



ARIZONA MINING INC.

Condensed Consolidated Interim Financial Statements

For the Three Months Ended March 31, 2018 and 2017

(Unaudited)

Arizona Mining Inc.

Condensed Consolidated Interim Balance Sheets
(Unaudited – in thousands of United States dollars)

	Note	March 31, 2018	December 31, 2017
Assets			
Current assets:			
Cash and cash equivalents		\$ 41,257	\$ 61,101
Prepays and other		724	887
Deposits on long-lead items		1,157	500
		<u>43,138</u>	<u>62,488</u>
Non-current assets			
Exploration and evaluation assets	2	172,902	154,996
Property, plant and equipment	3	12,283	4,609
Restricted cash	4	6,000	3,316
Other assets		446	459
		<u>191,631</u>	<u>163,380</u>
Total assets		\$ 234,769	\$ 225,868
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities		\$ 9,946	\$ 6,402
Deferred rental contribution	7	545	73
		<u>10,491</u>	<u>6,475</u>
Non-current liabilities			
Reclamation and remediation provision	4	9,938	6,464
Total liabilities		<u>20,429</u>	<u>12,939</u>
Equity			
Equity attributable to shareholders of the Company:			
Common shares	5	264,901	261,812
Reserves		20,224	19,985
Deficit		(70,785)	(68,868)
Total equity		<u>214,340</u>	<u>212,929</u>
Total liabilities and equity		\$ 234,769	\$ 225,868

APPROVED BY THE DIRECTORS

/s/ Donald R. Siemens

Donald R. Siemens – Director

/s/ James K. Gowans

James K. Gowans – Director

May 10, 2018

See accompanying notes to the condensed consolidated interim financial statements.

Arizona Mining Inc.

Condensed Consolidated Interim Statements of Net Loss and Comprehensive Loss
(Unaudited – in thousands of United States dollars, except per share amounts)

	Note	Three months ended March 31,	
		2018	2017
Expenses:			
Stock based compensation	5b	\$ (1,392)	\$ (442)
Salaries and benefits		(554)	(556)
General and administration		(473)	(298)
Loss from operations		(2,419)	(1,296)
Other items:			
Foreign exchange gain (loss)		318	(160)
Interest and finance charges		(11)	(3)
Interest and other income		195	21
Net loss		(1,917)	(1,438)
Other comprehensive (loss) income:			
Items that may be reclassified to profit or loss:			
Foreign currency translation (loss) gain		(1,263)	294
Comprehensive loss		\$ (3,180)	\$ (1,144)
Basic and diluted net loss per share		\$ (0.01)	\$ (0.01)
Weighted average number of shares outstanding		312,681,986	249,581,463

See accompanying notes to the condensed consolidated interim financial statements.

Arizona Mining Inc.

Condensed Consolidated Interim Statements of Cash Flows
(Unaudited – in thousands of United States dollars)

		Three months ended March 31,	
	Note	2018	2017
Cash used in:			
Operating activities:			
Net loss for the period		\$ (1,917)	\$ (1,438)
Items not affecting cash:			
Stock based compensation	5b	1,392	442
Unrealized foreign exchange (gain) loss		(302)	158
Interest and finance charges		11	2
Amortization of deferred rental contribution	7	(64)	(29)
Net changes in non-cash working capital items:			
Prepays and other		189	(70)
Accounts payable and accrued liabilities		(19)	(90)
		(710)	(1,025)
Financing activities:			
Proceeds from exercise of top-up right	5a	2,973	-
Share issue costs		(12)	-
Deferred rental contribution received	7	537	-
Exercise of share purchase warrants and options		-	32
		3,498	32
Investing activities:			
Additions to exploration and evaluation assets		(14,976)	(12,342)
Purchase of property, plant and equipment		(3,375)	(104)
Deposit on long-lead equipment		(657)	-
Restricted cash contributions	4	(2,684)	-
Reclamation and remediation provisions settled	4	-	(141)
		(21,692)	(12,587)
Effect of exchange rate changes on cash and cash equivalents		(940)	133
Decrease in cash and cash equivalents		(19,844)	(13,447)
Cash and cash equivalents, beginning of period		61,101	19,236
Cash and cash equivalents, end of period		\$ 41,257	\$ 5,789
Supplementary cash flow information	10		

See accompanying notes to the condensed consolidated interim financial statements.

Arizona Mining Inc.

Condensed Consolidated Interim Statements of Changes in Equity
(Unaudited – in thousands of United States dollars, except number of shares)

	Share Capital		Reserves				Total equity
	Number of Shares	Amount	Accumulated other comprehensive income (loss)	Options and warrants	Total	Deficit	
Balance, December 31, 2016	249,561,630	\$ 167,897	\$ (1,555)	\$ 12,980	\$ 11,425	\$ (62,814)	\$ 116,508
Stock based compensation expense (note 5b)	-	-	-	442	442	-	442
Stock based compensation applied to exploration and evaluation assets (note 5b)	-	-	-	75	75	-	75
Shares issued on exercise of stock options	105,000	32	-	-	-	-	32
Fair value of stock options exercised	-	27	-	(27)	(27)	-	-
Comprehensive loss for the period	-	-	294	-	294	(1,438)	(1,144)
Balance, March 31, 2017	249,666,630	\$ 167,956	\$ (1,261)	\$ 13,470	\$ 12,209	\$ (64,252)	\$ 115,913
Balance, December 31, 2017	312,228,021	\$ 261,812	\$ 5,157	\$ 14,828	\$ 19,985	\$ (68,868)	\$ 212,929
Stock based compensation expense (note 5b)	-	-	-	1,392	1,392	-	1,392
Stock based compensation applied to exploration and evaluation assets (note 5b)	-	-	-	238	238	-	238
Shares issued on exercise of top-up right (note 5a)	836,279	2,973	-	-	-	-	2,973
Share issue costs	-	(12)	-	-	-	-	(12)
Shares issued on exercise of stock options	33,167	-	-	-	-	-	-
Fair value of stock options exercised	-	128	-	(128)	(128)	-	-
Comprehensive loss for the period	-	-	(1,263)	-	(1,263)	(1,917)	(3,180)
Balance, March 31, 2018	313,097,467	\$ 264,901	\$ 3,894	\$ 16,330	\$ 20,224	\$ (70,785)	\$ 214,340

See accompanying notes to the condensed consolidated interim financial statements.

Arizona Mining Inc.

Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited – in thousands of United States dollars, unless otherwise stated)
Three Months Ended March 31, 2018 and 2017

1. Reporting entity and basis of presentation

a) Reporting entity

Arizona Mining Inc. (the “Company” or “Arizona Mining”) is engaged in the acquisition, exploration and development of mineral property interests. The Company is incorporated and domiciled in Canada. The Company holds a 100% ownership interest in the Hermosa Project in Arizona, United States through its wholly owned subsidiary Arizona Minerals Inc. (“AMI”), a Nevada corporation.

b) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting* (“IAS 34”) using accounting policies consistent with International Financial Reporting Standards (“IFRS”). They do not include all of the information required by IFRS for complete financial statements. These interim financial statements follow the same accounting policies and methods of application as the Company’s most recent annual financial statements except as described in the accounting policy note 1d below. Accordingly, these interim financial statements should be read in conjunction with the Company’s most recent audited consolidated financial statements.

Under the authority delegated to them by the Board of Directors, the Audit Committee authorized these financial statements for issue on May 10, 2018.

c) Use of judgements and estimates

In preparing these interim financial statements, management has made judgements and estimates that affect the application of the Company’s accounting policies and the reported amounts of assets, liabilities, income and expense. Actual amounts incurred by the Company may differ from these values.

The significant judgements made by management in applying the Company’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended December 31, 2017.

d) Change in accounting policies – Financial Instruments

Effective January 1, 2018, the Company adopted IFRS 9, *Financial Instruments: Classification and Measurement* (“IFRS 9”) which replaces IAS 39, *Financial Instruments: Recognition and Measurement* (“IAS 39”).

IFRS 9 uses a single approach to determine whether a financial asset is classified and measured at amortized cost or fair value, replacing the multiple rules in IAS 39, *Financial Instruments: Recognition and Measurement* (“IAS 39”). The approach in IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities is unchanged.

On adoption of IFRS 9, there were no changes to the Company’s recognition or measurement of financial assets or financial liabilities and no restatement of prior period financial information was required.

The following are the Company’s new accounting policy for financial assets under IFRS 9:

Financial assets

Financial assets are classified at initial recognition as either: at fair value through profit and loss (“FVTPL”), at fair value through other comprehensive income (“FVTOCI”) or at amortized cost. The classification depends on the Company’s business model for managing the financial assets and the contractual terms of the cash flows.

Arizona Mining Inc.

Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited – in thousands of United States dollars, unless otherwise stated)
Three Months Ended March 31, 2018 and 2017

For those assets measured at fair value, gains and losses will either be recorded in earnings or loss or OCI. For investments in debt securities, the classification will depend on the business model for the instrument held. For investments in equity instruments that are not held for trading, the classification will depend on whether the Company has made an irrevocable election at initial recognition to account for the investment as FVTOCI.

On initial recognition, all financial assets are measured at fair value, plus, in the case of those at amortized cost, directly attributable transaction costs. Financial assets containing embedded derivatives are considered in their entirety when assessing the classification of the asset.

The criteria for classification of financial assets is as follows:

Financial assets at amortized cost: A financial asset is measured at amortized cost if the objective of the business model is to hold the financial asset for the collection of contractual cash flows, and the asset's contractual cash flow are comprised solely of payment of principal and interest. These financial assets are classified as current assets or non-current assets based on their maturity date, and are initially recognized at fair value and subsequently carried at amortized cost less any impairment.

Financial assets at FVTOCI: Financial assets that are held for collection of contractual cash flows and for selling of the financial assets, where the assets' cash flows represent solely payment of principal and interest are measured as FVTOCI. For these instruments, changes in value are recorded in OCI except for interest income, impairment gains and losses and foreign exchange, which are recorded in earnings or loss.

Investments in equity instruments may also, at the Company's election, be classified as FVTOCI. For investments in equity instruments at FVTOCI, there is no subsequent reclassification of fair value gains and losses to earnings or loss following the disposition or de-recognition of these assets.

Financial assets at FVTPL: Assets that do not meet the criteria to be held at amortized cost or at FVTOCI are measured as FVTPL. Financial assets carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the statement of net loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets held at FVTPL are included in the statement of net loss in the period.

Impairment of financial assets at amortized cost: The Company recognizes a loss allowance for expected credit losses on financial assets measured at amortized cost.

The following table summarizes the original measurement under IAS 39 and the subsequent measurement under IFRS 9 of the Company's financial assets and financial liabilities:

	Measurement Category	
	Original (IAS 39)	New (IFRS 9)
Cash and cash equivalents	Amortized cost	Amortized cost
Restricted cash	Amortized cost	Amortized cost
Accounts payable and accrued liabilities	Amortized cost	Amortized cost

Arizona Mining Inc.

Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited – in thousands of United States dollars, unless otherwise stated)
Three Months Ended March 31, 2018 and 2017

2. Exploration and evaluation assets

Exploration and evaluation assets relate to the acquisition costs and exploration and evaluation expenditures on the Company's interest in the Hermosa Project, in Arizona, United States.

The following is a summary of changes in exploration and evaluation assets for the three months ended March 31, 2018 and 2017:

	Note	2018	2017
Balance, start of period		\$ 154,996	\$ 100,954
Additions:			
Drilling		7,209	9,795
Permitting		912	393
Salaries, benefits, stock based compensation and consulting fees		873	326
Site services		1,683	358
Studies		1,660	970
Administration, public relations and professional fees		1,004	256
Reclamation and remediation	4	3,332	97
Mineral and other property acquisitions		1,233	301
		17,906	12,496
Balance, end of period		\$ 172,902	\$ 113,450

3. Property, plant and equipment

	Construction in progress	Site infrastruc- ture, fixed assets & equipment	Vehicles	Computer hardware, software & other	Office furniture & leaseholds	Total
Cost						
As at December 31, 2017	\$ 1,062	\$ 2,708	\$ 764	\$ 366	\$ 196	\$ 5,096
Additions	7,256	301	55	144	64	7,820
Disposals	-	-	-	(11)	(22)	(33)
As at March 31, 2018	8,318	3,009	819	499	238	12,883
Accumulated amortization						
As at December 31, 2017	\$ -	\$ 227	\$ 167	\$ 57	\$ 36	\$ 487
Disposals	-	-	-	(11)	(22)	(33)
Amortization	-	63	38	35	10	146
As at March 31, 2018	-	290	205	81	24	600
Net book value						
As at December 31, 2017	\$ 1,062	\$ 2,481	\$ 597	\$ 309	\$ 160	\$ 4,609
As at March 31, 2018	\$ 8,318	\$ 2,719	\$ 614	\$ 418	\$ 214	\$ 12,283

For the three months ended March 31, 2018, amortization of \$146 (March 31, 2017 – \$43) was capitalized to exploration and evaluation assets – administration, public relations and professional fees and \$nil (March 31, 2017 – \$Nil) expensed to operations.

Arizona Mining Inc.

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Three Months Ended March 31, 2018 and 2017

4. Reclamation and remediation provision

	Three Months Ended March 31, 2018	Year Ended December 31, 2017
Balance, start of period	\$ 6,464	\$ 4,994
Additions	3,570	1,881
Accretion	11	8
Reclamation and remediation provisions settled	-	(288)
Change in estimate	(107)	(131)
Balance, end of period	\$ 9,938	\$ 6,464

The reclamation and remediation provision represents the estimated costs required to provide restoration and rehabilitation for: past activities on certain acquired patented mining claims, estimated closure and post-closure costs related to the tailings storage facility, long-term operations and maintenance of the water treatment plant, and ongoing activities on the project site. The estimate increased by \$3,248 during the three months ended March 31, 2018 in connection with the Aquifer Protection Permit (“APP”) and the Arizona Pollutant Discharge Elimination System Permit (“AZPDES”) issued by the Arizona Department of Environmental Quality (“ADEQ”) in January 2018, and by \$225 for an additional provision for reclamation of the exploration-related disturbance on the project site.

The total uninflated and undiscounted estimated cash flows required to settle these obligations are \$10,354 (December 31, 2017 – \$6,624), which have been inflated at an average rate of 2.03% per annum (December 31, 2017 – 2.03%) and discounted at an average rate of 2.49% (December 31, 2017 – 2.44%) per annum being an estimate of the risk-free, pre-tax cost of borrowing rate over the respective periods. A portion of the obligations are expected to be funded from cash held in escrow of \$2,455.

The Company has posted a bond of \$7,939 (December 31, 2017 – \$1,969) with the ADEQ as security for its reclamation and remediation obligations. The Company has posted \$3,545 (December 31, 2017 – \$856 and \$5 interest earned) with the bond surety company as collateral for the bond, which together with cash held in escrow of \$2,455 ((December 31, 2017 – \$2,455) is included in restricted cash.

5. Share capital

a) Private placement

On February 13, 2018, the Company issued 836,279 common shares at a price of C\$4.48 per share to South32 Limited (“South32”) pursuant to the exercise, in full, by South32 of its top-up right to December 31, 2017 in accordance with the Investor Rights Agreement with the Company for a total of C\$3,747 (\$2,973), less share issue costs of \$12.

b) Stock options

For the three months ended March 31, 2018, the Company recognized stock based compensation expense of \$1,392 (March 31, 2017 – \$442). A further \$238 (March 31, 2017 – \$75) was capitalized to exploration and evaluation assets. The following table shows the change in the Company’s stock options during the three months ended March 31, 2018 and 2017:

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(Unaudited – in thousands of United States dollars, unless otherwise stated)
Three Months Ended March 31, 2018 and 2017

	2018		2017	
	Number of Options	Weighted Average Exercise Price (in C\$)	Number of Options	Weighted Average Exercise Price (in C\$)
Balance, start of period	16,747,334	\$1.27	11,304,000	\$0.41
Granted	2,622,500	\$4.17	3,005,000	\$2.76
Exercised	(100,000)	\$2.68	(105,000)	\$0.41
Forfeited	-	-	(50,000)	\$1.66
Balance, end of period	19,269,834	\$1.65	14,154,000	\$0.91

During the three months ended March 31, 2018, 100,000 options with a weighted average exercise price of C\$2.68 were exercised under the cashless exercise provisions of the Company's stock option plan resulting in the issuance of 33,167 common shares of the Company.

The assumptions used in the Black-Scholes option-pricing model for the options granted during the three months ended March 31, 2018 and 2017 were as follows:

Weighted average:	2018	2017
Expected term (years)	5	5
Volatility ⁽¹⁾	65%	80%
Expected dividend yield	-	-
Risk-free interest rate	2.00%	1.17%

⁽¹⁾ The expected volatility is based on the historical volatility of the Company's shares.

The following table provides information on outstanding and exercisable stock options at March 31, 2018:

Grant Date	Options Outstanding			Options Exercisable	
	Exercise Price (in C\$)	Number of Options	Weighted average remaining contractual life (years)	Number of Options	Weighted average remaining contractual life (years)
March 24, 2014	\$0.59	14,000	0.98	14,000	0.98
August 18, 2014	\$0.51	100,000	1.38	100,000	1.38
May 25, 2015	\$0.40	8,598,334	2.15	5,676,666	2.15
May 27, 2015	\$0.43	125,000	2.16	125,000	2.16
October 29, 2015	\$0.29	1,400,000	2.58	933,334	2.58
January 27, 2016	\$0.30	35,000	2.83	23,334	2.83
June 24, 2016	\$1.66	65,000	3.24	21,667	3.24
August 17, 2016	\$1.80	100,000	3.38	33,333	3.38
March 2, 2017	\$2.76	2,985,000	3.92	1,195,000	3.92
May 17, 2017	\$2.19	750,000	4.13	-	-
June 7, 2017	\$2.12	500,000	4.19	250,000	4.19
June 23, 2017	\$2.35	100,000	4.23	-	-
June 29, 2017	\$2.69	150,000	4.25	-	-
July 11, 2017	\$2.68	200,000	4.28	25,000	4.28
August 11, 2017	\$2.95	200,000	4.37	-	-
September 18, 2017	\$2.94	1,000,000	4.47	-	-
October 24, 2017	\$3.25	300,000	4.57	125,000	4.57
November 20, 2017	\$3.10	25,000	4.64	-	-
January 19, 2018	\$4.50	150,000	4.81	-	-
March 28, 2018	\$4.15	2,472,500	4.99	300,000	4.99
		19,269,834	3.21	8,822,334	2.63

Arizona Mining Inc.

Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited – in thousands of United States dollars, unless otherwise stated)
Three Months Ended March 31, 2018 and 2017

c) Warrants

No warrants were issued during the three months ended March 31, 2018 and 2017. The following table provides information on outstanding warrants at March 31, 2018:

Date of Issue	Expiry Date	Exercise Price (in C\$)	Warrants Outstanding	
			Number of Warrants	Weighted average remaining contractual life (years)
November 10, 2015	November 10, 2020	\$0.45	1,000,000	2.62
December 18, 2015	December 18, 2020	\$0.45	5,902,566	2.72
January 13, 2016	January 13, 2021	\$0.30	1,000,000	2.79
May 4, 2016	May 4, 2019	\$0.50	5,000,000	1.09
			12,902,566	2.09

The weighted average exercise price of the warrants outstanding at March 31, 2018 is C\$0.46 (December 31, 2017 – C\$0.46).

6. Related party transactions

The Company shares office space, equipment, personnel and various administrative services with other companies (NewCastle Gold Ltd. until December 22, 2017, Titan Mining Corporation and Armor Minerals Inc.) related by virtue of certain directors and management in common. These services have been provided through a management company equally owned by the related companies. Costs incurred by the management company are allocated between the related companies based on time incurred and use of services and are charged at cost.

The Company was charged for the following with respect to these arrangements in the three months ended March 31, 2018 and 2017:

	2018	2017
Salaries and benefits	\$ 398	\$ 510
General and administration	239	134
	\$ 637	\$ 644

In addition, for the three months ended March 31, 2018, the Company charged out \$nil (March 31, 2017 – \$2) and at March 31, 2018, prepaids and other includes \$70 (December 31, 2017 – \$53) with respect to these arrangements.

Other assets of \$446 (December 31, 2017 – \$459) relate to the Company's share of jointly owned assets (primarily security deposits, leasehold improvements, and furniture and equipment) held by the management company.

7. Commitments

At March 31, 2018, the Company is committed to payments under various leases and other commitments. Excluding spending amounts which may be required to maintain the Company's mineral properties in good standing, the future minimum payments are as follows:

Arizona Mining Inc.

Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited – in thousands of United States dollars, unless otherwise stated)
Three Months Ended March 31, 2018 and 2017

	Construction in progress	Leases	Other	Total
2018	\$ 2,002	\$ 442	\$ 42	\$ 2,486
2019	-	589	168	757
2020	-	484	168	652
2021	-	281	126	407
2022	-	34	-	34
Total	\$ 2,002	\$ 1,830	\$ 504	\$ 4,336

Deferred rental contribution represents the unamortized balance of amounts received from companies previously related through certain common directors and management with respect to the provisions of agreements governing certain shared operating leases. The amount is being amortized to general and administration expense over the remaining term of the leases. The following is a summary of changes in deferred rental contribution:

	March 31, 2018	December 31, 2017
Balance, start of period	\$ 73	\$ 185
Deferred rental contribution received	537	-
Amortization of deferred rental contribution	(64)	(121)
Effect of foreign currency exchange differences	(1)	9
Balance, end of period	\$ 545	\$ 73

8. Fair value of financial instruments

Financial instruments must be classified at one of three levels within a fair value hierarchy according to the relative reliability of the inputs used to estimate their values. The three levels of the hierarchy are as follows:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3: Inputs that are not based on observable market data.

The fair value of all financial instruments approximates their carrying value due to either their short-term maturity and/or capacity of prompt liquidation.

The Company does not have any financial instruments that are measured using level 1, 2 or level 3 inputs.

During the three months ended March 31, 2018, there were no transfers between level 1, level 2 and level 3 classified assets and liabilities.

9. Segment information

The Company operates in one industry segment, being mineral exploration and development. Geographic information is as follows:

	United States	Canada	Total
Long-term assets as at:			
March 31, 2018	\$ 191,185	\$ 446	\$ 191,631
December 31, 2017	\$ 162,921	\$ 459	\$ 163,380

Arizona Mining Inc.

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(Unaudited – in thousands of United States dollars, unless otherwise stated)
Three Months Ended March 31, 2018 and 2017

10. Supplemental cash information

	March 31, 2018	December 31, 2017
Cash and cash equivalents:		
Cash and balances with banks	\$ 4,631	\$ 6,633
Short-term investments with banks	36,626	54,468
	<u>\$ 41,257</u>	<u>\$ 61,101</u>

The Company maintains most of its cash and cash equivalents in Canadian currency. Cash equivalents consist of short-term deposits that are accessible with 30 day's notice.

Supplementary information for the statement of cash flows is as follows:

	March 31, 2018	March 31, 2017
Change in accounts payable and accrued liabilities reflected in investing activities	\$ 3,564	\$ 67