FOR THE YEAR ENDED DECEMBER 31, 2015
CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in United States Dollars, unless otherwise stated)

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Aquila Resources Inc. were prepared by management in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Management acknowledges responsibility for the preparation and presentation of the consolidated financial statements, including responsibility for significant accounting judgments and estimates and the choice of accounting principles and methods that are appropriate to the Company's circumstances.

Management has established processes, which are in place to provide them sufficient knowledge to support management representations that they have exercised reasonable diligence that (i) the consolidated financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the consolidated financial statements and (ii) the consolidated financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented by the consolidated financial statements.

The Board of Directors is responsible for reviewing and approving the financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities.

The Board of Directors exercises its responsibilities through the Audit Committee of the Board which meets to satisfy itself that management's responsibilities are properly discharged and with the external auditors to review the financial statements before they are presented to the Board of Directors for approval.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

The Audit Committee has met with the Company's independent auditor to review the scope and results of the annual audit and to review the consolidated financial statements and related financial reporting matters prior to recommending the consolidated financial statements be approved.

The Company's independent auditor, PricewaterhouseCoopers LLP, has conducted an audit in accordance with generally accepted auditing standards in Canada, and their report follows.

Signed

"Barry Hildred"	"Stephanie Malec"
Chief Executive Officer and Director	Chief Financial Officer

Toronto, Canada

March 30, 2016

March 30, 2016

Independent Auditor's Report

To the Shareholders of
Aquila Resources Inc.

We have audited the accompanying consolidated financial statements of Aquila Resources Inc. and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2015 and the consolidated statements of net loss and comprehensive loss, changes in shareholders' equity and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers LLP
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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Aquila Resources Inc. and its subsidiaries as at December 31, 2015 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter
Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the company's ability to continue as a going concern.

Other matter
The consolidated financial statements of Aquila Resources Inc. as at and for the year ended December 31, 2014, were audited by another auditor who expressed an unmodified opinion on those statements on March 30, 2015.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants, Licensed Public Accountants

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As at December 31, 2015 and 2014
(Expressed in United States Dollars)

	December 31, 2015	December 31, 2014
ASSETS		
Current assets		
Cash and cash equivalents	**$ 3,274,160**	$ 461,175
Accounts receivable	**164,067**	143,411
Prepaid expenses	**54,453**	75,000
	3,492,680	679,586
Non-current assets		
Mineral property costs (Note 6)	**23,197,092**	17,413,340
Security deposits	**35,982**	172,616
Capital assets (Note 7)	**773,324**	815,934
TOTAL ASSETS	**$ 27,499,078**	$ 19,081,476
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**$ 1,216,488**	$ 601,054
Debentures payable (Note 8)	**-**	768,285
Conversion feature on debentures payable (Note 8)	**-**	16,378
Warrants payable (Note 12)	**727,465**	661,521
	1,943,953	2,047,238
Silver stream (Note 9)	**12,350,000**	-
Contingent consideration (Notes 5 & 9)	**4,116,623**	5,559,900
Total liabilities	**18,410,576**	7,607,138
Shareholders' equity		
Share capital (Note 10a)	**56,350,520**	53,634,046
Contributed surplus (Note 10)	**7,083,896**	6,735,405
Warrants (Note 11)	**859,992**	40,959
Deficit	**(55,205,906)**	(48,936,072)
	9,088,502	11,474,338
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$ 27,499,078**	$ 19,081,476

The accompanying notes are an integral part of these 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

CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS
For the year ended December 31, 2015 and 2014
(Expressed in United States Dollars, except number of shares)

	Year ended December 31, 2015	2014
EXPENSES		
Mineral property exploration expenses	**$ 3,882,274**	$ 615,893
Mineral property write-off (Note 6(d))	**-**	5,540,049
Administrative expenditures (Note 14)	**1,959,990**	1,948,335
Loss from operations	**$ 5,842,264**	$ 8,104,277
Other expenses (income)		
Transaction costs (Note 9)	**518,564**	-
Finance charges (Note 15)	**51,795**	129,454
Gain on settlement of contingent consideration (Note 9)	**(416,000)**	-
Gain on foreign exchange	**(853,190)**	(479,826)
Gain on settlement of convertible debentures	**(15,382)**	-
Gain on change in value of convertible debentures	**-**	(171,211)
Loss (gain) on change in value of contingent consideration	**954,512**	(901,076)
Loss (gain) on change in value of warrants	**187,271**	(289,709)
Total comprehensive loss	**$ 6,269,834**	$ 6,391,909
Loss per share		
Basic and diluted	**$ 0.03**	$ 0.03
Weighted average number of shares outstanding - basic and diluted	**213,826,049**	185,767,145

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
As at December 31, 2015 and 2014
(Expressed in United States Dollars)

	Share Capital		Issuable Share Capital		Contributed			
	Number	$	Number	$	Surplus	Warrants	Deficit	Total
Balance, December 31, 2013	98,167,697	$ 42,858,892	84,993,204	$ 10,387,828	$ 6,654,698	$ 108,381	$ (42,544,163)	$ 17,465,636
Shares issued as compensation	122,716	14,057	(82,443)	(9,526)	-	-	-	4,531
Shares issued pursuant to an arrangement	66,260,568	8,098,764	(66,260,568)	(8,098,764)	-	-	-	-
Shares issued pursuant to HMI acquisition	18,650,193	2,279,538	(18,650,193)	(2,279,538)	-	-	-	-
Shares issued from private placement	8,972,354	1,071,111	-	-	-	-	-	1,071,111
Fair value assigned to warrants	-	(647,716)	-	-	-	13,285	-	(634,431)
Share issue costs	-	(40,600)	-	-	-	-	-	(40,600)
Warrants expired	-	-	-	-	80,707	(80,707)	-	-
Net loss for the period	-	-	-	-	-	-	(6,391,909)	(6,391,909)
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	-	-
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	-	-	-	-	-	-	(6,269,834)	(6,269,834)
Balance, December 31, 2015	**220,914,874**	**56,350,520**	**-**	**-**	**7,083,896**	**859,992**	**(55,205,906)**	**9,088,502**

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

CONSOLIDATED STATEMENTS OF CASHFLOWS
For the year ended December 31, 2015 and 2014
(Expressed in United States Dollars)

	Year ended December 31, 2015	2014
Cash generated from (used in)		
Operating activities		
Net loss for the period	**$ (6,269,834)**	$ (6,391,909)
Items not affecting cash:		
Change in fair value of warrants	**187,271**	(289,709)
Gain on settlement of contingent consideration	**(416,000)**	-
Gain on settlement of debenture payable	**(15,382)**	-
Gain on change in fair value of convertible debentures	**-**	(171,211)
Loss (gain) on change in fair value of contingent consideration	**954,512**	(901,076)
Mineral property write-off	**-**	5,540,049
Unrealized foreign exchange gain	**(889,575)**	(479,826)
Share-based compensation	**348,491**	-
Amortization	**42,610**	29,714
Accretion	**21,599**	87,832
	(6,036,308)	(2,576,136)
Net change in non-cash working capital		
Accounts receivable	**(20,656)**	77,598
Prepaid expenses	**20,547**	(62,183)
Accounts payable and accrued liabilities	**615,434**	(963,391)
Contingent consideration	**(1,000,000)**	-
Security deposit	**136,634**	(6,192)
Net cash generated from (used in) operating activities	**$ (6,284,349)**	$ (3,530,304)
Investing activities		
Increase in mineral properties	**(5,783,752)**	(1,545,578)
Net cash used in investing activities	**$ (5,783,752)**	$ (1,545,578)
Financing activities		
Receipt of silver stream	**12,350,000**	-
Issuance of common shares, net of share issue costs	**3,300,000**	1,025,978
Exercise of warrants	**10,507**	-
Cash receivable from arrangement	**-**	4,221,730
Repayment of debenture	**(736,552)**	-
Net cash generated from financing activities	**$ 14,923,955**	$ 5,247,708
Increase in cash	**2,855,854**	171,826
Effect of foreign exchange on cash	**(42,869)**	
Cash, beginning of period	**461,175**	289,349
Cash, end of period	**$ 3,274,160**	$ 461,175

The accompanying notes are an integral part of these 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.

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

	December 31, 2015	December 31, 2014
Deficit	**$55,205,906**	$48,936,072
Working capital	**1,548,727**	(1,367,652)

2. Accounting Policies

a) Statement of Compliance

The consolidated financial statements of the Company and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (”IFRS”), as issued by the International Accounting Standards Board (“IASB”) and interpretations issued by International Financial Reporting Interpretations Committee (“IFRIC”) and included in Part 1 of the Handbook for the Canadian Institute of Chartered Professional Accountants, and include the significant accounting policies as described in note 3.

These consolidated financial statements were authorized for issuance by the Board of Directors of the Company on March 30, 2016.

b) Basis of Presentation

These 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 consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

In the preparation of these 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 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 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) New Accounting Pronouncements Adopted During the Period

IAS 24, Related Party Disclosures ("IAS 24")

The amendments to IAS 24, issued in December 2013, clarify that a management entity, or any member of a group of which it is a part, that provides key management services to a reporting entity, or its parent, is a related party of the reporting entity. The amendments also require an entity to disclose amounts incurred for key management personnel services provided by a separate management entity. This replaces the more detailed disclosure by category required for other key management personnel compensation. The amendments will only affect disclosure and are effective for annual periods beginning on or after July 1, 2014. The Company adopted the amendments on January 1, 2015, with no material impact its Company's consolidated financial statements.

e) 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. Critical Accounting Estimates, Risks and Uncertainties

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 judgment and estimation uncertainty that have a significant risk of causing material adjustment to the amounts recognized in the financial statements are:

a) Impairments 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.

b) Accounting for streaming agreement

The company has entered into a streaming arrangement in 2015 and received $12.35 million in the year which are being used for the development of the Back Forty mine. Refer to Note 9 (b) for further details.

c) 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.

d) 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.

4. Significant Accounting Policies

a) Translation of foreign currencies

The United States dollar is the functional and reporting currency of the Company's 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 on the date of transaction. Transactions in foreign currencies are translated at the actual rates of exchange on the transaction dates.

Gains and losses on foreign currency translation are recorded in the consolidated statement of net loss and comprehensive loss. Transaction for revenues and expenses are translated at the average rates during the period in which they occurred with the exception of the amortization of capital assets which is recorded at the historical rates of exchange.

b) Cash and cash equivalents

Cash and cash equivalents include cash and highly liquid short-term investments held in the form of high quality money market investments with a maturity date of less than three months at acquisition. The Company's cash and cash equivalents are held in Canadian and United States financial institutions with strong credit ratings. Approximately 98% of the Company's cash and cash equivalents are held in Canadian financial institutions. As at December 31, 2015 and December 31, 2014, the cash and cash equivalents balance was composed entirely of cash.

c) Impairment

Financial assets
At the end of each reporting period, the Company assesses its financial assets to determine whether there is any objective evidence that they are impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the statement of comprehensive loss.

Non-financial assets
At the end of each reporting period, non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs of disposal, the asset is written down accordingly. Any impairment is recognized in the statement of loss.

Reversal of Impairment
An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. An impairment loss with respect to goodwill is never reversed.

d) Mineral property costs

Mineral property costs relating to the acquisition of properties, that are incurred after the legal right to explore has been obtained, are capitalized until the properties are brought into production, at which time they are amortized on a unit of production basis. Other exploration expenses are charged to operations as incurred. The cost of exploration properties abandoned, impaired or sold and their related capitalized acquisition costs are expensed to operations in the year of abandonment or sale. The amounts shown as mineral property costs represent unamortized costs to date and do not necessarily reflect present or future values.

Costs include the cash consideration and the fair market value of shares issued for the acquisition of properties. The carrying value is reduced by option proceeds received until such time as the mineral property costs are reduced to nominal amounts. Properties acquired under option agreements, whereby payments are made at the sole discretion of the Company are recorded in the accounts at the time of payment.

When a project is considered to no longer have commercially viable prospects for the Company, deferred mineral property costs in respect of that property are assessed as impaired and written off to the statement of loss. The Company also assesses mineral property costs for impairment when other facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount.

e) Capital assets

Capital assets consist of land, buildings, furniture and fixtures which are initially recorded at cost. Depreciation is recorded using the following rates and methods:

Buildings	4%	Declining balance
Furniture and fixtures	20%	Declining balance

Depreciation on additions commences when assets are available for use.

f) Provisions

Provisions, which include decommissioning liabilities, are liabilities that are uncertain in timing or amount. The Company records a provision when:

(i) the Company has a present obligation, legal or constructive, as a result of a past event;
(ii) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
(iii) a reliable estimate can be made of the amount of the obligation.

Constructive obligations are obligations that derive from the Company's actions where:

(i) by an established pattern of past practice, published policies or a sufficiently specific current statement, the Company has indicated to other parties that it will accept certain responsibilities; and
(ii) as a result, the Company has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Provisions are reviewed at the end of each reporting period and adjusted to reflect management's current best estimate of the expenditure required to settle the present obligation at the end of the reporting period. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed. Provisions are reduced by actual expenditures for which the provision was originally recognized. Where discounting has been used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase (accretion expense) is included in finance costs in the statements of loss and comprehensive loss.

g) Deferred revenue

The Company recognizes deferred revenue in the event it receives payments from customers before a sale meets criteria for revenue recognition.

h) Income taxes

Income tax expense comprises current and deferred income tax. Income tax is recognized in the statement of loss except to the extent it relates to items recognized in other comprehensive loss or directly in equity.

Current income tax
Current income tax expense is based on the results for the period as adjusted for items that are not taxable and not deductible. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period. Management at the end of each reporting period evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax
Deferred income taxes are the taxes expected to be payable or recoverable on differences between the carrying amounts of assets in the financial statements and their corresponding tax bases used in the computation of taxable profit, and are accounted for using the asset and liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences between the carrying amounts of assets and their corresponding tax bases. Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

i) Share-based compensation

The Company applies the fair value method of accounting for share-based payments granted to employees and other individuals providing similar services. The fair value of the options is determined using an option pricing model that takes into account, as of the grant date, the exercise price, the expected life of the option, the current price of the underlying stock and its expected volatility, expected dividends on the stock, and the risk free interest rate over the expected life of the option. Each tranche of an option that vests over time is considered a separate

award and the fair value of each tranche is expensed over its vesting period with the corresponding credit to contributed surplus. Cash consideration received on exercise of options is credited to share capital along with the original grant date fair value of the options exercised. The value of options forfeited before vesting is removed from contributed surplus and credited to operations, while the value of options that expire after vesting is credited directly to retained earnings.

Share-based payments granted to non-employees are measured at the fair value of goods received unless that cannot be reasonably estimated in which case the fair value of the share-based payments are used. The measurement date is generally the date the goods or services are received.

j) Warrants

All warrants issued under a unit financing arrangement are valued on the date of grant using the Black-Sholes option pricing model, net of related issue costs and are recorded in the warrant reserve. Expired warrants are removed from contributed surplus and credited directly to retained earnings. Where warrants are denominated in a currency other than the Company's functional currency, they are considered a derivative liability and marked to market at each period and using the Black-Sholes method.

k) Basic and diluted loss per share

The Company presents basic and diluted loss per share data for its common shares. Dilution is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares, which comprise convertible warrants and share options granted to directors, officers, employees, consultants and other service providers of the Company. For the period ended December 31, 2015, potentially dilutive common shares issuable on exercise of options or warrants outstanding and conversion options were not included in the computation of loss per share because their effect was anti-dilutive.

l) Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

At initial recognition, the Company classifies its financial instruments in the following categories:

(i) Financial Assets and Liabilities at Fair Value Through Profit or Loss: A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short term. Financial instruments in this category are recognized initially and subsequently at fair value.

(ii) Available-for-sale Investments: Non-derivatives that are either designated in this category or not classified in any other category. Available-for-sale investments are initially recognized at fair value plus transaction costs and subsequently carried at fair value with changes in fair value recognized in other comprehensive loss. The Company classifies its short term investments as available-for-sale investments.

(iii) Loans and Receivables: Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise trade receivables and cash and cash equivalents, and are included in current assets due to their short term nature. Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the amount to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest rate method less a provision for impairment.

(iv) Financial Liabilities at Amortized Cost: Trade payables and other payables are classified as financial liabilities at amortized cost. Trade payables and other payables are initially recognized at the amount expected to be paid, less, when material, a discount to reduce the amount to fair value. Subsequently trade payables and other payables are measured at amortized cost using the effective interest rate method.

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments recorded at fair value by valuation technique:

Level 1: The fair value measurements are classified as level 1 if the fair value is determined using quoted, unadjusted market prices for identical assets or liabilities.

Level 2: The fair value measurements are classified as level 2 when inputs other than quoted prices in level 1 which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: The fair value measurements are classified as level 3 when inputs require unobservable market data or use statistical techniques to derive forward curves from observable market data and unobservable inputs.

5. 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 December 31, 2015, a time value of money calculation was utilized to value the contingent consideration. Each milestone payment was assessed separately. Key risks including permitting, feasibility study, commercial production and timing were each assigned a probability weighting based on the likelihood of occurrence. U.S. Department of the Treasury bond yields ranging from 1.06% to 1.93% 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 $1,149,000 to $1,250,000. 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 $83,200.

The fair value of the contingent consideration as of December 31, 2015 is as follows:

Milestone payments	$5,304,000
1% NSR royalty	1,696,000
Fair value as at December 31, 2013	$7,000,000
Gain on change in fair value of contingent consideration	(901,076)
Change due to foreign exchange	(539,024)
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**

6. Mineral Property Costs

Total accumulated deferred mineral property costs are detailed as follows:

Year ended December 31, 2014	Balance beginning of period	Acquisition	Adjustment/ Write-off	Balance, end of period
Back Forty Project	$15,747,695	$1,488,414	-	$17,236,109
Reef Gold Project	147,012	30,219	-	177,231
REBgold Acqusition	5,513,104	26,945	(5,540,049)	-
	$21,407,811	$1,545,578	$(5,540,049)	$17,413,340

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**

(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.

During the year, $4.2 million of the acquisition costs related to the Vale royalty repayment (Note 9 (d)) and $1.5 million relates to additional land acquisitions.

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 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.

7. Capital Assets

Cost	Land	Buildings	Furniture and Fixtures	Total
Balance, December 31, 2015 and 2014	**$ 380,880**	**$ 541,017**	**$ 33,382**	**$ 955,279**

Accumulated Depreciation	Land	Buildings	Furniture and Fixtures	Total
Balance, December 31, 2013	$ -	$ 86,589	$ 22,960	$ 109,549
Charge	-	19,650	10,146	29,796
Balance, December 31, 2014	$ -	$ 106,239	$ 33,106	$ 139,345
Charge	-	42,334	276	42,610
Balance December 31, 2015	**$ -**	**$ 148,573**	**$ 33,382**	**$ 181,955**

	Land	Buildings	Furniture and Fixtures	Total
Net book value, December 31, 2014	$ 380,880	$ 434,778	$ 276	$ 815,934
Net book value, December 31, 2015	**$ 380,880**	**$ 392,444**	**$ -**	**$ 773,324**

8. Debentures Payable

Year ended December 31,	**2015**	2014
Convertible debenture maturing April 2, 2015	**$ -**	$423,640
Convertible debenture maturing April 13, 2015	**-**	344,645
	$ -	$768,285

a) Convertible Debenture Maturing April 2, 2015

In April 2013, REBgold (a subsidiary of the Company) closed CDN$510,000 of convertible debentures bearing interest at 8% per annum, compounded and payable upon the maturity date of April 2, 2015. The debentures are convertible into common shares by the holders at any time at a price of CDN15 cents per common share. The CDN$510,000 debenture plus all applicable interest was paid to the holders on April 5, 2015. No debentures were converted into common shares.

b) Convertible Debenture Maturing April 13, 2015

In October 2010, REBgold closed CDN$430,000 convertible, redeemable debentures that bear interest at a fixed rate of 18% per year and are convertible into 430,000 common shares of the Company at a price of CDN$1.00 per share. In addition, REBgold issued 430,000 common share purchase warrants to the debenture holders with an exercise price of CDN$1.20.

In December 2010, REBgold completed a Plan of Arrangement with a company called BacTech Environmental Corporation ("BEC"), whereby BEC assumed 20% of the debenture obligation from REBgold. At that time, 20%

of the book value of the debenture obligation was CDN$66,642; this would accrete to CDN$86,000 over the remaining life of the debenture. Upon maturity, REBgold would repay the debenture obligation and accrued interest to the debenture holders and receive from BEC 20% of the principal plus 20% of the interest accrued from December 2, 2010 to maturity.

In April, 2012, REBgold extended the maturity date of the CDN$410,000 principal amount of the outstanding convertible debentures and 410,000 common share purchase warrants, by three years, with an original maturity date of April 13, 2012 and a new maturity date of April 13, 2015.

The debentures were measured on the acquisition of REBgold at their fair value, with the conversion feature considered to be an embedded derivative, being valued first, and the residual assigned to the debentures.

On April 13, 2015, the CDN$410,000 convertible debenture was repaid in full. The 410,000 share purchase warrants expired unexercised. The CDN$86,000 owed by BEC is included in accounts receivable.

9. 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 December 31, 2015, 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 10(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 Streamon the Statement of Financial Position as at December 31, 2015. 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 December 31, 2015.

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 5. 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 5). 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.

10. Share Capital

a) Authorized

Unlimited number of common shares.

Issued and outstanding:

	Number of Shares	Total
Balance, December 31, 2013	98,167,697	$42,858,892
Shares issued as compensation (i)	122,716	14,057
Shares issued pursuant to Arrangement (ii)	66,260,568	8,098,764
Shares issued pursuant to HMI Acquisition (ii)	18,650,193	2,279,538
Shares issued pursuant to private placement (iii)	8,972,354	1,071,111
Fair value assigned to warrants (iii)	-	(647,716)
Share issue costs (iii)	-	(40,600)
Balance, December 31, 2014	192,173,528	$53,634,046

	Number of Shares	Total
Balance, December 31, 2014	192,173,528	$53,634,046
Shares issued from private placement, net of costs (iv)	26,923,077	3,500,000
Transaction costs relating to private placement	-	(200,000)
Fair value assigned to warrants (iv)	-	(807,692)
Transaction costs assigned to warrants (iv)	-	34,000
Shares issued on settlement of royalty obligation (v)	1,730,769	225,000
Fair value assigned to warrants on settlement of royalty obligations (v)	-	(51,923)
Shares issued on exercise of warrants (vi)	87,500	17,089
Balance, December 31, 2015	**220,914,874**	**$56,350,520**

i) During the year ended December 31, 2014, 122,716 common shares were issued with a value of $14,057. The shares were issued under a compensation agreement and the value was equal to the value of the services received.

ii) As per the terms of the Plan of Arrangement, 64,825,568 Aquila shares were issuable in exchange for all of the outstanding shares of REBgold. Aquila also issued 18,650,193 to HudBay Minerals Inc. for the acquisition of 51% of the Back Forty Joint Venture LLC and 1,435,000 shares were granted to directors, officers and consultants of Aquila and REBgold.

iii) During the year ended December 31, 2014, the Company completed a private placement and issued 8,972,354 units consisting of a common share and a full warrant at a price of CDN $0.13 for gross proceeds of $1,071,111. Cash share issue costs in the amount of $40,600 were incurred.

Each full warrant entitles the holder to purchase a common share of the Company for a period of 3 years from date of issue at an exercise price of CDN $0.15 per share. In addition, 238,572 broker warrants were issued entitling the holder to purchase a common share of the Company for a period of 3 years from date of issue at an exercise price of CDN $0.15 per share. A fair value of $647,716 was estimated and assigned to the warrants, with $13,285 was assigned to the broker warrants and the balance of $634,431 assigned to the remaining warrants which are classified as a warrant liability. The fair value was estimated using the Black-Scholes valuation model under the following assumptions; risk free interest rate 1.19%, expected life 3 years, price volatility 113%, share price CDN $0.12, dividend yield nil. The Company estimated volatility based on the Company's three year historical volatility prior to the grant.

iv) 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 9).

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 11(b) for further details.

v) 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 11(b) for further information.

vi) 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 10(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 year ended December 31, 2015 are presented below:

	Number of Stock Options	Weighted Average Exercise Price CDN	
Balance - January 1, 2013	14,310,000	$	0.16
Forfeited options	(195,000)		0.21
Balance, January 1, 2013 and December 31, 2014	**14,115,000**	**$**	**0.16**

	Number of Stock Options	Weighted Average Exercise Price CDN	
Balance - January 1, 2015	14,115,000	$	0.16
Granted (i)	3,950,000		0.19
Granted (ii)	1,400,000		0.19
Forfeited options	(1,565,000)		0.27
Balance, December 31, 2015	**17,900,000**	**$**	**0.16**

(i) On April 7, 2015, the Company granted 3,950,000 options, of which 1,000,000 options vest immediately. The remaining 2,950,000 options vest as follows: 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 19 cents until April 6, 2020.

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 99%, risk free interest rate 0.59%, and an expected life of 5 years. The stock options were assigned a value of $379,484, of which $289,248 was charged to income with the offset to contributed surplus during the year ended December 31, 2015. The remaining fair value balance of $90,236 is to be charged to income in future periods.

(ii) On June 26, 2015, the Company granted 1,400,000 options, of which 25% vest on issuance, 25% in 12 months, 25% in 24 months and 25% in 36 months, to directors and an officer of the Company, each such option entitling the holder to acquire one common share of the Company at an exercise price of CDN 19 cents until June 25, 2020.

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 99%, risk free interest rate 0.87%, and an expected life of 5 years. The stock options were assigned a value of $123,292, of which $59,243 was charged to income with the offset to contributed surplus during the year ended December 31, 2015. The remaining fair value balance of $64,048 is to be charged to income in future periods.

As at December 31, 2015, 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	12,550,000 *	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
	17,900,000	15,012,500	$ 0.16	3.44

* Issued under plan of arrangement.

11. Warrants

The movements in the number and estimated fair value of outstanding broker warrants and share purchase warrants for the year ended December 31, 2015 and 2014 are as follows:

a) Canadian Dollar Warrants

	2015		2014	
	Number of warrants	**Weighted average exercise price (CDN)**	Number of warrants	Weighted average exercise price (CDN)
Balance, January 1	**18,561,126**	**$0.44**	9,550,200	$0.72
Exercised (note 10a(vi))	**(87,500)**	**0.15**	-	-
Granted (note 10a(iii))	**-**	**-**	9,210,926	0.15
Expired	**(2,111,500)**	**1.04**	(200,000)	0.51
Balance, December 31,	**16,362,126**	**$0.36**	18,561,126	$0.44

b) US Dollar Warrants

	2015		2014	
	Number of warrants	**Weighted average exercise price (USD)**	Number of warrants	Weighted average exercise price (USD)
Balance, January 1	**-**	**$0.00**	-	$0.00
Issued (notes 9a,9c,10a(iv)&10a(v))	**14,326,924**	**0.19**	-	-
Balance, December 31,	**14,326,924**	**$0.19**	-	$0.00

The exercise price, expiry date, and warrants issued and outstanding as at December 31, 2015 are as follows:

Number of warrants outstanding	Exercise Price CDN	Expiry Date	Weighted average life (yrs)
72,450	$ 0.15	January 16, 2016	0.04
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
16,362,126	**$ 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**

Subsequent to year end, 45,500 Canadian dollar warrants were exercised for proceeds of $6,825 and 26,950 Canadian dollar warrants expired unexercised.

12. Derivative Liabilities

a) Warrants

During the year ended December 31, 2015, no equity offerings were completed whereby warrants were issued with exercise prices denominated in Canadian dollars (December 31, 2014 – 18,561,126 warrants). 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 December 31, 2015, the Company had 15,867,354 (December 31, 2014 – 17,978,851) 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 10a for further information.

For the year ended December 31,	**2015**	2014
Risk-free interest rate	0.48%	1.00-1.21%
Expected life	1-3 years	1-3 years
Price volatility	89-100%	91-118%
Share price (CDN$)	0.17	0.1
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.

13. 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 year ended December 31, 2015, director's fees, professional fees and other compensation of directors and key management personnel were as follows:

For the year ended December 31,	**2015**	**2014**
Short-term compensation and benefits	**$ 885,344**	$730,500
Share-based payments (fair value of stock option benefits and share based payments)	**348,491**	-
	$1,233,835	$730,500

As at December 31, 2015, $1,998 (December 31, 2014 - $4,310) is included in accounts payable in connection with amounts due to key management personnel.

During the year ended December 31, 2015 a total of $91,250 (2014 - $51,750) was billed to the Company by a geological consulting company of which the VP of Exploration is the president.

During the year ended December 31, 2015 rental expenditures in the amount of $14,400 (2014 - $14,400) were paid to a company of which the VP, Exploration is a part owner.

During the year ended December 31, 2015, a total of $88,377 (2014 - $245,544) was billed to the Company by a consulting company of which the Chief Executive Officer is the owner.

During the year ended December 31, 2015, a total of $69,045 (2014 - $24,989) was billed to the Company by a consulting company of which the VP, Project Development is the owner.

14. Administrative Expenses

For the year ended December 31,	2015	2014
Amortization	**$ 42,610**	$ 29,714
Management and consulting fees	**293,550**	652,056
Directors' fees	**150,046**	157,968
Filing and regulatory fees	**76,428**	80,449
Office, general and administration	**159,886**	361,121
Professional fees	**182,123**	214,328
Rent	**42,703**	48,161
Salaries and benefits	**514,884**	228,119
Share-based compensation	**348,491**	-
Travel and promotion	**149,269**	176,419
	$1,959,990	$1,948,335

15. Finance Charges

For the year ended December 31,	2015	2014
Interest and bank charges	**$ 4,840**	$ 5,131
Interest income	**(246)**	(53,904)
Debenture interest	**25,602**	90,395
Debenture accretion	**21,599**	87,832
	$51,795	$129,454

16. Income Taxes

The Company's provision for income taxes differs from the amounts computed by applying the basic current rate of 26.50% (2014 – 26.50%) to the loss for the year before taxes as shown in the following table at December 31:

For the year ended December 31,	**2015**	2014
Loss before taxes	**$ 6,269,834**	$ 6,391,909
Expected income tax benefit based on statutory rate	**(1,661,506)**	(1,693,856)
Increase (decrease) to the income tax benefit resulting from:		
Stock based compensation	**92,350**	-
Non-deductible and permanent differences	**1,648,989**	1,117,256
Foreign exchange difference	**722,864**	381,700
True of previous year's tax attributes	**623,844**	1,555,400
Expiry of non-capital losses	**268,495**	140,200
Share issuance costs incurred	**(53,000)**	(10,700)
Effect of higher tax rate in foreign jurisdiction	**(69,108)**	585,520
Increase in unrecognized portion of deferred tax assets	**(1,572,928)**	(2,075,520)
Total assets	**$ -**	$ -

The tax effects of temporary differences that give rise to deferred income tax assets are as follows at December 31:

For the year ended December 31,	**2015**	2014
Deferred income tax assets (liabilities)		
Non-capital loss carry forward	**$18,021,103**	$17,411,100
Mineral property	**(442,630)**	1,283,900
Capital assets	**(18,436)**	73,600
Share issue costs	**58,963**	16,900
Transaction costs	**149,597**	282,900
	17,768,597	19,068,400
Tax benefit of losses not recognized	**(17,768,597)**	(19,068,400)
Deferred income tax	**$ -**	$ -

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilize the benefits therefrom.

The Company has non-capital losses in Canada and non-operating losses in the United States of approximately $51,457,349 (2014 - $50,094,516) which expire through 2034. The benefit of these losses has not been recognized for financial statements purposes. During the year, the Company paid $Nil (2014 - $Nil) in respect of income taxes.

The Tax Reform Act of 1986 contains provisions that limit the utilization of net operating loss and tax credit carry forwards if there has been a change in ownership as described in Section 382 of the Internal Revenue Code. As a result of transactions undertaken by the Company in 2015 and prior years, changes in the Company's ownership

have occurred that may limit or reduce the amount of net operating loss carry forwards that the Company could utilize in the future to offset taxable income. The Company has not completed a detailed Section 382 study at this time to determine what impact, if any, that ownership changes may have had on its operating loss carry forwards. In the current period, the Company has not recognized a deferred tax asset in respect of its net operating loss carry forward balance as the realization of the deferred tax asset is uncertain. As a result, the Company has not recognized any federal or state income tax benefit in its consolidated statement of operations and comprehensive loss.

17. Segmented Information

An operating segment is a component within Aquila that engages in business activities from which it may earn revenues and incur expenses (including expenses relating to transactions with other components of the Company), whose operating results are regularly reviewed by the entity's chief operating decision maker, the chief executive officer, to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

The Company's operations consist of a single reportable segment engaged in the acquisition and exploration of precious metals projects. As the operations comprise a single reporting segment, amounts disclosed in the consolidated financial statements also represent segment amounts. The Company has a head office located in Toronto, Canada.

Geographical Information

The Company now operates in two principal geographical areas – United States and Canada. Geographical segmentation of the Company's assets as at December 31, 2015 and 2014 is as follows:

As at December 31, 2015	**United States**	**Canada**	**Total**
Mineral property interests	**$ 23,197,092**	**$ -**	**$ 23,197,092**
Property and equipment	**773,324**	**-**	**773,324**
Security deposits	**35,982**	**-**	**35,982**
Total non-current assets	**$ 24,006,398**	**$ -**	**$ 24,006,398**

As at December 31, 2014	United States	Canada	Total
Mineral property interests	$ 17,413,340	$ -	$ 17,413,340
Property and equipment	815,536	398	815,934
Security deposits	172,616	-	172,616
Total non-current assets	$ 18,401,492	$ 398	$ 18,401,890

The following table summarizes the net loss by geographic segment for the years ended December 31, 2015 and 2014:

Year ended December 31, 2015	**United States**	**Finland**	**Canada**	**Total**
General and administration	**$ 519,095**	**$ -**	**$ 1,398,285**	**$ 1,917,380**
Depreciation	**42,334**	**-**	**276**	**42,610**
Foreign exchange loss (gain)	**-**	**-**	**(853,190)**	**(853,190)**
Exploration and evaluation expenditures	**3,882,274**	**-**	**-**	**3,882,274**
Gain on settlement of contingent consideration	**-**	**-**	**(416,000)**	**(416,000)**
Gain on settlement of convertible debenture	**-**	**-**	**(15,382)**	**(15,382)**
Loss on change in value of contingent consideration	**-**	**-**	**954,512**	**954,512**
Loss on change in value of warrants	**-**	**-**	**187,271**	**187,271**
Transaction costs	**-**	**-**	**518,564**	**518,564**
Finance charges	**1,549**	**-**	**50,246**	**51,795**
Net loss	**$ 4,445,252**	**$ -**	**$ 1,824,582**	**$ 6,269,834**

Year ended December 31, 2014	United States	Finland	Canada	Total
General and administration	$ 164,793	$ -	$ 1,753,828	$ 1,918,621
Depreciation	27,561	-	2,153	29,714
Foreign exchange loss	-	-	(479,826)	(479,826)
Exploration and evaluation expenditures	615,893	-	-	615,893
Gain on change in value of convertible debentures	-	-	(171,211)	(171,211)
Gain on change in value of contingent consideration	-	-	(901,076)	(901,076)
Gain on change in value of warrants	-	-	(289,709)	(289,709)
Mineral property interests writedown	-	5,540,049	-	5,540,049
Finance charges	(40,369)	-	169,823	129,454
Net loss	$ 767,878	$ 5,540,049	$ 83,982	$ 6,391,909

18. Capital Management

The Company considers its capital to include all of the components of its shareholders' equity.

The Company's objectives in managing its capital are: to maintain adequate levels of funding to support its expenditures arising from the Company's investments; to safeguard the Company's ability to continue as a going concern in order to pursue the exploration of its properties; to maintain a flexible capital structure for its projects for the benefit of its stakeholders; to maintain corporate and administrative functions necessary to support the Company's operations and corporate functions; to seek out and acquire new projects of merit.

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company in order to support the acquisition, exploration and development of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed.

The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

The Company's investment policy is to invest excess cash in low risk, highly liquid, short-term interest bearing investments, selected with regards to the expected timing of upcoming expenditures.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

19. Financial Instruments

The carrying amounts for cash, accounts receivable, accounts payable and accrued liabilities approximate their estimated fair value due to the short term nature of these financial instruments.

Cash and accounts receivable are classified as loans and receivables and are recorded at amortized cost, which upon their initial measurement is equal to their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

Accounts payable and accrued liabilities are classified as other financial liabilities and are initially measured at their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

Warrants, contingent consideration and the debenture conversion feature are carried at fair value.

The Company's risk exposures and the impact on its financial investments as summarized below, have not changed significantly for the year ended December 31, 2015.

a) Credit Risk

The Company's credit risk is primarily attributable to cash and accounts receivable. The Company has no significant concentration of credit risk arising from operations. Management believes that the credit risk concentration with respect to the financial instrument included in accounts receivable is immaterial. The Company has a concentration of credit risk related to its cash, the majority of which is held at one banking institution. This risk is mitigated in that the Company holds its primary cash in deposit form in a major Chartered Canadian bank. The Company's subsidiaries' cash is held in deposit form in internationally recognized banks. The maximum exposure to credit risk for deposits approximates the amount recognized on the statement of financial position.

b) Liquidity Risk

The Company's main source of liquidity is derived from its common stock issuances and from silver stream deposits. As at December 31, 2015, the Company had current assets of $3,942,680 (December 31, 2014 - $679,586) to settle current liabilities of $1,943,951 (December 31, 2014 - $2,047,237). All of the Company's financial liabilities have contractual maturities that are subject to normal trade terms and are due within one year, other than the payment of the contingent consideration is subject to certain conditions being present as described in Note 5.

c) Market Risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates and commodity prices.

(i) Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company has cash balances and no interest bearing debt. The Company's current policy is to invest excess cash in investment grade short term deposit certificates issued by its banking institutions. The Company monitors its cash balances and is satisfied with the creditworthiness of its banks. As a result, the Company's exposure to interest rate risk is minimal.

(ii) Foreign Currency Risk

The Company is exposed to currency risk arising from fluctuations in foreign exchange rates. The Company raises funds from equity financing in both United States dollars and Canadian dollars. A significant amount of expenditures relating to its mineral property interests is paid in United States dollars.

(iii) Price Risk

The Company is exposed to price risk with respect to commodity prices as it relates to the valuation of the properties being explored or developed. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company. The Company does not hedge against commodity price risk.

d) Sensitivity Analysis

The Corporation is exposed to foreign currency risk on fluctuations of financial instruments related to cash, accounts receivable, and accounts payable and accrued liabilities that are denominated predominantly in Canadian Dollars. Sensitivity to a plus or minus 10% change in the foreign exchange rate would not significantly affect net loss.

e) Fair value hierarchy

The following is an analysis of the Company’s assets and liabilities measured at fair value on recurring and non-recurring basis:

	Level 1	Level 2	Level 3
Warrants liability		$ 727,465	
Contingent consideration			$ 4,116,623

The valuation technique that is used to measure fair value of the contingent consideration is a present value calculation using unobservable probabilities, and as a result is classified within Level 3 of the fair value hierarchy. Refer to Note 5 for disclosure of the inputs used in this calculation.