AQUILA RESOURCES INC.
MANAGEMENT DISCUSSION AND ANALYSIS
Period Ended March 31, 2010

The following discussion of performance, financial condition and future prospects should be read in conjunction with the audited annual financial statements of the Company for the year dated December 31, 2010 and the unaudited interim consolidated financial statements of the Company dated March 31, 2011 which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A includes certain statements that may be deemed "forward looking statements". All statements in this discussion other than statements of historical fact, that address future exploration activities and events or developments that the Company expects, are forward looking statements. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in the forward-looking statements. Additionalinformation including the Annual Information Form can be found on SEDAR www.sedar.com. This Management Discussion and Analysis (MD&A) is dated June 14, 2011.

CORPORATE HIGHLIGHTS

- Three drills continue exploration drilling at Back Forty; trade off studies continue
- Initial drill results at Michigan Gold Property favourable, including 8.0 meters of 18.57 g/t gold
- Exploration Alliance, funded by HudBay, acquires new properties
- Aquila acquires Reef Gold Project with historical resource
- Company continues diversification strategy

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 asset of the Company is the exploration and development of its interest in 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 or Agreement ") with HudBay Minerals Inc. ("HudBay") (TSX: HBM, NYSE: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 formed between the parties. HudBay is operator for the joint venture and will have marketing rights to the metal production. On October 15, 2011 HudBay subscribed for an additional private placement of 2,226,514 common shares in Aquila for cash proceeds of C$1,985,160 and also entered into an Exploration Alliance with the Company. The Exploration Alliance was formed to jointly acquire and explore for base metal mineral properties.

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 interest 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.

Aquila Resources Inc.

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*). The Company has 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.

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

SRK Consulting, January 12, 2009.

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

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

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

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

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

The Company has completed and 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.

A program of metallurgical drilling to provide additional drill core for metallurgical test work has also been completed. Holes were targeting gold mineralized gossans, the 90 Gold Zone, and the NS Gold Zone and in general confirmed the robust and predictable nature of these near surface zones.

Notably, drill hole METNQ-13 testing the NS Gold Zone, intercepted 38.1 meters of continuous gold mineralization, averaging 16.11 g/t gold, including nine meters of 26.28 g/t gold. Although this does not represent a true thickness, it illustrates the strong gold content of the Back Forty deposit.

Exploration Potential

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

The Company had previously announced on October 15, 2010 the first drill hole from a deep drilling program which commenced in late August 2010. LK-479 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 from 708 to 720 meters which included 6.0 meters 24.85 g/t gold and 91.73 g/t silver. This interval occurs 250 meters downdip of previously modeled resource and is located approximately 32 meters northeast of a 6.23 meter of 6.39 g/t gold intercept in LK-479.

The Company also identified drill targets to the east of the known deposit through airbourne and ground based geophysics.

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 quarter ended March 31, 2011 the Company continued activities at the Back Forty Project with Back Forty Project operator HudBay Minerals and also with evaluation and exploration of new project opportunities under the Exploration Alliance (for base metals) and for gold.

HudBay is the operator of the Back Forty Joint Venture and is responsible for all decisions made at the project including budget allocations for exploration and project development. HudBay recently announced that the expected timeline for completion of a feasibility study and permitting is the second quarter of 2012. Previously it had been announced that the target date was the end of 2011 to reach these milestones.

When HudBay completes the feasibility study and permitting applications its interest in the project increases to a minimum of 65%. Currently the interest of HudBay is 51%. HudBay is responsible for funding all expenses at the project (other than minimum holding costs) until such time as the feasibility study and permitting applications are submitted. Until such time as profitable production commences from the Back Forty Project, and any amounts due to HudBay have been repaid, the Company will have no source of revenue from the Back Forty Project .

The net loss recorded by the Company for the quarter ended March 31, 2011 was $1,521,300 compared to the net loss of $228,424 for the period ended March 31, 2010.

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 2010, continued in the first quarter of 2011. These activities included baseline environmental monitoring, metallurgical testwork, geotechnical studies, cultural studies, resource modeling and trade off studies. 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 including the state level.

The Company noted in its press release of July 29, 2010 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.

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. Under the terms of the HudBay Agreement a Michigan limited liability company will be formed to hold the Back Forty assets and conduct business.

Exploration Alliance

On October 15, 2011 the Company and HudBay announced the formation of an exploration 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 US$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. On March 3, 2011 the Company 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 at Turner is also copper-nickel-platinum group metals. The Company has completed a VTEM survey over both properties funded by the Exploration 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 historical exploration results.

On January 5, 2011 the Company announced that it had completed an initial 20 widely spaced holes at its Michigan Gold Project. The Michigan Gold Project consists of a number of gold prospects in the Marquette Greenstone Belt in the Upper Peninsula of Michigan. The project is approximately 70 km north of the Back Forty Project and 3 km west of the Ropes Gold Mine, a former gold producer most recently operated in the 1980's by Callahan Mining Corp.

Initial drilling at the Peninsula target focused on a zone of shearing, silicification, and gold mineralization partially defined by Callahan Mining during the operation of the Ropes Mine. The current drilling was designed to further define and expand the Peninsula Shear Zone, and encountered a zone of shearing, brecciation and quartz carbonate veining. The 20 holes were drilled over a strike length of approximately 300 meters. Results for the initial 20 drill holes included some impressive intercepts which included the following.

- 4.48 grams/tonne (g/t) gold over 3.08 meters in Pen 10-9
- 3.72 g/t gold over 4.88 meters in Pen 10-10
- 9.47 g/t gold over 16.67 meters in Pen 10-11
- 8.62 g/t gold over 2.88 meters in Pen 10-13
- 18.57 g/t gold over 8.0 meters in Pen 10-14
- 35.93 g/t gold over 4.5 meters in Pen 10-20

Aquila's strategy for its Michigan Gold Project is to demonstrate the highly prospective nature of the Marquette Greenstone Belt and to build significant gold resources in the area. Follow-up drilling is planned.

Aquila also announced results of a six hole drilling program at the Silver Creek prospect in the Marquette Greenstone Belt in the Upper Peninsula of Michigan. The most significant intercept to date of 45.5 meters of 0.49 g/t gold is considered encouraging to warrant further exploration. Significant intercepts include 45.5 meters of 0.49 g/t gold including 8.45 meters of 1.22 g/t gold and 1.95 meters of 2.93 g/t gold in SC-11-01.

Reef Gold Property

On March 7, 2011 Aquila announced the acquisition of the Reef Gold Project which is located in Marathon County, Wisconsin. The Reef hosts a high grade (+10 g/t gold) historical resource which is open in all directions with the potential for significant expansion. The acquisition of Reef is part of a broader strategy to accumulate 100% owned high quality gold assets in the Great Lakes region.

The Reef area was the focus of historic exploration by Noranda Exploration and others in the 1970's and 1980's. Noranda identified several zones of gold mineralization in the Reef area and calculated a non-NI 43-101 compliant historic resource estimate of 454,600 tons of 10.6 g/t gold and 0.28% copper. In the resource estimate, mineralization at the Reef consists mostly of pyrrhotite, pyrite, and chalcopyrite with native gold, electrum, and telluride minerals within quartz-sulfide veins and vein selvages. Other, minor sulfides, include sphalerite, chalcocite, cubanite, and rare molybdenite. Using a cut-off of 3.4 g/t gold individual lenses have an average true thickness of 2.4 meters with reported grades ranging from 3.4 g/t to 47 g/t.

Aquila believes the mineral resource estimate is relevant and is based on a reliable historical report. The Company has acquired and verified Reef drill core for geological characteristics and gold content.

Aquila's review of historic drilling information has determined that projections of the mineralized zones to surface, at depth, and along strike leave significant room for resource expansion. A 2,500 meter, 17 hole drilling program is planned to define the extent of mineralization. The initial focus of drilling will target extensions of previously identified gold zones to surface where oxidation and weathering may have produced enrichment and elevated gold grades.

Aquila has acquired privately held surface and mineral rights at Reef covering the extent of previous drilling and potential extensions of mineralization. The mineral rights acquired by Aquila enable it to acquire a 100% interest in the property which is subject only to the land owners 2% production royalty. The first year land payments are $32,217 with future payments at the option of Aquila based on an approximate cost of $50 per acre. Aquila has now completed a VTEM airborne geophysical survey over the project area to guide further exploration and evaluate the excellent potential for additional gold and base metal mineralization.

The State of Wisconsin hosts several significant unmined ore deposits and presents significant opportunities for mineral development. In recent years mining projects have not been permitted in Wisconsin. Aquila intends to be a first mover in the state to acquire mineral properties and work towards permitting and commercial development.

The Company continues to evaluate possible additions to the gold portfolio in various parts of the continental United States 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 three month period the Company realized interest of $1,540 from funds on deposit.

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

	Period ended March 31, 2011	*Period ended March 31, 2010*
Interest and other income	1,540	1,500
Operating expenses	*$* 1,522,840	$ 229,924
Net loss (income)	$1,521,300	$ 228,424
Loss per share	$0.01	0.01
Mining interest	$ 30,083,582	$ 28,994,975
Cash	$ 1,426,783	$ 1,421,142
Total assets	$ 33,430,342	$ 31,772,122

4. Results from Operations

The Company's operations involve management of its interest in the Back Forty Project is located in Menominee County, Michigan. In addition, the Company is involved in acquisition and development of base metal projects in Michigan and the Great Lakes region under an Exploration Alliance funded by HudBay Minerals Inc. The Company is also involved in the acquisition and exploration of gold properties in the United States. The Company has no income from its operations. During the first quarter period ended March 31, 2011, 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.

6. Expenses

	For the 3 month period ending March 31, 2011	For the 3 month period ending March 31, 2010
Stock option compensation cost	$ 1,363,681	$ 27,998
Directors' fees	11,789	18,013
Foreign exchange loss (gain)	(239,454)	10,803
Office, general and administrative	19,556	14,773
Travel and promotion	43,433	12,074
Filing and regulatory fees	34,818	18,726
Consulting fees	33,976	8,646

During the three month period ended March 31, 2011 the Company incurred total expenses in the amount of $1,522,840 (2010 - $229,924). 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 2010 payment of US$250,000 was due and paid August, 2010. The 2011 payment for the MRT Property is US$1,440,000. 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.

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8. Exploration Expenditures

Exploration and development expenditures incurred by Aquila for its sole account (not refunded by HudBay) for the period ended March 31, 2011 were $14,372. Expenditures for Michigan Gold were US$284,127, and Reef US$88,471, as well as generative projects in the amount of $44,970.

	Aquila Property Interests (excludes Back Forty and Exploration Alliance)
	March 31, 2011
Wages	63,145
Assays	39,970
Geophysics	0
Drilling	148,209
Consult/Legal/Environmental	66,857
Operator	4,159
Property Interests	19,100
Administration	8,542
Scoping Study	0
Other	67,586
Total	$417,568

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.

9. Summary of Quarterly Results

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

Quarterly Financial Information (unaudited)

		2011 Q1		2010 Q4		2010 Q3		2010 Q2
(a) Interest and Other Income	$	1,540	$	1,667	$	1,667	$	1,821
(b) Net Income (loss)	$	(1,521,300)	$	(244,979)	$	(114,253)	$	(210,592)
(c) Net Income (loss) per share (Basic)	$	(0.01)	$	(0.01)	$	(0.01)	$	(0.01)

		2010 Q1		2009 Q4		2009 Q3		2009 Q2
(a) Interest and Other Income	$	1,500	$	1,664	$	1,663	$	1,663
(b) Net Income (loss)	$	(228,424)	$	549,679	$	(455,592)	$	(131,882)
(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 proceeds of a private placement from HudBay to fund operations. The cash balance as at March 31, 2011 was $ 1,426,783 (2010 - $1,421,142). 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).
Accounts receivable at March 31, 2011 include $944,392 due from HudBay.

Liabilities at March 31, 2011 consist of short term trade payables and accrued liabilities of $154,976 (2010 - $196,905).

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, the Exploration Alliance 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 lease 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 as well as its other properties. 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. The MRT Property payment for 2011 due in August is $1,440,000. HudBay will reimburse the Company for these expenditures under the terms of the HudBay Agreement.

Estimated annual commitments for the Michigan Gold Project are $103,120 and for the Reef Gold Project is $44,312 in 2011.

The Company anticipates that it will acquire additional land in the future. For Back Forty under the terms of the HudBay Agreement, funding could come from HudBay. Property acquisitions and expenditures under the Exploration Alliance are funded by the Company and reimbursed by HudBay. The Company will continue to incur acquisition costs for its 100% gold property interests.

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 March 31, 2011 there were 84,996,850 common shares of the Company outstanding (December 31, 2010 – 82,656,711). Shares were issued for the private placement with HudBay (2,226,514) as well as option exercise (113,625). There are currently 86,196,860 shares outstanding. Subsequent to March 31, 2011, 1,200,000 shares were issued for exercise of options.

Warrants

There are no warrants or broker warrants that were issued during the period or outstanding as at March 31, 2011 (March 31, 2010 – Nil).

Options

There are a total of 7,000,193 stock options outstanding as at March 31, 2011 with exercise prices ranging from $0.15 to $2.15. During the three month period 113,625 options were exercised options expired and 1,750,000 new options were granted. There are currently 5,300,193 options outstanding after the exercise of options after quarter end and expiry of 500,000 options.

12. Off-Balance Sheet Arrangements

As at March 31, 2011 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 quarter ended March 31, 2011 management fees amounting to $17,039 (2010 - $9,006) 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 $125,192 (2010-$60,000).

A total of $58,942 (2010–$90,030) 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 $11,789 (2010-$18,013) by non-executive directors.

During the period, the Company was charged legal fees totaling $26,555 (2010-$2,202) 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 $3,651 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 March 31, 2011. 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 annual filings. Copies of these certifications may be found on SEDAR at www.sedar.com.

Internal Control over Financial Reporting

Management 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. Based on a review of its internal control procedures at the end of the period covered by this MDA the conclusion of management was that the internal control is appropriately designed and effective as of March 31, 2011.

16. New Accounting Standards and Policies

IFRS 1, First Time Adoption of IFRS

First-time adoption of IFRS:

The adoption of IFRS requires the application of IFRS 1, which provides guidance for an entity's initial adoption of IFRS on the first date at which IFRS was applied, which was January 1, 2010 ("Transition Date"). IFRS 1 generally requires retrospective application of IFRS as effective at the end of its first annual IFRS reporting period. However, IFRS 1 also provides certain optional exemptions and mandatory exceptions to this retrospective treatment.

IFRS 1 does not permit changes to estimates that have been previously made. Accordingly, estimates used in the preparation of the Company's opening IFRS statements of financial position as at the Transition Date are consistent with those that were made under Canadian GAAP.

On the Transition Date, the Company has elected not to retrospectively apply IFRS 2, Share-based Payments ("IFRS 2") to all share-based transactions at the date of transition. IFRS 2 will only be applied to equity instruments issued on or after, and that have not vested by the Transition Date.

Changes to accounting policies:

The Company has changed certain accounting policies to be consistent with IFRS as is expected to be effective or available for adoption on December 31, 2011, the Company's first annual IFRS reporting date. However, these changes have not resulted in any significant change to the recognition and measurement of assets, liabilities, equity, revenue, and expenses within the Company's interim consolidated financial statements.

The following summarizes the results and adjustments to the Company's interim consolidated financial statements upon adoption of IFRS:

a) Share-based payments

IFRS 2 requires each vesting tranche to be valued with unique assumptions, as if it were a separate grant, along with estimates on forfeitures based on historical trends experienced by the Company. Under IFRS, when a share-based payment award vests in instalments over the vesting period (graded vesting), each instalment is accounted for as a separate arrangement. Under Canadian GAAP, an entity can elect to treat the equity instruments as a pool and determine fair value using the average life of the instruments, and recognize the compensation cost on a straight-line basis, subject to at least the value of the vested portion of the award being recognized at each reporting date. Under IFRS, the Company uses an estimate of forfeitures based on historical trends experienced by the Company. Under Canadian GAAP no estimate was used, but rather actual forfeitures were accounted for as they occurred.

b) Foreign currency translation

The Company and its subsidiares determined that their functional currency is US Dollars, previously it was Canadian Dollars under Canadian GAAP. Accordingly, the exchange differences resulting from the changes in functional currency were adjusted against deficit on the date of transition.

c) Presentation

The presentation in accordance with IFRS differs from the presentation in accordance with Canadian GAAP. Please refer to the interim consolidated statements of financial position and interim consolidated statements of operations, comprehensive loss and deficit for the impact of the specific IFRS changes noted above.

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 at 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. 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.

19. Additional Information

Additional information about the Company including financial statements, press releases and other filings are available on SEDAR at www.sedar.com. The Company website is www.aquilaresources.com.