Aquila Resources Inc.

AQUILA RESOURCES INC.
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2015

General

The following management discussion and analysis ("**MD&A**") of financial results is dated March 30, 2016 and reviews the business of Aquila Resources Inc. (the "**Company**" or "**Aquila**") for the year ended December 31, 2015, 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 consolidated financial statements and related notes for the year ended December 31, 2015 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.

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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").

Fourth Quarter Highlights

- Aquila submitted a Mine Permit Application for its flagship Back Forty project with the Michigan Department of Environmental Quality ("MDEQ"). The Mine Permit Application was subsequently deemed to be administratively complete by the MDEQ.
- Received $3.0 million associated with the silver stream component of its multi-level financing agreement with Orion Mine Finance that was signed in March 2015. To date, Aquila has received silver stream payments totaling $12.35 million.
- Named Edward Munden as interim Chairman of the Company's Board of Directors.
- Completed an exploration drilling program at Back Forty. 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.
- As at December 31, 2015, Aquila had cash of $3.3 million and working capital of $1.5 million. These compare to cash of $461,175 and a working capital deficit of $1.4 million at December 31, 2014.

Year End Highlights

- Closed a multi-level financing transaction with Orion Mine Finance that consisted of a $17.25-million silver stream and a $3.5 million private placement for a total funding of $20.75 million.
- Concurrent with the transaction, Aquila repurchased the existing royalties associated with the Back Forty project for cash consideration of $5.0 million.
- Strengthened the management team by appointing Stephanie Malec as Chief Financial Officer and Andrew Boushy as Vice President of Project Development.
- Added Andrew Dunn and Kevin Drover to the Company's Board of Directors.
- Repaid $736,552 worth of debentures that had reached maturity.
- Commissioned the University of Minnesota to complete a study examining the economic impact and benefits that development of Back Forty will have on Michigan's Upper Peninsula and Menominee County in particular.

Outlook

- 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, who will be supported by a group of globally-recognized experts and specialist engineering companies.
- 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.
- The Company is currently focused on permitting its Back Forty project. The DEQ is completing is in the process of completing its technical review of the Company's permit application. Aquila expects a decision on the permit later this year. In addition to ongoing communications with various levels of government and different regulatory agencies, Aquila will continue to engage in dialogue with various community stakeholders.

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 43-101Standards 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. Acquisition Transactions

On November 7, 2013 the Company announced a series of transactions which were subsequently completed on January 16, 2014. The transactions have been reflected as of December 30, 2013, the date on which the shareholders of Aquila and REBgold Corporation ("**REBgold**") approved the transactions. The transactions consisted of:

- a statutory plan of arrangement pursuant to which the Company acquired all of the outstanding shares of REBgold in exchange for shares of the Company on a 1-for-1 basis (the "Arrangement");
- the non-brokered private placement of REBgold shares for gross proceeds of approximately CDN$4.85 million (the "REBgold Financing"). Pursuant to the REBgold Financing, Baker Steel Capital Managers LLP, on behalf of investment funds managed or controlled by it ("Baker Steel"), REBgold's larger shareholder, invested CDN$4.5 million of such gross proceeds. Proceeds from the REBgold Financing will be used for general working capital and to fund the next phase of development activity at Back Forty; and
- 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.

(collectively, the "**Acquisition Transactions**")

The Acquisition Transactions closed on January 16, 2014. Pursuant to the REBgold Financing, REBgold issued a total of 37,300,385 shares at a price of CDN$0.13 cents per share for gross proceeds of approximately CDN$4.85-million. All shares issued pursuant to the REBgold Financing were immediately exchanged for Aquila shares on a one-for-one basis in accordance with the terms of the Arrangement. In connection with the issuance of 2,285,000 REBgold shares for gross proceeds of CDN$297,050 as part of the REBgold Financing, REBgold paid broker compensation consisting of: (i) a cash commission equal to 7% of the gross proceeds related to such subscriptions; and (ii) non-transferable broker warrants to purchase a total of CDN$159,950 REBgold shares (representing 7% of the REBgold shares related to such subscriptions) at a price of CDN$0.15 per share for two years from the closing of the REBgold Financing. As a result of completion of the Arrangement, each broker warrant became exercisable for one Aquila share at a price of CDN$0.15 cents per share.

Immediately prior to completion of the Arrangement and related transactions, there were 64,825,568 REBgold shares outstanding (including shares issued pursuant to the REBgold Financing). All of these shares were exchanged for Aquila shares pursuant to the Arrangement on a one-for-one basis.

In connection with HMI Acquisition, Aquila issued 18,650,193 shares to HudBay in satisfaction of the portion of the purchase price for HMI that was payable at closing.

Post closing capital structure and effective date of transaction

Upon completion of the Arrangement, REBgold became a wholly-owned subsidiary of Aquila. REBgold Shares were delisted from the TSXV following completion of the Arrangement and REBgold ceased being a reporting issuer.

Immediately following completion of the Arrangement, the REBgold Financing and the HMI Acquisition, there were 183,160,901 Aquila shares outstanding together with outstanding stock options, convertible debentures and warrants that will collectively be exercisable for up to approximately 27.6 million Aquila shares.

Transaction compensation costs included bonus and settlements of outstanding payable amounts through the issue of shares and disbursement of cash, as well as the issue of stock options to directors, consultants and officers for both REBgold and Aquila. These costs totaled $1,270,701 of which $284,000 was disbursed through cash.

Accounting Treatment of the Back Forty Project

During 2012, the Company transferred its interest in the Back Forty Project to a limited liability company, BFJV. In consideration of the transfers of their respective property interests, the Company and HudBay took back a 49% and 51% interest, respectively, in BFJV. The Company accounted for the transaction as a transfer between mineral properties and investments at its carrying value in 2012. The Company had significant influence over BFJV and accounted for the investment using the equity method.

The Mineral property costs accumulated by the Company on the Back Forty Project up to the time it acquired the 49% interest in BFJV on March 9, 2012 amounted to $9,294,235, and that amount was reflected as the Company's Investment in BFJV. From that point forward, the initial investment amount was adjusted based on the Company's share of the income or losses reported by BFJV.

On December 30, 2013 the Company effectively controlled 100% of the Back Forty Project and changed the classification of the investment to mineral property as a result of completing the HMI Acquisition.

3. Overview of Projects

A. <u>Active Projects</u>

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.

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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 (oz)	Ag (oz)	Cu (lbs)	Pb (lbs)	Zn (lbs)
Category	Tonnes	Au (ppm)	Ag (ppm)	Cu (%)	Pb (%)	Zn (%)	NSR ($/tonne)					
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 (oz)	Ag (oz)	Cu (lbs)	Pb (lbs)	Zn (lbs)
Category	Tonnes	Au (ppm)	Ag (ppm)	Cu (%)	Pb (%)	Zn (%)	NSR ($/tonne)					
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 2015

On September 8, 2014, the Company filed the 2014 PEA for the Back Forty Project. The 2014 PEA includes the NI 43-101 compliant resource estimate for the Back Forty Project that was completed on February 18, 2013.

The 2014 PEA, which incorporates a revised mine plan based on results from the 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 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.

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. This targeted exploration program began in October 2015 with results expected in the second quarter of 2016.

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.071 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.

Finely bedded sulfidic sediments with anomalous zinc and copper were encountered in a highly altered felsic volcanic sequence similar to Back Forty host rocks. 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 Michigan Department of Environmental Quality in November 2015. The Company continued to use the services of Foth based in Green Bay, WI.

Work in the fourth quarter included finalizing the drafting of the permits and ensuring that all of the necessary information is included. 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.

On November 26, 2015 the Company announced that (i) it had received notice from the Michigan Department of Environmental Quality stating that it had performed an initial review of the Mine Permit Application under the requirements of Part 632, Nonferrous Metallic Mineral Mining, of the Natural Resources and Environmental Protection Act, 1994 PA 451, and the DEQ had determined the Back Forty Application is administratively complete. This determination is not meant to be a finding of the adequacy or accuracy of the information submitted. The DEQ is now proceeding with the technical review of the Back Forty Application. It is the Company's intention to continue to evaluate the underground resource potential while mining the open pit section and amend the necessary permits as needed.

Aquila has also engaged SGS Lakefield to perform some preliminary metallurgical test work to support the feasibility study. This program was started in September 2015 and will include some metallurgical drilling, to provide fresh core samples for testing. As well, some of the test work to be performed will also help to advance and optimize the design of the plant and facilities including all environmental test work.

Aquila has also commissioned several studies during the year including a regional economic impact study and a concentrate marketing study. These studies were completed during the fourth quarter.

The Company is also in the planning stages for its feasibility study. Consultants have been engaged for the various technical components required. The feasibility study will focus predominantly on the open pit phase of the mining operation (an 8 year life of mine) aligned with the permitting application including the associated processing plant and site infrastructure. Aquila announced the commencement of the feasibility study in January 2016 with completion anticipated before the end of 2016.

During the year ended December 31, 2015 the Company incurred project exploration expenditures of $3,882,274 (2014 - $571,700). Acquisition costs incurred on the Back Forty Project for the year ended December 31, 2015 were $5,740,699 (2014 – $1,488,414), including the buyback of the royalty from Vale of $4.0 million plus transaction costs of $0.2 million and a final property purchase payment of $1.4 million to a private landowner. 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:

Year	Amount
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 *(1)* 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 year ended December 31, 2015 the Company incurred exploration expenditures of $13,680 (2014 – $44,100). Acquisition costs incurred on the Reef Gold Project for the year ended December 31, 2015 was $43,053 (2014 - $30,219). Ongoing lease 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

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 year ended December 31, 2015 the Company incurred exploration expenditures of $Nil (2014 – $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.

Aquila Resources Inc.

4. Select Annual Financial Information

The following table presents selected financial information for each of the three most recently completed financial years, and has been prepared in accordance with International Financial Reporting Standards.

(Expressed in US dollars)	**2015**	2014	2013
Net loss	**$ 6,269,834**	$ 6,391,909	$ 2,833,144
Revenue	**-**	-	-
Loss per share	**0.03**	0.03	0.03
Total assets	**27,499,078**	19,081,476	27,164,870
Total liabilities	**18,410,576**	7,607,137	9,699,234
Dividends	**-**	-	-

An increase in mineral property exploration expenses of $3.2 million, a loss on the contingent consideration of $0.95 million and transaction costs of $0.5 million are the main differences in the loss for the year ended December 31, 2015 in comparison to the years ended December 31, 2014 and December 31, 2013. The loss was offset by a gain of $0.4 million from the settlement of the royalty piece of contingent consideration and a foreign exchange gain of $0.9 million.

The significant increase in the net loss for the year ended December 31, 2014 compared to December 31, 2013 is due to the mineral property write-off of $5.5 million. This property is held by REBgold and related to its investment in the Finland – Rantasalim and Kiimala project. This net loss was offset by a net gain of $1.36 million on the revaluation of the contingent consideration, the conversion feature of convertible debenture and the warrant liability, for the year ended December 31, 2014.

Losses for the period 2013 show an equity loss pick up from the Company's investment in Back Forty Joint Venture of $381,220. There was no equity pick up in either 2015 or 2014 since the property was controlled 100% by the Company.

Assets increased in 2015 primarily due to a $5.8 million increase in mineral property interests representing the Vale royalty repurchase as well as Back Forty land acquisitions. In addition, the cash position has significantly increased compared to both 2014. The main decrease in assets in 2014 was the $5.5 million write-off of mineral property interests in Finland and a decrease in cash. The increase in total assets in 2013 is the result of the Acquisition Transactions as described in Section 2.

Liabilities increased significantly in 2015 due to the addition of the $12.35 million received as part of the Orion transaction. This offset by decreases to the repayment of the debentures and part of the contingent consideration. Liabilities decreased in 2014 due to a revaluation of the contingent consideration compared to 2013.

5. 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 year ended December 31, 2015:

In US dollars	Year Ended December 31 **2015**	2014
Administrative expenses	**$ 1,959,990**	$ 1,948,335
Mineral property exploration expenses	**3,882,274**	615,893
Mineral property write-off	**-**	5,540,049
Transaction costs	**518,564**	-
Finance charges	**51,795**	129,454
Loss from operations	**6,412,623**	8,233,731
Gain on settlement of contingent consideration	**(416,000)**	-
Gain on foreign exchange	**(853,190)**	(479,826)
Gain on settlement of debentures	**(15,382)**	-
Gain on change in value of debentures	**-**	(171,211)
Loss (gain) on change in value of contingent consideration	**954,512**	(901,076)
Gain on change in fair value of warrant liability	**187,271**	(289,709)
Net and comprehensive loss for the period	**6,269,834**	6,391,909
Net loss per share - basic and diluted	**0.03**	0.03

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 decline of the Canadian dollar relative to the US dollar over the year ended December 31, 2015, continues to have an impact on the comparability of expenditures on a period over period basis. For the year ended December 31, 2015, administrative expenses were $1,959,900, compared to $1,948,335 for the year ended December 31, 2014. Significant components and changes in this expense include:

- Salaries and benefits have increased to $514,884 for the year ended December 31, 2015 compared to expenditures of $228,119 in the same period in the prior year due to increased head count. The Company anticipates that these costs will continue to increase in comparison to the prior year as work moves forward on the development for the Back Forty project and the Company expands its team and commits existing consultants to payroll.
- Share based payments, as explained in Note 10(b) to the consolidated financial statements, were $348,191 for the year ended December 31, 2015. 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 were consistent at $182,123 for the year ended December 31, 2015, from $214,328 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 $293,550 for the year ended December 31, 2015, 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 were consistent for the year ended December 31, 2015 with expenditures of $149,269 compared to $176,419 for the same period in the prior year.
- Office and administrative costs are lower in comparison to the prior year with expenditures of $159,886 for the year ended December 31, 2015 compared to $361,121 in the same period last year as management has actively taken steps to reduce certain office and administrative costs.
- The Company had a foreign exchange gain of $853,190 for the year ended December 31, 2015 compared to a gain of $479,826 in 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 year ended December 31, 2015, mineral property exploration expenditures have significantly increased to $3,882,274, respectively, from $615,893 for the year ended December 31, 2014. With the financing in place from the Orion transaction, the permitting process is steadily moving forward and as such, the costs are increasing in line with the Company's expectations. Costs relate mainly to advancing the permitting process with work performed by Foth in addition to other engineering expenditures for the site plan design and feasibility related activities.

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.

	For the quarters ended:			
In thousands of US dollars	**31-Dec-15**	**30-Sep-15**	**30-Jun-15**	**31-Mar-15**
Statement of Loss				
Transaction costs	$ 75	$ -	$ 145	($738)
Mineral property write-off	-	-	-	-
Net gain (loss) in fair value of contingent consideration, warrants and debentures	(1,162)	(344)	(196)	(88)
Net expenses	(1,953)	(2,213)	(1,060)	(1,186)
Net loss	(2,963)	(1,455)	(1,082)	(769)
Loss per share	0.01	0.01	-	-

	For the quarters ended:			
In thousands of US dollars	**31-Dec-14**	**30-Sep-14**	**30-Jun-14**	**31-Mar-14**
Statement of Loss				
Transaction costs	$ -	$ -	$ -	$ -
Mineral property write-off	(5,540)	-	-	-
Net gain in fair value of contingent consideration, warrants and debentures	1,362	-	-	-
Net expenses	(5,968)	(425)	(890)	(471)
Net loss	(4,606)	(425)	(890)	(471)
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 both 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 $137,680 in the current quarter, $53,968 and $156,843 in the third and second quarters of 2015, respectively, and $nil for the previous five quarters.

Revaluation of the Canadian dollar warrants resulted in a loss of $207,603. This is in comparison to a gain of $343,966 in the third quarter of 2015 and consistent with a loss of $323,634 in the second 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 December 31, 2015, the fluctuation in rates continued as the Canadian dollar weakened relative to the US dollar, 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.

6. Liquidity and Capital Resources

At December 31, 2015, the Company had cash of $3,274,160 compared to cash of $461,175 as at December 31, 2014. The Company had working capital of $1,548,727 as at December 31, 2015 compared to a working capital deficit of $1,367,652 as at December 31, 2014. The increase in working capital is a direct result of the Orion Financing discussed below. This increase was offset by the repayment of the debentures in the amount of $736,552 which matured in April 2015. None of the convertible options associated with the debentures were exercised. In July 2015, the land payment of the Orion financing was received in the amount of $1,350,000 and the final land payment was issued. In October 2015, an advance of $1,500,000 was received from Orion. In December 2015, $3,000,000 was received upon receipt of an administratively complete permit submission. The Company is expecting to receive the final $4.9 million from Orion 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 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.

- On September 19, 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 per unit of CDN $0.13 for gross proceeds of $1,071,111.

- During the period ended December 31, 2014, 40,273 common shares were issued with a value of $4,532. The shares were issued in satisfaction of obligations payable to vendors for services rendered. The value was equal to the value of the services.

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

	December 31, 2015		December 31, 2014	
	Number of shares	**$**	Number of shares	$
Balance, beginning of year	192,173,528	53,634,046	183,160,901	53,246,720
Shares issued pursuant to a private placement	26,933,077	3,500,000	8,972,354	1,071,111
Transaction costs relating to private placement	-	(200,000)	-	(40,601)
Fair value assigned to warrants	-	(807,692)	-	(647,716)
Transaction costs assigned to warrants	-	34,000	-	-
Shares issued pursuant compensation arrangement		-	40,273	4,532
Shares issued on settlement of royalty obligations	1,720,769	225,000	-	-
Fair value assigned to warrants on settlement of royalty obligations	-	(51,923)	-	-
Shares issued on exercise of warrants	87,500	17,089	-	-
Balance, end of period	220,914,874	56,350,520	192,173,528	53,634,046

Warrants

As at December 31, 2015, there are a total of 16,362,126 warrants priced in Canadian dollars and 14,326,924 warrants priced in United States dollars outstanding. For additional information, refer to note 11 of the audited consolidated financial statements for the year ended December 31, 2015. As of the date of this report, there are a total of 16,289,676 warrants priced in Canadian dollars and 14,326,924 warrants priced in United States dollars.

Options

As at December 31, 2015, there are a total of 17,900,000 stock options outstanding with a weighted average exercise price of CDN$0.16. For additional information, refer to note 10 (b) of the audited consolidated financial statements for the year ended December 31, 2015. As of the date of this report, there are a total of 20,250,000 stock options outstanding with a weighted average exercise price of CDN $0.16.

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.

7. 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.

8. Off-balance Sheet Arrangements

As at December 31, 2015 and December 31, 2014, the Company does not have any off-balance sheet arrangements.

9. 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 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 period 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 Company's VP, 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 Company's 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 Company's 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 Company's VP, Project Development is the owner.

Total value of the share based payments issued to management and directors and issue of the common shares of the Company, as a result of the Acquisition Transactions, which are included in transaction costs for the year ended December 31, 2014 were valued at $1,097,200.

10. 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 in the year which are being used for the development of the Back Forty mine. Refer to Note 9 (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.

11. 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.

12. 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.

13. 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 December 31, 2015. 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 December 31, 2015.

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 December 31, 2015.

14. 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.