

Recommendation: SPECULATIVE BUY
Revised 12-Month Target: C\$0.70
 Previous 12-Month Target: C\$2.85
Risk Rating: ABOVE AVERAGE

AQUILA RESOURCES INC.
(TSX-AQA C\$0.19)

**BASE METAL DISCOVERY...
 FOR PATIENT INVESTORS ONLY!**

- **The 100% controlled/owned Back Forty Project** consists of a contiguous block of 5,600 acres of private fee and state mineral lands held under option and State of Michigan mineral leases located in Michigan's Upper Peninsula. This new polymetallic Volcanogenic Massive Sulphide Deposit (VMS) is hosted within volcanic terrain similar to the better-known deposits in **Flin Flon & Snow Lake**, Manitoba and **Noranda**, Quebec.
- Core drilling on the **Back Forty** has outlined a **Measured and Indicated resource** (43-101 compliant; April 2007) of 6.64 million tonnes averaging 5.32% Zn, 0.52% Cu, 0.21% Pb, 28.8 gms Ag/tonne and 2.3 gms Au/tonne.
- In addition, the property hosts an **Inferred Resource** (43-101 compliant) of 1.75 million tonnes averaging 2.6% Zn, 0.15% Cu, 0.64% Pb, 32.4 gms Ag/tonne and 2.8 gms Au/tonne.
- Drilling completed during 2007 and 2008 has significantly enhanced the resource quoted above and identified three new gold-silver zones (see page 4)
- An updated and expanded resource study is anticipated in Q1/2009, and we anticipate a 30% increase in tonnage. A Preliminary Economic Assessment (Scoping Study) is expected by mid-year 2009.
- We have changed our valuation method to an exploration based model to account for the anticipated project delay and the difficulty financing mining projects in the current economic environment.

Aquila Resources Inc. provides exposure to a major new VMS Cu-Pb-Zn-Au-Ag discovery. We recommend purchase as a SPECULATIVE BUY for patient and risk tolerant investors and have revised our 12-month target price to C\$0.70/share, down from \$2.85/share.

Sector: MINING, GOLD & PRECIOUS MINERALS

Analyst: RON COLL
 e-mail: ron.coll@jenningscapital.com
 Tel: (416) 304-2171 Fax: (416) 214-0177

Associate: MARK TURNER, MBA
 e-mail: mark.turner@jenningscapital.com
 Tel: (416) 304-3964 Fax: (416) 214-0177

Company Statistics

Market Cap	\$13.3MM
Basic Shares O/S	70.1MM
Fully Diluted Shares O/S	74.92MM
52-Week Range	\$0.92 - \$0.05
Major Shareholders - Management et al	15%
Cash (30/09/08)	\$3.7MM
Debt (30/09/08)	\$0
Working Capital (30/09/08)	\$3.4MM
Book Value \$/Share	\$0.44



Aquila Resources Inc. is a Canadian-based exploration and development company focused on the development of base metals and precious metals deposits in Michigan, USA.

BACKGROUND

Aquila is a Canadian-based exploration and development company focused on the development of base metals and precious metals deposits in Michigan, USA. In May 2006, the Company was created as the result of a reverse takeover of Aquila (a private company) by JML Resources Ltd. (TSXV-JJJ). The surviving company was renamed **Aquila Resources Inc.** (TSX-AQA). Aquila has been actively exploring for Volcanogenic Massive Sulphide Copper-Lead-Zinc-Gold-Silver deposits (VMS Deposits) within the Michigan portion of the Wisconsin-Michigan Penokean Volcanic Belt, for 10 years. The success of the exploration program was highlighted by the discovery of the **Back Forty Cu-Pb-Zn-Au-Ag VMS deposit in 2002.**

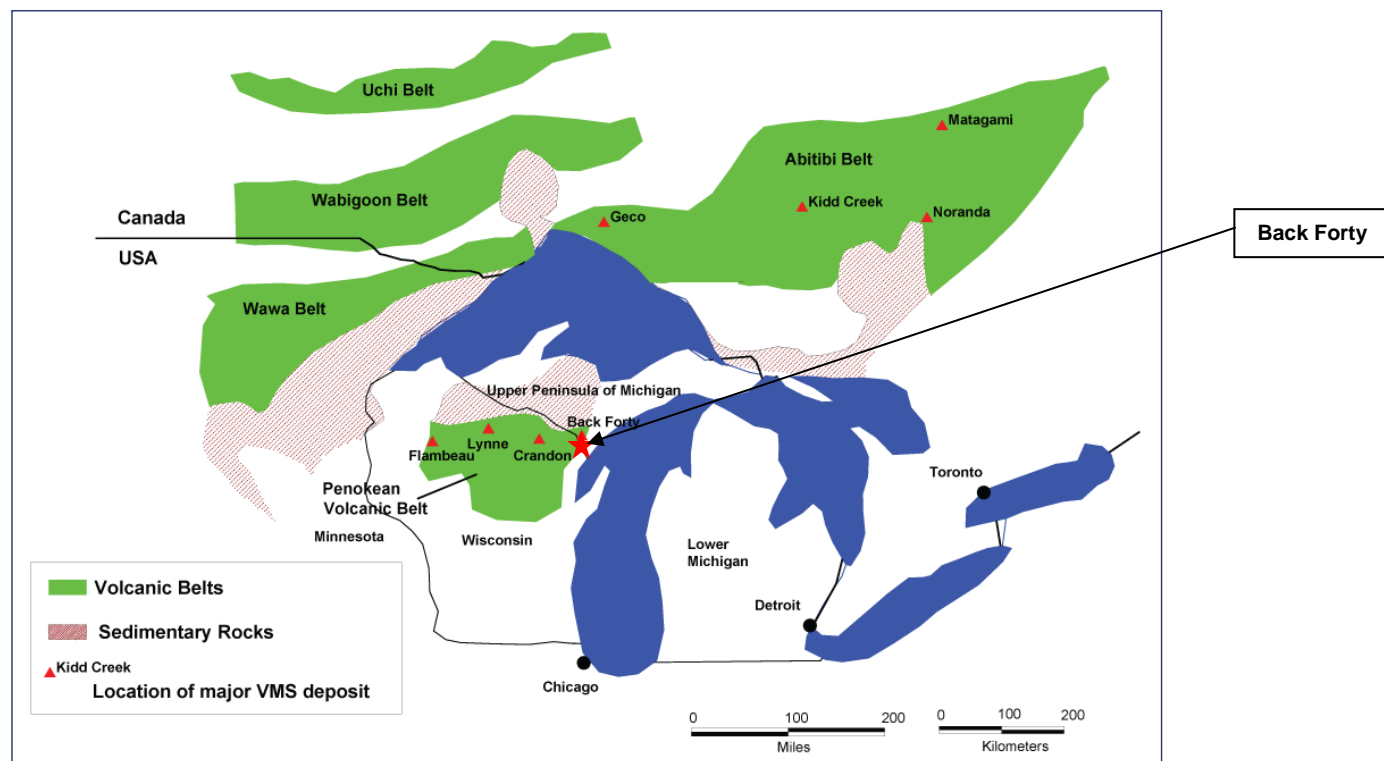
Other significant mines/discoveries within the Penokean Volcanic Belt include:

Flambeau Mine: 1.7 million tons (mined) averaging 10.3% Cu, 0.11 oz Au/ton and 1.8 oz Ag/ton. Historic Resource of 6.0 MM tons averaging 4.0% Cu, 0.05 oz Au/ton and 1.5 oz Ag/ton

Lynne Deposit: 5.6 million tons averaging 0.47% Cu, 9.3% Zn, 1.7% Pb, 0.02 oz Au/ton and 2.4 oz Ag/ton

Crandon Deposit: 30.0 million tons (zinc zone) averaging 0.4% Cu, 9.4% Zn, 0.7% Pb, 0.05 oz Au/ton and 1.8 oz Ag/ton.

Location of Major VMS Deposits in Great Lakes Region of Canada/U.S.



Source: Company Reports

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CATALYSTS AND SIGNIFICANT EVENTS ANTICIPATED IN 2009

- Q1/2009 Updated resource estimate (43-101 compliant) by SRK Consultants. We anticipate a 40% increase in the resource at a similar grade.
- Q3/2009 Completion of a Preliminary Economic Assessment (PEA); A scoping level evaluation of operating costs, capital costs and cash flow modelling by SRK Consultants.
- Q4/2009 Results of the Continuing Metallurgical testwork, Environmental studies and Permitting.

NEW DISCOVERY IN 2002 - BACK FORTY DEPOSIT

The Back Forty Property consists of 9,732 acres of private, fee and state mineral lands located in Lake Township, Menominee County, northern Michigan.

During the drilling of a new domestic water well in 2001, massive sulphide mineralization (sphalerite) was unintentionally intersected. Assaying of the drill cuttings revealed that the water well had intersected 40 feet of zinc-rich massive sulphides. Follow-up surface examination of the area revealed the presence of sulphide bearing quartz-sericite schist (felsic volcanic tuffs) in outcrop and a gold/silver-rich gossan.

Drilling completed during the period from early 2002 to mid-2003 totalled 20,450 metres in 71 NQ core holes. A second major drill program (early 2006 through Q4/2006) totalled 14,546 metres in 80 BQ core holes. A third drilling program (2007-present) brings the total program to in excess of 60,000 metres and has outlined a significant, new VMS Deposit consisting of four stacked, stratabound zinc-copper-gold-silver-rich VMS lenses, a stringer sulphide zone, two gold-silver gossans and three gold-silver zones. The massive sulphide lenses, stringer zones and stand-alone gold-silver zones remain open along strike, down dip and down plunge. The potential for enlarging the existing lenses and the discovery of additional lenses is considered excellent.

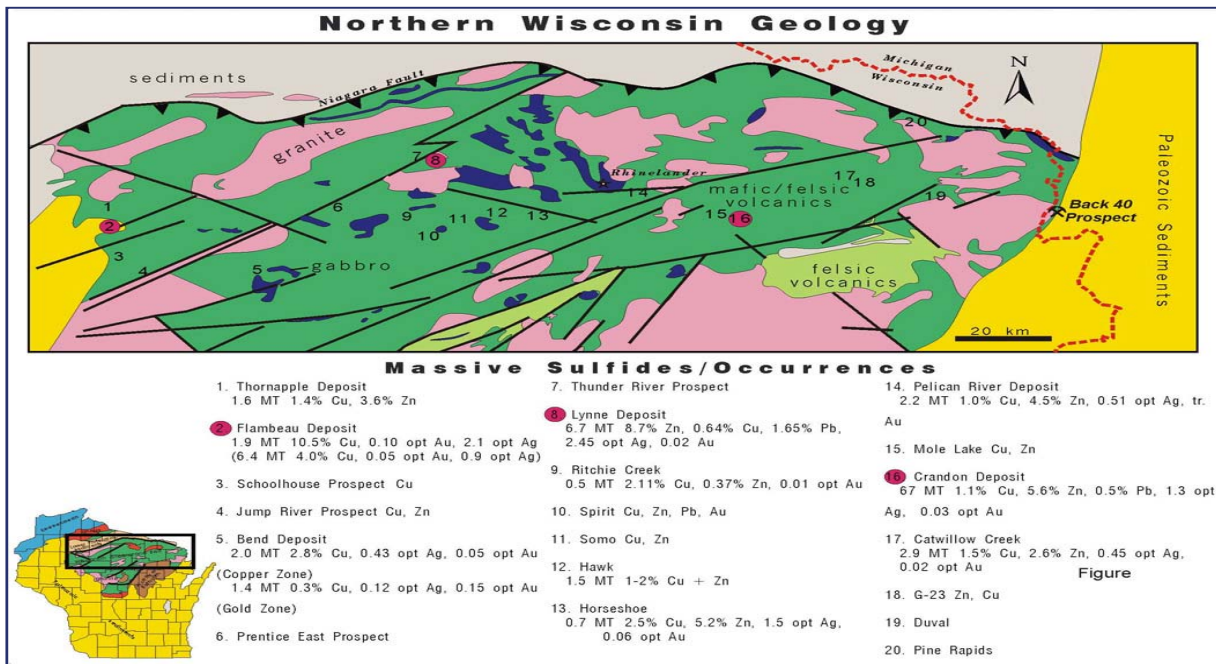
CURRENT RESOURCE ESTIMATE (43-101 COMPLIANT)

In Q2/2007, **Datamine International** completed an updated resource estimate (43-101 compliant; April 2007), based on the 151 core holes (35,000 metres) completed at that time. Datamine's geostatistical estimation resulted in a **Measured and Indicated resource of 6.64 million tonnes averaging 5.32% Zn, 0.52% Cu, 0.21% Pb, 28.8 grams Ag/tonne and 2.28 grams Au/tonne**, for a contained 779 million lbs of Zn, 77 million lbs of Cu, 31 million lbs of Pb, 6.1 million ounces of Ag and 487,000 ounces of Au.

An additional **Inferred resource totals 1.75 million tonnes averaging 2.61% Zn, 0.15% Cu, 0.64% Pb, 32.4 gms Ag/tonne and 2.82 gms Au/tonne**, for an additional 101 million lbs of Zn, 5.7 million lbs of Cu, 25 million lbs of Pb, 1.8 million ounces of Ag and 159,000 ounces of Au.

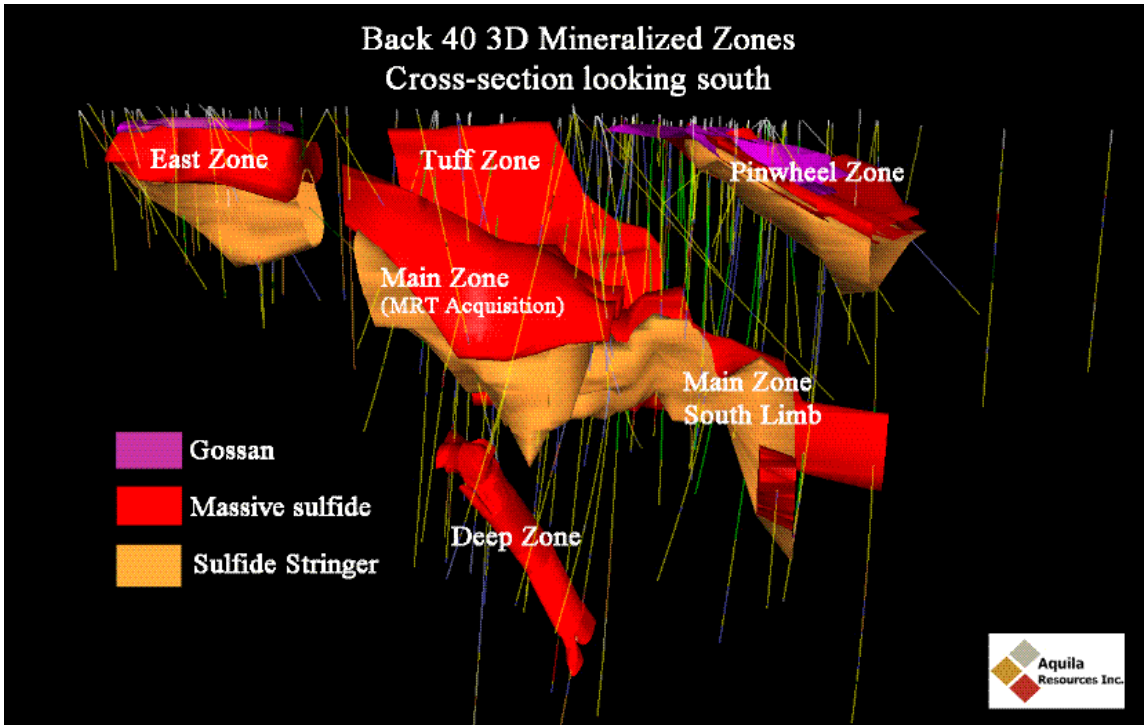
The main sulphide minerals are pyrite, sphalerite and chalcophyrite, with minor arsenopyrite and galena. The character of the sulphide grains (coarseness) suggests that a good quality concentrate can likely be expected. Preliminary polished section analysis suggests some of the gold is encapsulated inside pyrite grains (refractory).

Aquila Resource Table											
43-101 Compliant											
April 2007											
	Tonnes	Zn %	Cu %	Pb %	Au g/t	Ag g/t	Zn lbs	Cu lbs	Pb lbs	Au oz	Ag oz
Measured & Indicated											
Pinwheel Au/Ag Gossan	164,487	0.01	0.92	0.20	7.49	123.05	36,253	3,335,270	725,059	39,614	650,808
East Zone Au/Ag Gossan	67,816	0.01	0.03	0.03	21.79	8.49	14,947	44,840	44,840	47,515	18,513
Total Au/Ag Gossan	232,303	0.01	0.66	0.15	11.66	89.61	51,200	3,380,110	769,899	87,129	669,321
South Limb VMS	4,094,671	6.58	0.25	0.16	1.83	18.59	593,822,291	22,561,637	14,439,448	240,940	2,447,586
Pinwheel VMS	1,084,489	1.02	1.75	0.16	1.78	56.95	24,380,180	41,828,741	3,824,342	62,070	1,985,905
East Zone VMS	957,451	5.64	0.40	0.07	2.75	17.51	119,016,521	8,440,888	1,477,155	84,662	539,066
Tuff Zone VMS	269,381	7.00	0.06	1.74	1.44	57.25	41,560,101	356,229	10,330,654	12,473	495,886
Total VMS	6,405,992	5.52	0.52	0.21	1.94	26.55	778,779,093	73,187,495	30,071,599	400,146	5,468,444
Total Meas & Ind.	6,638,295	5.32	0.52	0.21	2.28	28.76	778,830,293	76,567,605	30,841,497	487,275	6,137,765
Inferred											
Pinwheel Au/Ag Gossan	4,820	0.01	0.23	0.11	26.34	103.3	1,062	24,434	11,686	4,082	16,010
East Zone Au/Ag Gossan	1,955	0.01	0.04	0.04	19.46	7.20	431	1,724	1,724	1,223	453
Total Au/Ag Gossan	6,775	0.01	0.18	0.09	24.35	75.57	1,493	26,157	13,409	5,306	16,462
South Limb VMS	5,574	4.62	0.18	0.09	1.37	15.01	567,571	22,113	11,057	246	2,690
Pinwheel VMS	0	0	0	0	0	0	-	-	-	-	-
East Zone VMS	0	0	0	0	0	0	-	-	-	-	-
Tuff Zone VMS	585,600	6.62	0.06	1.74	1.89	63.01	85,441,851	774,397	22,457,526	35,588	1,186,452
Total VMS	591,174	6.60	0.06	1.72	1.89	62.56	86,009,422	796,511	22,468,582	35,833	1,189,142
Stringer Sulphide Zones	1156123	0.58	0.19	0.09	3.17	16.74	14,778,952	4,841,381	2,293,286	117,843	622,299
Total Inferred	1,754,072	2.61	0.15	0.64	2.82	32.41	100,789,867	5,664,048	24,775,277	158,982	1,827,904

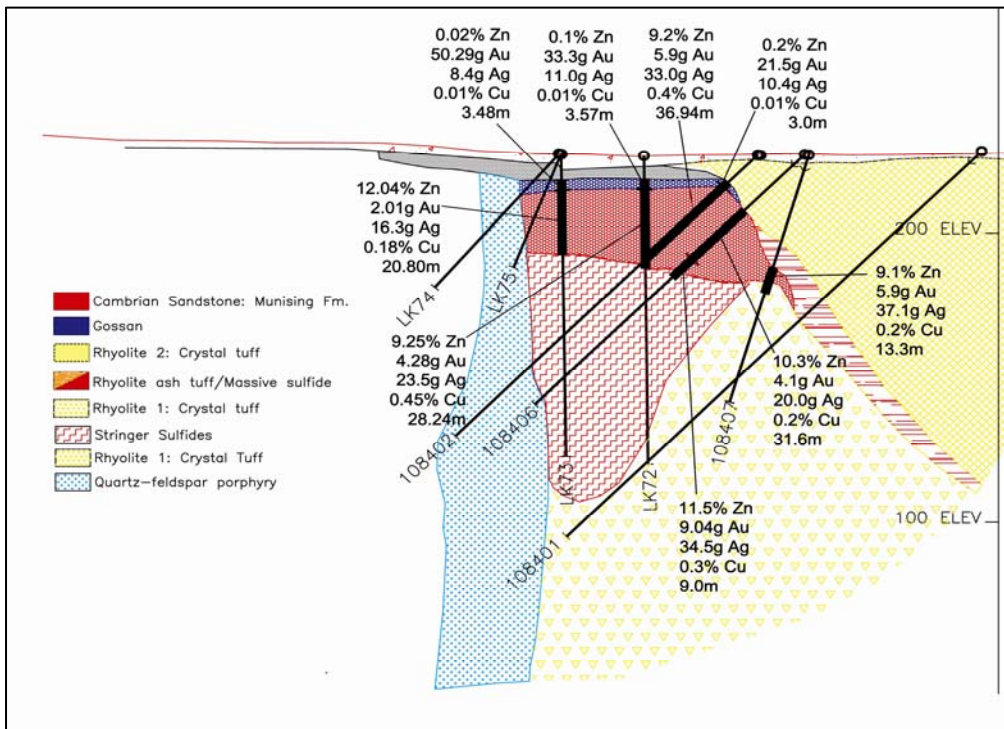


Source: Company Reports

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Discovery Hole Section 35375



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BACK FORTY RESOURCE EXPECTED TO GROW SIGNIFICANTLY

It is important to note that the April 2007 resource study (43-101 compliant) was limited to seven mineralized zones outlined to date on the Back Forty Project. Since that time, the known lenses have been expanded, additional lenses have been discovered and the potential for further discoveries is considered excellent.

An updated resource study (43-101 compliant) is being prepared and is scheduled for completion in Q1/2009.

EXPLORATION POTENTIAL

In addition to the zones included within the 43-101 resource estimate (April 2007), four new mineralized zones have been discovered on the Back Forty Project, **(1) The Gold-Rich quartz-feldspar porphyry (QFP); (2) The “90” Gold Zone; (3) The Deep Cu-Rich Sulphide Zone; and (4) The NW Gold Zone.**

The Gold Rich QFP Zone is located within and/or near the margins of a large quartz-feldspar porphyry intrusion which in turn is adjacent to the main massive sulphide zones. Some of the better intersections include:

LK-215	4.7 gms Au/tonne and 24.3 gms Ag/tonne over 2.5 metres
LK-255	13.7 gms Au/tonne and 328.6 gms Ag/tonne over 5.2 metres
LK-294	3.8 gms Au/tonne and 62.2 gms Ag/tonne over 1.3 metres
LK-302	16.7 gms Au/tonne and 289.8 gms Ag/tonne over 1.3 metres
LK-324	14.6 gm Au/tonne and 285.9 gm Ag/tonne over 2.1 metres
108427	67.9 gm Au/tonne and 48.9 gm Ag/tonne over 1.1 metres.

Further drilling will be required to test the extent and continuity of the high grade gold zone.

The “90” Gold Zone consists of altered and oxidized siliceous sediments including a chloritic-siliceous tuff. The zone is characterized by 5% to 10% pyrite plus minor amounts of chalcopyrite, arsenopyrite and galena. Highlights include:

LK-249	10.4 gms Au/tonne and 487.3 gms Ag/tonne over 3.2 metres
LK-252	15.8 gms Au/tonne and 193.5 gms Ag/tonne over 3.5 metres
LK-260	8.5 gms Au/tonne and 36.2 gms Ag/tonne over 4.0 metres
LK-273	7.1 gms Au/tonne and 9.3 gms Ag/tonne over 13.5 metres

Additional drilling in 2007 will attempt to delineate and expand the “90” Gold Zone.

The Deep Cu-Rich Sulphide Zone is located stratigraphically below the Main Sulphide Zone at a depth of approximately 400 metres. The zone appears to be tabular in shape and plunges steeply to the southwest. The presence of this Cu-rich zone suggests that the volcanic centre (source of the mineralization) may be at depth below the Main Massive Sulphide Zones. The further discovery of Cu-rich VMZ zones in this area would significantly enhance the economics of the Back Forty Project. Some of the better intersections from this zone include:

DDH-1084-70	1.42% Cu, 0.37% Zn, 0.84 gms Au/tonne and 22.6 gms Ag/tonne over 24.5 metres
DDH-1084-18	1.37% Cu, 0.18% Zn, 0.72 gms Au/tonne and 14.9 gms Ag/tonne over 8.5 metres
DDH-1084-61	1.2% Cu, 0.43% Zn, 1.58 gms Au/tonne and 30.7 gms Ag/tonne over 7.6 metres
LK-94	1.10% Cu, 2.24% Zn, 1.35 gms Au/tonne and 22.9 gms Ag/tonne over 5.6 metres

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The **Near Surface Gold Zone (NS Gold Zone)** is a new gold discovery located south of the Pinwheel Zone and the related Pinwheel Gossan.

LK-220	9.9 gms Au/tonne and 45.8 gms Ag/tonne over 4.5 metres
LK-267	7.1 gms Au/tonne and 42.8 gms Ag/tonne over 6.9 metres
LK-271	28.4 gms Au/tonne and 9.4 gms Ag/tonne over 3.1 metres
LK-294	4.3 gms Au/tonne and 18.7 gms Ag/tonne over 7.5 metres
LK-329	5.53 gm Au/tonne, 43.7 gm Ag/tonne over 1.5 metres

BALANCE SHEET AND PREVIOUS FINANCING

As at September 30, 2008, Aquila Resources had cash on hand of \$3.7 million, working capital of \$3.4 million and no debt.

On December 15, 2006 Aquila closed a private placement financing consisting of 15.52 million units at a price of C\$1.65 per unit, for gross proceeds of C\$25.6 million. Each unit consists of one share and one half of one transferable share purchase warrant. The unexercised warrants expired on December 15, 2008.

Aquila will need additional funds to complete the 2009-2010 drilling programs, ongoing metallurgical test-work, preliminary Economic Assessment (PEA), feasibility studies and permitting, in preparation for bringing the Back Forty VMS Deposit to a production decision stage.

INVESTMENT RISKS

In addition to the general risks associated with the junior mining industry, we cite the following specific risks as they relate to Aquila Resources.

Metal Price Risk

Metal prices are volatile. Aquila's principal metal exposures are zinc and gold. The charts below summarize the volatility experienced over the past few years. We continue to believe that the long-term metals market is favourable, considering supply and demand fundamentals, interest rates and inflation and foreign exchange rates.

Execution Risk and Permitting Delays

Aquila is an exploration company actively expanding the existing **Measured and Indicated** resources on the Back Forty Project. The ongoing program continues to rely on the proceeds of new equity, as the Company does not currently enjoy revenues, earnings or cash flow. While we believe the ongoing results will continue to be positive, there is no assurance that the Company will be able to arrange project financing and requisite permits and build a new base metal mine. Other issues that could delay the commencement of operations include unusual or unexpected environmental or safety hazards, new permitting/regulation issues and the loss of, or difficulty in engaging, key personnel.

MICHIGAN STATE PERMITTING SCHEDULE

Aquila has secured all required “Use Permits” to conduct exploration and drilling on the Back Forty Project. The permits require that the drill sites and related disturbances are reclaimed on an ongoing basis. The sites are regularly inspected by the Department of Environmental Quality (DEQ).

The Mine Permit process in Michigan has been simplified into one permit application. The application must be accompanied by an **Environmental Assessment (EA)** that is supported by a **Mine Plan, a Reclamation Plan, a baseline environmental assessment, an impact and risk analysis, a monitoring and quality assurance plan, bonding, an air permit and a water discharge permit. It would be reasonable to assume that the permitting process (having started in mid-2007) would require three to four years.**

CHANGES TO OUR MODELLING THAT HAVE LOWERED OUR VALUATION

We have changed our valuation methodology from a discounted cash flow Net Present Value based model to an exploration based model for the following reasons:

1. **Financing of mining projects by junior exploration Companies has transitioned from possible to nearly impossible.** The prospect of a company the size of AQA (Mkt Cap \$14 million) arranging the financing of a +\$100 million mine construction project has all but vanished within the current economic environment. Today’s metal price weakness, soft equity markets, tight credit and prohibitive borrowing costs lead us to believe that the Back Forty project will be significantly more difficult to advance to production.
2. **Higher Capital Costs.** Over the past two years, capital costs for new mining projects have escalated significantly faster than GDP growth rates. Some projects have been suspended in the mid-construction phase as a result of out-of-control capex. The reader is reminded that neither a scoping study nor a preliminary feasibility study has been completed for the Back Forty Project. We have increased our guesstimate of capex by 10%, to total US\$165 million.
3. **Higher Operating Costs.** Increases in fuel prices, consumables and labour are driving mine operating costs higher. We have increased our guesstimate for underground mine operating costs by 10%, to US\$82/tonne of ore processed. A more accurate estimate of operating costs should be available with the release of the PEA.
4. **Project Start-up Delays.** When we initiated coverage on Aquila Resources (December 18, 2006), our estimate of mine start-up was sometime in 2010. In our June 9, 2008 update, we expanded the start-up date to 2011. As the project has evolved and financing opportunities for greenfield Zn-Cu-Au-Ag projects have chilled, the timeline has expanded yet again. We now estimate production start-up to occur sometime in 2013. This delay has been incorporated into our modelling.

VALUATION AND RECOMMENDATION

Aquila is rapidly building Copper-Lead-Zinc-Gold-Silver resources in eastern Michigan. We expect that the ongoing definition and expansion drill program will outline a resource on the Back Forty Project totalling well in excess of 10.0 million tonnes having an average grade of 6.0% zinc, 0.5% copper, 2.0 grams gold/tonne and 30 grams silver/tonne in five or more stacked lenses. The drilling program completed to date has defined (1) zinc-rich VMS zones with excellent gold and silver credits; (2) a copper-rich VMS zone with excellent gold and silver credits; (3) gold and silver-rich porphyry and tuff

zones; and (4) gold and silver-rich Gossan zones located at surface, immediately overlying the Massive Sulphide zones.

Our revised valuation is exploration based and ascribes nominal value for contained metal in the ground. We would remind the reader that **neither a scoping study nor a pre-feasibility study has been completed** on the Back Forty Project.

1. For the **Measured & Indicated resource** (see above), we ascribe a nominal value of \$US0.02/lb of contained zinc, US\$25.00/oz for contained gold plus nominal value for copper, lead and silver, for a total value of US\$28 million.
2. For the **Inferred resource**, we ascribe a nominal value of US\$0.01/lb of contained zinc, US\$15.00/oz for contained gold plus nominal value for copper, lead and silver, for a total value of US\$4.0 million
3. We project a further 30% increase in the Back Forty resource update anticipated in Q1/2009. Based on the above matrix, we estimate an additional value of US\$10.0 million.
4. Cash on hand (September 30, 2008; last realized financial statement, less an estimated burn rate for Q4/2008) of US\$1.0 million.

This exploration based valuation totals US\$43 million (C\$51 million) or C\$0.68/fully diluted share.

RECOMMENDATION

An investment in Aquila would be suitable for risk tolerant, patient investors seeking exposure to the anticipated recovery in metal prices. Our recommendation remains SPECULATIVE BUY with a new and revised one-year target of C\$0.70/share, down from our previous target of C\$2.85/fully diluted share.

APPENDIX “A” - MANAGEMENT AND DIRECTORS

Peter M.D. Bradshaw, Chairman, Director

Mr. Bradshaw, P. Eng., is President, CEO and Director of First Point Minerals Corp., with 40 years of international exploration experience in over 30 countries with Barringer Research, Placer Dome and Orvana Minerals.

Thomas O. Quigley, President, CEO, Director

Mr. Quigley, a Professional Geologist, attended the University of Minnesota, obtaining a Masters of Science degree in Biology from the University of Minnesota in 1976. He subsequently obtained a Masters of Science degree in Geology from Queen’s University in 1990. Mr. Quigley has extensive mining experience. He was President of Great Lakes Exploration Inc. for 13 years and he has been President of Minerals Processing Corp. of Duluth, MN, since 1995, and President of Aquila Resources Inc. since 2004. Mr. Quigley is responsible for strategic planning, property acquisitions and ongoing technical evaluation of the Back Forty Project.

Robin Dunbar, CFO, Director

Mr. Dunbar is responsible for corporate development and finance. He obtained a Masters of Business Administration from Dalhousie University. Mr. Dunbar is based in the Toronto office and is also the President of Mustang Minerals Corp. and has been a Director since its inception in 1997. Prior to that, Mr. Dunbar was Vice-President, Corporate Banking of Dai-Ichi Kangyo Bank (Canada).

Mike Surratt, Director

Currently, Mr. Surratt is the President and CEO of Mercator Minerals Inc., a copper and molybdenum producer in the United States. Prior to joining Mercator, he was President and CEO of Aurex Resources and V.P. Operations and Director of Miramar Mining Corporation. Mr. Surratt has an extensive operating background serving as V.P. Operations, open pit mine manager, underground superintendent, as well as numerous other operating positions. He holds a B.Sc. Geology, and is a member of the Prospectors and Developers Association of Canada.

Alvin Jackson, Director

Mr. Jackson was President of Lundin Mining Corporation (formerly EuroZinc Mining Corporation) from 1995 to 2005. Prior to that, he held a variety of positions including Manager of Exploration for Cyprus Canada, Manager and Senior Geologist with Amoco Minerals and other positions with Mattagami Lake Mines and INCO. He received his Bachelor of Science degree in Geology from Brandon University, Manitoba and an advanced degree in Geology from the University of Saskatchewan.

Edward Munden, Director

Mr. Munden is a Director of Capital House Corporation, a private investment company that provides and/or arranges funding and managerial assistance to a portfolio of technology software, energy and mining companies. Mr. Munden is a professional engineer and holds a Bachelor of Science degree in geological engineering and a Masters of Business Administration from Queens University.

William J. West, Director

Mr. West has been the President of West Minerals Inc. of Warren, OH, since 1995. Prior to that, he was a Vice-President with Oglebay Norton. Mr. West received his BA in Geology from the University of Miami and his MBA from Case Western Reserve University.

Jennings Capital Inc. Research Disclosures

Company	Ticker
Aquila Resources Inc.	TSX-AQA

I, **Ron Coll**, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that I have not, am not, and will not receive, directly or indirectly, compensation in exchange for expressing the specific recommendations or views in this report.

Note: We initiated coverage on **Aquila Resources Inc.** on December 18, 2006 with a **SPECULATIVE BUY** recommendation and a **C\$3.90** target price. Share price at that time was **C\$2.25**. On June 14 we introduced an **ABOVE AVERAGE** Risk Rating as a result of additions to our rating system. Share price at that time was **C\$1.30**. On June 9, 2008 we reduced our target price to **C\$2.85**. Share price at that time was **C\$0.55**.

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HOLD	2%
RESTRICTED	2%
UNDER REVIEW	2%
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Revised Monthly

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