AQUILA RESOURCES

MANAGEMENT DISCUSSION & ANALYSIS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019

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FOR THE QUARTER ENDED JUNE 30, 2019

FORWARD-LOOKING STATEMENT

This MD&A contains certain forward-looking statements, such as statements regarding potential mineralization, resources and exploration results and future plans and objectives of the Company, which are subject to various risks and uncertainties. There can be no assurance that such statements will prove to be accurate, and actual results and future events could differ materially from those anticipated in such statements. Readers are cautioned not to place undue reliance on these forward-looking statements. Forward-looking statements contained are made as of the date of this MD&A and the Company disclaims, other than as required by law, any obligation to update any forward-looking statements whether as a result of new information, results, future events, circumstances, or if management's estimates or opinions should change, or otherwise.

GENERAL

The following management discussion and analysis ("**MD&A**") of financial results is dated August 8, 2019 and reviews the business of Aquila Resources Inc. (the "**Company**" or "**Aquila**") for the three and six months ended June 30, 2019, and should be read in conjunction with the condensed interim consolidated financial statements and related notes for the three and six months ended June 30, 2019. This MD&A and the accompanying condensed interim consolidated financial statements and related notes for the quarter ended June 30, 2019, have been reviewed by the Company's Audit Committee and approved by the Company's Board of Directors.

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

This MD&A contains references to both United States dollars and Canadian dollars. All dollar amounts referenced, unless otherwise indicated, are expressed in United States dollars, and Canadian dollars are referred to as **"C$"**.

Mineral resources that are not mineral reserves do not have demonstrated economic viability. The estimate of mineral resources may be materially affected by environmental, permitting, legal, title, taxation, sociopolitical, marketing, or other relevant issues. The quantity and grade of reported inferred resources in this estimation are uncertain in nature and there has been insufficient exploration to define these inferred resources as an indicated or measured mineral resource and it is uncertain if further exploration will result in upgrading them to an indicated or measured mineral resource category. The inclusion of inferred mineral resources are considered too speculative geologically to have the economic considerations applied to enable them to be categorized as mineral reserves. The mineral resources in this M&DA were reported using Canadian Institute of Mining, Metallurgy and Petroleum ("**CIM**") Standards.

Additional information regarding the Company, including the risks related to our business and those that are reasonably likely to affect our financial statements in the future, is contained in our continuous disclosure materials, including our most recent Annual Information Form ("**AIF**"), audited consolidated financial statements and Management Information Circular available on SEDAR at www.sedar.com.

SECOND QUARTER HIGHLIGHTS

- The Company is progressing certain Back Forty Project pre-construction activities including environmental fieldwork and site data collection, metallurgical testwork, hydrogeological modeling, and a geotechnical drill program.
- The Company is continuing with its evaluation of underground mining following an open pit operation at Back Forty as outlined in the August 2018 Feasibility Study. The Company is also assessing various alternatives for downsizing the processing plant that better align open pit plant and potential future underground throughputs. This analysis will form the basis of an updated Preliminary Economic Assessment, the results of which Aquila expects to announce later this year.
- On May 3, 2019, the Michigan Office of Administrative Hearings and Rules issued a Final Decision and Order upholding the Michigan Nonferrous Metallic Mineral Mining Permit for its Back Forty Project in Michigan. Following 30 days of cumulative testimony, the administrative law judge issued a final decision finding "that the proposed mining operation will not pollute, impair, or destroy the air, water and other natural resources, or the public trust in those resources," in compliance with Michigan's Nonferrous Metallic Mining Statute.
- On May 22, 2019, a draft permit (proposed decision) on the Back Forty Mining Permit amendment was issued. A consolidated public hearing for the Mine Permit and Air Permit amendments was held on June 25, 2019. Aquila expects the amendments to receive final approval in 2019.
- On May 29, 2019, Aquila strengthened its land position at its Bend Project in Wisconsin by entering into a long-term mineral lease agreement with a party that owns the mineral rights on a portion of the deposit.
- On June 3, 2019, a contested case hearing related to the Company's Wetlands Permit began.
- On June 19, 2019, the Company announced the election of Pamela Saxton to its Board of Directors. Ms. Saxton is a business executive with over 35 years of experience in domestic and international public company finance roles, primarily in mining, software and oil and gas. Ms. Saxton has also joined the Company's Audit Committee.
- On June 28, 2019, the Company announced that its two largest shareholders, Orion Mine Finance (and its affiliated funds) ("**Orion**") and Osisko Gold Royalties Ltd. ("**Osisko**") completed a transaction whereby Orion purchased from Osisko all 49,651,857 common shares of the Company owned by Osisko (the "**Transaction**"). The Transaction was a small component of the share repurchase and secondary offering transaction first announced by Osisko on June 25, 2019. Orion now owns 97,030,609 common shares of Aquila representing approximately 28.7% of the outstanding common shares. Osisko remains a significant financial partner to Aquila as the holder of gold and silver streams on the Company's Back Forty Project. Under its gold streaming agreement with the Company, Osisko remains committed to funding an additional US$40 million in staged payments to continue the development of the Back Forty Project.
- As at June 30, 2019, Aquila had cash of $9.6 million and working capital of $7.0 million. This compared to cash of $14.4 million and working capital of $12.1 million at December 31, 2018. The decrease in working capital is primarily due to the funding of the Company's pre-construction activities.

OUTLOOK

- Pre-construction activities including engineering and construction readiness will continue to advance at Back Forty.
- Operational readiness activities including advancing plans with respect to roads, power, and concentrate logistics are underway.
- In addition to recently filled positions, the Company will continue to add resources to its owners' team to prepare for the construction and operational readiness phases at Back Forty.
- The Company will continue discussions with prospective financial partners to secure the required capital to construct the Back Forty Project. Aquila, with the assistance from its advisors, will consider all strategic and financial options available to the Company and the Project.
- The Company is also evaluating its strategy and funding alternatives with respect to its exploration projects in Wisconsin in light of the recent repeal of the decades-old moratorium on non-ferrous mining in the state.

COMPANY OVERVIEW

Aquila Resources Inc. was incorporated in the Province of Ontario as 1223068 Ontario Limited by Articles of Incorporation dated February 17, 1997. The Company is listed on the Toronto Stock Exchange under the symbol "AQA". Substantially all of the efforts of the Company are devoted to the business activities of exploring for and developing mineral properties.

The principal asset of the Company is its 100% interest in the Back Forty Project located in Menominee County, Michigan. The Back Forty Project is a polymetallic (zinc, gold, copper, silver, lead) Volcanogenic Massive Sulphide ("**VMS**") deposit.

The Company has two other exploration projects: Reef Gold Project located in Marathon County Wisconsin and the Bend Project located in Taylor County, Wisconsin. Reef is a gold-copper property and Bend is a volcanogenic massive sulfide occurrence containing copper and gold.

The Company is subject to the risks and challenges experienced by other companies at a comparable stage. These risks include, but are not limited to, continuing losses, dependence on key individuals and the ability to secure adequate financing or to complete corporate transactions to meet the minimum capital required to successfully complete its projects and fund other operating expenses. Advancing the Company's projects through exploration and development to the production stage will require significant capital. Given the current economic climate, the ability to raise funds may prove difficult. Refer to the "Liquidity" and "Capital Resources" sections below, and "Risk Factors" in the Company's AIF for additional information.

None of the Company's projects have commenced commercial production and, accordingly, the Company is dependent upon debt and/or equity financings and the optioning and/or sale of resources or resource-related assets for its funding. The recoverability of the carrying value of exploration and evaluation projects, and ultimately the Company's ability to continue as a going concern, is dependent upon exploration results which indicate the potential for the discovery of economically recoverable reserves and resources, and the Company's ability to finance development and exploration of its projects through debt or equity financings and the optioning and/or sale of resource or resource-related assets such as royalty interests for its funding. Changes in future conditions could require a material write-down of carrying values and meet its obligations as they fall due.

OVERVIEW OF ACTIVE PROJECTS

Back Forty Project

The Back Forty Project is a development stage VMS deposit containing zinc, gold, copper, lead, and silver, located in the Upper Peninsula of Michigan, USA and is the primary mineral property interest of the Company. The Back Forty Project is a high-grade, polymetallic project, which contains approximately 1.1 billion pounds of zinc and 1 million ounces of gold in the Measured & Indicated Mineral Resource categories, with additional upside potential. The Back Forty Project is directly owned by the Back Forty Joint Venture LLC ("**BFJV**") which controls approximately 3,222 gross acres of surface and mineral rights which are owned or held under lease or option by BFJV. Some lands are subject to net smelter royalties varying from 1% to 3.5%, with certain lands subject to a 2% to 7% royalty, which includes state royalties, which under state law can be renegotiated. Aquila has received all State and Federal permissions required for the construction and commencement of operations at the Back Forty Project.

Feasibility Study

On August 1, 2018, the Company announced the results of an independent open pit only Feasibility Study for the Back Forty Project (the "**Feasibility Study**"). The Feasibility Study was compiled by Lycopodium Minerals Canada Ltd with support from globally recognized experts and specialist consulting engineering companies in environmentally critical areas such as wastewater treatment, tailings and waste rock management.

A summary of key Back Forty Project metrics is outlined in the table below. The Base Case metal price deck is: $1,300/oz gold, $1.20/lb zinc, $20/oz silver, $3.00/lb copper and $1.00/lb lead.

Summary Economic Analysis – Base Case Metal Prices

Item	Description	Total
Project Life	Years	7
Ore	Mt	11.7
Strip Ratio	waste : ore	4.3
Grade	Gold equivalent	4.3 g/t
Grade	Zinc equivalent	6.7%
Total Recovery & Payability	% of con'd ZnEq	69.1%
Payable Zinc	M lbs	512
Payable Gold	K oz	468
Payable Zinc Equivalent	Mlbs	1,197
Payable Gold Equivalent	K oz	1,105
Sulphide plant throughput	Tonnes per day	4,000
Oxide plant throughput	Tonnes per day	800
Gross Revenue	$/t ore	123
NSR (Base Case)	$/t ore	108
Total Site Opex	$/t total ore	32
Royalties	$/t total ore	1
EBITDA	$/t total ore	75
EBITDA margin	EBITDA / NSR	69.6%
Gross C1 Cash Costs	$/oz AuEq	499
Net C1 Cash Costs	$/oz Gold	(590)
Net C1 Cash Costs	$/lb Zinc	(1.73)
Initial Capital	$M	294
Total Investment (including Closure)	$M	480
Gross AISCs	$/oz AuEq	677
Net AISCs	$/oz Gold	(171)
Net AISCs	$/lb Zinc	(1.34)
Annual After-Tax Operating Cash Flow	$M pa	62
After-Tax NPV (undiscounted)	$M	316
After-Tax NPV (at a 6% discount rate)	$M	208
After-Tax IRR		28.2%
After-Tax Payback	Years	2.2
Pre-Tax NPV (at a 6% discount rate)	$M	259
Pre-Tax IRR		32.0%

1. *None of EBITDA, C1 cash costs or all-in sustaining costs ("AISC") have a standardized meaning under IFRS. See "Non-GAAP Financial Measures".*
2. *Gold and zinc equivalencies were determined using total contained and payable metals and the respective ratio of Base Case metals prices.*
3. *Evaluation includes financial impacts of the Company's silver stream with Osisko but does not include the financial impact of its gold stream with OGR for which the majority of the upfront payments have yet to be received and for which there is uncertainty regarding the exact timing of these payments.*

Mineral Resource Estimate

The Mineral Resource Estimate is set out below and was prepared by P&E Mining Consultants Inc. ("**P&E**")

Back Forty Mineral Resource Estimate as at February 6, 2018

Area	Metallurgy Type	Class	NSR Cut-off	Tonnes	Gold	Gold	Silver	Silver	Zinc	Zinc	Copper	Copper	Lead	Lead
			$/tonne	(1,000)	g/t	K oz	g/t	K oz	%	M lb	%	M lb	%	M lb
Pit Constr-ained	Floatable	Meas	21	6,797	1.75	381	18.4	4,027	3.45	516.5	0.38	56.4	0.16	23.4
		Ind	21	3,768	1.58	191	25.2	3,056	3.15	261.7	0.24	19.9	0.39	32.8
		M & I	**21**	**10,565**	**1.68**	**572**	**20.9**	**7,083**	**3.34**	**778.2**	**0.33**	**76.3**	**0.24**	**56.2**
		Inf	21	71	1.01	2	30.7	70	2.98	4.7	0.14	0.2	0.37	0.6
	Leachable	Meas	22	553	5.61	100	34.8	618	0.19	2.4	0.05	0.6	0.13	1.5
		Ind	22	1,777	2.15	123	39.6	2,263	0.41	16.1	0.03	1.3	0.29	11.5
		M & I	**22**	**2,330**	**2.97**	**223**	**38.5**	**2,881**	**0.36**	**18.5**	**0.04**	**1.9**	**0.25**	**13.0**
		Inf	22	378	3.62	44	40.1	487	0.38	3.2	0.06	0.5	0.52	4.3
	Total	Meas	21+22	7,350	2.04	481	19.7	4,645	3.20	518.8	0.35	57.0	0.15	24.9
		Ind	21+22	5,545	1.76	314	29.8	5,319	2.27	277.8	0.17	21.2	0.36	44.3
		M & I	**21+22**	**12,895**	**1.92**	**795**	**24.0**	**9,964**	**2.80**	**796.6**	**0.28**	**78.2**	**0.24**	**69.2**
		Inf	21+22	448	3.21	46	38.6	557	0.79	7.9	0.07	0.7	0.49	4.9
Out of Pit	Floatable	Meas	70	556	1.79	32	26.8	480	5.32	65.2	0.33	4.0	0.41	5.0
		Ind	70	3,059	1.84	180	26.2	2,577	4.23	285.4	0.51	34.3	0.30	20.3
		M & I	**70**	**3,615**	**1.83**	**213**	**26.3**	**3,057**	**4.40**	**350.7**	**0.48**	**38.4**	**0.32**	**25.3**
		Inf	70	544	2.96	52	37.5	656	1.38	16.6	0.62	7.5	0.39	4.6
	Leachable	Meas	70	37	7.38	9	74.3	89	0.31	0.3	0.12	0.1	0.11	0.1
		Ind	70	77	3.85	9	47.3	117	0.32	0.5	0.15	0.2	0.13	0.2
		M & I	**70**	**114**	**5.01**	**18**	**56.1**	**206**	**0.32**	**0.8**	**0.14**	**0.3**	**0.13**	**0.3**
		Inf	70	137	5.93	26	81.0	356	0.42	1.3	0.16	0.5	0.49	1.5
	Total	Meas	70	593	2.14	41	29.8	569	5.01	65.5	0.32	4.1	0.39	5.1
		Ind	70	3,135	1.88	190	26.7	2,694	4.14	286.0	0.50	34.6	0.30	20.5
		M & I	**70**	**3,729**	**1.93**	**231**	**27.2**	**3,262**	**4.28**	**351.5**	**0.47**	**38.7**	**0.31**	**25.7**
		Inf	70	680	3.56	78	46.2	1,011	1.19	17.8	0.53	8.0	0.41	6.1
Total	Floatable	Meas	21+70	7,353	1.75	414	19.1	4,507	3.59	581.7	0.37	60.5	0.18	28.4
		Ind	21+70	6,827	1.69	371	25.7	5,633	3.64	547.1	0.36	54.2	0.35	53.1
		M & I	**21+70**	**14,180**	**1.72**	**785**	**22.2**	**10,140**	**3.61**	**1,128.8**	**0.37**	**114.7**	**0.26**	**81.5**
		Inf	21+70	615	2.74	54	36.7	726	1.57	21.2	0.57	7.7	0.38	5.2
	Leachable	Meas	22+70	590	5.72	109	37.3	707	0.20	2.6	0.05	0.7	0.12	1.6
		Ind	22+70	1,854	2.22	132	39.9	2,380	0.41	16.7	0.04	1.6	0.29	11.7
		M & I	**22+70**	**2,444**	**3.07**	**241**	**39.3**	**3,087**	**0.36**	**19.3**	**0.04**	**2.2**	**0.25**	**13.4**
		Inf	22+70	514	4.24	70	51.0	842	0.39	4.5	0.09	1.0	0.51	5.8
	Total	Meas	21+22+70	7,943	2.04	522	20.4	5,214	3.34	584.3	0.35	61.2	0.17	30.0
		Ind	21+22+70	8,680	1.80	504	28.7	8,013	2.95	563.8	0.29	55.8	0.34	64.9
		M & I	**21+22+70**	**16,623**	**1.92**	**1,026**	**24.7**	**13,227**	**3.13**	**1,148.1**	**0.32**	**116.9**	**0.26**	**94.9**
		Inf	21+22+70	1,129	3.42	124	43.2	1,568	1.03	25.7	0.35	8.7	0.44	11.0

1. *Mineral Resources which are not Mineral Reserves do not have demonstrated economic viability.*

2. *The Inferred Mineral Resource in this estimate has a lower level of confidence that that applied to an Indicated Mineral Resource and must not be converted to a Mineral Reserve. It is reasonably expected that the majority of the Inferred Mineral Resource could be upgraded to an Indicated Mineral Resource with continued exploration.*
3. *The Mineral Resource was estimated using CIM guidelines and include the Mineral Reserve.*
4. *Metallurgical type Oxide (all gold domains and leachable Gossans) is leachable, while all other metallurgical types are floatable.*
5. *The Mineral Resource Estimate was based on metal prices of $1,375/oz gold, $22.27/oz silver, $1.10/lb zinc, $3.19/lb copper and $1.15/lb lead.*

The 2018 Mineral Resource Estimate was based on information and data supplied by Aquila, and was undertaken by Yungang Wu, P.Geo. and Eugene Puritch, P.Eng., FEC, CET of P&E Mining Consultants Inc. of Brampton, Ontario, both independent Qualified Persons as defined by National Instrument 43-101. The 2018 Mineral Resource Estimate is documented in a Technical Report prepared by P&E which was filed on SEDAR March 26, 2018.

Mineral Reserve Estimate

The Proven and Probable Mineral Reserve Estimate for the Project is summarised in the table below. Approximately 70% of the Mineral Reserve Estimate is in the Proven category. Only Measured and Indicated Mineral Resources are included in the open pit Mineral Reserve Estimate. The Mineral Reserve Estimate was prepared by P&E.

Back Forty Mineral Reserve Estimate as at February 6, 2018

	Ore Mt	NSR $/t	Gold g/t	Silver g/t	Zinc %	Lead %	Copper %
Proven	8.12	$120	1.95	18.4	3.02	0.13	0.35
Probable	3.53	$85	1.63	29.3	1.76	0.41	0.10
Proven + Probable	11.65	$109	1.85	21.7	2.64	0.21	0.28

1. *CIM definitions were followed for the Mineral Reserve Estimate.*
2. *The Mineral Reserve Estimate used average long term metal prices of $1,250/oz gold; $20.00/oz silver; $1.15/lb zinc; $1.00/lb lead; and $3.00/lb copper.*
3. *A Mineral Reserve is defined within a mine plan, with pit phase designs guided by Lerchs–Grossmann (LG) pit shells, after dilution and mining loss adjustments.*
4. *The Mineral Reserve Estimate is derived from Measured and Indicated Mineral Resources only.*
5. *Metallurgical recovery used was a variable function of the rock type and metal grade.*
6. *The Mineral Reserve Estimate for the Project will be comprised of eight different ore types that will be processed either though a flotation concentrator or cyanide leach plant. NSR cut-off values applied are: Ore 1 - $16.50/t, Ore 2,3,4,7,8 - $16.00/t, Ore 5 - $17.50/t, and Ore 6 - $28.50/t.*
7. *The life-of-mine strip ratio is 4.3:1 including the pre-construction period.*

Metal Production

Metal production figures are summarized in the table below.

Metal	Life of Project Production	Average Annual Production
Gold (K oz)	468	67
Zinc (K lbs)	512,198	73,171
Copper (K lbs)	51,109	7,301
Silver (K oz)	4,458	637
Lead (K lbs)	24,183	3,455

A summary of the life of project revenue by metal, revenue by product, and recovery by metal are included in the tables below.

Revenue by Metal	
Metal	**% of Revenue**
Gold	41%
Zinc	41%
Copper	10%
Silver	6%
Lead	2%
Total	**100%**

Revenue by Product	
Product	**% of Revenue**
Zinc Concentrate	45%
Copper Concentrate	31%
Doré	16%
Lead Concentrate	8%
Total	**100%**

Metal Recovery by Product		
Metal	**Concentrates**	**Doré**
Gold	64.5%	91.6%
Zinc	91.7%	
Copper	80.6%	
Silver	64.1%	68.6%
Lead	81.5%	

Underground Mining

The Feasibility Study Mineral Reserve Estimate does not consider any "out of pit" Mineral Resource. The Company believes there is an opportunity to develop the out of pit Mineral Resource, which currently stands at 3.7M tonnes (Measured + Indicated), but additional studies will be required to demonstrate the economic viability of an underground mine. An underground mine would also defer mine closure costs which currently commence in Year 8 at a nominal cost of $74.7M. The Company's existing permits are for an open pit mine only and amendments including additional environmental studies would be required to allow underground mining.

Technical Report

The Company filed the Feasibility Study Technical Report on SEDAR in accordance with NI 43-101 on September 7, 2018. Readers are cautioned that the conclusions, projections and estimates set out in this MD&A are subject to important qualifications, assumptions and exclusions, all of which are detailed in the Feasibility Study and Technical Report. To fully understand the summary information set out in this MD&A, the Technical Report filed on SEDAR should be read in its entirety.

*Preliminary Economic Assessment ("**PEA**") Status Update*

- The evaluation and design of a potential underground mine option is ongoing.
- Completed a geotechnical site investigation program including 1,200m of geomechanical and hydrogeological drilling and testing to further increase confidence in pit wall stability and crown

pillar design for a potential underground mine. Results will be used to advance the open pit and underground mine design in the next design phase of the Project.
- Continued with confirmatory and advanced metallurgical testwork to support the PEA and in preparation for an updated Feasibility Study.
- PEA results expected to be announced later this year.

Current Project Activities

- In addition to ongoing activities related to the PEA, the Company is progressing certain Back Forty Project pre-construction activities including environmental fieldwork and site data collection.
- Operational readiness activities including advancing plans with respect to roads, power, and concentrate logistics are underway.
- The Company has initiated a resource development process to facilitate and expedite the cost-effective prioritization of drill-ready targets based on probability of success. The process includes migration of all geologic and geotechnical data to a cloud-based data management system and refinement of the 3D geologic model.
- In addition to recently filled positions, the Company will continue to add to its leadership team to prepare for the construction and operational readiness phases at Back Forty.

Permitting Activities

The Company first submitted its permit applications for the Back Forty Project with the Michigan Department of Environmental Quality, now the Michigan Department of Environment, Great Lakes, and Energy (“**EGLE**”**)** in November 2015. The Company has continued to use the services of Foth Infrastructure and Environment LLC out of Green Bay, WI. Consistent with Michigan’s permitting process, Aquila requested specific permits including a Mining Permit, a National Pollutant Discharge Elimination System Permit (“**NPDES Permit**”), wetland/stream/floodplain permit (“**Wetlands Permit**”) and a Michigan Air Use Permit to Install (“**Air Permit**”).

On September 2, 2016, EGLE provided public notice on its proposed decision to issue a draft Mining Permit to Aquila for its Back Forty Project. In addition to the proposed Mining Permit, Aquila also received draft NPDES and Air Permits. A final consolidated public hearing was held on October 6, 2016 for these three permits and the public comment period expired on November 3, 2016. The Mining Permit and final Air Permit were issued by EGLE on December 29, 2016. The Company was issued the final NPDES Permit on April 5, 2017. By February 2017, both the Tribe and an individual owning property near the project site (“**Petitioners**”) filed an administrative contested case challenge to EGLE issuance of the Mining Permit.

On October 2, 2017, the Company submitted the Wetlands Permit application that aligned with the final project design reflected in the Feasibility Study and that addressed EGLE comments on earlier iterations of the application. On December 8, 2017, EGLE deemed the Company’s Wetland Permit application administratively complete. On January 23, 2018, EGLE held a public hearing for the Wetlands Permit. The public comment period concluded on February 2, 2018.

On March 8, 2018, the United States Environmental Protection Agency (the “**EPA**”) provided comments to EGLE regarding the Wetlands Permit. The EPA had 90 days from December 8, 2017, when EGLE deemed the Company’s Wetlands Permit application administratively complete, to provide comments. The EPA’s opportunity to comment on the application is subject to strict statutory processes, regardless of the significance of the comments. Aquila worked with the EPA to resolve its comments and to provide the requested information. In a letter addressed to EGLE dated May 3, 2018, the EPA confirmed that a number of objections identified in the March 8, 2018 letter had been resolved. Further, the EPA believed there was a ready pathway for the resolution of the EPA's remaining objections through EGLE's inclusion of specific conditions in a final Wetlands Permit.

On June 4, 2018, the Company announced that it received the Wetlands Permit from EGLE. The Wetlands Permit was issued inclusive of specific conditions, including those requested by the EPA. On August 2, 2018, the Petitioners and the Coalition to SAVE the Menominee River filed administrative contested case challenges to the Wetlands Permit.

An administrative law judge ("**Judge**") convened an evidentiary hearing in April of 2018 on the Petitioners' contested case challenges to the Mining Permit. The hearing ended in October 2018. On May 3, 2019, the Michigan Office of Administrative Hearings and Rules issued a Final Decision and Order upholding the Mining Permit. Following 30 days of cumulative testimony, the Judge issued a final decision finding "that the proposed mining operation will not pollute, impair, or destroy the air, water and other natural resources, or the public trust in those resources," in compliance with Michigan's Nonferrous Metallic Mining Statute. On May 28, 2019, the Petitioners appealed the decision to an internal environmental review board made up of technical experts from various fields. The Company does not expect the review board to reach a different conclusion than the Judge. Aquila expects the review board to reach a decision before the end of 2019.

An evidentiary hearing on the contested case challenge to the Wetlands Permit began in June 2019. The same Judge that ruled on the Mining Permit contested case is hearing the Wetlands Permit contested case.

On November 2, 2018, the Company submitted amendments to its Mining Permit including a Dam Safety Permit Application to EGLE to align the permit with the project design outlined in the Feasibility Study as well as in the Wetlands Permit. The Company also submitted amendments to its Air Permit in November 2018. A draft permit (proposed decision) on the Mining Permit amendment was issued on May 22, 2019. A consolidated public hearing was held on June 25, 2019. Aquila expects the amendments to receive final approval in 2019.

In November of 2018, the Coalition to SAVE the Menominee River, Inc. filed a lawsuit in the U.S. District Court for the Eastern District of Wisconsin challenging the EPA and the U.S. Army Corps of Engineers' failure to exercise jurisdiction over Aquila's Wetlands Permit for its Back Forty Project. This lawsuit is nearly identical to the prior lawsuit in the same court filed by the Tribe. In December 2018, however, the Court dismissed the Tribe's lawsuit, holding that the Tribe could not challenge the federal government's refusal to exercise jurisdiction over the Wetlands Permit under the Administrative Procedures Act or the Clean Water Act. Accordingly, Aquila intervened in the Coalition's lawsuit, and Aquila and the United States moved to dismiss the complaint. In response, on April 16, 2019, the Coalition filed an amended complaint. The amended complaint contains some additional factual allegations but is otherwise substantially similar to the original complaint. Aquila and the United States filed another motion to dismiss on May 7, 2019 which is pending before the court.

The Tribe has appealed the District Court's dismissal of its case to the federal Seventh Circuit Court of Appeals. On May 6, 2019, both Aquila and the United States have filed appeal briefs in support of the dismissal of the Tribe's federal case. Oral arguments are expected to commence in September 2019.

Exploration Expenses

During the six months ended June 30, 2019, the Company incurred project exploration expenditures of $3,152,066 (2018 - $3,239,415). Acquisition costs incurred on the Back Forty Project for the six months ended June 30, 2019, were $43,750 (2018 – $43,750). Estimated lease, option and property acquisition costs related to the Back Forty Project for 2019 to 2023, for which the Company is materially liable throughout the duration of the agreements, are as follows:

Year	Amount
2019	$ 54,000
2020	231,556
2021	246,391
2022	251,285
2023	256,179

Reef Gold Project

On March 7, 2011 Aquila announced the acquisition of the Reef Gold Project located in Marathon County, Wisconsin. The Reef area was the focus of historic exploration by Xstrata in the 1970's and 1980's. The Reef Gold project hosts a high grade (412,410 tonnes @ 10.6 g/t gold) historical, non-NI 43-101 compliant, resource *(1)* which is open in all directions and in the view of management has potential for expansion.

The Company entered into a series of agreements with private landholders in Marathon County, Wisconsin for the optioning of surface and mineral rights. The agreements consist of mining leases and exploration agreements with an option to purchase. Currently, there are a total of 643 gross acres under these agreements, which have terms from 1 to 20 years up to 2031. A variable net smelter royalty up to 2% is payable in the event of mineral production on the property.

Since acquiring the Reef Gold Project Aquila has completed 42 diamond drill holes that have confirmed and expanded the presence of gold and copper mineralization within loosely defined zones identified by previous explorers. In addition, Aquila has completed an airborne versatile time domain electromagnetic survey over the Reef Property.

During the six months ended June 30, 2019, the Company incurred exploration expenditures of $10,850 (2018 – $15,455). Acquisition costs incurred on the Reef Gold Project for the six months ended June 30, 2019, was $32,223 (2018 - $27,500). Ongoing lease or option costs related to the Reef Project for 2019 to 2023, which are at the Company's option, are as follows:

Year	Amount
2019	$ 835,923
2020	249,743
2021	432,548
2022	661,234
2023	6,000

Future exploration of the property is dependent on the availability of funding.

Note 1: The historical resource estimates for the Reef Gold Project are based on prior data and reports prepared by previous owners of the properties. A qualified person has not done sufficient work to classify the historical estimates as current mineral resources under NI 43-101. The Company is not treating the historical estimates as current mineral resources or mineral reserves. The Company considers that the historical estimates should be considered only as historical references of tonnes and grades. No reliance should be placed on these historical estimates.

Bend Project

The Bend Project is located 35 miles southeast of the former producing Flambeau mine and occurs within the Penokean Volcanic Belt. The Penokean Belt is a prolific VMS belt globally and hosts a number of significant deposits, including Aquila's Back Forty Project. The Bend deposit contains a historical, non-NI 43-101 compliant, resource estimate *(2)* of 2.7 million tonnes grading 2.4% copper, 1.4 g/t gold and 13.7 g/t silver, and remains open down dip and down plunge. In addition, a separate gold zone containing 1.12 million tonnes of 4.7 g/t gold and 0.31% copper was delineated in historic, non-NI 43-101 compliant, technical reports (*2*) and remains open in all directions. The Company believes the historical results to be relevant.

Since acquiring the project in 2011, the Company completed 5,800 meters of drilling, expanding and further defining base and precious metal mineralization, potentially in support of a NI 43-101 compliant resource estimate.

On May 29, 2019, Aquila strengthened its land position at Bend by entering into a long-term mineral lease agreement with a party that owns the mineral rights on a portion of the deposit.

During the six months ended June 30, 2019, the Company incurred exploration expenditures of $45,252 (2018 – $147,085). Acquisition costs incurred on the Bend Project for the six months ended June 30, 2019, was $50,000 (2018 - $nil). Future exploration of the property is dependent on the availability of funding. Ongoing lease or option costs related to the Reef Project for 2019 to 2023, which are at the Company's option, are as follows:

Year	Amount
2019	$ -
2020	-
2021	-
2022	25,000
2023	25,000

Note 2: The historical resource estimates for the Bend Project are based on prior data and reports prepared by previous owners of the properties. A qualified person has not done sufficient work to classify the historical estimates as current mineral resources under

NI 43-101. The Company is not treating the historical estimates as current mineral resources or mineral reserves. The Company considers that the historical estimates should be considered only as historical references of tonnes and grades. No reliance should be placed on these historical estimates.

RESULTS OF OPERATIONS

The following table provides selected financial information that should be read in conjunction with the financial statements of the Company for the three and six months ended June 30, 2019:

	Three months June 30		Six Months Ended June 30	
In US dollars	**2019**	2018	**2019**	2018
Mineral property exploration expenses	**$ 2,164,885**	$ 2,067,182	**$ 3,208,168**	$ 3,401,955
Administrative expenses	**1,170,077**	1,257,305	**2,420,760**	2,409,659
Net finance charges	**608,668**	643,046	**1,305,334**	1,035,527
Loss from operations	**3,943,630**	3,967,533	**6,934,262**	6,847,141
(Gain) loss on foreign exchange	**79,162**	(131,136)	**(12,837)**	(328,435)
Loss (gain) on change in value of contingent consideration	**98,720**	486,975	**162,488**	462,505
(Gain) loss on change in fair value of warrant liability	**(302,564)**	118,261	**(349,622)**	(107,204)
Net and comprehensive loss for the period	**3,818,948**	4,441,633	**6,734,291**	6,874,007
Net loss per share - basic and diluted	**0.01**	0.01	**0.02**	0.02

Revenues

None of the Company's properties have advanced to the point where a production decision can be made. As a consequence, the Company has no producing properties and no sales or revenues.

Administrative expenses

Administrative expenses are incurred in both US and Canadian dollars. The fluctuation of the Canadian dollar relative to the US dollar over the three and six months ended June 30, 2019, continues to have an impact on the comparability of expenditures on a period over period basis. For the three and six months ended June 30, 2019, administrative expenses were $1,170,077 and $2,420,760, compared to $1,257,305 and $2,409,659 for the same period last year. Significant components and changes in this expense include:

- Salaries and benefits have increased to $580,879 and $1,185,931 for the three and six months ended June 30, 2019, compared to expenditures of $544,928 and $998,096, in the same period in the prior year primarily due to an increased headcount. The Company anticipates that these costs will continue to increase on a period over period basis as work moves forward on the development of the Back Forty Project and the Company expands its team accordingly.
- Share-based payments, as explained in Note 10(b) to the consolidated financial statements, were $175,970 and $320,451 for the three and six months ended June 30, 2019. This is in comparison to $162,364 and $504,362 for the same period last year. Quarterly and period to date fluctuations in share-based payments expense are dependent on a number of factors including, but not limited to, number of options, restricted share units ("**RSUs**") granted or deferred share units ("**DSUs**"), valuation of options, RSUs and DSUs, vesting period and timing.

- Professional fees were $49,147 and $109,223 for the three and six months ended June 30, 2019, a decrease from $66,436 and $136,273, in the same period last year. Legal fees and professional fees mainly relate to corporate legal responsibilities and financial audit and tax fees.
- Travel and promotion costs slightly increased for the three and six months ended June 30, 2019, with expenditures of $90,709 and $166,312, compared to $73,513 and $155,087 for the same period in the prior year due to increased marketing efforts.
- Office and administrative costs were $194,484 and $458,480 for the three and six months ended June 30, 2019, in comparison to the prior year with expenditures of $345,098 and $452,351, respectively.
- The Company had a foreign exchange loss of $79,162 for the three months and a gain of $12,837 for the six months ended June 30, 2019, in comparison with a foreign exchange gain of $131,136 and $328,435 in the same period of the prior year. Volatility in foreign exchange rates continues to cause significant gains and losses on both a quarterly and annual basis.

Mineral Property Expenditures

For the three months ended June 30, 2019, mineral property exploration expenditures have increased slightly to $2,164,855 from $2,067,182 for the three months June 30, 2018. Period over period expenditures are $3,208,168 in comparison to $3,401,955. With the financing in place from the Company's latest capital transaction, the Company is focused on completing its permitting amendments, addressing various legal challenges and continuing certain pre-construction activities at the Back Forty Project. The Company is continuing its evaluation of an underground mine following an open pit operation at Back Forty as outlined in the August 2018 Feasibility Study. The Company is also assessing various plant size alternatives to better align open pit plant and potential underground throughputs. In addition, the Company is also continuing its exploration efforts in Wisconsin. Costs are increasing in line with the Company's expectations.

Quarterly Information

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

In thousands of US dollars	For the quarters ended: 30-Jun-19	31-Mar-19	31-Dec-18	30-Sep-18
Statement of Loss				
Transaction costs	$ -	$ -	$ -	$ -
Net (gain) loss in fair value of contingent consideration and warrants	(204)	17	(368)	(1,348)
Net expenses	4,023	2,899	2,504	3,205
Net loss	3,819	2,915	2,397	2,445
Loss per share	0.01	0.01	0.01	0.01

In thousands of US dollars	For the quarters ended: 30-Jun-18	31-Mar-18	31-Dec-17	30-Sep-17
Statement of Loss				
Transaction costs	$ -	$ -	$ 1,104	$ -
Net (gain) loss in fair value of contingent consideration, and warrants	605	(250)	(617)	998
Net expenses	3,698	2,880	3,019	1,910
Net loss	4,488	2,488	4,795	1,166
Loss per share	0.01	0.01	0.02	-

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

With the funds from the private placement in November 2017, the deposit from the first two tranches of the Streaming Agreement as well as the funds from the warrant and option exercises, the Company focused on receiving its final permit and finalizing its Feasibility Study resulting in sustained higher expenditures during 2018. Expenditures also reflect increased spending at the Company's Wisconsin projects in 2018. Expenditures during the first half of 2019 focused on certain pre-construction activities, the Company's continuing evaluation of an underground mine following an open pit operation at Back Forty as outlined in the August 2018 Feasibility Study. The Company is also assessing various plant size alternatives to better align open pit plant and potential underground throughputs as well as completing necessary permit amendments. Expenditures are consistent with the Company's expectations.

When considering the quarterly losses, the effect of stock-based compensation is a significant factor. Share based payment expenditure is dependent on the timing of stock option grants, RSU grants and DSU grants. As such, there is substantial variability on a quarter over quarter basis. Share-based payment expenditures were $175,970, in the current quarter, and $144,481 $249,096, $126,865, $162,364, $209,471, $168,711, and $98,966, in each of the seven prior quarters. In the second quarter of 2019, the Company issued stock options totaling 300,000. No RSUs were issued in the first quarter of 2019. In the fourth quarter of 2018, the Company issued stock options totaling 2,700,058 and RSUs totaling 757,389 increasing the stock compensation expense. Stock options totaling 500,000 were issued in the third quarter of 2018. Stock options totaling 1,850,000, RSUs totaling 900,000 and DSUs totaling 149,038 were issued in the first quarter of 2018, resulting in an increase of stock compensation expense. DSUs were issued in each quarter of 2018 as well as the first two quarters of 2019 increasing the stock compensation expense. There was no comparable issuance of DSUs in any quarter in 2017. Higher compensation expense in the third quarter of 2017 is due to the issuance of options.

Revaluation of the Canadian dollar warrants resulted in a gain of $302,564. This is in comparison with losses in the second quarter of 2018 of $118,261, and fourth quarters of 2017 of $423,562. This is consistent with gains in the prior quarter of $47,058 and well as gains of $284,027, $1,298,287, $225,465 in the fourth, third and second quarters of 2018 and gains of $194,358 recognized in the third quarter of 2017. The gain in the third quarter of 2018 was due to the exercise and expiry of warrants. The significant increase in the fourth quarter of 2017 is due to the issuance of a total of 12,293,269 Canadian dollar warrants in November 2017 and was offset by the exercise of 9,210,926 warrants. The revaluation is based on a number of factors including expected life, stock price at time of revaluation and volatility. Due to these factors, the resulting revaluation can have a significant impact on the loss for the quarter and substantial variability can occur on a quarter by quarter basis.

Volatility in foreign exchange rates continued to cause significant gains and losses on a quarterly basis. During the quarter ended June 30, 2019, the fluctuation in rates continued as the Canadian dollar continued to weaken slightly relative to the US dollar, resulting in a loss of $79,162 for the current quarter. This is consistent with losses in the last two quarters of 2018 in the amounts of $123,692 and $52,813 as well as the last two quarters in 2017 of $46,696 and $253,136. This is consistent with gains in the prior quarter of $91,999 and in each of the first and second quarters of 2018 of $131,136 and $197,302. The continued volatility is a trend that has continued throughout much of the current and prior fiscal years.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2019, the Company had cash of $9,623,084 compared to cash of $14,852,776 as at December 31, 2018. The Company had working capital of $7,014,890 as at June 30, 2019, compared to working capital of $12,118,666 as at December 31, 2018. Working capital is defined as current assets less current liabilities excluding warrants payable. The decrease in working capital is due to funding the Back Forty Project Feasibility Study, the work related to the Wetlands Permit, litigation costs, pre-construction activities as well as Company overhead. In August 2017, the Company received the final $0.99 million from Osisko associated with the 2015 financing. In July 2017, Orion sold a royalty portfolio to Osisko which included the Company's Back Forty Project silver stream. Orion remains a shareholder of the Company.

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), pursuant to which OBL agreed to commit approximately US$65 million to Aquila through a $10 million private placement and a $55 million gold stream.

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. 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 percent of the outstanding common shares. Osisko's nominee was appointed to the board of directors in November 2017. As a result of the Transaction with Orion that was completed in June 2019, Osisko is not currently a shareholder of Aquila and no longer holds the right to nominate individuals to Company's Board of Directors.

Concurrent with the Strategic Investment, the parties also entered into the Streaming Agreement, whereby OBL will provide the Company with staged payments totaling $55 million, payable as follows:

- $7.5 million on close of the Streaming Agreement (received);

- $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 (received);
- $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 in October 2018. The remaining $40 million is payable in two installments 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 the development of the Back Forty Project.

Under the terms of the Streaming 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 Streaming 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 Streaming 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 Streaming Agreement will remain unchanged.

Pursuant to the Streaming Agreement, the Company has agreed to pay a $200,000 capital commitment fee. The fee is payable as to 50% upon closing of the Streaming Agreement transaction and 50% upon OBL funding the second deposit under the Streaming Agreement. Aquila satisfied the initial $100,000 fee by way of the issuance of 478,781 common shares of the Company based upon the five-day volume weighted average price of the common shares prior to November 10, 2017. The $100,000 was expensed as part of transaction costs in the statement of net loss and comprehensive loss. Under IFRS 15, these transaction costs were adjusted as a reduction of the deferred revenue balance on January 1, 2018 on the statement of financial position. The remaining $100,000 capital commitment fee was settled in cash in October 2018 when the second tranche of funding was received and is offset against the deferred revenue balance in the statement of financial position.

In 2018, the Company received a re-assessment of certain of its input tax credits (“**ITCs**”) totaling approximately C$669,000 ($529,000). The Company recorded the amount as an exploration expense on the statement of net loss in 2018. The Company received a second re-assessment of certain of its ITCs related to financing totaling approximately C$181,000 ($141,000). The Company has filed Notices of Objection in relation to these matters as the Company disagrees with Canada Revenue Agency’s characterization of these ITCs.

Historically, the Company’s main source of funding has been the issuance of equity securities for cash, primarily through private placement offerings to accredited investors and institutions. The Company’s access to financing is always uncertain. There can be no assurance of continued access to significant equity financing, or that such access will be timely and in the amounts necessary to fund the Company’s activities.

There are many conditions beyond the Company's control which have a direct impact on the level of investor interest in the purchase of Company securities. The Company may also attempt to generate additional working capital through the operation, development, sale or possible joint venture development of its properties. However, there is no assurance that any such activity will generate funds that will be available for operations. See "Risk Factors" in the Company's AIF.

The following are the capital financings completed by the Company in the last two years;

- In the first quarter of 2019, 227,500 options were exercised for cash proceeds of $25,669 (C$34,125).
- In October 2018, the Company received the second tranche of $7.4 million under the Streaming Agreement with Osisko, net of a $100,000 capital commitment fee.
- In the third quarter of 2018, 682,500 options were exercised for cash proceeds of $82,929 (C$108,375).
- In the second quarter of 2018, 2,515,500 warrants were exercised for cash proceeds of $389,752 (C$503,100).
- In the second quarter of 2018, 385,125 options were exercised for cash proceeds of $298,356 (C$385,125).
- In the first quarter of 2018, 906,760 warrants were exercised for cash proceeds of $168,661 (C$220,555).
- In the first quarter of 2018, 200,000 options were exercised for cash proceeds of $23,268 (C$30,000).

The Company is currently in discussion with various parties to provide financing to continue to advance the Back Forty Project.

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

	June 30, 2019		December 31, 2018	
	Number of shares	**$**	Number of shares	$
Balance, beginning of year	**337,974,556**	**75,322,870**	331,139,296	73,975,825
Shares issued on settlement of restricted share units	**82,500**	**-**	-	-
Fair value on settlement of restricted share units	**-**	**15,925**	-	-
Shares issued on exercise of warrants	**-**	**-**	3,425,260	558,412
Fair value on exercise of warrants	**-**	**-**	-	55,625
Shares issued on exercise of options	**227,500**	**25,669**	3,410,000	404,553
Fair value on exercise of options	**-**	**21,651**	-	328,455
Balance, end of period	**338,284,556**	**75,386,115**	337,974,556	75,322,870

Warrants

As at June 30, 2019, there are a total of 30,302,131 warrants priced in Canadian dollars outstanding. For additional information, refer to note 11 of the condensed interim consolidated financial statements for the three and six months ended June 30, 2019.

Options

As at June 30, 2019, there are a total of 21,679,058 stock options outstanding with a weighted average exercise price of C$ 16 cents. For additional information, refer to note 10(b) of the condensed interim consolidated financial statements for the three and six months ended June 30, 2019.

Commitments

The Company is not committed to any material capital expenditures to the date of this MD&A.

In order for the Company to maintain its properties in good standing there are certain lease, option and property acquisition costs it will have to incur, as well as other commitments it has to fulfill. Any cash outlays required will be met from existing working capital and funding provided by capital markets or other industry partners.

MARKET TRENDS

The Company's future financial performance is dependent on many external factors including the prices of certain precious and base metals. The markets for these commodities are volatile and difficult to predict as they are impacted by many factors including international political, social, and economic conditions. These conditions, combined with volatility in the capital markets, could materially affect the future financial performance of the Company. For a summary of other factors and risks that may affect the Company and its financial position, please refer to "Risk Factors" in the Company's AIF.

OFF-BALANCE SHEET ARRANGEMENTS

As at June 30, 2019, and December 31, 2018, the Company does not have any off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

In accordance with IAS 24 Related Party Disclosures, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any directors (executive and non-executive) of the Company. The remuneration of directors and key executives is determined by the compensation committee. During the three and six months ended June 30, 2019, 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 six months ended June 30,**	
	2019	**2018**	**2019**	**2018**
Short-term compensation and benefits	**$ 185,155**	$ 194,697	**$ 371,450**	$ 393,568
Share-based payments (fair value of stock option benefits and share based payments)	**171,678**	125,580	**310,550**	282,619
	$ 356,833	$ 320,277	**$ 682,000**	$ 676,187

During the six months ended June 30, 2019, the Company had expenditures in the amount of $45,669 (2018 - $41,390) for shared office costs paid to a partnership in which one of the Company's directors has an interest.

CRITICAL ACCOUNTING ESTIMATES

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

Impairment of mineral property costs

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

Accounting for streaming agreement

The Company entered into a silver streaming arrangement in 2015 with Orion and received $17.25 million to date which was used for the development of the Back Forty Project. Refer to Note 9 of the consolidated financial statements for further details. The Company entered into a gold streaming arrangement in 2017 and has received $15 million to date which is being used for the development of the Back Forty Project. Refer to note 8 of the consolidated financial statement for further details.

Management exercised judgment in applying IFRS 15, Revenue from Contracts with Customers standards to certain contracts with customers. To determine the transaction price for streaming 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 estimates are subject to variability and may have an impact on the timing and amount of revenue recognized.

Share-based payments

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

Contingent Consideration

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

SIGNIFICANT ACCOUNTING POLICIES

The Company adopted IFRS 16, Leases effective January 1, 2019. Refer to Note 2 – Accounting Policies in the Company's unaudited Condensed Interim Consolidated Financial Statements for the period ended June 30, 2019 for further details.

NON-GAAP FINANCIAL MEASURES

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

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

	For the quarters ended:			
	30-Jun-19	31-Mar-19	31-Dec-18	30-Sep-18
Working capital				
Current assets	$ 10,162,740	$ 12,533,291	$ 14,944,400	$ 11,100,258
Current liabilities excluding warrants payable	3,147,850	2,318,718	2,825,734	3,111,589
Working capital	7,014,890	10,214,573	12,118,666	7,988,669

	For the quarters ended:			
	30-Jun-18	31-Mar-18	31-Dec-17	30-Sep-17
Working capital				
Current assets	$ 13,202,876	$ 15,490,928	$ 17,798,804	$ 3,421,250
Current liabilities excluding warrants payable	2,225,725	1,966,276	2,346,398	1,249,812
Working capital	10,977,151	13,524,652	15,452,406	2,171,438

C1 cash costs, AISC, EBITDA and free cash flow are non-IFRS financial measures calculated by the Company as set forth below, and may not be comparable to similar measures reported by other companies. The C1 cash costs, AISC, EBITDA metrics are included for completeness but are currently not in use. These metrics will be used once the mine is developed.

C1 cash costs, which are intended to measure direct cash costs of producing paid metal, include all direct costs that would generate payable recoveries of metals for sale to customers, including mining of mineralized materials and waste, leaching, processing, refining and transportation costs, on-site administrative costs and royalties, net of by-product credits. C1 cash costs do not include depreciation, depletion, amortization, exploration expenditures, reclamation and remediation costs, sustaining capital, financing costs, income taxes, or corporate general and administrative costs not directly or indirectly related to the Project. C1 cash costs are divided by the number of ounces of gold or pounds of zinc, as applicable, estimated to be produced for the period to arrive at cash costs per gold ounce or zinc pound produced.

AISC includes C1 cash costs, as defined above, plus exploration costs at the Project and sustaining capital expenditures (including additional leach pads, permitting and customary improvements to the operations over the life of the project). AISC is divided by the number of ounces of gold or pounds of zinc, as applicable, estimated to be produced for the period to arrive at AISC per gold ounce or zinc pound produced.

EBITDA is earnings before interest, taxes, depreciation, and amortization.

Free cash flow is cash flows from operations less all capital investments including closure costs.

FINANCIAL INSTRUMENTS

The Company has not entered into any specialized financial arrangements to minimize its investment risk, currency risk or commodity risk.

Warrants

Equity offerings were completed in previous periods whereby warrants were issued with exercise prices denominated in Canadian dollars. Where the warrants have an exercise price denominated in a currency which is different from the functional currency of the Company (US dollar), the warrants are treated as a financial liability. The Company's share purchase warrants denominated in Canadian dollars are classified and accounted for as a financial liability at fair value with changes in fair value recognized in net earnings. The Company uses the Black-Scholes Option Pricing Model to estimate the fair value of the Canadian dollar denominated warrants.

DISCLOSURE CONTROLS

The Chief Executive Officer ("**CEO**") and the Chief Financial Officer ("**CFO**") are responsible for establishing and maintaining a system of controls and procedures over the public disclosure of financial and non-financial information regarding the Company. Such controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported, on a timely basis, to senior management, including the CEO and the CFO, so that appropriate decisions can be made by them regarding public disclosure.

The system of disclosure controls and procedures includes, but is not limited to, the Company Disclosure Policy, Code of Business Ethics, the Whistleblower Policy, the effective functioning of the Audit Committee, procedures in place to systematically identify matters warranting consideration of disclosure by the Board of Directors and verification processes for individual financial and non-financial metrics and information contained in annual and interim filings, including the financial statements, MD&A's, AIF's and other documents and external communications.

As required by CSA Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures was conducted, under the supervision of Management, including the CEO and CFO, as of June 30, 2019. The evaluation included documentation review, enquiries and other procedures considered by Management to be appropriate in the circumstances. Based on that evaluation, the CEO and the CFO have concluded that the design and operation of the system of disclosure controls and procedures was effective as of June 30, 2019.

The CEO and CFO are also required, under NI 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings to file certifications of the interim filings. Copies of these certifications may be found on SEDAR at www.sedar.com.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for designing internal controls over financial reporting, or supervising their design, in order to provide reasonable assurance regarding the reliability of financial reporting and preparation of consolidated financial statements for reporting purposes in accordance with IFRS.

There was no change in the Company's internal controls over financial reporting that occurred during the second quarter of 2019 that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

The control framework has been designed by management with assistance by independent accounting consultants. Based on a review of its internal control procedures at the end of the period covered by this MD&A, the conclusion of management is that the internal control is appropriately designed and operating effectively as of June 30, 2019.

ADDITIONAL INFORMATION

Additional information about the Company including financial statements, press releases and other filings are available on SEDAR at www.sedar.com. The Company website is www.aquilaresources.com.