



ARIZONA MINING INC.

Condensed Consolidated Interim Financial Statements

*For the Three and Nine Months Ended September 30, 2016*

**Notice to Reader**

These unaudited condensed consolidated interim financial statements have been prepared by management and have not been reviewed by the Company's auditor.

# Arizona Mining Inc.

## Condensed Consolidated Interim Statements of Financial Position (U.S. dollars)

|   | September 30,<br>2016 | December 31,<br>2015 |
|---|-----------------------|----------------------|
| <b>Assets</b>                                       |                       |                      |
| Current assets:                                     |                       |                      |
| Cash and cash equivalents                           | \$ 7,926,441          | \$ 418,950           |
| Amounts receivable (note 4)                         | 37,825                | 172,951              |
| Prepays and other                                   | 470,559               | 65,130               |
|   | <u>8,434,825</u>      | <u>657,031</u>       |
| Property, plant and equipment                       | 901,061               | 25,453               |
| Other assets (note 9)                               | 229,895               | 217,885              |
| Restricted cash (note 7)                            | 3,310,833             | -                    |
| Exploration and evaluation assets (note 6)          | <u>87,508,585</u>     | <u>73,558,572</u>    |
|   | <u>\$ 100,385,199</u> | <u>\$ 74,458,941</u> |
| <b>Liabilities</b>                                  |                       |                      |
| Current liabilities:                                |                       |                      |
| Accounts payable and accrued liabilities            | \$ 1,935,291          | \$ 211,630           |
| Due to related party (note 9)                       | <u>1,672,592</u>      | <u>1,485,486</u>     |
|   | 3,607,883             | 1,697,116            |
| Reclamation and remediation provision (note 7)      | 4,706,435             | -                    |
| Deferred rental contribution                        | <u>219,731</u>        | <u>293,446</u>       |
|   | <u>8,534,049</u>      | <u>1,990,562</u>     |
| <b>Equity</b>                                       |                       |                      |
| Equity attributable to shareholders of the Company: |                       |                      |
| Common shares (note 8)                              | 142,555,900           | 87,233,567           |
| Reserves  | 11,668,992            | 8,007,836            |
| Deficit   | <u>(62,373,742)</u>   | <u>(28,827,658)</u>  |
|   | 91,851,150            | 66,413,745           |
| Non-controlling interest (note 5)                   | -                     | 6,054,634            |
| Total equity  | <u>91,851,150</u>     | <u>72,468,379</u>    |
|   | <u>\$ 100,385,199</u> | <u>\$ 74,458,941</u> |

Nature of operations and going concern (note 1)

*See accompanying notes to the condensed consolidated interim financial statements.*

# Arizona Mining Inc.

## Condensed Consolidated Interim Statements of Net Loss and Comprehensive Loss

(U.S. dollars)

|  | Three months ended September 30, |              | Nine months ended September 30, |                |
|--|----------------------------------|--------------|---------------------------------|----------------|
|  | 2016                             | 2015         | 2016                            | 2015           |
| Expenses:  |                                  |              |                                 |                |
| Salaries and benefits  | \$ 213,123                       | \$ 149,394   | \$ 705,452                      | \$ 443,357     |
| Investor relations   | 208,425                          | 7,726        | 329,813                         | 39,398         |
| Stock based compensation (note 8b)   | 122,971                          | 202,486      | 564,709                         | 366,803        |
| Office and administrative  | 36,624                           | 43,415       | 136,353                         | 115,268        |
| Professional services  | 23,888                           | 14,628       | 124,817                         | 47,877         |
| Directors' fees  | 11,884                           | 11,555       | 35,299                          | 37,973         |
| Filing and regulatory  | 6,151                            | 14,192       | 47,152                          | 56,787         |
| Depreciation   | 1,351                            | 1,417        | 3,626                           | 5,675          |
| Travel   | -                                | 2,591        | 38,350                          | 6,215          |
| Loss from operations   | (624,417)                        | (447,404)    | (1,985,571)                     | (1,119,353)    |
| Foreign exchange loss  | (51,132)                         | (4,554)      | (246,629)                       | (12,409)       |
| Interest and finance charges   | (125,469)                        | (12,811)     | (488,799)                       | (92,559)       |
| Gain on disposition of property, plant and equipment                             | -                                | -            | 2,227                           | -              |
| Interest and other income  | 20,407                           | 20,633       | 29,664                          | 49,882         |
| Net loss   | (780,611)                        | (444,136)    | (2,689,108)                     | (1,174,439)    |
| Other comprehensive income (loss):   |                                  |              |                                 |                |
| Items that may be reclassified to profit or loss:                                |                                  |              |                                 |                |
| Foreign currency translation gain (loss)   | (139,876)                        | 61,411       | (758,008)                       | 122,505        |
| Comprehensive loss   | \$ (920,487)                     | \$ (382,725) | \$ (3,447,116)                  | \$ (1,051,934) |
| Net loss attributable to:  |                                  |              |                                 |                |
| Shareholders of the Company  | \$ (780,611)                     | \$ (442,692) | \$ (2,687,894)                  | \$ (1,170,019) |
| Non-controlling interest   | -                                | (1,444)      | (1,214)                         | (4,420)        |
|  | \$ (780,611)                     | \$ (444,136) | \$ (2,689,108)                  | \$ (1,174,439) |
| Comprehensive loss attributable to:  |                                  |              |                                 |                |
| Shareholders of the Company  | \$ (920,487)                     | \$ (381,281) | \$ (3,445,902)                  | \$ (1,047,514) |
| Non-controlling interest   | -                                | (1,444)      | (1,214)                         | (4,420)        |
|  | \$ (920,487)                     | \$ (382,725) | \$ (3,447,116)                  | \$ (1,051,934) |
| Basic and diluted net loss per share attributable to shareholders of the Company | \$ (0.003)                       | \$ (0.003)   | \$ (0.013)                      | \$ (0.008)     |
| Weighted average number of shares outstanding                                    | 235,365,326                      | 154,049,392  | 201,323,595                     | 150,461,900    |

See accompanying notes to the condensed consolidated interim financial statements.

## Arizona Mining Inc.

### Condensed Consolidated Interim Statements of Changes in Equity (U.S. dollars)

|   | Share Capital    |                | Reserves                                      |                      |               |                 | Non-controlling interest (note 5) | Total equity  |
|---|------------------|----------------|---|----------------------|---------------|-----------------|-----------------------------------|---------------|
|   | Number of Shares | Amount         | Accumulated other comprehensive income (loss) | Options and warrants | Total         | Deficit         |                                   |               |
| Balance, January 1, 2016  | 161,951,958      | \$ 87,233,567  | \$ (380,584)                                  | \$ 8,388,420         | \$ 8,007,836  | \$ (28,827,658) | \$ 6,054,634                      | \$ 72,468,379 |
| Stock based compensation expense (note 8b)                                      | -                | -              | -   | 564,709              | 564,709       | -               | -                                 | 564,709       |
| Stock based compensation applied to exploration and evaluation assets (note 8b) | -                | -              | -   | 205,659              | 205,659       | -               | -                                 | 205,659       |
| Acquisition of non-controlling interest (note 5)                                | 40,000,000       | 33,840,422     | -   | 2,900,346            | 2,900,346     | (30,858,190)    | (6,289,558)                       | (406,980)     |
| Units issued on private placements (note 8a)                                    | 17,204,672       | 5,601,334      | -   | 1,142,517            | 1,142,517     | -               | -                                 | 6,743,851     |
| Shares issued in underwritten private placement (note 8a)                       | 14,000,000       | 14,185,846     | -   | -                    | -             | -               | -                                 | 14,185,846    |
| Fair value of warrants issued (note 9)  | -                | -              | -   | 134,055              | 134,055       | -               | -                                 | 134,055       |
| Share issue costs   | -                | (827,738)      | -   | -                    | -             | -               | -                                 | (827,738)     |
| Shares issued on exercise of warrants   | 4,600,000        | 1,994,347      | -   | -                    | -             | -               | -                                 | 1,994,347     |
| Fair value of warrants exercised  | -                | 528,122        | -   | (528,122)            | (528,122)     | -               | -                                 | -             |
| Required contributions for project costs (note 5)                               | -                | -              | -   | -                    | -             | -               | 236,138                           | 236,138       |
| Comprehensive loss for the period   | -                | -              | (758,008)                                     | -                    | (758,008)     | (2,687,894)     | (1,214)                           | (3,447,116)   |
| Balance, September 30, 2016   | 237,756,630      | \$ 142,555,900 | \$ (1,138,592)                                | \$ 12,807,584        | \$ 11,668,992 | \$ (62,373,742) | \$ -                              | \$ 91,851,150 |

See accompanying notes to the condensed consolidated interim financial statements.

## Arizona Mining Inc.

### Condensed Consolidated Interim Statements of Changes in Equity (U.S. dollars)

|   | Share Capital    |               | Reserves                                      |                      |              |                 | Non-controlling interest (note 5) | Total equity  |
|---|------------------|---------------|---|----------------------|--------------|-----------------|-----------------------------------|---------------|
|   | Number of Shares | Amount        | Accumulated other comprehensive income (loss) | Options and warrants | Total        | Deficit         |                                   |               |
| Balance, January 1, 2015  | 148,040,893      | \$ 84,534,381 | \$ (612,991)                                  | \$ 6,353,922         | \$ 5,740,931 | \$ (27,292,971) | \$ 5,695,615                      | \$ 68,677,956 |
| Stock based compensation expense (note 8b)                                      | -                | -             | -   | 366,803              | 366,803      | -               | -                                 | 366,803       |
| Stock based compensation applied to exploration and evaluation assets (note 8b) | -                | -             | -   | 128,228              | 128,228      | -               | -                                 | 128,228       |
| Units issued for debt settlement  | 6,008,499        | 1,495,849     | -   | 457,499              | 457,499      | -               | -                                 | 1,953,348     |
| Share issue costs   | -                | (11,653)      | -   | -                    | -            | -               | -                                 | (11,653)      |
| Required contributions for project costs (note 5)                               | -                | -             | -   | -                    | -            | -               | 227,609                           | 227,609       |
| Comprehensive income (loss) for the period                                      | -                | -             | 122,505                                       | -                    | 122,505      | (1,170,019)     | (4,420)                           | (1,051,934)   |
| Balance, September 30, 2015   | 154,049,392      | \$ 86,018,577 | \$ (490,486)                                  | \$ 7,306,452         | \$ 6,815,966 | \$ (28,462,990) | \$ 5,918,804                      | \$ 70,290,357 |

See accompanying notes to the condensed consolidated interim financial statements.

# Arizona Mining Inc.

## Condensed Consolidated Interim Statements of Cash Flows

(U.S. dollars)

|  | Three months ended September 30, |                  | Nine months ended September 30, |                    |
|--|----------------------------------|------------------|---------------------------------|--------------------|
|  | 2016                             | 2015             | 2016                            | 2015               |
| Cash provided by (used in):                                  |                                  |                  |                                 |                    |
| Operating activities:  |                                  |                  |                                 |                    |
| Net loss for the period                                      | \$ (780,611)                     | \$ (444,136)     | \$ (2,689,108)                  | \$ (1,174,439)     |
| Items not affecting cash:                                    |                                  |                  |                                 |                    |
| Unrealized foreign exchange loss                             | (25,521)                         | 25,021           | 228,185                         | 51,221             |
| Stock based compensation                                     | 122,971                          | 202,486          | 564,709                         | 366,803            |
| Interest and finance charges                                 | 122,047                          | 11,757           | 482,481                         | 89,098             |
| Amortization of deferred rental contribution                 | (30,117)                         | (50,660)         | (89,239)                        | (158,007)          |
| Gain on disposition of property, plant and equipment         | -                                | -                | (2,227)                         | -                  |
| Depreciation   | 1,351                            | 1,417            | 3,626                           | 5,675              |
| Net changes in non-cash working capital:                     |                                  |                  |                                 |                    |
| Amounts receivable   | (2,212)                          | (5,838)          | (3,963)                         | (16,417)           |
| Prepays and other  | 29,670                           | (19,710)         | (36,444)                        | 97,074             |
| Accounts payable and accrued liabilities                     | (68,749)                         | 15,613           | (45,011)                        | 16,850             |
| Due to related parties                                       | -                                | 6,286            | -                               | 26,455             |
|  | <u>(631,171)</u>                 | <u>(257,764)</u> | <u>(1,586,991)</u>              | <u>(695,687)</u>   |
| Financing activities:  |                                  |                  |                                 |                    |
| Proceeds from private placements (note 8a)                   | -                                | -                | 20,929,697                      | -                  |
| Repayment of advances from related party (note 9)            | -                                | -                | (3,147,186)                     | -                  |
| Proceeds from sale of NSR (note 6)                           | -                                | -                | 7,886,435                       | -                  |
| Share issue costs  | (12,506)                         | (11,653)         | (788,445)                       | (11,653)           |
| Interest and finance fees paid                               | -                                | -                | (257,903)                       | (25,413)           |
| Advances from related party (note 9)                         | -                                | 1,113,868        | 2,798,377                       | 2,649,713          |
| Exercise of share purchase warrants                          | 1,994,347                        | -                | 1,994,347                       | -                  |
| Contributions from non-controlling interest (note 5)         | -                                | -                | -                               | 202,028            |
|  | <u>1,981,841</u>                 | <u>1,102,215</u> | <u>29,415,322</u>               | <u>2,814,675</u>   |
| Investing activities:  |                                  |                  |                                 |                    |
| Purchase of property, plant and equipment                    | (442,443)                        | -                | (925,696)                       | -                  |
| Acquisition of non-controlling interest (note 5)             | -                                | -                | (31,753)                        | -                  |
| Additions to exploration and evaluation assets               | (8,733,401)                      | (769,915)        | (15,953,557)                    | (2,052,863)        |
| Payments toward reclamation and remediation provision        | (306,814)                        | -                | (546,346)                       | -                  |
| Restricted cash contributions                                | -                                | -                | (2,310,833)                     | -                  |
|  | <u>(9,482,658)</u>               | <u>(769,915)</u> | <u>(19,768,185)</u>             | <u>(2,052,863)</u> |
| Effect of exchange rate changes on cash and cash equivalents | <u>(125,013)</u>                 | <u>(13,914)</u>  | <u>(552,655)</u>                | <u>(23,125)</u>    |
| Increase (decrease) in cash and cash equivalents             | (8,257,001)                      | 60,622           | 7,507,491                       | 43,000             |
| Cash and cash equivalents, beginning of period               | <u>16,183,442</u>                | <u>29,288</u>    | <u>418,950</u>                  | <u>46,910</u>      |
| Cash and cash equivalents, end of period                     | <u>\$ 7,926,441</u>              | <u>\$ 89,910</u> | <u>7,926,441</u>                | <u>89,910</u>      |

Supplemental cash flow information (note 11)

See accompanying notes to the condensed consolidated interim financial statements.

# Arizona Mining Inc.

Notes to the Condensed Consolidated Interim Financial Statements  
For the Three and Nine months Ended September 30, 2016  
(U.S. dollars unless otherwise noted)

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## 1. Nature of Operations and Going Concern

Arizona Mining Inc. (the “Company” or “Arizona Mining”) is incorporated in British Columbia, 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. The Company’s corporate office is located at Suite 555 – 999 Canada Place, Vancouver, British Columbia, V6C 3E1 and its shares are listed on the Toronto Stock Exchange and trade under the symbol “AZ”.

The Company is engaged in the acquisition, exploration and development of mineral property interests. The business of mining and the exploration for minerals involves a high degree of risk and there can be no assurance that such activities will result in profitable mining operations. The amounts shown as exploration and evaluation assets represent acquisition and exploration costs and do not necessarily represent present or future values. Recoverability of the amounts shown for exploration and evaluation assets is dependent upon maintaining title and beneficial interest in the properties, the ability of the Company to obtain financing necessary to complete the exploration and development of its mineral properties, and on future profitable production or proceeds from the disposition of the mineral properties. Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company’s title.

At September 30, 2016 the Company had cash and cash equivalents of \$7,926,441, working capital of \$4,826,942, a net loss for the nine months ended September 30, 2016 of \$2,689,108 and a deficit of \$62,373,742. The Company will require funding for its operating expenses and to continue drilling and other work on its Hermosa Taylor Project. The Company has historically raised funds principally through the sale of securities and more recently, through the sale of a royalty and advances from Company insiders. The Company expects that it will continue to obtain funding through similar or other means depending on market conditions and other relevant factors at the time. However, there can be no assurance that the Company will be able to obtain such additional funding or obtain it on acceptable terms. This material uncertainty casts significant doubt about the Company’s ability to continue as a going concern.

These condensed consolidated interim financial statements have been prepared on the basis of a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of operations. These financial statements do not reflect the adjustments to carrying values of assets and liabilities that would be necessary should the going concern assumption prove to be inappropriate, and these adjustments could be material.

## 2. Basis of Presentation

### Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting (“IAS 34”). Accordingly, they do not include all of the information and notes to the consolidated financial statements required by IFRS for complete financial statements and should be read in conjunction with the Company’s most recent audited consolidated financial statements.

These unaudited condensed consolidated interim financial statements follow the same accounting policies and methods of application used in the Company’s audited consolidated financial statements as at and for the year ended December 31, 2015. Under the authority delegated to them by the Board of Directors, the Audit Committee authorized these financial statements for issue on November 7, 2016.



## Arizona Mining Inc.

Notes to the Condensed Consolidated Interim Financial Statements  
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(U.S. dollars unless otherwise noted)

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### 3. Changes in Accounting Policies

New accounting standards, amendments and interpretations

Certain new standards, interpretations and amendments to existing standards have been issued by the IASB or IFRIC. Some updates that are not applicable or are not consequential to the Company may have been excluded.

IFRS 9, *Financial Instruments: Classification and Measurement* is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is measured at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is measured at fair value through profit or loss. The standard was initially effective for annual periods beginning on or after January 1, 2013, but the complete version of IFRS 9, issued in July 2014, moved the mandatory effective date to January 1, 2018. The Company expects to adopt this standard effective January 1, 2018 and has not yet assessed the impact on its financial reporting.

On January 13, 2016, the IASB issued IFRS 16, *Leases* ("IFRS 16"), according to which, all leases will be on the balance sheet of lessees, except those that meet the limited exception criteria. The standard is effective for annual periods beginning on or after January 1, 2019. The Company has not yet assessed the impact of IFRS 16 on its financial statements.

### 4. Amounts Receivable

|                                 | September 30,<br>2016 | December 31,<br>2015 |
|---------------------------------|-----------------------|----------------------|
| Due from 5348 Investments       | \$ -                  | \$ 139,089           |
| Due from related party (Note 9) | 2,787                 | 4,530                |
| GST/HST receivable              | 11,284                | 7,228                |
| Other                           | 23,754                | 22,104               |
|                                 | <u>\$ 37,825</u>      | <u>\$ 172,951</u>    |

### 5. Acquisition of Non-Controlling Interest

On May 4, 2016 the Company closed the acquisition of 5348 Investments Ltd. ("5348 Investments"), thereby acquiring the 20% of the common shares and approximately 10% of the preference shares of AMI that it did not own, from a private British Columbia company controlled by Richard W. Warke, a Director of the Company and the Company's Executive Chairman. As a result of the acquisition of 5348 Investments by the Company, the Shareholders' Agreement governing the affairs of AMI was terminated effective May 4, 2016.

The Company issued 40 million common shares and 5 million common share purchase warrants as consideration for the acquisition. Each common share purchase warrant is convertible into one common share of the Company at a price of C\$0.50 until May 4, 2019.

The transaction has been measured at the fair value of the common shares and common share purchase warrants issued. The assumptions in the Black-Scholes pricing model used to calculate the fair value of the 5 million common share purchase warrants were: an expected life of 3 years; annualized volatility of 77%; a risk free interest rate of 1%; and zero expected dividend yield. The expected volatility is based on the historical volatility of the Company's shares.

Set out below is a summary of the acquisition:

## Arizona Mining Inc.

Notes to the Condensed Consolidated Interim Financial Statements  
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(U.S. dollars unless otherwise noted)

| Consideration                                   | Fair value    |
|---|---------------|
| 40,000,000 common shares                        | \$ 33,840,422 |
| 5,000,000 common share purchase warrants        | 2,900,346     |
| Transaction and other costs                     | 406,980       |
|   | 37,147,748    |
| Non-controlling interest on date of acquisition | 6,289,558     |
| Charged to deficit                              | \$ 30,858,190 |

The transaction has been accounted for as an equity transaction whereby the fair value of the consideration in excess of the book value of the non-controlling interest on the date of acquisition has been charged to deficit.

### 6. 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.

On January 26, 2016, the Company closed the acquisition of certain patented mining claims adjacent to the Company's Hermosa Taylor Deposit. As consideration for the acquisition, the Company assumed the environmental liabilities relating to past activities on the site, which are estimated at \$5,277,480 (Note 7). After accounting for the contribution into escrow of \$1,000,000 cash from a former owner of the site, the net balance of \$4,277,480 has been recognized as the cost of the acquired mineral property interest.

On April 25, 2016, the Company closed the sale of a 1% net smelter return ("NSR") royalty to Osisko Gold Royalties Ltd. ("Osisko") on all sulfide ores of lead and zinc (and any copper, silver or gold recovered from the concentrate from such ores) mined from the Hermosa Project for cash consideration of C\$10.0 million (\$7,886,435), which amount has been applied to reduce the carrying amount of exploration and evaluation assets (note 8a).

The following is a summary of changes in exploration and evaluation assets:

|   | Three months ended September 30, |               | Nine months ended September 30, |               |
|---|----------------------------------|---------------|---------------------------------|---------------|
|   | 2016                             | 2015          | 2016                            | 2015          |
| Balance, start of period                        | \$ 78,607,453                    | \$ 72,256,057 | \$ 73,558,572                   | \$ 70,371,838 |
| Additions:                                      |                                  |               |                                 |               |
| Mineral property acquisition costs – above      | -                                | -             | 4,277,480                       | -             |
| Mineral property acquisition costs – other      | 161,107                          | 24,811        | 521,401                         | 167,680       |
| Drilling  | 5,131,698                        | (39,112)      | 9,892,805                       | 793,497       |
| Property access, restoration and maintenance    | 875,645                          | 58,620        | 1,717,854                       | 248,108       |
| Assay and analysis                              | 680,774                          | -             | 1,043,069                       | 139,969       |
| Salaries, benefits and stock based compensation | 629,248                          | 219,531       | 1,513,570                       | 581,545       |
| Geologic consulting and support                 | 433,524                          | 5,333         | 719,160                         | 111,126       |
| Engineering and metallurgy                      | 311,358                          | 27,320        | 411,717                         | 27,320        |
| Environmental baseline studies & permitting     | 130,986                          | -             | 391,962                         | -             |
| Claims maintenance                              | 143,995                          | 113,731       | 143,995                         | 113,731       |
| Other   | 405,502                          | 38,134        | 1,205,857                       | 149,611       |
|   | 8,903,837                        | 448,368       | 21,838,870                      | 2,332,587     |
| Sale of NSR                                     | -                                | -             | (7,886,435)                     | -             |
| Foreign currency translation adjustment         | (2,705)                          | -             | (2,422)                         | -             |
|   | 8,901,132                        | 72,704,425    | 13,950,013                      | 72,704,425    |
| Balance, end of period                          | \$ 87,508,585                    | \$ 72,704,425 | \$ 87,508,585                   | \$ 72,704,425 |

## Arizona Mining Inc.

Notes to the Condensed Consolidated Interim Financial Statements  
For the Three and Nine months Ended September 30, 2016  
(U.S. dollars unless otherwise noted)

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### 7. Reclamation and Remediation Provision

|   | Nine Months Ended<br>September 30,<br>2016 | Year Ended<br>December 31,<br>2015 |
|---|--|------------------------------------|
| Balance, start of period                            | \$ -                                       | \$ -                               |
| Initial recognition arising on acquisition (note 6) | 5,277,480                                  | -                                  |
| Accretion   | -  | -                                  |
| Expenditures in period                              | (571,045)                                  | -                                  |
| Balance, end of period                              | <u>\$ 4,706,435</u>                        | <u>\$ -</u>                        |

The reclamation and remediation provision represents the estimated costs required to provide restoration and rehabilitation for past activities on the patented mining claims acquired (“Acquired Claims”) by the Company (note 6). The total uninflated and undiscounted estimated cash flows required to settle these obligations on initial recognition are \$5,311,194, which have been inflated at an average rate of 2.03% per annum and discounted at an average rate of 1.96% per annum being an estimate of the risk free, pre-tax cost of borrowing over the respective periods. These obligations are expected to be funded from cash held in escrow of \$2,455,452 and working capital.

With respect to the Acquired Claims, the Company submitted a remediation work plan that addresses the environmental liabilities, which has been approved by the Arizona Department of Environmental Quality. In accordance with the plan, the Company is required to construct a passive water treatment system estimated to cost \$2,918,452 plus contingencies of \$322,712, which will be primarily funded from the cash held in escrow. In addition, the Company posted two bonds totaling \$1,968,940 as security for the future operating performance of the passive water treatment system. The Company has posted \$855,381 with the bond surety company as collateral for the bonds, which together with cash held in escrow of \$2,455,452 is included in restricted cash.

### 8. Share Capital

#### a) Private placements

##### *March 2, 2016 private placement*

On March 2, 2016, the Company closed 6,069,100 units of a private placement at a price of C\$0.42 per unit for gross proceeds of C\$2,549,022 (\$1,892,651). Each unit is comprised of one common share and one half of one common share purchase warrant. Each whole common share purchase warrant entitles the holder to purchase one common share at a price of C\$0.60 per common share until September 2, 2017.

The Company determined that the fair value of the warrants issued on March 2, 2016 was \$204,071. The fair value was determined by separately calculating the fair value of the common shares and the warrants, and prorating these amounts by the actual proceeds received. The assumptions in the Black-Scholes pricing model used to calculate the fair value of the warrants were: an expected life of 1.5 years; annualized volatility of 70%; a risk free interest rate of 1%; and zero expected dividend yield. The expected volatility is based on the historical volatility of the Company’s shares.

On April 28, 2016, the Company closed the balance of the March 2, 2016 private placement issuing 647,000 units to certain of the Company’s directors and officers at a price of C\$0.42 per unit for gross proceeds of C\$271,740 (\$216,629). Each unit is comprised of one common share and one half of one common share purchase warrant. Each whole common share purchase warrant entitles the holder to purchase one common share at a price of C\$0.60 per common share until October 28, 2017.

The Company determined that the fair value of the 323,500 warrants issued on April 28, 2016 was \$47,204.

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The fair value was determined by separately calculating the fair value of the common shares and the warrants, and prorating these amounts by the actual proceeds received. The assumptions in the Black-Scholes pricing model used to calculate the fair value of the warrants were: an expected life of 1.5 years; annualized volatility of 82%; a risk free interest rate of 1%; and zero expected dividend yield. The expected volatility is based on the historical volatility of the Company's shares.

### *April 25 and April 28, 2016 private placements*

On April 25, 2016, the Company closed a financing for a total of C\$15.6 million, comprised of the sale of an NSR for C\$10,000,000 (\$7,886,435) (note 6) and certain private placements. Osisko subscribed for 8,928,572 units at a price of C\$0.56 per unit for gross proceeds of C\$5,000,000 (\$3,943,218) and other parties subscribed for 1,060,000 units for a further C\$593,600 (\$468,139). On April 28, 2016, the Company closed the balance of the private placement for a further 500,000 units at a price of C\$0.56 per unit for C\$280,000 (\$223,214) with a director of the Company. Each unit is comprised of one common share and one half of one common share purchase warrant. Each whole common share purchase warrant entitles the holder to purchase one common share at a price of C\$0.75 per common share until between October 25, 2017 and October 28, 2017.

The Company determined that the fair value of the warrants issued on April 25 and April 28, 2016 was \$891,241. The fair value was determined by separately calculating the fair value of the common shares and the warrants, and prorating these amounts by the actual proceeds received. The assumptions in the Black-Scholes pricing model used to calculate the fair value of the warrants were: an expected life of 1.5 years; annualized volatility of 82%; a risk free interest rate of 1%; and zero expected dividend yield. The expected volatility is based on the historical volatility of the Company's shares.

### *June 9, 2016 underwritten private placement*

On June 9, 2016, the Company closed a C\$18,060,000 (\$14,185,846) underwritten private placement (the "Offering") of 14,000,000 common shares at a price of C\$1.29 per common share. The Underwriters received a cash fee equal to 5.0% of the aggregate gross proceeds raised in the Offering.

## b) Stock options

For the three and nine months ended September 30, 2016, the Company recognized a stock-based compensation charge against income of \$122,971 and \$564,709, respectively (September 30, 2015 – \$202,486 and \$366,803). A further \$205,659 (September 30, 2015 – \$128,228) was capitalized to exploration and evaluation assets.

The following table shows the change in the Company's stock options during the nine months ended September 30, 2016 and 2015:

|                          | 2016                 |  | 2015                 |  |
|--------------------------|----------------------|--|----------------------|--|
|                          | Number of<br>Options | Weighted<br>Average<br>Exercise<br>Price<br>(in CAD) | Number of<br>Options | Weighted<br>Average<br>Exercise<br>Price<br>(in CAD) |
| Balance, start of period | 11,074,000           | \$0.39   | 4,171,160            | \$0.97   |
| Granted                  | 265,000              | \$1.53   | 9,515,000            | \$0.40   |
| Forfeited                | (35,000)             | \$0.29   | (51,500)             | \$0.81   |
| Expired                  | -                    | -  | (3,945,660)          | \$0.99   |
| Balance, end of period   | 11,304,000           | \$0.41   | 9,989,000            | \$0.40   |

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The following table provides information on outstanding and exercisable stock options at September 30, 2016:

| Grant Date       | Exercise Price<br>(in C\$) | Options Outstanding |   | Options Exercisable |   |
|------------------|----------------------------|---------------------|---|---------------------|---|
|                  |                            | Number of Options   | Weighted average remaining contractual life (years) | Number of Options   | Weighted average remaining contractual life (years) |
| March 24, 2014   | \$0.59                     | 24,000              | 2.48  | 16,000              | 2.48  |
| August 18, 2014  | \$0.51                     | 100,000             | 2.88  | 100,000             | 2.88  |
| May 25, 2015     | \$0.40                     | 9,390,000           | 3.65  | 3,463,333           | 3.65  |
| May 27, 2015     | \$0.43                     | 125,000             | 3.66  | 125,000             | 3.66  |
| October 29, 2015 | \$0.29                     | 1,400,000           | 4.08  | -                   | -   |
| January 26, 2016 | \$0.30                     | 35,000              | 4.33  | -                   | -   |
| June 24, 2016    | \$1.66                     | 130,000             | 4.73  | -                   | -   |
| August 17, 2016  | \$1.80                     | 100,000             | 4.88  | -                   | -   |
|                  |                            | <b>11,304,000</b>   | <b>3.72</b>   | <b>3,704,333</b>    | <b>3.63</b>   |

### c) Warrants

The following summarizes the warrants outstanding at September 30, 2016:

| Date of Issue     | Exercise Price (C\$) | Expiry Date       | December 31, 2015 | Issued            | Exercised          | September 30, 2016 |
|-------------------|----------------------|-------------------|-------------------|-------------------|--------------------|--------------------|
| August 20, 2014   | \$0.55               | August 20, 2016   | 4,500,000         | -                 | (4,500,000)        | -                  |
| June 12, 2015     | \$0.60               | June 12, 2017     | 6,008,499         | -                 | -                  | 6,008,499          |
| November 10, 2015 | \$0.45               | November 10, 2020 | 2,000,000         | -                 | -                  | 2,000,000          |
| December 18, 2015 | \$0.45               | December 18, 2020 | 5,902,566         | -                 | -                  | 5,902,566          |
| January 13, 2016  | \$0.30               | January 13, 2021  | -                 | 1,000,000         | -                  | 1,000,000          |
| March 2, 2016     | \$0.60               | September 2, 2017 | -                 | 3,034,550         | -                  | 3,034,550          |
| April 25, 2016    | \$0.75               | October 25, 2017  | -                 | 4,994,286         | (100,000)          | 4,894,286          |
| April 28, 2016    | \$0.60               | October 28, 2017  | -                 | 323,500           | -                  | 323,500            |
| April 28, 2016    | \$0.75               | October 28, 2017  | -                 | 250,000           | -                  | 250,000            |
| May 4, 2016       | \$0.50               | May 4, 2019       | -                 | 5,000,000         | -                  | 5,000,000          |
|                   |                      |                   | <b>18,411,065</b> | <b>14,602,336</b> | <b>(4,600,000)</b> | <b>28,413,401</b>  |

The weighted average exercise price of the warrants outstanding at September 30, 2016 is C\$0.56 (December 31, 2015 – C\$0.52).

## 9. Related Party Transactions

In addition to the related party transactions or balances disclosed elsewhere in these condensed consolidated interim financial statements, the Company had the following related party transactions.

The Company shares office space, equipment, personnel and various administrative services with other companies (NewCastle Gold Ltd. and Armor Minerals Inc.) related by virtue of certain common directors and management. These services have been mainly 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.

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The Company was charged for the following with respect to these arrangements:

|                           | Three months ended September 30, |                   | Nine months ended September 30, |                   |
|---------------------------|----------------------------------|-------------------|---------------------------------|-------------------|
|                           | 2016                             | 2015              | 2016                            | 2015              |
| Salaries and benefits     | \$ 191,591                       | \$ 129,710        | \$ 621,258                      | \$ 382,903        |
| Office and administrative | 66,334                           | 67,688            | 266,597                         | 229,137           |
|                           | <u>\$ 257,925</u>                | <u>\$ 197,398</u> | <u>\$ 887,855</u>               | <u>\$ 612,040</u> |

In addition, for the three and nine months ended September 30, 2016, the Company charged out \$244 and \$4,795, respectively, with respect to these arrangements (September 30, 2015 – \$nil and \$6,062). At September 30, 2016, amounts receivable includes \$2,787 (December 31, 2015 – \$4,530) and prepaids and other includes \$20,836 (December 31, 2015 – \$25,962) with respect to these arrangements.

Other assets of \$229,895 (December 31, 2015 – \$217,885) relate to the Company's share of jointly owned assets (primarily security deposits, leasehold improvements, and furniture and equipment) held by the management company.

At September 30, 2016, due to related party comprises a loan totalling C\$1,952,096 (\$1,488,218) plus accrued interest of C\$241,843 (\$184,374) due to a company controlled by the Company's Executive Chairman. The balance represents the C\$2.0 million face value outstanding of the C\$4.0 million (\$2,798,377) loan that was received on January 13, 2016, in connection with the acquisition of certain patented mining claims (note 6). The lender waived its right to early repayment on \$2.0 million of the loan following the \$15.6 million financing that closed on April 25, 2016 (note 8a) with the Company repaying the other C\$2.0 million (\$1,561,646) and accrued interest of C\$143,474 (\$112,028) on June 20, 2016. The outstanding loan is repayable on the earlier of: one year from the date of advance; the date of any change of control of the Company; or the date the Company completes a financing of C\$10,000,000 or more by way of sale of securities from treasury or through the issuance of debt or other form of financing. The loan bears interest at 16% per annum, compounded monthly and is subject to a cash fee of 1% with an additional 1% fee that was paid after three months as the loan remained outstanding. In addition, with respect to the full \$4.0 million loan, 1,000,000 warrants have been issued to the lender. Each warrant entitles the lender to purchase one common share at a price of C\$0.30 per common share until January 13, 2021.

The Company determined that the fair value of the 1,000,000 warrants issued on January 13, 2016 was \$134,055. The assumptions in the Black-Scholes pricing model used to calculate the fair value of the warrants were: an expected life of 5 years; annualized volatility of 91%; a risk free interest rate of 1%; and zero expected dividend yield. The expected volatility is based on the historical volatility of the Company's shares.

On April 26, 2016 the Company repaid three loans totalling C\$2.0 million received in 2015, also from a company controlled by the Company's Executive Chairman. The loans were unsecured, bore interest at 8% per annum and were repayable on the earlier of (i) one year from the date of advance, (ii) a change of control of the Company, or (iii) the completion of a financing of C\$4.0 million or more by way of sale of securities from treasury of the Company or through the issuance of debt or other form of financing.

### 10. 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: |               |            |               |
| September 30, 2016      | \$ 91,720,479 | \$ 229,895 | \$ 91,950,374 |
| December 31, 2015       | \$ 73,583,922 | \$ 217,988 | \$ 73,801,910 |

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### 11. Supplemental Cash Flow Information

|   | Three months ended September 30, |                  | Nine months ended September 30, |                  |
|---|----------------------------------|------------------|---------------------------------|------------------|
|   | 2016                             | 2015             | 2016                            | 2015             |
| Cash and cash equivalents, end of period comprise:  |                                  |                  |                                 |                  |
| Cash and balances with banks  | \$ 1,591,225                     | \$ 72,686        | \$ 1,591,225                    | \$ 72,686        |
| Short-term investments  | 6,335,216                        | 17,224           | 6,335,216                       | 17,224           |
|   | <u>\$ 7,926,441</u>              | <u>\$ 89,910</u> | <u>\$ 7,926,441</u>             | <u>\$ 89,910</u> |
| Non-cash investing and financing activities:  |                                  |                  |                                 |                  |
| Change in accounts payable and accrued liabilities reflected in investing activities                          | \$ 110,074                       | \$ (120,613)     | \$ 1,729,379                    | \$ 158,869       |
| Mineral property acquisition costs in exchange for assumed reclamation and remediation provision              | \$ -                             | \$ -             | \$ (5,277,480)                  | \$ -             |
| Restricted cash contributions in exchange for assumed reclamation and remediation provision                   | \$ -                             | \$ -             | \$ 1,000,000                    | \$ -             |
| Acquisition of NCI in exchange for common shares and warrants, including non-cash transaction costs and other | \$ -                             | \$ -             | \$ (37,115,995)                 | \$ -             |
| Conversion of advances from related parties to equity   | \$ -                             | \$ -             | \$ -                            | \$ (1,953,348)   |