AQUILA RESOURCES INC.
MANAGEMENT DISCUSSION AND ANALYSIS
Year Ended December 31, 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, 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. This MD&A is dated March 30, 2011

CORPORATE HIGHLIGHTS

- Project development activities continue at the Back Forty Project under project operator HudBay Minerals Inc.
- Preliminary economic analysis pending on the Back Forty Project
- Advancement of exploration alliance including acquisition of Bend Copper Gold Project under the Exploration Alliance
- Exploration at 100% owned Reef Gold Project

1. Overview

Aquila Resources Inc. (formerly JML Resources Ltd. ï ñthe Companyò or ñAquilaò) 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 ñHudBay Agreement or Agreement ò) with HudBay Minerals Inc. (ñHudBayò) (TSX: HBM ï NYSE:HBM). The Agreement grants HudBay the right to acquire a majority in Aquilaôs Back Forty Project (the ñBack Forty

Projectò), 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

At its inception, Aquila Resources Corp. entered into a reverse takeover transaction with JML (the ñRTOò) 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 Companyôs other public documents at www.sedar.com. The information contained herein is excerpted from the technical reports and other publicly available information. HudBay and Aquila are currently preparing a NI 43-101 compliant preliminary economic assessment for the project.

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 (ñnet profits after paybackò) 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 ï *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. GOLDER ASSOCIATES, MISSISSAUGA

Classification	Tonnes (millions)	Variance	Gold (g/t)	Silver (g/t)	Copper (%)	Zinc (%)
Open Pit À						
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 ÿ						
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.
À 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.
ÿ 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.

		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.

À 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.

ÿ 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 ñsoftò 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

Drilling at the Back Forty has intersected significant gold and zinc mineralization at depth beneath the resource. Exploration targets in the Back Forty project area have been identified using airborne geophysical surveys.

Results from drilling are contained in press releases found on Sedar at www.sedar.com as well as on the Companyôs website at www.aquilaresources.com.

2. Operating Highlights

During the year ended December 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) 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 stated that the completion of a preliminary economic assessment to include economic guidance for the Back Forty Project is pending. Further important milestones following the completion of a preliminary economic analysis would 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 year ended December 31, 2011 was $2,470,838 compared to a loss of $688,991 for the year ended December 31, 2010. The increased loss in 2011 is due to stock based compensation in 2011 of $1,012,186 as compared to $63,404 in 2010, as well as higher overall operating costs as a result of ramping up on projects as they mature.

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 ñAQARFò.

On October 14, 2011 the Company announced a financing consisting of a private placement of common shares. The shares were priced at $0.50. Allgroup Financial Services Inc was the agent for the financing. The placement was completed on December 21, 2011 and raised gross proceeds of $2,220,937 by issuance of 4,502,000 shares. Allgroup received broker warrants exercisable into common shares for a period of eighteen months totalling 7% of the shares issued which were priced at $0.51 or $0.53. Allgroup also received 200,000 additional warrants exercisable into common shares at a price of $0.51 for a period of three years at $0.51 per share. Proceeds of the offering are being utilized for working capital and exploration.

The company press releases can be found on Sedar at www.sedar.com as well as on the Companyôs website at www.aquilaresources.com.

Project Development

HudBay and Aquila entered into an Operating Agreement dated March 9, 2012 that transfers the respective ownership interests of HudBay and Aquila in the Back Forty Project to a Michigan limited liability company. Project development decisions would remain under the ultimate authority of HudBay.

Exploration Alliance

On October 15, 2010 the Company and HudBay announced the formation of a strategic alliance (the ñExploration Allianceò) 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. The first $2,000,000 of acquisition and exploration expenditures on each target property qualifying for the Exploration Alliance is to be funded by HudBay; thereafter, 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.

As of the date hereof Aquila has presented five targets of which four have been approved as alliance targets. These include the Bend Deposit (Copper Gold), Turner Peridotite (Copper-Nickel-PGE), Sturgeon Falls(Copper Nickel PGE) and the Five Mile Zinc Project. HudBay has exercised its option to extend the mandate of the Exploration Alliance by paying Aquila an additional $250,000. These funds are to be used for the identification and initial work up of additional exploration targets

Aquila Resources Inc.

Acquisition of Bend Copper Gold Deposit

On December 6, 2011 the Company announced the acquisition of the Bend Copper Deposit located in Marathon County Wisconsin. The project is located 35 miles southeast of the former producing Flambeau mine and occurs within the Penokean Volcanic Belt. The Company has been issued an ñexploration licenceò by the Bureau of Land Management for 5,560 acres of prospective Federal Lands

The deposit contains a historic resource of 3 million tonnes of 2.4% copper and 1.4 g/t gold and an separate resource of 1.23 million tonnes of 4.7 g/t gold and 0.31% copper. The historic resource is non-NI 43-101 compliant but is believed to be relevant. It was published in 1992 by a joint venture between Asarco LLC and Lehman & Associates and was based on 33 drill holes. The deposit is open down dip and down plunge.

The Bend Deposit was acquired under the terms of the exploration alliance with HudBay. Drilling at the deposit commenced in January 2012 in order to further define and expand the resource.

The Company has commenced drilling at Bend with up to five drills operating on the Property to drill the deposit to depth.

Aquila has completed a number of VTEM airborne geophysical results for two other Exploration Alliance projects . 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 ï 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 ongoing.

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 1980ös 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

On January 25, 2012 the Company released additional drill results from the Peninsula Property which is part of the Michigan Gold portfolio. The highlighted intercepts from the second round of drilling at Peninsula include:

- 8.84 g/t gold over 3.5 meters in PEN-11-23
- 7.48 g/t gold over 3.0 meters in PEN-11-26
- 5.31 g/t gold over 4.59 meters in PEN-11-30
- 10.37 g/t gold over 4.48 meters in PEN-11-36
  Including 23.4 g/t gold over 1.97 meters

In total an additional 23 holes were completed to build upon the 20 wide-spaced holes drilled by the Company in 2010. Drilling from the first round identified a mineralized shear zone along a strike length of 300 meters and to a depth of 70 meters (as outlined in a press release dated January 19, 2011). Results from the second round of drilling have expanded the gold-bearing structure down dip to a depth of 150 meters. The Peninsula shear zone remains open along strike and at depth.

Aquilaôs 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.

During the quarter the Company signed an agreement to acquire additional property as part of the Michigan Gold portfolio. One 120 acre parcel was acquired by a purchase for $162,000. The acquisition was made under the agreement with Minerals Processing Corporation and are related party transactions.

Reef Gold

The Company continued its exploration of the Reef Gold Project during the latter part 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 note in the historical resource was encountered. Further drill results were announced on January 26, 2012 from the Reef Project.

Highlights from the Reef drill results announced on January 26, 2012 included the following intervals;

- 2.10 meters of 8.43 g/t gold and 0.23% copper in R11-15
- 9.90 meters of 2.53 g/t gold and 0.20% copper in R11-17
  Including 3.90 meters of 5.07 g/t Gold and 0.27% copper

- 14.54 meters of 3.23 g/t gold in R11-23
  Including 3.50 meters of 13.05 g/t gold

The Company started a new phase of drilling early in 2012. Results from a number of drill holes are pending.

Reef Gold Overview

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 1970ĝs and 1980ĝs. 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 Resources Inc.

Aquilaês 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 $42,362 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 un-mined 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 year ended December 31, 2011 the Company realized interest of $6,583 from funds on deposit.

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

	Year ended December 31, 2011	*Year ended December 31, 2010*
Interest and other income	$ 6,583	$ 6,655
Operating expenses	2,477,421	695,646
Net loss	2,470,838	688,991
Basic and fully diluted loss per share	(0.03)	(0.01)
Mineral Property Cost	30,347,560	28,237,272
Cash	1,926,624	950,662
Total assets	$ 33,550,148	$ 30,246,860

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 year ended December 31, 2011 the Company incurred a loss of $0.03 per share (basic and fully diluted). The comparable loss per share for the prior year 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

During the year ended December 31, 2011 the Company incurred total expenses in the amount of $2,477,421 (2010 – $695,646). Increased costs in 2011 are due to incremental stock based compensation in 2011 of $1,012,186 vs $63,404 in the prior year as well as higher overall operating costs as a result of ramping up on projects as they mature. Notable expense items are outlined in the table that follows:

	For the year ended December 31, 2011	For the year ended December 31, 2010
Consulting fees	$ 97,183	$ 54,851
Filing and regulatory fees	76,507	31,851
Foreign exchange (gain) loss	257,093	(68,146)
Office, general and admin	151,470	87,338
Professional fees	251,448	68,441
Salaries and benefits	398,655	180,832
Stock-based compensation	1,012,186	63,404

7. Acquisition and Exploration Expenditures

Back Forty

Acquisition costs for the Back Forty Project and other projects are capitalized. A significant portion of the Back Forty Project land was optioned under what is referred to as the MRT Option Agreement. The MRT Option Agreement on the MRT Property was entered into during the third quarter of 2006. During 2011 the annual required option payment of US$1,440,000 (2010 - $250,000; 2009-US$250,000) was made. The total option payments remaining to be paid to complete the MRT option are US$5,760,000 through August, 2015. Total future estimated lease, option and property acquisition costs on the Back Forty project over the next five years, including the MRT payments, total $7,054,000. The MRT Property and other acquisition costs related to the Back Forty Project are funded by HudBay under the HudBay Agreement.

Exploration Alliance

During the year total Acquisition and Exploration expenditures of $973,037 were made on the Exploration Alliance project. The Exploration Alliance Agreement with HudBay provides that HudBay will finance the first $2,000,000 of such expenditures on each target included in the Project, hence all of the costs were re-imbursed by HudBay. Total future estimated lease, option and property acquisition costs on the Exploration Alliance Project over the next five years are $417,000, substantially all of which it is anticipated will be funded by HudBay under the Exploration Alliance Agreement.

Michigan Gold, Reef, and Other

Presented below are Acquisition and Exploration expenditures incurred by Aquila for its sole account (not reimbursed by HudBay) on Michigan Gold, Reef and Other for the year ended December 31, 2011 of $2,474,695 (2010 - $586,175). Expenditures split out by projects during 2011 are as follows: Michigan Gold - $1,277,757; Reef - $1,000,905; and Other - $196,033.

	For the year ended December 31, 2011	For the year ended December 31, 2010
Wages	353,006	64,599
Assays	325,223	9,692
Geophysics	132,819	-
Drilling	779,203	128,799
Consult/Legal/Environmental	156,841	265,160
Operator	229,504	24,066
Property Interests	498,099	93,858
Total	**$ 2,474,695**	**$ 586,175**

Aquila Resources Inc.

9. Summary of Quarterly Results

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

Quarterly Financial Information (unaudited)

	2011 Q4	2011 Q3	2011 Q2	2011 Q1
(a) Interest and Other Income	$ 1,744	$ 1,540	$ 1,759	$ 1,540
(b) Net Income (loss)	$ (72,716)	$ (372,964)	$ (503,858)	$ (1,521,300)
(c) Basic and fully diluted loss per share	$ (0.00)	$ (0.00)	$ (0.01)	$ (0.02)

	2010 Q4	2010 Q3	2010 Q2	2010 Q1
(a) Interest and Other Income	$ 2,052	$ 1,441	$ 1,662	$ 1,500
(b) Net Income (loss)	$ (287,151)	$ (361,242)	$ 187,826	$ (228,424)
(c) Basic and fully diluted loss per share	$ (0.01)	$ 0.00	$ 0.00	$ 0.00

Comments on quarterly results

Q4 2011 ï Unusual items in the quarter include a favourable adjustment to share-based compensation in the amount of $351,495 reflecting an adjustment to capitalize such costs to mineral properties, and a foreign exchange loss recorded in the amount of $192,896.

Q3 2011 ï Operating costs in 2011 are generally higher than in 2010 due to normal cost increases as the business matures.

Q2 2011 ï A significant portion of the loss was due to a foreign exchange loss recorded during the quarter in the amount of $212,193.

Q1 2011 - The loss was primarily the result of stock based compensation recorded in the quarter of $1,012,186. A foreign exchange loss of $257,093 was recorded; however, it was offset by normal operating cost increases due to more activity as the business matures.

Q4 2010 ï The only unusual item was a foreign exchange loss recorded in the quarter in the amount of $134,197.

Q3 2010 ï A significant portion of the loss was due to a foreign exchange loss recorded during the quarter in the amount of $193,857.

Q2 2010 ï The favourable result in Q2 was primarily a result of a foreign exchange gain of $407,003 recorded during the quarter.

Q1 2010 - No unusual items.

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 December 31, 2011 was $1,926,624 (2010-$950,662).

Liabilities at December 31, 2011 consist of short term trade payables and accrued liabilities of $62,337 (2010- $173,359).

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 $1,500 per month. At the U.S. site operations the Company owns office and storage facilities and has total monthly lease commitments of US$4,500.

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$1,575,741 for fiscal year 2012. The amount is subject to change. HudBay will reimburse the Company for these expenditures under the terms of the HudBay Option and Joint Venture Agreement.

Estimated lease, option and property acquisition costs for Exploration Alliance, Michigan Gold, and Reef Projects of $106,912, $57,560 and $43,262 respectively are due in 2012.

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% owned Michigan Gold and Reef 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 December 31, 2011, there were 90,739,168 common shares of the Company outstanding (December 31, 2010 ï 82,656,711). During the year a total of 8,082,457 shares were issued; 2,226,514 shares were issued under a private placement with HudBay 4,502,000 shares were issued under a brokered private placement, and 1,353,943 shares were issued in connection with options that were exercised.

Warrants

During the year 515,140 broker warrants were issued in connection with a brokered private placement. Each warrant is convertible into one common share at a weighted average exercise price of $0.51. The warrants expire between June 2012 and October 2014.

Options

There are a total of 4,928,250 stock options outstanding at December 31, 2011with a weighted average exercise price $0.90. During the year ended December 31, 2011, 1,353,943 options were exercised, 831,625 options expired, and 1,750,000 options were granted.

12. Off-Balance Sheet Arrangements

As at December 31, 2011 the Company does not have any off-balance sheet arrangements.

Aquila
Resources Inc.

13. Transactions with Related Parties

During the year ended December 31, 2011 management fees amounting to $65,137 (2010- $100,853) were charged by a company controlled by the CFO and a director of the Company.

During the year ended December 31, 2011 key management, and a related individual, received remuneration consisting of management fees and salaries. Total remuneration for the year amounted to $411,450 (2010-$327,800). There were no outstanding balances with these related parties at December 31, 2011 and December 31, 2010.

During the year a total of $466,993 (2010-$226,325) was charged to operations by a geological consulting company of which the President and CEO and another director are major shareholders. The $446,993 is broken down as follows; $164,894 for lease and/or option payments, $199,733 for sample preparation, $102,366 for other. As at December 31, 2011, accounts payable includes $Nil (2010-$Nil) owing to this related party.

During the year, the Company was charged Directors' fees totaling $31,270 (2010- $32,222) by non-executive directors. Accounts payable includes $Nil (2010- $Nil) owing to these related parties.

During the year, the Company was charged legal fees totaling $69,185 (2010-$38,503) by a law firm whose partner is an officer of the Company. As at December 31, 2011 accounts payable includes $Nil (2010-$Nil) due to this related party.

During the year rental expenditures in the amount of $14,400 (2010-$14,400) were charged by a Company with common directors. As of December 31, 2011, accounts payable includes $Nil (2010-$3,600) owing to this related party.

During the year exploration and evaluation expenditures in the amount of $6,568,008 (2010 - $4,395,476) were reimbursed by HudBay, a company that has an approximate 15.8% interest in the Company, and one member on its board of directors. The re-imbursement was pursuant to the terms of the HudBay Option and Joint Venture Agreement described in Note 4 to the December 31, 2011 Consolidated Financial Statements of the Company..

During the year ended December 31, 2011 options were granted, with a Black Scholes value, to related parties as follows ï key management and a related individual $701,322 (2010 - $Nil), Directors $467,548 (2010 - $Nil).

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 December 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, 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 December 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 entityôs initial adoption of IFRS on the first date at which IFRS was applied, which was January 1, 2010 (ñTransition Dateò). 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 Companyôs 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 (ñIFRS 2ò) 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. The following summarizes the adjustments to the Companyôs 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 installments over the vesting period (graded vesting), each installment 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 consolidated statements of financial position and 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 Companyǿs 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 Companyǿs 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 Companyǿs 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 assetós carrying value and amortized over the assetós useful life. As the Company has not yet begun mining or milling operations, the Company currently has no identifiable obligations relating to the retirement of its assets.

Amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in exploration expenses, capital expenditures or production costs or reduction in levels of production at producing properties or require abandonment or delays in development of new mining properties. Production of mineral properties may involve the use of dangerous and hazardous substances such as sodium cyanide. While all steps will be taken to prevent discharges of pollutants into the ground water and the environment, the Company may become subject to liability for hazards that cannot be insured against. The Company is subject to all environmental acts and regulations at the federal and state levels.

18. Subsequent Events

On March 9, 2012 the Company entered into a Operating Agreement in connection with the Back Forty Project fulfilling its obligation under the HudBay Option and Joint Venture Agreement as described in Note 4 (a)(iv) to the Companyós December 31, 2011 consolidated financial statements.. The Back Forty assets have been transferred to a Michigan Limited Liability Company of which Aquila currently owns 49%. The Operating Agreement governs the operation of the Back Forty Project.

On January 25, 2012 the Company released additional results from its Peninsula Property. On January 26, 2012 the Company released additional drill results from its Reef Property. On February 27, 2012 the Company announced the acquisition of the Five Mile Zinc Property located in Minnesota.

19. Officers and Directors

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

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

Peter M.D. Bradshaw ï Chairman of the Board and Director

William J. West ï Director
Alan T.C. Hair ï 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.