AQUILA RESOURCES

# MANAGEMENT DISCUSSION & ANALYSIS

**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017**

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**AQUILA RESOURCES INC.**
**MANAGEMENT DISCUSSION AND ANALYSIS**
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017**

## 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.

## GENERAL

The following management discussion and analysis ("**MD&A**") of financial results is dated November 9, 2017 and reviews the business of Aquila Resources Inc. (the "**Company**" or "**Aquila**") for the year ended December 31, 2016, and should be read in conjunction with the audited annual consolidated financial statements and related notes for the year ended December 31, 2016. This MD&A and the accompanying condensed interim consolidated financial statements and related notes for the quarter ended September 30, 2017 have been reviewed by the Company's Audit Committee and approved by the Company's Board of Directors.

The content of this MD&A has been read and approved by Andrew Boushy, Vice President of Project Development for the Back Forty Project. Mr. Boushy is a Qualified Person as defined by National Instrument 43-101 – Standards of Disclosure for Mineral Projects ("**NI 43-101**").

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 **"C$"**.

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&DA were reported using Canadian Institute of Mining, Metallurgy and Petroleum ("**CIM**") Standards.

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.

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.

## THIRD QUARTER HIGHLIGHTS

- Released the second round of results from the Company's 2017 drill program at the Back Forty project. The 5 holes were a combination of infill, step out and geotechnical drilling. The results included 1.23 g/t gold, 112.96 g/t silver, 1.12% lead, 13.61% zinc over 2.39 meters* and 0.82 g/t gold, 75.37 g/t silver, 0.10% copper, 2.69% lead, 9.6% zinc over 5.9 meters* and 0.98 g/t gold, 65.75 g/t silver, 2.53% lead, 8.95% zinc over 6.00 meters* in hole LK-17-528 (*Drilled thickness; true thickness is 85% of drilled thickness).
- Finalized optimization of the Feasibility Study for the Back Forty Project. Key progress included freezing layout, plant resizing and improved metallurgical recovery testwork.
- Commenced Resource Update to be included in the Feasibility Study.
- As at September 30, 2017, Aquila had cash of $3.1 million and working capital of $2.2 million. This compared to cash of $1.4 million and working capital of $0.6 million at December 31, 2016. The working capital increase was due to the private placement in February 2017 and warrant exercises during Q3 2017 offset by the funding of the Company's permitting activities and development of the Feasibility Study.

## POST QUARTER HIGHLIGHTS

- The Company announced a financing transaction with Osisko Bermuda Limited ("OBL"), a wholly owned subsidiary of Osisko Gold Royalties Ltd (TSX & NYSE: OR), pursuant to which OBL has agreed to commit approximately $65 million to Aquila through a $10 million private placement and $55 million gold stream purchase agreement. OBL has agreed to purchase 49,173,076 units of Aquila at a price of C$0.26 per unit for aggregate gross proceeds of approximately $10 million (the "Strategic Investment"). Each unit shall consist of one common share and one-quarter of one common share purchase warrant. Each whole warrant shall entitle the holder to purchase one common share of the Company for C$0.34 for a period of 42 months from the Closing Date. Concurrent with the equity financing, the parties have entered into a Gold Purchase Agreement(the "Stream") whereby OBL will purchase 18.5% of the refined gold from the Project (the "Threshold Stream Percentage") until the Company has delivered 105,000 ounces of gold (the "Production Threshold"). Upon satisfaction of the Production Threshold, the Threshold Stream Percentage will be reduced to 9.25% of the refined gold (the "Tail Stream"). In exchange for the refined gold delivered under the Stream agreement, OBL will pay the Company ongoing payments equal to 30% of the spot price of gold on the day of delivery, subject to a maximum payment of $600 per ounce. In consideration for the Stream, OBL will make 4 upfront deposit payments to Aquila totaling $55 million, including $7.5 million on close of the equity and Gold Purchase Agreements.

- Appointed Joseph de la Plante, Vice President Corporate Development for Osisko Gold Royalties Ltd. to the board of directors. Mr. de la Plante, Osisko's nominee pursuant to the subscription agreement, has been Vice President, Corporate Development of Osisko since June 2014. Prior to this, Mr. de la Plante held the position of Senior Advisor, Investment and Corporate Development of Osisko Mining Corporation since November 2010, where he played a key role in the company's investor relations and corporate development efforts prior to the sale of the company.
- Released the final results from the Company's 2017 exploration drill program at the Back Forty project. The drilling program was designed to test the along-strike extension of the 2016 Zone massive sulphide. The results included 1.27 g/t gold, 15.78 g/t silver, 12.17% zinc, over 7.09 meters (drilled thickness) in LK-17-537.
- The final required permit to operate and build the Back Forty mine is a Wetlands Protection Act permit covered under Northern Rockies Ecosystem Protection Act ("NREPA") 1994 PA 451, as amended. On January 13, 2017, the Company submitted its wetland protection permit application to the Michigan Department of Environmental Quality ("MDEQ"). The MDEQ sent a detailed "Correction Request" letter on January 26, 2017 requesting additional information and clarification/corrections in the permit application. A new wetlands delineation and mapping was also requested by the MDEQ and completed in June 2017.
- On October 2, 2017, the Company re-submitted its wetlands permit application. At the request of the MDEQ, the Company temporarily withdrew the application to provide the MDEQ with additional time to review the application prior to deeming the application administratively complete. The Company will resubmit the application shortly and anticipates that the application will be deemed administratively complete and put on public notice in the near term.

## FEASIBILITY STUDY HIGHLIGHTS

- Optimized metallurgical and recovery test work including SAG mill sizing.
- Completed an optimized process plant design and site layout to accommodate an improved wetlands permit and optimal environmental footprint including project constructability.
- Finalized the contracting strategy and execution approach.
- Continued with refinement of project execution plan and construction schedule.
- Commenced financial evaluation and final report compilation.
- A resource update is expected by the end of the year with the final Feasibility Study results announced in the first half of 2018.

## OUTLOOK

- The Company continues to work with the MDEQ on its Wetland permit submission and is providing additional technical clarification as the application is currently under administrative review. The Company believes that the permit will be deemed administratively complete in the fourth quarter of 2017 triggering the commencement of the public notice and commentary period. Final permit issuance is now expected in the first half of 2018.

- In 2018, the Company will continue discussions with prospective financial partners to secure required project capital to build the Back Forty Project. The Company has retained the services of financial advisors to help consider all available strategic and financial options to the Company and the project. In parallel, the Company is in discussions with several parties under Confidentiality Agreements who are currently reviewing information in its data room.
- In addition to recently filled positions, the Company will continue to add to its leadership team to prepare for the construction and operational phases of the Back Forty Project.
- An underground mine expansion design and business case is continuing to be evaluated and further drilling and geotechnical investigations will support a pre-feasibility study expected to be published in a future period.

## 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 three other exploration projects: Reef Gold Project located in Marathon County Wisconsin, Aquila Nickel located in the Upper Peninsula, Michigan 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.

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.

## OVERVIEW OF ACTIVE PROJECTS

### Back Forty Project

The Back Forty Project is a development stage volcanogenic massive sulfide (VMS) deposit containing zinc, gold, copper, lead, and silver, 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 billion pounds of zinc and 1 million ounces of gold 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.

*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 NPV of $282.2 million, using a discount rate of 6%, with an 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.

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*2013- Resource Estimate Update*

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

| Open Pit† | | | | | | | | Contained Metals | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Category | Tonnes | Gold (ppm) | Silver (ppm) | Copper (%) | Lead (%) | Zinc (%) | NSR ($/tonne) | Gold (oz) | Silver (oz) | Copper (lbs) | Lead (lbs) | Zinc (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‡ | | | | | | | | Gold | Silver | Copper | Lead | Zinc |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Category | Tonnes | Gold (ppm) | Silver (ppm) | Copper (%) | Lead (%) | Zinc (%) | NSR ($/tonne) | (oz) | (oz) | (lbs) | (lbs) | (lbs) |
| 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 | | | | | | | | Gold | Silver | Copper | Lead | Zinc |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Category | Tonnes | Gold (ppm) | Silver (ppm) | Copper (%) | Lead (%) | Zinc (%) | NSR ($/tonne) | (oz) | (oz) | (lbs) | (lbs) | (lbs) |
| 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 MD&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.

*Exploration Activities*

Exploration activities at Back Forty concentrated on additional drill testing in the vicinity of the 2016 Zone massive sulphide. The program included drilling in both directions along strike and down dip. This drilling has defined mineralization that extends for more than 120 meters and the tuffaceous sediments that host the mineralization are open along strike to the southwest. To the east, the geologic relationship with the modeled resource remains unclear due to structural complexity.

In 2017, the assay results have been completed for all of the drill holes and the results presented below. The holes were targeting the Pinwheel, Deep Zone, and Main Zone massive sulfide outside of the proposed open pit, and were a combination of infill, step out, and geotechnical drilling.

Highlights from the drilling completed to date include:
- 0.50 grams/tonne (g/t) gold, 12.94 g/t silver, 0.09% copper, 6.49 % zinc over 2.46 meters* in LK-17-529
- 1.36 g/t gold, 36.65 g/t silver, 0.08% copper, 6.34% zinc over 11.06 meters*in LK-17-534
- 1.65 g/t gold, 28.82 g/t silver, 6.09% zinc over 8.38 meters* in LK-17-535
- 0.61 g/t gold, 3.00 g/t silver, 4.82% zinc over 1.28 meters* and
- 0.57 g/t gold, 5.47 g/t silver, 3.19% zinc over 4.53 meters* in LK-17-536
- 0.98 g/t gold, 13.27 g/t silver, 0.11% copper, 5.48% zinc over 15.97 meters* and
- 1.23 g/t gold, 11.87 g/t silver, 6.37% zinc over 18.09 meters in LK-17-537
- 1.3 grams/tonne (g/t) gold, 13 g/t silver, 0.66% copper, 9.9 % zinc over 4.99 meters* in GT-09

- 0.74 g/t gold, 9.3% zinc over 9 meters* and 1.6 g/t gold, 32 g/t silver, 1.6% copper over 20.9 meters* in GT-10
- 3.6 g/t gold, 35 g/t silver, 10.07% zinc over 7.69 meters* and 0.96 g/t gold, 29 g/t silver, 0.33% copper, and 20% zinc over 11.4 meters* in GT-11
- 1.176 g/t gold, 5.19% zinc over 42.07 meters* and 11.65 g/t gold, 50 g/t silver over 21.4 meters* in GT-12
- 1.33 g/t gold, 15 g/t silver, 0.99% copper over 45 meters* in LK-17-523

Significant intercepts from the most recent round of drilling are tabulated and described below. All intervals are expressed as drilled interval.

| Drill Hole LK-17-529 | From | To | Interval* | Gold | Silver | Copper | Lead | Zinc |
|---|---|---|---|---|---|---|---|---|
| | m | m | m | g/t | g/t | % | % | % |
| | 55.11 | 57.57 | 2.46 | 0.5 | 12.94 | 0.09 | 0.05 | 6.49 |
| | | | | | | | | |
| Drill Hole LK-17-534 | From | To | Interval* | Gold | Silver | Copper | Lead | Zinc |
| | m | m | m | g/t | g/t | % | % | % |
| | 27.5 | 28.66 | 1.16 | 1.49 | 8 | 1.39 | 0.02 | 0.01 |
| | 112 | 114.5 | 2.5 | 0.15 | 38.2 | 0.02 | 0.67 | 0.02 |
| Including | 113.5 | 114.5 | 1 | 0.24 | 70 | 0.02 | 1.31 | 0.01 |
| | 116.44 | 127.5 | 11.06 | 1.61 | 40.72 | 0.08 | 0.22 | 6.32 |
| Including | 117.44 | 119.73 | 2.29 | 6.2 | 174.83 | 0.13 | 0.92 | 2.06 |
| And | 119.73 | 124.82 | 5.09 | 0.52 | 5.68 | 0.08 | 0.03 | 11.56 |
| | 233.5 | 235.5 | 2 | 0.55 | 28 | 0.75 | 0.01 | 0.12 |
| | 234.5 | 235.5 | 1 | 0.53 | 35 | 1.03 | 0.01 | 0.06 |
| | | | | | | | | |
| Drill Hole LK-17-535 | From | To | Interval* | Gold | Silver | Copper | Lead | Zinc |
| | m | m | m | g/t | g/t | % | % | % |
| | 64 | 78.85 | 14.85 | 0.84 | 13.23 | 0.29 | 0.04 | 0.2 |
| Including | 71.5 | 78.85 | 7.35 | 1.05 | 16.94 | 0.46 | 0.02 | 0.13 |
| | 106.15 | 108 | 1.85 | 2.03 | 233.82 | 0.09 | 4.13 | 0.09 |
| | 108 | 116.38 | 8.38 | 1.49 | 29.55 | 0.08 | 0.2 | 7.61 |
| Including | 108 | 113.38 | 5.38 | 1.85 | 25.58 | 0.13 | 0.17 | 11.46 |
| | | | | | | | | |
| Drill Hole LK-17-536 | From | To | Interval* | Gold | Silver | Copper | Lead | Zinc |
| | m | m | m | g/t | g/t | % | % | % |
| | 46.86 | 52.48 | 5.62 | 0.71 | 4.93 | 0.33 | 0.01 | 0.03 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Including | 46.86 | 47.94 | 1.08 | 1.09 | 13 | 1 | 0.01 | 0.01 |
| | 77.5 | 79 | 1.5 | 2.73 | 8 | 0.01 | 0.06 | 0.07 |
| | 99.72 | 101 | 1.28 | 0.61 | 3 | 0 | 0.01 | 4.82 |
| | 127.5 | 132.03 | 4.53 | 0.57 | 5.47 | 0.01 | 0.05 | 3.19 |
| Including | 129.2 | 132.03 | 2.83 | 0.79 | 7.02 | 0 | 0.07 | 4.27 |
| | | | | | | | | |

| Drill Hole LK-17-537 | From | To | Interval* | Gold | Silver | Copper | Lead | Zinc |
|---|---|---|---|---|---|---|---|---|
| | m | m | m | g/t | g/t | % | % | % |
| | 84.53 | 100.5 | 15.97 | 0.86 | 13.27 | 0.11 | 0.11 | 5.48 |
| Including | 87.57 | 97.69 | 10.12 | 0.95 | 7.26 | 0.07 | 0.07 | 7.04 |
| | 113 | 131.09 | 18.09 | 1.26 | 11.87 | 0.03 | 0.1 | 6.37 |
| Including | 120 | 122.34 | 2.34 | 3.72 | 22.64 | 0.05 | 0.25 | 4.48 |
| And | 124 | 131.09 | 7.09 | 1.27 | 15.78 | 0.04 | 0.12 | 12.17 |

*Interval is drilled thickness and does not represent true thickness.

LK-17-529 intersected a zinc-rich massive sulphide adjacent with a massive chlorite interval. This interval extends the 2016 Zone 30 meters east.

LK-17-534, LK-17-535 and LK-17-536 all intersected a similar stratigraphy that included multiple mineralized intervals. The three holes were drilled in a fence such that LK-17-534 was drilled, followed by LK-17-535 drilled as an overcut and LK-17-536 was drilled at a steeper angle. The fence was designed to test the down-strike extension of the 2016 Zone and confirmed the zone of massive sulphides and tuffaceous sediments continues more than 20 meters to the southwest, but may be offset vertically downward.

LK-17-537 tested an additional southwest extension of the 2016 zone. Zinc-rich massive sulphide and tuffaceous sediments were intersected more than 30 meters southwest of the mineralization identified in the LK-17-534 fence to the east.

Significant intercepts from the second round of drilling are tabulated and described below.

| Drill Hole GT-08 | From m | To m | Interval* m | Gold g/t | Silver g/t | Copper % | Lead % | Zinc % |
|---|---|---|---|---|---|---|---|---|
| | 19.64 | 24.50 | 4.86 | 1.88 | 214 | 1.12 | 0.20 | 0.03 |
| | 63.00 | 78.70 | 15.70 | 0.88 | 21 | 0.54 | 0.02 | 0.36 |

| Drill Hole GT-09 | From m | To m | Interval* m | Gold g/t | Silver g/t | Copper % | Lead % | Zinc % |
|---|---|---|---|---|---|---|---|---|
| | 55.50 | 57.00 | 1.50 | 9.379 | 126 | 0.16 | 0.65 | 0.04 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 59.51 | 64.50 | 4.99 | 1.319 | 13 | 0.66 | 0.17 | 9.99 |
| | 76.50 | 89.30 | 12.80 | 2.241 | 9 | 0.30 | 0.04 | 0.16 |

| Drill Hole GT-10 | From m | To m | Interval* m | Gold g/t | Silver g/t | Copper % | Lead % | Zinc % |
|---|---|---|---|---|---|---|---|---|
| | 50.20 | 59.24 | 9.04 | 0.740 | 8 | 0.20 | 0.33 | 9.31 |
| Including | 76.68 | 78.75 | 2.07 | 2.905 | 38 | 0.14 | 0.30 | 0.03 |
| | 114.23 | 128.00 | 13.77 | 1.381 | 14 | 0.04 | 0.08 | 3.82 |
| Including | 114.23 | 117.70 | 3.47 | 1.651 | 13 | 0.07 | 0.05 | 6.93 |
| | 159.60 | 190.00 | 30.40 | 1.497 | 29 | 1.23 | 0.01 | 0.32 |
| Including | 159.60 | 180.50 | 20.90 | 1.605 | 32 | 1.58 | 0.01 | 0.37 |

| Drill Hole GT-11 | From m | To m | Interval* m | Gold g/t | Silver g/t | Copper % | Lead % | Zinc % |
|---|---|---|---|---|---|---|---|---|
| | 42.31 | 50.00 | 7.69 | 3.627 | 35 | 0.12 | 0.12 | 10.07 |
| | 57.80 | 69.20 | 11.40 | 0.962 | 29 | 0.33 | 0.01 | 20.01 |
| | 80.50 | 82.57 | 2.07 | 6.643 | 15 | 0.10 | 0.22 | 0.08 |

| Drill Hole GT-12 | From m | To m | Interval* m | Gold g/t | Silver g/t | Copper % | Lead % | Zinc % |
|---|---|---|---|---|---|---|---|---|
| | 337.00 | 379.07 | 42.07 | 1.176 | 15 | 0.17 | 0.05 | 5.19 |
| Including | 342.00 | 365.50 | 23.50 | 0.725 | 11 | 0.08 | 0.02 | 7.50 |
| | 378.00 | 399.40 | 21.40 | 11.655 | 50 | 0.44 | 0.41 | 1.29 |
| Including | 379.07 | 385.34 | 6.27 | 28.333 | 60 | 0.51 | 0.64 | 3.24 |

| Drill Hole LK-17-521 | From m | To m | Interval* m | Gold g/t | Silver g/t | Copper % | Lead % | Zinc % |
|---|---|---|---|---|---|---|---|---|
| | 61.10 | 62.75 | 1.65 | 0.381 | 77 | 0.06 | 1.18 | 3.02 |
| | 68.52 | 74.49 | 5.97 | 0.719 | 53 | 0.18 | 0.37 | 2.21 |
| | 133.00 | 145.75 | 12.75 | 0.949 | 10 | 0.29 | 0.04 | 0.07 |

| Drill Hole LK-17-522 | From m | To m | Interval* m | Gold g/t | Silver g/t | Copper % | Lead % | Zinc % |
|---|---|---|---|---|---|---|---|---|
| | 134.65 | 150.05 | 15.40 | 0.943 | 10 | 0.26 | 0.05 | 0.80 |
| including | 134.65 | 137.00 | 2.35 | 0.975 | 35 | 0.29 | 0.17 | 4.10 |

| Drill Hole LK-17-523 | From m | To m | Interval* m | Gold g/t | Silver g/t | Copper % | Lead % | Zinc % |
|---|---|---|---|---|---|---|---|---|
| | 51.00 | 165.00 | 114.00 | 1.006 | 14 | 0.61 | 0.01 | 1.80 |
| including | 67.50 | 99.00 | 31.50 | 0.681 | 9 | 0.28 | 0.01 | 4.55 |
| | 120.00 | 165.00 | 45.00 | 1.333 | 15 | 0.99 | 0.01 | 0.39 |
| including | 133.00 | 137.50 | 4.50 | 2.126 | 22 | 2.07 | 0.00 | 0.24 |
| Drill Hole LK-17-524 | From m | To m | Interval* m | Gold g/t | Silver g/t | Copper % | Lead % | Zinc % |
| | 45.50 | 100.58 | 55.08 | 1.304 | 13 | 0.49 | 0.04 | 0.29 |

| Drill Hole LK-17-525 | From m | To m | Interval* m | Gold g/t | Silver g/t | Copper % | Lead % | Zinc % |
|---|---|---|---|---|---|---|---|---|
| | 142.88 | 143.55 | 0.67 | 0.838 | 32 | 0.04 | 0.46 | 22.42 |
| | 147.30 | 163.36 | 16.06 | 0.921 | 12 | 0.46 | 0.20 | 1.81 |
| Including | 147.30 | 154.50 | 7.20 | 0.766 | 19 | 0.59 | 0.43 | 3.62 |
| | 166.00 | 170.63 | 4.63 | 1.830 | 8 | 0.21 | 0.06 | 0.13 |

*Interval is drilled thickness and does not represent true thickness. Estimated true thicknesses for individual holes are: GT-08 90%, GT-09 95%, GT-10 48% to 62%, GT-11 67%, GT-12 73%, LK-17-521 63%, LK-17-522 60%, LK-17-523 35%, LK-17-524 74%, LK-17-525 65%

Drill holes LK-17-521, LK-17-522, LK-17-523, LK-524, LK-17-525, GT-08, GT-09, GT-10, and GT-11 were testing the extension of the Pinwheel Zone massive sulfide to the west and southwest of the proposed open pit. The drilling was designed to infill and step out along the extension of the Pinwheel Zone (LK holes) as well as to assess the rock quality and stability of both the mineralized zones and host rocks (GT holes).

GT-12 was a geotechnical hole drilled southwest of the proposed open pit and was directed at rock quality assessment for potential underground development associated with the Main Zone massive sulfide and related stringer mineralization located approximately 200 meters below the open pit.

A total of ten drill holes were completed in 2016 with the goal of testing extensions of known mineralization and geophysical targets in proximity to the known resource at Back Forty. The 2016 drilling campaign identified new zinc rich massive and semi massive sulfide zones to the southwest of the Back Forty deposit. A discrete zone of massive sulfide in LK-16-515, 516 and 517 remains open along strike to the northeast and southwest as well as at depth. This new zone lies approximately 400 meters southwest of the proposed open pit, and may eventually prove to be continuous with underground resources extending southwest from the pit. Additionally, strong geophysical trends have identified targets for an additional 500 meters to the southwest.

Separate zinc and silver mineralized horizons were also encountered deeper in LK-16-515 as well as in LK-16-518. These horizons were hosted by siliceous, tuffaceous sediments similar to the Tuff zone and deeper mineralization under the Back Forty deposit. Future drilling will target extensions of these horizons and will test potential continuity with these zones.

Drill hole LK-16-515 was designed to test a gravity anomaly along the southwest trend of the Pinwheel zone and intersected a new lens of zinc-rich massive sulfide grading 4.9% zinc, 0.97g/t gold, and 13 g/t silver over 8.43 meters. Gold mineralization was also encountered in the hole directly above the massive sulfide consisting of 2.87 meters of 4.63 g/t gold and 39.28 g/t silver giving a total thickness of gold and zinc mineralization of 11.21 meters.

LK-16-515 also encountered an additional zone of gold mineralization at 25 meters and a deeper zone of zinc, lead, and silver mineralization at a depth of 156.5 meters in siliceous, tuffaceous sediments.

LK-16-516 was a follow up, undercut of LK-16-515 and intercepted the massive sulfide horizon approximately 25m below the LK-16-515 intercept. The massive and semi massive sulfide in LK-16-516 returned 13.02 meters of 4.92% zinc, 0.81 g/t gold, and 23.6 g/t silver in similar massive and semi massive sulfides.

Gold and silver mineralization was encountered in LK-16-514 at two separate horizons approximately 60 meters apart. The orientation of these intercepts is currently unknown, but the high grades, including visible gold in the lower interval, warrant follow up drilling. This area occupies an apparent gap between known Pinwheel massive sulfide mineralization and the newly discovered zone of mineralization in LK-16-515, 516 and 517.

Drill holes LK-16-511, 512, and 513 were step out holes testing the potential extension of the Pinwheel massive sulfide northeast of the proposed open pit. They encountered significant but narrow zones of precious metal mineralization, but no extensions of massive sulfide. LK-16-510 testing a geophysical target 325 meters northeast of the open pit, did not return significant values.

All of the ten holes from this drilling program, as well as strategic historic drill holes, were surveyed with downhole, pulse electromagnetic techniques.

Significant assays from the first round of drill holes are summarized in the table below.

| | From | To | Interval* | Au | Ag | Cu | Pb | Zn |
|---|---|---|---|---|---|---|---|---|
| **Drill Hole** | **m** | **m** | **m** | **g/t** | **g/t** | **%** | **%** | **%** |
| **LK-16-516** | 76.18 | 89.20 | 13.02 | 0.81 | 23.64 | 0.08 | 0.42 | 4.92 |
| Including | 77.5 | 86.85 | 9.35 | 0.84 | 10.70 | 0.09 | 0.10 | 6.70 |
| Including | 80 | 86.85 | 6.85 | 0.80 | 11.92 | 0.08 | 0.11 | 7.72 |
| Including | 83.15 | 86.85 | 3.70 | 0.60 | 10.71 | 0.06 | 0.11 | 9.79 |
| | | | | | | | | |
| **LK-16-517** | 90.50 | 97.28 | 6.78 | 0.31 | 5.02 | 0.04 | 0.06 | 2.99 |
| | 127.90 | 128.40 | 0.50 | 0.59 | 304.00 | 0.06 | 4.71 | 0.01 |
| | | | | | | | | |
| **LK-16-518** | 87.50 | 88.10 | 0.60 | 0.32 | 44.21 | 0.01 | 0.30 | 2.10 |
| | 172.00 | 187.68 | 15.68 | 0.10 | 18.61 | 0.01 | 0.26 | 0.76 |
| Including | 173.50 | 174.20 | 0.70 | 0.21 | 52.66 | 0.03 | 0.57 | 3.72 |
| Including | 183.10 | 184.00 | 0.90 | 0.11 | 72.58 | <0.01 | 1.26 | 3.17 |
| Including | 187.00 | 187.68 | 0.68 | 0.08 | 91.74 | 0.05 | 1.45 | 3.27 |
| | | | | | | | | |
| **LK-16-519** | | | No Significant Values | | | | | |

| | From | To | Interval* | Au | Ag | Cu | Pb | Zn |
|---|---|---|---|---|---|---|---|---|
| **Drill Hole** | **m** | **m** | **m** | **g/t** | **g/t** | **%** | **%** | **%** |
| **LK-16-510** | | | No Significant Values | | | | | |
| | | | | | | | | |
| **LK-16-511** | 107.10 | 110.30 | 3.20 | 1.78 | 20.48 | 0.06 | 0.04 | 0.13 |
| | | | | | | | | |
| **LK-16-512** | 56.00 | 57.20 | 1.20 | 2.29 | 2.93 | 0.01 | 0.01 | 0.004 |
| | 141.57 | 142.67 | 1.10 | 1.76 | 13.02 | 0.02 | 0.03 | 0.06 |
| | | | | | | | | |
| **LK-16-513** | | | No Significant Values | | | | | |
| | | | | | | | | |
| **LK-16-514** | 56.00 | 62.00 | 6.00 | 5.01 | 27.34 | 0.02 | 0.00 | 0.01 |
| Including | 60.70 | 62.00 | 1.30 | 14.62 | 87.70 | 0.09 | 0.01 | 0.01 |
| | 125.2 | 127.1 | 1.90 | 10.01 | 155.76 | 0.17 | 1.07 | 0.11 |
| | | | | | | | | |
| **LK-16-515** | 25.00 | 27.50 | 2.50 | 2.94 | 6.87 | 0.03 | 0.03 | 0.01 |
| | 63.00 | 74.21 | 11.21 | 1.88 | 19.52 | 0.18 | 0.15 | 3.97 |
| Including | 63.00 | 65.78 | 2.78 | 4.63 | 39.28 | 0.17 | 0.37 | 1.14 |
| Including | 65.78 | 74.21 | 8.43 | 0.97 | 13.00 | 0.18 | 0.08 | 4.90 |
| Including | 72.34 | 74.21 | 1.87 | 0.45 | 8.32 | 0.11 | 0.06 | 9.73 |
| | 156.50 | 161.00 | 4.50 | 0.29 | 37.28 | 0.01 | 0.61 | 2.07 |

*Interval is drilled thickness. True thickness is unknown, but is estimated to be approximately 80% of drilled thickness in LK-16-515, LK-16-516, and LK-16-517.

*Permitting Activities*

The Company submitted its permit applications for Back Forty with the MDEQ in November 2015. The Company continued to use the services of Foth Infrastructure and Environment LLC based in Green Bay, WI. Consistent with Michigan's permitting process, Aquila's application requests specific permits for a Mining Permit, NPDES Permit), Wetlands Permit and Air Pollution Control ("Air Use Permit").

On September 2, 2016, the MDEQ provided public notice on its Proposed Decision to issue a draft Mining Permit to Aquila for its Back Forty Project. In addition to the proposed Mining Permit, Aquila also received draft NPDES and Air Permits. A final consolidated public hearing was held on October 6, 2016 for these three permits and the public comment period expired on November 3, 2016. The final Nonferrous Metallic Mineral Mining ("Mining Permit") and Michigan Air Use Permit to Install were issued by the MDEQ on December 29, 2016.

The Company was issued the final NPDES permit on April 5, 2017. The final required permit to operate and build the Back Forty mine is a Wetlands Protection permit Act covered under Part 303 of NREPA. The Company received a detailed "Correction Request" letter from the MDEQ on January 26, 2017 requesting additional information and clarification/corrections in the permit application. On October 2, 2017, the Company re-submitted the wetland permit addressing the questions in the Correction Request. At the request of MDEQ, the Company temporarily withdrew the application to provide MDEQ with additional time to review the application prior to deeming the application administratively complete. The Company will resubmit the application shortly and anticipates that the application will be deemed administratively complete and put on public notice in the near term.

Aquila is currently in the preliminary stages of an administrative contested case regarding the validity of the Part 632 Permit to Mine issued to Aquila for the Back Forty Project by the MDEQ in December 2016. An individual alleging to own property near the Back Forty Project and the Menominee Indian Tribe of Wisconsin have challenged the permit. These challenges will ultimately be resolved by the Director of MDEQ after a contested case hearing adjudicated by an Administrative Law Judge. Aquila does not anticipate the MDEQ director will come to a different conclusion on issuing the permit then MDEQ staff, and looks forward to participating in the contested case process.

*Feasibility Study*

The feasibility study optimization was kicked off in February 2017. The study optimization focuses on the optimization of layout, waste rock management improved water management and water treatment. The study update also focuses on improved economics including optimal CAPEX and OPEX for the purpose of advancing the project.

The study update was led by Lycopodium Minerals Canada ("Lycopodium"), an international project management and engineering firm, based in Toronto, Ontario, Canada. Lycopodium was supported by globally recognized experts and specialist consulting engineering companies in the permit sensitive areas such as waste water treatment, tailings and waste rock management and mine design. The feasibility study is expected to be finalized in the first half of 2018 and runs in parallel with the MDEQ wetlands permitting process.

Underground specific geotechnical site investigation including Phase 1 of a geotechnical drill program was conducted on-site from January to March to ascertain various ground and bedrock conditions required for future underground mine design studies consistent with supporting the necessary mine infrastructure. Phase 2 of the drill program commenced in April, including additional infill drilling as part of a wider resource drill campaign. Results of infill drilling will be incorporated into a pre-feasibility study commencing later this year that further assesses an underground expansion scenario.

*Exploration Expenses*

During the nine months ended September 30, 2017, the Company incurred project exploration expenditures of $4,291,283 (2016 - $3,180,431). Acquisition costs incurred on the Back Forty Project for the nine months ended September 30, 2017, were $68,750 (2016 – $718,271). Estimated lease, option and property acquisition costs related to the Back Forty Project for 2017 to 2019, for which the Company is materially liable throughout the duration of the agreement, are as follows:

| Year | Amount |
|---|---|
| 2017 | $ 17,000 |
| 2018 | $ 230,637 |
| 2019 | $ 245,472 |

## 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 *(1*) 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 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 an airborne versatile time domain electromagnetic survey over the Reef Property.

During the nine months ended September 30, 2017, the Company incurred exploration expenditures of $1,350 (2016 – $5,490). Acquisition costs incurred on the Reef Gold Project for the nine months ended September 30, 2017, was $45,119 (2016 - $36,519). Ongoing lease or option costs related to the Reef Project for 2017 to 2019, which are at the Company's option, are as follows:

| Year | Amount |
| --- | --- |
| 2017 | $ 193,700 |
| 2018 | $ 2,104,078 |
| 2019 | $ 522,614 |

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 belt 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 5,800 meters of drilling, expanding and further defining base and precious metal mineralization, potentially in support of a NI 43-101 compliant resource estimate.

During the nine months ended September 30, 2017, the Company incurred exploration expenditures of $nil (2016 – $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.*

### Aquila Nickel Project

Aquila has initiated nickel exploration activities in three separate areas located north of the Back Forty Project in the Upper Peninsula of Michigan. These areas are deemed prospective for mafic and ultramafic intrusive rocks similar to Lundin Mining's high grade Eagle nickel copper mine in the northern part of the Upper Peninsula. Ground and airborne geophysical surveys have been conducted in these areas and land acquisition on prospective targets is underway.

During the nine months ended September 30, 2017, the Company incurred exploration expenditures of $11,510 (2016 – $17,993). Acquisition costs incurred on the Aquila Nickel Project for the nine months ended September 30, 2017, was $44,500 (2016 - $46,000). Ongoing lease or option costs related to the Aquila Nickel Project for 2017 to 2019, which are at the Company's option, are as follows:

| Year | Amount |
|---|---|
| 2017 | $ - |
| 2018 | $ 32,741 |
| 2019 | $ 333,341 |

## 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 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. During 2016, the Company's interest was reduced to a 1% net smelter royalty.

## 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 three and nine months ended September 30, 2017:

| | **Three months ended September 30,** | | **Nine Months Ended September 30,** | |
|---|---|---|---|---|
| *In US dollars* | **2017** | 2016 | **2017** | 2016 |
| Administrative expenses | **$ 699,781** | $ 903,579 | **$ 2,319,425** | $ 1,681,187 |
| Mineral property exploration expenses | **1,209,587** | 1,255,782 | **4,304,143** | 2,012,772 |
| Net interest expense | **871** | 1,154 | **2,995** | 2,906 |
| Loss from operations | **1,910,239** | 2,160,515 | **6,626,563** | 3,696,865 |
| Loss on foreign exchange | **254,136** | (9,553) | **454,895** | 380,397 |
| Loss (gain) on change in value of contingent consideration | **(556)** | 37,554 | **(10,934)** | 150,706 |
| Loss (gain) on change in fair value of warrant liability | **(997,322)** | 342,692 | **(768,117)** | 87,969 |
| Net and comprehensive loss for the period | **1,166,497** | 2,531,208 | **6,302,407** | 4,315,937 |
| Net loss per share - basic and diluted | **-** | 0.01 | **0.02** | 0.02 |

### 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 fluctuation of the Canadian dollar relative to the US dollar over the three and nine months ended September 30, 2017, continues to have an impact on the comparability of expenditures on a period over period basis. For the three and nine months ended September 30, 2017, administrative expenses were $699,781 and $2,319,425, compared to $606,818 and $2,288,005 for the same periods last year. Significant components and changes in this expense include:

- Salaries and benefits have increased to $349,119 and $1,015,179 for the three and nine months ended September 30, 2017, compared to expenditures of $296,876 and $807,412, in the same period in the prior year primarily due to an 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 of the Back Forty project and the Company expands its team and commits existing consultants to payroll.
- Share based payments, as explained in Note 8(b) to the condensed interim consolidated financial statements, were $98,966 and $369,173 for the three and nine months ended September 30, 2017. This is in comparison to $43,070 and $563,833 for the same period last year. Quarterly and period to date fluctuations in share based payments expense are dependent on a number of factors including, but not limited to, number of options or restricted share units ("RSUs") granted, valuation of options and RSUs, vesting period and timing.
- Professional fees were $52,700 and $169,868 for the three and nine months ended September 30, 2017, decreasing from $54,884 and $227,052, in the same period last year. Legal fees and professional fees mainly relate to corporate legal responsibilities and financial audit and tax fees.
- Management and consulting fees decreased in comparison to the same periods in the prior year with expenses of $8,867 and $38,844 for the three and nine months ended September 30, 2017, compared to expenses of $38,844 and $83,294 in the same period last year.
- Travel and promotion costs were consistent for the three and nine months ended September 30, 2017, with expenditures of $33,742 and $166,305, compared to $68,886 and $166,385 for the same period in the prior year. The fluctuation is due to timing in investor relations activities compared to the prior year.
- Office and administrative costs of $70,971 and $242,127, increased for the three and nine months ended September 30, 2017, in comparison to the prior year with expenditures of $34,693 and $248,856, due to employee relocation costs in addition to increased rent.
- The Company had a foreign exchange loss of $254,136 and $454,895 for the three and nine months ended September 30, 2017, compared to a foreign exchange gain of $71,616 and a loss of $308,781 in the same periods of the 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 three and nine months ended September 30, 2017, mineral property exploration expenditures have increased to $1,209,587 and 4,304,143, from $1,195,515 and $3,208,287, respectively, for the three and nine months ended September 30, 2016. With the financing in place from the Company's latest capital transaction, the permitting process is ongoing and the Company's feasibility study at Back Forty is continuing. In addition, the Company is also continuing its exploration efforts. Costs are increasing in line with the Company's expectations.

## Quarterly Information

Selected quarterly information for the eight most recently completed quarters is presented below and has been prepared in accordance with International Financial Reporting Standards.

| | For the quarters ended: | | | |
|---|---|---|---|---|
| *In thousands of US dollars* | **30-Sep-17** | **30-Jun-17** | **31-Mar-17** | **31-Dec-16** |
| **Statement of Loss** | | | | |
| Transaction costs | $ - | $ - | $ - | $ - |
| Net gain (loss) in fair value of contingent consideration, warrants and debentures | (998) | 172 | (391) | 235 |
| Net expenses | (1,910) | (2,434) | (2,282) | (1,704) |
| Net loss | (1,166) | (2,380) | (2,755) | (1,398) |
| Loss per share | - | 0.01 | 0.01 | 0.01 |

| | For the quarters ended: | | | |
|---|---|---|---|---|
| *In thousands of US dollars* | **30-Sep-16** | **30-Jun-16** | **31-Mar-16** | **31-Dec-15** |
| **Statement of Loss** | | | | |
| Transaction costs | $ - | $ - | $ - | $ 75 |
| Net gain in fair value of contingent consideration, warrants and debentures | (484) | (380) | (142) | (1,162) |
| Net expenses | (1,804) | (2,160) | (1,536) | (1,953) |
| Net loss | (2,216) | (2,531) | (1,785) | (2,963) |
| Loss per share | 0.01 | 0.01 | 0.01 | 0.01 |

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

With the funds from the recently completed private placement as well as the funds from the warrant exercises, the Company is focused on receiving its final permit and finalizing its feasibility study resulting in sustained higher expenditures continuing into 2017. This trend began in the second quarter of 2015 and has continued throughout 2016. Expenditures also reflect increased spending at the Company's Aquila Nickel project beginning in the second half of 2016. 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 and RSU grants. As such, there is substantial variability on a quarter over quarter basis. Share based payment expenditures were $98,966 in the current quarter, and $49,896, $220,311, 36,706, and $43,070 in each of the four prior quarters. Stock options totaling 850,000 and RSUs totaling 4,500,000 were issued in the current quarter, resulting in an increase of stock compensation expense. Higher compensation expense in the first quarter is due to the issuance of options and this trend is also consistent with the first quarter of 2016. The third quarter of 2016 has higher expenditures due to the revaluation of stock options with extended expiry dates.

Revaluation of the Canadian dollar warrants resulted in a gain of $997,322. This is in comparison to losses in the first quarter of 2017 of $423,562, the fourth quarter, third and second quarters of 2016 of $71,269, $493,206 and $342,692 and in the fourth quarter of 2015 of $207,603. This is consistent to gains of $194,358 and $254,723 recognized in the prior quarter as well as the first quarter of 2016, respectively. The significant increase in the prior quarter is due to the issuance of Canadian dollar warrants in February

2017, and was offset in the current quarter by the exercise of 9,210,926 warrants. 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 nine months ended September 30, 2017, the fluctuation in rates continued as the Canadian dollar continued to weaken slightly relative to the US dollar, resulting in a loss of $254,136 for the current quarter. This is consistent with losses in the second and first quarters of 2017 of $118,926, $81,811 and 2016 of $389,959. This is in comparison to gains of $71,269, $71,616 and $9,553 in the second, third and fourth quarters of 2016. In the fourth quarter of 2015, the fluctuation in rates also resulted in gains of $151,548. The continued volatility is a trend that has continued throughout much of the current and prior fiscal years.

## LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2017, the Company had cash of $3,098,528 compared to cash of $1,398,627 as at December 31, 2016. The Company had working capital of $2,171,438 as at September 30, 2017, compared to working capital of $661,166 as at December 31, 2016. Working capital is defined as current assets less current liabilities excluding warrants payable. The increase in working capital is the result of funds received from the exercise of warrants and the final silver stream payment in the current quarter. This was offset by funding the feasibility study at Back Forty, the additional work required on the wetlands permit as well as Company overhead. The Company received the final $0.99 million from Osisko associated with the 2015 financing in August 2017. In July 2017, Orion sold a royalty portfolio to Osisko which included the Company's Back Forty silver stream. Orion remains a shareholder of the Company.

On November 9, 2017, the Company announced a financing transaction with Osisko Bermuda Limited ("OBL"), a wholly owned subsidiary of Osisko Gold Royalties Ltd (TSX & NYSE: OR), pursuant to which OBL has agreed to commit approximately $65 million to Aquila through a $10 million private placement and $55 million gold stream purchase agreement.

OBL has agreed to purchase 49,173,076 units of Aquila at a price of C$0.26 per unit for aggregate gross proceeds of approximately $10 million (the "Strategic Investment"). Each unit shall consist of one common share and one-quarter of one common share purchase warrant. Each whole warrant shall entitle the holder to purchase one common share of the Company for C$0.34 for a period of 42 months from the Closing Date. The shares will be issued by way of a private placement and therefore will be subject to a customary four month hold period from the date of closing.

Concurrent with the Strategic Investment, the parties have also entered into a Gold Purchase Agreement (the "Stream Agreement"), whereby OBL will provide the Company with staged payments totaling $55 million, payable as follows:

- $7.5 million on closing of the gold stream transaction;
- $7.5 million upon receipt by Aquila of all material permits required for the development and operation of the Project, and receipt of a positive feasibility study;
- $10 million following a positive construction decision for the Project; and
- $30 million upon the first drawdown of an appropriate project debt finance facility, subject to the COC Provision (as defined herein).

Under the terms of the Stream Agreement, OBL will purchase 18.5% of the refined gold from the Project (the “Threshold Stream Percentage”) until the Company has delivered 105,000 ounces of gold (the “Production Threshold”). Upon satisfaction of the Production Threshold, the Threshold Stream Percentage will be reduced to 9.25% of the refined gold (the “Tail Stream”). In exchange for the refined gold delivered under the Stream Agreement, OBL will pay the Company ongoing payments equal to 30% of the spot price of gold on the day of delivery, subject to a maximum payment of US$600 per ounce.

In the event of a change of control of the Company prior to the advancement of the final US$30 million under the Stream Agreement, the person or entity acquiring control over the Project may elect to forgo the final payment, in which case the Threshold Stream Percentage and Tail Stream will be reduced to 9.5% and 4.75%, respectively (the “COC Provision”). All other terms and conditions of the Stream Agreement will remain unchanged.

Pursuant to the Stream Agreement, the Company has agreed to pay a $200,000 capital commitment fee. The fee is payable as to 50% upon closing of the Stream transaction and 50% upon Osisko funding the second deposit under the Stream Agreement. Aquila will satisfy the fee by way of the issuance of common shares of the Company based upon the five-day volume weighted average price of the common shares prior to the applicable deposit funding date.

Closing of the gold stream transaction is anticipated to occur on or about November 10, 2017 and is subject to satisfaction of customary conditions.

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 third quarter of 2017, 9,210,926 warrants were exercised for cash proceeds of $1.1 million (C$1.38 million) and 100,000 options were exercised for cash proceeds of $ 16,074 (C$15,000).
- In the second quarter of 2017, 400,000 options were exercised for cash proceeds of $45,224 (C$60,000).
- In February 2017, the Company closed a non-brokered private placement offering (the "Offering"), raising gross proceeds of C$7.9 million. The Offering was over-subscribed with 36,017,725 units (the "Units") issued. Each Unit was priced at C$ 22 cents, and consisted of one common share and one-half of one common share purchase warrant. Each whole warrant will entitle the holder to

acquire one Aquila common share for C$ 30 cents for a period of 36 months from today's closing date.

- In the fourth quarter of 2016, 100,000 warrants were exercised for cash proceeds of $14,989 (C$20,000).
- In the fourth quarter of 2016, 1,000,000 options were exercised for cash proceeds of $112,425 (C$150,000).
- In the second quarter of 2016, 13,461,539 warrants were exercised for cash proceeds of $2,557,602.
- In the first quarter of 2016, 45,500 warrants were exercised for cash proceeds of $5,255 (C$6,825).
- On March 31, 2015, the Company closed a financing transaction with Orion Mine Finance ("Orion") that includes a silver purchase agreement for total proceeds of $17.25-million ("Orion Financing"). Details are as follows:

  - 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:

    - $16.26 million has been received to date including a $625,000 reduction which was agreed to in June 2016 and the balance of third deposit of $1.875 million was received in August 2016, and
    - $2.4 million on completion of feasibility study, a $14,000 reduction was agreed to in November 2016 and of which an advance of $1.386 million was received in November 2016. The Company received the balance of the final deposit of $990,000 in August 2017.

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

| | **September 30, 2017** | | December 31, 2016 | |
|---|---|---|---|---|
| | **Number of shares** | **$** | Number of shares | $ |
| Balance, beginning of year | **235,521,913** | **58,747,278** | 220,914,874 | 56,350,520 |
| Shares issued pursuant to a private placement | **36,017,725** | **6,018,202** | - | - |
| Transaction costs relating to private placement | **-** | **(283,429)** | - | - |
| Fair value assigned to warrants | **-** | **(1,094,218)** | - | - |
| Transaction costs assigned to warrants | **-** | **42,514** | - | - |
| Fair value assigned to broker warrants | **-** | **(75,915)** | - | - |
| Shares issued on exercise of warrants | **9,210,926** | **1,103,100** | 13,607,039 | 2,182,898 |
| Fair value on exercise of warrants | **-** | **13,591** | - | - |
| Shares issued on exercise of options | **550,000** | **61,298** | 1,000,000 | 112,425 |
| Fair value on exercise of options | **-** | **45,757** | - | 101,435 |
| Balance, end of period | **281,300,564** | **64,578,178** | 235,521,913 | 58,747,278 |

**Warrants**

As at September 30, 2017, there are a total of 22,287,026 warrants priced in Canadian dollars and 865,385 warrants priced in United States dollars outstanding. For additional information, refer to note 9 of the condensed interim consolidated financial statements for the nine months ended September 30, 2017.

**Options**

As at September 30, 2017, there are a total of 20,840,250 stock options outstanding with a weighted average exercise price of C$ 18 cents. For additional information, refer to note 8(b) of the condensed interim consolidated financial statements for the nine months ended September 30, 2017.

**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.

## 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.

## OFF-BALANCE SHEET ARRANGEMENTS

As at September 30, 2017, and December 31, 2016, the Company does not have any off-balance sheet arrangements.

## 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 quarter ended September 30, 2017, director's fees, professional fees and other compensation of directors and key management personnel were as follows:

| | **For the three months ended September 30,** | | **For the nine months ended September 30,** | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| Short-term compensation and benefits | **$ 236,603** | $ 227,985 | **$ 734,229** | $ 679,508 |
| Share-based payments (fair value of stock option benefits and share based payments) | **56,115** | 31,642 | **303,124** | 490,620 |
| | **$ 292,718** | $ 259,627 | **$ 1,037,353** | $ 1,170,128 |

During the nine months ended September 30, 2017, the Company had expenditures in the amount of $73,872 (2016 - $57,167) for shared office costs paid to a partnership in which one of the Company's directors has an interest.

During the nine months ended September 30, 2017, a total of $238,857 (2016 - $165,320) was billed to the Company by a geological consulting company of which the Company's former VP, Exploration is the president.

During the nine months ended September 30, 2017, rental expenditures in the amount of $9,000 (2016- $10,200) were paid to a company of which the Company's former VP, Exploration is a part owner.

## 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 $17.25 million to date which is being used for the development of the Back Forty mine. Refer to Note 7 (b) of the condensed interim 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.

## 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, with early adoption permitted. The Company is planning to adopt IFRS 9 effective January 1, 2018. While the Company has not finalized its detailed impact assessment, the Company does not expect the new standard to have a significant impact on the measurement of financial instruments.

**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, with early adoption permitted. The Company is planning to adopt IFRS 15 on January 1, 2018. While the Company has not finalized its detailed impact assessment, the Company is looking at the key impacts in relation to the financing component of the stream agreement and preparing detailed calculations. Specifically, the Company will be recording accretion expense beginning in January 2018, which will increase the value of the deferred revenue.

**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. The standard is expected to impact the accounting for the Company's operating leases, which are currently reflected in the consolidated statements of loss. Under IFRS 16, all operating leases, except for short term and low value leases, are expected to be accounted for as finance leases. As a result, the leased assets and the associated obligations are recognized in the consolidated statements of financial position. The leased assets will be depreciated over the shorter of the estimated useful life of the asset and the lease term. The lease payments are apportioned between finance charges and a reduction of the lease liability. The current operating lease expense will be replaced with a depreciation charge on the leased assets and a finance charge on the lease liability, which are in aggregate expected to result in a higher total periodic expense in the earlier periods of the lease. Based on the Company's current situation, the Company does not expect any material impact upon adoption of this standard.

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 does not intend to adopt IFRS 16 before its mandatory date.

## NON-GAAP FINANCIAL MEASURES

Working capital is not a measure recognized under IFRS and is referred to as a Non-GAAP measure. The Company believes that this measure provides investors with an improved ability to evaluate the performance of the Company. This measure has no standardized meanings under IFRS and may not be comparable to similar measures presented by other companies. This measure is intended to provide additional information and should not be considered in isolation or as a substitute for measures prepared in accordance with IFRS.

The Company determines working capital as follows: current assets less current liabilities excluding warrants payable. The Company excludes warrants payable as it is a non-cash liability and has no impact on the Company's ability to satisfy its current payables.

| | For the quarters ended: | | | |
|---|---|---|---|---|
| | 30-Sep-17 | 30-Jun-17 | 31-Mar-17 | 31-Dec-16 |
| **Working capital** | | | | |
| Current assets | $ 3,421,250 | $ 3,375,627 | $ 5,337,776 | $ 1,682,530 |
| Current liabilities excluding warrants payable | 1,249,812 | 1,500,547 | 1,091,836 | 1,021,364 |
| Working capital | 2,171,438 | 1,875,080 | 4,245,940 | 661,166 |

| | For the quarters ended: | | | |
|---|---|---|---|---|
| | 30-Sep-16 | 30-Jun-16 | 31-Mar-16 | 31-Dec-15 |
| **Working capital** | | | | |
| Current assets | $ 1,855,847 | $ 1,860,056 | $ 1,836,322 | $ 3,492,680 |
| Current liabilities excluding warrants payable | 951,920 | 899,303 | 1,026,173 | 1,216,488 |
| Working capital | 903,927 | 960,753 | 810,149 | 2,276,192 |

## 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.

## 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 September 30, 2017. The evaluation included documentation review, enquiries and other procedures considered by Management to be appropriate in the circumstances. Based on that evaluation, the CEO and the CFO have concluded that the design and operation of the system of disclosure controls and procedures was effective as of September 30, 2017.

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.

There was no change in the Company's internal controls over financial reporting that occurred during the third quarter of 2017 that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

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 operating effectively as of September 30, 2017.

## 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.