CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in United States Dollars, unless otherwise stated)

FOR THE YEAR ENDED DECEMBER 31, 2017

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

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

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

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

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

Signed

"Barry Hildred"	"Stephanie Malec"
Chief Executive Officer and Director	Chief Financial Officer

Toronto, Canada

March 1, 2017

March 1, 2018

Independent Auditor's Report

To the Shareholders of
Aquila Resources Inc.

We have audited the accompanying consolidated financial statements of Aquila Resources Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016 and the consolidated statements of net loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

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

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

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

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

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Aquila Resources Inc. and its subsidiaries as at December 31, 2017 and December 31, 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants, Licensed Public Accountants

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As at December 31, 2017 and 2016
(Expressed in United States Dollars)

	December 31, 2017	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	**$ 17,152,663**	$ 1,398,627
Accounts receivable	**596,003**	208,453
Prepaid expenses	**50,138**	75,450
	17,798,804	1,682,530
Non-current assets		
Mineral property costs (Note 6)	**24,308,558**	24,007,416
Security deposits	**36,633**	36,633
Capital assets (Note 7)	**792,130**	805,525
	25,137,321	24,849,574
TOTAL ASSETS	**$ 42,936,125**	$ 26,532,104
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**$ 1,934,651**	$ 706,846
Reclamation obligation	**411,747**	314,518
Warrants payable (Note 9)	**2,837,012**	1,133,939
	5,183,410	2,155,303
Deferred revenue (Note 8 & 9)	**24,754,692**	16,264,692
Contingent consideration (Note 5)	**4,527,711**	4,316,660
Total liabilities	**34,465,813**	22,736,655
Shareholders' equity		
Share capital (Note 10a)	**73,975,825**	58,747,278
Contributed surplus (Note 10)	**8,584,435**	8,103,492
Warrants (Note 11)	**135,876**	80,847
Deficit	**(74,225,824)**	(63,136,168)
	8,470,312	3,795,449
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$ 42,936,125**	$ 26,532,104

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

Nature of operations (Note 1)
Commitments related to project spending (Note 6)

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

CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS
For the years ended December 31, 2017 and 2016
(Expressed in United States Dollars, except number of shares)

	Year ended December 31, 2017	2016
EXPENSES		
Mineral property exploration expenses	**$ 6,186,343**	$ 4,248,693
Administrative expenses (Note 14)	**3,376,667**	2,951,235
Write down of mineral properties	**86,600**	-
Loss from operations	**$ 9,649,610**	$ 7,199,928
Other expenses (income)		
Net interest	**(4,357)**	5,121
Transaction costs (Note 8d)	**1,104,496**	-
Loss (gain) on foreign exchange	**501,590**	237,512
(Gain) loss on change in value of contingent consideration	**(90,823)**	71,133
Gain (loss) on change in value of warrants	**(70,860)**	416,568
Total comprehensive loss	**$ 11,089,656**	$ 7,930,262
Loss per share		
Basic and diluted	**$ 0.04**	$ 0.03
Weighted average number of shares outstanding - basic and diluted	**277,889,815**	228,925,201

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
As at December 31, 2017 and 2016
(Expressed in United States Dollars)

	Share Capital Number	Share Capital $	Contributed Surplus	Warrants	Deficit	Total
Balance, December 31, 2015	220,914,874	$ 56,350,520	$ 7,083,896	$ 859,992	$ (55,205,906)	$ 9,088,502
Shares issued on exercise of warrants	13,607,039	2,182,898	518,462	(777,115)	-	1,924,245
Warrants expired	-	-	2,030	(2,030)	-	-
Share-based compensation expense	-	-	600,539		-	600,539
Shares issued on exercise of options	1,000,000	112,425	-	-	-	112,425
Fair value on exercise of options	-	101,435	(101,435)	-	-	-
Net loss for the period	-	-	-	-	(7,930,262)	(7,930,262)
Balance, December 31, 2016	235,521,913	58,747,278	8,103,492	80,847	(63,136,168)	$ 3,795,449
Shares issued from private placement	85,190,801	16,018,202	-	-	-	16,018,202
Share issue costs	-	(407,928)	-	(61,071)	-	(468,999)
Fair value assigned to warrants	-	(1,671,141)	-	1,671,141	-	-
Fair value transferred to warrants payable	-	-	-	(1,610,070)	-	(1,610,070)
Fair value assigned to broker warrants	-	(75,915)	-	75,915	-	-
Shares issued for capital commitment payment	478,781	100,000	-	-	-	100,000
Shares issued on exercise of warrants	9,297,801	1,111,257	-	-	-	1,111,257
Fair value on exercise of warrants	-	20,886	-	(20,886)	-	-
Shares issued on exercise of options	650,000	76,245	-	-	-	76,245
Fair value on exercise of options	-	56,941	(56,941)	-	-	-
Share-based compensation expense	-	-	537,884	-	-	537,884
Net loss for the period	-	-	-	-	(11,089,656)	(11,089,656)
Balance, December 31, 2017	**331,139,296**	**$ 73,975,825**	**$ 8,584,435**	**$ 135,876**	**$ (74,225,824)**	**$ 8,470,312**

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

CONSOLIDATED STATEMENTS OF CASHFLOWS
For the years ended December 31, 2017 and 2016
(Expressed in United States Dollars)

	Year ended December 31, 2017	2016
Cash generated from (used in)		
Operating activities		
Net loss for the period	**$ (11,089,656)**	$ (7,930,262)
Items not affecting cash:		
Change in fair value of warrants	**(70,860)**	416,568
(Gain) loss on change in fair value of contingent consideration	**(90,823)**	71,133
Unrealized foreign exchange loss	**463,222**	118,557
Share-based compensation	**537,884**	600,538
Non-cash transaction costs (Note 8)	**100,000**	-
Write down of mineral properties	**86,600**	-
Amortization	**36,345**	26,630
	$ (10,027,288)	$ (6,696,836)
Net change in non-cash working capital		
Accounts receivable	**(387,550)**	(44,386)
Prepaid expenses	**25,312**	(20,997)
Reclamation obligation	**97,229**	59,329
Security deposit	**-**	(651)
Accounts payable and accrued liabilities	**1,227,805**	(254,453)
Net cash generated used in operating activities	**$ (9,064,492)**	$ (6,957,994)
Investing activities		
Acquisition of equipment	**(22,950)**	(58,831)
Increase in mineral properties	**(387,742)**	(810,324)
Net cash used in investing activities	**$ (410,692)**	$ (869,155)
Financing activities		
Receipt of silver stream	**990,000**	3,261,000
Receipt of gold stream	**7,500,000**	-
Issuance of common shares, net of issue costs	**15,549,203**	-
Exercise of options	**76,245**	112,425
Exercise of warrants	**1,111,257**	2,577,938
Net cash generated from financing activities	**$ 25,226,705**	$ 5,951,363
Increase (decrease) in cash	**15,751,521**	(1,875,786)
Effect of foreign exchange on cash	**2,515**	253
Cash, beginning of period	**1,398,627**	3,274,160
Cash, end of period	**$ 17,152,663**	$ 1,398,627

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

1. Nature of Operations

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

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

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

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

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.

Details of deficit and working capital (excluding warrants payable) of the Company are as follows:

	December 31, 2017	December 31, 2016
Deficit	**$ 74,225,824**	$ 63,136,168
Working capital excluding warrants payable	**15,452,406**	975,684

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

2. Accounting Policies

Statement of Compliance

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

These consolidated financial statements were authorized for issuance by the Board of Directors of the Company on March 1, 2018.

Basis of Preparation and Presentation

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

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

Basis of Consolidation

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

These consolidated financial statements are expressed in United States Dollars, except those amounts denoted C$ 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 statement of loss and comprehensive loss.

Significant Accounting Policies

a) Translation of foreign currencies

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

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

b) Cash and cash equivalents

Cash and cash equivalents include cash and highly liquid short-term investments held in the form of high quality money market investments with a maturity date of less than three months at acquisition. The Company's cash is held in Canadian and United States financial institutions with strong credit ratings. Approximately 99% of the Company's cash and cash equivalents are held in Canadian financial institutions. As at December 31, 2017, the balance was composed of $17,128,720 cash and $23,913 cash equivalents and December 31, 2016, the cash balance was composed entirely of cash.

c) Impairment

Financial assets

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

Non-financial assets

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

Reversal of Impairment

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

d) Mineral property costs

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

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

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

e) Capital assets

Capital assets consist of land, buildings, furniture and fixtures which are initially recorded at cost. Depreciation on additions commences when assets are available for use. Depreciation is recorded using the following rates and methods:

Buildings	4%	Declining balance
Furniture and fixtures	20 - 50%	Declining balance

f) Provisions

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

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

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

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

Provisions are reviewed at the end of each reporting period and adjusted to reflect management's current best estimate of the expenditure required to settle the present obligation at the end of the reporting period. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed. Provisions are reduced by actual expenditures for which the provision was

originally recognized. Where discounting has been used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase (accretion expense) is included in finance costs in the statements of loss and comprehensive loss.

g) Deferred revenue

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

h) Income taxes

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

Current income tax

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

Deferred income tax

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

i) Share based compensation

The Company applies the fair value method of accounting for share-based payments granted to employees and other individuals providing similar services. The fair value of the options is determined using a Black Scholes option pricing model that takes into account, as of the grant date, the exercise price, the expected life of the option, the current price of the underlying stock and its expected volatility, expected dividends on the stock, and the risk free interest rate over the expected life of the option. Each tranche of an option that vests over time is considered a separate award and the fair value of each tranche is expensed over its vesting period with the corresponding credit to contributed surplus. Cash consideration received on exercise of options is credited to share capital along with the original grant date fair value of the options exercised. The value of options forfeited before vesting is removed from contributed surplus and credited to operations, while the value of options that expire after vesting is credited directly to retained earnings.

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

j) Restricted share units

The Company has a restricted share unit plan to provide common shares to participants in the plan as a form of remuneration. Each restricted share unit ("RSU") has the same value as one common share at the date of grant based on the prior day's closing price. The vesting terms for RSUs granted are specific to each individual grant as determined by the Board of Directors. The fair value of the RSUs is expensed over the vesting period specific to the grant.

k) Warrants

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

l) Basic and diluted loss per share

The Company presents basic and diluted loss per share data for its common shares. Dilution is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares, which comprise convertible warrants and share options granted to directors, officers, employees, consultants and other service providers of the Company. For the period ended December 31, 2017, potentially dilutive common shares issuable on exercise of options or warrants outstanding and conversion options were not included in the computation of loss per share because their effect was anti-dilutive and would decrease the loss per share.

m) Financial instruments

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

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

(i) Financial assets and liabilities at fair value through profit or loss: A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short term. Financial instruments in this category are recognized initially and subsequently at fair value.

(ii) Available-for-sale investments: Non-derivatives that are either designated in this category or not classified in any other category. Available-for-sale investments are initially recognized at fair value plus transaction costs and subsequently carried at fair value with changes in fair value recognized in other comprehensive loss. The Company classifies its short term investments as available-for-sale investments.

(iii) Loans and receivables: Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise trade receivables and cash, and are included in current assets due to their short term nature. Loans and receivables are

initially recognized at the amount expected to be received less, when material, a discount to reduce the amount to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest rate method less a provision for impairment.

(iv) Financial liabilities at amortized cost: Trade payables and other payables are classified as financial liabilities at amortized cost. Trade payables and other payables are initially recognized at the amount expected to be paid, less, when material, a discount to reduce the amount to fair value. Subsequently trade payables and other payables are measured at amortized cost using the effective interest rate method.

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

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

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

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

3. 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 will adopt IFRS 9 effective January 1, 2018. The Company has finalized its detailed impact assessment and the Company expects the new standard to have no material impact on the measurement of its 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 finalized its detailed impact assessment in relation to the financing component of the stream agreement and prepared detailed calculations of the measurement of the change. Specifically, the Company will be recording accretion expense beginning in January 2018, related to the significant financing component of the streams, which will increase the value of the deferred revenue and an associated interest expense. Once the company has qualifying assets for interest capitalization, this interest will form part of the cost of the qualifying asset until the asset no longer qualifies. The Company will adopt IFRS 15 on a modified retrospective application method, where the 2017 comparatives are not restated and a cumulative catch-up adjustment is recorded on January 1, 2018 for any differences identified, including adjustments to opening retained deficit. Upon transition, it is expected that the Company's deferred revenue balance will increase by approximately $2.8 million with a corresponding increase to deficit.

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.

4. Critical Accounting Estimates and Judgments

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

a) Impairments of mineral property costs

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

b) Accounting for streaming agreement

The Company has entered into a silver streaming arrangement in 2015 and received $17.25 million to date which are being used for the development of the Back Forty mine. Refer to Note 9 for further details. The Company has entered into a gold streaming arrangement in 2017 and received $7.5 million to date which is being used for the development of the Back Forty mine. Refer to Note 8 for further details. The treatment of the deposit as deferred revenue is a key judgment and is based on the expected delivery of the Company's future production.

c) Share-based payments

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

d) Contingent consideration

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

5. Contingent Consideration

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

The contingent consideration is composed of the following:

a) Fair value of future instalments is based on C$9 million tied to development of the Back Forty project as follows:

(i) C$3 million payable on completion of any form of financing for purposes including the commencement of construction of Back Forty (up to 50% of the C$3 million can be paid, at Aquila's option in Aquila shares with the balance payable in cash);

(ii) C$2 million payable in cash 90 days after the commencement of commercial production;

(iii) C$2 million payable in cash 270 days after the commencement of commercial production, and;

(iv) C$2 million payable in cash 540 days after the commencement of commercial production.

b) Fair value of the 1% net smelter royalty (NSR) on production from certain land parcels on the Back Forty project, capped at C$7 million

In March 2015, Aquila paid HudBay $1 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 the year ended December 31, 2017, a time value of money calculation was utilized to value the contingent consideration. Each milestone payment was assessed separately. Key risks including permitting, feasibility study, commercial production and timing were each assigned a probability weighting based on the likelihood of occurrence. U.S. Department of the Treasury bond yields ranging from 1.76% to 2.20% were used as the risk-free rate. The milestone payments are estimated to commence in 2018 with commercial production starting in 2021. When performing a sensitivity analysis a 10% change in each of the probabilities, will impact on the fair value of the contingent consideration by an estimated $1,200,000 to $1,370,000. If another key assumption, being the commencement of the milestone payments and the commencement of production, were pushed by one year to 2019 and 2021, respectively, the combined impact on fair value would decrease by an estimated $114,000.

The fair value of the contingent consideration is as follows:

Fair value as at December 31, 2015	$4,116,623
Loss on change in value of contingent consideration	71,133
Change due to foreign exchange	128,904
Fair value at December 31, 2016	$4,316,660
Gain on change in value of contingent consideration	(90,823)
Change due to foreign exchange	301,874
Fair value at December 31, 2017	**$4,527,711**

6. Mineral Property Costs

Total accumulated deferred mineral property costs are detailed as follows:

Year ended December 31, 2016	Balance, beginning of year	Additions	Mineral property write down	Balance, end of year
Back Forty Project	$ 22,976,808	$ 718,293	$ -	$ 23,695,101
Reef Gold Project	220,284	46,031	-	266,315
Aquila Nickel Project	-	46,000	-	46,000
	$ 23,197,092	$ 810,324	$ -	$ 24,007,416

Year ended December 31, 2017	**Balance, beginning of year**	**Additions**	**Mineral property write down**	**Balance, end of year**
Back Forty Project	$ 23,695,101	$ 277,950	$ -	$ 23,973,051
Reef Gold Project	266,315	61,392	-	327,707
Aquila Nickel Project	46,000	48,400	(86,600)	7,800
	$ 24,007,416	**$ 387,742**	**$ (86,600)**	**$ 24,308,558**

Back Forty Project

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

An administrative contested case hearing adjudicated by an Administrative Law Judge regarding the validity of the Permit to Mine issued to Aquila for the Back Forty Project by the Michigan Department of Environmental Quality (“MDEQ”) in December 2016 is scheduled to begin in April 2018. 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 the MDEQ after the contested case hearing has been completed. While this case is not against the company, should this matter rule in favour of the individual, this could impact the plans for the development of the Back Forty project. The outcome of this matter cannot be determined at the current time.

Estimated lease, option and property acquisition costs related to the Back Forty Project for 2018 to 2022, for which the Company is materially liable, are as follows:

Year	Amount
2018	$ 230,637
2019	$ 245,472
2020	$ 231,556
2021	$ 241,391
2022	$ 251,285

Reef Gold Project

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

Estimated lease and/or option costs related to the Reef Project for 2018 to 2020, which are at the Company's option, are as follows:

Year	Amount
2018	$ 1,493,067
2019	$ 965,817
2020	$ 18,000

Bend

While there is no capitalized value associated with its 100% ownership of the Bend property, the Company is continuing to pursue this project.

Aquila Nickel

Aquila has initiated nickel exploration activities in three separate areas located north of the Back Forty Project in the Upper Peninsula of Michigan. The Company entered into a series of agreements with private landholders for the optioning of surface and mineral rights. The agreements consist of mining leases and exploration agreements with an option to purchase. A variable net smelter royalty up to 3% is payable in the event of mineral production on the property.

In December 2017, the Company wrote down $86,600 of mineral property expenses related to the Aquila Nickel properties with a corresponding expense in the Statement of Net Loss and Comprehensive Loss. This write down represents the previously capitalized option payments on properties that the Company decided to no longer maintain during 2017.

Estimated lease and/or option costs related to the Aquila Nickel Project for 2018 to 2020, which are at the Company's option, are as follows:

Year	Amount
2018	$ 3,900
2019	$ 300,000
2020	$ -

7. Capital Assets

Cost	Land	Buildings	Furniture and Fixtures	Total
Balance December 31, 2016	$ 380,880	$ 541,017	$ 92,213	$ 1,014,110
Additions	-	-	22,950	**22,950**
Balance, December 31, 2017	**$ 380,880**	**$ 541,017**	**$ 115,163**	**$ 1,037,060**

Accumulated Depreciation	Land	Buildings	Furniture and Fixtures	Total
Balance, December 31, 2016	$ -	$ 164,517	$ 44,068	$ 208,585
Charge	-	14,906	21,439	36,345
Balance, December 31, 2017	**$ -**	**$ 179,423**	**$ 65,507**	**$ 244,930**
Net book value, December 31, 2016	$ 380,880	$ 376,500	$ 48,145	$ 805,525
Net book value, December 31, 2017	**$ 380,880**	**$ 361,594**	**$ 49,656**	**$ 792,130**

8. Osisko Financing and Streaming Agreement

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

a) Private Placement

OBL purchased 49,173,076 units of Aquila at a price of C$ 26 cents per unit for aggregate gross proceeds of $10 million (the "Strategic Investment"). Each unit consists of one common share and one-quarter of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share of the Company for C$ 34 cents until May 10, 2020. Osisko 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, Osisko received the right to nominate one individual to the board of directors of Aquila and thereafter for such time as Osisko

owns at least 10 per cent of the outstanding common shares. Osisko's nominee was appointed to the board of directors in November 2017. At December 31, 2017, Osisko held 14.8% of the common shares of the Company (December 31, 2016 – nil). The proceeds received from this transaction were recorded as an equity transaction. Refer to note 10(a) for further information.

b) Gold Stream

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 was received on closing of the Stream Agreement;
- $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 below).

The initial tranche of $7.5 million received from OBL is shown as deferred revenue on the statement of financial position. The remaining $47.5 million is payable in three instalments and is subject to the completion of certain milestones and the satisfaction of certain other conditions. Therefore it is not reflected on the statement of financial position at this time. OBL has been provided a general security agreement over the subsidiaries of Aquila that are directly involved with development of the Back Forty project.

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 $600 per ounce.

In the event of a change of control of the Company prior to the advancement of the final $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.

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

The agreement is subject to certain operating and financial covenants, which are in good standing as of December 31, 2017.

c) Capital commitment fee

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 OBL funding the second deposit

under the Stream Agreement. Aquila satisfied the initial $100,000 fee by way of the issuance of 478,781 common shares of the Company based upon the five-day volume weighted average price of the common shares prior to November 10, 2017. The $100,000 was expensed as part of transaction costs in the statement of net loss and comprehensive loss. The remaining $100,000 capital committee fee will be settled in a similar manner at the date when the second tranche is received. Refer to Note 10(a) for further information.

d) Transaction costs

Transactions costs for this transaction have been allocated on a pro rata basis between the equity transaction and the gold stream arrangement.

Specifically, transactions costs relating to:

- the private placement have been deduction pro rata from the value assigned to the shares and warrants;
- the gold stream have been recognized as an expense and included as transaction costs in the statement of net loss and comprehensive loss.

9. Orion Financing and Streaming Agreement

On March 31, 2015, the Company closed a financing transaction with Orion Mine Finance (“Orion”) that included an equity private placement and a silver purchase agreement for total cash payments of $20.75-million. In July 2017, Orion sold a royalty portfolio to Osisko Gold Royalties Ltd. which included the Company’s Back Forty silver stream.

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 $3.5 million. Each unit was composed of one common share and one-half of a warrant. Each full warrant entitles Orion to purchase one common share for a price of 19 cents (C$ 26 cents) for a period of 36 months. Orion also has the right to participate in any future equity or equity-linked financings to maintain its ownership level in Aquila. In connection with the private placement, Orion received the right to nominate one individual to the board of directors of Aquila for 24 months and thereafter for such time as Orion owns at least 10 per cent of the outstanding common shares. Orion’s nominee was elected to the board of directors in June 2015. On June 1, 2016, Orion exercised 13,461,539 warrants of its warrants for gross proceeds to the Company of $2,557,692. At December 31, 2017, Orion held 13.5% of the common shares of the Company (December 31, 2016 – 19.8%). The proceeds received from this transaction were recorded as an equity transaction.

b) Silver Stream

Under the terms of the silver purchase agreement, Osisko 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 agreed to pay Aquila $17.25 million, payable in five instalments. Orion has advanced a total of $17.25 million and is shown as deferred revenue on the Statement of Financial Position as at December 31, 2017. An additional $653,692 was added to the value of the deferred revenue on the partial exercise of the Orion warrants. Refer to note 9(a)(ii) for further information. In June 2016, the silver purchase agreement was amended to reduce the deposit owing by $625,000. In November 2016, the silver purchase agreement was amended to reduce the deposit owing by $14,000. All funds owing under the silver stream agreement have been received by the Company as at December 31, 2017 and show as deferred revenue on the Statement of Financial

Position. Osisko 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 Osisko.

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

The agreement is subject to certain operating and financial covenants, which are in good standing as of December 31, 2017.

10. Share Capital

a) Authorized

Unlimited number of common shares.

Issued and outstanding:

	Number of Shares	Total
Balance, December 31, 2015	220,914,874	$ 56,350,520
Shares issued on exercise of warrants	45,500	8,678
Shares issued on exercise of warrants	13,461,539	2,159,231
Shares issued on exercise of warrants	14,550,000	14,989
Shares issued on exercise of options	1,000,000	112,425
Fair value transferred on exercise of options	-	101,435
Balance, December 31, 2016	249,971,913	$ 58,747,278

	Number of Shares	Total
Balance, December 31, 2016	235,521,913	$ 58,747,278
Shares issued on private placement (i)	36,017,725	6,018,202
Transactions cost (i)	-	(283,429)
Fair value assigned to warrants (i)	-	(1,094,218)
Transaction costs assigned to warrants (i)	-	42,514
Fair value assigned to broker warrants (i)	-	(75,915)
Shares issued on private placement (ii)	49,173,076	10,000,000
Transactions cost (ii)	-	(185,571)
Fair value assigned to warrants (ii)	-	(576,923)
Transaction costs assigned to warrants (ii)	-	18,558
Shares issued for capital commitment payment (ii)	478,781	100,000
Shares issued on exercise of warrants (iv)	9,297,801	1,111,257
Fair value transferred on exercise of warrants (iv)	-	20,886
Shares issued on exercise of options (iii)	650,000	76,245
Fair value transferred on exercise of options (iii)	-	56,941
Balance, December 31, 2017	**331,139,296**	**$ 73,975,825**

i) Under the terms of a private placement, on February 7, 2017, the Company issued 36,017,725 units ("Units") at a price of C$ 22 cents per unit for gross proceeds of C$7.9 million ($6.0 million). Each Unit is comprised of one common share and one-half of a warrant ("Warrant"). Each full Warrant entitles the bearer to purchase one common share for a price of C$ 30 cents for a period of 36 months. Transaction costs allocated to this private placement were C$317,201 ($283,429).

The resulting 18,008,862 warrants issued in conjunction with the private placement were ascribed a fair value of C$1,440,709 ($1,094,218) using the Black-Scholes pricing model with the following assumptions: a dividend yield of nil, expected volatility of 88%, risk free interest rate 0.71%, and an expected life of 3 years. Transactions costs of C$55,977 ($42,514) were allocated to the warrants. See note 11(a) for further details.

Broker warrants totaling 1,249,414 warrants issued in conjunction with the private placement were ascribed a fair value of C$99,953 ($75,915) using the Black-Scholes pricing model with the following

assumptions: a dividend yield of nil, expected volatility of 88%, risk free interest rate 0.71%, and an expected life of 2 years. See note 11(a) for further details.

ii) Under the terms of a private placement, on November 10, 2017 the Company issued 49,173,076 units ("Units") at a price of C$ 26 cents per unit for gross proceeds of C$12.8 million ($10.0 million). Each Unit is comprised of one common share and one-quarter of a warrant ("Warrant"). Each full Warrant entitles the bearer to purchase one common share for a price of C$ 34 cents for a period of 42 months. Transaction costs allocated to this private placement were C$237,252 ($185,571).

The resulting 12,293,269 warrants issued in conjunction with the private placement were ascribed a fair value of C$713,871 ($576,923) using the Black-Scholes pricing model with the following assumptions: a dividend yield of nil, expected volatility of 88%, risk free interest rate 0.71%, and an expected life of 3.5 years. Transactions costs of C$23,725 ($18,558) were allocated to the warrants. See note 11(a) for further details.

iii) During the year ended December 31, 2017, 550,000 options were exercised at a price of C$ 15 cents per option, each exchangeable for one common share, for gross proceeds of C$82,500 ($61,298). During the year ended December 31, 2017, 100,000 options were exercised at a price of C$ 19 cents per option, each exchangeable for one common share, for gross proceeds of C$19,000 ($14,947). The relative fair value assigned to the stock options on issuance of C$57,824 ($56,941) was transferred from contributed surplus to share capital.

iv) During the year ended December 31, 2017, 9,210,926 warrants were exercised at a price of C$ 15 cents per warrant, each exchangeable for one common share, for gross proceeds of C$1,381,639 ($1,103,100). During the year ended December 31, 2017, 86,875 broker warrants were exercised at a price of C$ 12 cents per warrants, each exchangeable for one common share, for gross proceeds of C$10,425 ($8,157). The relative fair value assigned to the warrants on issuance of C$20,450 ($20,886) was transferred from warrants to share capital. See note 11(a) for further information.

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

The Company maintains an Equity Incentive Plan (the "Plan") for the benefit of directors, officers, employees, consultants and other service providers of the Company and its subsidiaries in order to assist the Company in attracting, retaining, and motivating such persons by providing them with the opportunity, through stock options to acquire an increased proprietary interest in the Company. Under the Plan, options may be granted for a term not exceeding ten years. The number of common shares reserved for issue under the Plan will not exceed 10% of the number of then outstanding common shares nor may the number of common shares reserved for issuance to insiders must not exceed 10% of the then 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 year ended December 31, 2017 are presented below:

	Number of Stock Options	Weighted Average Exercise Price
Balance - January 1, 2016	17,900,000	C$ 0.16
Granted	1,500,000	0.19
Granted	1,250,000	0.15
Granted	125,000	0.23
Exercised	(1,000,000)	0.15
Forfeited options	(1,350,000)	0.15
Balance, December 31, 2016	**18,425,000**	**C$ 0.17**

	Number of Stock Options	Weighted Average Exercise Price
Balance - January 1, 2017	18,425,000	C$ 0.17
Granted (i)	570,250	0.265
Granted (ii)	1,775,000	0.265
Granted (iii)	850,000	0.25
Granted (iv)	370,000	0.25
Exercised	(650,000)	0.15
Forfeited options	(630,000)	0.165
Balance, December 31, 2017	**20,710,250**	**C$ 0.18**

(i) On February 10, 2017, the Company granted 570,250 options, all of which vested immediately, to 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 C$ 26.5 cents until February 9, 2025.

The fair value assigned was estimated using the Black-Scholes option pricing model with the following assumptions: a dividend yield of nil, expected volatility of 97%, risk free interest rate 1.43%, and an expected life of 8 years. The stock options were assigned a value of $94,831, which was charged to loss with the offset to contributed surplus during the year ended December 31, 2017.

(ii) On February 10, 2017, the Company granted 1,775,000 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 C$ 26.5 cents until February 9, 2025.

The fair value assigned was estimated using the Black-Scholes option pricing model with the following assumptions: a dividend yield of nil, expected volatility of 97%, risk free interest rate 1.43%, and an expected life of 8 years. The stock options were assigned a value of $295,179, of which $194,579 was charged to loss with the offset to contributed surplus during the year ended December 31, 2017. The remaining fair value balance of $100,600 is to be charged to loss in future periods.

(iii) On September 18, 2017, the Company granted 850,000 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 C$ 25 cents until September 17, 2025.

The fair value assigned was estimated using the Black-Scholes option pricing model with the following assumptions: a dividend yield of nil, expected volatility of 93%, risk free interest rate 1.56%, and an expected life of 8 years. The stock options were assigned a value of $142,514, of which $53,999 was charged to loss with the offset to contributed surplus during the year ended December 31, 2017. The remaining fair value balance of $88,516 is to be charged to loss in future periods.

(iv) Effective December 20, 2017, the Company granted 370,000 options, all of which vested immediately, to 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 C$ 25 cents until January 11, 2026.

The fair value assigned was estimated using the Black-Scholes option pricing model with the following assumptions: a dividend yield of nil, expected volatility of 90%, risk free interest rate 1.90%, and an expected life of 4 years. The stock options were assigned a value of $46,573, which was charged to loss with the offset to contributed surplus during the year ended December 31, 2017.

As at December 31, 2017, 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	2,567,500 *	3,117,500	C$ 0.15	1.04
January 16, 2022	7,232,500 *	7,232,500	0.15	4.04
April 6, 2023	3,300,000	2,725,000	0.19	5.27
June 25, 2023	1,400,000	1,050,000	0.19	5.49
January 11, 2024	1,500,000	1,500,000	0.19	6.03
February 8, 2024	1,050,000	525,000	0.15	6.11
May 11, 2024	125,000	125,000	0.23	6.36
February 10, 2025	2,315,250	1,014,000	0.265	7.11
September 17, 2025	850,000	212,500	0.25	7.71
January 11, 2026	370,000	370,000	0.25	8.03
	20,710,250	17,871,500	C$ 0.18	4.79

* Issued under plan of arrangement.

c) Restricted share unit plan:

The Company introduced a restricted share unit plan ("the RSU plan") for the benefit of directors, officers and employees 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 restricted share units to acquire an increased proprietary interest in the Company. Under the RSU plan, units are granted at the discretion of board of directors who have the authority to determine the vesting terms. On the settlement date, each RSU is redeemable for one common share of the Company or subject to the approval of the plan administrator, a cash payment. It is the intention of the board of directors to settle all RSUs in common shares only. The number of common shares reserved for issue under the Plan will not exceed 10% of the number of then outstanding common shares nor may the number of common shares reserved for issuance to insiders exceed 10% of the then outstanding common shares.

	Number of Restricted Share Units	Fair Value on Issuance
Balance - January 1, 2016 and 2017	-	C$ -
Granted (i)	4,500,000	0.23
Granted (ii)	180,000	0.25
Balance, December 31, 2017	**4,680,000**	**C$ 0.23**

(i) On September 18, 2017, the Company granted 4,500,000 RSUs, to directors, officers and employees of the Company, each such option entitling the holder to acquire one common share of the Company upon vesting. The terms of vesting are as follows: 25% vest on the first day of the month immediately following the commencement of commercial production ("the Initial Vesting date"), 25% vest six months after the Initial Vesting date, 25% vest 12 months following the Initial Vesting date and 25% vest 24 months following the Initial Vesting date.

The fair value assigned was estimated using the closing price of the Company's shares on the day prior to issuance multiplied by the number of RSUs issued. The RSUs were assigned a value of $826,344, of which $58,722 was charged to loss with the offset to contributed surplus during the year ended December 31, 2017. The remaining fair value balance of $767,622 is to be charged to loss in future periods.

(ii) Effective December 20, 2017, the Company granted 180,000 RSUs, to directors, officers and employees of the Company, each such option entitling the holder to acquire one common share of the Company upon vesting. The terms of vesting are as follows: 25% vest 12 months following the Initial Grant date, 25% vest 24 months following the Initial Grant date, 25% vest 36 months following the Initial Grant date and 25% vest 48 months following the Initial Grant date.

The fair value assigned was estimated using the closing price of the Company's shares on the day prior to issuance multiplied by the number of RSUs issued. The RSUs were assigned a value of $35,402, of which $556 was charged to loss with the offset to contributed surplus during the year ended December 31, 2017. The remaining fair value balance of $34,846 is to be charged to loss in future periods.

11. Warrants

The movements in the number and estimated fair value of outstanding broker warrants and share purchase warrants for the year ended December 31, 2017 and 2016 are as follows:

a) Canadian Dollar Warrants

	2017		2016	
		Weighted average exercise price		Weighted average exercise price
Balance, January 1	**12,239,676**	**C$ 0.16**	16,362,126	C$ 0.16
Issued (note 10a(i))	**19,258,276**	**0.30**	-	-
Issued (note 10a(ii))	**12,293,269**	**0.34**	-	-
Exercised (note 10a(iv))	**(9,210,926)**	**0.15**	(145,500)	0.15
Exercised (note 10a(iv))	**(86,875)**	**0.12**	-	-
Expired	**-**	**-**	(3,976,950)	0.15
Balance, December 31,	**34,493,420**	**$0.31**	12,239,676	C$ 0.16

b) US Dollar Warrants

	2017		2016	
		Weighted average exercise price		Weighted average exercise price
Balance, January 1	**865,385**	**$0.19**	14,326,924	$0.19
Exercised	**-**	**-**	(13,461,539)	0.19
Balance, December 31,	**865,385**	**$0.19**	865,385	$0.19

The exercise price, expiry date, and warrants issued and outstanding as at December 31, 2017 are as follows:

Number of warrants outstanding	Exercise Price	Expiry Date	Weighted average life (yrs)
2,845,000	C$ 0.20	May 17 to June 21, 2018	0.47
96,875	0.12	May 17 to June 22, 2018	0.47
1,249,414	0.30	February 6, 2019	1.10
18,008,862	0.30	February 6, 2020	2.11
12,293,269	0.34	May 10, 2021	3.37
34,493,420	**C$ 0.31**		**2.38**

Number of warrants outstanding	Exercise Price	Expiry Date	Weighted average life (yrs)
865,385	$ 0.19	March 31, 2018	0.25
865,385	**$ 0.19**		**0.25**

12. Derivative Liabilities

a) Warrants

During the year ended December 31, 2017, two equity offerings were completed whereby 30,302,131 warrants and 1,249,414 broker warrants were issued with exercise prices denominated in Canadian dollars (December 31, 2016 – no warrants issued 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. Broker warrants are accounted as equity. The Company's share purchase warrants are classified and accounted for as a financial liability at fair value with changes in fair value recognized in net earnings. The warrant derivative liability is classified as level 2 in the fair value hierarchy. As of December 31, 2017, the Company had 33,147,131 (December 31, 2016 – 11,817,354) 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 11(a) for further information.

For the year ended December 31,	2017	2016
Risk-free interest rate	1.66-1.81%	0.73%
Expected life	0.47-3.37 years	0.72-1.48 years
Price volatility	52-78%	88%
Share price (C$)	0.26	0.26
Dividend yield	Nil	Nil

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

13. Related Party Transactions

In accordance with IAS 24, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any directors (executive and non-executive) of the Company. The remuneration of directors and key executives is determined by the nomination, compensation and governance committee of the Board of Directors. During the year ended December 31, 2017, director's fees, professional fees and other compensation of directors and key management personnel were as follows:

For the year ended December 31,	2017	2016
Short-term compensation and benefits	**$1,105,053**	$ 973,308
Share-based payments (fair value of stock option benefits and share based payments)	**451,633**	521,688
	$1,556,686	$ 1,494,996

During year ended December 31, 2017, the Company had expenditures in the amount of $80,161 (2016 - $74,507) for shared office costs paid to a partnership in which one of the Company's directors is an owner.

14. Administrative Expenses

For the year ended December 31,	2017	2016
Salaries and benefits	**$1,581,867**	$ 1,200,196
Share-based compensation	**537,884**	600,538
Office, general and administration	**335,167**	329,624
Professional fees	**239,051**	282,335
Travel and promotion	**227,717**	213,108
Directors' fees	**155,443**	60,360
Filing and regulatory fees	**112,351**	79,198
Rent	**92,161**	68,217
Management and consulting fees	**58,681**	91,029
Amortization	**36,345**	26,630
	$3,376,667	$ 2,951,235

15. Income Taxes

The Company's provision for income taxes differs from the amounts computed by applying the basic current rate of 26.50% (2016 – 26.50%) to the loss for the year before taxes as shown in the following table at December 31:

For the year ended December 31,	**2017**	2016
Loss before taxes	11,089,656	7,930,262
Expected income tax benefit based on staturtory rate	(2,938,759)	(2,101,520)
Increase (decrease) to the income tax benefit resulting from:		
Stock based compensation	142,539	159,143
Non-deductible and permanent differences	18,773	1,522,555
Foreign exchange difference	-	256,604
Change in contingent consideration	(24,068)	
True up of previous year's tax attibutes	377,141	147,251
Expiry of non-capital losses		56,323
Share issuance costs incurred	(124,285)	-
Effect of higher tax rate in foreign jurisdiction	31,481	(776,512)
Increase in unrecongized portion of derred tax assets	2,517,177	736,146
Other		
Income tax benefit recorded	-	-

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

For the year ended December 31,	**2017**	2016
Deferred income tax assets		
Mineral properties	290,467	429,837
Non-capital losses carried forward	5,413,728	8,191,541
	5,704,196	8,621,378
Deferred income tax Liabilities		
Mineral properties	(5,607,686)	(8,321,619)
Capital assets	(96,510)	(299,759)
	(5,704,196)	(8,621,378)
Net Deferred Tax Asset/Liability	-	-

The following temporary differences and non-capital losses have not been recognized in the consolidated financial statements:

	2017	2016
Non-capital losses carried forward	50,263,336	35,022,174
Capital assets	513,150	862,962
Mineral properties	6,079,243	10,739,096
Other	1,325,957	724,850
Total deductible temporary differences	58,181,685	47,349,082

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

On December 22, 2017, the Tax Cuts and Jobs Act ("tax reform") was signed into law in the United States. Tax reform lowered the U.S. Federal corporate tax rate from 35% to 21% and made numerous other tax law changes. The change in tax law required the Company to remeasure existing net deferred tax liabilities using the lower rate in the period of enactment resulting in an immaterial impact to the Company's financial statements for the year ended December 31, 2017. The Company may be subject other tax reform provisions effective beginning January 1, 2018 and is in the process of analyzing their effects.

Subsequent to year end, the Company received a re-assessment of certain of its input tax credits ("ITCs") totaling approximately C$ 669,000 ($529,000). The Company has recorded the amount as a payable on the statement of financial position and as an exploration expense on the statement of net loss. It is the Company's intention to file a Notice of Objection in relation to this matter as the Company disagrees with Canada Revenue Agency's characterization of these ITCs.

The Company has non capital losses in Canada and non-operating losses in the United States of approximately $70,040,110 (2016 - $56,454,777) which expire through 2037. The benefit of these losses has not been recognized for financial statements purposes. During the year, the Company paid $Nil (2016 - $Nil) in respect of income taxes.

The Tax Reform Act of 1986 contains provisions that limit the utilization of net operating loss and tax credit carry forwards if there has been a change in ownership as described in Section 382 of the Internal Revenue Code. As a result of transactions undertaken by the Company in 2015 and prior years, changes in the Company's ownership have occurred that may limit or reduce the amount of net operating loss carry forwards that the Company could utilize in the future to offset taxable income. The Company has not completed a detailed Section 382 study at this time to determine what impact, if any, that ownership changes may have had on its operating loss carry forwards. In the current period, the Company has not recognized a deferred tax asset in respect of its net operating loss carry forward balance as the realization of the deferred tax asset is uncertain. As a result, the Company has not recognized any federal or state income tax benefit in its consolidated statement of loss and comprehensive loss.

16. Segmented Information

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

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

Geographical Information

The Company now operates in two principal geographical areas – United States and Canada. Geographical segmentation of the Company's assets as at December 31, 2017 and 2016 is as follows:

As at December 31, 2017	**United States**	**Canada**	**Total**
Mineral property interests	**$ 24,308,558**	**$ -**	**$ 24,308,558**
Property and equipment	**786,226**	**5,904**	**792,130**
Security deposits	**36,633**	**-**	**36,633**
Total non-current assets	**$ 25,131,417**	**$ 5,904**	**$ 25,137,321**

As at December 31, 2016	United States	Canada	Total
Mineral property interests	$ 24,007,416	$ -	$ 24,007,416
Property and equipment	794,091	11,434	805,525
Security deposits	36,633	-	36,633
Total non-current assets	$ 24,838,140	$ 11,434	$ 24,849,574

The following table summarizes the net loss by geographic segment for the years ended December 31, 2017 and 2016:

Year ended December 31, 2017	**United States**	**Canada**	**Total**
General and administration	**$ 1,071,124**	**$ 2,269,198**	**$ 3,340,322**
Depreciation	**30,809**	**5,536**	**36,345**
Loss on foreign exchange	**-**	**501,590**	**501,590**
Exploration and evaluation expenditures	**6,186,343**	**-**	**6,186,343**
Gain on change in value of contingent consideration	**-**	**(90,823)**	**(90,823)**
Gain on change in value of warrants	**-**	**(70,860)**	**(70,860)**
Transaction costs	**-**	**1,104,496**	**1,104,496**
Write down of mineral properties	**86,600**	**-**	**86,600**
Net interest	**1,301**	**(5,658)**	**(4,357)**
Net loss	**$ 7,376,177**	**$ 3,713,479**	**$ 11,089,656**

Year ended December 31, 2016	United States	Canada	Total
General and administration	$ 888,117	$ 2,036,488	$ 2,924,605
Depreciation	22,232	4,398	26,630
Loss on foreign exchange	-	237,512	237,512
Exploration and evaluation expenditures	4,248,693	-	4,248,693
Loss on change in value of contingent consideration	-	71,133	71,133
Loss on change in value of warrants	-	416,568	416,568
Net interest	2,076	3,045	5,121
Net loss	$ 5,161,118	$ 2,769,144	$ 7,930,262

17. Capital Management

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

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

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

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

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

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

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

18. Financial Instruments

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

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

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

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

The Company's risk exposures and the impact on its financial investments as summarized below, have not changed significantly for the year ended December 31, 2017.

a) Credit Risk

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

b) Liquidity Risk

The Company's main source of liquidity is derived from its common stock issuances and from silver stream deposits. As at December 31, 2017, the Company had current assets of $17,798,804 (December 31, 2016 - $1,682,530) to settle accounts payables of $2,346,398 (December 31, 2016 - $1,021,364). All of the Company's financial liabilities have contractual maturities that are subject to normal trade terms and are due within one year, other than the payment of the contingent consideration is subject to certain conditions being present as described in Note 5.

c) Market Risk

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

(i) Interest Rate Risk

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

(ii) Foreign Currency Risk

The Company is exposed to currency risk arising from fluctuations in foreign exchange rates. The Company raises funds from equity financing in both United States dollars and Canadian dollars. At December 31, 2017, $66,846 was held in Canadian dollars ($53,283 United States dollars) and $17,099,380 was held in United States dollars. A significant amount of expenditures relating to its mineral property interests is paid in United States dollars.

(iii) Price Risk

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

d) Sensitivity Analysis

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

e) Fair value hierarchy

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

	Level 1	Level 2	Level 3
Warrants liability		$ 2,837,012	
Contingent consideration			$4,527,711

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

19. Financial Instruments

Certain comparative amounts relating to the reclamation obligation have been reclassified to conform to the current period's presentation.