Aquila Resources Inc.

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2015
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in United States Dollars, unless otherwise stated)
(Unaudited)

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Notice of No Auditor Review of Interim Financial Statements

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim financial statements they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated interim financial statements of the Company have been prepared by, and are the responsibility of, the Company’s management. The Company’s independent auditor has not performed a review of these financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As at September 30, 2015 and December 31, 2014
(Unaudited - Expressed in United States Dollars)

	September 30, 2015	December 31, 2014
ASSETS		
Current assets		
Cash and cash equivalents	**$ 1,216,578**	$ 461,175
Accounts receivable	**233,353**	143,411
Prepaid expenses	**3,571**	75,000
	1,453,502	679,586
Non-current assets		
Mineral property costs (Notes 4 & 7)	**23,190,949**	17,413,340
Security deposits	**172,616**	172,616
Capital assets (Note 5)	**795,142**	815,934
TOTAL ASSETS	**$ 25,612,209**	$ 19,081,476
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**$ 1,937,992**	$ 601,054
Debentures payable (Note 6)	**-**	768,285
Conversion feature on debentures payable (Note 6)	**-**	16,378
Warrants payable (Note 10)	**555,840**	661,521
	2,493,832	2,047,238
Silver stream financing (Note 7)	**7,850,000**	-
Contingent consideration (Notes 3 & 7)	**3,354,842**	5,559,900
Shareholders' equity		
Share capital (Note 8a)	**56,350,520**	53,634,046
Contributed surplus (Note 8)	**6,946,216**	6,735,405
Warrants (Note 9)	**859,992**	40,959
Deficit	**(52,243,193)**	(48,936,072)
	11,913,535	11,474,338
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$ 25,612,209**	$ 19,081,476

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

Nature of operations and going concern (Note 1)

Approved on behalf of the Board
"Andrew W. Dunn, FCPA, FCA" Director *"Barry Hildred"* Director

Aquila Resources Inc.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS
For the three and nine months ended September 30, 2015 and 2014
(Unaudited - Expressed in United States Dollars, except number of shares)

	Three months ended September 30, 2015	Three months ended September 30, 2014	Nine months ended September 30, 2015	Nine months ended September 30, 2014
EXPENSES				
Mineral property exploration expenses	**$ 1,615,534**	$ 225,617	**$ 2,291,631**	$ 517,990
Administrative expenditures (Note 12)	**596,780**	430,670	**1,524,454**	1,378,113
Transaction costs (Note 7)	**-**	-	**593,587**	
Finance charges (Note 13)	**947**	46,921	**50,406**	127,931
Loss from operations	**$ 2,213,261**	$ 703,208	**$ 4,460,078**	$ 2,024,034
Other expenses (income)				
Gain on settlement of contingent consideration (Note 7)	**-**	-	**(416,000)**	-
Gain on foreign exchange	**(413,854)**	(278,345)	**(701,243)**	(238,154)
Loss on change in value of warrants	**(343,966)**	-	**(35,714)**	-
Total comprehensive loss (income)	**$ 1,455,441**	$ 424,863	**$ 3,307,121**	$ 1,785,880
Loss per share				
Basic and diluted	**$ 0.01**	$ -	**$ 0.02**	$ 0.01
Weighted average number of shares outstanding - basic and diluted	**220,914,874**	183,566,714	**211,437,141**	183,201,174

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

Aquila Resources Inc.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

As at September 30, 2015 and 2014

(Unaudited - Expressed in United States Dollars)

	Share Capital		Issuable Share Capital		Contributed			
	Number	$	Number	$	Surplus	Warrants	Deficit	Total
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	(1,517,443)	(9,526)	-	-	-	4,531
Shares issued pursuant to an arrangement	66,260,568	8,098,764	(64,825,568)	(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	-	(453,163)	-	-	-	13,499	-	(439,664)
Share issue costs	-	(50,519)	-	-	-	-	-	(50,519)
Net loss for the period	-	-	-	-	-	-	(1,785,880)	(1,785,880)
Balance, September 30, 2014	192,173,528	$ 53,818,680	-	$ -	$ 6,654,698	$ 121,880	$ (44,330,043)	$ 16,265,215
Share issue costs	-	9,919	-	-	-	-	-	9,919
Fair value assigned to warrants	-	(194,553)	-	-	-	(214)	-	(194,767)
Warrants expired	-	-	-	-	80,707	(80,707)	-	-
Net loss for the period	-	-	-	-	-	-	(4,606,029)	(4,606,029)
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	-	-
Fair value assigned to warrants	-	(51,923)	-	-	-	51,923	-	-
Shares issued on the settlement of royalty payment	1,730,769	225,000	-	-	-	-	-	225,000
Shares issued on exercise of warrants	87,500	17,089	-	-	-	(6,582)	-	10,507
Share-based compensation expense	-	-	-	-	210,811	-	-	210,811
Net loss for the period	-	-	-	-	-	-	(3,307,121)	(3,307,121)
Balance, September 30, 2015	**220,914,874**	**$ 56,350,520**	**-**	**$ -**	**$ 6,946,216**	**$ 859,992**	**$ (52,243,193)**	**$ 11,913,535**

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

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASHFLOWS
For the nine months ended September 30, 2015 and 2014
(Unaudited - Expressed in United States Dollars)

	Nine months ended September 30, 2015	2014
Cash generated from (used in)		
Operating activities		
Net loss for the period	**$ (3,307,121)**	$ (1,785,880)
Items not affecting cash:		
Change in fair value of warrants	**323,624**	-
Gain on settlement of contingent consideration	**(416,000)**	-
Gain on settlement of debenture payable	**(15,382)**	-
Share-based compensation	**210,811**	-
Amortization	**20,792**	22,844
Accretion	**21,599**	65,877
	(3,161,677)	(1,697,159)
Net change in non-cash working capital		
Accounts receivable	**(89,942)**	78,309
Prepaid expenses	**71,429**	(3,891)
Accounts payable and accrued liabilities	**1,336,938**	(747,535)
Debenture conversion feature	**-**	(9,989)
Warrant payable	**(429,305)**	(14,172)
Contingent consideration	**(1,564,058)**	(357,370)
Debentures payable	**(54,328)**	(35,099)
Cash receivable from arrangement	**-**	4,221,730
Net cash generated from (used in) operating activities	**$ (3,890,943)**	$ 1,434,824
Investing activities		
Increase in mineral properties	**(5,777,609)**	(1,539,576)
Net cash used in investing activities	**$ (5,777,609)**	$ (1,539,576)
Financing activities		
Proceeds received from silver stream financing	**7,850,000**	-
Issuance of common shares, net of share issue costs	**3,300,000**	1,020,592
Exercise of warrants	**10,507**	-
Repayment of debenture	**(736,552)**	-
Net cash generated from financing activities	**$ 10,423,955**	$ 1,020,592
Decrease in cash	**755,403**	915,840
Cash, beginning of period	**461,175**	289,349
Cash, end of period	**$ 1,216,578**	$ 1,205,189

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

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 10 King Street East, Suite 300, Toronto Canada, M5C 1C3.

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, or the ability of the Company to raise alternative financing, or alternatively upon the Company’s ability to dispose of its interests on an advantageous basis.

The Company’s ability to realize the 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 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.

These unaudited condensed interim 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 condensed interim 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.

(Unaudited - Expressed in United States Dollars, unless otherwise stated)

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

	September 30, 2015	December 31, 2014
Deficit	**$ 52,243,193**	$ 48,936,072
Working capital	**(1,040,330)**	(1,367,652)

2. Accounting Policies

a) Statement of Compliance

These condensed interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. Accordingly, they do not include all of the information required for full annual financial statements required by International Financial Reporting Standards ("IFRS") as issued by International Accounting Standards Board ("IASB") and interpretations issued by International Financial Reporting Interpretations Committee. These unaudited condensed interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2014.

These unaudited condensed interim consolidated financial statements were authorized for issuance by the Board of Directors of the Company on November 12, 2015.

b) Basis of Presentation

These unaudited condensed interim consolidated financial statements have been prepared on a historical cost basis. In addition, these unaudited condensed interim 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 unaudited condensed interim 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 condensed interim 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 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 interim 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 condensed interim 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. 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.

(Unaudited - Expressed in United States Dollars, unless otherwise stated)

3. 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.

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 7.

For the period ended June 30, 2015, key estimates on the valuation, using discounted cash flow model, of the contingent consideration include a 19.4% discount rate for the milestone (December 31, 2014 – 19.4%). The milestone payments are estimated to commence in 2017 with production starting in 2019. When performing a sensitivity analysis, if discount rates used in the valuation are increased or decreased by 1%, the impact on the fair value of the contingent consideration would increase or decrease by an estimated $120,000. If another key assumption, being the commencement of the milestone payments and the commencement of production, were pushed by one year to 2018 and 2020, respectively, the combined impact on fair value would decrease by an estimated $628,000.

The fair value of the contingent consideration as of September 30, 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**
Gain on change in value of contingent consideration	-
Settlement of 1% NSR royalty (note 7)	(1,696,000)
Change due to foreign exchange	(509,058)
Fair value as at September 30, 2015	**$3,354,842**

(Unaudited - Expressed in United States Dollars, unless otherwise stated)

4. Mineral Property Costs

Total accumulated deferred mineral property costs are detailed as follows:

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

Nine months ended September 30, 2015	Balance beginning of period $	Acquisition $	Reimbursed Exploration $	Adjustment/ Write-off $	Balance, end of period $
Back Forty Project *(note 7)*	17,236,109	5,748,390	-	-	22,984,499
Reef Gold Project	177,231	29,219	-	-	206,450
	17,413,340	**5,777,609**	-	-	**23,190,949**

*** For a complete description of the Company's mineral properties, please see note 8 of the Company's December 31, 2014 audited consolidated financial statements.*

(Unaudited - Expressed in United States Dollars, unless otherwise stated)

5. Capital Assets

Cost	**Land** $	**Buildings** $	**Furniture and Fixtures** $	**Total** $
Balance, December 31, 2014 and September 30, 2015	**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
Additions	-	19,650	10,146	29,796
Balance, December 31, 2014	-	106,239	33,106	139,345
Additions	-	20,516	276	20,792
Balance September 30, 2015	**-**	**126,755**	**33,382**	**160,137**
Net book value, December 31, 2014	380,880	434,778	277	815,934
Net book value, September 30, 2015	**380,880**	**414,262**	**-**	**795,142**

6. Debentures Payable

	Nine months ended September 30, 2014 $	Year ended December 31, 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 CDN$15 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% 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.

7. Orion Financing

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 financing of $20.75-million (“Orion Financing”). 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 for a period of 36 months. At the close of the transaction Orion held approximately 12.2% of the outstanding common shares. 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. The proceeds received from this transaction were recorded as an equity transaction. Refer to note 8(a) for further information.

b) Silver Stream Financing

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 installment of $6.5 million plus the $1.35 million land payment, which are reflected as a Deposit Received from Silver Stream Financing and is shown as a liability on the Statement of Financial Position as at September 30, 2015. The remaining $9.4 million is payable in four instalments over the next 18 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. The deposits bear interest on an annual uncompounded basis at 12%.

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 September 30, 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.

The second instalment of $1.35 million to be used for the final property payment at Back Forty was received from Orion in July 2015.

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 8(a). 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 3). Effective June 30, 2015, Aquila paid HudBay $1.0 million in cash plus $225,000 of unit financing is 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 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 Financing.

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
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.

8. Share Capital

a) Authorized

Unlimited number of common shares.

Issued and outstanding:

(Unaudited - Expressed in United States Dollars, unless otherwise stated)

	Number of Shares	Total $
Balance, December 31, 2013	98,167,697	42,858,892
Shares issued as compensation	122,716	14,057
Shares issued pursuant to Arrangement	66,260,568	8,098,764
Shares issued pursuant to HMI Acquisition	18,650,193	2,279,538
Shares issued pursuant to private placement	8,972,354	1,071,111
Fair value assigned to warrants	-	(453,163)
Share issue costs	-	(50,519)
Balance, September 30, 2014	192,173,528	53,818,680
Share issue costs	-	9,919
Fair value assigned to warrants	-	(194,553)
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 (i)	26,923,077	3,500,000
Transaction costs relating to private placement	-	(200,000)
Fair value assigned to warrants (i)	-	(807,692)
Transaction costs assigned to warrants (i)	-	34,000
Shares issued on settlement of royalty obligation (ii)	1,730,769	225,000
Fair value assigned to warrants on settlement of royalty obligations (ii)	-	(51,923)
Shares issued on exercise of warrants (ii)	87,500	17,089
Balance, September 30, 2015	**220,914,874**	**56,350,520**

i) 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 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 for a period of 36 months. Transaction costs allocated to this private placement were $200,000. (For further information on this transaction, see note 7a).

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 9 for further details.

ii) 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

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$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 7c for further information.

iii) During the nine months ended September 30, 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 9 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 five 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 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 nine months ended September 30, 2015 are presented below:

	Number of Stock Options	Weighted Average Exercise Price
Balance - January 1, 2013 and September 30, 2014	**14,310,000**	**$ 0.16**

	Number of Stock Options	Weighted Average Exercise Price
Balance - January 1, 2015	14,310,000	$ 0.16
Granted (i)	3,950,000	0.19
Granted (ii)	1,400,000	0.19
Expired options	(1,760,000)	0.16
Balance - September 30, 2015	**17,900,000**	**$ 0.16**

(i) On April 7, 2015, the Company granted 3,950,000 options, of which 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 $347,861, of which $164,892 was charged to income with the offset to contributed surplus during the nine months ended September 30, 2015. The remaining fair value balance of $182,969 is to be charged to income in future periods.

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(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 $49,587 was charged to income with the offset to contributed surplus during the nine months ended September 30, 2015. The remaining fair value balance of $73,705 is to be charged to income in future periods.

As at September 30, 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	Weighted Average Remaining Contractual Life (years)
January 16, 2019	12,550,000 *	12,550,000	$ 0.15	3.29
April 6, 2020	3,950,000	987,500	0.19	4.60
June 25, 2020	1,400,000	350,000	0.19	4.74
	17,900,000	13,887,500	$ 0.16	3.70

* Issuable under plan of arrangement.

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9. Warrants

The movements in the number and estimated fair value of outstanding broker warrants and share purchase warrants for the nine months ended September 30, 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 8a(iii))	**(87,500)**	**0.15**	-	-
Expired	**(2,111,500)**	**1.04**	-	-
Balance, September 30	**16,362,126**	**$0.36**	9,550,200	$0.72

b) US Dollar Warrants

	2015		2014	
	Number of warrants	**Weighted average exercise price (CDN $)**	Number of warrants	Weighted average exercise price (CDN $)
Balance, January 1	**-**	**$0.00**	-	$0.00
Issued (notes 7a,7c,8a(i)&8a(ii))	**14,326,923**	**0.15**	-	-
Balance, September 30	**14,326,923**	**$0.36**	-	$0.00

The exercise price, expiry date, and warrants issued and outstanding as at September 30, 2015 are as follows:

Number of warrants outstanding	Exercise Price CDN $	Expiry Date	Weighted average life (yrs)
2,945,000	0.20	May 17 to June 21, 2018	2.73
183,750	0.12	May 17 to June 22, 2018	2.73
2,000,000	1.00	November 10, 2016	1.12
1,950,000	1.00	November 10, 2016	1.12
72,450	0.15	January 16, 2016	0.30
9,210,926	0.15	September 18, 2017	1.98
16,362,126	**0.36**		**1.91**

Number of warrants outstanding	Exercise Price USD $	Expiry Date	Weighted average life (yrs)
14,362,923	0.19	March 31, 2018	2.51
14,362,923	**0.36**		**1.91**

10. Derivative Liabilities

a) Warrants

During the nine months ended September 30, 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 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 September 30, 2015, the Company had 16,362,126 (December 31, 2014 – 18,561,126) 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 8a for further information.

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For the nine months ended September 30,	**2015**	2014
Risk-free interest rate	0.49%	1.01-1.62%
Expected life	1-3 years	1-3 years
Price volatility	88-126%	70-106%
Share price (CDN $)	0.16-0.17	0.09-0.13
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.

11. 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 compensation committee. During the nine months ended September 30, 2015, director's fees, professional fees and other compensation of directors and key management personnel were as follows:

	For the nine months ended September 30,	
	2015	**2014**
Short-term compensation and benefits	**$ 688,137**	$ 559,900
Share-based payments (fair value of stock option benefits and share based payments)	**210,811**	-
	$ 898,948	$ 559,900

As at September 30, 2015, $14,675 (December 31, 2014 - $4,310) is included in accounts payable in connection with amounts due to key management personnel.

During the period ended September 30, 2015 a total of $92,746 (2014 - $51,750) was billed to the Company by a geological consulting company of which the VP of Exploration is the President.

During the nine months ended September 30, 2015 rental expenditures in the amount of $9,600 (2014 - $10,800) were paid to a company of which the Vice President, Exploration is a part owner.

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12. Administrative Expenses

	For the three months September 30, 2015	For the three months September 30, 2014	For the twelve months ended September 30, 2015	For the twelve months ended September 30, 2014
Amortization	**$ 6,890**	$ 14,162	**$ 20,792**	$ 22,844
Management and consulting fees	**82,650**	92,512	**352,342**	469,000
Directors' fees	**46,889**	44,492	**119,348**	114,238
Filing and regulatory fees	**25,521**	4,407	**60,923**	36,548
Office, general and administration	**16,882**	96,477	**85,557**	243,721
Professional fees	**88,298**	95,744	**183,515**	160,930
Rent	**7,089**	17,154	**20,502**	34,984
Salaries and benefits	**231,177**	51,266	**356,517**	164,207
Share-based compensation	**53,968**	-	**210,811**	-
Travel and promotion	**37,416**	14,456	**114,147**	131,641
	$ 596,780	$ 430,670	**$ 1,524,454**	$ 1,378,113

13. Finance Charges

	For the three months September 30, 2015	For the three months September 30, 2014	For the twelve months ended September 30, 2015	For the twelve months ended September 30, 2014
Interest and bank charges	**$ 947**	$ 1,446	**$ 3,205**	$ 4,546
Interest income	-	(328)	-	(10,926)
Debenture interest	-	22,919	**25,602**	68,433
Debenture accretion	-	22,884	**21,599**	65,878
	$ 947	$ 46,921	**$ 50,406**	$ 127,931