AQUILA RESOURCES

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2019

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.

AQUILA RESOURCES

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As at September 30, 2019 and December 31, 2018
(Unaudited, expressed in United States Dollars)

	September 30, 2019	December 31, 2018
ASSETS		
Current assets		
Cash and cash equivalents	**$ 6,259,715**	$ 14,388,039
Accounts receivable	**488,598**	474,735
Prepaid expenses	**82,989**	81,626
	6,831,302	14,944,400
Non-current assets		
Mineral property costs (Note 5)	**24,596,154**	24,433,181
Security deposits	**26,430**	26,430
Capital assets (Note 6)	**1,179,477**	856,315
	25,802,061	25,315,926
TOTAL ASSETS	**$ 32,633,363**	$ 40,260,326
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**$ 2,475,788**	$ 2,402,541
Reclamation obligation	**423,193**	423,193
Current portion of leases payable (Note 17)	**32,098**	-
Warrants payable (Note 11)	**227,672**	993,337
	3,158,751	3,819,071
Deferred revenue (Note 7, 8 &9)	**36,383,100**	34,270,289
Contingent consideration (Note 4)	**4,353,645**	4,528,173
Long-term portion of leases payable (Note 17)	**291,672**	-
Deferred share unit liability (Note 12)	**197,687**	93,887
Total liabilities	**44,384,855**	42,711,420
Shareholders' equity		
Share capital (Note 11a)	**75,386,115**	75,322,870
Contributed surplus (Note 11)	**9,272,628**	8,908,824
Warrants (Note 12)	**-**	75,914
Deficit	**(96,410,235)**	(86,758,702)
	(11,751,492)	(2,451,094)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$ 32,633,363**	$ 40,260,326

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

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

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

AQUILA RESOURCES

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS

For the three and nine months ended September 30, 2019 and 2018

(Unaudited, expressed in United States Dollars, except number of shares)

	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
EXPENSES				
Mineral property exploration expenses	**$ 2,168,491**	$ 1,935,172	**$ 5,376,659**	$ 5,377,127
Administrative expenses (Note 15)	**1,025,997**	1,289,473	**3,446,757**	3,699,132
Loss from operations	**$ 3,194,488**	$ 3,224,645	**$ 8,823,416**	$ 9,076,259
Other expenses (income)				
Net finance charges (Note 16)	**646,124**	516,045	**1,951,458**	1,551,572
(Gain) loss on foreign exchange	**(3,023)**	52,813	**(15,860)**	(275,623)
(Gain) loss on change in value of contingent consideration	**(476,224)**	(50,102)	**(313,736)**	412,403
Gain on change in value of warrants	**(444,123)**	(1,298,287)	**(793,745)**	(1,405,491)
Total loss and comprehensive loss	**$ 2,917,242**	$ 2,445,114	**$ 9,651,533**	$ 9,359,120
Loss per share				
Basic and diluted	**$ 0.01**	$ 0.01	**$ 0.03**	$ 0.03
Weighted average number of shares outstanding - basic and diluted	**338,284,556**	337,550,790	**338,066,644**	331,351,660

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

AQUILA RESOURCES

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
As at September 30, 2019 and 2018
(Unaudited, expressed in United States Dollars)

	Share Capital		Contributed			
	Number	**$**	**Surplus**	**Warrants**	**Deficit**	**Total**
Balance, December 31, 2017	331,139,296	73,975,825	8,584,435	135,876	(74,942,749)	7,753,387
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	$ (84,301,869)	$ (96,143)
Share-based compensation expense	-	-	101,882	-	-	101,882
Net loss for the period	-	-	-	-	(2,456,833)	(2,456,833)
Balance, December 31, 2018	337,974,556	$ 75,322,870	$ 8,908,824	$ 75,914	$ (86,758,702)	$ (2,451,094)
Shares issued on settlement of RSUs	82,500	-	-	-	-	-
Fair value on settlement of RSUs	-	15,925	(15,925)	-	-	-
Shares issued on exercise of options	227,500	25,669	-	-	-	25,669
Fair value on exercise of options	-	21,651	(21,651)	-	-	-
Fair value on expiry of warrants	-	-	75,914	(75,914)	-	-
Share-based compensation expense	-	-	325,466	-	-	325,466
Net loss for the period	-	-	-	-	(9,651,533)	(9,651,533)
Balance, September 30, 2019	**338,284,556**	**$ 75,386,115**	**$ 9,272,628**	**$ -**	**$ (96,410,235)**	**$ (11,751,492)**

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

AQUILA RESOURCES

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASHFLOWS
For the nine months ended September 30, 2019 and 2018
(Unaudited, expressed in United States Dollars)

	Nine months ended September 30, 2019	2018
Cash generated from (used in)		
Operating activities		
Net loss for the period	**$ (9,651,533)**	$ (9,359,120)
Items not affecting cash:		
Gain on change in fair value of warrants	**(793,745)**	(1,405,491)
Loss (gain) on change in fair value of contingent consideration	**(313,736)**	412,403
Unrealized foreign exchange loss (gain)	**168,138**	(234,644)
Share-based compensation	**425,638**	631,227
Non-cash interest on financing component of deferred revenue	**2,112,811**	1,712,431
Finance expense (Note 16 & 17)	**18,922**	-
Loss on disposal of building	**-**	30,897
Amortization	**97,232**	40,919
	$ (7,936,273)	$ (8,171,378)
Net change in non-cash working capital		
Accounts receivable	**(13,863)**	(5,058)
Prepaid expenses	**(1,363)**	21,761
Security deposit	**-**	10,203
Accounts payable and accrued liabilities	**73,247**	765,191
Net cash used in operating activities	**$ (7,878,252)**	$ (7,379,281)
Investing activities		
Acquisition of equipment	**(74,078)**	(151,361)
Increase in mineral properties	**(162,973)**	(112,150)
Net cash used in investing activities	**$ (237,051)**	$ (263,511)
Financing activities		
Repayment of lease liabilities	**(41,468)**	-
Exercise of options	**25,669**	404,552
Exercise of warrants	**-**	558,412
Net cash generated from financing activities	**$ (15,799)**	$ 962,964
Decrease in cash	**(8,131,102)**	(6,679,828)
Effect of foreign exchange on cash	**2,778**	(2,015)
Cash, beginning of period	**14,388,039**	17,152,663
Cash, end of period	**$ 6,259,715**	$ 10,470,820

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

(Expressed in United States Dollars, unless otherwise stated)

1. Nature of Operations and Going Concern

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 and development 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 (current assets less current liabilities excluding warrants payable) of the Company are as follows:

	September 30, 2019	December 31, 2018
Deficit	**$96,410,235**	$ 86,758,702
Working capital excluding warrants payable	**3,900,223**	12,118,666

These conditions indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern. Changes in future conditions could require a material write down of carrying values and meet its obligations as they fall due.

These unaudited condensed interim consolidated financial statements (the "interim financial statements") have been prepared on the basis 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 unaudited condensed consolidated financial statements. Such adjustments could be material. It is not possible to predict whether the Company will be able to raise adequate financing or to ultimately attain profitable levels of operations. In addition, the Company has taken steps to organize financing for the Company in the short term and have plans for funding options through the development phase of the mine. However, there can be no assurance over the ability to execute on such financing transactions.

2. Accounting Policies

Statement of Compliance

These interim 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 the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee. These interim financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2018.

These interim financial statements were authorized for issuance by the Board of Directors of the Company on November 7, 2019.

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 interim 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 these disclosed in the Company's audited consolidated financial statements for the year ended December 31, 2018 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 interim 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 interim 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 unaudited condensed interim consolidated statement of loss and comprehensive loss.

Changes in Accounting Policies

IFRS 16, Leases ("IFRS 16")

IFRS 16 was issued in January 2016, replaces IAS 17, Leases. The Company has adopted IFRS 16, Leases ("IFRS 16") on January 1, 2019. The objective of IFRS 16 is to recognize substantially all leases on balance sheet for lessees. IFRS 16 requires lessees to recognize a "right-of-use" asset and a lease liability calculated using a prescribed methodology. The Company has adopted IFRS 16 using the modified retrospective approach which does not require restatement of comparative periods. Comparative information has not been restated and continues to be reported under IAS 17, Leases ("IAS 17"), and IFRIC 4, Determining Whether an Arrangement Contains a Lease ("IFRIC 4"). The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately if they are different from those under IFRS 16.

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract contains the right to control the use of the identified asset, the Company assesses whether:

- The contract involves the use of an identified asset - this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- The Company has the right to obtain substantially all of the economic benefits from use of the asset through the period of use; and
- The Company has the right to direct the use of the asset. The Company has this right when it has the decision making rights that are most relevant to changing how and for what purpose the asset is used.

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative standalone prices. 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.

As a lessee, the Company recognizes a right-of-use asset, which is included in mineral property, plant and equipment, and a lease liability at the commencement date of a lease. The right-of-use asset is initially measured at cost, which is comprised of the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any decommissioning and restoration costs, less any lease incentives received.

The right-of-use asset is subsequently depreciated from the commencement date to the earlier of the end of the lease term, or the end of the useful life of the asset. In addition, the right-of-use asset may be reduced due to impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

A lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by the interest rate implicit in the lease, or if that rate cannot be readily determined, the incremental borrowing rate. Lease payments included in the measurement of the lease liability are comprised of:

- fixed payments, including in-substance fixed payments, less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee;

- exercise prices of purchase options if the Company are reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The lease liability is measured at amortized cost using the Company's incremental borrowing rate. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, or if there is a change in the estimate or assessment of the expected amount payable under a residual value guarantee, purchase, extension or termination option. Variable lease payments not included in the initial measurement of the lease liability are charged directly to net earnings.

The Company has elected not to recognize assets and lease liabilities for short-term leases, that have a lease term of 12 months or less, and leases of low-value assets. Lease payments associated with these leases will be recognized as an expense over the lease term.

3. 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, 2018.

4. 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, 2019, a time value of money calculation was utilized to value the contingent consideration. Each milestone payment was assessed separately. Key risks including permitting, feasibility study, commercial production and timing were each assigned a probability weighting based on the likelihood of occurrence. U.S. Department of the Treasury bond yields ranging from 1.74% to 1.92% were used as the risk-free rate. The milestone payments are estimated to commence in 2020 with commercial production starting in 2023. When performing a sensitivity analysis a 10% change in each of the probabilities, will impact on the fair value of the contingent consideration by an estimated $1,155,000 to $1,327,000. If another key assumption, being the commencement of the milestone payments and the commencement of production, were pushed by one year to 2021 and 2023, respectively, the combined impact on fair value would decrease by an estimated $55,800.

(Expressed in United States Dollars, unless otherwise stated)

The fair value of the contingent consideration is as follows:

Fair value at December 31, 2017	4,527,711
Loss on change in value of contingent consideration	386,022
Change due to foreign exchange	(385,560)
Fair value at December 31, 2018	$4,528,173
Loss on change in value of contingent consideration	(313,736)
Change due to foreign exchange	139,208
Fair value at September 30, 2019	$4,353,645

5. Mineral Property Costs

Total accumulated deferred mineral property costs are detailed as follows:

Year ended December 31, 2018	Balance, beginning of year	Additions	Mineral property write down	Balance, end of year
Back Forty Project	$ 23,973,051	$ 72,750	$ -	$ 24,045,801
Reef Gold Project	327,707	59,673	-	387,380
Aquila Nickel Project	7,800	3,900	(11,700)	0
	$ 24,308,558	**$ 136,323**	**$ (11,700)**	**$ 24,433,181**

Nine months ended September 30, 2019	**Balance, beginning of year**	**Additions**	**Mineral property write down**	**Balance, end of year**
Back Forty Project	$ 24,045,801	$ 68,750	$ -	$ 24,114,551
Reef Gold Project	387,380	44,223	-	431,603
Bend Gold Project	-	50,000	-	50,000
	$ 24,433,181	**$ 162,973**	**$ -**	**$ 24,596,154**

(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 Law Judge ("ALJ") convened an evidentiary hearing in April of 2018 on Petitioners' contested case challenges to the Mining Permit. The hearing ended in August 2018 and the hearing record is now closed. The ALJ's decision will stand as the final decision of the Michigan Department of Environment, Great Lakes, and Energy , 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.

On May 3, 2019, following 30 days of cumulative testimony, the ALJ 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 Non Ferrous Metallic Mining Statute. An evidentiary hearing on the contested case challenge to the Wetlands Permit began in June 2019.

Estimated lease, option and property acquisition costs related to the Back Forty Project for 2019 to 2023, for which the Company is materially liable, are as follows:

Year	Amount
2019	$ 13,000
2020	231,556
2021	246,391
2022	251,285
2023	256,179

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 2019 to 2023, which are at the Company's option, are as follows:

Year	Amount
2019	$ 218,673
2020	269,193
2021	641,198
2022	1,266,734
2023	6,000

(Expressed in United States Dollars, unless otherwise stated)

Bend

In May 2019, Aquila entered into a long-term mineral lease agreement with a party that owns the mineral rights on a portion of the Bend deposit.
Estimated lease and/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

6. Capital Assets

Cost	Land	Buildings	Furniture and Fixtures	Total
Balance December 31, 2018	$ 380,880	$ 500,740	$ 256,645	$ 1,138,265
Adjustment for IFRS 16 (Note 17)	-	331,262	15,054	346,316
Additions	(2,000)	14,625	61,453	74,078
Balance, September 30, 2019	**$ 378,880**	**$ 846,627**	**$ 333,152**	**$ 1,558,659**

Accumulated Depreciation	Land	Buildings	Furniture and Fixtures	Total
Balance, December 31, 2018	$ -	$ 173,171	$ 108,779	$ 281,950
Charge	-	36,266	60,966	97,232
Balance, September 30, 2019	**$ -**	**$ 209,437**	**$ 169,745**	**$ 379,182**

Net book value, December 31, 2018	$ 380,880	$ 327,569	$ 147,866	$ 856,315
Net book value, September 30, 2019	**$ 378,880**	**$ 637,190**	**$ 163,407**	**$ 1,179,477**

(Expressed in United States Dollars, unless otherwise stated)

7. Deferred Revenue

As at September 30, 2019, a breakdown of the deferred revenue is as follows:

Silver stream, net of costs	$ 17,254,692
IFRS 15 adjustments to opening balances for non-cash interest	2,339,985
IFRS 15 adjustments to opening balances	(518,564)
Notional non-cash interest on silver stream	1,188,297
Gold stream, net of costs	14,675,000
IFRS 15 adjustments to opening balances	(1,104,496)
Notional non-cash interest on gold stream	435,375
Balance at December 31, 2018	$ 34,270,289
Notional non-cash interest on silver stream	946,740
Notional non-cash interest on gold stream	1,166,071
Balance at September 30, 2019	**$36,383,100**

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.

8. Osisko Financing and Streaming Agreement

On November 10, 2017, the Company completed a financing transaction with Osisko Bermuda Limited ("OBL"), a wholly owned subsidiary of Osisko Gold Royalties Ltd (TSX & NYSE: OR) ("Osisko"), pursuant to which OBL has agreed to commit approximately $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.

On June 28, 2019, the Company announced that Orion Mine Finance (and its affiliated funds) ("Orion") and Osisko completed a transaction whereby Orion purchased from Osisko all 49,651,857 common shares of the Company owned by Osisko as part of a larger share repurchase and secondary offering transaction first announced by Osisko on June 25, 2019. At June 30, 2019, Osisko held no common shares of the Company and as such, Osisko no longer has the right to nominate a director (December 31, 2018 – 14.5%). The proceeds received from this transaction were recorded as an equity transaction. Refer to note 11(a) for further information.

b) Gold Stream

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

- $7.5 million was received on closing of the Stream Agreement;
- $7.5 million upon receipt by Aquila of all material permits required for the development and operation of the Project, and receipt of a positive feasibility study. These funds were received in October 2018;
- $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 and is also shown as deferred revenue. 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, 2019.

c) Capital commitment fee

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

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 were deducted pro rata from the value assigned to the shares and warrants;
- the gold stream were recognized as an expense and included as transaction costs in the statement of net loss and comprehensive loss. Under IFRS 15, these costs have been offset against the deferred revenue balance as part of the opening balance adjustments on the statement of financial position.

9. Orion Financing and Streaming Agreement

On March 31, 2015, the Company closed a financing transaction with 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, 2019, Orion held 28.7% of the common shares of the Company (December 31, 2018 – 12%). 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 September 30, 2019. An additional $653,692 was added to the value of the deferred revenue on the partial exercise of the Orion warrants. 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 and show as deferred revenue on the Statement of Financial Position. Osisko has been provided a general security agreement over the subsidiaries of Aquila that are directly involved with development of the Back Forty project. Where the market price of silver is greater than $4, the difference realized from the sale of the silver will be applied against any deposit received from Osisko.

(Expressed in United States Dollars, unless otherwise stated)

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, 2019.

10. Share Capital

a) Authorized

Unlimited number of common shares.

Issued and outstanding:

	Number of Shares	Total
Balance, December 31, 2017	331,139,296	$ 73,975,825
Shares issued on exercise of warrants (i)	3,425,260	558,412
Fair value transferred on exercise of warrants (i)	-	55,625
Shares issued on exercise of options (ii)	2,727,500	321,624
Fair value transferred on exercise of options (ii)	-	258,754
Balance, September 30, 2018	337,292,056	$ 75,170,240

	Number of Shares	Total
Balance, December 31, 2018	337,974,556	$ 75,322,870
Shares issued on exercise of options (i)	227,500	25,669
Fair value transferred on exercise of options (i)	-	21,651
Shares issued on exercise of RSUs (ii)	82,500	-
Fair value transferred on exercise of RSUs (ii)	-	15,925
Balance, September 30, 2019	**338,284,556**	**$ 75,386,115**

(Expressed in United States Dollars, unless otherwise stated)

i) During the nine months ended September 30, 2019, 227,500 options were exercised at a price of $ 15 cents per warrant, each exchangeable for one common share, for gross proceeds of C$34,125 ($25,669). The relative fair value assigned to the stock options on issuance of C$23,910 ($21,651) was transferred from contributed surplus to share capital.

ii) During the nine months ended September 30, 2019, 82,500 restricted share units options were exercised, each exchangeable for one common share. The relative fair value assigned to the restricted share units on issuance of C$20,625 ($15,925) 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, 2019 are presented below:

	Number of Stock Options	Weighted Average Exercise Price
Balance - January 1, 2018	20,710,250	C$ 0.18
Granted	600,000	0.25
Granted	1,250,000	0.26
Exercised	(3,410,000)	0.15
Forfeited options	(146,250)	0.22
Balance, September 30, 2018	19,004,000	$ 0.19

	Number of Stock Options	Weighted Average Exercise Price
Balance - January 1, 2019	21,919,058	$ 0.19
Granted (i)	300,000	0.20
Exercised	(227,500)	0.15
Expired	(312,500)	0.15
Balance, September 30, 2019	**21,679,058**	**$ 0.19**

(Expressed in United States Dollars, unless otherwise stated)

(i) On June 24, 2019, the Company granted 300,000 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$ 20 cents until June 24, 2027.

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 79%, risk free interest rate 1.99%, and an expected life of 4 years. The stock options were assigned a value of $26,914, of which $10,081 was charged to loss with the offset to contributed surplus during the nine months ended September 30, 2019. The remaining fair value balance of $16,832 is to be charged to loss in future periods.

As at September 30, 2019, 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, 2022	6,200,000 *	6,200,000	C$ 0.15	2.29
April 6, 2023	3,100,000	3,100,000	0.19	3.52
June 25, 2023	1,400,000	1,400,000	0.19	3.74
January 11, 2024	1,500,000	1,500,000	0.19	4.28
February 8, 2024	740,000	740,000	0.15	4.36
May 11, 2024	50,000	50,000	0.23	4.61
February 10, 2025	2,179,000	1,761,500	0.265	5.36
September 17, 2025	850,000	637,500	0.25	5.96
January 11, 2026	910,000	610,000	0.25	6.28
March 5, 2026	1,250,000	625,000	0.26	6.43
November 13, 2026	500,000	125,000	0.13	7.12
December 17, 2026	2,700,058	1,612,558	0.16	7.21
June 24, 2027	300,000	75,000	0.20	7.73
	21,679,058	18,361,558	$ 0.19	4.43

* 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 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 the 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.

(Expressed in United States Dollars, unless otherwise stated)

	Number of Restricted Share Units	Fair Value on Issuance
Balance - January 1, 2018	4,680,000	C$ 0.23
Granted	150,000	0.25
Granted	750,000	0.26
Balance, September 30, 2018	5,580,000	C$ 0.23

	Number of Restricted Share Units	Fair Value on Issuance
Balance - January 1, 2019	6,337,389	C$ 0.21
Equity settled	(82,500)	0.25
Balance, September 30, 2019	**6,254,889**	**C$ 0.21**

11. Warrants

The movements in the number and estimated fair value of outstanding share purchase warrants for the nine months ended September 30, 2019 are as follows:

	2019		2018	
		Weighted average exercise price		Weighted average exercise price
Balance, January 1	**31,551,545**	**C$ 0.31**	34,493,420	C$ 0.31
Expired	**(1,249,414)**	**0.30**	(382,000)	0.15
Exercised	**-**	**-**	(2,559,875)	0.15
Balance, September 30,	**30,302,131**	**C$ 0.32**	31,551,545	C$ 0.31

(Expressed in United States Dollars, unless otherwise stated)

The exercise price, expiry date, and warrants issued and outstanding as at September 30, 2019 are as follows:

Number of warrants outstanding	Exercise Price	Expiry Date	Weighted average life (yrs)
18,008,862	C$ 0.30	February 6, 2020	0.35
12,293,269	0.34	May 10, 2021	1.62
30,302,131	**C$ 0.32**		**0.87**

12. Deferred Share Units Liability

The Company introduced a deferred share unit plan ("the DSU plan") for the benefit of directors 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, 2019, 230,769 units were issued to directors in lieu of receiving director fees in cash. A charge of $197,687 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, 2018	-	$	-
Granted	149,038		30,055
Granted	129,165		29,427
Granted	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

	Number of Deferred Share Units		Fair Value on Issuance
Balance - January 1, 2019	640,431	$	93,887
Granted	262,820		33,674
Granted	467,105		67,814
Granted	375,000		47,338
Change due to foreign exchange			2,263
Change due to revaluation			(47,289)
Balance, September 30, 2019	**1,745,356**	**$**	**197,687**

13. Derivative Liabilities

During the nine months ended September 30, 2019, no equity offerings were completed whereby any warrants or broker warrants were issued with exercise prices denominated in Canadian dollars (December 31, 2018 – no warrants were issued in Canadian dollars). Where the warrants have an exercise price denominated in a currency which is different from the functional currency of the Company (US dollar), the warrants are treated as a financial liability. Broker warrants are accounted as equity. The Company's share purchase warrants are classified and accounted for as a financial liability at fair value with changes in fair value recognized in net earnings. The warrant derivative liability is classified as level 2 in the fair value hierarchy. As of September 30, 2019, the Company had 30,302,101 (December 31, 2018 – 30,302,101) warrants outstanding which are classified and accounted for as a financial liability. The Company uses the Black-Scholes Option Pricing Model to estimate the fair value of the Canadian dollar denominated warrants. See note 11(a) for further information.

For the nine months ended September 30,	**2019**	2018
Risk-free interest rate	**1.59%**	2.19%
Expected life	**0.35-1.62 years**	0.35-2.62 years
Price volatility	**68-75%**	58-71%
Share price (C$)	**0.15**	0.23
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.

(Expressed in United States Dollars, unless otherwise stated)

14. 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 three and nine months ended September 30, 2019, 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,	
	2019	**2018**	**2019**	**2018**
Short-term compensation and benefits	**$ 187,583**	$ 192,409	**$ 559,033**	$ 585,977
Share-based payments (fair value of stock option benefits and share based payments)	**99,891**	116,828	**410,441**	399,447
	$ 287,474	$ 309,237	**$ 969,474**	$ 985,424

During the nine months ended September 30, 2019, the Company had expenditures in the amount of $70,843 (2018 - $61,602) for shared office costs paid to a partnership in which one of the Company's directors is an owner.

15. Administrative Expenses

	For the three months ended September 30,		For the nine months ended September 30,	
	2019	**2018**	**2019**	2018
Salaries and benefits	**$ 617,996**	$ 547,247	**$ 1,803,927**	$ 1,545,343
Office, general and administration	**176,438**	276,959	**634,918**	729,310
Share-based compensation	**105,187**	126,865	**425,638**	631,227
Travel and promotion	**30,518**	85,584	**196,830**	240,671
Professional fees	**19,669**	161,091	**128,892**	297,364
Amortization	**32,894**	17,139	**97,232**	40,919
Filing and regulatory fees	**8,691**	9,727	**71,548**	78,696
Rent	**25,174**	20,212	**70,843**	61,602
Directors' fees	**9,430**	14,350	**16,929**	43,701
	-	30,299	**-**	30,299
Total administrative expenses	**$ 1,025,997**	$ 1,289,473	**$ 3,446,757**	$ 3,699,132

(Expressed in United States Dollars, unless otherwise stated)

16. Finance Charges

	For the three months ended September 30,		For the nine months ended September 30,	
	2019	**2018**	**2019**	2018
Interest on financing component of deferred revenue (Note 8)	**$ 682,809**	$ 575,538	**$ 2,112,811**	$ 1,712,431
Interest on lease obligations (Note 17)	**6,166**	-	**18,922**	-
Interest income	**(42,851)**	(59,493)	**(180,275)**	(160,859)
Total finance charges	**$ 646,124**	$ 516,045	**$ 1,951,458**	$ 1,551,572

17. IFRS 16 Transition Adjustments

The Company adopted IFRS 16 as at January 1, 2019 in accordance with the transitional provisions outlined in the standard, using the modified retrospective approach. On adoption of IFRS 16, the Company recognized a right-of-use asset of $346,316, measured at the amount equal to the lease liability and discounted to January 1, 2019. As well, the Company recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019. The Company's weighted average incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 7.5%.

The following table reconciles the Company's operating lease obligations as December 31, 2018 as previously disclosed to the lease obligations recognized on initial application of IFRS 16 at January 1, 2019.

Operating lease commitments at December 31, 2018	$ 3,538,572
Less: mineral leases	(3,298,572)
Add: contracts not previously assessed as a lease	212,407
Less: discounting using the lessee's incremental borrowing rate	(106,091)
Discounted leases recognized at January 1, 2019	**$ 346,316**
Composed of:	
Current portion of lease liabilities	30,347
Long-term portion of lease liabilities	315,969

The recognized right-of-use assets relate to the following types of assets (see Note 6):

	September 30, 2019	January 1, 2019
Buildings	$ 305,780	$ 331,262
Furniture and fixtures	10,036	15,054
	$ 315,816	$ 346,316

Right-of-use assets were measured at the amount equal to the lease liability at the date of initial application.

The adoption of IFRS 16 did not have a significant impact to the balance sheet, however, did result in the recognition of additional right of use assets and lease liabilities on the balance sheet by $346,316 at January 1,

2019. There was no impact on deficit at January 1, 2019. Depreciation increased by $30,500 and interest expense increased by $18,922 for the nine months ended September 30, 2019. The Company also expects cash flows from operating activities to increase under IFRS 16 as lease payments for substantially all leases will be recorded as financing outflows in the consolidated statement of cash flows as opposed to operating cash flows.