



CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2018

Notice of No Auditor Review of Interim Financial Statements

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

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



CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As at June 30, 2018 and December 31, 2017
(Unaudited, expressed in United States Dollars)

| | June 30, 2018 | December 31, 2017 |
|---|----------------------|----------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 12,610,969 | \$ 17,152,663 |
| Accounts receivable | 552,658 | 596,003 |
| Prepaid expenses | 39,249 | 50,138 |
| | 13,202,876 | 17,798,804 |
| Non-current assets | | |
| Mineral property costs (Note 6) | 24,383,708 | 24,308,558 |
| Security deposits | 26,430 | 36,633 |
| Capital assets (Note 7) | 852,818 | 792,130 |
| | 25,262,956 | 25,137,321 |
| TOTAL ASSETS | \$ 38,465,832 | \$ 42,936,125 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | \$ 1,813,978 | \$ 1,934,651 |
| Reclamation obligation | 411,747 | 411,747 |
| Warrants payable (Note 10) | 2,602,299 | 2,837,012 |
| | 4,828,024 | 5,183,410 |
| Deferred revenue (Note 8, 9 & 10) | 29,467,151 | 24,754,692 |
| Contingent consideration (Note 5) | 4,767,431 | 4,527,711 |
| Deferred share unit liability (Note 13) | 63,380 | - |
| Total liabilities | 39,125,986 | 34,465,813 |
| Shareholders' equity | | |
| Share capital (Note 11a) | 75,170,240 | 73,975,825 |
| Contributed surplus (Note 11) | 8,769,089 | 8,584,435 |
| Warrants (Note 12) | 75,914 | 135,876 |
| Deficit | (84,675,397) | (74,225,824) |
| | (660,154) | 8,470,312 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 38,465,832 | \$ 42,936,125 |

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

Commitments related to project spending (Note 6)

Approved on behalf of the Board

"Andrew W. Dunn, FCPA, FCA" Director

"Barry Hildred" Director



CONDENSED INTERIM CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS
For the three and six months ended June 30, 2018 and 2017
(Unaudited, expressed in United States Dollars, except number of shares)

| | Three months ended June 30, | | Six months ended June 30, | |
|--|--------------------------------|---------------------|------------------------------|---------------------|
| | 2018 | 2017 | 2018 | 2017 |
| EXPENSES | | | | |
| Mineral property exploration expenses | \$ 2,067,182 | \$ 1,773,855 | \$ 3,401,955 | \$ 3,094,556 |
| Administrative expenses (Note 16) | 1,257,305 | 658,979 | 2,409,659 | 1,619,644 |
| Loss from operations | \$ 3,324,487 | \$ 2,432,834 | \$ 5,811,614 | \$ 4,714,200 |
| Other expenses (income) | | | | |
| Net finance charges (Note 17) | 643,046 | 1,064 | 1,035,527 | 2,124 |
| (Gain) loss on foreign exchange | (131,136) | 118,926 | (328,435) | 200,759 |
| (Gain) loss on change in value of contingent consideration | 486,975 | 21,882 | 462,505 | (10,378) |
| (Gain) loss on change in value of warrants | 118,261 | (194,358) | (107,204) | 229,205 |
| Total loss and comprehensive loss | \$ 4,441,633 | \$ 2,380,348 | \$ 6,874,007 | \$ 5,135,910 |
| Loss per share | | | | |
| Basic and diluted | \$ 0.01 | \$ 0.01 | \$ 0.02 | \$ 0.02 |
| Weighted average number of shares outstanding - basic and diluted | 333,297,137 | 271,683,704 | 332,725,584 | 264,076,027 |

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



CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

As at June 30, 2018 and 2017

(Unaudited, expressed in United States Dollars)

| | Share Capital | | Contributed | | | Total |
|--|--------------------|----------------------|---------------------|------------------|------------------------|---------------------|
| | Number | \$ | Surplus | Warrants | Deficit | |
| 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 | 36,017,725 | 6,018,202 | - | - | - | 6,018,202 |
| Share issue costs | - | (240,915) | - | (42,514) | - | (283,429) |
| Fair value assigned to warrants | - | (1,094,218) | - | 1,094,218 | - | - |
| Fair value transferred to warrants payable | - | - | - | (1,051,704) | - | (1,051,704) |
| Fair value assigned to broker warrants | - | (75,915) | - | 75,915 | - | - |
| Shares issued on exercise of options | 400,000 | 45,224 | - | - | - | 45,224 |
| Fair value on exercise of options | - | 31,276 | (31,276) | - | - | - |
| Share-based compensation expense | - | - | 220,311 | - | - | 220,311 |
| Net loss for the period | - | - | - | - | (5,135,910) | (5,135,910) |
| Balance, June 30, 2017 | 271,939,638 | 63,430,932 | 8,292,527 | 156,762 | (68,272,078) | 3,608,143 |
| Shares issued from private placement | 49,173,076 | 10,000,000 | - | - | - | 10,000,000 |
| Share issue costs | - | (167,013) | - | (18,557) | - | (185,570) |
| Fair value assigned to warrants | - | (576,923) | - | 576,923 | - | - |
| Fair value transferred to warrants payable | - | - | - | (558,366) | - | (558,366) |
| 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 | 250,000 | 31,021 | - | - | - | 31,021 |
| Fair value on exercise of options | - | 25,665 | (25,665) | - | - | - |
| Share-based compensation expense | - | - | 317,573 | - | - | 317,573 |
| Net loss for the period | - | - | - | - | (5,953,746) | (5,953,746) |
| Balance, December 31, 2017 | 331,139,296 | 73,975,825 | 8,584,435 | 135,876 | (74,225,824) | 8,470,312 |
| IFRS adjustments (Note 18) | - | - | - | - | (3,575,566) | (3,575,566) |
| Revised balance, December 31, 2017 | 331,139,296 | 73,975,825 | 8,584,435 | 135,876 | (77,801,390) | 4,894,746 |
| Shares issued on exercise of warrants | 3,425,260 | 558,412 | - | - | - | 558,412 |
| Fair value on exercise of warrants | - | 55,625 | - | (55,625) | - | - |
| Shares issued on exercise of options | 2,727,500 | 321,624 | - | - | - | 321,624 |
| Fair value on exercise of options | - | 258,754 | (258,754) | - | - | - |
| Fair value on expiry of warrants | - | - | 4,337 | (4,337) | - | - |
| Share-based compensation expense | - | - | 439,071 | - | - | 439,071 |
| Net loss for the period | - | - | - | - | (6,874,007) | (6,874,007) |
| Balance, June 30, 2018 | 337,292,056 | \$ 75,170,240 | \$ 8,769,089 | \$ 75,914 | \$ (84,675,397) | \$ (660,154) |

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



CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASHFLOWS
For the six months ended June 30, 2018 and 2017
(Unaudited, expressed in United States Dollars)

| | Six months ended June 30, | |
|---|------------------------------|-----------------------|
| | 2018 | 2017 |
| Cash generated from (used in) | | |
| Operating activities | | |
| Net loss for the period | \$ (6,874,007) | \$ (5,135,910) |
| Items not affecting cash: | | |
| Change in fair value of warrants | (107,204) | 229,205 |
| Gain on change in fair value of contingent consideration | 462,505 | (10,378) |
| Unrealized foreign exchange (gain) loss | (344,009) | 182,744 |
| Share-based compensation | 504,362 | 270,207 |
| Non- cash interest on financing component of deferred revenue | 1,136,893 | - |
| Loss on disposal of building | 30,897 | - |
| Amortization | 23,780 | 17,878 |
| | \$ (5,166,783) | \$ (4,446,254) |
| Net change in non-cash working capital | | |
| Accounts receivable | 43,345 | (129,879) |
| Prepaid expenses | 10,889 | 34,062 |
| Security deposit | 10,203 | - |
| Accounts payable and accrued liabilities | (120,673) | 479,183 |
| Net cash used in operating activities | \$ (5,223,019) | \$ (4,062,888) |
| Investing activities | | |
| Acquisition of equipment | (115,365) | (13,266) |
| Increase in mineral properties | (75,150) | (129,369) |
| Net cash used in investing activities | \$ (190,515) | \$ (142,635) |
| Financing activities | | |
| Issuance of common shares, net of issue costs | - | 5,734,773 |
| Exercise of options | 321,624 | 45,224 |
| Exercise of warrants | 558,412 | - |
| Net cash generated from financing activities | \$ 880,036 | \$ 5,779,997 |
| (Decrease)/Increase in cash | (4,533,498) | 1,574,474 |
| Effect of foreign exchange on cash | (8,196) | 22,806 |
| Cash, beginning of period | 17,152,663 | 1,398,627 |
| Cash, end of period | \$ 12,610,969 | \$ 2,995,907 |

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



NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2018

(Unaudited, expressed in United States Dollars, unless otherwise stated)

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:

| | June 30, 2018 | December 31, 2017 |
|--|----------------------|----------------------|
| Deficit | \$ 84,675,397 | \$ 74,225,824 |
| Working capital excluding warrants payable | 10,977,151 | 15,864,153 |

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.



NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2018

(Unaudited, expressed in United States Dollars, unless otherwise stated)

2. Accounting Policies

Statement of Compliance

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. Accordingly, they do not include all of the information required for full annual financial statements required by International Financial Reporting Standards ("IFRS") as issued by International Accounting Standards Board ("IASB") and interpretations issued by International Financial Reporting Interpretations Committee. These unaudited condensed interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2017.

These unaudited condensed interim consolidated financial statements were authorized for issuance by the Board of Directors of the Company on August 9, 2018.

Basis of Preparation and Presentation

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except as noted below in Significant Accounting Policies.

In the preparation of these unaudited condensed interim 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. The significant estimates and assumptions are consistent with those disclosed in the Company's audited consolidated financial statements for the year ended December 31, 2017 except for deferred share units (Note 13), warrants (Note 12) and contingent consideration (Note 5) where estimates have been updated to reflect current market conditions.

Basis of Consolidation

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

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



NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2018

(Unaudited, expressed in United States Dollars, unless otherwise stated)

Significant Accounting Policies

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

The Company adopted IFRS 15 effective January 1, 2018. The Company has applied IFRS 15 on a modified retrospective basis such that the cumulative effect of initially apply this standard is recognized at the date of initial application (Note 18). Comparative information has not been restated and is accounted for under IAS 18, Revenue. Deferred revenue arises on upfront payments received by the Company in consideration for future commitments as specified in its various streaming agreements. The accounting for streaming arrangement is dependent on the facts and terms of each of the agreements.

The Company identified significant financing components related to its streaming agreements resulting from the difference in the timing of the upfront consideration received and the promised goods delivered. Interest expense on the deferred revenue is recognized in finance costs (Note 17). The interest rate is determined based on the rate implicit in each streaming agreement at the date of inception (Notes 9 and 10). On transition to IFRS 15, the impact of the recognition of the financing component is described in Note 18.

The initial consideration received from the streaming arrangements is considered variable, subject to changes in the total gold and silver ounces to be delivered in the future. Changes to variable consideration will be reflected in the condensed interim consolidated statement of loss, including the relevant retrospective change to prior periods.

The impact of the initial adoption of this change in accounting policy was an adjustment to increase the opening deficit on January 1, 2018 of \$3.6 million with a corresponding adjustment to increase the deferred revenue balance.

Each quarter, the Company will accrue interest on the financing component of deferred revenue. The interest accrued will increase the balance of the deferred revenue with an offset charged to finance costs (Note 17). This interest is a non-cash item and is not shown as such on the statement of cash flows. Upon commencement of production, deferred revenue including the accrued interest will be brought into revenue over the life of mine.

b) IFRS 9, Financial Instruments (“IFRS 9”)

The Company adopted IFRS 9 effective January 1, 2018. The Company has applied IFRS 9 on a retrospective basis and is not required to restate prior periods based on the transitional provisions of the standard. The Company classifies its financial instruments in the following categories:

Financial assets as amortized cost

Assets that are held for the collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. The Company’s financial assets, which are not provisionally priced, consist of fixed or determined cash flows. The Company’s intent to hold these receivable until cash flows are collected. These financial assets are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. The Company recognizes a loss allowance for expected credit losses on a financial asset that is measured at amortized cost.

Financial assets at fair value through profit or loss (“FVTPL”)

Financial assets measured at FVTPL are assets which do not qualify as financial assets at amortized cost or at fair value through other comprehensive income. These financial assets are initially recognized at their fair value with changes to fair values recognized in the condensed interim consolidated statement of loss.



NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2018

(Unaudited, expressed in United States Dollars, unless otherwise stated)

Financial liabilities as amortized cost

Financial liabilities are measured at amortized cost using the effective interest method, unless they are required to be measured at FVTPL, or the Company has opted to measure them at FVTPL.

Financial liabilities at FVTPL

Financial liabilities at FVTPL are liabilities which include embedded derivatives and cannot be classified as amortized cost. Financial liabilities at FVTPL are initially recognized at the fair value with changes to fair values recognized in the condensed interim consolidated statement of loss. The Company derecognizes financial liabilities only when its obligations are discharged, cancelled or expelled. The difference is recognized in the condensed interim consolidated statement of loss.

c) Deferred share units

The Company has a deferred share unit plan to provide common shares to participants in the plan as a form of remuneration. Each deferred share unit ("DSU") has the same value as one common share at the date of grant based on the prior day's closing price. The DSUs are revalued at the end of each period based on the closing share price.

3. Future Accounting Pronouncements

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. The Company is currently starting its project plan to address the requirements of the new standard including lease identification.

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

Areas of judgment that have the most significant effect on the amounts recognized in the financial statements are disclosed in Note 4 of the Company's consolidated financial statements for the year ended December 31, 2017 except for the following critical judgments which were made by the Company on adopting IFRS 15 on January 1, 2018.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**For the three and six months ended June 30, 2018****(Unaudited, expressed in United States Dollars, unless otherwise stated)**

a) Accounting for streaming arrangements

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 10 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 9 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.

Management exercised judgment in applying IFRS 15 accounting standards to certain contracts with customers. To determine the transaction price for stream agreements, the Company made estimates with respect to the interest rate implicit in the agreements to adjust the consideration for the time value of money. These rates range from 7% to 10%. These estimates are subject to variability and may have an impact on the timing and amount of revenue recognized.

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.

For the six months ended June 30, 2018, 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 2.33% to 2.73% were used as the risk-free rate. The milestone payments are estimated to commence in 2019 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 \$880,000 to \$1,115,000. If another key assumption, being



NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2018

(Unaudited, expressed in United States Dollars, unless otherwise stated)

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 \$70,000.

The fair value of the contingent consideration is as follows:

| | |
|---|--------------------|
| 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 |
| Gain on change in value of contingent consideration | 462,505 |
| Change due to foreign exchange | (222,785) |
| Fair value at June 30, 2018 | \$4,767,431 |

6. Mineral Property Costs

Total accumulated deferred mineral property costs are detailed as follows:

| | Balance, beginning of year | Additions | Mineral property write down | Balance, end of year |
|------------------------------|----------------------------------|-------------------|-----------------------------------|-------------------------|
| Year ended December 31, 2017 | | | | |
| 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 |

| | Balance, beginning of year | Additions | Mineral property write down | Balance, end of year |
|---------------------------------------|----------------------------------|------------------|-----------------------------------|-------------------------|
| Six months ended June 30, 2018 | | | | |
| Back Forty Project | \$ 23,973,051 | \$ 43,750 | \$ - | \$ 24,016,801 |
| Reef Gold Project | 327,707 | 27,500 | - | 355,207 |
| Aquila Nickel Project | 7,800 | 3,900 | - | 11,700 |
| | \$ 24,308,558 | \$ 75,150 | \$ - | \$ 24,383,708 |



NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2018

(Unaudited, expressed in United States Dollars, unless otherwise stated)

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 began 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 | \$ 54,000 |
| 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 2022, which are at the Company's option, are as follows:

| Year | Amount |
|------|--------------|
| 2018 | \$ 18,673 |
| 2019 | \$ 1,172,596 |
| 2020 | \$ 6,000 |
| 2021 | \$ - |
| 2022 | \$ - |



NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2018

(Unaudited, expressed in United States Dollars, unless otherwise stated)

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.

Estimated lease and/or option costs related to the Aquila Nickel Project for 2018 to 2022, which are at the Company's option, are as follows:

| Year | Amount |
|------|------------|
| 2018 | \$ - |
| 2019 | \$ 300,000 |
| 2020 | \$ - |
| 2021 | \$ - |
| 2022 | \$ - |

7. Capital Assets

| Cost | Land | Buildings | Furniture and Fixtures | Total |
|-------------------------------|-------------------|-------------------|------------------------------|---------------------|
| Balance December 31, 2017 | \$ 380,880 | \$ 541,017 | \$ 115,163 | \$ 1,037,060 |
| Additions | - | 11,723 | 103,642 | 115,365 |
| Disposals | - | (52,000) | | (52,000) |
| Balance, June 30, 2018 | \$ 380,880 | \$ 500,740 | \$ 218,805 | \$ 1,100,425 |

| Accumulated Depreciation | Land | Buildings | Furniture and Fixtures | Total |
|-------------------------------|-------------|-------------------|------------------------------|-------------------|
| Balance, December 31, 2017 | \$ - | \$ 179,423 | \$ 65,507 | \$ 244,930 |
| Charge | - | 7,346 | 16,434 | 23,780 |
| Disposal | - | (21,103) | - | (21,103) |
| Balance, June 30, 2018 | \$ - | \$ 165,666 | \$ 81,941 | \$ 247,607 |

| | | | | |
|--------------------------------------|-------------------|-------------------|-------------------|-------------------|
| Net book value, December 31, 2017 | \$ 380,880 | \$ 361,594 | \$ 49,656 | \$ 792,130 |
| Net book value, June 30, 2018 | \$ 380,880 | \$ 335,074 | \$ 136,864 | \$ 852,818 |



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8. Deferred Revenue

As at June 30, 2018, a breakdown of the deferred revenue is as follows:

| | |
|---|---------------------|
| Silver stream | 17,254,692 |
| Notional non-cash interest on silver stream | 4,352,613 |
| Gold stream | 7,500,000 |
| Notional non-cash interest on gold stream | 359,846 |
| Balance at June 30, 2018 | \$29,467,151 |

Under IFRS 15, the stream arrangements are considered to have significant financing components on which an implied interest rate is accrued and added to deferred revenue, to be amortized once the stream begins to be paid down. Under these rules, the Company reports a notional non-cash interest expense each quarter based on the implied interest rate at the time that the stream arrangement is consummated and a corresponding amount is added to deferred revenue. This interest accrual is not a contractual obligation but is intended to allocate the cost of the stream financing over the period it is outstanding. This accrual is a non-cash item and is shown as such on the statement of cash flows. Upon commencement of production, deferred revenue including the accrued interest will be brought into revenue over the life of mine.

9. 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 June 30, 2018, Osisko held 14.8% of the common shares of the Company (December 31, 2017 – 14.8%). The proceeds received from this transaction were recorded as an equity transaction. Refer to note 11(a) for further information.



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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 June 30, 2018.

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



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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 11(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.

10. 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 June 30, 2018, Orion held 13.5% of the common shares of the Company (December 31, 2017 – 13.5%). 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 10(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 June 30, 2018 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



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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 June 30, 2018.



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11. Share Capital

a) Authorized

Unlimited number of common shares.

Issued and outstanding:

| | Number of Shares | Total |
|--|-----------------------------|----------------------|
| Balance, December 31, 2016 | 235,521,913 | \$ 58,747,278 |
| Shares issued on private placement | 36,017,725 | 6,018,202 |
| Transactions cost | - | (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 options | 400,000 | 45,224 |
| Fair value transferred on exercise of options | - | 31,276 |
| Balance June 30, 2017 | 271,939,638 | 63,430,932 |
| Shares issued on private placement | 49,173,076 | 10,000,000 |
| Transactions cost | - | (185,571) |
| Fair value assigned to warrants | - | (576,923) |
| Transaction costs assigned to warrants | - | 18,558 |
| Shares issued for capital commitment payment | 478,781 | 100,000 |
| Shares issued on exercise of warrants | 9,297,801 | 1,111,257 |
| Fair value transferred on exercise of warrants | - | 20,886 |
| Shares issued on exercise of options | 250,000 | 31,021 |
| Fair value transferred on exercise of options | - | 25,665 |
| Balance, December 31, 2017 | 331,139,296 | \$ 73,975,825 |
| | Number of Shares | Total |
| Balance, December 31, 2017 | 331,139,296 | \$ 73,975,825 |
| Shares issued on exercise of warrants (i) | 3,425,260 | 558,412 |
| Fair value transferred on exercise of warrants (i) | - | 55,625 |
| Shares issued on exercise of options (ii) | 2,727,500 | 321,624 |
| Fair value transferred on exercise of options (ii) | - | 258,754 |
| Balance, June 30, 2018 | 337,292,056 | \$ 75,170,240 |

i) During the six months ended June 30, 2018, 865,385 warrants were exercised at a price of \$ 19 cents per warrant, each exchangeable for one common share, for gross proceeds of \$164,448. The relative fair value assigned to the warrants on issuance of \$51,923 was transferred from warrants to share capital. In addition, 2,515,500 warrants were exercised at a price of C\$ 20 cents per warrant, each exchangeable for one common shares, for gross proceeds of C\$ 503,100 (\$389,752). During the six

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months ended June 30, 2018, 44,375 broker warrants were exercised at a price of C\$ 12 cents per warrant, each exchangeable for one common share, for gross proceeds of C\$5,325 (\$4,212). The relative fair value assigned to the warrants on issuance of C\$3,754 (\$3,703) was transferred from warrants to share capital. See note 12(a) for further information.

- ii) During the six months ended June 30, 2018, 2,652,500 options were exercised at a price of C\$ 15 cents per option, and 75,000 options were exercised at a price of C\$ 23 cents per option, each exchangeable for one common share, for gross proceeds of C\$415,125 (\$321,624). The relative fair value assigned to the stock options on issuance of C\$290,862 (\$258,754) was transferred from contributed surplus to share capital.

- 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 six months ended June 30, 2018 are presented below:

| | Number of Stock Options | Weighted Average Exercise Price |
|-------------------------------|------------------------------------|--|
| Balance - January 1, 2017 | 18,425,000 | C\$ 0.17 |
| Granted | 570,250 | 0.265 |
| Granted | 1,775,000 | 0.265 |
| Exercised | (400,000) | 0.15 |
| Forfeited options | (230,000) | 0.165 |
| Balance, June 30, 2017 | 20,140,250 | C\$ 0.18 |

| | Number of Stock Options | Weighted Average Exercise Price |
|-------------------------------|------------------------------------|--|
| Balance - January 1, 2018 | 20,710,250 | C\$ 0.18 |
| Granted (i) | 600,000 | 0.25 |
| Granted (ii) | 1,250,000 | 0.26 |
| Exercised | (2,727,500) | 0.15 |
| Forfeited options | (46,250) | 0.265 |
| Balance, June 30, 2018 | 19,786,500 | C\$ 0.19 |

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- (i) On January 12, 2018, the Company granted 600,000 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 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 \$75,936, of which \$34,920 was charged to loss with the offset to contributed surplus during the six months ended June 30, 2018. The remaining fair value balance of \$41,016 is to be charged to loss in future periods.

- (ii) On March 6, 2018, the Company granted 1,250,000 options, of which 25% vest on issuance, 25% in 12 months, 25% in 24 months and 25% in 36 months, 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 cents until March 5, 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 92.5%, risk free interest rate 1.97%, and an expected life of 4 years. The stock options were assigned a value of \$168,088, of which \$66,110 was charged to loss with the offset to contributed surplus during the six months ended June 30, 2018. The remaining fair value balance of \$101,977 is to be charged to loss in future periods.

As at June 30, 2018, 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 | 540,000 * | 540,000 | C\$ 0.15 | 0.54 |
| January 16, 2022 | 6,832,500 * | 6,832,500 | 0.15 | 3.54 |
| April 6, 2023 | 3,300,000 | 3,300,000 | 0.19 | 4.77 |
| June 25, 2023 | 1,400,000 | 1,400,000 | 0.19 | 4.99 |
| January 11, 2024 | 1,500,000 | 1,500,000 | 0.19 | 5.53 |
| February 8, 2024 | 825,000 | 612,500 | 0.15 | 5.61 |
| May 11, 2024 | 50,000 | 50,000 | 0.23 | 5.86 |
| February 10, 2025 | 2,269,000 | 1,401,500 | 0.265 | 6.61 |
| September 17, 2025 | 850,000 | 212,500 | 0.25 | 7.21 |
| January 11, 2026 | 970,000 | 520,000 | 0.25 | 7.53 |
| March 5, 2026 | 1,250,000 | 312,500 | 0.26 | 7.68 |
| | 19,786,500 | 16,369,000 | C\$ 0.19 | 4.98 |

* Issued under plan of arrangement.

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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 | - | C\$ - |
| Granted | 4,500,000 | 0.23 |
| Granted | 180,000 | 0.25 |
| Balance, December 31, 2017 | 4,680,000 | C\$ 0.23 |

| | Number of Restricted Share Units | Fair Value on Issuance |
|-------------------------------|---|-----------------------------------|
| Balance - January 1, 2018 | 4,680,000 | C\$ 0.23 |
| Granted (i) | 150,000 | 0.25 |
| Granted (ii) | 750,000 | 0.26 |
| Balance, June 30, 2018 | 5,580,000 | C\$ 0.23 |

- (i) On January 12, 2018, the Company granted 150,000 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 \$29,663, of which \$7,074 was charged to loss with the offset to contributed surplus during the six months ended June 30, 2018. The remaining fair value balance of \$22,589 is to be charged to loss in future periods.

- (ii) On March 6, 2018, the Company granted 750,000 RSUs, to directors, officers and employees of the Company, each such option entitling the holder to acquire one common share of the Company



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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 \$154,245, of which \$10,488 was charged to loss with the offset to contributed surplus during the three months ended June 30, 2018. The remaining fair value balance of \$143,757 is to be charged to loss in future periods.

12. Warrants

The movements in the number and estimated fair value of outstanding broker warrants and share purchase warrants for the six months ended June 30, 2018 and 2017 are as follows:

a) Canadian Dollar Warrants

| | 2018 | | 2017 | |
|--------------------------|-------------------|---------------------------------|-------------------|---------------------------------|
| | | Weighted average exercise price | | Weighted average exercise price |
| Balance, January 1 | 34,493,420 | C\$ 0.31 | 12,239,676 | C\$ 0.16 |
| Issued | - | - | 19,258,276 | 0.30 |
| Expired | (382,000) | 0.15 | - | 0.34 |
| Exercised (note 10a(i)) | (2,559,875) | 0.15 | - | - |
| Balance, June 30, | 31,551,545 | C\$ 0.31 | 31,497,952 | C\$ 0.31 |

b) US Dollar Warrants

| | 2018 | | 2017 | |
|---------------------------|-----------|---------------------------------|----------------|---------------------------------|
| | | Weighted average exercise price | | Weighted average exercise price |
| Balance, January 1 | 865,385 | \$0.19 | 865,385 | \$0.19 |
| Exercised | (865,385) | 0.19 | - | - |
| Balance, March 31, | - | \$0.19 | 865,385 | \$0.19 |



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The exercise price, expiry date, and warrants issued and outstanding as at June 30, 2018 are as follows:

| Number of warrants outstanding | Exercise Price | Expiry Date | Weighted average life (yrs) |
|--------------------------------|-----------------|------------------|-----------------------------|
| 1,249,414 | C\$ 0.30 | February 6, 2019 | 0.61 |
| 18,008,862 | 0.30 | February 6, 2020 | 1.61 |
| 12,293,269 | 0.34 | May 10, 2021 | 2.87 |
| 31,551,545 | C\$ 0.32 | | 2.06 |

13. Deferred Share Units Liability

The Company introduced a deferred share unit plan (“the DSU 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 DSU plan, units are granted at the discretion of board of directors who have the authority to determine the vesting terms. Directors can elect to receive up to 100% of their compensation in DSUs. On the settlement date, each DSU is redeemable for one common share of the Company. 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.

During the six months ended June 30, 2018, 278,203 units were issued to directors in lieu of receiving director fees in cash. A charge of \$63,380 was recorded to share based compensation with the offset recorded as DSU liability.

| | Number of Deferred Share Units | Fair Value on Issuance |
|------------------------------------|-----------------------------------|---------------------------|
| Balance - January 1, 2017 and 2018 | - | \$ - |
| Granted (i) | 149,038 | 30,055 |
| Granted (ii) | 129,165 | 29,427 |
| Change due to foreign exchange | | (629) |
| Change due to revaluation | | 4,527 |
| Balance, June 30, 2018 | 278,203 | \$ 63,380 |

14. Derivative Liabilities

a) Warrants

During the six months ended June 30, 2018, no equity offerings were completed whereby any warrants or broker warrants were issued with exercise prices denominated in Canadian dollars (June 30, 2017 – 18,008,862 warrants and 1,249,414 broker warrants were 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



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recognized in net earnings. The warrant derivative liability is classified as level 2 in the fair value hierarchy. As of June 30 2018, the Company had 30,302,131 (December 31, 2017 – 33,147,131) 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 12(a) for further information.

| For the six months ended June 30, | 2018 | 2017 |
|-----------------------------------|-----------------|-----------------|
| Risk-free interest rate | 1.90% | 0.75% |
| Expected life | 0.61-2.87 years | 0.47-2.86 years |
| Price volatility | 61-78% | 72-85% |
| Share price (C\$) | 0.30 | 0.25 |
| 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.

15. 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 six months ended June 30, 2018, director's fees, professional fees and other compensation of directors and key management personnel were as follows:

| | For the three months ended June 30, | | For the three months ended June 30, | |
|---|-------------------------------------|------------|-------------------------------------|------------|
| | 2018 | 2017 | 2018 | 2017 |
| Short-term compensation and benefits | \$ 194,697 | \$ 235,242 | \$ 393,568 | \$ 497,626 |
| Share-based payments (fair value of stock option benefits and share based payments) | 125,580 | 45,612 | 282,619 | 247,009 |
| | \$ 320,277 | \$ 280,854 | \$ 676,187 | \$ 744,635 |

During the six months ended June 30, 2018, the Company had expenditures in the amount of \$41,390 (2017 - \$52,880) for shared office costs paid to a partnership in which one of the Company's directors is an owner.



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16. Administrative Expenses

| | For the three months ended June 30, | | For the six months ended June 30, | |
|------------------------------------|--|-------------------|--------------------------------------|---------------------|
| | 2018 | 2017 | 2018 | 2017 |
| Salaries and benefits | \$ 544,928 | \$ 326,517 | \$ 998,096 | \$ 666,060 |
| Share-based compensation | 162,364 | 49,896 | 504,362 | 270,207 |
| Office, general and administration | 345,098 | 96,777 | 452,351 | 171,156 |
| Travel and promotion | 73,513 | 76,177 | 155,087 | 132,563 |
| Professional fees | 66,433 | 22,416 | 136,273 | 117,168 |
| Filing and regulatory fees | 14,853 | 22,066 | 68,969 | 94,482 |
| Rent | 20,498 | 7,666 | 41,390 | 45,639 |
| Directors' fees | 14,520 | 38,115 | 29,351 | 74,334 |
| Amortization | 15,098 | 9,072 | 23,780 | 17,878 |
| Management and consulting fees | - | 10,277 | - | 30,157 |
| | \$ 1,257,305 | \$ 658,979 | \$ 2,409,659 | \$ 1,619,644 |

17. Finance Charges

| | For the three months ended June 30, | | For the six months ended June 30, | |
|---|--|-----------------|--------------------------------------|-----------------|
| | 2018 | 2017 | 2018 | 2017 |
| Interest on financing component of deferred revenue (Note 17) | \$ 689,121 | \$ 1,064 | \$ 1,136,893 | \$ - |
| Interest income | (46,075) | - | (101,366) | 2,124 |
| | \$ 643,046 | \$ 1,064 | \$ 1,035,527 | \$ 2,124 |

18. IFRS 9 and IFRS 15 Transition Adjustments

The Company has applied IFRS 9 and IFRS 15, with the cumulative effect of the standards recognized as an adjustment to the opening balance of deficit at January 1, 2018.

IFRS 9, Financial Instruments

The adoption of IFRS 9, did not impact the carrying value of any financial asset or financial liability on the transition date. The table below outlines the change in classification of the Company's financial assets and liabilities under IAS 39 to IFRS 9.



NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2018

(Unaudited, expressed in United States Dollars, unless otherwise stated)

| | IFRS 9 | IAS 39 | |
|---|--------------------|-------------------------|-------------------|
| | New classification | Original classification | Measurement model |
| Cash and cash equivalents | FVTPL | FVTPL | FVTPL |
| Loans and receivables (except for embedded derivatives) | Amortized cost | Loans and receivables | Amortized cost |
| Derivative assets | FVTPL | FVTPL | FVTPL |
| Accounts payable and accrued liabilities | Amortized cost | Loans and receivables | Amortized cost |
| Derivative liabilities | FVTPL | FVTPL | FVTPL |
| Other long-term liabilities | Amortized cost | Loans and receivables | Amortized cost |

IFRS 15, Revenue from Contracts with Customers

On the adoption of IFRS 15, the Company recorded a change to opening January 1, 2018 deficit and deferred revenue balances. Adjustments are due to a change in the interest charges for the Company's stream agreements as a result of the existence of significant financing components.

As of June 30, 2018, the Company recognized finance costs at a weighted average rate of 9% on the deferred revenue balances (Note 17). The following table shows the cumulative effect of the adoption of IFRS 15 on the consolidated statement of financial position as of January 1, 2018:

| Condensed Interim Consolidated Statement of Financial Position | Balance at December 31, 2017 | Adjustments due to IFRS 15 | Balance at January 1, 2018 |
|--|------------------------------|----------------------------|----------------------------|
| LIABILITIES | | | |
| Deferred revenue | \$ 24,754,692 | \$ 3,575,566 | \$ 28,330,258 |
| EQUITY | | | |
| Deficit | \$ 74,225,824 | \$ 3,575,566 | \$ 77,801,390 |

The following table shows the effect of the adoption of IFRS 15 on the condensed interim consolidated statement of financial position as of June 30, 2018:

| Condensed Interim Consolidated Statement of Net Loss and Comprehensive Loss | Six months ended June 30, 2018 | | |
|---|--------------------------------|-----------------------------------|---|
| | Reported | Impact of the Adoption of IFRS 15 | Balance without the Adoption of IFRS 15 |
| Net finance charges (Note 17) | \$ 1,035,527 | \$ (1,136,893) | \$ (101,366) |
| Total comprehensive loss | \$ 6,874,007 | \$ (1,136,893) | \$ 5,737,114 |



NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2018

(Unaudited, expressed in United States Dollars, unless otherwise stated)

The following table shows the effect of the adoption of IFRS 15 on the condensed interim consolidated statement of loss and comprehensive loss for the six months ended June 30, 2018:

| Condensed Interim Consolidated Statement of Net Loss and Comprehensive Loss | Six months ended June 30, 2018 | | |
|--|---------------------------------------|--|--|
| | Reported | Impact of the Adoption of IFRS 15 | Balance without the Adoption of IFRS 15 |
| Net finance charges (Note 16) | \$ 1,035,527 | \$ (1,136,893) | \$ (101,366) |
| Total comprehensive loss | \$ 7,036,958 | \$ (1,136,893) | \$ 5,900,065 |