



AQUILA RESOURCES INC. MANAGEMENT DISCUSSION AND ANALYSIS FOR THE THREE MONTHS ENDED MARCH 31, 2016

General

The following management discussion and analysis (“**MD&A**”) of financial results is dated May 12, 2016 and reviews the business of Aquila Resources Inc. (the “**Company**” or “**Aquila**”) for the three months ended March 31, 2016, and should be read in conjunction with the audited annual consolidated financial statements and related notes for the year ended December 31, 2015. This MD&A and the accompanying condensed consolidated interim financial statements and related notes for the three months ended March 31, 2016 have been reviewed by the Company’s Audit Committee and approved by the Company’s Board of Directors.

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

Forward-looking Statement

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

Currency

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

Mineral Resources

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



Preliminary Economic Assessment

The technical report, titled “Preliminary Economic Assessment of the Back Forty Project, Michigan, USA” prepared by Tetra Tech, Inc. (“Tetra Tech”), dated July 23, 2014 and filed on SEDAR on September 8, 2014 (the “2014 PEA”) should not be considered to be a prefeasibility or feasibility study, as the economics and technical viability of the Back Forty Project have not been demonstrated at this time. The 2014 PEA is preliminary in nature and includes inferred mineral resources that are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves. Furthermore, there is no certainty that the conclusions or results as reported in the 2014 PEA will be realized. For full technical details, including the basis for the preliminary economic assessment therein and any qualifications and assumptions made in connection therewith, reference should be made to the complete text of the 2014 PEA. The 2014 PEA may be obtained online on the SEDAR website at www.sedar.com.

Qualified Persons

The content of this MD&A has been read and approved by Tom Quigley, Vice President of Exploration and Senior Technical Advisor for the Back Forty Project. Mr. Quigley is a Qualified Person as defined by National Instrument 43-101 – Standards of Disclosure for Mineral Projects (“NI 43-101”).

First Quarter Highlights

- Received notification from the Michigan Department of Environmental Quality (“MDEQ”) that three of the Company’s four mine permit applications were deemed administratively complete. Aquila has since provided additional clarification and information relating to its Wetlands permit application to the MDEQ.
- Commenced a Feasibility Study on Back Forty, which is expected to be completed before the end of 2016. Aquila awarded the Feasibility Study’s development to Lycopodium Minerals Canada (“Lycopodium”), who will be supported by a group of globally-recognized experts and specialist engineering companies.
- Announced drill results from an exploration drilling program completed at Back Forty late in 2015. The drill program included four holes, two of which tested a separate geophysical anomaly and two that tested an extension of the deposit which returned 2.8 metres of 38.5 g/t of gold and 231.8 g/t of silver overlying zinc and copper-rich massive sulphides.
- Appointed Cliff Nelson, a mining industry executive with 35 years of operational, metallurgical and mine management experience, as Vice President of US Operations as Vice President of U.S. Operations. Mr. Nelson is responsible for Aquila’s day-to-day activities in Michigan’s Upper Peninsula and is based in Stephenson, in close proximity to the Company’s flagship Back Forty project.
- Supported its permitting activities through local stakeholder engagement and outreach activities, including public hearing and town hall meetings.
- As at March 31, 2016 Aquila had cash of \$1.6 million and working capital of \$0.4 million. These compare to cash of \$3.3 million and a working capital of \$1.5 million at December 31, 2015. The working capital decline is due to funding for the Company’s feasibility study and increased overhead costs primarily relating to permitting activities. Aquila expects to receive \$4.9 million in 2016 as part of a financing arrangement signed with Orion Mine Finance in March 2015.

Highlights Subsequent to Quarter End

- Completed comprehensive and integrated metallurgical test work that indicated improved recoveries and the potential for increased production of Back Forty’s two primary metals, gold and zinc. Gold



recoveries improved to 63%, up from 61%, and zinc recoveries improved to 93%, up from 91% when benchmarked against the Company's Preliminary Economic Assessment Study of June 2014.

- As expected, the Company received responses and questions related to its Back Forty Mine Permit Application from the MDEQ. The Company is currently working with its permitting consultant Foth Infrastructure and Environment to address all 197 responses received to date and will respond to the MDEQ in due course.

1. Company Overview and Going Concern

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

The principal asset of the Company is its 100% interest in the Back Forty Project located in Menominee County, Michigan. On September 8, 2014, the Company filed a new 2014 PEA for the Back Forty Project. The 2014 PEA includes the NI 43-101 Standards of Disclosure for Mineral Projects compliant resource estimate for the Back Forty Project that was completed on February 18, 2013 ("**the 2013 Resource Estimate**").

The new 2014 PEA, which incorporates a revised mine plan based on results from Aquila's 2013 resource update, was completed after considering various trade-off studies which looked at different mine and concentrator configurations to determine the optimal scenario for the project. The base case scenario indicates a pre-tax net present value ("**NPV**") of \$282.2 million, using a discount rate of 6%, with an internal rate of return ("**IRR**") of 38.8%, and post-tax NPV of \$210.8 million, using the same discount rate, with an IRR of 32.0%. Furthermore, the 2014 PEA describes an alternative low initial capital starter pit option that focuses on mining near-surface, high-grade zones by way of three small open pits in order to maximize capital return in the early years of production.

The 2014 PEA is preliminary in nature and includes inferred mineral resources that are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves. Furthermore, there is no certainty that the conclusions or results as reported in the 2014 PEA will be realized.

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

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

None of the Company's projects have commenced commercial production and, accordingly, the Company is dependent upon debt and/or equity financings and the optioning and/or sale of resources or resource-related assets for its funding. The recoverability of the carrying value of exploration and evaluation projects, and ultimately the Company's ability to continue as a going concern, is dependent upon exploration results which indicate the potential for the discovery of economically recoverable reserves and resources, and the



Company’s ability to finance development and exploration of its projects through debt or equity financings and the optioning and/or sale of resource or resource-related assets such as royalty interests for its funding.

2. Overview of Projects

A. Active Projects

Back Forty Project

The Back Forty Project is a development stage volcanogenic massive sulfide (VMS) deposit containing gold, zinc, lead, silver and copper, located in the Upper Peninsula of Michigan, USA and is the primary mineral property interest of the Company. The Back Forty Project is a high-grade, poly-metallic project, which contains approximately 1 million ounces of gold and 1 billion pounds of zinc in the M&I categories, with additional upside potential. The Back Forty Project is directly owned by the Back Forty Joint Venture LLC (“BFJV”) which controls approximately 4,095 gross acres of surface and mineral rights which are owned or held under lease or option by BFJV. Some lands are subject to net smelter royalties varying from 1% to 3.5%, with certain lands subject to a 2% to 7% royalty, which includes state royalties, which under state law can be renegotiated.

Upon the completion of the HMI Acquisition (see Acquisition Transactions), Aquila owns 100% of the BFJV through its 49% direct interest in BFJV and the 51% interest held through HMI. Upon the completion of the HMI Acquisition the operating agreement with HudBay, no longer applies.

New Preliminary Economic Assessments

On September 8, 2014, the Company filed the 2014 PEA for the Back Forty Project. The 2014 PEA includes the NI 43-101 compliant 2014 Resource Estimate.

The 2014 PEA, which incorporates a revised mine plan based on results from Aquila’s 2013 resource update was completed after considering various trade-off studies which looked at different mine and concentrator configurations to determine the optimal scenario for the project. The base case scenario indicates a pre-tax net present value (“NPV”) of \$282.2 million, using a discount rate of 6%, with an internal rate of return (“IRR”) of 38.8%. The base case scenario reports an after-tax NPV of \$210.8 million, the same discount rate, with an IRR of 32.0%.

Furthermore, the 2014 PEA describes an alternative low initial capital starter pit option that focuses on mining near-surface, high-grade zones by way of three small open pits in order to maximize capital return in the early years of production.

Sensitivity Analysis

A sensitivity analysis was performed to test the economic viability of Back Forty against possible fluctuations in commodity prices. A table illustrating project sensitivity is presented below:

	Base Case -15%	Base Case	Base Case + 15%
Gold	\$1,099/oz	\$1,293/oz	\$1,487/oz
Silver	\$17.39/oz	\$20.46/oz	\$23.53/oz
Zinc	\$0.82/lb	\$0.96/lb	\$1.10/lb



Copper	\$2.70/lb	\$3.18/lb	\$3.66/lb
Lead	\$0.82/lb	\$0.96/lb	\$1.10/lb
Pre-Tax			
NPV @ 6%	\$122.3M	\$282.2M	\$440.6M
IRR	23.7%	38.8%	52.0%
Payback Period	2.8 years	1.4 years	0.9 year
After-Tax			
NPV @6%	\$95.2M	\$210.8M	\$324.8M
IRR	20.2%	32.0%	42.0%
Payback Period	3.1 years	1.8 years	1.2 years

The 2014 PEA is preliminary in nature and includes inferred mineral resources that are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves. Furthermore, there is no certainty that the conclusions or results as reported in the 2014 PEA will be realized.

Project Potential

The optimized mine plan provides some flexibility in the development of the project including a lower CAPEX, and high-grade initial phase operation. This option would focus on mining near-surface, high-grade zones by way of three small open pits in order to maximize capital return in the early years of production. This approach has the potential to provide attractive economic returns, mitigate certain start-up risks, and allow for significant optionality in the long-term development of the project. This opportunity would be fully evaluated during the feasibility stage of project development and could be pursued depending on future macro-economic conditions.

Other opportunities for consideration include optimization of the underground mining approach, which was not completed as part of the 2014 PEA, improving processing performance, and defining the upside potential, including further exploration and expansion of the underground resource, in-pit targets, and near-mine drill targets, which have the potential to extend mine life and improve project economics.

2013- Resource Estimate Update

The 2013 Resource Estimate for the Back Forty Project was as follows:

Open Pit†		Contained Metals										
Category	Tonnes	Au (ppm)	Ag (ppm)	Cu (%)	Pb (%)	Zn (%)	NSR (\$/tonne)	Au (oz)	Ag (oz)	Cu (lbs)	Pb (lbs)	Zn (lbs)
Measured	4,720,716	2.24	26.77	0.55	0.13	3.49	141.88	340,142	4,062,741	57,393,561	12,988,245	363,225,517
Indicated	4,926,783	1.9	18.3	0.14	0.21	1.49	92.41	300,521	2,899,139	14,875,002	23,236,294	162,317,020
Measured + Indicated	9,647,498	2.07	22.45	0.34	0.17	2.47	116.62	640,663	6,961,880	72,268,562	36,224,539	525,542,537
Inferred	152,488	2.76	34.56	0.19	0.39	2.86	143.31	13,534	169,456	623,620	1,302,241	9,625,371



Underground‡								Au	Ag	Cu	Pb	Zn
Category	Tonnes	Au (ppm)	Ag (ppm)	Cu (%)	Pb (%)	Zn (%)	NSR (\$/tonne)	(oz)	(oz)	(lbs)	(lbs)	(lbs)
Measured	1,982,087	1.97	28.56	0.29	0.31	5.04	141.22	125,365	1,819,853	12,542,412	13,568,164	220,076,983
Indicated	3,504,462	1.96	27.78	0.33	0.32	3.57	117.79	221,208	3,130,080	25,615,715	24,505,659	276,053,878
Measured + Indicated	5,486,549	1.97	28.06	0.32	0.32	4.1	126.27	346,572	4,949,933	38,158,127	38,073,823	496,130,862
Inferred	2,184,246	2.03	25.96	0.37	0.33	2.15	101.89	142,351	1,823,307	18,026,223	15,903,291	103,702,673

Global Resource								Au	Ag	Cu	Pb	Zn
Category	Tonnes	Au (ppm)	Ag (ppm)	Cu (%)	Pb (%)	Zn (%)	NSR (\$/tonne)	(oz)	(oz)	(lbs)	(lbs)	(lbs)
Measured	6,702,803	2.16	27.3	0.47	0.18	3.95	141.68	465,507	5,882,594	69,935,973	26,556,409	583,302,501
Indicated	8,431,244	1.92	22.24	0.22	0.26	2.36	102.96	521,729	6,029,219	40,490,717	47,741,953	438,370,899
Measured + Indicated	15,134,047	2.03	24.48	0.33	0.22	3.06	120.11	987,236	11,911,813	110,426,690	74,298,362	1,021,673,399
Inferred	2,336,734	2.07	26.53	0.36	0.33	2.2	104.6	155,885	1,992,763	18,649,843	17,205,532	113,328,043

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

Net smelter return (“NSR”) cut-off values were based on metal price assumptions of US\$0.96 per pound zinc, US\$3.65 per pound copper, US\$1.01 per pound lead, US\$1456.36 per troy ounce gold and US\$27.78 per troy ounce silver. Metallurgical recoveries were determined and applied for each of the metallurgical domains determined for the deposit.

‡ Cut off values were determined for each of the metallurgical domains contained in the optimized open pit were based on NSR values. Average cut-off value for the open pit resource contained within an optimized pit shell was US\$27.75. “See Mineral Resource Estimate Disclosure.”

‡ Cut off values were determined for each of the metallurgical domains based on NSR values. Average cut-off value for the underground resources outside of the optimized pit shell was US\$66.45. See “Mineral Resource Estimate Disclosure.”

The updated mineral resource estimate expanded on and incorporated parameters derived from an April 26, 2012 technical report, titled “Preliminary Economic Assessment Technical Report on the Back Forty Deposit, Menominee County, Michigan, USA” prepared by Brian Connolly, P. Eng., Douglas Maxwell, P. Eng., Gregory Greenough, P. Geo., Stephen Donohue, P.H. and Robert Carter, P. Eng. dated April 16, 2012 and filed on SEDAR on June 1, 2012 (the “2012 PEA”) that utilized a 2010 mineral resource estimate

The 2012 PEA is preliminary in nature and includes inferred mineral resources that are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves and there is no certainty that the 2012 PEA assessment will be realized. Mineral resources that are not mineral reserves do not have demonstrated economic viability.

Mineral Resource Estimate Disclosure:

- **Ordinary Kriging Estimation:** Ordinary kriging (OK) by Datamine® was used to estimate the Back Forty resources. The estimate was constrained to be within interpreted geologic domain wireframes. Specific gravity was assigned to lithologic zones by regression equations using sulfur and iron content. Gold, silver, lead and zinc values were capped at levels based on interpreted composite statistics and cumulative frequency plots. Variography was used to define anisotropy of mineralization and search parameters within each lithologic zone. Mineral classification of measured, indicated and inferred was defined by a strategy of three kriging passes using increasing search ranges.
- Mineralization offering reasonable prospects for economic extraction by open pit were determined using the Lerchs-Grossman optimizing algorithm which evaluates the profitability of each resource block based on its NSR value. Optimization parameters were based on cost parameters derived in the April PEA as well as updated metallurgical recoveries and updated metal prices. Metal grades were estimated using an ordinary kriging estimator for each mineral domain.
- Block model grade estimates were validated by comparison with nearest neighbor and inverse distance squared methodologies and visual comparison of composites and drill hole data with resource block data.
- **Open Pit Cut Off:** Cut off values based on metallurgical type for the open pit mineral resources were US\$25 for flotation and US\$39 for hydrometallurgical or leaching. Average cut off values for the open pit mineral resources were US\$27.75.
- **Outside of Pit (Underground) Cutoff:** Cut off values based on metallurgical type for the underground mineral resources were US\$65.50 for the flotation and US\$79.50 for the hydrometallurgical type. Average cut off values for an underground mining scenario were US\$66.45.
- **Net Smelter Return Estimation:** The Back Forty is a poly-metallic deposit with each metal contributing to the value of the mineralization. The mineral resources are therefore reported by utilizing a calculated net smelter return (“NSR”). The NSR calculations were based on the metal grades and metallurgical type designation. Key inputs for the NSR estimation include metal prices, metallurgical parameters (process recovery and product specification by metallurgical type) and concentrate and doré terms (which took into account cost estimates including smelter terms, refining costs, penalties, transportation, insurance, and marketing).
- NSR values for the 2013 resource were calculated in a similar manner as they were in the PEA dated April 26, 2012. Notable changes in the NSR calculation include updated metal prices utilizing a three year trailing average, and updated metallurgical recoveries and concentrate/doré specs. The NSR Value takes into consideration values from lead as opposed to copper in two mineral domains (Tuff Zone massive sulfide and associated stringer zone) as well as value from copper in a mineral domain where only gold and silver were previously considered (Pinwheel Gossan).
- **Updated Metallurgical Recoveries:** Metallurgical recoveries were estimated for a total of 13 metallurgical domains. Six of these domains reflect sulfide-rich flotation ores and seven represent sulfur-poor, gold-silver leach ores. The estimated recoveries were developed utilizing both past and recent metallurgical testing and reflect the best estimate of recovered metals for each individual and discrete metallurgical domain. These recoveries do not take into account ‘blending’ certain metallurgical zones in an open pit mining scenario. However, the detailed metallurgical domaining of the deposit and associated recoveries allows for development of a more selective mining plan with respect to both open pit and underground mining scenarios.
- **Resource Disclosure:** Because the updated mineral resource estimate does not constitute a material change, a 43-101 technical report will not be completed. Additional details about the updated resource will be available on the Company’s website. Mineral resources for the deposit were classified according to the CIM Definition Standards for Mineral Resources and Mineral Reserves



by Rex Bryan, Ph.D., an appropriate independent qualified person for the purpose of National Instrument 43-101.

Expenditures 2016

A number of geophysical anomalies have been identified peripheral to the known mineralization at Back Forty, and detailed ground geophysics and approximately a thousand metres of diamond drilling was completed to test these high priority targets.

Four drill holes, two testing extensions of the Back Forty deposit, and two testing a separate geophysical anomaly, were completed in late 2015. Drill holes LK-15-508 and LK-15-509, targeting expansion of the Back Forty resource along extensions of the Pinwheel massive sulfide horizon encountered high grade gold and silver mineralization overlying sections of zinc and copper rich massive sulfide.

Drill hole LK-15-508 intersected 9.18 g/t Au, 61.6 g/t Ag, and 1.51% Zn over 14.1 m, including 38.5 g/t Au, 231.8 g/t Ag over 2.85 m in sheared tuffaceous sediments, overlying 8.23 m of massive sulfide returning 0.71 g/t Au, 14.4 g/t Ag, and 2.48% Zn.

LK-15-509, drilled approximately 40 m west of LK- 15-508, encountered two massive sulfide lenses. An upper lens 1.6 m thick of .62 g/t Au, 25.9 g/t Ag, and 4.25% Zn, and a lower lens of 10 m of .71 g/t Au, 35.7 g/t Ag, and 2.24% Zn.

Two additional drill holes, PHC-1 and PHC-2, targeting an airborne electromagnetic anomaly approximately one kilometer southeast of the Back Forty deposit encountered a 25 to 50 meter thick section of finely bedded, exhalative sediments with disseminated pyrrhotite, pyrite, and minor chalcopyrite and sphalerite, with anomalous zinc and copper. This prospective sedimentary package was hosted by altered fragmental felsic pyroclastic rocks cut by quartz feldspar porphyries, very similar to the Back Forty host sequence, and may represent an extension of, or a similar horizon to, the Back Forty host rocks and mineralized horizons. Downhole, electromagnetic probing of these holes indicated potential off hole extensions and further work is planned for this target in 2016.

The Company submitted its permit application for Back Forty with the MDEQ in November 2015. The Company continued to use the services of Foth based in Green Bay, WI. Consistent with Michigan's permitting process, Aquila's application requests specific permits for Nonferrous Metallic Minerals Mining, National Pollutant Discharge Elimination System, Wetlands Protection and Air. Clarification and/or additional information requests are ongoing with the MDEQ technical leads. Aquila is expecting a tentative decision on the status of all permits in Q3 of 2016.

The feasibility study was kicked off in January 2016 and contemplates the development of an engineered construction and operating plan with careful considerations for social, environmental and water management, geotechnical engineering, hydro-geology, metallurgical testing, process design and mine planning.

The study was awarded to Lycopodium, an international project management and engineering firm, based in Toronto, Ontario, Canada. Lycopodium is being supported by globally recognized experts and specialist consulting engineering companies in the permit sensitive areas such as waste water treatment, tailings and waste rock management and mine design. The feasibility study is expected to be completed in Q4 2016 and runs in parallel with the project permitting process which is currently in the technical review phase with the MDEQ.



Metallurgical test work was completed by SGS in February 2016 which provided direct input into the process plant design and associated infrastructure under the guidance of Lycopodium. Environmental test work commenced in March 2016 and will be used as key design input into the various feasibility study engineering packages such as tailings design and waste water treatment management.

A geotechnical drill program was conducted on-site in March to ascertain various ground and bedrock conditions required for open pit optimization including supporting mine infrastructure design. Further site investigations are under consideration for Q2 2016.

During the three months ended March 31, 2016 the Company incurred project exploration expenditures of \$743,319 (2015 - \$66,315). Acquisition costs incurred on the Back Forty Project for the three months ended March 31, 2016 were \$10,000 (2015 – \$4,242,094). Estimated lease, option and property acquisition costs related to the Back Forty Project for 2016 to 2018, for which the Company is materially liable throughout the duration of the agreement, are as follows:

<u>Year</u>	<u>Amount</u>
2016	\$ 198,468
2017	\$ 190,803
2018	\$ 205,637

Reef Gold Project

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

The Company entered into a series of agreements with private landholders in Marathon County, Wisconsin for the optioning of surface and mineral rights. The agreements consist of mining leases and exploration agreements with an option to purchase. Currently there are a total of 643 gross acres under these agreements, which have terms from 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.

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

During the three months ended March 31, 2016 the Company incurred exploration expenditures of \$13,671 (2015 – \$nil). Acquisition costs incurred on the Reef Gold Project for the three months ended March 31, 2016 was \$21,569 (2015 - \$nil). Ongoing lease or option costs related to the Reef Project for 2016 to 2018, which are at the Company’s option, are as follows:

<u>Year</u>	<u>Amount</u>
2016	\$ 217,031
2017	\$ 621,757
2018	\$1,459,175

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



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

Bend Project

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

Since acquiring the project in 2011, the Company completed 5800 meters of drilling, expanding and further defining base and precious metal mineralization, potentially in support of a 43-101 Compliant resource estimate.

During the three months ended March 31, 2016 the Company incurred exploration expenditures of \$nil (2015 – \$nil). Future exploration of the property is dependent on the availability of funding.

Note 2: The historical resource estimates for the Bend Project are based on prior data and reports prepared by previous owners of the properties. A qualified person has not done sufficient work to classify the historical estimates as current mineral resources under NI 43-101. The Company is not treating the historical estimates as current mineral resources or mineral reserves. The Company considers that the historical estimates should be considered only as historical references of tonnes and grades. No reliance should be placed on these historical estimates.

B. Suspended Projects

Finland - Kiimala and Rantasalmi Project

In July 2011, the REBgold (a wholly owned subsidiary of the Company) entered into a definitive shareholder's agreement ("**Shareholders' Agreement**") with Belvedere Resources Finland oy ("**BelFin**"), a wholly-owned subsidiary of Belvedere Resources (TSX.V:BEL) for REBgold to earn an interest in two of BelFin's gold properties in Central Finland, the Kiimala and Rantasalmi properties (the "**Properties**").

REBgold incurred expenditures of CDN\$2.4 million on the Properties. In accordance with the Shareholders' Agreement, REBgold completed the minimum investment and as such the Company (as successor to REBgold) owns 19.5% of the properties. As of July 2014, the Company suspended funding of this project. As a result, the Company has written the value of this asset down to \$Nil for the year ended December 31, 2014.



3. Results of Operations

The following table provides selected financial information that should be read in conjunction with the financial statements of the Company for the three months ended March 31, 2016:

<i>In US dollars</i>	Three Months Ended March 31	
	2016	2015
Administrative expenses	\$ 777,608	\$ 357,872
Mineral property exploration expenses	756,990	66,315
Transaction costs	-	738,316
Finance charges	1,752	23,921
Loss from operations	1,536,350	1,186,424
Gain on settlement of contingent consideration	-	(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 fair value of warrant liability	(254,723)	503,888
Net and comprehensive loss for the period	1,784,729	769,375
Net loss per share - basic and diluted	0.01	-

Revenues

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

Administrative expenses

Administrative expenses are incurred in both US and Canadian dollars. The fluctuation of the Canadian dollar relative to the US dollar over the three months ended March 31, 2016, continues to have an impact on the comparability of expenditures on a period over period basis. For the three months ended March 31, 2016, administrative expenses were \$777,608, compared to \$357,872 for the year ended March 31, 2015. Significant components and changes in this expense include:

- Salaries and benefits have increased to \$252,269 for the three months ended March 31, 2016 compared to expenditures of \$75,533 in the same period in the prior year due to an increased head count as well as the transfer of consultants to full time employees during the latter part of 2015. The increase in salaries is directly offset by the decrease in management and consulting fees. The Company anticipates that these costs will continue to increase in comparison to the prior year as work moves forward on the development of the Back Forty project and the Company expands its team and commits existing consultants to payroll.
- Share based payments, as explained in Note 7(b) to the consolidated financial statements, were \$205,374 for the three months ended March 31, 2016. This is in comparison to \$Nil for the same period last year. Yearly and quarterly fluctuations in share based payments expense are dependent on a number of factors including, but not limited to, number of options granted, valuation of options, vesting period and timing.



- Professional fees increased to \$76,723 for the three months ended March 31, 2016, from \$52,233 in the same period last year. Legal fees and professional fees mainly relate to corporate legal responsibilities and financial audit fees.
- Management and consulting fees decreased to \$22,855 for the three months ended March 31, 2016, from \$652,056 in the same period last year. The fluctuation is primarily due to moving consultants to salaried employees beginning in the first quarter of the last fiscal year and continuing to the current quarter. This decrease has been offset by the increase in salaries and benefits as noted above.
- Travel and promotion costs increased for the three months ended March 31, 2016 with expenditures of \$44,576 compared to \$16,737 for the same period in the prior year. The fluctuation is due to an augmented marketing program compared to the prior year in addition to improving the Company's social media presence.
- Office and administrative costs of \$105,979 are higher for the three months ended March 31, 2016 in comparison to the prior year with expenditures of \$22,331 for the three months ended March 31, 2015 due to employee relocation costs in addition to increased rent and set up costs associated with the Company's new office space.
- The Company had a foreign exchange loss of \$389,950 for the three months ended March 31, 2016 compared to a gain of \$504,937 in same period of the prior year. Volatility in foreign exchange rates continue to cause significant gains and losses on both a quarterly and annual basis.

Mineral Property Expenditures

For the three months ended March 31, 2016, mineral property exploration expenditures have increased to \$756,990, respectively, from \$66,315 for the three months ended March 31, 2015. With the financing in place from the Orion transaction, the permitting process is ongoing and the Company's feasibility study at Back Forty has commenced. Costs are increasing in line with the Company's expectations.

Quarterly Information

Selected quarterly information for the eight most recently completed quarters is presented below in United States currency (\$), and has been prepared in accordance with International Financial Reporting Standards.

<i>In thousands of US dollars</i>	For the quarters ended:			
	31-Mar-16	31-Dec-15	30-Sep-15	30-Jun-15
Statement of Loss				
Transaction costs	\$ -	\$ 75	\$ -	\$ 145
Mineral property write-off	-	-	-	-
Net gain (loss) in fair value of contingent consideration, warrants and debentures	(142)	(1,162)	(344)	(196)
Net expenses	(1,536)	(1,953)	(2,213)	(1,060)
Net loss	(1,785)	(2,963)	(1,455)	(1,082)
Loss per share	0.01	0.01	0.01	-

<i>In thousands of US dollars</i>	For the quarters ended:			
	31-Mar-15	31-Dec-14	30-Sep-14	30-Jun-14
Statement of Loss				
Transaction costs	(\$738)	\$ -	\$ -	\$ -
Mineral property write-off	-	(5,540)	-	-
Net gain in fair value of contingent consideration, warrants and debentures	(88)	1,362	-	-
Net expenses	(1,186)	(5,968)	(425)	(890)
Net loss	(769)	(4,606)	(425)	(890)
Loss per share	-	0.02	-	-



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

With the Orion funding secured, the Company is focused on its permit submission resulting in significantly higher exploration expenditures in the first quarter of 2016 as well as the second, third and fourth quarters of 2015 in comparison to earlier quarters. Expenditures are consistent with the Company's expectations.

When considering the quarterly losses, the effect of stock-based compensation is a significant factor. Share based payment expenditure is dependent on the timing of stock option grants. As such, there is substantial variability on a quarter over quarter basis. Share based payment expenditures were \$205,374 in the current quarter, \$137,680, \$53,968 and \$156,843 in the fourth, third and second quarters of 2015, respectively, and \$nil for the previous four quarters.

Revaluation of the Canadian dollar warrants resulted in a loss of \$389,950. This is consistent with losses in the fourth and second quarter of 2015 of \$207,603 and 323,624. In comparison to a gain of \$343,966 was recognized in the third quarter of 2015. The revaluation is based on a number of factors including expected life, stock price at time of revaluation and volatility. Due to these factors, the resulting revaluation can have a significant impact on the loss for the quarter and substantial variability can occur on a quarter by quarter basis.

Volatility in foreign exchange rates continued to cause significant gains and losses on a quarterly basis. During the three months ended March 31, 2016, the fluctuation in rates continued as the Canadian dollar strengthened relative to the US dollar, resulting in a loss of \$389,950 for the current quarter, consistent with a loss in the second quarter of 2015 of \$217,548. In the first, third and fourth quarters of 2015, the fluctuation in rates resulted in gains of \$504,937, \$413,854 and \$151,548, respectively. The continued volatility is a trend that has continued throughout much of the current and prior fiscal years.

During the second quarter of 2015, the Company discharged its obligations and repaid the Canadian dollar denominated debenture that matured in April 2015 in the amount of \$736,552. There were no comparable expenditures in any other quarter.

During the first quarter of 2015, the Company recognized a gain of \$416,000 on the termination of the contingent consideration associated with the HudBay net smelter royalty. The transaction costs from the Orion financing were expensed on a pro rata basis in the amount of \$738,316.

During the fourth quarter of 2014, the contingent consideration, as well as the embedded conversion feature of the convertible debenture and Canadian dollar warrants, were revalued and resulted in a reduction in these liabilities and a gain of \$1.362 million. The mineral property write-off of \$5.54 million is from the write down of the mineral property held by REBgold in Finland – Rantasalim and Kiimala.

4. Liquidity and Capital Resources

At March 31, 2016, the Company had cash of \$1,587,950 compared to cash of \$3,274,160 as at December 31, 2015. The Company had working capital of \$304,397 as at March 31, 2016 compared to working capital of \$1,548,727 as at December 31, 2015. The decrease in working capital is the result of funding the feasibility study at Back Forty as well as Company overhead. The Company is expecting to receive the final \$4.9 million from Orion associated with the 2015 financing in 2016.

Historically, the Company's main source of funding has been the issuance of equity securities for cash, primarily through private placement offerings to accredited investors and institutions. The Company's access

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

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

- In the first quarter of 2016, 45,500 warrants were exercised for cash proceeds of \$5,255 (CDN \$6,825).
- In the second quarter of 2015, 87,500 warrants were exercised for cash proceeds of \$10,507.
- 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 proceeds of \$20.75-million ("Orion Financing"). Concurrent with the transaction, the Company has also completed the repurchase of two existing royalties on Back Forty. Details of the financing are as follows:
 - 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 for a period of 36 months. At the close of the transaction Orion held approximately 12.2 % of the outstanding common shares.
 - Orion will acquire 75 per cent of Aquila's life-of-mine silver production from Back Forty for gross proceeds of \$17.25-million, subject to a drawdown schedule that is set out in the definitive agreement as follows;
 - \$6.5 million was received on March 31, 2015,
 - \$1.35 million was received on July 24, 2015 to be used for the final property payment for Back Forty due August 4, 2015,
 - \$3.0 million was received on December 11, 2015 upon the submission of an administratively complete mining permit,
 - \$4.0 million upon a completion of the process design including a definitive flow sheet, with respect to the open pit portion of the Back Forty Project, of which a \$1.5 million advance was received in October 2015, and
 - \$2.4 million on completion of feasibility study.
 - All of the deposits are expected to be received by the Company by the end of 2016. Aquila has received \$12.35 million from Orion to date.
 - The first installment 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.



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

	March 31, 2016		December 31, 2015	
	Number of shares	\$	Number of shares	\$
Balance, beginning of year	220,914,874	56,350,520	192,173,528	53,634,046
Shares issued pursuant to a private placement	-	-	26,923,077	3,500,000
Transaction costs relating to private placement	-	-	-	(200,000)
Fair value assigned to warrants	-	-	-	(807,692)
Transaction costs assigned to warrants	-	-	-	34,000
Shares issued on settlement of royalty obligations	-	-	1,730,769	225,000
Fair value assigned to warrants on settlement of royalty obligations	-	-	-	(51,923)
Shares issued on exercise of warrants	45,500	8,678	87,500	17,089
Balance, end of period	220,960,374	56,359,198	220,914,874	56,350,520

Warrants

As at March 31, 2016, there are a total of 16,289,676 warrants priced in Canadian dollars and 14,326,924 warrants priced in United States dollars outstanding. For additional information, refer to note 8 of the condensed consolidated interim financial statements for the three months ended March 31, 2016.

Options

As at March 31, 2016, there are a total of 19,850,000 stock options outstanding with a weighted average exercise price of CDN\$0.16. For additional information, refer to note 7 (b) of the condensed consolidated interim financial statements for the three months ended March 31, 2016.

Commitments

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

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

5. Market Trends

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

6. Off-balance Sheet Arrangements

As at March 31, 2016 and December 31, 2015, the Company does not have any off-balance sheet arrangements.



7. Transactions with Related Parties

In accordance with IAS 24 Related Party Disclosures, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any directors (executive and non-executive) of the Company. The remuneration of directors and key executives is determined by the compensation committee. During the three 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 period ended March 31, 2016 a total of \$40,000 (2014 - \$nil) was billed to the Company by a geological consulting company of which the Company's VP, Exploration is the president.

During the three ended March 31, 2016 rental expenditures in the amount of \$3,600 (2014- \$3,600) were paid to a company of which the Company's VP, Exploration is a part owner.

8. Critical Accounting Estimates

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

Impairment of mineral property costs

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

Accounting for streaming agreement

The Company has entered into a streaming arrangement in 2015 and received \$12.35 million to date which is being used for the development of the Back Forty mine. Refer to Note 6 (b) of the consolidated financial statements for further details.

Share-based payments

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

Contingent Consideration

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

9. 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.

10. Financial Instruments

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

Warrants

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

11. Disclosure Controls

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

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

As required by CSA Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures was conducted, under the supervision of Management, including the CEO and CFO, as of March 31, 2016. The evaluation included documentation review, enquiries and other procedures considered by Management to be appropriate in the circumstances. Based on that evaluation, the CEO and the CFO have concluded that the design and operation of the system of disclosure controls and procedures was effective as of March 31, 2016.

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

Internal Control over Financial Reporting

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



The control framework has been designed by management with assistance by independent accounting consultants. Based on a review of its internal control procedures at the end of the period covered by this MD&A, the conclusion of management is that the internal control is appropriately designed and effective as of March 31, 2016.

12. Additional Information

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