Aquila
Resources Inc.

FOR THE THREE MONTHS ENDED MARCH 31, 2016
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in United States Dollars, unless otherwise stated)
(Unaudited)

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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 interim 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 Inc.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at March 31, 2016 and December 31, 2015

(Unaudited, expressed in United States Dollars)

	March 31, 2016	December 31, 2015
ASSETS		
Current assets		
Cash and cash equivalents	**$ 1,587,950**	$ 3,274,160
Accounts receivable	**206,158**	164,067
Prepaid expenses	**42,224**	54,453
	1,836,332	3,492,680
Non-current assets		
Mineral property costs (Note 4)	**23,228,661**	23,197,092
Security deposits	**35,982**	35,982
Capital assets (Note 5)	**802,357**	773,324
TOTAL ASSETS	**$ 25,903,332**	$ 27,499,078
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**$ 1,026,173**	$ 1,216,488
Warrants payable (Note 8)	**505,762**	727,465
	1,531,935	1,943,953
Silver stream (Note 6)	**12,350,000**	12,350,000
Contingent consideration (Notes 3 & 6)	**4,506,995**	4,116,623
Total liabilities	**18,388,930**	18,410,576
Shareholders' equity		
Share capital (Note 7a)	**56,359,198**	56,350,520
Contributed surplus (Note 7)	**7,291,300**	7,083,896
Warrants (Note 8)	**854,539**	859,992
Deficit	**(56,990,635)**	(55,205,906)
	7,514,402	9,088,502
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$ 25,903,332**	$ 27,499,078

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

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

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

Aquila Resources Inc.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS

For the three months ended March 31, 2016 and 2015

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

	Three months ended March 31, 2016	2015
EXPENSES		
Mineral property exploration expenses	**$ 756,990**	$ 66,315
Administrative expenditures (Note 11)	**777,608**	357,872
Loss from operations	**$ 1,534,598**	$ 424,187
Other expenses (income)		
Transaction costs (Note 6)	**-**	738,316
Finance charges (Note 12)	**1,752**	23,921
Gain on settlement of contingent consideration (Note 3)	**-**	(416,000)
Loss (gain) on foreign exchange	**389,950**	(504,937)
Loss (gain) on change in value of contingent consideration	**113,152**	-
Loss (gain) on change in value of warrants	**(254,723)**	503,888
Total comprehensive loss	**$ 1,784,729**	$ 769,375
Loss per share		
Basic and diluted	**$ 0.01**	$ -
Weighted average number of shares outstanding - basic and diluted	**220,955,874**	192,173,528

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

Aquila Resources Inc.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
As at March 31, 2016 and 2015
(Unaudited, expressed in United States Dollars)

	Share Capital Number	Share Capital $	Contributed Surplus	Warrants	Deficit	Total
Balance, December 31, 2014	192,173,528	$ 53,634,046	$ 6,735,405	$ 40,959	$ (48,936,072)	$ 11,474,338
Shares issued from private placement	26,923,077	3,500,000	-	-	-	3,500,000
Share issue costs	-	(166,000)	-	(34,000)	-	(200,000)
Fair value assigned to warrants	-	(807,692)	-	807,692	-	-
Shares issued on the settlement of royalty payment	1,730,769	225,000	-	-	-	225,000
Fair value assigned to warrants	-	(51,923)	-	51,923	-	-
Net loss for the period	-	-	-	-	(769,375)	(769,375)
Balance, March 31, 2015	220,827,374	56,333,431	6,735,405	866,574	(49,705,447)	14,229,963
Shares issued on exercise of warrants	87,500	17,089	-	(6,582)	-	10,507
Share-based compensation expense	-	-	348,491	-	-	348,491
Net loss for the period	-	-	-	-	(5,500,459)	(5,500,459)
Balance, December 31, 2015	220,914,874	$ 56,350,520	$ 7,083,896	$ 859,992	$ (55,205,906)	$ 9,088,502
Shares issued on exercise of warrants	45,500	8,678	-	(3,423)	-	5,255
Warrants expired	-	-	2,030	(2,030)	-	-
Share-based compensation expense	-	-	205,374	-	-	205,374
Net loss for the period	-	-	-	-	(1,784,729)	(1,784,729)
Balance, March 31, 2016	**220,960,374**	**56,359,198**	**7,291,300**	**854,539**	**(56,990,635)**	**7,514,402**

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

Aquila Resources Inc.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASHFLOWS
For the three months ended March 31, 2016 and 2015
(Unaudited, expressed in United States Dollars)

	Three months ended March 31, 2016	2015
Cash generated from (used in)		
Operating activities		
Net loss for the period	**$ (1,784,729)**	$ (769,375)
Items not affecting cash:		
Change in fair value of warrants	**(254,723)**	503,888
Gain on settlement of contingent consideration	**-**	(416,000)
Gain on change in fair value of convertible debentures	**-**	(1,396)
Loss (gain) on change in fair value of contingent consideration	**113,152**	-
Unrealized foreign exchange loss	**312,430**	169,419
Share-based compensation	**205,374**	-
Amortization	**6,890**	6,890
	(1,401,606)	(506,574)
Net change in non-cash working capital		
Accounts receivable	**(42,091)**	15,485
Prepaid expenses	**12,229**	39,542
Accounts payable and accrued liabilities	**(190,315)**	217,264
Contingent consideration	**-**	(1,000,000)
Net cash generated from (used in) operating activities	**$ (1,621,783)**	$ (1,234,283)
Investing activities		
Acquisition of equipment	**(35,923)**	-
Increase in mineral properties	**(31,569)**	(4,242,094)
Net cash used in investing activities	**$ (67,492)**	$ (4,242,094)
Financing activities		
Receipt of silver stream	**-**	6,500,000
Issuance of common shares, net of share issue costs	**5,255**	3,300,000
Net cash generated from financing activities	**$ 5,255**	$ 9,800,000
Increase in cash	**(1,684,020)**	4,323,623
Effect of foreign exchange on cash	**(2,190)**	(5,886)
Cash, beginning of period	**3,274,160**	461,175
Cash, end of period	**$ 1,587,950**	$ 4,778,912

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

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 Preliminary Economic Assessment Technical Report (PEA) was released in April 2012, and for which a new PEA was released in July 2014. In July 2012 HudBay Minerals Inc. ("HudBay"), which had the controlling interest in the BFJV, suspended its exploration and evaluation activities at the Back Forty Project. On November 7, 2013, Aquila signed a definitive agreement with HudBay to take control and 100% ownership of the BFJV. These transactions were completed in January 2014.

The business of mining and exploration for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The recoverability of the carrying value of exploration properties and the Company's continued existence is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, and the ability of the Company to raise financing, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis.

The Company's ability to realize costs it has incurred to date on its properties is dependent upon it being able to identify economically recoverable reserves; to finance their exploration and evaluation costs; to resolve any environmental, regulatory, or other constraints which may hinder the successful development of the reserves; and to attain profitable operations.

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.

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 consolidated financial statements have been prepared on the basis of that Aquila is a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying consolidated financial statements. 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.

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

Details of deficit and working capital of the Company are as follows:

	March 31, 2016	December 31, 2015
Deficit	**$56,990,635**	$55,205,906
Working capital	**304,397**	1,548,727

2. Accounting Policies

a) Statement of Compliance

These unaudited condensed 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 International Accounting Standards Board (“IASB”) and interpretations issued by International Financial Reporting Interpretations Committee. These unaudited condensed interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2015.

These unaudited condensed interim consolidated financial statements were authorized for issuance by the Board of Directors of the Company on May 12, 2016.

b) Basis of Presentation

These unaudited condensed interim consolidated financial statements have been prepared on a historical cost basis other than contingent consideration and warrant liabilities which are recorded at fair value. In addition, these unaudited condensed interim consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

In the preparation of these unaudited condensed interim consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the period. Actual results could differ from these estimates.

c) Basis of Consolidation

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

These unaudited condensed interim consolidated financial statements are expressed in United States Dollars, except those amounts denoted CDN$ which are in Canadian Dollars. The United States dollar is the functional and reporting currency of the Company and its subsidiaries' operations. Monetary assets and liabilities denominated in foreign currencies are translated into United States dollars at exchange rates in effect at the statement of financial position date. Non-monetary assets and liabilities are translated at historical exchange rates. Revenues and expenses are translated at the rate at the time of the transaction. Any resulting gain or loss is recorded in the condensed statement of loss and comprehensive loss.

d) Future Accounting Pronouncements

IFRS 9, Financial Instruments ("IFRS 9")

IFRS 9 was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39, Financial Instruments – Recognition and Measurement ("IAS 39") for debt instruments with a new mixed measurement model having only two categories; amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent not clearly representing a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in comprehensive income indefinitely.

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income. IFRS 9 will be effective as at January 1, 2018. The Company is in the process of assessing the impact of this pronouncement. The extent of impact has not yet been determined.

IFRS 15, Revenue from Contracts with Customers ("IFRS 15")

IFRS 15 was issued in May 2014 to replace IAS 18, Revenue, IAS 11, Construction Contracts, and related interpretations on revenue. IFRS 15 establishes principles to address the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. IFRS 15 will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively and improve guidance for multiple element arrangements. Companies can elect to use either a full or modified retrospective approach when adopting this standard and it is effective for annual periods beginning on or after January 1, 2018. The Company is in the process of analyzing IFRS 15 and determining the effect on its financial statements as a result of adopting this standard.

IFRS 16, Leases ("IFRS 16")

IFRS 16 was issued in January 2016, replaces IAS 17, Leases. IFRS 16 results in most leases being reported on the balance sheet for lessees, eliminating the distinction between a finance lease and an operating lease. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted for companies that also adopt IFRS 15. The Company is currently assessing the impact of this standard.

3. 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 CDN $9.0 million tied to development of the Back Forty project as follows:

   (i) CDN $3.0 million payable on completion of any form of financing for purposes including the commencement of construction of Back Forty (up to 50% of the CDN $3.0 million can be paid, at Aquila's option in Aquila shares with the balance payable in cash);
   (ii) CDN $2.0 million payable in cash 90 days after the commencement of commercial production;
   (iii) CDN $2.0 million payable in cash 270 days after the commencement of commercial production, and;
   (iv) CDN $2.0 million payable in cash 540 days after the commencement of commercial production.

b) Fair value of the 1% net smelter royalty (NSR) on production from certain land parcels on the Back Forty project, capped at CDN $7.0 million

On March 31, 2015, Aquila paid HudBay $1.0 million in cash plus $225,000 of Unit financing (as described above) which is equivalent to 1,730,769 units, with each unit comprising one share and one-half of one warrant, to settle the 1% net smelter return ("NSR") royalty portion of the contingent consideration. For additional information refer to note 9.

For the period ended March 31, 2016, 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 0.59% to 1.21% were used as the risk-free rate. The milestone payments are estimated to commence in 2017 with commercial production starting in 2020. 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 $1,225,000 to $1,374,000. If another key assumption, being the commencement of the milestone payments and the commencement of production, were pushed by one year to 2018 and 2021, respectively, the combined impact on fair value would decrease by an estimated $190,800.

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

The fair value of the contingent consideration as of March 31, 2016 is as follows:

Fair value as at December 31, 2014	$5,559,900
Loss on change in value of contingent consideration	954,512
Settlement of 1% NSR royalty (note 9 (c))	(1,696,000)
Change due to foreign exchange	(701,789)
Fair value as at December 31, 2015	$4,116,623
Loss on change in value of contingent consideration	113,152
Change due to foreign exchange	277,220
Fair value at March 31, 2016	**$4,506,995**

4. Mineral Property Costs

Total accumulated deferred mineral property costs are detailed as follows:

Year ended December 31, 2015	Balance beginning of period	Acquisition	Adjustment/ Write-off	Balance, end of period
Back Forty Project	$17,236,109	$5,740,699	-	$22,976,808
Reef Gold Project	177,231	43,053	-	220,284
	$17,413,340	$5,783,752	$ -	$23,197,092

Three months ended March 31, 2016	**Balance beginning of period**	**Acquisition**	**Adjustment/ Write-off**	**Balance, end of period**
Back Forty Project	$22,976,808	$ 10,000	-	$22,986,808
Reef Gold Project	220,284	21,569	-	241,853
	$23,197,092	**$ 31,569**	**$ -**	**$23,228,661**

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

(a) 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.

Estimated lease, option and property acquisition costs related to the Back Forty Project for 2016 to 2018, for which the Company is materially liable, are as follows:

Year	Amount
2016	$ 198,468
2017	$ 190,803
2018	$ 205,637

(b) 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 2016 to 2018, which are at the Company's option, are as follows:

Year	Amount
2016	$ 217,031
2017	$ 621,757
2018	$1,459,175

(c) Bend (previously known as Exploration Alliance)

On October 15, 2010, the Company signed an Exploration Alliance agreement with HudBay. Under the agreement HudBay funded exploration conducted by the Company (as Project Operator) in Michigan and other designated areas. The agreement was terminated in July 2012 and the Company maintained its 100% interest in three properties: Sturgeon Falls, Five Mile Lake and Bend.

During the year ended December 31, 2013, the Company terminated the agreements for the Sturgeon Falls, and Five Mile Lake properties. While there is no capitalized value associated with its 100% ownership of the Bend property, the Company is continuing to pursue this project.

(d) Finland – Rantasalmi and Kiimala Properties ("REBgold Acquisition")

In July 2011, REBgold (a subsidiary of Aquila) entered into a definitive Shareholders' Agreement as contemplated by the Letter of Intent ("LOI"), signed in March 2011 with Belvedere Resources Finland oy ("BelFin"), a wholly-owned subsidiary of Belvedere Resources ("Belvedere", TSX.V:BEL) for

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

REBgold to earn an interest in two of BelFin's gold properties in Central Finland, the Kiimala and Rantasalmi properties (the "Properties").

During year ended December 31, 2014, the Company decided not to maintain the Rantasalmi and Kiimala properties and as a result wrote off $5,540,049 of capitalized mineral property costs that had been incurred on those properties.

5. Capital Assets

Cost	Land	Buildings	Furniture and Fixtures	Total
Balance December 31, 2015	$ 380,880	$ 541,017	$ 33,382	$ 955,279
Additions	-	-	35,923	**35,923**
Balance, March 31, 2016	**$ 380,880**	**$ 541,017**	**$ 69,305**	**$ 991,202**

Accumulated Depreciation	Land	Buildings	Furniture and Fixtures	Total
Balance, December 31, 2015	$ -	$ 148,573	$ 33,382	$ 181,955
Charge	-	**6,890**	-	6,890
Balance March 31, 2016	**$ -**	**$ 155,463**	**$ 33,382**	**$ 188,845**

Net book value, December 31, 2015	$ 380,880	$ 392,444	$ -	$ 773,324
Net book value, March 31, 2016	**$ 380,880**	**$ 385,554**	**$ 35,923**	**$ 802,357**

6. Orion Financing and Streaming Agreement

On March 31, 2015, the Company closed a financing transaction with Orion Mine Finance (“Orion”) that includes an equity private placement and a silver purchase agreement for total cash payments of $20.75-million. Concurrent with the transaction, the Company has also completed the repurchase of two existing royalties on Back Forty.

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 (CDN 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. At March 31, 2016, Orion held 14% of the common shares of the Company. The proceeds received from this transaction were recorded as an equity transaction. Refer to note 7(a) for further information.

b) Silver Stream

Under the terms of the silver purchase agreement, Orion 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 will pay Aquila $17.25 million, payable in five instalments. Orion has advanced the first instalment of $6.5 million, the second instalment of $3.0 million, an advance on the third instalment of $1.5 million plus the $1.35 million land payment, a total of $12.35 million and is shown as Silver Stream on the Statement of Financial Position as at March 31, 2016. The remaining $4.9 million is payable in two instalments over the next 12 months and is subject to the completion of certain milestones and the satisfaction of certain other conditions. Therefore, it is not reflected in the statement of financial position at this time. Orion 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 Orion.

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, 2016.

The first instalment amount of $6.5 million as at March 31, 2015 was used as an advance of $1.5 million to Aquila, plus the Royalty Termination arrangements to HudBay Minerals Inc. for $1.0 million and to Vale Exploration USA Inc. for $4.0 million as further discussed in (c) and (d) below.

The land payment of $1.35 million was used for the final property payment at Back Forty.

c) Net Smelter Return (“NSR”) Termination Payment to HudBay Minerals Inc. (“HudBay”)

During 2013, the Company acquired 100% interest in the Back Forty project from HudBay as noted in note 3. The purchase consideration included a contingent consideration payable to HudBay of a 1% NSR royalty on production from certain land parcels in the Back Forty project. The total carrying value of the contingent consideration as at December 31, 2014 was approximately $5.5 million, of which the amount that related to the HudBay NSR was approximately $1.7 million (note 3). Effective March 31, 2015, Aquila paid HudBay $1.0 million in cash plus $225,000 of unit financing equivalent to 1,730,769 units, with each unit comprising one share and one-half of one warrant, to settle the 1% NSR portion of the contingent consideration.

The difference between the carrying amount of the financial liability of $1.696 million, plus the pro rata share of the transaction costs of $55,000, that was extinguished, and the consideration paid through equity instruments which is made up the $1.0 million in cash plus $225,000 of Unit financing, was recognized as gain on the statement of net loss and comprehensive loss.

d) Royalty Termination Payments Vale Exploration USA Inc. ("Vale")

Mineral interests generally include acquired royalty interests and stream metal purchase agreements in producing, advanced/development and exploration stage properties. Royalty stream interests are recorded at cost and capitalized as tangible assets with finite lives. Accordingly, the $4.0 million payment to Vale for the repurchase of the royalty stream has been capitalized, plus the pro rata share of transactions costs of $220,000, to the Back Forty's Mineral Property Costs.

e) Transaction Costs

Transactions costs for this transaction have been allocated on a pro rata basis between the equity transaction, royalty termination payments to HudBay and Vale, and the Silver Stream arrangement.

Specifically, transactions costs relating to:

i. the private placement have been deducted pro rata from the value assigned to the shares and warrants;
ii. the settlement of contingent consideration and termination of existing royalty agreement with HudBay would constitute costs that relate to a financial liability reported at fair value is recognized as an expense; and
iii. the acquisition of Vale royalty constitute costs directly attributable to the acquisition of a capitalized asset, and hence have been capitalized to the related asset.

7. 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, 2014	192,173,528	$53,634,046
Shares issued from private placement, net of costs (i)	26,923,077	3,500,000
Transaction costs relating to private placement	-	(200,000)
Fair value assigned to warrants (i)	-	(807,692)
Transaction costs assigned to warrants (i)	-	34,000
Shares issued on settlement of royalty obligation (ii)	1,730,769	225,000
Fair value assigned to warrants on settlement of royalty obligations (ii)	-	(51,923)
Balance, March 31, 2015	220,827,374	$56,333,431
Shares issued on exercise of warrants (iii)	87,500	17,089
Balance, December 31, 2015	220,914,874	$56,350,520

	Number of Shares	Total
Balance, December 31, 2015	220,914,874	$56,350,520
Shares issued on exercise of warrants (iv)	45,500	8,678
Balance, March 31, 2016	**220,960,374**	**$56,359,198**

i) Under the terms of a private placement, on March 31, 2015, the Company issued 26,923,077 units ("Units") at a price of 13 cents (CDN 18 cents) per unit for gross proceeds of $3.5 million. Each Unit is comprised of one common share and one-half of a warrant ("Warrant"). Each full Warrant entitles the bearer to purchase one common share for a price of 19 cents (CDN 26 cents) for a period of 36 months. Transaction costs allocated to this private placement were $200,000. (For further information on this transaction, see note 6).

The resulting 13,461,539 warrants issued in conjunction with the private placement were ascribed a fair value of $807,692 using the Black-Scholes pricing model with the following assumptions: a dividend yield of 0%, expected volatility of 116.14%, risk free interest rate 0.49%, and an expected life of 3 years. Transactions costs of $34,000 were allocated to the warrants. See note 8(b) for further details.

ii) On March 31, 2015, the Company issued a further 1,730,769 units in settlement of a royalty termination to HudBay Minerals Inc. The resulting 865,385 warrants were ascribed a fair value of $51,923 using the Black-Scholes pricing model with the following assumptions: a dividend yield of 0%, expected volatility of 116.14%, risk free interest rate 0.49%, and an expected life of 3 years. See note 8(b) for further information.

iii) During the year ended December 31, 2015, 87,500 warrants were exercised at a price of CDN 15 cents per warrant, each exchangeable for one common share, for gross proceeds of CDN $13,125 (US $10,507). The relative fair value assigned to the warrants on issuance in the amount of CDN $7,000 (US $6,582) was transferred from warrants to share capital. See note 8(a) for further information.

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

iv) During the quarter ended March 31, 2016, 45,500 warrants were exercised at a price of CDN 15 cents per warrant, each exchangeable for one common share, for gross proceeds of CDN $6,825 (US $5,255). The relative fair value assigned to the warrants on issuance in the amount of CDN $3,640 (US $3,423) was transferred from warrants to share capital. See note 8(a) for further information.

b) Stock-option plan and share-based compensation:

The Company maintains a Stock Option 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 that may be reserved for issuance to any one person must not exceed 5% of the 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 three months ended March 31, 2016 are presented below:

	Number of Stock Options	Weighted Average Exercise Price CDN	
Balance - January 1, 2015	14,115,000	$	0.16
Forfeited options	(665,000)		0.43
Balance, March 31, 2015	13,450,000	$	0.15

	Number of Stock Options	Weighted Average Exercise Price CDN	
Balance - January 1, 2016	17,900,000	$	0.16
Granted (i)	1,500,000		0.19
Granted (ii)	1,250,000		0.15
Forfeited options	(800,000)		0.15
Balance, March 31, 2016	**19,850,000**	**$**	**0.16**

(i) On January 12, 2016, the Company granted 1,500,000 options, which vested immediately, each such option entitling the holder to acquire one common share of the Company at an exercise price of CDN 19 cents until January 11, 2021.

The fair value assigned was estimated using the Black-Scholes option pricing model with the following assumptions: a dividend yield of 0%, forfeiture rate of 0%, expected volatility of 101%, risk free interest rate 0.48%, and an expected life of 5 years. The stock options were assigned a value of $130,932 was charged to income with the offset to contributed surplus during the three months ended March 31, 2016.

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

(ii) On February 9, 2016, the Company granted 1,250,000 options, of which 25% vest on issuance, 25% in 12 months, 25% in 24 months and 25% in 36 months, to 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 CDN 15 cents until February 8, 2024.

The fair value assigned was estimated using the Black-Scholes option pricing model with the following assumptions: a dividend yield of 0%, forfeiture rate of 0%, expected volatility of 114%, risk free interest rate 0.79%, and an expected life of 8 years. The stock options were assigned a value of $118,203, of which $37,120 was charged to income with the offset to contributed surplus during the three months ended March 31, 2016. The remaining fair value balance of $81,082 is to be charged to income in future periods.

As at March 31, 2016, 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 CDN**	**Weighted Average Remaining Contractual Life (years)**
January 16, 2019	11,750,000 *	12,550,000	$ 0.15	3.04
April 6, 2020	3,950,000	2,112,500	0.19	4.35
June 25, 2020	1,400,000	350,000	0.19	4.49
January 11, 2021	1,500,000	1,500,000		
February 8, 2021	1,250,000	312,500		
	19,850,000	16,825,000	$ 0.14	3.44

* Issued under plan of arrangement.

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

8. Warrants

The movements in the number and estimated fair value of outstanding broker warrants and share purchase warrants for the three months ended March 31, 2016 and 2015 are as follows:

a) Canadian Dollar Warrants

	2016		2015	
	Number of warrants	**Weighted average exercise price (CDN)**	Number of warrants	Weighted average exercise price (CDN)
Balance, January 1	**16,362,126**	**$0.36**	18,561,126	$0.44
Exercised (note 7a(iv))	**(45,500)**	**0.15**	-	-
Expired	**(26,950)**	**0.15**	-	-
Balance, December 31,	**16,289,676**	**$0.36**	18,561,126	$0.44

b) US Dollar Warrants

	2016		2015	
	Number of warrants	**Weighted average exercise price (USD)**	Number of warrants	Weighted average exercise price (USD)
Balance, January 1	**14,326,924**	**$0.19**	-	$0.00
Issued (notes 6a,6c,7a(iv)&7a(v))	**-**	**-**	14,326,924	0.19
Balance, December 31,	**14,326,924**	**$0.19**	14,326,924	$0.19

The exercise price, expiry date, and warrants issued and outstanding as at March 31, 2016 are as follows:

Number of warrants outstanding	Exercise Price CDN	Expiry Date	Weighted average life (yrs)
2,000,000	1.00	November 10, 2016	0.87
1,950,000	1.00	November 10, 2016	0.87
9,210,926	0.15	September 18, 2017	1.72
2,945,000	0.20	May 17 to June 21, 2018	2.48
183,750	0.12	May 17 to June 22, 2018	2.48
16,289,676	**$ 0.36**		**1.65**

Number of warrants outstanding	Exercise Price USD	Expiry Date	Weighted average life (yrs)
14,326,924	$ 0.19	March 31, 2018	2.51
14,326,924	**$ 0.19**		**2.51**

9. Derivative Liabilities

a) Warrants

During the three months ended March 31, 2016, no equity offerings were completed whereby warrants were issued with exercise prices denominated in Canadian dollars (March 31, 2015 – no warrants 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. 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, 2016, the Company had 15,867,354 (December 31, 2015 – 15,867,354) 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 8(a) for further information.

For the three months ended March 31,	**2015**	2014
Risk-free interest rate	0.54%	0.50%
Expected life	1-2 years	1-3 years
Price volatility	88-90%	90-126%
Share price (CDN$)	0.14	0.17
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.

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

10. 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, 2016, director's fees, professional fees and other compensation of directors and key management personnel were as follows:

For the three months ended March 31,	2016	2015
Short-term compensation and benefits	$ **213,489**	$155,313
Share-based payments (fair value of stock option benefits and share based payments)	**162,113**	-
	$ **375,602**	$155,313

As at March 31, 2016, $10,000 (December 31, 2015 - $1,998) is included in accounts payable in connection with amounts due to key management personnel.

During the three months ended March 31, 2016 a total of $40,000 (2015 - $nil) was billed to the Company by a geological consulting company of which the VP of Exploration is the president.

During the three months ended March 31, 2016 rental expenditures in the amount of $3,600 (2015 - $3,600) were paid to a company of which the VP, Exploration is a part owner.

11. Administrative Expenses

For the three months ended March 31,	2016	2015
Amortization	$ **6,890**	$ 6,890
Management and consulting fees	**22,855**	141,957
Directors' fees	**14,554**	13,536
Filing and regulatory fees	**30,657**	22,566
Office, general and administration	**105,979**	22,331
Professional fees	**76,723**	52,233
Rent	**17,731**	6,089
Salaries and benefits	**252,269**	75,533
Share-based compensation	**205,374**	-
Travel and promotion	**44,576**	16,737
	$ **777,608**	$ 357,872

12. Finance Charges

For the three months ended March 31,	2016	2015
Interest and bank charges	**$ 1,752**	$ 1,317
Debenture interest	-	22,604
	$ 1,752	$ 23,921