



AQUILA RESOURCES INC.
MANAGEMENT DISCUSSION AND ANALYSIS
Period Ended September 30, 2011

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 ended December 31, 2010 and the unaudited interim consolidated financial statements of the Company dated September 30, 2011 which have been prepared in accordance with International Financial Reporting Standards (“IFRS”). This Management Discussion and Analysis (“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. Additional information including the Annual Information Form can be found on Sedar at www.sedar.com. MD&A is dated (November 14, 2011).

CORPORATE HIGHLIGHTS

- Continued development of 100% gold properties with drilling programs at both the Reef Project and Peninsula Project
- Project development activities continue at the Back Forty Project under project operator HudBay Minerals Inc.
- Economic guidance expected on the Back Forty Project by year-end
- Drilling continued at the Back Forty Project (funded by HudBay) with impressive intercepts
- Exploration Alliance continues property evaluation and development (funded by HudBay) - four projects under active exploration

1. Overview

Aquila Resources Inc. (formerly JML Resources Ltd. ó òthe Companyö or òAquilaö) 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 assets of the Company are: i) its interest in the Back Forty Project located in Menominee County, Michigan, a joint venture with HudBay Minerals Inc., ii) its interest in exploration properties subject to an Exploration Alliance with HudBay Minerals Inc. and iii) its gold exploration properties.



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 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 the time, 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 was formed between the parties. HudBay is operator for the joint venture and will have marketing rights to the metal production. On October 15, 2010 HudBay announced it would subscribe for an additional \$2 million private placement of 2,226,514 common shares in Aquila which was finalized on February 16, 2011. HudBay and Aquila also announced an Exploration Alliance. 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 ownership interest in the project is subject to the HudBay Agreement and is currently at 49%. There have been three National Instrument (NI) 43-101 compliant resource estimates for the Back Forty Project. The first was announced by the Company on April 25, 2007, the second was dated January 15, 2009, and the third 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 (ōnet profits after paybackō) 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 ó *Property*). The Company has relinquished certain lands which were periphery to the Back Forty Project as 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. GOLDR 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 r						
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.

r 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), showing 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.**

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

On April 19, 2011 the Company announced that 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 the Back Forty Project was \$16 million including \$5 million allocated for exploration drilling (24,000 meters). The balance was for development activities for the Back Forty Project.

The Back Forty Project has further exploration potential at depth. A number of excellent drill intercepts at depth will require further follow up.

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 September 30, 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) as well as at its 100% owned gold properties.

HudBay is the operator of the Back Forty Joint Venture and is responsible for all decisions made at the Back Forty Project including budget allocations for exploration and project development. HudBay has announced that the expected timeline for completion of economic guidance for the Back Forty Project is by the end of 2011. Further important milestones include the completion of a prefeasibility study, a feasibility study, as well as completion and submission of permit applications.



When HudBay completes the feasibility study and permitting applications, its interest in the project will increase to 65%. Currently the interest of HudBay is 51%. HudBay is responsible for funding all expenses at the Back Forty Project 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 September 30, 2011 was \$372,964 compared to a loss of \$361,242 for the quarter ended September 30, 2010.

The Company is a reporting issuer in Ontario, British Columbia, Alberta, Saskatchewan and Nova Scotia. The Company listed on the TSX in 2007. Previously the Company was listed on the TSX Venture Exchange. The Company commenced trading on the OTCQX on June 6, 2011 under the symbol *ãAQARFö*.

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

During the third quarter the project operator continued with activities to progress the Back Forty Project. HudBay Minerals Inc., the project operator, is expected to provide economic guidance on the Back Forty Project sometime around the end of 2011. HudBay and Aquila anticipate completing an Operating Agreement that would see the respective ownership interests of HudBay and Aquila in the Back Forty Project transferred to a Michigan limited liability company. Project development decisions would remain under the ultimate authority of HudBay.

Exploration

During the third quarter new drill intercepts were announced from the Back Forty Project. Highlights from new intercepts include:

- 9.12 meters of 1.21% copper and 6.24% zinc in LK-501
- 24 meters of 1.02 g/t gold and 108.11 g/t silver in LK-502
- 51.05 meters of 1.45 g/t gold and 54.89 g/t silver in LK-504
including 7.60 meters of 7.33 g/t gold and 190.20 g/t silver



Full results from the first twelve holes are as follows:

DDH	From (m)	To (m)	Interval (m)	Gold g/t	Silver g/t	Copper %	Lead %	Zinc %
LK-498	311.00	378.50	67.50	0.28	10.95	0.01	0.14	0.46
LK-499	59.00	94.00	35.00	0.66	13.57	0.01	0.09	0.17
	145.81	156.50	10.69	0.67	17.65	0.01	0.44	0.85
	230.00	241.62	11.62	2.92	54.58	0.14	0.28	0.52
LK-500	373.72	426.50	52.78	0.26	7.07	0.01	0.08	0.58
LK-501	13.53	39.00	25.47	0.83	2.39	0.02	0.05	0.01
	279.91	326.50	46.59	1.60	15.65	0.63	0.07	3.03
<i>Including</i>	279.91	289.03	9.12	2.35	28.29	1.21	0.04	6.24
LK-502	37.00	61.00	24.00	1.02	108.11	0.01	0.21	0.76
<i>Including</i>	669.27	681.27	12.00	1.90	96.99	0.01	1.17	1.42
LK-503	2.99	19.50	16.51	0.53	0.52	1.19	0.62	1.16
	295.78	343.96	48.18	1.56	16.87	0.22	0.09	2.45
<i>Including</i>	319.78	338.63	18.85	2.66	26.36	0.32	0.20	1.40
	640.25	677.56	37.31	1.18	9.45	0.45	0.01	0.05
LK-504	367.05	418.10	51.05	1.45	54.89	0.01	0.33	0.57
<i>Including</i>	410.50	418.10	7.60	7.33	190.20	0.06	1.70	1.53
LK-505	No	Significant	Values					

Drill holes LK-498, 500, 504 and 505 were intended to investigate the mineralized Tuff Zone found in LK-479. LK-499 was a step-out drill hole to the west designed to further define the South Limb Massive Sulfide Zone. LK-501 targeted the zinc-rich upper portion of the Deep Zone. LK-502 and 503 were designed to test downhole geophysical responses previously detected in LK-479 and 484. With the additional results from drill hole LK-503, initial correlation and modeling of the deep massive sulfide horizon in LK-479, LK-493, and LK-503 indicates a sheet-like body dipping 67 degrees to the southeast (azimuth 110 degrees). The gold zone intersected in LK-484 appears to correlate with the deep massive sulfide horizon identified in LK-479, LK-493 and LK-503. Ongoing deposit modeling and correlation will further define this potentially new mineralized horizon as well as the mineralized Tuff Zone encountered in LK-547.

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.

Update of Exploration Alliance Activities

Aquila has received final VTEM airborne geophysical results for two of four Strategic Alliance projects with Alliance partner HudBay Minerals Inc. Interpretation of the airborne results, including a detailed analysis of conductive responses was completed by HudBay geophysicists for the Sturgeon Falls area and the Turner Peridotite ó both located in the Upper Peninsula of Michigan. Both targets contain multiple conductive zones associated with mafic and ultramafic intrusive rocks untested by previous drilling. Land acquisition and ground geophysical follow-up are underway. Final VTEM results and interpretation are pending for two additional Alliance targets in Minnesota and Wisconsin. No additional disclosure was made on the Alliance Properties during the third quarter of 2011.

Aquila Gold Properties

Michigan Gold

The Michigan Gold Property is part of a package of gold properties located in the Marquette Greenstone Belt of Michigan which were acquired in November of 2010. 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 drill 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 1980s 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 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 including:

- 4.48grams/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

An additional series of drill holes have been completed at the Peninsula target of the Michigan Gold Project and results are currently pending.

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 based on the results of drilling completed to date.

Reef Gold

Drill results were announced from the Reef Project in the third quarter of 2011. Initial highlighted assay results from the Reef Gold Project announced on September 29, 2011 include:

- 3.0 meters of 8.12 g/t gold in GBP-3
- 12.47 meters of 1.07 g/t gold in R11-6
- 10.50 meters of 1.70 g/t gold in R11-9
- 14.76 meters of 14.41 g/t gold and 0.30% copper in R11-11, *including 9.26 meters of 21.28 g/t gold and .33% copper*

The assay results were from 12 holes that were drilled to the southwest of the existing historical resource. Results were considered encouraging as the same style of mineralization noted in the historical resource was encountered. Further drill results are pending from the Reef Project.

Aquila originally announced the acquisition of the Reef Gold Project on March 7, 2011. The project is located in Marathon County, Wisconsin. The Reef Project 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 the Reef Project is part of a broader strategy to accumulate 100% owned high quality gold assets in the Great Lakes region.

The Reef Project 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 Project 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 Project 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.

Aquila has acquired privately held surface and mineral rights at the Reef Project, 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 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 ended September 30, 2011 the Company realized interest of \$1,759 from funds on deposit.

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

	<i>Quarter ended September 30, 2011</i>	<i>Quarter ended September 30, 2010</i>
<i>Interest and other income</i>	\$1,540	\$1,441
<i>Operating expenses</i>	374,504	362,683
<i>Net loss</i>	372,964	361,242
<i>Basic and fully diluted loss per share</i>	-	-
<i>Mining interest</i>	29,269,376	27,749,747
<i>Cash</i>	884,920	1,337,803
<i>Total assets</i>	31,373,717	30,082,329



4. Results from Operations

The Company's operations involve management of its interest in the Back Forty Project 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 third quarter period ended September 30, 2011 the Company incurred a loss of \$Nil per share (basic and fully diluted). The comparable loss per share for the prior year period was \$Nil.

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 September 30, 2011	For the 9 month period ending September 30, 2011
Foreign exchange (gain) loss	\$ 91,458	\$ 64,197
Management fees	13,035	47,761
Office, general and admin	38,058	87,557
Professional fees	43,132	177,844
Salaries and benefits	101,615	336,903
Stock-based compensation	-	1,363,381
Travel and promotion	42,301	85,836

During the three month period ended September 30, 2011 the Company incurred total expenses in the amount of \$374,504 (2010\$362,683) and for the nine month period then ended \$2,402,962 (2010 - \$406,444). Notable expense items are outlined 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 2011 payment for the MRT Property is US\$1,440,000 and has been paid. The total option payments remaining to be paid to complete the MRT option are US\$5,760,000 through August, 2015. The MRT Property and other acquisition costs related to the Back Forty Project are funded under the HudBay Agreement.



8. Exploration Expenditures

Presented below are Exploration expenditures incurred by Aquila for its sole account (not refunded by HudBay) for the three and nine month periods ended Sept 30, 2011 of \$1,132,709 and \$1,750,164 respectively (2010 - \$59,451 and \$99,451 respectively). Expenditures split out by projects for nine months during 2011 are as follows: Michigan Gold - \$971,638; Reef - \$666,213; and Other - \$112,313.

	For the 3 months ended September 30, 2011	For the 9 months ended September 30, 2011
Wages	\$ 113,608	\$ 197,462
Assays	120,043	164,824
Geophysics	-	122,456
Drilling	477,995	697,885
Consult/Legal/Environmental	32,718	35,032
Operator	100,986	109,384
Property Interests	287,359	423,121
Total	\$ 1,132,709	\$ 1,750,164

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 Q3	2011 Q2	2011 Q1	2010 Q4
(a) Interest and Other Income	\$ 1,540	\$ 1,759	\$ 1,540	\$ 2,052
(b) Net Income (loss)	\$ (372,964)	\$ (503,858)	\$ (1,521,300)	\$ (287,151)
(c) Basic and fully diluted loss per share	\$ 0.00	\$ (0.01)	\$ (0.01)	\$ (0.01)

	2010 Q3	2010 Q2	2010 Q1	2009 Q4
(a) Interest and Other Income	\$ 1,441	\$ 1,662	\$ 1,500	\$ 3,030
(b) Net Income (loss)	\$ (361,242)	\$ 187,826	\$ (228,424)	\$ 168,228
(c) Basic and fully diluted loss per share	\$ 0.00	\$ 0.00	\$ (0.01)	\$ 0.00

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.

The Company uses cash on hand to fund operations. The cash balance as at September 30, 2011 was \$884,920 (2010-\$1,337,803). The most recent private placement was completed with HudBay Minerals 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).

At September 30, 2011 the company had a balance due from HudBay Minerals of \$227,000 (2010 - \$46,000).

Liabilities at September 30, 2011 consist of short term trade payables and accrued liabilities of \$325,201 (2010- \$67,949).

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 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 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 of 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 the surface and/or mineral rights for a price based on market price at the



time of purchase. 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(\$1,440,000) was paid to the optionor by the Project Operator.

Estimated lease, option and property acquisition costs for the Michigan Gold Project of \$327,000 are due in 2011, of which \$210,000 have been paid year to date. Estimated lease option payments for the Reef Gold Project of \$55,000 are due in 2011 of which \$39,000 has been paid year to date.

The Company anticipates that it will acquire additional land and mineral rights in the future. For Back Forty Project acquisitions, under the terms of the HudBay Agreement, funding will 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 September 30, 2011, there were 86,211,850 common shares of the Company outstanding (September 30, 2010 ó 82,296,013). Over the nine month period shares were issued for the private placement with HudBay (2,226,514) and options were exercised (1,328,625). During the third quarter 15,000 shares were issued on the exercise of options.

Warrants

There are no warrants or broker warrants that were issued during the period or outstanding as at September 30, 2011 (September 30, 2010 ó Nil).

Options

There are a total of 5,178,943 stock options outstanding at September 30, 2011with exercise prices ranging from \$0.15 to \$2.15. During the 9 months to September 30, 2011, 1,328,625 options were exercised, nil options expired, and nil new options were granted.

12. Off-Balance Sheet Arrangements

As at September 30, 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 September 30, 2011 management fees amounting to \$13,035 (2010 - \$16,625) were charged by a company controlled by the CFO and a director of the Company.

During the quarter ended September 30, 2011, the President and CEO, and related individuals received remuneration consisting of management fees and salaries. Total remuneration for the quarter ending September 30, 2011 was \$76,058 (2010-\$70,000). Accounts payable includes \$Nil (2010-\$Nil) owing to these related parties as at September 30, 2011.

During the quarter a total of \$229,890 (2010-\$Nil) was charged to operations by a geological consulting company of which the President and CEO and another director are major shareholders. The \$229,890 is broken down as follows; \$141,000 for lease and/or option payments, \$79,000 for sample preparation, \$9,890 for other. As at September 30, 2011, accounts payable includes \$27,333 (2010-\$Nil) owing to this related party.

During the quarter, the Company was charged Directors' fees totalling \$7,813 (2010 - \$8,182) by non-executive directors. Accounts payable includes \$10,500 (2010 - \$2,737) owing to these related parties.

During the quarter, the Company was charged legal fees totalling \$4,049 (2010-\$10,173) by a law firm whose partner is an officer of the Company. As at September 30, 2011 accounts payable includes \$Nil (2010-\$Nil) due to this related party.

During the quarter, rental expenditures in the amount of \$3,600 (2010-\$3,600) were charged by a Company with common directors. As at September 30, 2011, accounts payable includes \$Nil (2010-\$Nil) owing to this related party.

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

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 September 30, 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 September 30, 2011.

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

Internal Control over Financial Reporting

Management is 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 MD&A, the conclusion of management is that the internal control is appropriately designed and effective as of September 30, 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.

The Company has elected not to retrospectively apply IFRS 2, Share-based Payments ("IFRS 2") to all share-based transactions vested prior to 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. 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 subsidiaries determined that their functional currency is in 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, the ability to obtain required permits for exploration and mining in jurisdictions and the possibility of legal challenges that delay or stop from environmental and aboriginal groups. These are not an exhaustive list of the risks associated with the business.

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 local, state and federal jurisdictions in which the Company operates. 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 Event

On October 14, 2011 the Company announced that it has entered into an agreement to complete a private placement offering, on a best efforts basis, of up to 6,000,000 common shares of the Company to qualified investors at a price of \$0.50 per common share for aggregate gross proceeds of \$3,000,000. The Company will pay the agent a cash commission equal to 7% of the gross proceeds, a work fee of 200,000 broker warrants, and will issue to the agent upon closing broker warrants equal to 7% of the number of common shares issued under the Offering. The financing is subject to regulatory approval and completion of definitive documentation. The proceeds of the Offering will be used for general working capital of the Company.

19. Officers and Directors

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

Thomas O. Quigley ó President, CEO and Director
Robin E. Dunbar ó CFO and Director
Nadim Wakeam ó Corporate Secretary
Robin Quigley ó Assistant Corporate Secretary
Edward Munden ó Director



Peter M.D. Bradshaw ó Chairman of the Board and Director
William J. West ó Director
Alan T.C. Hair ó Director

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

20. Additional Information

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