AQUILA RESOURCES

# CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

**FOR THE THREE MONTHS ENDED MARCH 31, 2020**

**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 March 31, 2020 and December 31, 2019**
**(Unaudited, expressed in United States Dollars)**

| | March 31, 2020 | December 31, 2019 |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash and cash equivalents | **$ 2,503,108** | $ 4,010,838 |
| Accounts receivable | **469,399** | 504,895 |
| Prepaid expenses | **76,953** | 114,050 |
| | **3,049,460** | 4,629,783 |
| **Non-current assets** | | |
| Mineral property costs (Note 5) | **24,628,550** | 24,621,827 |
| Security deposits | **26,538** | 26,538 |
| Capital assets (Note 6) | **996,633** | 1,012,157 |
| | **25,651,721** | 25,660,522 |
| **TOTAL ASSETS** | **$ 28,701,181** | $ 30,290,305 |
| **LIABILITIES AND SHAREHOLDERS' DEFICIENCY** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities | **$ 1,798,142** | $ 2,404,952 |
| Reclamation obligation | **628,141** | 628,141 |
| Current portion of leases payable | **45,249** | 44,411 |
| Warrants payable (Note 11 and 13) | **69,911** | 254,446 |
| | **2,541,443** | 3,331,950 |
| Deferred revenue (Note 7, 8 &9) | **31,897,007** | 31,725,873 |
| Contingent consideration (Note 4) | **4,232,148** | 4,393,889 |
| Long-term portion of leases payable | **109,112** | 120,743 |
| Deferred share unit liability (Note 12) | **175,625** | 271,744 |
| **Total liabilities** | **38,955,335** | 39,844,199 |
| **Shareholders' deficiency** | | |
| Share capital (Note 10a) | **75,425,431** | 75,409,506 |
| Contributed surplus (Note 10) | **9,370,257** | 9,325,832 |
| Warrants (Note 11) | **-** | - |
| Deficit | **(95,049,842)** | (94,289,232) |
| | **(10,254,154)** | (9,553,894) |
| **TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIENCY** | **$ 28,701,181** | $ 30,290,305 |

*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 months ended March 31, 2020 and 2019**
**(Unaudited, expressed in United States Dollars, except number of shares)**

| | Three months ended March 31, 2020 | Three months ended March 31, 2019 |
|---|---|---|
| **EXPENSES** | | |
| Mineral property exploration expenses | **$ 712,160** | $ 1,043,283 |
| Administrative expenses (Note 15) | **804,227** | 1,250,683 |
| **Loss from operations** | **$ 1,516,387** | $ 2,293,966 |
| **Other expenses (income)** | | |
| Net finance expense (income) (Note 16) | **170,598** | 696,666 |
| Gain on foreign exchange | **(984,234)** | (91,999) |
| Loss on change in value of contingent consideration | **220,913** | 63,768 |
| Gain on change in value of warrants | **(163,054)** | (47,058) |
| **Total loss and comprehensive loss** | **$ 760,610** | $ 2,915,343 |
| **Loss per share** | | |
| Basic and diluted | **$ -** | $ 0.01 |
| Weighted average number of shares outstanding - basic and diluted | **338,541,776** | 338,050,556 |

*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 March 31, 2020 and December 31, 2019**
**(Expressed in United States Dollars)**

| | Share Capital | | Contributed | | | |
|---|---|---|---|---|---|---|
| | **Number** | **$** | **Surplus** | **Warrants** | **Deficit** | **Total** |
| 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 | - | - | 113,042 | - | - | 113,042 |
| Net loss for the period | - | - | - | - | (2,915,343) | (2,915,343) |
| Balance, March 31, 2019 | 338,284,556 | $ 75,386,115 | $ 9,060,204 | $ - | $ (89,674,045) | $ (5,227,726) |
| Shares issued on settlement of RSUs | 189,348 | - | - | - | - | - |
| Fair value on settlement of RSUs | - | 23,391 | (23,391) | - | - | - |
| Share-based compensation expense | - | - | 289,019 | - | - | 289,019 |
| Net loss for the period | - | - | - | - | (4,615,187) | (4,615,187) |
| Balance, December 31, 2019 | 338,473,904 | $ 75,409,506 | $ 9,325,832 | $ - | $ (94,289,232) | $ (9,553,894) |
| Shares issued on settlement of RSUs | 82,500 | - | - | - | - | - |
| Fair value on settlement of RSUs | - | 15,925 | (15,925) | - | - | - |
| Share-based compensation expense | - | - | 60,350 | - | - | 60,350 |
| Net loss for the period | - | - | - | - | (760,610) | (760,610) |
| **Balance, March 31, 2020** | **338,556,404** | **$ 75,425,431** | **$ 9,370,257** | **$ -** | **$ (95,049,842)** | **$ (10,254,154)** |

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

AQUILA RESOURCES

**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASHFLOWS**
**For the three months ended March 31, 2020**
**(Expressed in United States Dollars)**

| | Three months ended March 31, 2020 | Three months ended March 31, 2019 |
|---|---|---|
| **Cash generated from (used in)** | | |
| **Operating activities** | | |
| Net loss for the period | **$ (760,610)** | $ (2,915,343) |
| Items not affecting cash: | | |
| Gain on change in fair value of warrants | **(163,054)** | (47,058) |
| Loss on change in fair value of contingent consideration | **220,913** | 63,768 |
| Unrealized foreign exchange loss (gain) | **(419,970)** | 116,169 |
| Share-based compensation | **(16,835)** | 144,481 |
| Non-cash interest on financing component of deferred revenue | **171,134** | 747,193 |
| Finance expense (Note 16) | **3,029** | 6,448 |
| Amortization | **16,620** | 31,575 |
| | **$ (948,773)** | $ (1,852,767) |
| Net change in non-cash working capital | | |
| Accounts receivable | **35,496** | 1,599 |
| Prepaid expenses | **37,097** | 5,191 |
| Accounts payable and accrued liabilities | **(606,810)** | (533,304) |
| **Net cash used in operating activities** | **$ (1,482,990)** | $ (2,379,281) |
| **Investing activities** | | |
| Acquisition of equipment | **(1,096)** | (37,677) |
| Increase in mineral properties | **(6,723)** | - |
| **Net cash used in investing activities** | **$ (7,819)** | $ (37,677) |
| **Financing activities** | | |
| Repayment of lease liabilities | **(13,822)** | (13,824) |
| Exercise of options | **-** | 25,669 |
| **Net cash generated from financing activities** | **$ (13,822)** | $ 11,845 |
| **Decrease in cash** | **(1,504,631)** | (2,405,113) |
| **Effect of foreign exchange on cash** | **(3,099)** | 794 |
| **Cash, beginning of period** | **4,010,838** | 14,388,039 |
| **Cash, end of period** | **$ 2,503,108** | $ 11,983,720 |

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

(Unaudited, 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:

| | **March 31, 2020** | December 31, 2019 |
|---|---|---|
| Deficit | **$95,049,842** | $94,289,232 |
| Working capital excluding warrants payable | **577,928** | 1,552,279 |

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 an inability to 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 interim 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, 2019.

These interim financial statements were authorized for issuance by the Board of Directors of the Company on May 14, 2020.

### 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, 2019 except for deferred share units (Note 12), warrants (Note 13) and contingent consideration (Note 4) 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 consolidated statement of loss and comprehensive loss.

## 3. Critical Accounting Estimates and Judgments

Areas of judgment that have the most significant effect on the amounts recognized in the interim financial statements are disclosed in Note 3 of the Company's consolidated financial statements for the year ended December 31, 2019. There have been no significant changes to the areas of estimation and judgement during the three months ended March 31, 2020.

## 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 three months ended March 31, 2020, 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 0.23% to 0.37% were used as the risk-free rate. The milestone payments are estimated to commence in 2021 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 $1,133,000 to $1,296,000. If another key assumption, being the commencement of the milestone payments and the commencement of production, were pushed by one year to 2022 and 2024, respectively, the combined impact on fair value would decrease by an estimated $221,900.

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

The fair value of the contingent consideration is as follows:

| | |
|---|---|
| Fair value at December 31, 2018 | $4,527,711 |
| Loss on change in value of contingent consideration | (358,171) |
| Change due to foreign exchange | 223,887 |
| Fair value at December 31, 2019 | $4,393,427 |
| Gain on change in value of contingent consideration | 220,913 |
| Change due to foreign exchange | (382,192) |
| Fair value at March 31, 2020 | $4,232,148 |

## 5. Mineral Property Costs

Total accumulated deferred mineral property costs are detailed as follows:

| Year ended December 31, 2019 | Balance, beginning of year | Additions | Balance, end of year |
|---|---|---|---|
| Back Forty Project | $ 24,045,801 | $ 68,750 | $ 24,114,551 |
| Reef Gold Project | 387,380 | 69,896 | 457,276 |
| Bend Gold Project | - | 50,000 | 50,000 |
| | **$ 24,433,181** | **$ 188,646** | **$ 24,621,827** |

| **Year ended March 31, 2020** | **Balance, beginning of year** | **Additions** | **Balance, end of year** |
|---|---|---|---|
| Back Forty Project | $ 24,114,551 | $ 1,000 | $ 24,115,551 |
| Reef Gold Project | 457,276 | 5,723 | 462,999 |
| Bend Gold Project | 50,000 | - | 50,000 |
| | **$ 24,621,827** | **$ 6,723** | **$ 24,628,550** |

### 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.

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

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. Rebuttal testimony was completed in October 2019. The Company expects briefings and a final decision to follow in 2020.

In November 2018, the Company submitted amendments to its Mining Permit 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. In December 2019, the Company announced that EGLE approved amendments to Aquila's Mining Permit and its Air Permit following an extensive environmental and technical review process. In February 2020, an administrative contested case challenge to the Mining Permit amendments was filed.

Estimated lease, option and property acquisition costs related to the Back Forty Project for 2020 to 2024, for which the Company is materially liable, are as follows:

| Year | Amount |
|---|---|
| 2020 | $ 231,556 |
| 2021 | 246,391 |
| 2022 | 251,285 |
| 2023 | 256,179 |
| 2024 | 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 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 2020 to 2024, which are at the Company's option, are as follows:

| Year | Amount |
|---|---|
| 2020 | $ 244,020 |
| 2021 | 432,548 |
| 2022 | 661,234 |
| 2023 | 6,000 |
| 2024 | 6,000 |

(Unaudited, 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 Bend for 2020 to 2024, which are at the Company's option, are as follows:

| Year | Amount |
|---|---|
| 2020 | $ - |
| 2021 | - |
| 2022 | 25,000 |
| 2023 | 25,000 |
| 2024 | 25,000 |

## 6. Capital Assets

| Cost | Land | Buildings | Furniture and Fixtures | Total |
|---|---|---|---|---|
| Balance December 31, 2019 | $ 378,880 | $ 706,677 | $353,417 | $1,438,974 |
| Additions | - | - | 1,096 | 1,096 |
| **Balance, March 31, 2020** | **$ 378,880** | **$ 706,677** | **$354,513** | **$1,440,070** |

| Accumulated Depreciation | Land | Buildings | Furniture and Fixtures | Total |
|---|---|---|---|---|
| Balance, December 31, 2019 | $ - | $ 235,462 | $191,355 | $ 426,817 |
| Charge | - | 6,951 | 9,669 | 16,620 |
| **Balance, March 31, 2020** | **$ -** | **$ 242,413** | **$201,024** | **$ 443,437** |

| | | | | |
|---|---|---|---|---|
| Net book value, December 31, 2019 | $ 378,880 | $ 471,215 | $162,062 | $1,012,157 |
| **Net book value, March 31, 2020** | **$ 378,880** | **$ 464,264** | **$153,489** | **$ 996,633** |

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

## 7. Deferred Revenue

As at March 31, 2020, a breakdown of the deferred revenue is as follows:

| | |
|---|---|
| Balance at December 31, 2018 | $34,270,289 |
| Adjustment to notional non-cash interest on silver stream | (2,359,767) |
| Adjustment to notional non-cash interest on gold stream | (184,649) |
| Balance at December 31, 2019 | $31,725,873 |
| Adjustment to notional non-cash interest on silver stream | 73,343 |
| Adjustment to notional non-cash interest on gold stream | 97,791 |
| **Balance at March 31, 2020** | **$31,897,007** |

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.

These adjustments to the non-cash interest are made on a quarterly basis. The significant financing component is adjusted for timing in receipt of payments and timing for estimated production as well as changes in the long-term commodity price estimates. In the prior year, the Company adjusted the timing of the receipt of payments as well as the timing for estimated production. As a result, the significant financing component decreased in value and a non-cash credit was included in the statement of loss and comprehensive loss for the year ended December 31, 2019. These adjustments will continue to take place as the Company continues to refine its production plans and the timing of receipt of payments is known.

## 8. Osisko Financing and Streaming Agreement

In November 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 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, 2021. 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.

In June 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 in June 2019. At March 31, 2020, Osisko held no common shares of the Company and as such, Osisko no longer has the right to nominate a director (December 31, 2019 – no common shares). 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 March 31, 2020.

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; and
- 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

In March 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. In June 2016, Orion exercised 13,461,539 warrants of its warrants for gross proceeds to the Company of $2,557,692. At March 31, 2020, Orion held 28.7% of the common shares of the Company (December 31, 2019 – 28.7%). 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 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 March 31, 2020. 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.

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 March 31, 2020.

## 10. Share Capital

a) Authorized

Unlimited number of common shares.

Issued and outstanding:

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

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

| | Number of Shares | Total |
|---|---|---|
| Balance, December 31, 2019 | 338,473,904 | $ 75,409,506 |
| Shares issued on exercise of RSUs (i) | 82,500 | - |
| Fair value transferred on exercise of RSUs (i) | - | 15,925 |
| **Balance, March 31, 2020** | **338,556,404** | **$ 75,425,431** |

i) During the three months ended March 31, 2020, 82,500 restricted share unit 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 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.

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

A summary of the Company's stock option, and changes during the three months ended March 31, 2020 are presented below:

| | Number of Stock Options | Weighted Average Exercise Price |
|---|---|---|
| Balance - January 1, 2019 | 21,919,058 | $ 0.16 |
| Exercised | (227,500) | 0.15 |
| Expired | (312,500) | 0.15 |
| **Balance, March 31, 2019** | **21,379,058** | **$ 0.16** |

| | Number of Stock Options | Weighted Average Exercise Price |
|---|---|---|
| Balance - January 1, 2020 | 21,679,058 | $ 0.19 |
| Expired | (50,000) | 0.23 |
| **Balance, March 31, 2020** | **21,629,058** | **$ 0.19** |

As at March 31, 2020, 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 | 1.79 |
| April 6, 2023 | 3,100,000 | 3,100,000 | 0.19 | 3.02 |
| June 25, 2023 | 1,400,000 | 1,400,000 | 0.19 | 3.24 |
| January 11, 2024 | 1,500,000 | 1,500,000 | 0.19 | 3.78 |
| February 8, 2024 | 740,000 | 740,000 | 0.15 | 3.86 |
| February 10, 2025 | 2,179,000 | 2,179,000 | 0.265 | 4.86 |
| September 17, 2025 | 850,000 | 637,500 | 0.25 | 5.46 |
| January 11, 2026 | 910,000 | 760,000 | 0.25 | 5.78 |
| March 5, 2026 | 1,250,000 | 937,500 | 0.26 | 5.93 |
| November 13, 2026 | 500,000 | 250,000 | 0.13 | 6.62 |
| December 17, 2026 | 2,700,058 | 1,975,058 | 0.16 | 6.71 |
| June 24, 2027 | 300,000 | 75,000 | 0.20 | 7.23 |
| | 21,629,058 | 19,679,058 | $ 0.19 | 3.93 |

* 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 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 cannot 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.

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

| | **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, March 31, 2019** | **6,254,889** | **C$ 0.21** |

| | **Number of Restricted Share Units** | **Fair Value on Issuance** |
|---|---|---|
| Balance - January 1, 2020 | 6,065,181 | C$ 0.21 |
| Equity settled | (82,500) | 0.25 |
| **Balance, March 31, 2020** | **5,982,681** | **C$ 0.21** |

## 11. Warrants

The movements in the number of outstanding share purchase warrants for the three months ended March 31, 2020 are as follows:

| | **2020** | | 2019 | |
|---|---|---|---|---|
| | | **Weighted average exercise price** | | Weighted average exercise price |
| Balance, January 1 | **30,302,131** | **C$ 0.31** | 31,551,545 | C$ 0.31 |
| Expired | **(18,008,862)** | **0.30** | (1,249,414) | 0.30 |
| **Balance, March 31,** | **12,293,269** | **C$ 0.34** | 30,302,131 | C$ 0.32 |

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

The exercise price, expiry date, and warrants issued and outstanding as at March 31, 2020 are as follows:

| Number of warrants outstanding | Exercise Price | Expiry Date | Weighted average life (yrs) |
|---|---|---|---|
| 12,293,269 | 0.34 | May 10, 2021 | 1.11 |
| **12,293,269** | **$ 0.34** | | **1.11** |

## 12. Deferred Share Units Liability

The Company maintains a deferred share unit plan ("the DSU plan") for the benefit of directors and officers 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 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 cannot 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 three months ended March 31, 2020, all director compensation was temporarily suspended. As such, no units were issued to directors in lieu of receiving director fees in cash.

| | Number of Deferred Share Units | Fair Value on Issuance |
|---|---|---|
| Balance - January 1, 2019 | 640,431 | $ 93,887 |
| Granted | 230,769 | 33,674 |
| Change due to foreign exchange | | 1,959 |
| Change due to revaluation | | (2,396) |
| **Balance, March 31, 2019** | **871,200** | **$ 127,124** |

| | Number of Deferred Share Units | Fair Value on Issuance |
|---|---|---|
| Balance - January 1, 2020 | 2,076,238 | $ 271,744 |
| Change due to foreign exchange | | (77,267) |
| Change due to revaluation | | (18,852) |
| **Balance, March 31, 2020** | **2,076,238** | **$ 175,625** |

## 13. Derivative Liabilities

During the three months ended March 31, 2020, no equity offerings were completed whereby any warrants or broker warrants were issued with exercise prices denominated in Canadian dollars (December 31, 2019 – 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 March 31, 2020, the Company had 12,293,269 (December 31, 2019 – 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 three months ended March 31,** | **2020** | 2019 |
|---|---|---|
| Risk free interest rate | **0.46%** | 1.56% |
| Expected life | **1.11 years** | 0.85-2.12 years |
| Price volatility | **79%** | 70-87% |
| Share price (C$) | **0.12** | 0.20 |
| 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.

## 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 months ended March 31, 2020, director's fees, professional fees and other compensation of directors and key management personnel were as follows:

| **For the three months ended March 31,** | **2020** | **2019** |
|---|---|---|
| Short-term compensation and benefits | **$ 175,035** | $ 186,295 |
| Share-based payments (fair value of stock option benefits and share based payments) | **57,871** | 138,872 |
| | **$ 232,906** | $ 325,167 |

During the three months ended March 31, 2020, the Company had expenditures in the amount of $29,022 (2019 - $22,649) for shared office costs paid to a partnership in which one of the Company's directors is an owner.

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

## 15. Administrative Expenses

| For the three months ended March 31, | 2020 | 2019 |
|---|---|---|
| Salaries and benefits | **$ 588,355** | $ 605,052 |
| Office, general and administration | **99,945** | 263,996 |
| Filing and regulatory fees | **36,818** | 37,848 |
| Professional fees | **29,607** | 60,076 |
| Rent | **29,022** | 22,649 |
| Travel and promotion | **20,695** | 75,603 |
| Amortization | **16,620** | 31,575 |
| Share-based compensation | **(16,835)** | 144,481 |
| Directors' fees | **-** | 9,403 |
| **Total administrative expenses** | **$ 804,227** | $1,250,683 |

## 16. Finance Charges

| For the three months ended March 31, | 2020 | 2019 |
|---|---|---|
| Adjustment to interest on financing component of deferred revenue (Note 7) | **$ 171,134** | $ 747,193 |
| Interest on lease obligations | **3,029** | 6,448 |
| Interest income | **(3,565)** | (56,975) |
| Total finance charges | **$ 170,598** | $ 696,666 |

## 17. Financial Risk Management

In the normal course of business, the Company is exposed to a number of financial risks that can affect its operating performance. These risks are: credit risk, liquidity risk and market risk. The Company's overall risk management program and prudent business practices seek to minimize any potential adverse effects on the Company's financial performance.

The interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements. They should be read in conjunction with the annual consolidated financial statements as at December 31, 2019. There have been no changes in the risk management or in any risk management policies since year end, except as noted below:

COVID-19 Pandemic

The rapid spread of the COVID-19 virus, which was declared by the World Health Organization to be a pandemic on March 11, 2020, and actions taken globally in response to COVID-19, have significantly disrupted business activities throughout the world. The Company's business relies, to a certain extent, on free movement of goods, services, and capital within Canada and the United States, which has been significantly restricted as a result of the COVID-19 pandemic.

Given the ongoing and dynamic nature of the circumstances surrounding COVID-19, it is difficult to predict how significant the impact of COVID-19,including any responses to it, will be on the economy and the Company’s business in particular, or for how long any disruptions are likely to continue. The extent of such impact will depend on future developments, which are highly uncertain, rapidly evolving and difficult to predict, including new information which may emerge concerning the severity of COVID-19 and additional actions which may be taken to contain COVID-19, as well as the timing of the re-opening of the economy in Canada. Such further developments could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.