



CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 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 September 30, 2018 and December 31, 2017
(Unaudited, expressed in United States Dollars)

	September 30, 2018	December 31, 2017
ASSETS		
Current assets		
Cash and cash equivalents	\$ 10,470,820	\$ 17,152,663
Accounts receivable	601,061	596,003
Prepaid expenses	28,377	50,138
	11,100,258	17,798,804
Non-current assets		
Mineral property costs (Note 6)	24,420,708	24,308,558
Security deposits	26,430	36,633
Capital assets (Note 7)	871,675	792,130
	25,318,813	25,137,321
TOTAL ASSETS	\$ 36,419,071	\$ 42,936,125
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 2,699,842	\$ 1,934,651
Reclamation obligation	411,747	411,747
Warrants payable (Note 10)	1,336,517	2,837,012
	4,448,106	5,183,410
Deferred revenue (Note 8, 9 & 10)	30,042,689	24,754,692
Contingent consideration (Note 5)	4,799,091	4,527,711
Deferred share unit liability (Note 13)	83,969	-
Total liabilities	39,373,855	34,465,813
Shareholders' equity		
Share capital (Note 11a)	75,322,870	73,975,825
Contributed surplus (Note 11)	8,806,942	8,584,435
Warrants (Note 12)	75,914	135,876
Deficit	(87,160,510)	(74,225,824)
	(2,954,784)	8,470,312
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 36,419,071	\$ 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 nine months ended September 30, 2018 and 2017
(Unaudited, expressed in United States Dollars, except number of shares)

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
EXPENSES				
Mineral property exploration expenses	\$ 1,935,172	\$ 1,209,587	\$ 5,377,127	\$ 4,304,143
Administrative expenses (Note 16)	1,289,473	699,781	3,699,132	2,319,425
Loss from operations	\$ 3,224,645	\$ 1,909,368	\$ 9,076,259	\$ 6,623,568
Other expenses (income)				
Net finance charges (Note 17)	516,045	871	1,551,572	2,995
(Gain) loss on foreign exchange	52,813	254,136	(275,623)	454,895
(Gain) loss on change in value of contingent consideration	(50,102)	(556)	412,403	(10,934)
(Gain) loss on change in value of warrants	(1,298,287)	(997,322)	(1,405,491)	(768,117)
Total loss and comprehensive loss	\$ 2,445,114	\$ 1,166,497	\$ 9,359,120	\$ 6,302,407
Loss per share				
Basic and diluted	\$ 0.01	\$ -	\$ 0.03	\$ 0.02
Weighted average number of shares				
outstanding - basic and diluted	337,550,790	274,065,619	331,351,660	267,442,483

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 September 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	550,000	61,298	-	-	-	61,298
Fair value on exercise of options	-	45,757	(45,757)	-	-	-
Shares issued on exercise of warrants	9,210,926	1,103,100	-	-	-	1,103,100
Fair value on exercise of warrants	-	13,591	-	(13,591)	-	-
Share-based compensation expense	-	-	369,173	-	-	369,173
Net loss for the period	-	-	-	-	(6,302,407)	(6,302,407)
Balance, September 30, 2017	281,300,564	64,578,178	8,426,908	143,171	(69,438,575)	3,709,682
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	86,875	8,157	-	-	-	8,157
Fair value on exercise of warrants	-	7,295	-	(7,295)	-	-
Shares issued on exercise of options	100,000	14,947	-	-	-	14,947
Fair value on exercise of options	-	11,184	(11,184)	-	-	-
Share-based compensation expense	-	-	168,711	-	-	168,711
Net loss for the period	-	-	-	-	(4,787,249)	(4,787,249)
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	3,410,000	404,553	-	-	-	404,553
Fair value on exercise of options	-	328,455	(328,455)	-	-	-
Fair value on expiry of warrants	-	-	4,337	(4,337)	-	-
Share-based compensation expense	-	-	546,625	-	-	546,625
Net loss for the period	-	-	-	-	(9,359,120)	(9,359,120)
Balance, September 30, 2018	337,974,556	\$ 75,322,870	\$ 8,806,942	\$ 75,914	\$ (87,160,510)	\$ (2,954,784)



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

	Nine months ended September 30,	
	2018	2017
Cash generated from (used in)		
Operating activities		
Net loss for the period	\$ (9,359,120)	\$ (6,302,407)
Items not affecting cash:		
Change in fair value of warrants	(1,405,491)	(768,117)
Gain on change in fair value of contingent consideration	412,403	(10,934)
Unrealized foreign exchange (gain) loss	(234,644)	422,503
Share-based compensation	631,227	369,173
Non- cash interest on financing component of deferred revenue	1,712,431	-
Loss on disposal of building	30,897	-
Amortization	40,919	27,085
	\$ (8,171,378)	\$ (6,262,697)
Net change in non-cash working capital		
Accounts receivable	(5,058)	(96,047)
Prepaid expenses	21,761	48,218
Security deposit	10,203	-
Accounts payable and accrued liabilities	765,191	228,448
Net cash used in operating activities	\$ (7,379,281)	\$ (6,082,078)
Investing activities		
Acquisition of equipment	(151,361)	(14,758)
Increase in mineral properties	(112,150)	(158,369)
Net cash used in investing activities	\$ (263,511)	\$ (173,127)
Financing activities		
Receipt of silver stream	-	990,000
Issuance of common shares, net of issue costs	-	5,734,773
Exercise of options	404,552	61,298
Exercise of warrants	558,412	1,103,100
Net cash generated from financing activities	\$ 962,964	\$ 7,889,171
(Decrease)/Increase in cash	(6,679,828)	1,633,966
Effect of foreign exchange on cash	(2,015)	56,925
Cash, beginning of period	17,152,663	1,398,627
Cash, end of period	\$ 10,470,820	\$ 3,089,518

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 nine months ended September 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 Feasibility Study was released in August 2018. 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:

	September 30, 2018	December 31, 2017
Deficit	\$ 87,160,510	\$ 74,225,824
Working capital excluding warrants payable	7,988,669	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 nine months ended September 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 November 8, 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 nine months ended September 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 nine months ended September 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 nine months ended September 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 \$14.9 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 nine months ended September 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 2.60% to 2.96% 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 \$900,000 to \$1,100,000. If another key assumption, being the commencement of the milestone payments and the commencement of production, were



NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2018

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

pushed by one year to 2019 and 2021, respectively, the combined impact on fair value would decrease by an estimated \$30,000.

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	412,403
Change due to foreign exchange	(141,023)
Fair value at September 30, 2018	\$4,799,091

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
Nine months ended September 30, 2018				
Back Forty Project	\$ 23,973,051	\$ 68,750	\$ -	\$ 24,041,801
Reef Gold Project	327,707	39,500	-	367,207
Aquila Nickel Project	7,800	3,900	-	11,700
	\$ 24,308,558	\$ 112,150	\$ -	\$ 24,420,708



NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 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 ("ALJ") regarding the validity of the Part 632 Permit to Mine issued to Aquila for the Back Forty Project by the MDEQ in December 2016 began in April 2018. An individual alleging to own property near the Back Forty Project (the "Individual") and the Menominee Indian Tribe of Wisconsin have challenged the permit (the "Tribe"). Closing argument briefing is now underway. The ALJ's decision will stand as the final decision of the MDEQ, unless a party that disagrees with the decision appeals the decision to an internal environmental review board, made of up technical experts from various fields. Aquila does not anticipate the ALJ or the review board will come to a different conclusion on issuing the permit than MDEQ staff. The Tribe, the Individual and a group formed to protect the Menominee River have also initiated a contested case challenge to the Wetlands Permit issued for the Project. A pre-hearing conference on the Wetlands Permit contested case will take place in Q4 of 2018. 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	\$ 17,000
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	\$ 1,180,096
2020	\$ 167,350
2021	\$ -
2022	\$ -



NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 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	139,638	151,361
Disposals	-	(52,000)		(52,000)
Balance, September 30, 2018	\$ 380,880	\$ 500,740	\$ 254,801	\$ 1,136,421

Accumulated Depreciation	Land	Buildings	Furniture and Fixtures	Total
Balance, December 31, 2017	\$ -	\$ 179,423	\$ 65,507	\$ 244,930
Charge	-	11,098	29,821	40,919
Disposal	-	(21,103)	-	(21,103)
Balance, September 30, 2018	\$ -	\$ 169,418	\$ 95,328	\$ 264,746

Net book value, December 31, 2017	\$ 380,880	\$ 361,594	\$ 49,656	\$ 792,130
Net book value, September 30, 2018	\$ 380,880	\$ 331,322	\$ 159,473	\$ 871,675



NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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8. Deferred Revenue

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

Silver stream	17,254,692
Notional non-cash interest on silver stream	4,787,526
Gold stream	7,500,000
Notional non-cash interest on gold stream	500,471
Balance at September 30, 2018	\$30,042,689

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 \$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 September 30, 2018, Osisko held 14.5% 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. These funds were received subsequent to period end;
- \$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 second tranche of \$7.5 million was received from OBL subsequent to period end. It is not reflected on the statement of financial position at this time. The remaining \$40 million is payable in two 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 September 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



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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 was settled in cash subsequent to period end 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 September 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 September 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 warrants	9,210,926	1,103,100
Fair value transferred on exercise of warrants	-	13,591
Shares issued on exercise of options	550,000	61,298
Fair value transferred on exercise of options	-	45,757
Balance September 30, 2017	281,300,564	64,578,178
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	86,875	8,157
Fair value transferred on exercise of warrants	-	7,295
Shares issued on exercise of options	100,000	14,947
Fair value transferred on exercise of options	-	11,184
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)	3,410,000	404,553
Fair value transferred on exercise of options (ii)	-	328,455
Balance, September 30, 2018	337,974,556	\$ 75,322,870

i) During the nine months ended September 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.



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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 nine months ended September 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 nine months ended September 30, 2018, 3,185,000 options were exercised at a price of C\$ 15 cents per option, 150,000 options were exercised at a price of C\$ 19 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\$523,500 (\$404,553). The relative fair value assigned to the stock options on issuance of C\$367,838 (\$328,455) 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 nine months ended September 30, 2018 are presented below:



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	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
Granted	850,000	0.250
Exercised	(550,000)	0.15
Forfeited options	(230,000)	0.165
Balance, September 30, 2017	20,840,250	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	(3,410,000)	0.15
Forfeited options	(146,250)	0.220
Balance, September 30, 2018	19,004,000	C\$ 0.19

- (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 \$43,406 was charged to loss with the offset to contributed surplus during the nine months ended September 30, 2018. The remaining fair value balance of \$32,530 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 \$84,895 was charged to loss with the offset to contributed surplus during the nine months ended September 30, 2018. The remaining fair value balance of \$83,192 is to be charged to loss in future periods.



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As at September 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	0.29
January 16, 2022	6,300,000 *	6,300,000	0.15	3.29
April 6, 2023	3,100,000	3,100,000	0.19	4.52
June 25, 2023	1,400,000	1,400,000	0.19	4.74
January 11, 2024	1,500,000	1,500,000	0.19	5.28
February 8, 2024	800,000	587,500	0.15	5.36
May 11, 2024	50,000	50,000	0.23	5.61
February 10, 2025	2,244,000	1,376,500	0.265	6.36
September 17, 2025	850,000	425,000	0.25	6.96
January 11, 2026	970,000	520,000	0.25	7.28
March 5, 2026	1,250,000	312,500	0.26	7.43
	19,004,000	15,799,000	C\$ 0.19	4.77

* 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.



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	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, September 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 \$10,841 was charged to loss with the offset to contributed surplus during the nine months ended September 30, 2018. The remaining fair value balance of \$18,822 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 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 \$18,667 was charged to loss with the offset to contributed surplus during the nine months ended September 30, 2018. The remaining fair value balance of \$135,578 is to be charged to loss in future periods.



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12. Warrants

The movements in the number and estimated fair value of outstanding broker warrants and share purchase warrants for the nine months ended September 30, 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	(9,210,926)	0.15
Balance, September 30,	31,551,545	C\$ 0.31	22,287,026	C\$ 0.29

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, September 30,	-	\$0.19	865,385	\$0.19



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The exercise price, expiry date, and warrants issued and outstanding as at September 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	0.35
18,008,862	0.30	February 6, 2020	1.36
12,293,269	0.34	May 10, 2021	2.62
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 nine months ended September 30, 2018, 446,681 units were issued to directors in lieu of receiving director fees in cash. A charge of \$83,969 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
Granted (iii)	168,478	29,934
Change due to foreign exchange		4,992
Change due to revaluation		(10,439)
Balance, September 30, 2018	446,681	\$ 83,969

14. Derivative Liabilities

a) Warrants

During the nine months ended September 30, 2018, no equity offerings were completed whereby any warrants or broker warrants were issued with exercise prices denominated in Canadian dollars (September 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



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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 September 30, 2018, the Company had 20,853,862 (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 nine months ended September 30,	2018	2017
Risk-free interest rate	2.19%	1.51%
Expected life	0.35-2.62 years	0.73-2.36 years
Price volatility	58-71%	59-80%
Share price (C\$)	0.23	0.24
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 nine months ended September 30, 2018, director's fees, professional fees and other compensation of directors and key management personnel were as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
Short-term compensation and benefits	\$ 192,409	\$ 236,603	\$ 585,977	\$ 734,229
Share-based payments (fair value of stock option benefits and share based payments)	116,828	56,115	399,447	303,124
	\$ 309,237	\$ 292,718	\$ 985,424	\$ 1,037,353

During the nine months ended September 30, 2018, the Company had expenditures in the amount of \$61,602 (2017 - \$73,872) 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 September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
Salaries and benefits	\$ 547,247	\$ 349,119	\$ 1,545,343	\$ 1,015,179
Office, general and administration	276,959	70,971	729,310	242,127
Share-based compensation	126,865	98,966	631,227	369,173
Professional fees	161,091	52,700	297,364	169,868
Travel and promotion	85,584	33,742	240,671	166,305
Filing and regulatory fees	9,727	11,404	78,696	105,886
Rent	20,212	24,146	61,602	69,785
Directors' fees	14,350	40,839	43,701	115,173
Amortization	17,139	9,207	40,919	27,085
Management and consulting fees	30,299	8,687	30,299	38,844
	\$ 1,289,473	\$ 699,781	\$ 3,699,132	\$ 2,319,425

17. Finance Charges

	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
Interest on financing component of deferred revenue (Note 18)	\$ 575,538	-	\$ 1,712,431	\$ -
Interest income	(59,493)	871	(160,859)	2,995
	\$ 516,045	\$ 871	\$ 1,551,572	\$ 2,995

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.



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	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 September 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	September 30, 2018		
	Reported	Impact of Adoption of IFRS 15	Balance without the Adoption of IFRS 15
LIABILITIES			
Deferred revenue	\$ 30,042,689	\$ (1,712,431)	\$ 28,330,258
EQUITY			
Deficit	\$ 87,160,510	\$ (1,712,431)	\$ 85,448,079



NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 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 nine months ended September 30, 2018:

Condensed Interim Consolidated Statement of Net Loss and Comprehensive Loss	Nine months ended September 30, 2018		
	Reported	Impact of the Adoption of IFRS 15	Balance without the Adoption of IFRS 15
Net finance charges (Note 17)	\$ 1,551,572	\$ (1,712,431)	\$ (160,859)
Total comprehensive loss	\$ 9,359,120	\$ (1,712,431)	\$ 7,646,689