, under the supervision of Management, including the CEO and CFO, as of December 31, 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 December 31, 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, 2010 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, 2010.

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

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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.

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") and the Accounting Standards Board (Canada). These IFRS-compliant accounting policies will be presented and discussed with management and the Audit Committee of the Board of Directors.

As of December 31, 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 has substantially been completed, but may be subject to changes as the Company completes the implementation phase of the project, and where IFRS standards are likely to change.

The International Accounting Standards Board has a number of ongoing projects, the outcome of which may have an effect on the changes required to the Company's accounting policies on adoption of IFRS. At the present time however, the Company is not aware of any significant expected changes that would affect the summary provided below. As an update to our previously filed annual and quarterly MD&A's, the following provides a summary of the Company's evaluation of potential changes to accounting policies in key areas based on the current standards and guidance within IFRS.

Mineral properties

- Upon transition to IFRS, the Company will retain its accounting policies and practices it has applied previously under Canadian GAAP, relating to the recognition of mineral properties. It will continue to capitalize exploration and evaluation ("E&E") expenditures under IFRS, and classify them as either tangible or intangible assets, according to their nature, as required by IFRS. The Company is currently evaluating whether there may be any general expenses that are not directly attributable to any specific mineral property, and determine their appropriate accounting treatment under IFRS.

- IFRS 6, *Exploration for and Evaluation of Mineral Resources* applies only to the exploration and evaluation ("E&E") stage, and does not apply to the development and production stages of the mineral reserves development process. Additionally when the technical feasibility and commercial viability of extracting mineral resources is demonstrable, IFRS 6 requires exploration and evaluation assets to cease being classified as such. However as this would be outside the scope, IFRS 6 does not specify where they can be reclassified. It is an accounting policy choice that is available to the Company, which needs to be clearly stated and applied consistently. The choice is again between capitalizing the assets as either tangible or intangible assets. The Company is currently in the process of establishing whether the technical feasibility and commercial viability has been achieved mainly for its Back Forty Project, and it will adopt the policy to move all E&E expenditures to tangible property, plant and equipment upon transfer of assets into the development phase.

- The Company will continue to use the cost model for its mineral properties, and not apply the revaluation model available under IFRS.

Property and Equipment

- In view of the component accounting that is strictly applied under IFRS, the Company evaluated if items of property and equipment would need further componentization, and noted that there were no material components that need to be accounted for and depreciated separately.

- The Company has also established a policy to review residual value, the useful life and depreciation method annually for its property and equipment.

- The Company will continue to use the cost model for its property and equipment, and not apply the revaluation model available under IFRS.

Impairment of Assets

- The Company is currently in the process of evaluating whether there would be any asset impairment at the transition date under IFRS. In assessing whether there is any indication that an asset may be impaired, an impairment test should be performed; consideration would be given to the external and internal sources of information, as prescribed by IAS 36, *Impairment of Assets*. Impairment under IFRS is recognized if the carrying amount exceeds the higher of fair value less cost to sell, or value in use.

Foreign Currency Translation

- IFRS does not distinguish types of foreign operations as integrated or self-sustaining. However, the relationship between the entity and its foreign operation is a factor in determining the functional currency of the foreign operation, which is assessed separately from that of the parent. Applying the primary indicators in IAS 21, *The Effects Of Changes In Foreign Exchange Rates*, the Company determined its functional currency would change to US dollar.

Share Based Payments

- Under IFRS, each vesting group of stock options is treated as a distinct award / tranche and the value would be measured and recorded over the respective vesting period. Additionally, an estimate of expected forfeitures would be required when determining the amount of expense to be recorded for the unvested portion as at transition date, as well as going forward.

- The Company is currently in the process of reviewing any stock options that remain unvested at January 1, 2010, and adjust the recording of the expense based on the IFRS requirement.

Income taxes

- IFRS requires the recognition of deferred taxes in certain 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.

- The Company does not expect any impact relating to the adoption of the IFRS standard on income taxes.

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.

- The Company does not expect substantial changes on the presentation of expenses whether by nature or by function on the face of the consolidated statement of loss.

IFRS 1, First Time Adoption of IFRS

Upon transition, the Company will not elect to measure mineral properties and property and equipment at their deemed cost equivalent to fair value as at January 1, 2010 or revalue amounts previously determined under Canadian GAAP. Accordingly, it will use the carrying values as the IFRS balances as at January 1, 2010.

Share-based payments
IFRS 1 provides an exemption that allows entities not to apply IFRS 2, *Share-based Payment* to options granted before November 2002, as well as to options granted after November 2002, but vested prior to transition. The Company has elected to take this exemption

17. Risks and Uncertainties

The Back Forty Project is the material mineral project of the Company and 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. The following are not an exhaustive list of the risks associated with the business.

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 in its sole discretion. The Company would pursue alternative sources of funding in the event that HudBay terminated the Agreement.

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.

18. Subsequent Events

See Note 16 to audited financial statements.

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

Alvin W. Jackson and Michael L. Surratt did not stand for reelection at the annual meeting of the Company during 2010.

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 website is www.aquilaresources.com