



NOTICE OF ANNUAL AND SPECIAL MEETING
to be held on June 23, 2016

- and -

MANAGEMENT INFORMATION CIRCULAR

As of May 16, 2016



AQUILA RESOURCES INC.

**NOTICE OF ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS
TO BE HELD ON JUNE 23, 2016**

NOTICE IS HEREBY GIVEN that an annual and special meeting (the “**Meeting**”) of the shareholders of Aquila Resources Inc. (“**Aquila**” or the “**Corporation**”) will be held at the offices of Goodmans LLP, 333 Bay Street, Suite 3400, Toronto, Ontario on Thursday, June 23, 2016 at 11:00 a.m. (Toronto time), for the following purposes:

1. to receive and consider the financial statements for the fiscal year ended December 31, 2015 and the auditor’s report thereon;
2. to elect the directors of the Corporation for the ensuing year;
3. to appoint an auditor for the ensuing year and to authorize the directors to fix the auditor’s remuneration;
4. to consider, and if deemed advisable, to approve an extension to the term of the Corporation’s outstanding stock options as more particularly described in the accompanying Management Information Circular; and
5. to transact such further and other business as may properly be brought before the Meeting or any adjournment thereof.

The nature of the business to be transacted at the Meeting is described in further detail in the accompanying Management Information Circular (the “Management Information Circular”). The Management Information Circular is deemed to form part of this notice of meeting. Please read the Management Information Circular carefully before you vote on the matters being transacted at the Meeting.

Holders of common shares registered on the books of the Corporation at the close of business on May 16, 2016 are entitled to notice of and to vote at the Meeting.

A registered shareholder may attend the Meeting in person or may be represented by proxy. Registered shareholders who are unable to attend the Meeting or any adjournment thereof in person are requested to date, sign and return the accompanying form of proxy for use at the Meeting or any adjournment thereof. To be effective, the enclosed proxy must be mailed or faxed so as to reach or be deposited with the Corporation’s transfer agent, TMX Equity Transfer Services at 200 University Avenue, Suite 300, Toronto, ON M5H 4H1 not later than 11:00 a.m. (Toronto time) on June 21, 2016 (or at least 48 hours, excluding Saturdays, Sundays and statutory holidays in the Province of Ontario, prior to the time set for the Meeting or any adjournment(s) or postponement(s) thereof). The Management Information Circular explains how to complete the form of proxy and how the voting process works.

Non-registered beneficial shareholders, whose shares are registered in the name of a broker, securities dealer, bank, trust company or similar entity (an “**Intermediary**”), should carefully follow the voting instructions provided by their Intermediary.

DATED this 16th day of May, 2016.

BY ORDER OF THE BOARD OF DIRECTORS

(signed) "Barry Hildred"

Barry Hildred
CEO and Director



**ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS
TO BE HELD JUNE 23, 2016**

MANAGEMENT INFORMATION CIRCULAR

This management information circular (“**Management Information Circular**”) is furnished in connection with the solicitation of proxies by management of **Aquila Resources Inc.** (the “**Corporation**”) for use at the annual and special meeting of the shareholders of the Corporation (the “**Meeting**”) to be held at the offices of Goodmans LLP, Bay Adelaide Centre, 333 Bay St., Suite 3400, Toronto, ON M5H 2S7 at 11:00 a.m. (Toronto Time) on June 23, 2016 or any adjournment(s) or postponement(s) thereof for the purposes set forth in the accompanying notice of annual and special meeting of shareholder (the “**Notice of Meeting**”).

GENERAL PROXY INFORMATION

Solicitation of Proxies

The solicitation of proxies is being made by or on behalf of management of the Corporation. It is expected that the solicitation of proxies will be made primarily by mail, but may be supplemented by telephone or other form of correspondence. The cost of solicitation of proxies will be borne by the Corporation. The Corporation will also pay the fees and costs of intermediaries for their services in transmitting proxy-related material in accordance with National Instrument 54-101 – *Communication with Beneficial Owners of Securities of a Reporting Issuer* (“**National Instrument 54-101**”). This cost is expected to be nominal.

No person is authorized to give any information or to make any representation other than those contained in this Management Information Circular and, if given or made, such information or representation should not be relied upon as having been authorized by the Corporation. The delivery of this Management Information Circular shall not, under any circumstances, create an implication that there has not been any change in the information set forth herein since the date hereof.

Non-Registered Shareholders

Only registered shareholders of the Corporation, or the persons they appoint as their proxies, are entitled to attend and vote at the Meeting. However, in many cases, common share of the Corporation (“**Common Shares**”) beneficially owned by a person (a “**Non-Registered Shareholder**”) are registered either:

- (a) in the name of a broker, securities dealer, bank, trust company or similar entity (an “**Intermediary**”) with whom the Non-Registered Shareholder deals in respect of the Common Shares; or
- (b) in the name of a clearing agency (such as The Canadian Depository for Securities Limited, in Canada, and the Depository Trust Company, in the United States) of which the Intermediary is a participant.

In accordance with the requirements of National Instrument 54-101, the Corporation has distributed copies of this Management Information Circular and the form of proxy (the “**Meeting Materials**”) to the Intermediaries and clearing agencies for onward distribution to Non-Registered Shareholders. Intermediaries are required to forward the Meeting Materials to Non-Registered Shareholders unless the Non-Registered Shareholders have waived the right to receive

them. Intermediaries often use service companies to forward the Meeting Materials to Non-Registered Shareholders. Generally, Non-Registered Shareholders who have not waived the right to receive Meeting Materials will either:

- (c) be given a voting instruction form which is not signed by the Intermediary and which, when properly completed and signed by the Non-Registered Shareholder and returned to the Intermediary or its service company, will constitute voting instructions which the Intermediary must follow; or
- (d) be given a form of proxy which has already been signed by the Intermediary, which is restricted as to the number of Common Shares beneficially owned by the Non-Registered Shareholder but which is otherwise not completed by the Intermediary. Because the Intermediary has already signed the form of proxy, this form of proxy is not required to be signed by the Non-Registered Shareholder when submitting the proxy.

In either case, the purpose of these procedures is to permit Non-Registered Shareholders to direct the voting of the Common Shares they beneficially own. Should a Non-Registered Shareholder who receives either a voting instruction form or a form of proxy wish to attend the Meeting and vote in person (or have another person attend and vote on behalf of the Non-Registered Shareholder) should insert the Non-Registered Shareholder's (or such other person's) name in the blank space provided or, in the case of a voting instruction form, follow the directions indicated on the form. **In either case, Non-Registered Shareholders should carefully follow the instructions of their Intermediaries and their service companies, including those regarding when and where the voting instruction form or the proxy is to be delivered.**

Only registered shareholders have the right to revoke a proxy. Non-Registered Shareholders who wish to change their vote must, in sufficient time in advance of the Meeting, arrange for their Intermediaries to change the vote and if necessary revoke their proxy.

Appointment and Revocation of Proxies

The persons named in the form of proxy accompanying this Management Information Circular are directors and/or officers of the Corporation. A shareholder of the Corporation has the right to appoint a person or company (who need not be a shareholder), other than the persons whose names appear in such form of proxy, to attend and act for and on behalf of such shareholder at the Meeting and at any adjournment thereof. Such right may be exercised by either inserting the name of the person or company to be appointed in the blank space provided in the form of proxy, or by completing another proper form of proxy and, in either case, delivering the completed and executed proxy to TransCanada Transfer Inc. in time for use at the Meeting in the manner specified in the Notice of Meeting.

A registered shareholder of the Corporation who has given a proxy may revoke the proxy at any time prior to use by depositing an instrument in writing, including another completed form of proxy, executed by such registered shareholder or by his or her attorney authorized in writing or by electronic signature or, if the registered shareholder is a corporation, by an officer or attorney thereof properly authorized, with either: (i) TMX Equity Transfer Services at 200 University Avenue, Suite 300, Toronto, ON M5H 4H1 not later than 11:00 a.m. (Toronto time) on June 21, 2016 (or at least 48 hours, excluding Saturdays, Sundays and statutory holidays in the Province of Ontario, prior to the time set for the Meeting or any adjournment thereof), or (ii) the Chairman of the Meeting on the day of the Meeting or any adjournment thereof; or in any other manner permitted by law including attending the Meeting in person.

Only registered shareholders have the right to revoke a proxy. Non-Registered Shareholders who wish to change their vote must, in sufficient time in advance of the Meeting, arrange for their Intermediaries to change the vote and if necessary revoke their proxy.

Exercise of Discretion by Proxies

Common Shares represented by an appropriate form of proxy will be voted or withheld from voting on any ballot that may be conducted at the Meeting, or at any adjournment thereof, in accordance with the instructions of the shareholder

thereon. **In the absence of instructions, such Common Shares will be voted for each of the matters referred to in the Notice of Meeting as specified thereon.**

The enclosed form of proxy, when properly completed and signed, confers discretionary authority upon the persons named therein to vote on any amendments to or variations of the matters identified in the Notice of Meeting and on other matters, if any, which may properly be brought before the Meeting or any adjournment thereof. At the date hereof, management of the Corporation knows of no such amendments or variations or other matters to be brought before the Meeting. However, if any other matters which are not now known to management of the Corporation should properly be brought before the Meeting, or any adjournment thereof, the Common Shares represented by such proxy will be voted on such matters in accordance with the judgment of the person named as proxy therein.

Signing of Proxy

The form of proxy must be signed by the shareholder of the Corporation or the duly appointed attorney of the shareholder of the Corporation authorized in writing or, if the shareholder of the Corporation is a corporation, by a duly authorized officer of such corporation. A form of proxy signed by the person acting as attorney of the shareholder of the Corporation or in some other representative capacity, including an officer of a corporation which is a shareholder of the Corporation, should indicate the capacity in which such person is signing and should be accompanied by the appropriate instrument evidencing the qualification and authority to act of such person, unless such instrument has previously been filed with the Corporation. A shareholder of the Corporation or his or her attorney may sign the form of proxy or a power of attorney authorizing the creation of a proxy by electronic signature provided that the means of electronic signature permits a reliable determination that the document was created or communicated by or on behalf of such shareholder or by or on behalf of his or her attorney, as the case may be.

INTEREST OF CERTAIN PERSONS OR COMPANIES IN MATTERS TO BE ACTED UPON

Except as otherwise disclosed herein, none of the directors or officers of the Corporation, nor any person who has held such a position since the beginning of the last completed financial year of the Corporation, nor any proposed nominee for election as a director of the Corporation, nor any associate or affiliate of the foregoing persons, has any substantial or material interest, direct or indirect, by way of beneficial ownership of securities or otherwise, in any matter to be acted on at the Meeting other than the election of directors, the matters set out under the heading "Particulars of Matters to be Acted Upon".

VOTING SHARES AND PRINCIPAL HOLDERS THEREOF

There are 220,960,374 fully paid and non-assessable Common Shares of the Corporation outstanding as of the date hereof. Each common share carries the right to one vote per Common Share. Each holder of outstanding Common Shares of record at the time of close of business on May 16, 2016 (the "**Record Date**") will be given notice of the Meeting and will be entitled to vote at the Meeting the number of Common Shares of record held by him or her on the Record Date.

Pursuant to the terms of a subscription agreement (the "**Subscription Agreement**") dated March 31, 2015 between the Corporation and Orion Mine Finance ("**Orion**"), until March 31, 2017 and thereafter until such time as the Orion's ownership of Common Shares is less than 10% of the total issued and outstanding Common Shares Orion is entitled to designate one individual for election or appointment to the board of directors of the Corporation from time to time. The right of Orion is subject to the provisions of the Subscription Agreement, including the requirement that Orion's nominee meet the individual qualification requirements for directors under applicable laws.

To the knowledge of the directors and senior officers of the Corporation, only the following person beneficially owns, directly or indirectly, or exercise control or direction over shares carrying more than 10% of the voting rights attached to all outstanding Common Shares of the Corporation which have the right to vote in all circumstances.

Name	Number of Common Shares	Percentage of Common Shares Owned
HudBay Minerals Inc.	35,329,103	15.99%
Ruffer LLP	31,935,539	14.4%
Orion Mine Finance	30,951,077	14.01%

PARTICULARS OF MATTERS TO BE ACTED UPON

Election of Directors

The articles of the Corporation as amended provide that the board of directors of the Corporation (the “**Board**”) shall consist of a minimum of one (1) and a maximum of nine (9) directors. Unless authority to vote is withheld, the persons named in the accompanying form of proxy intend to vote FOR the election of the current nominees whose names are set forth below.

Management does not contemplate that any of the current nominees will not be able to serve as a director but, if that should occur for any reason prior to the Meeting, the persons named in the enclosed proxy instrument reserve the right to vote for another nominee at their discretion. The terms of office of the Corporation’s current directors will expire as of the date of the Meeting. Each director elected at the Meeting will hold office until the next annual meeting of shareholders of the Corporation, or until their successors are elected or appointed in accordance with the provisions of the *Business Corporations Act* (Ontario).

The Board has adopted a majority voting policy in director elections that will apply at any meeting of shareholders where an uncontested election of directors is held. Pursuant to this policy, if the number of votes withheld for a particular director nominee is greater than the votes for such director nominee, the director nominee will be required to submit his or her resignation to the board promptly following the Corporation’s annual meeting. Following receipt of resignation, the Corporation’s Nomination, Compensation and Governance Committee will consider whether or not to accept the offer of resignation. With the exception of special circumstances, the Nomination, Compensation and Governance Committee will be expected to recommend that the Board accept the resignation. Within 90 days following the Corporation’s annual meeting, the Board will make its decision and disclose it by a press release, such press release to include the reasons for rejecting the resignation, if applicable. A director who tenders his or her resignation pursuant to the Corporation’s majority voting policy will not be permitted to participate in any meeting of the Board or the Nomination, Compensation and Governance Committee at which the resignation is considered.

The following table and the notes thereto state the names of all of the persons proposed to be nominated for election as directors, all other positions and offices with the Corporation now held by them, their principal occupations or employment for the past five years, their periods of service as directors of the Corporation and the number of shares of the Corporation beneficially owned, directly or indirectly, or over which control or direction is exercised by each of them as of the date hereof.

<p><u>Peter M.D. Bradshaw</u>⁽²⁾ British Columbia, Canada Position with the Corporation: Director Director Since: 2006 Common Shares Held: 500,000⁽¹⁾</p>	<p>Principal Occupation:</p> <p>Biographical Information:</p>	<p>Chairman of First Point Minerals Ltd.</p> <p>Mr. Bradshaw is currently the Chairman of First Point Minerals Ltd. and has been in that position since February 2012. Prior to that Mr. Bradshaw was CEO and President of First Point Minerals from July 1996 to May 2004 and July 2005 to February 2012.</p>
<p><u>Stephen Fabian</u>^{(2),(3)} London, England Position with the Corporation: Director Director Since: 2014 Common Shares Held: 504,143⁽¹⁾</p>	<p>Principal Occupation:</p> <p>Biographical Information:</p>	<p>CEO of Brazil Tungsten Ltd.</p> <p>Mr. Fabian (B.E. Min.) is Executive Chairman of Brazil Tungsten Holdings Limited and has 30 years of experience in the resources sector working as a fund manager and mining analyst with Bankers Trust Australia and County NatWest Australia. After transferring from Australia to London in 1993, he worked with County NatWest Australia's Corporate Advisory Team prior to establishing Rock Capital Partners in 1996. He relocated to Brazil in 2000 and was responsible for the creation of a number of mining ventures in the gold, diamond and iron ore sectors including Brazilian Diamonds, of which he was President and CEO, Ferrous Resources (founding CEO) and South American Ferro Metals. Rock Capital is a specialist venture capital firm and acts as an advisor to the Baker Steel Resources Trust, a London Stock Exchange listed resources fund which focuses on earlier stage opportunities in the resources sector.</p>

<p><u>Barry Hildred</u> Ontario, Canada</p> <p>Position with the Corporation: Chief Executive Officer & Director</p> <p>Director Since: 2013</p> <p>Common Shares Held: 2,667,210⁽¹⁾</p>	<p>Principal Occupation:</p>	<p>CEO of Aquila Resources Principal at Level 2 Advisors; Chairman of Aldridge Minerals</p>
	<p>Biographical Information:</p>	<p>Mr. Hildred is an independent business consultant and is currently CEO and Director of Aquila Resources Inc. Mr. Hildred is also a director of Aldridge Minerals where he is Chairman of the Board and where he has served as a Director since April 2010. Previously, he was President of TMX Equicom a subsidiary of the TMX Group from 2007 to 2009 and President and Founder of the Equicom Group from 1996 to 2007. Hildred is also the Vice-Chair of the Children's Aid Foundation. He holds a Bachelor of Commerce degree from McMaster University.</p>
<p><u>Edward J. Munden</u>^{(2),(3)} Ontario, Canada</p> <p>Position with the Corporation: Chair of the Board & Director</p> <p>Director Since: 2001</p> <p>Common Shares Held: 516,612⁽¹⁾</p>	<p>Principal Occupation:</p>	<p>Chair of the Board & Director, Aquila Resources Inc.</p>
	<p>Biographical Information:</p>	<p>Since 1989, Mr. Munden has been a Director and co-founder of a private investment company that has provided and/or arranged financing and managerial assistance to a portfolio of energy, mining and technology software companies. From 2001 to present, Mr. Munden has focused on development and financing of private oil and gas companies and of leasing and drilling projects, primarily in Texas. In 1994, Mr. Munden co-founded a Dallas based NASDAQ traded energy company engaged in the exploration, development and acquisition of oil and natural gas properties and held senior level positions including Director, Chairman, President and CEO until it was sold in December 2001. From 1999 to present, Mr. Munden has been a director of Mustang Minerals Corporation, a Toronto based TSXV traded mineral exploration company. Mr. Munden has held various positions in the energy, mining and technology industries for more than 35 years. He is a professional geological engineer and holds a Bachelor of Science degree in Engineering and a Masters of Business Administration from Queen's University in Kingston, Canada</p>

<p><u>Kevin Drover</u> British Columbia, Canada Director Since: 2015 Common Shares Held: Nil</p>	<p>Principal Occupation:</p> <p>Biographical Information:</p>	<p>President and CEO of Aurcana Corporation</p> <p>Mr. Drover has over 40 years of experience in management, operations, and project development with mining companies developing and producing mining operations located in Canada, the U.S., Latin America, and in other foreign jurisdictions. Mr. Drover has served as the President and Chief Executive Officer and a director of Aurcana Corporation (TSX.V: AUN), a Canadian silver mining company, since July 2014. He also currently serves on the board of directors of Thompson Creek Metals Company Inc. (TSX: TCM), a Canadian junior mining company. From November 2013 to March 2015, Mr. Drover served as Chief Executive Officer and a director of Oracle Mining Corp. (TSX: OMN) (formerly, Gold Hawk Resources Inc.), a Canadian-based mining company that owns the Oracle Ridge copper mine in Arizona and previously owned the Coricancha Mine in central Peru until it sold the asset to Nyrstar in 2009. From June 2006 to June 2011, he served as Chief Operating Officer and then Chief Executive Officer of Oracle Mining Corp. Previously, Mr. Drover served as Chief Operating Officer of Glencairn Gold Corporation, where he was responsible for two gold mining operations in Latin America, and as Vice President of Operations at Kinross Gold Corporation (NYSE: KGC; TSX: K), where he was responsible for six operating mines worldwide.</p>
<p><u>Andrew Dunn</u>⁽³⁾ Ontario, Canada Director Since: 2015 Common Shares Held: 180,000⁽¹⁾</p>	<p>Principal Occupation:</p> <p>Biographical Information:</p>	<p>Managing Partner of Canadian Shield Capital</p> <p>Mr. Dunn is the Managing Partner of Canadian Shield Capital, a private equity investment and advisory firm focused on building great Canadian businesses with strong management teams. Mr. Dunn spent 27 years at Deloitte, most recently serving as Vice Chair of Deloitte Canada and Chair of its Client Cabinet, responsible for the firm's largest client and government relationships. He played numerous roles on the firm's Canadian and global executive teams, including Managing Partner of Tax in Canada. In 2012, Mr. Dunn co-founded Altas Partners ("Altas") with Andrew Sheiner, serving initially as Chief Operating Officer and Co-Managing Partner, and where he continues to serve as Senior Advisor. At Altas, Mr. Dunn led the 2013 investment in NSC Minerals, a Saskatoon-based rock salt distribution company.</p>

Notes:

- (1) The information as to shares beneficially owned is not within the knowledge of the Corporation and has therefore been furnished by directors individually.
- (2) Member of the Nomination, Compensation and Governance Committee.
- (3) Member of the Audit Committee.

To the knowledge of the Corporation, except as noted below no proposed director of the Corporation is, or within the 10 years before the date of this Management Information Circular has been, a director or executive officer of any company that, while that person was acting in that capacity:

- (a) was the subject of a cease trade or similar order or an order that denied the company access to any exemption under securities legislation, for a period of more than 30 consecutive days;

- (b) was subject to an event that resulted, after the director or executive officer ceased to be a director or executive officer, in the company being the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days; or
- (c) within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold its assets.

Kevin Drover, a director of the Company, was a director of Oracle Ridge Mining LLC (“**Oracle Ridge**”), a subsidiary of Oracle Mining Corp. (“**Oracle**”), from February, 2014 to March, 2015. On December 23, 2015, Oracle announced that the Superior Court of Arizona had granted an application of its lender to appoint a receiver and manager over the assets, undertakings and property of Oracle Ridge following the breach by Oracle of a debt covenant in its secured convertible loan facility with Vincere Resource Holdings LLC. Investment Industry Regulatory Organization of Canada halted trading of Oracle’s common shares following the above noted default. Mr. Drover was also a director and officer of Oracle from November 12, 2013 to March 31, 2015.

No proposed director of the Corporation has, within the 10 years before the date of this Management Information Circular, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the proposed director.

Appointment and Remuneration of Auditors

Management of the Corporation is proposing to appoint PricewaterhouseCoopers LLP as auditors of the Corporation for the current fiscal year. PricewaterhouseCoopers LLP was first appointed the auditor of the Corporation on February 12, 2016.

Unless authority to vote is withheld, the persons named in the accompanying form of proxy intend to vote FOR the appointment of PricewaterhouseCoopers LLP as the auditors of the corporation for the current fiscal year and authorizing the board to fix their remuneration.

Extension of Stock Options

As a development-stage company, the Corporation relies on stock options as a means of attracting, retaining and motivating directors, employees and consultants, as well as aligning the interests of directors and management with shareholders.

Although the Corporation’s stock option plan permits the Corporation to grant stock options with a term of up to 10 years, the Corporation has traditionally issued options with five year terms. As a result, all of the options currently held by the Corporation’s directors and officers are currently scheduled to expire from 2019 – 2021. The Corporation does not currently expect that it will be in a position to complete the development of a mine and commence commercial production at its Back Forty project prior to 2020, meaning that all of the currently outstanding options will likely expire before the holders of those options have an opportunity to benefit from any increase in the Corporation’s value associated with achieving these significant milestones in the Corporation’s development.

As a result, the Corporation is concerned that its outstanding options may not be as effective at retaining and incentivizing its directors and officers as they would be if their term extended beyond the anticipated timeline for completing development of the Back Forty mine and the commencement of commercial production. The Board believes that it would be in the best interests of the Corporation to increase the likelihood that the directors, officers, employees and consultants who currently hold outstanding options will participate in any shareholder value they create by successfully advancing the Back Forty project to a producing property.

Rather than attempting to address this concern by issuing additional options with a longer term, which would create additional potential dilution for shareholders and reduce the options available to grant new personnel that the Corporation may seek to retain in the future, the Board is proposing to extend the term of the existing options.

Accordingly, the Board has authorized increasing the term of all of the 13,432,500 options currently outstanding by three years, meaning that the outstanding options will each have an eight year term instead of five years and will expire from 2022 to 2024 instead of 2019 to 2021.

Pursuant to Toronto Stock Exchange (“TSX”) rules, the extension of options granted to insiders of the Corporation is subject to shareholder approval, excluding any insider who holds options to be extended. Of the stock options that are proposed to be extended, 13,200,000 are held by insiders. Consequently, the resolution to approve the extension of outstanding options held by insiders is subject to approval by a simple majority of votes cast by shareholders, excluding the votes cast by such insiders. A total of 5,562,472 Common Shares held by insiders whose options will be extended will be excluded from voting on the resolution. All other shareholders of the Corporation will be entitled to vote on this resolution.

The following tables summarizes the proposed extension of options held by insiders of the Corporation:

Name and Title	# of Options	Grant Date	Exercise Price	Current Expiry Date	Amended Expiry Date
Edward Munden <i>Chairman and Director</i>	400,000	January 16, 2014	\$0.15	January 16, 2019	January 16, 2022
	200,000	April 6, 2015	\$0.19	April 6, 2020	April 6, 2023
Barry Hildred <i>Director and Chief Executive Officer</i>	5,000,000	January 16, 2014	\$0.15	January 16, 2019	January 16, 2022
	1,500,000	April 6, 2015	\$0.19	April 6, 2020	April 6, 2023
	1,000,000	January 12, 2016	\$0.19	January 12, 2021	January 12, 2024
Andrew Boushy <i>Vice-President, Project Development</i>	1,100,000	April 6, 2015	\$0.19	April 6, 2020	April 6, 2023
	400,000	January 12, 2016	\$0.19	January 12, 2021	January 12, 2024
Peter Bradshaw <i>Director</i>	400,000	January 16, 2014	\$0.15	January 16, 2019	January 16, 2022
	150,000	April 6, 2015	\$0.19	April 6, 2020	April 6, 2023
Kevin Drover <i>Director</i>	150,000	June 26, 2015	\$0.19	June 26, 2020	June 26, 2023
Andrew Dunn <i>Director</i>	500,000	June 26, 2015	\$0.19	June 26, 2020	June 26, 2023
Stephanie Malec <i>Chief Financial Officer</i>	750,000	June 26, 2015	\$0.19	June 26, 2020	June 26, 2023
	100,000	January 12, 2016	\$0.19	January 12, 2021	January 12, 2024
Thomas Quigley <i>Vice-President, Exploration</i>	800,000	January 16, 2014	\$0.15	January 16, 2019	January 16, 2022
	200,000	April 6, 2015	\$0.19	April 6, 2020	April 6, 2023

At the Meeting, shareholders will be asked to vote on the following resolution, with or without variation:

“RESOLVED that:

- (a) the amendments to the term of the options granted under the Corporation’s stock option plan described on page 8 of the Corporation’s management information circular dated May 16, 2016 be ratified confirmed and approved; and
- (b) any one director or officer of the Corporation is authorized to take all actions as may be necessary to give effect to the foregoing resolutions.”

The Board recommends that shareholders vote **FOR** the foregoing resolution approving the proposed amendments to the Corporation’s outstanding stock options. **Common Shares represented by proxies in favour of the management nominees will be voted IN FAVOUR of such resolution, unless a shareholder has specified in the proxy that his, her or its Common Shares are to be withheld from voting on such ordinary resolution.**

Other Business

The Corporation knows of no matter to come before the annual meeting of shareholders other than the matters referred to in the Notice of Meeting.

EXECUTIVE COMPENSATION

Definitions

In this section:

“CEO” means an individual who acted as chief executive officer of the Corporation, or acted in a similar capacity, for any part of the most recently completed financial year;

“CFO” means an individual who acted as chief financial officer of the Corporation, or acted in a similar capacity, for any part of the most recently completed financial year;

“NEO” or “Named Executive Officer” means each of the following individuals:

- (a) a CEO;
- (b) a CFO;
- (c) each of the three most highly compensated executive officers, or the three most highly compensated individuals acting in a similar capacity, other than the CEO and CFO, at the end of the most recently completed financial year whose total compensation was, individually, more than \$150,000 for that financial year; and
- (d) each individual who would be a NEO under paragraph (c) but for the fact that the individual was neither an executive officer of the company, nor acting in a similar capacity, at the end of that financial year.

Compensation Discussion and Analysis

The Corporation’s board of directors, through the Nomination, Compensation and Governance Committee, is responsible for the compensation program for the Corporation’s NEOs.

The compensation program's objectives are to:

- (a) attract and retain qualified and experienced executives to drive the continued development of the Corporation and its current and future exploration assets, thereby creating shareholder value; and
- (b) provide executives with appropriate compensation and incentives so as to encourage the development of the Corporation.

Compensation for the Corporation's NEOs consists of the following:

- (a) a base salary;
- (b) benefits;
- (c) bonuses; and
- (d) long term incentive in the form of incentive stock options;

The Nomination, Compensation and Governance Committee, with the approval of the Board as a whole, determines the level of compensation in respect of the Corporation's senior executives. Given the early-stage status of the Corporation, the Board has relied on the directors' significant collective experience and discussion to determine compensation parameters for all NEOs. In setting compensation for the NEOs, reference was also made by the Board to executive compensation disclosed by similarly situated companies to ensure that overall compensation is consistent with market norms and consideration was given to the Corporation's working capital requirements. Executive officers are rewarded on the basis of the skill and level of responsibility involved in their position, the individual's experience and qualifications, taking into consideration the Corporation's resources and current industry practices, and overall contribution to the success of the Corporation.

Base salary

The Corporation provides executive officers with base salaries which represent their minimum compensation for services rendered during the fiscal year. NEO's base salaries depend on the scope of their experience, responsibilities, leadership skills, performance, length of service, general industry trends and practices, the Corporation's existing financial resources and the potential long term compensation provided by stock options as discussed below. In addition to the above factors, decisions regarding any salary increases are impacted by each NEO's current salary.

Benefits

The NEOs are eligible to participate in the same benefits as offered to all full-time employees. This includes participation in a traditional employee benefit plan consisting of health and dental care and various forms of life insurance. The Corporation does not view these benefits as a significant element of its compensation structure, as they constitute only a small percentage of total compensation, but does believe that benefits, used in conjunction with base salary, help to attract and retain individuals in a competitive environment.

Bonuses

Annual cash bonuses are variable components of compensation and are short-term incentives. The Nomination, Compensation and Governance Committee assesses the Corporation's achievement of its business strategy and the individual performance of each executive officer annually and determines the amount of the award, if any, at its discretion. Factors considered in determining bonus amounts include individual performance, financial criteria (such as successful financings) and operational criteria (such as significant mineral property acquisitions) and the attainment of other corporate milestones. These bonuses, payable in a combination of cash and/or stock options are designed to focus executive attention on key strategic and operational measures and align compensation with corporate performance.

In determining the award of performance bonuses, including the amounts thereof, the Board uses its discretion and takes into consideration the Company’s annual achievements, applying weightings to determine overall percentage bonus.

Stock options

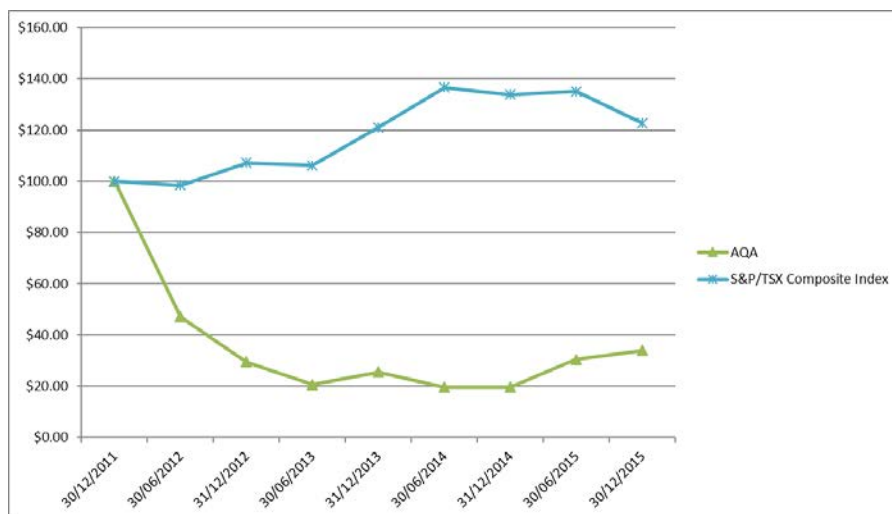
The grant of options to purchase Common Shares pursuant to the Corporation’s stock option plan is an integral component of the compensation packages of the senior officers of the Corporation. The Nomination, Compensation and Governance Committee believes that the grant of stock options to executive officers serves to motivate achievement of the Corporation’s long-term strategic objectives and the result will benefit all shareholders. Stock options are granted by the Board based upon the recommendation of the Nomination, Compensation and Governance Committee. The overall number of stock options that are outstanding relative to the number of outstanding Common Shares is also considered in determining whether to make any new grants of stock options and the size of such grants. Since the Corporation does not grant stock options at a discount to the prevailing market price of the Common Shares, the stock options granted to senior officers have value only if, and to the extent that, the market price of the Common Shares increases, thereby linking equity-based executive compensation to shareholder returns.

See “Summary Compensation Table” and “Incentive Plan Awards” below, for information regarding the stock options granted to the NEOs in 2015.

The Corporation does not provide the NEOs with any personal benefits other than contained herein, nor does the Corporation provide any additional compensation to its NEOs for serving as directors of the Corporation, other than the granting to them from time to time of incentive stock options under the Corporation’s stock option plan. A pension plan benefit is in place for employees of a U.S subsidiary of the Corporation, however none of the NEOs receive such benefits. None of the NEOs, senior officers or directors of the Corporation is indebted to the Corporation.

Performance Graph

The following graph compares the yearly percentage change in the cumulative total shareholder’s return on the Common Shares against the cumulative total return of the S&P/TSX Composite Index for the period from December 31, 2011 to December 31, 2015. Returns were calculated on the basis of a \$100 investment made as at December 31, 2011.



Summary Compensation Table

The following table, presented in accordance with National Instrument Form 51-102F6 - “Statement of Executive Compensation”, sets forth all annual and long term compensation for services in all capacities to the Corporation in respect of each NEO as at December 31, 2015. All values are in Canadian dollars.

Name and Principal Position	Year	Salary (\$)	Share-based awards (\$)	Option-based awards (\$) ⁽¹⁾	Non-equity incentive plan compensation (\$)		Pension value (\$)	All other Compensation (\$)	Total Compensation (\$)
					Annual incentive plans	Long-term incentive plans			
Barry Hildred Chief Executive Officer ⁽²⁾	2015	250,000	Nil	180,000	25,000	Nil	Nil	Nil	455,000
	2014	240,000 ⁽³⁾	52,000	500,000 ⁽⁴⁾	Nil	Nil	Nil	50,000 ⁽⁵⁾	842,000
	2013	190,000 ⁽²⁾	Nil	21,050 ⁽²⁾	Nil	Nil	Nil	Nil	211,050
Louis Nagy Chief Financial Officer ⁽⁶⁾ ⁽⁹⁾	2015	37,500	Nil	Nil	Nil	Nil	Nil	62,500 ⁽¹⁰⁾	100,000
	2014	75,000	13,000 ⁽⁷⁾	40,000 ⁽⁷⁾	Nil	Nil	Nil	5,000 ⁽⁷⁾	128,000
Stephanie Malec Chief Financial Officer ⁽⁹⁾	2015	110,000	Nil	82,500	3,000	Nil	Nil	Nil	195,500
Andrew Boushy ⁽⁸⁾ Vice President Project Development	2015	191,667	Nil	132,000	10,000	Nil	Nil	Nil	333,667

Notes:

- (1) The amounts in this column represent the fair value of stock options, which is estimated on the date of the grant using a Black-Scholes option-pricing model.
- (2) Prior to June 2015, Mr. Hildred's services as CEO were provided pursuant to a consulting agreement dated March 18, 2013 (the "**Red Roof Agreement**"), between the Corporation and Red Roof Capital Inc. ("**Red Roof**"), a corporation that is wholly owned by Mr. Hildred. Under this agreement, Red Roof was paid \$20,000 per month, of which 50% was paid in cash and 50% was settled by the issuance of Common Shares. Accordingly, in 2013, a total of 908,937 Common Shares with an aggregate value of \$95,000 and an average issue price of \$0.085 were issued to Red Roof along with fees of \$95,000 under the Red Roof Agreement. Further, Red Roof was granted one million incentive options exercisable at \$0.15 per Common Share, which vested over a three-year period.
- (3) On January 16, 2014, the Corporation and Red Roof amended the Red Roof Agreement to, *inter alia*, provide for an annual base fee of \$240,000 per year, payable entirely in cash. On the same date the Corporation issued 400,000 Common Shares at a price of \$0.13 per share to Red Roof as partial compensation for Mr. Hildred's role in facilitating completion of the Corporation's acquisition of REBGold Corporation, a 51% interest in the Back Forty project owed by HudBay Minerals Inc. and a \$4.85 million non-brokered private placement (collectively, the "Transactions").
- (4) On January 16, 2014, Red Roof surrendered one million options previously granted to it and was issued five million new options which permit Red Roof to acquire Common Shares at a price of \$0.15 per share.
- (5) On January 16, 2014, Red Roof received a cash payment of \$50,000 as partial compensation for Mr. Hildred's role in facilitating completion of the Transactions.
- (6) Effective January 16, 2014, Mr. Nagy was appointed as the CFO of the Corporation at an annual base fee of \$75,000. Mr. Nagy's services as CFO are provided through Your CFO Ltd., a corporation that is wholly owned by Mr. Nagy, on a non-exclusive basis pursuant to an employment agreement with an indefinite term between the Corporation and Mr. Nagy (the "**Your CFO Agreement**").
- (7) On January 16, 2014, the Corporation made a cash payment of \$5,000 to Your CFO Ltd., issued it 100,000 Common Shares at a price of \$0.13 per share, and granted it an aggregate of 400,000 options to acquire Common Shares at a price of \$0.15 per share. This payment along with the issue of Common Shares and grant of options were provided to Your CFO Ltd. (i) in satisfaction of certain deferred salary and outstanding fees (ii) compensation for Mr. Nagy's role in facilitating completion of the Transactions and (iii) in accordance with the terms of his overall compensation as the Corporation's incoming CFO.
- (8) Andrew Boushy was appointed VP, Project Development in April 2016.
- (9) Mr. Nagy was replaced as CFO in June 2016 by Stephanie Malec.
- (10) Mr. Nagy received a settlement payment of \$62,500 in connection with his departure from the Corporation.

Employment Agreements

Effective January 1, 2015, the Corporation entered into an employment agreement with Mr. Hildred; Pursuant to the agreement, Mr. Hildred receives an annual salary of \$250,000, which is subject to future reviews or adjustments by the Board. The agreement further provides that Mr. Hildred is eligible to receive an annual incentive bonus of up to 50% of his annual base salary, conditional upon the Corporation's overall operational and financial performance and Mr. Hildred's achievement of certain personal performance criteria and milestones to be agreed annually between him and the Board of the Corporation. In April 2015, Mr. Hildred was granted an additional 1,000,000 options to purchase Common Shares at an exercise price of \$0.19 per Common Share until April 6, 2020 as a bonus for completing the silver stream financing arrangement with Orion Mine Finance. For the year ended December 31, 2015, Mr. Hildred

received a cash bonus of \$25,000 plus 1,000,000 options to purchase Common Shares (issued in January 2016 at an exercise price of \$0.19 per Common Share until January 12, 2021).

Effective July 1, 2015, the Corporation entered into an employment agreement with Ms. Malec. Pursuant to the agreement, Ms. Malec receives an annual salary of \$180,000, which is subject to future reviews or adjustments by the Board of the Corporation. The agreement further provides that Ms. Malec is eligible to receive an annual incentive bonus of up to 25% of her annual base salary, conditional upon the Corporation's overall operational and financial performance and Ms. Malec's achievement of certain personal performance criteria and milestones to be agreed annually between her and the Chief Executive Officer of the Corporation. For the year ended December 31, 2015, Ms. Malec received a cash bonus of \$3,000 plus 100,000 options to purchase Common Shares (issued in January 2016 at an exercise price of \$0.19 per Common Share until January 12, 2021).

Effective June 1, 2015, the Corporation entered into an employment agreement with Mr. Boushy. Pursuant to the agreement, Mr. Boushy receives an annual salary of \$200,000, which is subject to future reviews or adjustments by the Board of the Corporation. The agreement further provides that Mr. Boushy is eligible to receive an annual incentive bonus of up to 30% of his annual base salary, conditional upon the Corporation's overall operational and financial performance and Mr. Boushy's achievement of certain personal performance criteria and milestones to be agreed annually between him and Chief Executive Officer of the Corporation. For the year ended December 31, 2015, Mr. Boushy received a cash bonus of \$10,000 plus 400,000 options to purchase Common Shares (issued in January 2016 at an exercise price of \$0.19 per Common Share until January 12, 2021).

Outstanding Share-Based Awards and Option-Based Awards

The following table discloses the particulars of all option awards for each NEO outstanding at the end of the Corporation's financial year ended December 31, 2015. Other than its stock option plan, the Corporation does not have a formal share-based compensation plan or other non-option, equity-based compensation program.

Name	Option-Based Awards				Share-Based Awards		
	Number of Securities underlying unexercised options ⁽¹⁾ (#)	Option exercise price (\$)	Option expiration date	Value of unexercised in-the-money options (\$)	Number of Shares or units that have not vested (#)	Market or payout value of share-based awards that have not vested (\$)	Market or payout value vested share-based awards not paid out or distributed (\$)
Barry Hildred CEO	5,000,000 1,500,000	0.15 0.19	January 16, 2019 April 6, 2020	100,000 Nil	Nil	Nil	Nil
Stephanie Malec CFO	750,000	0.19	June 25, 2020	Nil	Nil	Nil	Nil
Andrew Boushy Vice President Project Development	1,100,000	0.19	April 6, 2020	Nil	Nil	Nil	Nil

Notes:

(1) All options are for Common Shares.

Incentive Plan Awards

The following table summarizes the value of each incentive plan award vested or earned by each NEO during the financial year ended December 31, 2015 and as of the date hereof.

Name	Option-based awards - Value vested (\$) ⁽¹⁾
Barry Hildred, CEO	135,000
Stephanie Malec, CFO	20,625
Andrew Boushy, Vice President Project Development	33,000

Notes:

- (1) The amounts in this column represent the fair value of stock options, which is estimated on the date of the grant using a Black-Scholes option-pricing model.

Incentive Plan Awards - Narrative Discussion

All options granted by the Corporation have an exercise price at or above the closing price of the Common Shares on the day prior to the date of grant. There were no re-pricings of stock options or otherwise during or subsequent to the Corporation's completed financial year ended December 31, 2015. The total number of options to purchase Common Shares that were/are outstanding at December 31, 2015 was 17,900,000. All of the outstanding options are fully vested.

Pension Plan Benefits

The Corporation does not have any deferred compensation plans relating to any NEO.

Termination and Change of Control Benefits

Mr. Hildred's employment agreement provides that in the event Mr. Hildred is terminated, for any reason other than cause, Mr. Hildred is entitled to a payment equal to 24 months total pay (24 months base salary plus two times the aggregate amount of all bonus payments, if any, paid to Mr. Hildred in respect of the Corporation's most recently completed year). The agreement also deems Mr. Hildred will receive his full bonus for the current year (50% of his then annual base salary). If Mr. Hildred ceases to be employed by the Corporation for any reason (including resignation) within six months of a change of control of the Corporation, Mr. Hildred will receive the same compensation as described above.

Ms. Malec's employment agreement provides that in the event Ms. Malec is terminated, for any reason other than cause, Ms. Malec is entitled to a payment equal to six months base salary plus one month for every year of employment at Aquila, capped at 12 months. If Ms. Malec ceases to be employed by the Corporation for any reason (including resignation) within six months of a change of control of the Corporation, Ms. Malec will receive the same compensation as described above plus an additional six months of base salary.

Mr. Boushy's employment agreement provides that in the event Mr. Boushy is terminated, for any reason other than cause, Mr. Boushy is entitled to a payment equal to nine months base salary plus one month for every year of employment at Aquila, capped at 12 months. If Mr. Boushy ceases to be employed by the Corporation for any reason within six months of a change of control of the Corporation, Mr. Boushy will receive the same compensation as described above plus an additional six months of base salary.

The following table provides details regarding the estimated incremental payments that the Corporation would have had to make to Mr. Hildred and Ms. Malec, assuming that such executive's employment agreement was terminated by the Corporation without cause or following a change of control of the Corporation on December 31, 2015:

NEO	Incremental Payment for Termination Without Cause (\$)	Incremental Payment for Termination Without Cause Following a Change of Control (\$)
Barry Hildred	1,000,000	1,000,000
Stephanie Malec	90,000	180,000
Andrew Boushy	161,250	268,750

Director Compensation

Overview

The Corporation has no pension plan or other arrangement for non-cash compensation for its directors who are not NEOs, except incentive stock options. The Board approved a new director compensation arrangement effective January 16, 2014. This new arrangement provides each director with an annual base fee of \$12,000, except directors who are NEOs. Directors who assume the Chair of a board committee (other than the Audit committee) receive an additional \$5,000 per year and the Chair of the Audit committee receives an additional fee of \$10,000 per year. The Corporation also reimburses all reasonable expenses incurred by directors in respect of their duties. Mark Burridge assumed the role of Chair of the board immediately following the completion of the Transactions. As Chair of the Board, Mr. Burridge received an annual fee of \$100,800 for the provision of his services on a non-exclusive basis. In 2015, Mr. Burridge received an additional \$41,200 for services provided to the Corporation. The fee paid to Mr. Burridge includes a contribution to the overhead incurred by Mr. Burridge in the execution of his duties. Mr. Burridge resigned from the board in December 2015 and Edward J. Munden was appointed Chair of the Board. The Board has determined that director compensation should be reviewed periodically as the Corporation continues to execute its strategic plan and has reserved the right to adjust fees in order to fairly compensate directors for the actual workload demanded of them.

For Year-Ended December 31, 2015

The following table sets forth the value of all compensation earned by the non-NEO directors in their capacity as directors during the most recently completed financial year ended December 31, 2015.

Name	Fees earned (\$)	Share-based awards (\$)	Option-based awards (\$) ⁽¹⁾	Non-Equity incentive plan compensation (\$)	Pension value (\$)	All other compensation (\$)	Total (\$)
Peter M. D. Bradshaw	12,000	Nil	18,000	Nil	Nil	Nil	30,000
Edward J. Munden	17,000	Nil	24,000	Nil	Nil	Nil	41,000
Mark Burridge	114,350	Nil	60,000	Nil	Nil	Nil	174,350
Peter Secker	8,500	Nil	18,000	Nil	Nil	Nil	26,500
Stephen Fabian	12,000	Nil	18,000	Nil	Nil	Nil	30,000
Ed Guimaraes	11,000	Nil	Nil	Nil	Nil	Nil	11,000
Andrew W. Dunn	11,000	Nil	55,000	Nil	Nil	Nil	66,000
Kevin Drover	6,000	Nil	16,500	Nil	Nil	Nil	22,500

Notes:

- (1) The amounts in this column represent the fair value of stock options, which is estimated on the date of the grant using a Black-Scholes option-pricing model.

The following table discloses the particulars of all option awards for each non-NEO director outstanding at the end of the Corporation's financial year ended December 31, 2015.

Name	Option-Based Awards				Share-Based Awards		
	Number of Securities underlying unexercised options ⁽¹⁾ (#)	Option exercise price (\$)	Option expiration date	Value of unexercised in-the-money options (\$)	Number of Shares or units that have not vested (#)	Market or payout value of share-based awards that have not vested (\$)	Market or payout value vested share-based awards not paid out or distributed (\$)
Peter M. D. Bradshaw	400,000 150,000	0.15 0.19	January 16, 2019 April 6, 2020	8,000 Nil	Nil	Nil	Nil
Edward J. Munden	400,000 200,000	0.15 0.19	January 16, 2019 April 6, 2020	8,000 Nil	Nil	Nil	Nil
Mark Burridge	2,500,000 500,000	0.15 0.19	January 16, 2019 April 6, 2020	50,000 Nil	Nil	Nil	Nil
Stephen Fabian	400,000 150,000	0.15 0.19	January 16, 2019 April 6, 2020	8,000 Nil	Nil	Nil	Nil
Andrew W. Dunn	500,000	0.19	June 25, 2020	Nil	Nil	Nil	Nil
Kevin Drover	150,000	0.19	June 25, 2020	Nil	Nil	Nil	Nil

Notes:

(1) All options are for Common Shares.

No other compensation during the most recently completed financial year was paid to directors pursuant to any other arrangement or in lieu of any standard arrangement. The Corporation reimburses all reasonable expenses incurred by directors in respect of their duties. Other than as set forth in the foregoing, no director of the Corporation who is not an NEO has received, during the most recently completed financial year, compensation pursuant to:

- (a) any standard arrangement for the compensation of directors for their services in their capacity as directors, including any additional amounts payable for committee participation or special assignments;
- (b) any other arrangement, in addition to, or in lieu of, any standard arrangement, for the compensation of directors in their capacity as directors; or
- (c) any arrangement for the compensation of directors for services as consultants or experts.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table sets forth details of the Corporation's compensation plans under which equity securities of the Corporation were authorized for issuance as at the date hereof.

Plan Category	Number of securities to be issued upon exercise of outstanding options	Weighted-average exercise price of outstanding options (\$)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities outstanding)
Equity compensation plans approved by security holders (stock option plan only)	19,850,000	0.16	2,243,762
Equity compensation plans not approved by security holders (none pending)	Nil	Nil	Nil
Total	19,850,00	0.16	2,243,762

Stock Option Plan

The Corporation has in place a stock option plan (the “Plan”) for the purpose of attracting and motivating directors, officers, employees and consultants of the Corporation and advancing the interests of the Corporation by affording such persons the opportunity to acquire an equity interest in the Corporation through rights granted under the Plan to purchase Common Shares of the Corporation.

A summary of the material aspects of the Plan is as follows:

1. The Plan is administered by the Board or, if the Board so designates, committee of the Board appointed in accordance with the Plan to administer the Plan.
2. The maximum number of shares in respect of which options may be outstanding under the Plan at any given time is set at 10% of the issued and outstanding Common Shares of the Corporation.
3. Following termination of an optionee’s employment, directorship, consulting agreement or other qualified position, the optionee’s option shall terminate upon the expiry of such period of time following termination, not to exceed 30 days.
4. An option granted under the Plan will terminate six months following the death of the optionee. These provisions do not have the effect of extending the term of an option which would have expired earlier in accordance with its terms, and do not apply to any portion of an option which had not vested at the time of death or other termination.
5. Options may not be granted at prices that are lower than the market price of the securities at the time the option is granted.
6. Any amendment of the terms of an option shall be subject to any required regulatory and shareholder approvals.
7. In the event of a reorganization of the Corporation or the amalgamation, merger or consolidation of the shares of the Corporation, the Board shall make such appropriate provisions for the protection of the rights of the optionee as it may deem advisable.

INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS

No director or executive officer of the Corporation, or any of their associates or affiliates, is or has been indebted to the Corporation since the commencement of the last completed fiscal year of the Corporation or to any other entity,

which indebtedness is, or at any time since the commencement of the last completed fiscal year, has been, the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by the Corporation.

INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS

To the knowledge of management of the Corporation, there are no material interests, direct or indirect, by way of beneficial ownership of securities or otherwise, of any informed persons of the Corporation, directors, proposed directors or officers of the Corporation, any shareholder who beneficially owns more than ten percent (10%) of the Common Shares of the Corporation, or any associate or affiliate of these persons in any transaction since the commencement of the Corporation's last completed fiscal year or in any proposed transaction, which has materially affected or would materially affect the Corporation other than as disclosed herein or in the financial statements of the Corporation for the fiscal year ended December 31, 2015. Reference should be made to the notes to the audited financial statements for a more detailed description of any material transaction.

AUDIT COMMITTEE

Relationship with Auditors

National Instrument 52-110 of the Canadian Securities Administrators ("**NI 52-110**") requires the Corporation to disclose annually in its information circular certain information relating to the Corporation's Audit Committee and its relationship with the Corporation's independent auditors.

Audit Committee Charter

The Audit Committee Charter is annexed hereto as Schedule "A".

Composition of the Audit Committee

For the year-ended December 31, 2015, the Corporation's Audit Committee was comprised of Edward Munden, Stephen Fabian and Andrew W. Dunn (Chair), all of whom were independent, financially literate as defined in NI 52-110 and possessed the industry experience necessary to understand and analyze financial statements of the level of complexity of the Corporation, as well as the understanding of internal controls and procedures necessary for financial reporting.

Bios of Audit Committee Members

Andrew W. Dunn. Mr. Dunn has been Chair of the Audit Committee and an independent director of the Corporation since June 2015. Mr. Dunn is the Managing Partner of Canadian Shield Capital, a private equity investment and advisory firm focused on building great Canadian businesses with strong management teams. Mr. Dunn spent 27 years at Deloitte, most recently serving as Vice Chair of Deloitte Canada and Chair of its Client Cabinet, responsible for the firm's largest client and government relationships. He played numerous roles on the firm's Canadian and global executive teams, including Managing Partner of Tax in Canada. Mr. Dunn serves on the boards of Hatch, G.S. Dunn, the McMichael Canadian Collection (where he is Chair of Planning and Development), the Children's Aid Foundation (where he is Chair of the Finance and Audit Committee) and the Upper Canada College Foundation (where he is Chair of the Audit Committee). He is a Fellow Chartered Accountant (FCPA, FCA) and holds a Bachelor of Arts and a Masters of Accounting from the University of Waterloo..

Stephen Fabian. Mr. Fabian (B.E. Min.) is Executive Chairman of Brazil Tungsten Holdings Limited and has 30 years of experience in the resources sector working as a fund manager and mining analyst with Bankers Trust Australia and County NatWest Australia. After transferring from Australia to London in 1993, he worked with County NatWest Australia's Corporate Advisory Team prior to establishing Rock Capital Partners in 1996. He relocated to Brazil in 2000 and was responsible for the creation of a number of mining ventures in the gold, diamond and iron ore sectors including Brazilian Diamonds, of which he was President and CEO, Ferrous Resources (founding CEO) and South American Ferro

Metals. Rock Capital is a specialist venture capital firm and acts as an advisor to the Baker Steel Resources Trust, a London Stock Exchange listed resources fund which focuses on earlier stage opportunities in the resources sector.

Edward J. Munden. Mr. Munden has been a director of the Corporation since October 2001. During that time he has served on several Corporation committees, including the Audit Committee. Since 1989 he has been a director and co-founder of a private investment company that has provided and/or arranged financing and hands-on managerial assistance to a portfolio of energy, mining and technology software companies. From 2001 to present, Mr. Munden has focused on development and financing of oil and gas companies and of leasing and drilling projects, primarily in Texas. In 1994, Mr. Munden co-founded a Dallas-based NASDAQ traded energy company engaged in the exploration, development and acquisition of oil and natural gas properties and held senior level positions including director, Chairman, President and CEO until it was sold in December 2001. From 1999 to present, Mr. Munden has been a director of Mustang Minerals Corporation, a Toronto based TSXV traded mineral exploration company. Mr. Munden has held various positions in the energy, mining and technology industries for more than 35 years. He is a professional geological engineer and holds a Bachelor of Science degree in Engineering and a Masters of Business Administration from Queen’s University in Kingston, Canada.

Audit Committee Oversight

Since the commencement of the Corporation’s most recently completed fiscal year, the board has not failed to adopt a recommendation of the Audit Committee to nominate or compensate an external auditor.

Reliance on Certain Exemptions

Since the commencement of the Corporation’s most recently completed financial year and the effective date of the NI 52-110, the Corporation has not relied on the exemptions contained in section 2.4 or part 8 of NI 52-110. Section 2.4 provides an exemption from the requirement that the audit committee must pre-approve all non-audit services to be provided by the auditors, where the total amount of fees related to the non-audit services are not expected to exceed 5% of the total amount of fees payable to the auditors in the fiscal year in which the non-audit services were provided. Part 8 permits a company to apply to a securities regulatory authority for an exemption from the requirements of NI 52-110, in whole or in part.

Pre-Approved Policies and Procedures

The Corporation has not adopted specific policies and procedures for the engagement of non-audit services, other than the provisions of an Audit Committee resolution authorising the engagement of the Corporation’s auditor for the purposes of preparing tax filings, and for the provision of assurances to third parties and related services, at the auditor’s usual and customary rates. The Audit Committee will review the engagement of additional non-audit services as required.

External Auditor Service Fees (by category)

The fees billed to the Corporation by its auditor for each of the financial years ended December 31, 2015 and December 31, 2014 were as follows:

Year	Audit Fees⁽¹⁾ (\$)	Audit Related Fees⁽²⁾ (\$)	Tax Fees⁽³⁾ (\$)
2015	52,500	Nil	Nil
2014	64,200	5,000	Nil

Notes:

- (1) Fees paid for services provided in auditing the corporation’s annual financial statements.
- (2) Consists of fees not included in “Audit Fees” that relate to the Corporation’s different subsidiaries for services that are reasonably related to the performance of the audit or review, as well as, one-time fees related to the Transactions.
- (3) Fees billed by the auditors for professional services rendered for tax compliance, tax advice and tax planning.

CORPORATE GOVERNANCE

National Policy 58-201 - “Corporate Governance Guidelines” (the “**Guidelines**”) and National Instrument 58-101 - “Disclosure of Corporate Governance Practices” (“**NI 58-101**”) requires that each reporting issuer annually disclose its corporate governance system with reference to the Guidelines or NI 58-101. The Guidelines have replaced the guidelines previously set forth by the Toronto Stock Exchange. These non-prescriptive Guidelines deal with such matters as constitution of Board and Board committees and independence of directors, their functions, the effectiveness and education of directors, and other means of ensuring sound corporate governance. The following is a summary of the Corporation’s approach to corporate governance with reference to the NI 58-101 and the Guidelines.

Board of Directors

The following table sets out the current directors of the Corporation, whether or not they are independent, the attendance record of each director, and the names of any other reporting issuer (or their equivalent) for which a director acts as a directors:

Name of Director	Independence	Attendance Record	Name of Reporting Issuer
Edward J. Munden, Chair of the Board & Director	Independent	6/6	Mustang Minerals Corp.
Peter M. D. Bradshaw, Director	Independent	6/6	First Point Minerals Corp.
Stephen Fabian, Director	Independent	6/6	
Barry Hildred, Chief Executive Officer & Director	Not Independent ⁽¹⁾	6/6	Aldridge Minerals Inc.
Andrew W. Dunn	Independent	3/3 ⁽²⁾	
Kevin Drover	Independent	3/3 ⁽²⁾	Aurcana Corp., Thompson Creek Metals Company Inc.

Notes:

- (1) The board has determined that Barry Hildred is not independent of the Corporation, as he is also the CEO of the Corporation.
- (2) Andrew W. Dunn and Kevin Drover were elected to the board of directors at the Corporation’s June 25, 2015 meeting.

The Guidelines recommend that a majority of directors of a listed corporation be “independent” as defined by National Instrument 51-110 (“**NI 52-110**”). An independent director is a director who does not have any direct or indirect material relationship with the issuer. “Material relationship” is defined as a relationship which could, in the view of the Corporation’s board of directors, be reasonably expected to interfere with the exercise of a director’s independent judgment. NI 52-110 further sets out certain relationships which are deemed to be material relationships. In addition, Section 1.5 of NI 52-110 sets out “additional independence requirements” that provide that executive officers of a shareholder who “controls” a company, among others, are considered to have a “material relationship” with the company and consequently are not independent directors.

Board Mandate

The Board assumes ultimate responsibility for the stewardship of the Corporation and carries out its mandate directly and through considering recommendations it receives from the committees of the board and from management. The board approves all material acquisitions, dispositions and financings and other significant matters outside the ordinary course of the Corporation’s business. The Corporation has adopted a code of business conduct which has been communicated to all consultants, employees and other service providers. The text of the Board Charter is annexed hereto as Schedule “B”.

Management is responsible for the day-to-day operations of the Corporation, and pursues board approved strategic initiatives within the context of authorized business, capital plans and corporate policies. The CEO is expected to report to the board on a regular basis on short-term results and long-term development activities.

The Board is specifically responsible for adoption of a strategic planning process, identification of principal risks and implementing risk-management systems, and succession planning.

Each director is elected annually by the shareholders and serves for a term that will end at the Corporation's next annual meeting. The Board has regularly scheduled quarterly meetings with special meetings to review matters when needed. The Board encourages its independent members to hold separate discussions regarding the Corporation to the extent that such discussions are deemed to be beneficial or necessary.

Position Descriptions

The Board has not developed written position descriptions for the Chair, the chairman of any Board committees or the Chief Executive Officer. The Board is of the view that given the size of the Corporation, the relatively frequent discussions between Board members and the CEO and senior management, and the experience of the individual members of the Board, the responsibilities of such individuals are known and understood without position descriptions being reduced to writing. The Board will evaluate this position from time to time, and if written position descriptions appear to be justified, they will be prepared.

Orientation and Continuing Education

At present, the board does not provide an official orientation or training program to its new directors. Each of the members of the board has had solid experience in the industry as well as has had experience in acting as a director of public or private companies, or both. To ensure that directors maintain the necessary knowledge and skill levels to fulfill their duties as a member of the board, the Corporation provides relevant reading materials and board meeting discussions on relevant subjects. The Corporation's legal counsel are also made available to the director to assist them in better understanding what their legal responsibilities are.

Ethical Business Conduct

The Corporation has adopted a Code of Business Ethics for directors, officers, consultants and employees. The Corporation requires the highest standards of professional and ethical conduct from its directors, officers and employees and believes that its reputation for honesty and integrity among its stakeholders is key to the success of its business. In that regard, to create a culture of honesty, integrity and accountability, discussion, on an informal basis, is had amongst the board, management and employees respecting such matters as the retention of confidential information, insider trading rules, the obligation to declare conflicts of interests, the exercise of fair dealings with suppliers and other third parties and the necessity to comply with applicable laws, regulations and rules.

The Code of Business Ethics can be viewed on the Corporation's website at www.aquilaresources.com and on SEDAR at www.sedar.com.

Board Committees

Audit Committee and Disclosure Committee

The Audit Committee was comprised of three members including Edward J. Munden, Stephen Fabian and Andrew W. Dunn (Chair), all of whom were independent directors and financially literate.

The Audit Committee met four times in 2015. The mandate of the Audit Committee provides that its members shall meet at least quarterly prior to the release of the interim and annual financial results.

The Audit Committee also functions as the Disclosure Committee of the board. The principal responsibilities of the Disclosure Committee consist of reviewing and implementing a communication policy for the Corporation and

maintaining the integrity of the Corporation's internal control, management information and public disclosure systems.

Nomination, Compensation and Governance Committee

The Nomination, Compensation and Governance Committee was comprised of three members Edward J. Munden, Peter Bradshaw and Stephen Fabian, all of whom are independent directors.

Each member of this committee has more than 10 years of experience in their respective field and throughout that time, each has been involved with implementing and reviewing nomination, compensation and governance policies at their respective organizations. The principal responsibilities of the combined Nomination, Compensation and Governance Committee consist of compensation matters including reviewing the compensation of the Chief Executive Officer of the Corporation and other senior executives of the Corporation and providing recommendations to the board for approval. The nomination matters include performing an annual evaluation of the board's effectiveness as a whole and of the effectiveness of the individual directors and committees. The board has approved charter for the Nomination, Compensation and Governance Committee.

The Corporation's business strategy, goals and objective for the Chief Executive Officer are reviewed annually. The board receives at least quarterly updates from management on strategic developments and reviews and adjusts the compensation as necessary.

Director Term Limits and Other Mechanisms of Board Renewal

Each director serves on the Board until the next annual meeting of shareholders of the Corporation or until a successor is duly elected or appointed. The Board does not have a limit on the number of consecutive terms for which a director may serve. While there is benefit to adding new perspectives to the Board from time to time, there are also benefits to having continuity and directors having in depth knowledge of each facet of the Corporation's business, which necessarily takes time to develop. As such, and given that each member of the Board has had solid experience in the industry as well as has had experience in acting as a director of public or private companies, or both, the Board believes that the imposition of term limits for its directors may run the risk of excluding experienced and potentially valuable Board members as a result of an arbitrary determination. The Board relies on thorough director assessment procedures for evaluating its members, and uses rigorous identification and selection processes for new directors, having regard to a variety of factors. Through these processes, the Board believes that it is well-positioned to address any problems or deficiencies that may arise in an appropriate manner without having to adopt mandated term limits.

Diversity

The Corporation does not currently have any female directors. Of the four current executive officers of the Corporation, one is a woman. While the Corporation strongly supports the principle of diversity in its leadership, of which gender is an important aspect, the Corporation does not have a policy or targets regarding the representation of women on the Board or senior management, as the Board does not believe that quotas or strict rules necessarily result in the identification or selection of the best candidates. Rather, the identification and selection process is made based on a variety of criteria, including the diversity of viewpoints, backgrounds, experiences and other demographics, but also expertise, skills, character, business experience and other relevant factors. Accordingly, in searches for new directors or executive officers, the Board considers the level of female representation and diversity within its leadership ranks and this is just one of several factors used in its search process.

ADDITIONAL INFORMATION

Additional information relating to the Corporation is available at and on the Corporation's website at shareholders may contact the Corporation to request copies of the Corporation's financial statements and Management Discussion and Analysis for the financial year ending December 31, 2015, and any documents incorporated by reference herein without charge by emailing.

Financial information regarding the Corporation is provided in the Corporation's audited financial statements for the year ended December 31, 2015 and the related Management's Discussion and Analysis.

APPROVAL OF DIRECTORS

The contents and the sending of this Management Information Circular have been approved by the board of directors of the Corporation.

DATED at Toronto, Ontario as at the 16th day of May, 2016.

By Order of the Board of Directors

(signed) "*Barry Hildred*"

Barry Hildred
CEO and Director

SCHEDULE “A”

AUDIT COMMITTEE CHARTER

AQUILA RESOURCES INC. (the “Corporation”)

November 12, 2015

ROLE AND PURPOSE

The purpose of this Charter is to outline the role of the Audit Committee (the “**Committee**”) and the responsibilities assigned to it by the Board of Directors (the “**Board**”) of the Corporation. The primary function of the Committee is to provide oversight and make recommendations to the Board in fulfilling its oversight responsibilities with respect to the accounting and financial reporting processes of the Corporation and reviewing the financial information to be provided to the Corporation’s shareholders and others.

The Corporation’s external auditor shall be accountable to the Committee and the Board, and the Committee shall have the authority and responsibility to nominate an external auditor, oversee the independence, qualification and performance of the external auditor and the resolution of any issues between the external auditor and management and approve the compensation of the external auditor. In the course of fulfilling its specific responsibilities hereunder, the Committee shall strive to maintain open avenues of communication between the Corporation’s external auditor and the Board.

The Committee shall have the power to conduct or authorize investigations into any matters within the Committee’s scope of responsibilities. In connection with such investigations or otherwise in the course of fulfilling its responsibilities under this Charter, the Committee shall have the authority to retain special legal, accounting or other consultants or advisors to advise it, and to authorize the payment of the fees and expenses of such consultants or advisors, and may request any officer or employee of the Corporation, the members of, or consultants or advisors to assist the Committee. The Committee shall also have the authority to direct the funding by the Corporation of ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties. The Committee shall have unrestricted access to personnel and information, and any resources necessary to carry out its responsibilities. In this regard, the Committee may direct internal audit personnel to particular areas for examination.

The Audit Committee should primarily fulfill these responsibilities by carrying out the activities enumerated in this Charter. However, it is not the duty of the Committee to prepare financial statements, to plan or conduct audits, to determine whether the financial statements are complete and accurate and are in accordance with International Financial Reporting Standards (“**IFRS**”), as applicable, to conduct investigations, or to assure compliance with laws and regulations or the Corporation’s internal policies, procedures and controls, as these are the responsibility of management and in certain cases the external auditor, as the case may be.

LIMITATION ON COMMITTEE’S DUTIES

In contributing to the Committee’s discharge of its duties under this Charter, each member of the Audit Committee shall be obliged only to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Nothing in this Charter is intended to be, or may be construed as, imposing on any member of the Committee a standard of care or diligence that is in any way more onerous or extensive than the standard to which the directors are subject.

Members of the Committee are entitled to rely, absent actual knowledge to the contrary, on (i) the integrity of the persons and organizations from whom they receive information, (ii) the accuracy and completeness of the information provided, (iii) representations made by management, (iv) financial statements of the Corporation represented to them by a member of management or in a written report of the external auditors to present fairly the financial position of the Corporation in accordance with IFRS, and (v) any report of a lawyer, accountant, engineer, appraiser or other person whose profession lends credibility to a statement made by any such person.

COMPOSITION OF THE COMMITTEE AND MEETINGS

1. The Committee must be constituted as required under National Instrument 52-110, as it may be amended or replaced from time to time (“**NI 52 110**”) and must be composed of not less than three directors of the Corporation.
2. All members of the Committee must (except to the extent permitted by NI 52 110) be financially literate (which is defined as the ability to read and understand a set of financial statements that present a breadth and level of complexity of the issues that can reasonably be expected to be raised by the Corporation’s financial statements).
3. At least one member of the Committee shall have accounting or related financial experience as determined in accordance with applicable securities laws and stock exchange or quotation system rules (collectively, the “**Regulatory Requirements**”), which must involve: (1) an understanding of the accounting principles used by the Corporation to prepare its financial statements; (2) the ability to assess the general application of such accounting principles in connection with the accounting for estimates, accruals and reserves; (3) experience in the preparation, auditing, analyzing or evaluating financial statements that present a breadth and complexity of issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the Corporation’s financial statements, or experience actively supervising one or more persons engaged in such activities; (4) an understanding of internal controls and procedures for financial reporting; and (5) an understanding of audit committee functions.
4. Each member of the Committee shall (except to the extent permitted by NI 52-110) be independent (as defined by NI 52-110) and free from any relationship that would interfere with the exercise of his or her independent judgment.
5. Any member may be removed or replaced at any time by the Board and shall, in any event, cease to be a member of the Committee upon ceasing to be a member of the Board. Where a vacancy occurs at any time in the membership of the Committee, it may be filled by election from among the Board at any regular or special meeting. If an whenever a vacancy shall exist on the Committee, the remaining members may exercise all of its powers so long as a quorum remains.
6. New members will participate in such training and orientation as may be deemed by the Board to be necessary or appropriate in the circumstances.
7. The Committee shall meet at least quarterly or more frequently as circumstances require. The Committee should meet within 45 days following the end of the Corporation’s first three financial quarter and within 90 days following the end of the Corporation’s fiscal year.
8. The Board shall appoint a Chair of the Committee. If the Chair of the Committee is not present at any meeting of the Committee, one of the other members of the Committee present at the meeting shall be chosen to preside by a majority of the members of the Committee present at such meeting.
9. At any meeting of the Committee, a quorum will be not less than a majority of its members.
10. The Committee shall have the right to determine who shall, and who shall not, be present at any time during a meeting of the Committee. The Chair of the Committee may ask members of management or others to attend meetings and provide pertinent information as necessary. For purposes of performing their duties, members of the Committee shall have full access to all corporate information and any other information deemed appropriate by them, and shall be permitted to discuss such information and any other matters relating to the financial position of the Corporation with senior employees, officers and the external auditor or the Corporation, and others as they consider appropriate.

11. The Committee shall also meet separately at least once a year with the Corporation's management and external auditors. In addition, the Committee or the Chair should meet with management quarterly in connection with the Corporation's interim financial statements.
12. The Board shall be kept informed of the Committee's activities by a report from the Chair of the Committee following each Committee meeting.
13. The Committee shall keep minutes of each meeting of the Committee. A copy of the minutes shall be provided to each Committee member.
14. Meetings of the Committee shall be held from time to time and at such place as any member of the Committee shall determine upon reasonable notice to each of its members, which shall not be less than 48 hours. The notice period may be waived by all members of the Committee. Each of the Chair of the Board and the external auditor, and the President, the Chief Executive Officer, the Chief Financial Officer or the Secretary of the Corporation, shall be entitled to request that any member of the Committee call a meeting.
15. The Committee shall determine any desired agenda items.

RESPONSIBILITIES OF THE COMMITTEE

The Audit Committee's responsibilities shall include:

Financial Statements and Other Financial Disclosure

16. Discuss and review with management major issues regarding accounting principles and financial statement presentations, including any significant changes in the selection or application of accounting principles and use of material estimates and judgement in preparing the financial statements. This will also include a review of analyses prepared by management setting forth the impact of alternative IFRS methods and their impact on the financial statements.
17. Discuss and review with management and the external auditors the Corporation's annual audited financial statements, notes to the financial statements, annual Management's Discussion and Analysis ("MD&A") and other related documents prior to their filing or distribution, including consideration of:
 - (a) Accounting principles, practices and significant management estimates and judgments.
 - (b) The external auditors' examination of the financial statements and their audit report.
 - (c) Policies and practices with respect to off-balance sheet transactions and trading and hedging activities.
18. Review any disclosures related to insider and related party transactions.
19. Based on discussions with management and the external auditors, review and formally recommend approval by the Board, as appropriate, of the Corporation's annual audited financial statements, MD&A and other significant public financial disclosure contained in the Corporation's Annual Information Form, if applicable, and Management Information Circular, prior to public disclosure.
20. Based on discussion with management and the external auditors, review and formally recommend approval by the Board, as appropriate, of the Corporation's interim unaudited condensed consolidated financial statements, MD&A and other related documents, prior to public disclosure.
21. Review and discuss with management other financial filings and disclosure, including press releases discussing earnings results or prospective earnings results, earnings guidance or pro forma or non-GAAP

information, contained in any filings with the securities regulators or news releases or materials provided to analysts or rating agencies, prior to public disclosure.

22. Review and discuss with management and the external auditors where appropriate, the following financial documents and reports prior to public disclosure:
 - (a) all certifications that may be made by the Chief Executive Officer and the Chief Financial Officer of the Corporation on the annual or quarterly financial results, disclosure controls and procedures and internal controls over financial reporting;
 - (b) any legal, tax or regulatory matters that may have a material impact on the Corporation's or any of its subsidiaries' operations and financial statements; and
 - (c) any financial information contained in any prospectus, information circular or other disclosure documents or regulatory filings containing financial information of the Corporation or any of its subsidiaries.
23. The Committee will ensure that adequate procedures are in place for the review of the Corporation's public disclosure of financial information extracted or derived from the Corporation's financial statements and will periodically assess the adequacy of those procedures.
24. The Committee will oversee any auditing or accounting reviews or similar procedures or investigations.
25. The Committee will review, as appropriate, any report required by the appropriate regulatory authority to be included in the annual management information circular related to the matters covered by this Charter including the disclosure of the external auditors' services and fees, Committee members and their qualifications and activities of the Committee.

External Auditors

26. The Committee will discuss with the external auditors and then approve the audit plan, scope, responsibilities, budget, staffing, the objectives, coordination, reliance upon management, general audit approach, the responsibilities of management and the external auditors and timing.
27. Subject to applicable Regulatory Requirements and rights of shareholders, assume direct responsibility for the appointment, compensation, retention and oversight of the performance of the external auditors (including the resolution of any disagreements between management and the external auditors regarding financial reporting) for the purpose of preparing or issuing an audit report or performing any other audit, review or test or permitted non-audit services for the Corporation. The external auditors shall report directly to the Committee.
28. Review and approve the services to be provided by the external auditors to the Corporation or any of its subsidiaries, whether audit or non-audit related, (including the fees and terms thereof), prior to the commencement of such services (with the exception of de minimus non-audit services described under applicable Regulatory Requirements which are approved by the Committee prior to the completion of the audit). The Committee may delegate to one of its members the approval of non-audit services. In such instances, the items approved will be reported to the Committee at its next scheduled meeting following such pre-approval.
29. Identify categories of non-audit services that the external auditors must not provide to the Corporation or any of its subsidiaries.
30. Review and evaluate the external auditors' engagement letter and estimated and final compensation for audit and non-audit services.

31. Meet regularly with the external auditors (independent of management), either at the request of the external auditors or on the Committee's own initiative, to consider matters that the external auditors believe should be discussed privately with the Committee.
32. Receive all material written communications between the external auditors and management including the management letter and schedule of unadjusted differences.
33. Review and discuss with the external auditors:
 - (a) Critical accounting policies and practices followed by the Corporation.
 - (b) All alternative treatments within IFRS, that have been discussed with management, including the ramifications of each alternative disclosure and treatment and the treatment preferred by the external auditors.
 - (c) Other material written communications between the external auditors and management.
 - (d) Any audit problems or difficulties with management's response.
34. Consider and review with the external auditors and management:
 - (a) Significant findings during the year and management's responses thereto.
 - (b) Difficulties encountered in the course of audits, including any restrictions on the scope of their work or access to required information.
 - (c) Any disagreements between the external auditors and management during the course of the audit, including any restrictions on the scope of their work or access to required information.
 - (d) Proposed changes in accounting standards, policies or practices and the impact of such changes on the Corporation's financial reporting practices.
 - (e) Planned changes in the external auditors' audit plan.
 - (f) Significant risks or exposures identified by management or the external auditors and assess the steps management has taken to minimize such risks to the Corporation.
35. Review and discuss with the external auditors all relationships that the external auditors and their affiliates have with the Corporation and its affiliates in order to assess the external auditors' independence, including, without limitation, (i) ensuring the receipt of and reviewing a written statement from the external auditors describing all relationships that may reasonably be thought to bear on the independence of the external auditors, (ii) discussing any disclosed relationships or services that the external auditors believe may affect the objectivity and independence of the external auditors, (iii) the rotation of the partners assigned in accordance with applicable laws and professional standards, the internal quality control findings of the external auditors' firm and peer reviews, and (iv) recommending that the Board take appropriate action in response to such review to satisfy itself of the external auditors' independence.
36. Assess the performance of the external auditors and, if circumstances warrant, recommend the replacement of the external auditors.
37. Review and approve the Corporation's hiring policies regarding partners, employees and former partners and employees of the Corporation's current and former external auditors as more fully described in NI 52-110.

Internal Controls Over Financial Reporting

38. Review with management the effectiveness of the Corporation's system of internal controls for identifying and managing principal business risks, steps taken to address significant risks and exposures of all types, including insurance and tax compliance.
39. Meet on a periodic basis separately with the members of management responsible for internal controls.
40. Review any extraordinary or unusual transactions or payments which come to the attention of the Committee, including related party transactions between the Corporation or any of its subsidiaries and any officers, directors or associates of any officers or directors, which transactions shall be subject to Committee approval.
41. Establish procedures for the receipt and treatment of complaints regarding accounting, internal accounting controls or auditing matters, including a procedure for the confidential and anonymous submission of complaints and concerns by employees of the Corporation regarding questionable accounting or auditing matters as required under applicable Regulatory Requirements.

Whistleblower

42. Establish and review procedures established with respect to employees and third parties for:
 - (a) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters;
 - (b) confidential, anonymous submissions of concerns regarding questionable accounting or auditing matters; and
 - (c) dealing with the reporting, handling and taking of remedial action with respect to alleged illegal or unethical behaviour, as provided in the Corporation's Code of Business Ethics.

Other Matters

43. Review any legal or regulatory matters, including correspondence with regulators and governmental agencies, that may have a material impact on the Corporation's financial statements or other financial disclosure.
44. Conduct annual periodic review and assessment of the adequacy of this Charter and the functioning of the Committee and, if necessary, make recommendations to the Board as to proposed changes to this Charter.
45. The Committee is authorized to communicate directly with the external (and, if applicable, internal) auditors as it sees fit.
46. The Committee will participate in the appointment, promotion or dismissal of the Chief Financial Officer and/or Controller and help determine his or her qualifications, access and compensation.
47. At least annually, provide oversight of the Corporation's and its subsidiaries' risk management policies including investment policies and insurance coverage.
48. Nothing contained in this Charter is intended to make the Committee liable for any non-compliance by the Corporation with applicable laws or regulations.

The Committee may, in its sole discretion, delegate all or a portion of its responsibilities to subcommittee made up of members of the Committee.

Approved, November 2015

SCHEDULE “B”

BOARD CHARTER

AQUILA RESOURCES INC. BOARD OF DIRECTORS CHARTER

PURPOSE

The Board of Directors (the “Board”) is elected annually by the shareholders of Aquila Resources Inc. (the “Corporation”) to supervise the management of the business and affairs of the Corporation, in the best interests of the Corporation. The Board shall assume responsibility for the stewardship of the Corporation by undertaking the following:

- Review and approve the strategic plan and business objectives of the Corporation that are submitted by executive management and monitor the implementation by executive management of the strategic plan. During at least one meeting each year, the Board will review the Corporation’s long term strategic plans and the principal issues that the Corporation expects to face.
- Review the principal strategic, reporting, operating and compliance risks for the Corporation and oversee, with the assistance of the Audit Committee, the Nomination, Compensation and Corporate Governance Committee and the Technical, Environmental, Health & Safety Committee, the implementation and monitoring of appropriate risk management systems and the monitoring of risks.
- Ensure, with the assistance of the Nomination, Compensation and Corporate Governance Committee, the effective functioning of the Board and its committees in compliance with the corporate governance requirements of applicable laws, regulatory requirements and policies of the Canadian Securities Administrators.
- Ensure, with the assistance of the Audit Committee, that internal controls and management information systems for the Corporation are adequately designed, implemented and monitored and reviewed periodically.
- With the assistance of the Nomination, Compensation and Corporate Governance Committee, assess the performance of the Corporation’s executive management, including oversight of the appropriate training, performance reviews and succession planning.
- Be responsible for the hiring/firing of the Chief Executive Officer (CEO), the role of the CEO and the performance review of the CEO, including the development of policies and principles for CEO selection and performance review and policies regarding CEO succession.
- Monitor the compensation levels of executive management based on determinations and recommendations made by the Nomination, Compensation and Corporate Governance Committee.
- Review and, where appropriate, approve the recommendations made by the various committees of the Board, including, without limitation, to: select nominees for election to the Board; appoint directors to fill vacancies on the Board; appoint members of the various committees of the Board; and establish the form and amount of director compensation.

COMPOSITION

The election, appointment and removal of directors shall occur in accordance with the Corporation's by-laws and all applicable legislation. A majority of the Board shall meet the independence requirements of applicable legislation, regulatory requirements and policies of the Canadian Securities Administrators.

The Board should be comprised of that number of individuals which will permit the Board's effective functioning. The Board should collectively possess a broad range of skills, expertise, industry and other knowledge, and business and other experience useful to the effective oversight and stewardship of the Corporation's business. All such factors will be considered in determining the optimum composition of the Board and when possible should be balanced appropriately. In maximizing the Board's effectiveness, the Corporation takes a long-term, sustainable and measured approach. All Board appointments shall be based on merit, with the primary consideration being to maintain and enhance the Board's overall effectiveness.

The Corporation recognizes the importance of women having representation at key decision making points in organizations and is supportive of the requirements of the Canadian Securities Administrators in this regard. Accordingly, as one factor in the foregoing analysis, the Board shall consider the level of representation of women on the Board in identifying and nominating candidates for election or re-election.

The Board shall not be required to establish a limit on the number of times a Director may stand for election, but shall consider nominations for re-election in the context of seeking an optimum composition to maximize overall effectiveness.

COMMITTEES

The Board may delegate authority to individual directors and committees where the Board determines it is appropriate to do so. The Board expects to accomplish a substantial amount of its work through committees and shall maintain at least the following two committees: Audit Committee and the Nomination, Compensation and Corporate Governance Committee. The Board may, from time to time, establish or maintain additional standing or special committees as it determines to be necessary or appropriate. Each committee should have a written charter and should report regularly to the Board, summarizing the committee's actions and any significant issues considered by the committee.

RESPONSIBILITIES

The mandate of the Directors is the stewardship of the Corporation, and their responsibilities include, without limitation to their general mandate (as outlined above under "Purpose"), the following specific responsibilities:

1. Review, assess and update this Charter periodically, as conditions dictate.
2. Develop, together with the appropriate committee(s) of the Board, the Corporation's approach to: (i) the nomination of the Directors; (ii) the enhancement of governance; (iii) matters relating to compensation of the Directors; and (iv) matters relating to strategy, financial reporting and internal controls.
3. Maintain a high standard for integrity and work ethic within the Board and management of the Corporation.
4. With the assistance of the Nomination, Compensation and Corporate Governance Committee:
 - (a) review the composition of the Board and ensure it respects the objectives of this Charter;
 - (b) assess the effectiveness of the Board, the committees of the Board and the contribution of individual directors, including, consideration of the appropriate number of the directors;
 - (c) ensure that an appropriate review and selection process for new nominees as directors is in place;

- (d) identify the principal non-financial enterprise risks of the Corporation's business and ensure that appropriate systems are in place to manage these risks;
 - (e) ensure that an appropriate orientation and education program for new directors is in place; and
 - (f) adopt disclosure and securities compliance policies, including, without limiting the foregoing, communication policies of the Corporation.
5. With the assistance of the Audit Committee:
- (a) ensure the integrity of the Corporation's internal controls and management information systems;
 - (b) ensure the Corporation's ethical behaviour and compliance with laws and regulations, audit and accounting principles and the Corporation's own governing documents;
 - (c) identify the principal financial risks of the Corporation's business and ensure that appropriate systems are in place to manage these risks; and
 - (d) review and approve significant operational and financial matters and provide direction to management on these matters.
6. Approve and adopt a strategic plan defining the longer-term objectives and accomplishments aspired for the organization and monitor the performance of the Corporation against the strategic plan.
7. Monitor and review feedback provided by the Corporation's various stakeholders.
8. Review major decisions which require the approval of the Board and approve such decisions as they arise.
9. Perform such other functions as prescribed by law or assigned to the Board in the by-laws of the Corporation.

MEETINGS

The Board will meet not less than four times per year (three meetings to review quarterly results and one meeting to approve the annual audited financial statements) and more frequently as circumstances require. All members of the Board should strive to be at all meetings. Subject to the Corporation's by-laws, a quorum for the transaction of business at any meeting of the Board shall consist of a majority of the number of directors then holding office and, notwithstanding any vacancy among the number of directors, a quorum of directors may exercise all of the powers of the directors.

The independent Directors of the Board may meet separately, periodically, without executive management, and may request any member of executive management or the Corporation's outside counsel or independent auditor to attend meetings of the Board or with advisors thereto.

The chair of the Board (the "Chair") should be an independent director. However, if at any time the Chair is not an independent director, a lead director (the "Lead Director") will be appointed from among the independent directors. The Lead Director will act as an effective leader of the Board in respect of matters required to be considered by the independent trustees, and will ensure that the Board's agenda will enable it to successfully carry out its duties.

Minutes shall be maintained for all meetings together with copies of materials presented at meetings and copies be made available to all Board members, with the exception of special meetings of the independent Directors for which the maintenance and distribution of minutes shall be at the discretion of the Chair.

The Chair, in consultation with management, will develop the agenda for each Board meeting. Agendas will be distributed to the Directors before each meeting, and all Directors shall be free to suggest additions to the agenda in advance of the meeting.

Whenever practicable, information and reports pertaining to Board meeting agenda items will be circulated to the Board in advance of the meeting. Reports may be presented during the meeting by members of the Board, management and/or staff, or by invited outside advisors. It is recognized that under some circumstances, due to the confidential nature of matters to be discussed at a meeting, it will not be prudent or appropriate to distribute written materials in advance.

INDEPENDENT ADVICE

In discharging its mandate, the Board shall have the authority to retain, at the expense of the Corporation, special legal, accounting or other advisors as the Board determines to be necessary to permit it to carry out its duties.

MEASURES FOR RECEIVING FEEDBACK

All publicly disseminated materials shall provide for a mechanism for feedback from the Corporation's stakeholders.

Approved, November 2015



FOR THE YEAR ENDED DECEMBER 31, 2015
CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in United States Dollars, unless otherwise stated)

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Aquila Resources Inc. were prepared by management in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Management acknowledges responsibility for the preparation and presentation of the consolidated financial statements, including responsibility for significant accounting judgments and estimates and the choice of accounting principles and methods that are appropriate to the Company's circumstances.

Management has established processes, which are in place to provide them sufficient knowledge to support management representations that they have exercised reasonable diligence that (i) the consolidated financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the consolidated financial statements and (ii) the consolidated financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented by the consolidated financial statements.

The Board of Directors is responsible for reviewing and approving the financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities.

The Board of Directors exercises its responsibilities through the Audit Committee of the Board which meets to satisfy itself that management's responsibilities are properly discharged and with the external auditors to review the financial statements before they are presented to the Board of Directors for approval.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

The Audit Committee has met with the Company's independent auditor to review the scope and results of the annual audit and to review the consolidated financial statements and related financial reporting matters prior to recommending the consolidated financial statements be approved.

The Company's independent auditor, PricewaterhouseCoopers LLP, has conducted an audit in accordance with generally accepted auditing standards in Canada, and their report follows.

Signed

"Barry Hildred"
Chief Executive Officer and Director
Toronto, Canada

"Stephanie Malec"
Chief Financial Officer

March 30, 2016



March 30, 2016

Independent Auditor's Report

To the Shareholders of Aquila Resources Inc.

We have audited the accompanying consolidated financial statements of Aquila Resources Inc. and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2015 and the consolidated statements of net loss and comprehensive loss, changes in shareholders' equity and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215*



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Aquila Resources Inc. and its subsidiaries as at December 31, 2015 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the company's ability to continue as a going concern.

Other matter

The consolidated financial statements of Aquila Resources Inc. as at and for the year ended December 31, 2014, were audited by another auditor who expressed an unmodified opinion on those statements on March 30, 2015.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants, Licensed Public Accountants



CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at December 31, 2015 and 2014

(Expressed in United States Dollars)

	December 31, 2015	December 31, 2014
ASSETS		
Current assets		
Cash and cash equivalents	\$ 3,274,160	\$ 461,175
Accounts receivable	164,067	143,411
Prepaid expenses	54,453	75,000
	3,492,680	679,586
Non-current assets		
Mineral property costs (Note 6)	23,197,092	17,413,340
Security deposits	35,982	172,616
Capital assets (Note 7)	773,324	815,934
TOTAL ASSETS	\$ 27,499,078	\$ 19,081,476
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 1,216,488	\$ 601,054
Debentures payable (Note 8)	-	768,285
Conversion feature on debentures payable (Note 8)	-	16,378
Warrants payable (Note 12)	727,465	661,521
	1,943,953	2,047,238
Silver stream (Note 9)	12,350,000	-
Contingent consideration (Notes 5 & 9)	4,116,623	5,559,900
Total liabilities	18,410,576	7,607,138
Shareholders' equity		
Share capital (Note 10a)	56,350,520	53,634,046
Contributed surplus (Note 10)	7,083,896	6,735,405
Warrants (Note 11)	859,992	40,959
Deficit	(55,205,906)	(48,936,072)
	9,088,502	11,474,338
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 27,499,078	\$ 19,081,476

The accompanying notes are an integral part of these consolidated financial statements.

Nature of operations and going concern (Note 1)

Commitments related to project spending (Note 6(a) and (b))

Approved on behalf of the Board

"Andrew W. Dunn, FCPA, FCA" Director

"Barry Hildred" Director



CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS
 For the year ended December 31, 2015 and 2014
 (Expressed in United States Dollars, except number of shares)

	Year ended December 31,	
	2015	2014
EXPENSES		
Mineral property exploration expenses	\$ 3,882,274	\$ 615,893
Mineral property write-off (Note 6(d))	-	5,540,049
Administrative expenditures (Note 14)	1,959,990	1,948,335
Loss from operations	\$ 5,842,264	\$ 8,104,277
Other expenses (income)		
Transaction costs (Note 9)	518,564	-
Finance charges (Note 15)	51,795	129,454
Gain on settlement of contingent consideration (Note 9)	(416,000)	-
Gain on foreign exchange	(853,190)	(479,826)
Gain on settlement of convertible debentures	(15,382)	-
Gain on change in value of convertible debentures	-	(171,211)
Loss (gain) on change in value of contingent consideration	954,512	(901,076)
Loss (gain) on change in value of warrants	187,271	(289,709)
Total comprehensive loss	\$ 6,269,834	\$ 6,391,909
Loss per share		
Basic and diluted	\$ 0.03	\$ 0.03
Weighted average number of shares outstanding - basic and diluted	213,826,049	185,767,145

The accompanying notes are an integral part of these consolidated financial statements.



CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

As at December 31, 2015 and 2014

(Expressed in United States Dollars)

	Share Capital		Issuable Share Capital		Contributed	Warrants	Deficit	Total
	Number	\$	Number	\$	Surplus			
Balance, December 31, 2013	98,167,697	\$ 42,858,892	84,993,204	\$ 10,387,828	\$ 6,654,698	\$ 108,381	\$ (42,544,163)	\$ 17,465,636
Shares issued as compensation	122,716	14,057	(82,443)	(9,526)	-	-	-	4,531
Shares issued pursuant to an arrangement	66,260,568	8,098,764	(66,260,568)	(8,098,764)	-	-	-	-
Shares issued pursuant to HMI acquisition	18,650,193	2,279,538	(18,650,193)	(2,279,538)	-	-	-	-
Shares issued from private placement	8,972,354	1,071,111	-	-	-	-	-	1,071,111
Fair value assigned to warrants	-	(647,716)	-	-	-	13,285	-	(634,431)
Share issue costs	-	(40,600)	-	-	-	-	-	(40,600)
Warrants expired	-	-	-	-	80,707	(80,707)	-	-
Net loss for the period	-	-	-	-	-	-	(6,391,909)	(6,391,909)
Balance, December 31, 2014	192,173,528	\$ 53,634,046	-	\$ -	\$ 6,735,405	\$ 40,959	\$ (48,936,072)	\$ 11,474,338
Shares issued from private placement	26,923,077	3,500,000	-	-	-	-	-	3,500,000
Share issue costs	-	(166,000)	-	-	-	(34,000)	-	(200,000)
Fair value assigned to warrants	-	(807,692)	-	-	-	807,692	-	-
Shares issued on the settlement of royalty payment	1,730,769	225,000	-	-	-	-	-	225,000
Fair value assigned to warrants	-	(51,923)	-	-	-	51,923	-	-
Shares issued on exercise of warrants	87,500	17,089	-	-	-	(6,582)	-	10,507
Share-based compensation expense	-	-	-	-	348,491	-	-	348,491
Net loss for the period	-	-	-	-	-	-	(6,269,834)	(6,269,834)
Balance, December 31, 2015	220,914,874	56,350,520	-	-	7,083,896	859,992	(55,205,906)	9,088,502

The accompanying notes are an integral part of these consolidated financial statements.



CONSOLIDATED STATEMENTS OF CASHFLOWS
 For the year ended December 31, 2015 and 2014
 (Expressed in United States Dollars)

	Year ended December 31,	
	2015	2014
Cash generated from (used in)		
Operating activities		
Net loss for the period	\$ (6,269,834)	\$ (6,391,909)
Items not affecting cash:		
Change in fair value of warrants	187,271	(289,709)
Gain on settlement of contingent consideration	(416,000)	-
Gain on settlement of debenture payable	(15,382)	-
Gain on change in fair value of convertible debentures	-	(171,211)
Loss (gain) on change in fair value of contingent consideration	954,512	(901,076)
Mineral property write-off	-	5,540,049
Unrealized foreign exchange gain	(889,575)	(479,826)
Share-based compensation	348,491	-
Amortization	42,610	29,714
Accretion	21,599	87,832
	(6,036,308)	(2,576,136)
Net change in non-cash working capital		
Accounts receivable	(20,656)	77,598
Prepaid expenses	20,547	(62,183)
Accounts payable and accrued liabilities	615,434	(963,391)
Contingent consideration	(1,000,000)	-
Security deposit	136,634	(6,192)
Net cash generated from (used in) operating activities	\$ (6,284,349)	\$ (3,530,304)
Investing activities		
Increase in mineral properties	(5,783,752)	(1,545,578)
Net cash used in investing activities	\$ (5,783,752)	\$ (1,545,578)
Financing activities		
Receipt of silver stream	12,350,000	-
Issuance of common shares, net of share issue costs	3,300,000	1,025,978
Exercise of warrants	10,507	-
Cash receivable from arrangement	-	4,221,730
Repayment of debenture	(736,552)	-
Net cash generated from financing activities	\$ 14,923,955	\$ 5,247,708
Increase in cash	2,855,854	171,826
Effect of foreign exchange on cash	(42,869)	
Cash, beginning of period	461,175	289,349
Cash, end of period	\$ 3,274,160	\$ 461,175

The accompanying notes are an integral part of these consolidated financial statements.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015 and 2014

(Expressed in United States Dollars, unless otherwise stated)

1. Nature of Operations and Going Concern

Aquila Resources Inc. (the “Company” or “Aquila”) is in the business of exploring for and developing mineral properties. Substantially all of the Company’s efforts are devoted to these activities.

Aquila was incorporated in the Province of Ontario and is listed on the Toronto Stock Exchange under the symbol “AQA”. The Company’s head office address is 141 Adelaide Street West, Suite 520, Toronto, Ontario, Canada, M5H 3L5.

The Company’s primary investment is the Back Forty Joint Venture LLC (“BFJV”). This investment holds a property for which a Preliminary Economic Assessment Technical Report (PEA) was released in April 2012, and for which a new PEA was released in July 2014. In July 2012 HudBay Minerals Inc. (“HudBay”), which had the controlling interest in the BFJV, suspended its exploration and evaluation activities at the Back Forty Project. On November 7, 2013, Aquila signed a definitive agreement with HudBay to take control and 100% ownership of the BFJV. These transactions were completed in January 2014.

The business of mining and exploration for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The recoverability of the carrying value of exploration properties and the Company’s continued existence is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, and the ability of the Company to raise financing, or alternatively upon the Company’s ability to dispose of its interests on an advantageous basis.

The Company’s ability to realize costs it has incurred to date on its properties is dependent upon it being able to identify economically recoverable reserves; to finance their exploration and evaluation costs; to resolve any environmental, regulatory, or other constraints which may hinder the successful development of the reserves; and to attain profitable operations.

Although the Company has taken steps to verify title to the properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company’s title. Property title may be subject to government licensing requirements or regulations, unregistered prior agreements, undetected defects, unregistered claims, native land claims, and non-compliance with regulatory and environmental requirements.

These conditions indicate the existence of material uncertainties that may cast significant doubt about the Company’s ability to continue as a going concern. Changes in future conditions could require a material write down of carrying values and meet its obligations as they fall due.

These consolidated financial statements have been prepared on the basis of that Aquila is a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying consolidated financial statements. Such adjustments could be material. It is not possible to predict whether the Company will be able to raise adequate financing or to ultimately attain profitable levels of operations. In addition, the Company has taken steps to organize financing for the Company in the short term and have plans for funding options through the development phase of the mine. However, there can be no assurance over the ability to execute on such financing transactions.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2015 and 2014
(Expressed in United States Dollars, unless otherwise stated)

Details of deficit and working capital of the Company are as follows:

	December 31, 2015	December 31, 2014
Deficit	\$55,205,906	\$48,936,072
Working capital	1,548,727	(1,367,652)

2. Accounting Policies

a) Statement of Compliance

The consolidated financial statements of the Company and its subsidiaries have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and interpretations issued by International Financial Reporting Interpretations Committee ("IFRIC") and included in Part 1 of the Handbook for the Canadian Institute of Chartered Professional Accountants, and include the significant accounting policies as described in note 3.

These consolidated financial statements were authorized for issuance by the Board of Directors of the Company on March 30, 2016.

b) Basis of Presentation

These consolidated financial statements have been prepared on a historical cost basis other than contingent consideration and warrant liabilities which are recorded at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

In the preparation of these consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the period. Actual results could differ from these estimates.

c) Basis of Consolidation

These consolidated financial statements include the accounts of the Company and all of its subsidiaries. Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain variable benefits from its power over the entity's activities. Subsidiaries are included in the consolidated financial results of the Company from the effective date of acquisition of control up to the effective date of disposal or loss of control. The Company's principal subsidiaries are: Aquila Resources USA Inc. and Aquila Michigan Inc. (previously known as HudBay Michigan Inc.), which are based in Michigan USA, and REBgold Corporation which is based in Canada. All inter-company balances and transactions have been eliminated.

These consolidated financial statements are expressed in United States Dollars, except those amounts denoted CDN\$ which are in Canadian Dollars. The United States dollar is the functional and reporting currency of the



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2015 and 2014
(Expressed in United States Dollars, unless otherwise stated)

Company and its subsidiaries' operations. Monetary assets and liabilities denominated in foreign currencies are translated into United States dollars at exchange rates in effect at the statement of financial position date. Non-monetary assets and liabilities are translated at historical exchange rates. Revenues and expenses are translated at the rate at the time of the transaction. Any resulting gain or loss is recorded in the condensed statement of loss and comprehensive loss.

d) New Accounting Pronouncements Adopted During the Period

IAS 24, Related Party Disclosures ("IAS 24")

The amendments to IAS 24, issued in December 2013, clarify that a management entity, or any member of a group of which it is a part, that provides key management services to a reporting entity, or its parent, is a related party of the reporting entity. The amendments also require an entity to disclose amounts incurred for key management personnel services provided by a separate management entity. This replaces the more detailed disclosure by category required for other key management personnel compensation. The amendments will only affect disclosure and are effective for annual periods beginning on or after July 1, 2014. The Company adopted the amendments on January 1, 2015, with no material impact its Company's consolidated financial statements.

e) Future Accounting Pronouncements

IFRS 9, Financial Instruments ("IFRS 9")

IFRS 9 was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39, Financial Instruments – Recognition and Measurement ("IAS 39") for debt instruments with a new mixed measurement model having only two categories; amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent not clearly representing a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in comprehensive income indefinitely.

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income. IFRS 9 will be effective as at January 1, 2018. The Company is in the process of assessing the impact of this pronouncement. The extent of impact has not yet been determined.

IFRS 15, Revenue from Contracts with Customers ("IFRS 15")

IFRS 15 was issued in May 2014 to replace IAS 18, Revenue, IAS 11, Construction Contracts, and related interpretations on revenue. IFRS 15 establishes principles to address the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. IFRS 15 will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively and improve guidance for multiple element arrangements. Companies can elect to use either a full or modified retrospective approach when adopting this standard and it is effective for annual periods beginning on or after



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015 and 2014

(Expressed in United States Dollars, unless otherwise stated)

January 1, 2018. The Company is in the process of analyzing IFRS 15 and determining the effect on its financial statements as a result of adopting this standard.

IFRS 16, Leases ("IFRS 16")

IFRS 16 was issued in January 2016, replaces IAS 17, Leases. IFRS 16 results in most leases being reported on the balance sheet for lessees, eliminating the distinction between a finance lease and an operating lease. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted for companies that also adopt IFRS 15. The Company is currently assessing the impact of this standard.

3. Critical Accounting Estimates, Risks and Uncertainties

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual outcomes can differ from these estimates. The key sources of judgment and estimation uncertainty that have a significant risk of causing material adjustment to the amounts recognized in the financial statements are:

a) Impairments of mineral property costs

When there are indications that an asset may be impaired, the Company is required to estimate the asset's recoverable amount. The recoverable amount is the greater of value-in-use and fair value less costs to sell. The key judgement related to the financial statements is the permitting of the Back Forty project and the ability to undertake feasibility studies on the property to develop and operate it. Should there be negative information in this regard, or negative information from future feasibility studies, then an impairment assessment would be required to be performed.

b) Accounting for streaming agreement

The company has entered into a streaming arrangement in 2015 and received \$12.35 million in the year which are being used for the development of the Back Forty mine. Refer to Note 9 (b) for further details.

c) Share-based payments

Management determines costs for share-based payments using market-based valuation techniques. The fair value of the share awards and warrant liabilities are determined at the date of grant using generally accepted valuation techniques and for warrant liabilities at each balance sheet date thereafter. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price and expected dividend yield. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015 and 2014

(Expressed in United States Dollars, unless otherwise stated)

d) Contingent consideration

The valuation of contingent consideration relies on several estimates which include the commencement date of development activities, discount rates on present value calculations and the assessment of several key risks including permitting, feasibility study and commercial production.

4. Significant Accounting Policies

a) Translation of foreign currencies

The United States dollar is the functional and reporting currency of the Company's operations. Monetary assets and liabilities denominated in foreign currencies are translated into United States dollars at exchange rates in effect at the statement of financial position date. Non-monetary assets and liabilities are translated at historical exchange rates on the date of transaction. Transactions in foreign currencies are translated at the actual rates of exchange on the transaction dates.

Gains and losses on foreign currency translation are recorded in the consolidated statement of net loss and comprehensive loss. Transaction for revenues and expenses are translated at the average rates during the period in which they occurred with the exception of the amortization of capital assets which is recorded at the historical rates of exchange.

b) Cash and cash equivalents

Cash and cash equivalents include cash and highly liquid short-term investments held in the form of high quality money market investments with a maturity date of less than three months at acquisition. The Company's cash and cash equivalents are held in Canadian and United States financial institutions with strong credit ratings. Approximately 98% of the Company's cash and cash equivalents are held in Canadian financial institutions. As at December 31, 2015 and December 31, 2014, the cash and cash equivalents balance was composed entirely of cash.

c) Impairment

Financial assets

At the end of each reporting period, the Company assesses its financial assets to determine whether there is any objective evidence that they are impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the statement of comprehensive loss.

Non-financial assets

At the end of each reporting period, non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs of disposal, the asset is written down accordingly. Any impairment is recognized in the statement of loss.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015 and 2014

(Expressed in United States Dollars, unless otherwise stated)

Reversal of Impairment

An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. An impairment loss with respect to goodwill is never reversed.

d) Mineral property costs

Mineral property costs relating to the acquisition of properties, that are incurred after the legal right to explore has been obtained, are capitalized until the properties are brought into production, at which time they are amortized on a unit of production basis. Other exploration expenses are charged to operations as incurred. The cost of exploration properties abandoned, impaired or sold and their related capitalized acquisition costs are expensed to operations in the year of abandonment or sale. The amounts shown as mineral property costs represent unamortized costs to date and do not necessarily reflect present or future values.

Costs include the cash consideration and the fair market value of shares issued for the acquisition of properties. The carrying value is reduced by option proceeds received until such time as the mineral property costs are reduced to nominal amounts. Properties acquired under option agreements, whereby payments are made at the sole discretion of the Company are recorded in the accounts at the time of payment.

When a project is considered to no longer have commercially viable prospects for the Company, deferred mineral property costs in respect of that property are assessed as impaired and written off to the statement of loss. The Company also assesses mineral property costs for impairment when other facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount.

e) Capital assets

Capital assets consist of land, buildings, furniture and fixtures which are initially recorded at cost. Depreciation is recorded using the following rates and methods:

Buildings	4%	Declining balance
Furniture and fixtures	20%	Declining balance

Depreciation on additions commences when assets are available for use.

f) Provisions

Provisions, which include decommissioning liabilities, are liabilities that are uncertain in timing or amount. The Company records a provision when:

- (i) the Company has a present obligation, legal or constructive, as a result of a past event;
- (ii) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- (iii) a reliable estimate can be made of the amount of the obligation.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015 and 2014

(Expressed in United States Dollars, unless otherwise stated)

Constructive obligations are obligations that derive from the Company's actions where:

- (i) by an established pattern of past practice, published policies or a sufficiently specific current statement, the Company has indicated to other parties that it will accept certain responsibilities; and
- (ii) as a result, the Company has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Provisions are reviewed at the end of each reporting period and adjusted to reflect management's current best estimate of the expenditure required to settle the present obligation at the end of the reporting period. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed. Provisions are reduced by actual expenditures for which the provision was originally recognized. Where discounting has been used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase (accretion expense) is included in finance costs in the statements of loss and comprehensive loss.

- g) Deferred revenue

The Company recognizes deferred revenue in the event it receives payments from customers before a sale meets criteria for revenue recognition.

- h) Income taxes

Income tax expense comprises current and deferred income tax. Income tax is recognized in the statement of loss except to the extent it relates to items recognized in other comprehensive loss or directly in equity.

Current income tax

Current income tax expense is based on the results for the period as adjusted for items that are not taxable and not deductible. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period. Management at the end of each reporting period evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax

Deferred income taxes are the taxes expected to be payable or recoverable on differences between the carrying amounts of assets in the financial statements and their corresponding tax bases used in the computation of taxable profit, and are accounted for using the asset and liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences between the carrying amounts of assets and their corresponding tax bases. Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

- i) Share-based compensation

The Company applies the fair value method of accounting for share-based payments granted to employees and other individuals providing similar services. The fair value of the options is determined using an option pricing model that takes into account, as of the grant date, the exercise price, the expected life of the option, the current price of the underlying stock and its expected volatility, expected dividends on the stock, and the risk free interest rate over the expected life of the option. Each tranche of an option that vests over time is considered a separate



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015 and 2014

(Expressed in United States Dollars, unless otherwise stated)

award and the fair value of each tranche is expensed over its vesting period with the corresponding credit to contributed surplus. Cash consideration received on exercise of options is credited to share capital along with the original grant date fair value of the options exercised. The value of options forfeited before vesting is removed from contributed surplus and credited to operations, while the value of options that expire after vesting is credited directly to retained earnings.

Share-based payments granted to non-employees are measured at the fair value of goods received unless that cannot be reasonably estimated in which case the fair value of the share-based payments are used. The measurement date is generally the date the goods or services are received.

j) Warrants

All warrants issued under a unit financing arrangement are valued on the date of grant using the Black-Sholes option pricing model, net of related issue costs and are recorded in the warrant reserve. Expired warrants are removed from contributed surplus and credited directly to retained earnings. Where warrants are denominated in a currency other than the Company's functional currency, they are considered a derivative liability and marked to market at each period and using the Black-Sholes method.

k) Basic and diluted loss per share

The Company presents basic and diluted loss per share data for its common shares. Dilution is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares, which comprise convertible warrants and share options granted to directors, officers, employees, consultants and other service providers of the Company. For the period ended December 31, 2015, potentially dilutive common shares issuable on exercise of options or warrants outstanding and conversion options were not included in the computation of loss per share because their effect was anti-dilutive.

l) Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

At initial recognition, the Company classifies its financial instruments in the following categories:

- (i) Financial Assets and Liabilities at Fair Value Through Profit or Loss: A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short term. Financial instruments in this category are recognized initially and subsequently at fair value.
- (ii) Available-for-sale Investments: Non-derivatives that are either designated in this category or not classified in any other category. Available-for-sale investments are initially recognized at fair value plus transaction costs and subsequently carried at fair value with changes in fair value recognized in other comprehensive loss. The Company classifies its short term investments as available-for-sale investments.



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- (iii) Loans and Receivables: Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise trade receivables and cash and cash equivalents, and are included in current assets due to their short term nature. Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the amount to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest rate method less a provision for impairment.
- (iv) Financial Liabilities at Amortized Cost: Trade payables and other payables are classified as financial liabilities at amortized cost. Trade payables and other payables are initially recognized at the amount expected to be paid, less, when material, a discount to reduce the amount to fair value. Subsequently trade payables and other payables are measured at amortized cost using the effective interest rate method.

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments recorded at fair value by valuation technique:

Level 1: The fair value measurements are classified as level 1 if the fair value is determined using quoted, unadjusted market prices for identical assets or liabilities.

Level 2: The fair value measurements are classified as level 2 when inputs other than quoted prices in level 1 which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: The fair value measurements are classified as level 3 when inputs require unobservable market data or use statistical techniques to derive forward curves from observable market data and unobservable inputs.

5. Contingent Consideration

On December 30, 2013, the shareholders approved the acquisition of 100% of the shares of HudBay Michigan Inc. ("HMI"), a subsidiary of HudBay Minerals Inc. ("HudBay"), effectively giving Aquila 100% ownership in the Back Forty Project (the "HMI Acquisition"). Pursuant to the HMI Acquisition, HudBay's 51% interest in the Back Forty Project was acquired in consideration for the issuance of common shares of Aquila, future milestone payments tied to the development of the Back Forty Project and a 1% net smelter return royalty on production from certain land parcels in the project.

The contingent consideration is composed of the following:

- a) Fair value of future instalments is based on CDN \$9.0 million tied to development of the Back Forty project as follows:
 - (i) CDN \$3.0 million payable on completion of any form of financing for purposes including the commencement of construction of Back Forty (up to 50% of the CDN \$3.0 million can be paid, at Aquila's option in Aquila shares with the balance payable in cash);
 - (ii) CDN \$2.0 million payable in cash 90 days after the commencement of commercial production;
 - (iii) CDN \$2.0 million payable in cash 270 days after the commencement of commercial production, and;
 - (iv) CDN \$2.0 million payable in cash 540 days after the commencement of commercial production.



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- b) Fair value of the 1% net smelter royalty (NSR) on production from certain land parcels on the Back Forty project, capped at CDN \$7.0 million

On March 31, 2015, Aquila paid HudBay \$1.0 million in cash plus \$225,000 of Unit financing (as described above) which is equivalent to 1,730,769 units, with each unit comprising one share and one-half of one warrant, to settle the 1% net smelter return (“NSR”) royalty portion of the contingent consideration. For additional information refer to note 9.

For the period ended December 31, 2015, a time value of money calculation was utilized to value the contingent consideration. Each milestone payment was assessed separately. Key risks including permitting, feasibility study, commercial production and timing were each assigned a probability weighting based on the likelihood of occurrence. U.S. Department of the Treasury bond yields ranging from 1.06% to 1.93% were used as the risk-free rate. The milestone payments are estimated to commence in 2017 with commercial production starting in 2020. When performing a sensitivity analysis a 10% change in each of the probabilities, will impact on the fair value of the contingent consideration by an estimated \$1,149,000 to \$1,250,000. If another key assumption, being the commencement of the milestone payments and the commencement of production, were pushed by one year to 2018 and 2021, respectively, the combined impact on fair value would decrease by an estimated \$83,200.

The fair value of the contingent consideration as of December 31, 2015 is as follows:

Milestone payments	\$5,304,000
1% NSR royalty	1,696,000
Fair value as at December 31, 2013	\$7,000,000
Gain on change in fair value of contingent consideration	(901,076)
Change due to foreign exchange	(539,024)
Fair value as at December 31, 2014	\$5,559,900
Loss on change in value of contingent consideration	954,512
Settlement of 1% NSR royalty (note 9 (c))	(1,696,000)
Change due to foreign exchange	(701,789)
Fair value as at December 31, 2015	\$4,116,623



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6. Mineral Property Costs

Total accumulated deferred mineral property costs are detailed as follows:

	Balance beginning of period	Acquisition	Adjustment/ Write-off	Balance, end of period
Year ended December 31, 2014				
Back Forty Project	\$15,747,695	\$1,488,414	-	\$17,236,109
Reef Gold Project	147,012	30,219	-	177,231
REBgold Acquisition	5,513,104	26,945	(5,540,049)	-
	\$21,407,811	\$1,545,578	\$(5,540,049)	\$17,413,340

	Balance beginning of period	Acquisition	Adjustment/ Write-off	Balance, end of period
Year ended December 31, 2015				
Back Forty Project	\$17,236,109	\$5,740,699	-	\$22,976,808
Reef Gold Project	177,231	43,053	-	220,284
	\$17,413,340	\$5,783,752	\$ -	\$23,197,092

(a) Back Forty Project

The Back Forty Project (the “Project”) controls surface and mineral rights which are owned or held under lease or option by BFJV. Some lands are subject to net smelter royalties varying from 1% to 3.5%, with certain lands subject to a 2% - 7% state royalty, which under state law can be renegotiated, at the option of Aquila.

During the year, \$4.2 million of the acquisition costs related to the Vale royalty repayment (Note 9 (d)) and \$1.5 million relates to additional land acquisitions.

Estimated lease, option and property acquisition costs related to the Back Forty Project for 2016 to 2018, for which the Company is materially liable, are as follows:

Year	Amount
2016	\$ 198,468
2017	\$ 190,803
2018	\$ 205,637

(b) Reef Gold Project

The Company entered into a series of agreements with private landholders in Marathon County, Wisconsin for the optioning of surface and mineral rights. The agreements consist of mining leases and exploration agreements with an option to purchase. These agreements which have terms from 2 to 20 years up to 2031.



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A variable net smelter royalty up to 2% is payable in the event of mineral production on the property. Estimated lease and/or option costs related to the Reef Project for 2016 to 2018, which are at the Company's option, are as follows:

Year	Amount
2016	\$ 217,031
2017	\$ 621,757
2018	\$1,459,175

(c) Bend (*previously known as Exploration Alliance*)

On October 15, 2010, the Company signed an Exploration Alliance agreement with HudBay. Under the agreement HudBay funded exploration conducted by the Company (as Project Operator) in Michigan and other designated areas. The agreement was terminated in July 2012 and the Company maintained its 100% interest in three properties: Sturgeon Falls, Five Mile Lake and Bend.

During the year ended December 31, 2013, the Company terminated the agreements for the Sturgeon Falls, and Five Mile Lake properties. While there is no capitalized value associated with its 100% ownership of the Bend property, the Company is continuing to pursue this project.

(d) Finland – Rantasalmi and Kiimala Properties (“REBgold Acquisition”)

In July 2011, REBgold (a subsidiary of Aquila) entered into a definitive Shareholders' Agreement as contemplated by the Letter of Intent ("LOI"), signed in March 2011 with Belvedere Resources Finland oy ("BelFin"), a wholly-owned subsidiary of Belvedere Resources ("Belvedere", TSX.V:BEL) for REBgold to earn an interest in two of BelFin's gold properties in Central Finland, the Kiimala and Rantasalmi properties (the "Properties").

During year ended December 31, 2014, the Company decided not to maintain the Rantasalmi and Kiimala properties and as a result wrote off \$5,540,049 of capitalized mineral property costs that had been incurred on those properties.



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7. Capital Assets

Cost	Land	Buildings	Furniture and Fixtures	Total
Balance, December 31, 2015 and 2014	\$ 380,880	\$ 541,017	\$ 33,382	\$ 955,279

Accumulated Depreciation	Land	Buildings	Furniture and Fixtures	Total
Balance, December 31, 2013	\$ -	\$ 86,589	\$ 22,960	\$ 109,549
Charge	-	19,650	10,146	29,796
Balance, December 31, 2014	\$ -	\$ 106,239	\$ 33,106	\$ 139,345
Charge	-	42,334	276	42,610
Balance December 31, 2015	\$ -	\$ 148,573	\$ 33,382	\$ 181,955

Net book value, December 31, 2014	\$ 380,880	\$ 434,778	\$ 276	\$ 815,934
Net book value, December 31, 2015	\$ 380,880	\$ 392,444	\$ -	\$ 773,324

8. Debentures Payable

Year ended December 31,	2015	2014
Convertible debenture maturing April 2, 2015	\$ -	\$ 423,640
Convertible debenture maturing April 13, 2015	-	344,645
	\$ -	\$ 768,285

a) Convertible Debenture Maturing April 2, 2015

In April 2013, REBgold (a subsidiary of the Company) closed CDN\$510,000 of convertible debentures bearing interest at 8% per annum, compounded and payable upon the maturity date of April 2, 2015. The debentures are convertible into common shares by the holders at any time at a price of CDN15 cents per common share. The CDN\$510,000 debenture plus all applicable interest was paid to the holders on April 5, 2015. No debentures were converted into common shares.

b) Convertible Debenture Maturing April 13, 2015

In October 2010, REBgold closed CDN\$430,000 convertible, redeemable debentures that bear interest at a fixed rate of 18% per year and are convertible into 430,000 common shares of the Company at a price of CDN\$1.00 per share. In addition, REBgold issued 430,000 common share purchase warrants to the debenture holders with an exercise price of CDN\$1.20.

In December 2010, REBgold completed a Plan of Arrangement with a company called BacTech Environmental Corporation ("BEC"), whereby BEC assumed 20% of the debenture obligation from REBgold. At that time, 20%



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of the book value of the debenture obligation was CDN\$66,642; this would accrete to CDN\$86,000 over the remaining life of the debenture. Upon maturity, REBgold would repay the debenture obligation and accrued interest to the debenture holders and receive from BEC 20% of the principal plus 20% of the interest accrued from December 2, 2010 to maturity.

In April, 2012, REBgold extended the maturity date of the CDN\$410,000 principal amount of the outstanding convertible debentures and 410,000 common share purchase warrants, by three years, with an original maturity date of April 13, 2012 and a new maturity date of April 13, 2015.

The debentures were measured on the acquisition of REBgold at their fair value, with the conversion feature considered to be an embedded derivative, being valued first, and the residual assigned to the debentures.

On April 13, 2015, the CDN\$410,000 convertible debenture was repaid in full. The 410,000 share purchase warrants expired unexercised. The CDN\$86,000 owed by BEC is included in accounts receivable.

9. Orion Financing and Streaming Agreement

On March 31, 2015, the Company closed a financing transaction with Orion Mine Finance (“Orion”) that includes an equity private placement and a silver purchase agreement for total cash payments of \$20.75-million. Concurrent with the transaction, the Company has also completed the repurchase of two existing royalties on Back Forty.

a) Equity Private Placement

The Company issued 26,923,077 units to Orion at a price of 13 cents per unit for gross proceeds of \$3.5 million. Each unit was composed of one common share and one-half of a warrant. Each full warrant entitles Orion to purchase one common share for a price of 19 cents (CDN 26 cents) for a period of 36 months. Orion also has the right to participate in any future equity or equity-linked financings to maintain its ownership level in Aquila. In connection with the private placement, Orion received the right to nominate one individual to the board of directors of Aquila for 24 months and thereafter for such time as Orion owns at least 10 per cent of the outstanding common shares. Orion’s nominee was elected to the board of directors in June 2015. At December 31, 2015, Orion held 14% of the common shares of the Company. The proceeds received from this transaction were recorded as an equity transaction. Refer to note 10(a) for further information.

b) Silver Stream

Under the terms of the silver purchase agreement, Orion has agreed to purchase up to 75 per cent of the total silver produced from the Back Forty project at \$4.00 per ounce. In exchange for the right to purchase silver, Orion will pay Aquila \$17.25 million, payable in five instalments. Orion has advanced the first instalment of \$6.5 million, the second instalment of \$3.0 million, an advance on the third instalment of \$1.5 million plus the \$1.35 million land payment, a total of \$12.35 million and is shown as Silver Stream on the Statement of Financial Position as at December 31, 2015. The remaining \$4.9 million is payable in two instalments over the next 12 months and is subject to the completion of certain milestones and the satisfaction of certain other conditions. Therefore, it is not reflected in the statement of financial position at this time. Orion has been provided a general security agreement over the subsidiaries of Aquila that are directly involved with development of the Back Forty project. Where the market price of silver is greater than \$4, the difference realized from the sale of the silver will be applied against any deposit received from Orion.



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The initial term of the agreement is for 40 years, automatically renewable for the successive 10 year periods, unless there has been no active mining operations on the Back Forty property during the last 10 years of the initial term or throughout any renewal terms.

The agreement is subject to certain operating and financial covenants, which are in good standing as of December 31, 2015.

The first instalment amount of \$6.5 million as at March 31, 2015 was used as an advance of \$1.5 million to Aquila, plus the Royalty Termination arrangements to HudBay Minerals Inc. for \$1.0 million and to Vale Exploration USA Inc. for \$4.0 million as further discussed in (c) and (d) below.

The land payment of \$1.35 million was used for the final property payment at Back Forty.

c) Net Smelter Return (“NSR”) Termination Payment to HudBay Minerals Inc. (“HudBay”)

During 2013, the Company acquired 100% interest in the Back Forty project from HudBay as noted in note 5. The purchase consideration included a contingent consideration payable to HudBay of a 1% NSR royalty on production from certain land parcels in the Back Forty project. The total carrying value of the contingent consideration as at December 31, 2014 was approximately \$5.5 million, of which the amount that related to the HudBay NSR was approximately \$1.7 million (note 5). Effective March 31, 2015, Aquila paid HudBay \$1.0 million in cash plus \$225,000 of unit financing equivalent to 1,730,769 units, with each unit comprising one share and one-half of one warrant, to settle the 1% NSR portion of the contingent consideration.

The difference between the carrying amount of the financial liability of \$1.696 million, plus the pro rata share of the transaction costs of \$55,000, that was extinguished, and the consideration paid through equity instruments which is made up the \$1.0 million in cash plus \$225,000 of Unit financing, was recognized as gain on the statement of net loss and comprehensive loss.

d) Royalty Termination Payments Vale Exploration USA Inc. (“Vale”)

Mineral interests generally include acquired royalty interests and stream metal purchase agreements in producing, advanced/development and exploration stage properties. Royalty stream interests are recorded at cost and capitalized as tangible assets with finite lives. Accordingly, the \$4.0 million payment to Vale for the repurchase of the royalty stream has been capitalized, plus the pro rata share of transactions costs of \$220,000, to the Back Forty’s Mineral Property Costs.

e) Transaction Costs

Transactions costs for this transaction have been allocated on a pro rata basis between the equity transaction, royalty termination payments to HudBay and Vale, and the Silver Stream arrangement.

Specifically, transactions costs relating to:

- i. the private placement have been deducted pro rata from the value assigned to the shares and warrants;
- ii. the settlement of contingent consideration and termination of existing royalty agreement with HudBay would constitute costs that relate to a financial liability reported at fair value is recognized as an expense; and



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iii. the acquisition of Vale royalty constitute costs directly attributable to the acquisition of a capitalized asset, and hence have been capitalized to the related asset.

10. Share Capital

a) Authorized

Unlimited number of common shares.

Issued and outstanding:

	Number of Shares	Total
Balance, December 31, 2013	98,167,697	\$42,858,892
Shares issued as compensation (i)	122,716	14,057
Shares issued pursuant to Arrangement (ii)	66,260,568	8,098,764
Shares issued pursuant to HMI Acquisition (ii)	18,650,193	2,279,538
Shares issued pursuant to private placement (iii)	8,972,354	1,071,111
Fair value assigned to warrants (iii)	-	(647,716)
Share issue costs (iii)	-	(40,600)
Balance, December 31, 2014	192,173,528	\$53,634,046
	Number of Shares	Total
Balance, December 31, 2014	192,173,528	\$53,634,046
Shares issued from private placement, net of costs (iv)	26,923,077	3,500,000
Transaction costs relating to private placement	-	(200,000)
Fair value assigned to warrants (iv)	-	(807,692)
Transaction costs assigned to warrants (iv)	-	34,000
Shares issued on settlement of royalty obligation (v)	1,730,769	225,000
Fair value assigned to warrants on settlement of royalty obligations (v)	-	(51,923)
Shares issued on exercise of warrants (vi)	87,500	17,089
Balance, December 31, 2015	220,914,874	\$56,350,520

- i) During the year ended December 31, 2014, 122,716 common shares were issued with a value of \$14,057. The shares were issued under a compensation agreement and the value was equal to the value of the services received.
- ii) As per the terms of the Plan of Arrangement, 64,825,568 Aquila shares were issuable in exchange for all of the outstanding shares of REBgold. Aquila also issued 18,650,193 to HudBay Minerals Inc. for the acquisition of 51% of the Back Forty Joint Venture LLC and 1,435,000 shares were granted to directors, officers and consultants of Aquila and REBgold.



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- iii) During the year ended December 31, 2014, the Company completed a private placement and issued 8,972,354 units consisting of a common share and a full warrant at a price of CDN \$0.13 for gross proceeds of \$1,071,111. Cash share issue costs in the amount of \$40,600 were incurred.

Each full warrant entitles the holder to purchase a common share of the Company for a period of 3 years from date of issue at an exercise price of CDN \$0.15 per share. In addition, 238,572 broker warrants were issued entitling the holder to purchase a common share of the Company for a period of 3 years from date of issue at an exercise price of CDN \$0.15 per share. A fair value of \$647,716 was estimated and assigned to the warrants, with \$13,285 was assigned to the broker warrants and the balance of \$634,431 assigned to the remaining warrants which are classified as a warrant liability. The fair value was estimated using the Black-Scholes valuation model under the following assumptions; risk free interest rate 1.19%, expected life 3 years, price volatility 113%, share price CDN \$0.12, dividend yield nil. The Company estimated volatility based on the Company's three year historical volatility prior to the grant.

- iv) Under the terms of a private placement, on March 31, 2015, the Company issued 26,923,077 units ("Units") at a price of 13 cents (CDN 18 cents) per unit for gross proceeds of \$3.5 million. Each Unit is comprised of one common share and one-half of a warrant ("Warrant"). Each full Warrant entitles the bearer to purchase one common share for a price of 19 cents (CDN 26 cents) for a period of 36 months. Transaction costs allocated to this private placement were \$200,000. (For further information on this transaction, see note 9).

The resulting 13,461,539 warrants issued in conjunction with the private placement were ascribed a fair value of \$807,692 using the Black-Scholes pricing model with the following assumptions: a dividend yield of 0%, expected volatility of 116.14%, risk free interest rate 0.49%, and an expected life of 3 years. Transactions costs of \$34,000 were allocated to the warrants. See note 11(b) for further details.

- v) On March 31, 2015, the Company issued a further 1,730,769 units in settlement of a royalty termination to HudBay Minerals Inc. The resulting 865,385 warrants were ascribed a fair value of \$51,923 using the Black-Scholes pricing model with the following assumptions: a dividend yield of 0%, expected volatility of 116.14%, risk free interest rate 0.49%, and an expected life of 3 years. See note 11(b) for further information.
- vi) During the year ended December 31, 2015, 87,500 warrants were exercised at a price of CDN 15 cents per warrant, each exchangeable for one common share, for gross proceeds of CDN \$13,125 (US \$10,507). The relative fair value assigned to the warrants on issuance in the amount of CDN \$7,000 (US \$6,582) was transferred from warrants to share capital. See note 10(a) for further information.

- b) Stock-option plan and share-based compensation:

The Company maintains a Stock Option Plan (the "Plan") for the benefit of directors, officers, employees, consultants and other service providers of the Company and its subsidiaries in order to assist the Company in attracting, retaining, and motivating such persons by providing them with the opportunity, through stock options to acquire an increased proprietary interest in the Company. Under the Plan, options may be granted for a term not exceeding ten years. The number of common shares that may be reserved for issuance to any one person must not exceed 5% of the outstanding common shares. The exercise price of an option may not be lower than the



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closing price of the common shares on the TSX, subject to applicable discounts, on the business day immediately before the date the option is granted. The options are non-transferable and non-assignable.

A summary of the Company's stock option, and changes during the year ended December 31, 2015 are presented below:

	Number of Stock Options	Weighted Average Exercise Price CDN
Balance - January 1, 2013	14,310,000	\$ 0.16
Forfeited options	(195,000)	0.21
Balance, January 1, 2013 and December 31, 2014	14,115,000	\$ 0.16

	Number of Stock Options	Weighted Average Exercise Price CDN
Balance - January 1, 2015	14,115,000	\$ 0.16
Granted (i)	3,950,000	0.19
Granted (ii)	1,400,000	0.19
Forfeited options	(1,565,000)	0.27
Balance, December 31, 2015	17,900,000	\$ 0.16

- (i) On April 7, 2015, the Company granted 3,950,000 options, of which 1,000,000 options vest immediately. The remaining 2,950,000 options vest as follows: 25% vest on issuance, 25% in 12 months, 25% in 24 months and 25% in 36 months, to directors, officers, and employees of the Company, each such option entitling the holder to acquire one common share of the Company at an exercise price of CDN 19 cents until April 6, 2020.

The fair value assigned was estimated using the Black-Scholes option pricing model with the following assumptions: a dividend yield of 0%, forfeiture rate of 0%, expected volatility of 99%, risk free interest rate 0.59%, and an expected life of 5 years. The stock options were assigned a value of \$379,484, of which \$289,248 was charged to income with the offset to contributed surplus during the year ended December 31, 2015. The remaining fair value balance of \$90,236 is to be charged to income in future periods.

- (ii) On June 26, 2015, the Company granted 1,400,000 options, of which 25% vest on issuance, 25% in 12 months, 25% in 24 months and 25% in 36 months, to directors and an officer of the Company, each such option entitling the holder to acquire one common share of the Company at an exercise price of CDN 19 cents until June 25, 2020.

The fair value assigned was estimated using the Black-Scholes option pricing model with the following assumptions: a dividend yield of 0%, forfeiture rate of 0%, expected volatility of 99%, risk free interest rate 0.87%, and an expected life of 5 years. The stock options were assigned a value of \$123,292, of which \$59,243 was charged to income with the offset to contributed surplus during the year ended December 31, 2015. The remaining fair value balance of \$64,048 is to be charged to income in future periods.



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As at December 31, 2015, common share stock options held by directors, officers, employees and consultants are as follows:

Expiry Date	Number of Options Outstanding	Number of Options Vested	Weighted Average Exercise Price CDN	Weighted Average Remaining Contractual Life (years)
January 16, 2019	12,550,000 *	12,550,000	\$ 0.15	3.04
April 6, 2020	3,950,000	2,112,500	0.19	4.35
June 25, 2020	1,400,000	350,000	0.19	4.49
	17,900,000	15,012,500	\$ 0.16	3.44

* Issued under plan of arrangement.

11. Warrants

The movements in the number and estimated fair value of outstanding broker warrants and share purchase warrants for the year ended December 31, 2015 and 2014 are as follows:

a) Canadian Dollar Warrants

	2015		2014	
	Number of warrants	Weighted average exercise price (CDN)	Number of warrants	Weighted average exercise price (CDN)
Balance, January 1	18,561,126	\$0.44	9,550,200	\$0.72
Exercised (note 10a(vi))	(87,500)	0.15	-	-
Granted (note 10a(iii))	-	-	9,210,926	0.15
Expired	(2,111,500)	1.04	(200,000)	0.51
Balance, December 31,	16,362,126	\$0.36	18,561,126	\$0.44



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b) US Dollar Warrants

	2015		2014	
	Number of warrants	Weighted average exercise price (USD)	Number of warrants	Weighted average exercise price (USD)
Balance, January 1	-	\$0.00	-	\$0.00
Issued (notes 9a,9c,10a(iv)&10a(v))	14,326,924	0.19	-	-
Balance, December 31,	14,326,924	\$0.19	-	\$0.00

The exercise price, expiry date, and warrants issued and outstanding as at December 31, 2015 are as follows:

Number of warrants outstanding	Exercise Price CDN	Expiry Date	Weighted average life (yrs)
72,450	\$ 0.15	January 16, 2016	0.04
2,000,000	1.00	November 10, 2016	0.87
1,950,000	1.00	November 10, 2016	0.87
9,210,926	0.15	September 18, 2017	1.72
2,945,000	0.20	May 17 to June 21, 2018	2.48
183,750	0.12	May 17 to June 22, 2018	2.48
16,362,126	\$ 0.36		1.65

Number of warrants outstanding	Exercise Price USD	Expiry Date	Weighted average life (yrs)
14,326,924	\$ 0.19	March 31, 2018	2.51
14,326,924	\$ 0.19		2.51

Subsequent to year end, 45,500 Canadian dollar warrants were exercised for proceeds of \$6,825 and 26,950 Canadian dollar warrants expired unexercised.

12. Derivative Liabilities

a) Warrants

During the year ended December 31, 2015, no equity offerings were completed whereby warrants were issued with exercise prices denominated in Canadian dollars (December 31, 2014 – 18,561,126 warrants). Where the warrants have an exercise price denominated in a currency which is different from the functional currency of the



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Company (US dollar), the warrants are treated as a financial liability. The Company's share purchase warrants are classified and accounted for as a financial liability at fair value with changes in fair value recognized in net earnings. The warrant derivative liability is classified as level 2 in the fair value hierarchy. As of December 31, 2015, the Company had 15,867,354 (December 31, 2014 – 17,978,851) warrants outstanding which are classified and accounted for as a financial liability. The Company uses the Black-Scholes Option Pricing Model to estimate the fair value of the Canadian dollar denominated warrants. See note 10a for further information.

For the year ended December 31,	2015	2014
Risk-free interest rate	0.48%	1.00-1.21%
Expected life	1-3 years	1-3 years
Price volatility	89-100%	91-118%
Share price (CDN\$)	0.17	0.1
Dividend yield	Nil	Nil

Black-Scholes pricing models require the input of highly subjective assumptions. Volatility was estimated based on average daily volatility based on historical share price observations over the expected term of the option grant.

13. Related Party Transactions

In accordance with IAS 24, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any directors (executive and non-executive) of the Company. The remuneration of directors and key executives is determined by the nomination, compensation and governance committee of the Board of Directors. During the year ended December 31, 2015, director's fees, professional fees and other compensation of directors and key management personnel were as follows:

For the year ended December 31,	2015	2014
Short-term compensation and benefits	\$ 885,344	\$ 730,500
Share-based payments (fair value of stock option benefits and share based payments)	348,491	-
	\$ 1,233,835	\$ 730,500

As at December 31, 2015, \$1,998 (December 31, 2014 - \$4,310) is included in accounts payable in connection with amounts due to key management personnel.

During the year ended December 31, 2015 a total of \$91,250 (2014 - \$51,750) was billed to the Company by a geological consulting company of which the VP of Exploration is the president.

During the year ended December 31, 2015 rental expenditures in the amount of \$14,400 (2014 - \$14,400) were paid to a company of which the VP, Exploration is a part owner.

During the year ended December 31, 2015, a total of \$88,377 (2014 - \$245,544) was billed to the Company by a consulting company of which the Chief Executive Officer is the owner.

During the year ended December 31, 2015, a total of \$69,045 (2014 - \$24,989) was billed to the Company by a consulting company of which the VP, Project Development is the owner.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015 and 2014

(Expressed in United States Dollars, unless otherwise stated)

14. Administrative Expenses

For the year ended December 31,	2015	2014
Amortization	\$ 42,610	\$ 29,714
Management and consulting fees	293,550	652,056
Directors' fees	150,046	157,968
Filing and regulatory fees	76,428	80,449
Office, general and administration	159,886	361,121
Professional fees	182,123	214,328
Rent	42,703	48,161
Salaries and benefits	514,884	228,119
Share-based compensation	348,491	-
Travel and promotion	149,269	176,419
Total	\$1,959,990	\$1,948,335

15. Finance Charges

For the year ended December 31,	2015	2014
Interest and bank charges	\$ 4,840	\$ 5,131
Interest income	(246)	(53,904)
Debenture interest	25,602	90,395
Debenture accretion	21,599	87,832
Total	\$51,795	\$129,454



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16. Income Taxes

The Company's provision for income taxes differs from the amounts computed by applying the basic current rate of 26.50% (2014 – 26.50%) to the loss for the year before taxes as shown in the following table at December 31:

For the year ended December 31,	2015	2014
Loss before taxes	\$ 6,269,834	\$ 6,391,909
Expected income tax benefit based on statutory rate	(1,661,506)	(1,693,856)
Increase (decrease) to the income tax benefit resulting from:		
Stock based compensation	92,350	-
Non-deductible and permanent differences	1,648,989	1,117,256
Foreign exchange difference	722,864	381,700
True of previous year's tax attributes	623,844	1,555,400
Expiry of non-capital losses	268,495	140,200
Share issuance costs incurred	(53,000)	(10,700)
Effect of higher tax rate in foreign jurisdiction	(69,108)	585,520
Increase in unrecognized portion of deferred tax assets	(1,572,928)	(2,075,520)
Total assets	\$ -	\$ -

The tax effects of temporary differences that give rise to deferred income tax assets are as follows at December 31:

For the year ended December 31,	2015	2014
Deferred income tax assets (liabilities)		
Non-capital loss carry forward	\$18,021,103	\$17,411,100
Mineral property	(442,630)	1,283,900
Capital assets	(18,436)	73,600
Share issue costs	58,963	16,900
Transaction costs	149,597	282,900
	17,768,597	19,068,400
Tax benefit of losses not recognized	(17,768,597)	(19,068,400)
Deferred income tax	\$ -	\$ -

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilize the benefits therefrom.

The Company has non-capital losses in Canada and non-operating losses in the United States of approximately \$51,457,349 (2014 - \$50,094,516) which expire through 2034. The benefit of these losses has not been recognized for financial statements purposes. During the year, the Company paid \$Nil (2014 - \$Nil) in respect of income taxes.

The Tax Reform Act of 1986 contains provisions that limit the utilization of net operating loss and tax credit carry forwards if there has been a change in ownership as described in Section 382 of the Internal Revenue Code. As a result of transactions undertaken by the Company in 2015 and prior years, changes in the Company's ownership



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(Expressed in United States Dollars, unless otherwise stated)

have occurred that may limit or reduce the amount of net operating loss carry forwards that the Company could utilize in the future to offset taxable income. The Company has not completed a detailed Section 382 study at this time to determine what impact, if any, that ownership changes may have had on its operating loss carry forwards. In the current period, the Company has not recognized a deferred tax asset in respect of its net operating loss carry forward balance as the realization of the deferred tax asset is uncertain. As a result, the Company has not recognized any federal or state income tax benefit in its consolidated statement of operations and comprehensive loss.

17. Segmented Information

An operating segment is a component within Aquila that engages in business activities from which it may earn revenues and incur expenses (including expenses relating to transactions with other components of the Company), whose operating results are regularly reviewed by the entity's chief operating decision maker, the chief executive officer, to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

The Company's operations consist of a single reportable segment engaged in the acquisition and exploration of precious metals projects. As the operations comprise a single reporting segment, amounts disclosed in the consolidated financial statements also represent segment amounts. The Company has a head office located in Toronto, Canada.

Geographical Information

The Company now operates in two principal geographical areas – United States and Canada. Geographical segmentation of the Company's assets as at December 31, 2015 and 2014 is as follows:

As at December 31, 2015	United States	Canada	Total
Mineral property interests	\$ 23,197,092	\$ -	\$ 23,197,092
Property and equipment	773,324	-	773,324
Security deposits	35,982	-	35,982
Total non-current assets	\$ 24,006,398	\$ -	\$ 24,006,398

As at December 31, 2014	United States	Canada	Total
Mineral property interests	\$ 17,413,340	\$ -	\$ 17,413,340
Property and equipment	815,536	398	815,934
Security deposits	172,616	-	172,616
Total non-current assets	\$ 18,401,492	\$ 398	\$ 18,401,890



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For the year ended December 31, 2015 and 2014
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The following table summarizes the net loss by geographic segment for the years ended December 31, 2015 and 2014:

Year ended December 31, 2015	United States	Finland	Canada	Total
General and administration	\$ 519,095	\$ -	\$ 1,398,285	\$ 1,917,380
Depreciation	42,334	-	276	42,610
Foreign exchange loss (gain)	-	-	(853,190)	(853,190)
Exploration and evaluation expenditures	3,882,274	-	-	3,882,274
Gain on settlement of contingent consideration	-	-	(416,000)	(416,000)
Gain on settlement of convertible debenture	-	-	(15,382)	(15,382)
Loss on change in value of contingent consideration	-	-	954,512	954,512
Loss on change in value of warrants	-	-	187,271	187,271
Transaction costs	-	-	518,564	518,564
Finance charges	1,549	-	50,246	51,795
Net loss	\$ 4,445,252	\$ -	\$ 1,824,582	\$ 6,269,834

Year ended December 31, 2014	United States	Finland	Canada	Total
General and administration	\$ 164,793	\$ -	\$ 1,753,828	\$ 1,918,621
Depreciation	27,561	-	2,153	29,714
Foreign exchange loss	-	-	(479,826)	(479,826)
Exploration and evaluation expenditures	615,893	-	-	615,893
Gain on change in value of convertible debentures	-	-	(171,211)	(171,211)
Gain on change in value of contingent consideration	-	-	(901,076)	(901,076)
Gain on change in value of warrants	-	-	(289,709)	(289,709)
Mineral property interests writedown	-	5,540,049	-	5,540,049
Finance charges	(40,369)	-	169,823	129,454
Net loss	\$ 767,878	\$ 5,540,049	\$ 83,982	\$ 6,391,909

18. Capital Management

The Company considers its capital to include all of the components of its shareholders' equity.

The Company's objectives in managing its capital are: to maintain adequate levels of funding to support its expenditures arising from the Company's investments; to safeguard the Company's ability to continue as a going concern in order to pursue the exploration of its properties; to maintain a flexible capital structure for its projects for the benefit of its stakeholders; to maintain corporate and administrative functions necessary to support the Company's operations and corporate functions; to seek out and acquire new projects of merit.

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company in order to support the acquisition, exploration and development of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015 and 2014

(Expressed in United States Dollars, unless otherwise stated)

The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

The Company's investment policy is to invest excess cash in low risk, highly liquid, short-term interest bearing investments, selected with regards to the expected timing of upcoming expenditures.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

19. Financial Instruments

The carrying amounts for cash, accounts receivable, accounts payable and accrued liabilities approximate their estimated fair value due to the short term nature of these financial instruments.

Cash and accounts receivable are classified as loans and receivables and are recorded at amortized cost, which upon their initial measurement is equal to their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

Accounts payable and accrued liabilities are classified as other financial liabilities and are initially measured at their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

Warrants, contingent consideration and the debenture conversion feature are carried at fair value.

The Company's risk exposures and the impact on its financial investments as summarized below, have not changed significantly for the year ended December 31, 2015.

a) Credit Risk

The Company's credit risk is primarily attributable to cash and accounts receivable. The Company has no significant concentration of credit risk arising from operations. Management believes that the credit risk concentration with respect to the financial instrument included in accounts receivable is immaterial. The Company has a concentration of credit risk related to its cash, the majority of which is held at one banking institution. This risk is mitigated in that the Company holds its primary cash in deposit form in a major Chartered Canadian bank. The Company's subsidiaries' cash is held in deposit form in internationally recognized banks. The maximum exposure to credit risk for deposits approximates the amount recognized on the statement of financial position.

b) Liquidity Risk

The Company's main source of liquidity is derived from its common stock issuances and from silver stream deposits. As at December 31, 2015, the Company had current assets of \$3,942,680 (December 31, 2014 - \$679,586) to settle current liabilities of \$1,943,951 (December 31, 2014 - \$2,047,237). All of the Company's financial liabilities have contractual maturities that are subject to normal trade terms and are due within one year, other than the payment of the contingent consideration is subject to certain conditions being present as described in Note 5.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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(Expressed in United States Dollars, unless otherwise stated)

c) Market Risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates and commodity prices.

(i) Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company has cash balances and no interest bearing debt. The Company's current policy is to invest excess cash in investment grade short term deposit certificates issued by its banking institutions. The Company monitors its cash balances and is satisfied with the creditworthiness of its banks. As a result, the Company's exposure to interest rate risk is minimal.

(ii) Foreign Currency Risk

The Company is exposed to currency risk arising from fluctuations in foreign exchange rates. The Company raises funds from equity financing in both United States dollars and Canadian dollars. A significant amount of expenditures relating to its mineral property interests is paid in United States dollars.

(iii) Price Risk

The Company is exposed to price risk with respect to commodity prices as it relates to the valuation of the properties being explored or developed. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company. The Company does not hedge against commodity price risk.

d) Sensitivity Analysis

The Corporation is exposed to foreign currency risk on fluctuations of financial instruments related to cash, accounts receivable, and accounts payable and accrued liabilities that are denominated predominantly in Canadian Dollars. Sensitivity to a plus or minus 10% change in the foreign exchange rate would not significantly affect net loss.

e) Fair value hierarchy

The following is an analysis of the Company's assets and liabilities measured at fair value on recurring and non-recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Warrants liability		\$ 727,465	
Contingent consideration			\$ 4,116,623

The valuation technique that is used to measure fair value of the contingent consideration is a present value calculation using unobservable probabilities, and as a result is classified within Level 3 of the fair value hierarchy. Refer to Note 5 for disclosure of the inputs used in this calculation.



AQUILA RESOURCES INC. MANAGEMENT DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2015

General

The following management discussion and analysis (“**MD&A**”) of financial results is dated March 30, 2016 and reviews the business of Aquila Resources Inc. (the “**Company**” or “**Aquila**”) for the year ended December 31, 2015, and should be read in conjunction with the audited annual consolidated financial statements and related notes for the year ended December 31, 2015. This MD&A and the accompanying consolidated financial statements and related notes for the year ended December 31, 2015 have been reviewed by the Company’s Audit Committee and approved by the Company’s Board of Directors.

Additional information regarding the Company, including the risks related to our business and those that are reasonably likely to affect our financial statements in the future, is contained in our continuous disclosure materials, including our most recent Annual Information Form (“**AIF**”), audited consolidated financial statements and Management Information Circular available on SEDAR at www.sedar.com.

Forward-looking Statement

This MD&A contains certain forward looking statements, such as statements regarding potential mineralization, resources and exploration results and future plans and objectives of the Company, that are subject to various risks and uncertainties. There can be no assurance that such statements will prove to be accurate, and actual results and future events could differ materially from those anticipated in such statements. Readers are cautioned not to place undue reliance on these forward-looking statements. Forward-looking statements contained are made as of the date of this MD&A and the Company disclaims, other than as required by law, any obligation to update any forward-looking statements whether as a result of new information, results, future events, circumstances, or if management’s estimates or opinions should change, or otherwise.

Currency

This MD&A contains references to both United States dollars and Canadian dollars. All dollar amounts referenced, unless otherwise indicated, are expressed in United States dollars, and Canadian dollars are referred to as “**CDN\$**”.

Mineral Resources

Mineral resources that are not mineral reserves do not have demonstrated economic viability. The estimate of mineral resources may be materially affected by environmental, permitting, legal, title, taxation, sociopolitical, marketing, or other relevant issues. The quantity and grade of reported inferred resources in this estimation are uncertain in nature and there has been insufficient exploration to define these inferred resources as an indicated or measured mineral resource and it is uncertain if further exploration will result in upgrading them to an indicated or measured mineral resource category. The inclusion of inferred mineral resources are considered too speculative geologically to have the economic considerations applied to enable them to be categorized as mineral reserves. The mineral resources in this M&A were reported using Canadian Institute of Mining, Metallurgy and Petroleum (“**CIM**”) Standards.



Preliminary Economic Assessment

The technical report, titled “Preliminary Economic Assessment of the Back Forty Project, Michigan, USA” prepared by Tetra Tech, Inc. (“Tetra Tech”), dated July 23, 2014 and filed on SEDAR on September 8, 2014 (the “2014 PEA”) should not be considered to be a prefeasibility or feasibility study, as the economics and technical viability of the Back Forty Project have not been demonstrated at this time. The 2014 PEA is preliminary in nature and includes inferred mineral resources that are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves. Furthermore, there is no certainty that the conclusions or results as reported in the 2014 PEA will be realized. For full technical details, including the basis for the preliminary economic assessment therein and any qualifications and assumptions made in connection therewith, reference should be made to the complete text of the 2014 PEA. The 2014 PEA may be obtained online on the SEDAR website at www.sedar.com.

Qualified Persons

The content of this MD&A has been read and approved by Tom Quigley, Vice President of Exploration and Senior Technical Advisor for the Back Forty Project. Mr. Quigley is a Qualified Person as defined by National Instrument 43-101 – Standards of Disclosure for Mineral Projects (“NI 43-101”).

Fourth Quarter Highlights

- Aquila submitted a Mine Permit Application for its flagship Back Forty project with the Michigan Department of Environmental Quality (“MDEQ”). The Mine Permit Application was subsequently deemed to be administratively complete by the MDEQ.
- Received \$3.0 million associated with the silver stream component of its multi-level financing agreement with Orion Mine Finance that was signed in March 2015. To date, Aquila has received silver stream payments totaling \$12.35 million.
- Named Edward Munden as interim Chairman of the Company’s Board of Directors.
- Completed an exploration drilling program at Back Forty. The drill program included four holes, two of which tested a separate geophysical anomaly and two that tested an extension of the deposit which returned 2.8 metres of 38.5 g/t of gold and 231.8 g/t of silver overlying zinc and copper rich massive sulphides.
- As at December 31, 2015, Aquila had cash of \$3.3 million and working capital of \$1.5 million. These compare to cash of \$461,175 and a working capital deficit of \$1.4 million at December 31, 2014.

Year End Highlights

- Closed a multi-level financing transaction with Orion Mine Finance that consisted of a \$17.25-million silver stream and a \$3.5 million private placement for a total funding of \$20.75 million.
- Concurrent with the transaction, Aquila repurchased the existing royalties associated with the Back Forty project for cash consideration of \$5.0 million.
- Strengthened the management team by appointing Stephanie Malec as Chief Financial Officer and Andrew Boushy as Vice President of Project Development.
- Added Andrew Dunn and Kevin Drover to the Company’s Board of Directors.
- Repaid \$736,552 worth of debentures that had reached maturity.
- Commissioned the University of Minnesota to complete a study examining the economic impact and benefits that development of Back Forty will have on Michigan’s Upper Peninsula and Menominee County in particular.

Outlook

- Commenced a Feasibility Study on Back Forty, which is expected to be completed before the end of 2016. Aquila awarded the Feasibility Study's development to Lycopodium Minerals Canada, who will be supported by a group of globally-recognized experts and specialist engineering companies.
- Appointed Cliff Nelson, a mining industry executive with 35 years of operational, metallurgical and mine management experience, as Vice President of US Operations as Vice President of U.S. Operations. Mr. Nelson is responsible for Aquila's day-to-day activities in Michigan's Upper Peninsula and is based in Stephenson, in close proximity to the Company's flagship Back Forty project.
- The Company is currently focused on permitting its Back Forty project. The DEQ is completing is in the process of completing its technical review of the Company's permit application. Aquila expects a decision on the permit later this year. In addition to ongoing communications with various levels of government and different regulatory agencies, Aquila will continue to engage in dialogue with various community stakeholders.

1. Company Overview and Going Concern

Aquila Resources Inc. was incorporated in the Province of Ontario as 1223068 Ontario Limited by Articles of Incorporation dated February 17, 1997. The Company is listed on the Toronto Stock Exchange under the symbol "AQA". Substantially all of the efforts of the Company are devoted to the business activities of exploring for and developing mineral properties.

The principal asset of the Company is its 100% interest in the Back Forty Project located in Menominee County, Michigan. On September 8, 2014, the Company filed a new 2014 PEA for the Back Forty Project. The 2014 PEA includes the NI 43-101 Standards of Disclosure for Mineral Projects compliant resource estimate for the Back Forty Project that was completed on February 18, 2013 ("**the 2013 Resource Estimate**").

The new 2014 PEA, which incorporates a revised mine plan based on results from Aquila's 2013 resource update, was completed after considering various trade-off studies which looked at different mine and concentrator configurations to determine the optimal scenario for the project. The base case scenario indicates a pre-tax net present value ("**NPV**") of \$282.2 million, using a discount rate of 6%, with an internal rate of return ("**IRR**") of 38.8%, and post-tax NPV of \$210.8 million, using the same discount rate, with an IRR of 32.0%. Furthermore, the 2014 PEA describes an alternative low initial capital starter pit option that focuses on mining near-surface, high-grade zones by way of three small open pits in order to maximize capital return in the early years of production.

The 2014 PEA is preliminary in nature and includes inferred mineral resources that are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves. Furthermore, there is no certainty that the conclusions or results as reported in the 2014 PEA will be realized.

The Company has two other exploration projects: Reef Gold Project located in Marathon County Wisconsin and, the Bend Project located in Taylor County, Wisconsin. Reef is a gold copper property and Bend is a volcanogenic massive sulfide occurrence containing copper and gold.

The Company is subject to the risks and challenges experienced by other companies at a comparable stage. These risks include, but are not limited to, continuing losses, dependence on key individuals and the ability to secure adequate financing or to complete corporate transactions to meet the minimum capital required to successfully complete its projects and fund other operating expenses. Advancing the Company's projects through exploration and development to the production stage will require significant capital. Given



the current economic climate, the ability to raise funds may prove difficult. Refer to the “Liquidity” and “Capital Resources” sections below, and “Risk Factors” in the Company’s AIF for additional information.

None of the Company’s projects have commenced commercial production and, accordingly, the Company is dependent upon debt and/or equity financings and the optioning and/or sale of resources or resource-related assets for its funding. The recoverability of the carrying value of exploration and evaluation projects, and ultimately the Company’s ability to continue as a going concern, is dependent upon exploration results which indicate the potential for the discovery of economically recoverable reserves and resources, and the Company’s ability to finance development and exploration of its projects through debt or equity financings and the optioning and/or sale of resource or resource-related assets such as royalty interests for its funding.

2. Acquisition Transactions

On November 7, 2013 the Company announced a series of transactions which were subsequently completed on January 16, 2014. The transactions have been reflected as of December 30, 2013, the date on which the shareholders of Aquila and REBgold Corporation (“**REBgold**”) approved the transactions. The transactions consisted of:

- a statutory plan of arrangement pursuant to which the Company acquired all of the outstanding shares of REBgold in exchange for shares of the Company on a 1-for-1 basis (the “Arrangement”);
- the non-brokered private placement of REBgold shares for gross proceeds of approximately CDN\$4.85 million (the “REBgold Financing”). Pursuant to the REBgold Financing, Baker Steel Capital Managers LLP, on behalf of investment funds managed or controlled by it (“Baker Steel”), REBgold’s larger shareholder, invested CDN\$4.5 million of such gross proceeds. Proceeds from the REBgold Financing will be used for general working capital and to fund the next phase of development activity at Back Forty; and
- the acquisition of 100% of the shares of HudBay Michigan Inc. (“**HMI**”), a subsidiary of HudBay Minerals Inc. (“**HudBay**”), effectively giving Aquila 100% ownership in the Back Forty Project (the “HMI Acquisition”). Pursuant to the HMI Acquisition, HudBay’s 51% interest in the Back Forty Project was acquired in consideration for the issuance of common shares of Aquila, future milestone payments tied to the development of the Back Forty Project and a 1% net smelter return royalty on production from certain land parcels in the project.

(collectively, the “**Acquisition Transactions**”)

The Acquisition Transactions closed on January 16, 2014. Pursuant to the REBgold Financing, REBgold issued a total of 37,300,385 shares at a price of CDN\$0.13 cents per share for gross proceeds of approximately CDN\$4.85-million. All shares issued pursuant to the REBgold Financing were immediately exchanged for Aquila shares on a one-for-one basis in accordance with the terms of the Arrangement. In connection with the issuance of 2,285,000 REBgold shares for gross proceeds of CDN\$297,050 as part of the REBgold Financing, REBgold paid broker compensation consisting of: (i) a cash commission equal to 7% of the gross proceeds related to such subscriptions; and (ii) non-transferable broker warrants to purchase a total of CDN\$159,950 REBgold shares (representing 7% of the REBgold shares related to such subscriptions) at a price of CDN\$0.15 per share for two years from the closing of the REBgold Financing. As a result of completion of the Arrangement, each broker warrant became exercisable for one Aquila share at a price of CDN\$0.15 cents per share.

Immediately prior to completion of the Arrangement and related transactions, there were 64,825,568 REBgold shares outstanding (including shares issued pursuant to the REBgold Financing). All of these shares were exchanged for Aquila shares pursuant to the Arrangement on a one-for-one basis.



In connection with HMI Acquisition, Aquila issued 18,650,193 shares to HudBay in satisfaction of the portion of the purchase price for HMI that was payable at closing.

Post closing capital structure and effective date of transaction

Upon completion of the Arrangement, REBgold became a wholly-owned subsidiary of Aquila. REBgold Shares were delisted from the TSXV following completion of the Arrangement and REBgold ceased being a reporting issuer.

Immediately following completion of the Arrangement, the REBgold Financing and the HMI Acquisition, there were 183,160,901 Aquila shares outstanding together with outstanding stock options, convertible debentures and warrants that will collectively be exercisable for up to approximately 27.6 million Aquila shares.

Transaction compensation costs included bonus and settlements of outstanding payable amounts through the issue of shares and disbursement of cash, as well as the issue of stock options to directors, consultants and officers for both REBgold and Aquila. These costs totaled \$1,270,701 of which \$284,000 was disbursed through cash.

Accounting Treatment of the Back Forty Project

During 2012, the Company transferred its interest in the Back Forty Project to a limited liability company, BFJV. In consideration of the transfers of their respective property interests, the Company and HudBay took back a 49% and 51% interest, respectively, in BFJV. The Company accounted for the transaction as a transfer between mineral properties and investments at its carrying value in 2012. The Company had significant influence over BFJV and accounted for the investment using the equity method.

The Mineral property costs accumulated by the Company on the Back Forty Project up to the time it acquired the 49% interest in BFJV on March 9, 2012 amounted to \$9,294,235, and that amount was reflected as the Company's Investment in BFJV. From that point forward, the initial investment amount was adjusted based on the Company's share of the income or losses reported by BFJV.

On December 30, 2013 the Company effectively controlled 100% of the Back Forty Project and changed the classification of the investment to mineral property as a result of completing the HMI Acquisition.

3. Overview of Projects

A. Active Projects

Back Forty Project

The Back Forty Project is a development stage volcanogenic massive sulfide (VMS) deposit containing gold, zinc, lead, silver and copper, located in the Upper Peninsula of Michigan, USA and is the primary mineral property interest of the Company. The Back Forty Project is a high-grade, poly-metallic project, which contains approximately 1 million ounces of gold and 1 billion pounds of zinc in the M&I categories, with additional upside potential. The Back Forty Project is directly owned by the Back Forty Joint Venture LLC ("BFJV") which controls approximately 4,095 gross acres of surface and mineral rights which are owned or held under lease or option by BFJV. Some lands are subject to net smelter royalties varying from 1% to 3.5%, with certain lands subject to a 2% to 7% royalty, which includes state royalties, which under state law can be renegotiated.



Upon the completion of the HMI Acquisition (see Acquisition Transactions), Aquila owns 100% of the BFJV through its 49% direct interest in BFJV and the 51% interest held through HMI. Upon the completion of the HMI Acquisition the operating agreement with HudBay, no longer applies.

New Preliminary Economic Assessments

On September 8, 2014, the Company filed the 2014 PEA for the Back Forty Project. The 2014 PEA includes the NI 43-101 compliant 2014 Resource Estimate.

The 2014 PEA, which incorporates a revised mine plan based on results from Aquila’s 2013 resource update was completed after considering various trade-off studies which looked at different mine and concentrator configurations to determine the optimal scenario for the project. The base case scenario indicates a pre-tax net present value (“NPV”) of \$282.2 million, using a discount rate of 6%, with an internal rate of return (“IRR”) of 38.8%. The base case scenario reports an after-tax NPV of \$210.8 million, the same discount rate, with an IRR of 32.0%.

Furthermore, the 2014 PEA describes an alternative low initial capital starter pit option that focuses on mining near-surface, high-grade zones by way of three small open pits in order to maximize capital return in the early years of production.

Sensitivity Analysis

A sensitivity analysis was performed to test the economic viability of Back Forty against possible fluctuations in commodity prices. A table illustrating project sensitivity is presented below:

	Base Case -15%	Base Case	Base Case + 15%
Gold	\$1,099/oz	\$1,293/oz	\$1,487/oz
Silver	\$17.39/oz	\$20.46/oz	\$23.53/oz
Zinc	\$0.82/lb	\$0.96/lb	\$1.10/lb
Copper	\$2.70/lb	\$3.18/lb	\$3.66/lb
Lead	\$0.82/lb	\$0.96/lb	\$1.10/lb
Pre-Tax			
NPV @ 6%	\$122.3M	\$282.2M	\$440.6M
IRR	23.7%	38.8%	52.0%
Payback Period	2.8 years	1.4 years	0.9 year
After-Tax			
NPV @6%	\$95.2M	\$210.8M	\$324.8M
IRR	20.2%	32.0%	42.0%
Payback Period	3.1 years	1.8 years	1.2 years

The 2014 PEA is preliminary in nature and includes inferred mineral resources that are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves. Furthermore, there is no certainty that the conclusions or results as reported in the 2014 PEA will be realized.



Project Potential

The optimized mine plan provides some flexibility in the development of the project including a lower CAPEX, and high-grade initial phase operation. This option would focus on mining near-surface, high-grade zones by way of three small open pits in order to maximize capital return in the early years of production. This approach has the potential to provide attractive economic returns, mitigate certain start-up risks, and allow for significant optionality in the long-term development of the project. This opportunity would be fully evaluated during the feasibility stage of project development and could be pursued depending on future macro-economic conditions.

Other opportunities for consideration include optimization of the underground mining approach, which was not completed as part of the 2014 PEA, improving processing performance, and defining the upside potential, including further exploration and expansion of the underground resource, in-pit targets, and near-mine drill targets, which have the potential to extend mine life and improve project economics.

2013- Resource Estimate Update

The 2013 Resource Estimate for the Back Forty Project was as follows:

Open Pit†								Contained Metals				
Category	Tonnes	Au (ppm)	Ag (ppm)	Cu (%)	Pb (%)	Zn (%)	NSR (\$/tonne)	Au (oz)	Ag (oz)	Cu (lbs)	Pb (lbs)	Zn (lbs)
Measured	4,720,716	2.24	26.77	0.55	0.13	3.49	141.88	340,142	4,062,741	57,393,561	12,988,245	363,225,517
Indicated	4,926,783	1.9	18.3	0.14	0.21	1.49	92.41	300,521	2,899,139	14,875,002	23,236,294	162,317,020
Measured + Indicated	9,647,498	2.07	22.45	0.34	0.17	2.47	116.62	640,663	6,961,880	72,268,562	36,224,539	525,542,537
Inferred	152,488	2.76	34.56	0.19	0.39	2.86	143.31	13,534	169,456	623,620	1,302,241	9,625,371

Underground‡								Au (oz)	Ag (oz)	Cu (lbs)	Pb (lbs)	Zn (lbs)
Category	Tonnes	Au (ppm)	Ag (ppm)	Cu (%)	Pb (%)	Zn (%)	NSR (\$/tonne)					
Measured	1,982,087	1.97	28.56	0.29	0.31	5.04	141.22	125,365	1,819,853	12,542,412	13,568,164	220,076,983
Indicated	3,504,462	1.96	27.78	0.33	0.32	3.57	117.79	221,208	3,130,080	25,615,715	24,505,659	276,053,878
Measured + Indicated	5,486,549	1.97	28.06	0.32	0.32	4.1	126.27	346,572	4,949,933	38,158,127	38,073,823	496,130,862
Inferred	2,184,246	2.03	25.96	0.37	0.33	2.15	101.89	142,351	1,823,307	18,026,223	15,903,291	103,702,673

Global Resource								Au (oz)	Ag (oz)	Cu (lbs)	Pb (lbs)	Zn (lbs)
Category	Tonnes	Au (ppm)	Ag (ppm)	Cu (%)	Pb (%)	Zn (%)	NSR (\$/tonne)					
Measured	6,702,803	2.16	27.3	0.47	0.18	3.95	141.68	465,507	5,882,594	69,935,973	26,556,409	583,302,501
Indicated	8,431,244	1.92	22.24	0.22	0.26	2.36	102.96	521,729	6,029,219	40,490,717	47,741,953	438,370,899
Measured + Indicated	15,134,047	2.03	24.48	0.33	0.22	3.06	120.11	987,236	11,911,813	110,426,690	74,298,362	1,021,673,399
Inferred	2,336,734	2.07	26.53	0.36	0.33	2.2	104.6	155,885	1,992,763	18,649,843	17,205,532	113,328,043

** Mineral resources that are not mineral reserves and do not have demonstrated economic viability. The estimate of mineral resources may be materially affected by environmental, permitting, legal, title, taxation, sociopolitical, marketing, or other relevant issues. The quantity and grade of reported inferred resources in this estimation are uncertain in nature and there has been insufficient exploration to define these inferred resources as an indicated or measured mineral resource and it is uncertain if further exploration will result in upgrading them to an indicated or measured mineral resource category. The inclusion of inferred mineral resources are considered too speculative geologically to have the economic considerations applied to enable them to be categorized as mineral reserves. The mineral resources in this M&A were reported using CIM Standards.*

Net smelter return (“NSR”) cut-off values were based on metal price assumptions of US\$0.96 per pound zinc, US\$3.65 per pound copper, US\$1.01 per pound lead, US\$1456.36 per troy ounce gold and US\$27.78 per troy ounce silver. Metallurgical recoveries were determined and applied for each of the metallurgical domains determined for the deposit.

† Cut off values were determined for each of the metallurgical domains contained in the optimized open pit were based on NSR values. Average cut-off value for the open pit resource contained within an optimized pit shell was US\$27.75. “See Mineral Resource Estimate Disclosure.”

‡ Cut off values were determined for each of the metallurgical domains based on NSR values. Average cut-off value for the underground resources outside of the optimized pit shell was US\$66.45. See “Mineral Resource Estimate Disclosure.”

The updated mineral resource estimate expanded on and incorporated parameters derived from an April 26, 2012 technical report, titled “Preliminary Economic Assessment Technical Report on the Back Forty Deposit, Menominee County, Michigan, USA” prepared by Brian Connolly, P. Eng., Douglas Maxwell, P. Eng., Gregory Greenough, P. Geo., Stephen Donohue, P.H. and Robert Carter, P. Eng. dated April 16, 2012 and filed on SEDAR on June 1, 2012 (the “2012 PEA”) that utilized a 2010 mineral resource estimate

The 2012 PEA is preliminary in nature and includes inferred mineral resources that are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves and there is no certainty that the 2012 PEA assessment will be realized. Mineral resources that are not mineral reserves do not have demonstrated economic viability.

Mineral Resource Estimate Disclosure:

- **Ordinary Kriging Estimation:** Ordinary kriging (OK) by Datamine® was used to estimate the Back Forty resources. The estimate was constrained to be within interpreted geologic domain wireframes. Specific gravity was assigned to lithologic zones by regression equations using sulfur and iron content. Gold, silver, lead and zinc values were capped at levels based on interpreted composite statistics and cumulative frequency plots. Variography was used to define anisotropy of mineralization and search parameters within each lithologic zone. Mineral classification of measured, indicated and inferred was defined by a strategy of three kriging passes using increasing search ranges.
- Mineralization offering reasonable prospects for economic extraction by open pit were determined using the Lerchs-Grossman optimizing algorithm which evaluates the profitability of each resource block based on its NSR value. Optimization parameters were based on cost parameters derived in the April PEA as well as updated metallurgical recoveries and updated metal prices. Metal grades were estimated using an ordinary kriging estimator for each mineral domain.
- Block model grade estimates were validated by comparison with nearest neighbor and inverse distance squared methodologies and visual comparison of composites and drill hole data with resource block data.
- **Open Pit Cut Off:** Cut off values based on metallurgical type for the open pit mineral resources were US\$25 for flotation and US\$39 for hydrometallurgical or leaching. Average cut off values for the open pit mineral resources were US\$27.75.
- **Outside of Pit (Underground) Cutoff:** Cut off values based on metallurgical type for the underground mineral resources were US\$65.50 for the flotation and US\$79.50 for the

hydrometallurgical type. Average cut off values for an underground mining scenario were US\$66.45.

- **Net Smelter Return Estimation:** The Back Forty is a poly-metallic deposit with each metal contributing to the value of the mineralization. The mineral resources are therefore reported by utilizing a calculated net smelter return (“NSR”). The NSR calculations were based on the metal grades and metallurgical type designation. Key inputs for the NSR estimation include metal prices, metallurgical parameters (process recovery and product specification by metallurgical type) and concentrate and doré terms (which took into account cost estimates including smelter terms, refining costs, penalties, transportation, insurance, and marketing).
- NSR values for the 2013 resource were calculated in a similar manner as they were in the PEA dated April 26, 2012. Notable changes in the NSR calculation include updated metal prices utilizing a three year trailing average, and updated metallurgical recoveries and concentrate/doré specs. The NSR Value takes into consideration values from lead as opposed to copper in two mineral domains (Tuff Zone massive sulfide and associated stringer zone) as well as value from copper in a mineral domain where only gold and silver were previously considered (Pinwheel Gossan).
- **Updated Metallurgical Recoveries:** Metallurgical recoveries were estimated for a total of 13 metallurgical domains. Six of these domains reflect sulfide-rich flotation ores and seven represent sulfur-poor, gold-silver leach ores. The estimated recoveries were developed utilizing both past and recent metallurgical testing and reflect the best estimate of recovered metals for each individual and discrete metallurgical domain. These recoveries do not take into account ‘blending’ certain metallurgical zones in an open pit mining scenario. However, the detailed metallurgical domaining of the deposit and associated recoveries allows for development of a more selective mining plan with respect to both open pit and underground mining scenarios.
- **Resource Disclosure:** Because the updated mineral resource estimate does not constitute a material change, a 43-101 technical report will not be completed. Additional details about the updated resource will be available on the Company’s website. Mineral resources for the deposit were classified according to the CIM Definition Standards for Mineral Resources and Mineral Reserves by Rex Bryan, Ph.D., an appropriate independent qualified person for the purpose of National Instrument 43-101.

Expenditures 2015

On September 8, 2014, the Company filed the 2014 PEA for the Back Forty Project. The 2014 PEA includes the NI 43-101 compliant resource estimate for the Back Forty Project that was completed on February 18, 2013.

The 2014 PEA, which incorporates a revised mine plan based on results from the Aquila’s 2013 resource update, was completed after considering various trade-off studies which looked at different mine and concentrator configurations to determine the optimal scenario for the project.

The 2014 PEA is preliminary in nature and includes inferred mineral resources that are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves. Furthermore, there is no certainty that the conclusions or results as reported in the 2014 PEA will be realized.

A number of geophysical anomalies have been identified peripheral to the known mineralization at Back Forty, and detailed ground geophysics and approximately a thousand metres of diamond drilling was completed to test these high priority targets. This targeted exploration program began in October 2015 with results expected in the second quarter of 2016.



Four drill holes, two testing extensions of the Back Forty deposit, and two testing a separate geophysical anomaly, were completed in late 2015. Drill holes LK-15-508 and LK-15-509, targeting expansion of the Back Forty resource along extensions of the Pinwheel massive sulfide horizon encountered high grade gold and silver mineralization overlying sections of zinc and copper rich massive sulfide.

Drill hole LK-15-508 intersected 9.18 g/t Au, 61.6 g/t Ag, and 1.51% Zn over 14.1 m, including 38.5 g/t Au, 231.8 g/t Ag over 2.85 m in sheared tuffaceous sediments, overlying 8.23 m of massive sulfide returning 0.71 g/t Au, 14.4 g/t Ag, and 2.48% Zn.

LK-15-509, drilled approximately 40 m west of LK- 15-508, encountered two massive sulfide lenses. An upper lens 1.6 m thick of .62 g/t Au, 25.9 g/t Ag, and 4.25% Zn, and a lower lens of 10 m of .71 g/t Au, 35.7 g/t Ag, and 2.24% Zn.

Finely bedded sulfidic sediments with anomalous zinc and copper were encountered in a highly altered felsic volcanic sequence similar to Back Forty host rocks. Downhole, electromagnetic probing of these holes indicated potential off hole extensions and further work is planned for this target in 2016.

The Company submitted its permit application for Back Forty with the Michigan Department of Environmental Quality in November 2015. The Company continued to use the services of Foth based in Green Bay, WI.

Work in the fourth quarter included finalizing the drafting of the permits and ensuring that all of the necessary information is included. Consistent with Michigan's permitting process, Aquila's application requests specific permits for Nonferrous Metallic Minerals Mining, National Pollutant Discharge Elimination System, Wetlands Protection and Air.

On November 26, 2015 the Company announced that (i) it had received notice from the Michigan Department of Environmental Quality stating that it had performed an initial review of the Mine Permit Application under the requirements of Part 632, Nonferrous Metallic Mineral Mining, of the Natural Resources and Environmental Protection Act, 1994 PA 451, and the DEQ had determined the Back Forty Application is administratively complete. This determination is not meant to be a finding of the adequacy or accuracy of the information submitted. The DEQ is now proceeding with the technical review of the Back Forty Application. It is the Company's intention to continue to evaluate the underground resource potential while mining the open pit section and amend the necessary permits as needed.

Aquila has also engaged SGS Lakefield to perform some preliminary metallurgical test work to support the feasibility study. This program was started in September 2015 and will include some metallurgical drilling, to provide fresh core samples for testing. As well, some of the test work to be performed will also help to advance and optimize the design of the plant and facilities including all environmental test work.

Aquila has also commissioned several studies during the year including a regional economic impact study and a concentrate marketing study. These studies were completed during the fourth quarter.

The Company is also in the planning stages for its feasibility study. Consultants have been engaged for the various technical components required. The feasibility study will focus predominantly on the open pit phase of the mining operation (an 8 year life of mine) aligned with the permitting application including the associated processing plant and site infrastructure. Aquila announced the commencement of the feasibility study in January 2016 with completion anticipated before the end of 2016.



During the year ended December 31, 2015 the Company incurred project exploration expenditures of \$3,882,274 (2014 - \$571,700). Acquisition costs incurred on the Back Forty Project for the year ended December 31, 2015 were \$5,740,699 (2014 – \$1,488,414), including the buyback of the royalty from Vale of \$4.0 million plus transaction costs of \$0.2 million and a final property purchase payment of \$1.4 million to a private landowner. Estimated lease, option and property acquisition costs related to the Back Forty Project for 2016 to 2018, for which the Company is materially liable throughout the duration of the agreement, are as follows:

<u>Year</u>	<u>Amount</u>
2016	\$ 198,468
2017	\$ 190,803
2018	\$ 205,637

Reef Gold Project

On March 7, 2011 Aquila announced the acquisition of the Reef Gold Project located in Marathon County, Wisconsin. The Reef area was the focus of historic exploration by Xstrata in the 1970's and 1980's. The Reef Gold project hosts a high grade (412,410 tonnes @ 10.6 g/t gold) historical, non NI 43-101 compliant, resource (I) which is open in all directions and in the view of management has potential for expansion.

The Company entered into a series of agreements with private landholders in Marathon County, Wisconsin for the optioning of surface and mineral rights. The agreements consist of mining leases and exploration agreements with an option to purchase. Currently there are a total of 643 gross acres under these agreements, which have terms from 2 to 20 years up to 2031. A variable net smelter royalty up to 2% is payable in the event of mineral production on the property.

Since acquiring the Reef Gold Project Aquila has completed 42 diamond drill holes at Reef that have confirmed and expanded the presence of gold and copper mineralization within loosely defined zones identified by previous explorers. In addition, Aquila has completed a versatile time domain electromagnetic survey over the Reef Property.

During the year ended December 31, 2015 the Company incurred exploration expenditures of \$13,680 (2014 – \$44,100). Acquisition costs incurred on the Reef Gold Project for the year ended December 31, 2015 was \$43,053 (2014 - \$30,219). Ongoing lease or option costs related to the Reef Project for 2016 to 2018, which are at the Company's option, are as follows:

<u>Year</u>	<u>Amount</u>
2016	\$ 217,031
2017	\$ 621,757
2018	\$1,459,175

Future exploration of the property is dependent on the availability of funding.

Note 1: The historical resource estimates for the Reef Gold Project are based on prior data and reports prepared by previous owners of the properties. A qualified person has not done sufficient work to classify the historical estimates as current mineral resources under NI 43-101. The Company is not treating the historical estimates as current mineral resources or mineral reserves. The Company considers that the historical estimates should be considered only as historical references of tonnes and grades. No reliance should be placed on these historical estimates.



Bend Project

The Bend Project is located 35 miles southeast of the former producing Flambeau mine and occurs within the Penokean Volcanic Belt. The Penokean Belt is a prolific VMS belts globally and hosts a number of significant deposits, including Aquila's Back Forty Project. The Bend deposit contains a historical, non NI 43-101 compliant, resource estimate (2) of 2.7 million tonnes grading 2.4% copper, 1.4 g/t gold and 13.7 g/t silver, and remains open down dip and down plunge. In addition, a separate gold zone containing 1.12 million tonnes of 4.7 g/t gold and 0.31% copper was delineated in historic, non NI 43-101 compliant, technical reports (2) and remains open in all directions. The Company believes the historical results to be relevant.

Since acquiring the project in 2011, the Company completed 5800 meters of drilling, expanding and further defining base and precious metal mineralization, potentially in support of a 43-101 Compliant resource estimate.

During the year ended December 31, 2015 the Company incurred exploration expenditures of \$Nil (2014 – \$Nil). Future exploration of the property is dependent on the availability of funding.

Note 2: The historical resource estimates for the Bend Project are based on prior data and reports prepared by previous owners of the properties. A qualified person has not done sufficient work to classify the historical estimates as current mineral resources under NI 43-101. The Company is not treating the historical estimates as current mineral resources or mineral reserves. The Company considers that the historical estimates should be considered only as historical references of tonnes and grades. No reliance should be placed on these historical estimates.

B. Suspended Projects

Finland - Kiimala and Rantasalmi Project

In July 2011, the REBgold (a wholly owned subsidiary of the Company) entered into a definitive shareholder's agreement ("**Shareholders' Agreement**") with Belvedere Resources Finland oy ("**BelFin**"), a wholly-owned subsidiary of Belvedere Resources (TSX.V:BEL) for REBgold to earn an interest in two of BelFin's gold properties in Central Finland, the Kiimala and Rantasalmi properties (the "**Properties**").

REBgold incurred expenditures of CDN\$2.4 million on the Properties. In accordance with the Shareholders' Agreement, REBgold completed the minimum investment and as such the Company (as successor to REBgold) owns 19.5% of the properties. As of July 2014, the Company suspended funding of this project. As a result, the Company has written the value of this asset down to \$Nil for the year ended December 31, 2014.



4. Select Annual Financial Information

The following table presents selected financial information for each of the three most recently completed financial years, and has been prepared in accordance with International Financial Reporting Standards.

<i>(Expressed in US dollars)</i>	2015	2014	2013
Net loss	\$ 6,269,834	\$ 6,391,909	\$ 2,833,144
Revenue	-	-	-
Loss per share	0.03	0.03	0.03
Total assets	27,499,078	19,081,476	27,164,870
Total liabilities	18,410,576	7,607,137	9,699,234
Dividends	-	-	-

An increase in mineral property exploration expenses of \$3.2 million, a loss on the contingent consideration of \$0.95 million and transaction costs of \$0.5 million are the main differences in the loss for the year ended December 31, 2015 in comparison to the years ended December 31, 2014 and December 31, 2013. The loss was offset by a gain of \$0.4 million from the settlement of the royalty piece of contingent consideration and a foreign exchange gain of \$0.9 million.

The significant increase in the net loss for the year ended December 31, 2014 compared to December 31, 2013 is due to the mineral property write-off of \$5.5 million. This property is held by REBgold and related to its investment in the Finland – Rantasalim and Kiimala project. This net loss was offset by a net gain of \$1.36 million on the revaluation of the contingent consideration, the conversion feature of convertible debenture and the warrant liability, for the year ended December 31, 2014.

Losses for the period 2013 show an equity loss pick up from the Company's investment in Back Forty Joint Venture of \$381,220. There was no equity pick up in either 2015 or 2014 since the property was controlled 100% by the Company.

Assets increased in 2015 primarily due to a \$5.8 million increase in mineral property interests representing the Vale royalty repurchase as well as Back Forty land acquisitions. In addition, the cash position has significantly increased compared to both 2014. The main decrease in assets in 2014 was the \$5.5 million write-off of mineral property interests in Finland and a decrease in cash. The increase in total assets in 2013 is the result of the Acquisition Transactions as described in Section 2.

Liabilities increased significantly in 2015 due to the addition of the \$12.35 million received as part of the Orion transaction. This offset by decreases to the repayment of the debentures and part of the contingent consideration. Liabilities decreased in 2014 due to a revaluation of the contingent consideration compared to 2013.



5. Results of Operations

The following table provides selected financial information that should be read in conjunction with the financial statements of the Company for the year ended December 31, 2015:

<i>In US dollars</i>	Year Ended December 31	
	2015	2014
Administrative expenses	\$ 1,959,990	\$ 1,948,335
Mineral property exploration expenses	3,882,274	615,893
Mineral property write-off	-	5,540,049
Transaction costs	518,564	-
Finance charges	51,795	129,454
Loss from operations	6,412,623	8,233,731
Gain on settlement of contingent consideration	(416,000)	-
Gain on foreign exchange	(853,190)	(479,826)
Gain on settlement of debentures	(15,382)	-
Gain on change in value of debentures	-	(171,211)
Loss (gain) on change in value of contingent consideration	954,512	(901,076)
Gain on change in fair value of warrant liability	187,271	(289,709)
Net and comprehensive loss for the period	6,269,834	6,391,909
Net loss per share - basic and diluted	0.03	0.03

Revenues

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.

Administrative expenses

Administrative expenses are incurred in both US and Canadian dollars. The decline of the Canadian dollar relative to the US dollar over the year ended December 31, 2015, continues to have an impact on the comparability of expenditures on a period over period basis. For the year ended December 31, 2015, administrative expenses were \$1,959,900, compared to \$1,948,335 for the year ended December 31, 2014. Significant components and changes in this expense include:

- Salaries and benefits have increased to \$514,884 for the year ended December 31, 2015 compared to expenditures of \$228,119 in the same period in the prior year due to increased head count. The Company anticipates that these costs will continue to increase in comparison to the prior year as work moves forward on the development for the Back Forty project and the Company expands its team and commits existing consultants to payroll.
- Share based payments, as explained in Note 10(b) to the consolidated financial statements, were \$348,191 for the year ended December 31, 2015. This is in comparison to \$Nil for the same period last year. Yearly and quarterly fluctuations in share based payments expense are dependent on a number of factors including, but not limited to, number of options granted, valuation of options, vesting period and timing.



- Professional fees were consistent at \$182,123 for the year ended December 31, 2015, from \$214,328 in the same period last year. Legal fees and professional fees mainly relate to corporate legal responsibilities and financial audit fees.
- Management and consulting fees decreased to \$293,550 for the year ended December 31, 2015, from \$652,056 in the same period last year. The fluctuation is primarily due to moving consultants to salaried employees beginning in the first quarter of the last fiscal year and continuing to the current quarter. This decrease has been offset by the increase in salaries and benefits as noted above.
- Travel and promotion costs were consistent for the year ended December 31, 2015 with expenditures of \$149,269 compared to \$176,419 for the same period in the prior year.
- Office and administrative costs are lower in comparison to the prior year with expenditures of \$159,886 for the year ended December 31, 2015 compared to \$361,121 in the same period last year as management has actively taken steps to reduce certain office and administrative costs.
- The Company had a foreign exchange gain of \$853,190 for the year ended December 31, 2015 compared to a gain of \$479,826 in prior year. Volatility in foreign exchange rates continue to cause significant gains and losses on both a quarterly and annual basis.

Mineral Property Expenditures

For the year ended December 31, 2015, mineral property exploration expenditures have significantly increased to \$3,882,274, respectively, from \$615,893 for the year ended December 31, 2014. With the financing in place from the Orion transaction, the permitting process is steadily moving forward and as such, the costs are increasing in line with the Company's expectations. Costs relate mainly to advancing the permitting process with work performed by Foth in addition to other engineering expenditures for the site plan design and feasibility related activities.

Quarterly Information

Selected quarterly information for the eight most recently completed quarters is presented below in United States currency (\$), and has been prepared in accordance with International Financial Reporting Standards.

<i>In thousands of US dollars</i>	For the quarters ended:			
	31-Dec-15	30-Sep-15	30-Jun-15	31-Mar-15
Statement of Loss				
Transaction costs	\$ 75	\$ -	\$ 145	(\$738)
Mineral property write-off	-	-	-	-
Net gain (loss) in fair value of contingent consideration, warrants and debentures	(1,162)	(344)	(196)	(88)
Net expenses	(1,953)	(2,213)	(1,060)	(1,186)
Net loss	(2,963)	(1,455)	(1,082)	(769)
Loss per share	0.01	0.01	-	-

<i>In thousands of US dollars</i>	For the quarters ended:			
	31-Dec-14	30-Sep-14	30-Jun-14	31-Mar-14
Statement of Loss				
Transaction costs	\$ -	\$ -	\$ -	\$ -
Mineral property write-off	(5,540)	-	-	-
Net gain in fair value of contingent consideration, warrants and debentures	1,362	-	-	-
Net expenses	(5,968)	(425)	(890)	(471)
Net loss	(4,606)	(425)	(890)	(471)
Loss per share	0.02	-	-	-



The variability in quarterly losses is due the funding of exploration expenses, the irregularity of share based payments expense, the revaluation on contingent consideration, warrants and debentures and the impact of constantly fluctuating exchange rates in Canadian and US currencies.

With the Orion funding secured, the Company is focused on its permit submission resulting in significantly higher exploration expenditures in both the second, third and fourth quarters of 2015 in comparison to earlier quarters. Expenditures are consistent with the Company's expectations.

When considering the quarterly losses, the effect of stock-based compensation is a significant factor. Share based payment expenditure is dependent on the timing of stock option grants. As such, there is substantial variability on a quarter over quarter basis. Share based payment expenditures were \$137,680 in the current quarter, \$53,968 and \$156,843 in the third and second quarters of 2015, respectively, and \$nil for the previous five quarters.

Revaluation of the Canadian dollar warrants resulted in a loss of \$207,603. This is in comparison to a gain of \$343,966 in the third quarter of 2015 and consistent with a loss of \$323,634 in the second quarter of 2015. The revaluation is based on a number of factors including expected life, stock price at time of revaluation and volatility. Due to these factors, the resulting revaluation can have a significant impact on the loss for the quarter and substantial variability can occur on a quarter by quarter basis.

Volatility in foreign exchange rates continued to cause significant gains and losses on a quarterly basis. During the three months ended December 31, 2015, the fluctuation in rates continued as the Canadian dollar weakened relative to the US dollar, a trend that has continued throughout much of the current and prior fiscal years.

During the second quarter of 2015, the Company discharged its obligations and repaid the Canadian dollar denominated debenture that matured in April 2015 in the amount of \$736,552. There were no comparable expenditures in any other quarter.

During the first quarter of 2015, the Company recognized a gain of \$416,000 on the termination of the contingent consideration associated with the HudBay net smelter royalty. The transaction costs from the Orion financing were expensed on a pro rata basis in the amount of \$738,316.

During the fourth quarter of 2014, the contingent consideration, as well as the embedded conversion feature of the convertible debenture and Canadian dollar warrants, were revalued and resulted in a reduction in these liabilities and a gain of \$1.362 million. The mineral property write-off of \$5.54 million is from the write down of the mineral property held by REBgold in Finland – Rantasalim and Kiimala.

6. Liquidity and Capital Resources

At December 31, 2015, the Company had cash of \$3,274,160 compared to cash of \$461,175 as at December 31, 2014. The Company had working capital of \$1,548,727 as at December 31, 2015 compared to a working capital deficit of \$1,367,652 as at December 31, 2014. The increase in working capital is a direct result of the Orion Financing discussed below. This increase was offset by the repayment of the debentures in the amount of \$736,552 which matured in April 2015. None of the convertible options associated with the debentures were exercised. In July 2015, the land payment of the Orion financing was received in the amount of \$1,350,000 and the final land payment was issued. In October 2015, an advance of \$1,500,000 was received from Orion. In December 2015, \$3,000,000 was received upon receipt of an administratively complete permit submission. The Company is expecting to receive the final \$4.9 million from Orion in 2016.



Historically, the Company's main source of funding has been the issuance of equity securities for cash, primarily through private placement offerings to accredited investors and institutions. The Company's access to financing is always uncertain. There can be no assurance of continued access to significant equity financing, or that such access will be timely and in the amounts necessary to fund the Company's activities. There are many conditions beyond the Company's control which have a direct impact on the level of investor interest in the purchase of Company securities. The Company may also attempt to generate additional working capital through the operation, development, sale or possible joint venture development of its properties. However, there is no assurance that any such activity will generate funds that will be available for operations. See "Risk Factors" in the Company's AIF.

The following are the capital financings completed by the Company in the last two years;

- In the second quarter of 2015, 87,500 warrants were exercised for cash proceeds of \$10,507.
- On March 31, 2015, the Company closed a financing transaction with Orion Mine Finance ("Orion") that includes an equity private placement and a silver purchase agreement for total proceeds of \$20.75-million ("Orion Financing"). Concurrent with the transaction, the Company has also completed the repurchase of two existing royalties on Back Forty. Details of the financing are as follows:
 - The Company issued 26,923,077 units to Orion at a price of 13 cents per unit for gross proceeds of \$3.5-million. Each unit was composed of one common share and one-half of a warrant. Each full warrant entitles Orion to purchase one common share for a price of 19 cents for a period of 36 months. At the close of the transaction Orion held approximately 12.2 % of the outstanding common shares.
 - Orion will acquire 75 per cent of Aquila's life-of-mine silver production from Back Forty for gross proceeds of \$17.25-million, subject to a drawdown schedule that is set out in the definitive agreement as follows;
 - \$6.5 million was received on March 31, 2015,
 - \$1.35 million was received on July 24, 2015 to be used for the final property payment for Back Forty due August 4, 2015,
 - \$3.0 million was received on December 11, 2015 upon the submission of an administratively complete mining permit,
 - \$4.0 million upon a completion of the process design including a definitive flow sheet, with respect to the open pit portion of the Back Forty Project, of which a \$1.5 million advance was received in October 2015, and
 - \$2.4 million on completion of feasibility study.
 - All of the deposits are expected to be received by the Company by the end of 2016. Aquila has received \$12.35 million from Orion to date.
 - The first installment amount of \$6.5 million as at March 31, 2015 was used as an advance of \$1.5 million to Aquila, plus the Royalty Termination arrangements to HudBay Minerals Inc. for \$1.0 million and to Vale Exploration USA Inc. for \$4.0 million.
- On September 19, 2014 the Company completed a private placement and issued 8,972,354 units consisting of a common share and a full warrant at a price per unit of CDN \$0.13 for gross proceeds of \$1,071,111.



- During the period ended December 31, 2014, 40,273 common shares were issued with a value of \$4,532. The shares were issued in satisfaction of obligations payable to vendors for services rendered. The value was equal to the value of the services.

Below is a summary of the share capital transactions for common shares of the Company:

	December 31, 2015		December 31, 2014	
	Number of shares	\$	Number of shares	\$
Balance, beginning of year	192,173,528	53,634,046	183,160,901	53,246,720
Shares issued pursuant to a private placement	26,933,077	3,500,000	8,972,354	1,071,111
Transaction costs relating to private placement	-	(200,000)	-	(40,601)
Fair value assigned to warrants	-	(807,692)	-	(647,716)
Transaction costs assigned to warrants	-	34,000	-	-
Shares issued pursuant compensation arrangement	-	-	40,273	4,532
Shares issued on settlement of royalty obligations	1,720,769	225,000	-	-
Fair value assigned to warrants on settlement of royalty obligations	-	(51,923)	-	-
Shares issued on exercise of warrants	87,500	17,089	-	-
Balance, end of period	220,914,874	56,350,520	192,173,528	53,634,046

Warrants

As at December 31, 2015, there are a total of 16,362,126 warrants priced in Canadian dollars and 14,326,924 warrants priced in United States dollars outstanding. For additional information, refer to note 11 of the audited consolidated financial statements for the year ended December 31, 2015. As of the date of this report, there are a total of 16,289,676 warrants priced in Canadian dollars and 14,326,924 warrants priced in United States dollars.

Options

As at December 31, 2015, there are a total of 17,900,000 stock options outstanding with a weighted average exercise price of CDN\$0.16. For additional information, refer to note 10 (b) of the audited consolidated financial statements for the year ended December 31, 2015. As of the date of this report, there are a total of 20,250,000 stock options outstanding with a weighted average exercise price of CDN \$0.16.

Commitments

The Company is not committed to any material capital expenditures to the date of this MD&A.

In order for the Company to maintain its properties in good standing there are certain lease, option and property acquisition costs it will have to incur, as well as other commitments it has to fulfill. Any cash outlays required will be met from existing working capital and funding provided by capital markets or other industry partners.

7. Market Trends

The Company's future financial performance is dependent on many external factors including the prices of certain precious and base metals. The markets for these commodities are volatile and difficult to predict as



they are impacted by many factors including international political, social, and economic conditions. These conditions, combined with volatility in the capital markets, could materially affect the future financial performance of the Company. For a summary of other factors and risks that may affect the Company and its financial position, please refer to “Risk Factors” in the Company’s AIF.

8. Off-balance Sheet Arrangements

As at December 31, 2015 and December 31, 2014, the Company does not have any off-balance sheet arrangements.

9. Transactions with Related Parties

In accordance with IAS 24 Related Party Disclosures, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any directors (executive and non-executive) of the Company. The remuneration of directors and key executives is determined by the compensation committee. During the year ended December 31, 2015, director’s fees, professional fees and other compensation of directors and key management personnel were as follows:

For the year ended December 31,	2015	2014
Short-term compensation and benefits	\$ 885,344	\$730,500
Share-based payments (fair value of stock option benefits and share based payments)	348,491	-
	\$1,233,835	\$730,500

As at December 31, 2015, \$1,998 (December 31, 2014 - \$4,310) is included in accounts payable in connection with amounts due to key management personnel.

During the period ended December 31, 2015 a total of \$91,250 (2014 - \$51,750) was billed to the Company by a geological consulting company of which the Company’s VP, Exploration is the president.

During the year ended December 31, 2015 rental expenditures in the amount of \$14,400 (2014 - \$14,400) were paid to a company of which the Company’s VP, Exploration is a part owner.

During the year ended December 31, 2015, a total of \$88,377 (2014 - \$245,544) was billed to the Company by a consulting company of which the Company’s Chief Executive Officer is the owner.

During the year ended December 31, 2015, a total of \$69,045 (2014 - \$24,989) was billed to the Company by a consulting company of which the Company’s VP, Project Development is the owner.

Total value of the share based payments issued to management and directors and issue of the common shares of the Company, as a result of the Acquisition Transactions, which are included in transaction costs for the year ended December 31, 2014 were valued at \$1,097,200.

10. Critical Accounting Estimates

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continuously evaluated and are based on management’s

experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual outcomes can differ from these estimates. The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the amounts recognized in the financial statements are:

Impairment of mineral property costs

When there are indications that an asset may be impaired, the Company is required to estimate the asset's recoverable amount. The recoverable amount is the greater of value-in-use and fair value less costs to sell. The key judgement related to the financial statements is the permitting of the Back Forty project and the ability to undertake feasibility studies on the property to develop and operate it. Should there be negative information in this regard, or negative information from future feasibility studies, then an impairment assessment would be required to be performed.

Accounting for streaming agreement

The Company has entered into a streaming arrangement in 2015 and received \$12.35 million in the year which are being used for the development of the Back Forty mine. Refer to Note 9 (b) of the consolidated financial statements for further details.

Share-based payments

Management determines costs for share-based payments using market-based valuation techniques. The fair value of the share awards and warrant liabilities are determined at the date of grant using generally accepted valuation techniques and for warrant liabilities at each balance sheet date thereafter. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price and expected dividend yield. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

Contingent Consideration

The valuation of contingent consideration relies on several estimates which include the commencement date of development activities, discount rates on present value calculations and the assessment of several key risks including permitting, feasibility study and commercial production.

11. Future Accounting Pronouncements

IFRS 9, Financial Instruments (“IFRS 9”)

IFRS 9 was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39, Financial Instruments – Recognition and Measurement (“IAS 39”) for debt instruments with a new mixed measurement model having only two categories; amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent not clearly representing a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in comprehensive income indefinitely.



Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income. IFRS 9 will be effective as at January 1, 2018. The Company is in the process of assessing the impact of this pronouncement. The extent of impact has not yet been determined.

IFRS 15, Revenue from Contracts with Customers (“IFRS 15”)

IFRS 15 was issued in May 2014 to replace IAS 18, Revenue, IAS 11, Construction Contracts, and related interpretations on revenue. IFRS 15 establishes principles to address the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. IFRS 15 will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively and improve guidance for multiple element arrangements. Companies can elect to use either a full or modified retrospective approach when adopting this standard and it is effective for annual periods beginning on or after January 1, 2018. The Company is in the process of analyzing IFRS 15 and determining the effect on its financial statements as a result of adopting this standard.

IFRS 16, Leases (“IFRS 16”)

IFRS 16 was issued in January 2016, replaces IAS 17, Leases. IFRS 16 results in most leases being reported on the balance sheet for lessees, eliminating the distinction between a finance lease and an operating lease. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted for companies that also adopt IFRS 15. The Company is currently assessing the impact of this standard.

12. Financial Instruments

The Company has not entered into any specialized financial arrangements to minimize its investment risk, currency risk or commodity risk.

Warrants

Equity offerings were completed in previous periods whereby warrants were issued with exercise prices denominated in Canadian dollars. Where the warrants have an exercise price denominated in a currency which is different from the functional currency of the Company (US dollar), the warrants are treated as a financial liability. The Company’s share purchase warrants denominated in Canadian dollars are classified and accounted for as a financial liability at fair value with changes in fair value recognized in net earnings. The Company uses the Black-Scholes Option Pricing Model to estimate the fair value of the Canadian dollar denominated warrants.

13. Disclosure Controls

The Chief Executive Officer (“CEO”) and the Chief Financial Officer (“CFO”) are 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 CEO and the 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 Whistleblower Policy, 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, AIF's 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 the Company's disclosure controls and procedures was conducted, under the supervision of Management, including the CEO and CFO, as of December 31, 2015. 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, 2015.

The CEO and CFO are also required, under NI 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings to file certifications of the interim 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 IFRS.

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, 2015.

14. 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.