



ARIZONA MINING INC.

Consolidated Financial Statements

*For the Year Ended December 31, 2015*

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The preparation and presentation of these consolidated financial statements and accompanying Management's Discussion and Analysis are the responsibility of management and have been approved by the Company's Board of Directors.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and reflect management's best estimates and judgments at this time. The financial information presented throughout the Management's Discussion and Analysis dated March 21, 2016 is consistent with that contained in the consolidated financial statements.

The Company maintains systems of internal accounting controls, policies and procedures to provide reasonable assurance as to the reliability of the financial records and the safeguarding of its assets. Management meets the objectives of internal accounting control through the prudent selection and training of personnel and an organization providing for appropriate delegation of authorities and segregation of responsibilities.

The Board of Directors reviews management's responsibilities with respect to the consolidated financial statements primarily through the activities of its Audit Committee, which is composed solely of independent directors of the Company. The Audit Committee meets with management and the Company's independent auditor to review the consolidated financial statements and recommend their approval by the Board of Directors. The Audit Committee is also responsible for making recommendations with respect to the appointment, remuneration and the terms of engagement of the Company's auditor. The Audit Committee also meets with the auditor, without the presence of Management, to discuss the results of the audit, related findings and their suggestions.

*/s/ Richard W. Warke*  
Executive Chairman

*/s/ Paul J. Ireland*  
Chief Financial Officer

March 21, 2016



**March 21 2016**

**Independent Auditor's Report**

**To the Shareholders of Arizona Mining Inc.**

We have audited the accompanying consolidated financial statements of Arizona Mining Inc. (the Company), which comprise the consolidated statements of financial position as at December 31, 2015 and December 31, 2014 and the consolidated statements of net loss and comprehensive loss, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

**Management's responsibility for the consolidated financial statements**

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

**Auditor's responsibility**

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

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

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

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

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Arizona Mining Inc. as at December 31, 2015 and December 31, 2014 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

**Emphasis of matter**

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

*(signed) PricewaterhouseCoopers LLP*

**Chartered Professional Accountants**

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**Arizona Mining Inc.**  
Consolidated Statements of Financial Position  
(U.S. dollars)

	December 31, 2015	December 31, 2014
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 418,950	\$ 46,910
Amounts receivable (note 4)	172,951	19,588
Prepays and other	65,130	132,167
	<u>657,031</u>	<u>198,665</u>
Property, plant and equipment	25,453	53,945
Other assets (note 8)	217,885	259,937
Exploration and evaluation assets (note 6)	<u>73,558,572</u>	<u>70,371,838</u>
	<u>\$ 74,458,941</u>	<u>\$ 70,884,385</u>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 211,630	\$ 1,003,943
Due to related party (note 8)	1,485,486	-
	<u>1,697,116</u>	<u>1,003,943</u>
Due to related party (note 8)	-	608,251
Deferred rental contribution (note 10)	293,446	594,235
	<u>1,990,562</u>	<u>2,206,429</u>
<b>Equity</b>		
Equity attributable to shareholders of the Company:		
Common shares	87,233,567	84,534,381
Reserves	8,007,836	5,740,931
Deficit	<u>(28,827,658)</u>	<u>(27,292,971)</u>
	66,413,745	62,982,341
Non-controlling interest (note 5)	6,054,634	5,695,615
Total equity	<u>72,468,379</u>	<u>68,677,956</u>
	<u>\$ 74,458,941</u>	<u>\$ 70,884,385</u>

Nature of operations and going concern (note 1)  
Subsequent event (note 14)

APPROVED BY THE DIRECTORS

/s/ Donald R. Siemens  
Donald R. Siemens – Director

/s/ Richard W. Warke  
Richard W. Warke – Director

March 21, 2016

See accompanying notes to the consolidated financial statements.

# Arizona Mining Inc.

## Consolidated Statements of Net Loss and Comprehensive Loss (U.S. dollars)

	Year ended December 31,	
	2015	2014
Expenses:		
Salaries and benefits	\$ 590,776	\$ 668,850
Stock based compensation (note 7d)	585,873	184,469
Office and administrative	132,590	253,788
Professional services	59,240	204,194
Directors' fees	50,466	74,076
Filing and regulatory	44,551	33,214
Investor relations	44,409	48,184
Insurance	34,702	45,884
Legal	32,247	12,911
Fiscal and advisory services	23,892	22,897
Travel	22,051	12,778
Depreciation	7,040	8,973
Loss from operations	(1,627,837)	(1,570,218)
Interest and finance charges	(140,244)	(34,199)
Foreign exchange loss	(31,192)	(7,003)
Interest and other income	110,419	1,659
Gain on settlement of accounts payable	183,205	-
Net loss	(1,505,649)	(1,609,761)
Other comprehensive income:		
Items that may be reclassified to profit or loss:		
Foreign currency translation gain	(232,407)	(139)
	232,407	139
Comprehensive loss	\$ (1,273,242)	\$ (1,609,622)
Net income (loss) attributable to:		
Shareholders of the Company	\$ (1,534,687)	\$ (1,595,849)
Non-controlling interest	29,038	(13,912)
	\$ (1,505,649)	\$ (1,609,761)
Comprehensive loss attributable to:		
Shareholders of the Company	\$ (1,302,280)	\$ (1,595,710)
Non-controlling interest	29,038	(13,912)
	\$ (1,273,242)	\$ (1,609,622)
Basic and diluted net loss per share attributable to shareholders of the Company	\$ (0.010)	\$ (0.011)
Weighted average number of shares outstanding	151,855,825	145,151,150

See accompanying notes to the consolidated financial statements.

**Arizona Mining Inc.**  
Consolidated 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 7d)	-	-	-	585,873	585,873	-	-	585,873
Stock based compensation applied to exploration and evaluation assets (note 7d)	-	-	-	206,618	206,618	-	-	206,618
Shares issued for debt settlement (note 7b)	11,911,065	3,441,533	-	-	-	-	-	3,441,533
Issued on private placement (note 7c)	2,000,000	527,943	-	-	-	-	-	527,943
Fair value of warrants issued (note 7b & 7c)	-	(1,242,007)	-	1,242,007	1,242,007	-	-	-
Share issue costs	-	(28,283)	-	-	-	-	-	(28,283)
Required contributions for project costs (note 5)	-	-	-	-	-	-	329,981	329,981
Comprehensive income (loss) for the year	-	-	232,407	-	232,407	(1,534,687)	29,038	(1,273,242)
Balance, December 31, 2015	161,951,958	\$ 87,233,567	\$ (380,584)	\$ 8,388,420	\$ 8,007,836	\$ (28,827,658)	\$ 6,054,634	\$ 72,468,379

See accompanying notes to the consolidated financial statements.

**Arizona Mining Inc.**  
Consolidated 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, 2014	143,399,836	\$ 83,075,289	\$ (613,130)	\$ 5,727,970	\$ 5,114,840	\$ (25,697,122)	\$ 5,438,510	\$ 67,931,517
Stock based compensation expense (note 7d)	-	-	-	184,469	184,469	-	-	184,469
Stock based compensation applied to exploration and evaluation assets (note 7d)	-	-	-	64,076	64,076	-	-	64,076
Issued on private placement (note 7b)	4,500,000	1,850,329	-	-	-	-	-	1,850,329
Fair value of warrants issued (note 7b)	-	(511,156)	-	511,156	511,156	-	-	-
Share issue costs	-	(13,830)	-	-	-	-	-	(13,830)
Issued on exercise of stock options (note 7c)	141,057	-	-	-	-	-	-	-
Fair value of options exercised	-	133,749	-	(133,749)	(133,749)	-	-	-
Required contributions for project costs (note 5)	-	-	-	-	-	-	271,017	271,017
Comprehensive income (loss) for the year	-	-	139	-	139	(1,595,849)	(13,912)	(1,609,622)
Balance, December 31, 2014	148,040,893	\$ 84,534,381	\$ (612,991)	\$ 6,353,922	\$ 5,740,931	\$ (27,292,971)	\$ 5,695,615	\$ 68,677,956

See accompanying notes to the consolidated financial statements.



**Arizona Mining Inc.**  
**Consolidated Statements of Cash Flows**  
(U.S. dollars)

	Year ended December 31,	
	2015	2014
Cash provided by (used in):		
Operating activities:		
Net loss for the year	\$ (1,505,649)	\$ (1,609,761)
Items not affecting cash:		
Stock based compensation	585,873	184,469
Unrealized foreign exchange loss	51,379	18,262
Interest and finance charges	135,196	28,653
Amortization of deferred rental contribution	(221,145)	(98,985)
Depreciation	7,040	8,973
	<u>(947,306)</u>	<u>(1,468,389)</u>
Net changes in non-cash working capital items:		
Amounts receivable	(25,410)	5,399
Prepays and other	79,155	30,402
Accounts payable and accrued liabilities	(99,591)	180,602
Due to related parties	-	(11,261)
	<u>(993,152)</u>	<u>(1,263,247)</u>
Financing activities:		
Proceeds from private placement (note 7c)	527,943	1,252,045
Share issue costs	(28,283)	(13,830)
Finance fees paid	(25,413)	-
Contributions from non-controlling interest (note 5)	202,028	326,274
Advances from related parties (note 8)	4,391,804	1,187,311
Deferred rental contribution (note 10)	-	743,873
	<u>5,068,079</u>	<u>3,495,673</u>
Investing activities:		
Purchase of property, plant and equipment	-	(6,243)
Additions to exploration and evaluation assets	(3,663,307)	(2,779,037)
	<u>(3,663,307)</u>	<u>(2,785,280)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(39,580)</u>	<u>(50,583)</u>
Increase (decrease) in cash and cash equivalents	372,040	(603,437)
Cash and cash equivalents, beginning of year	<u>46,910</u>	<u>650,347</u>
Cash and cash equivalents, end of year	<u>\$ 418,950</u>	<u>\$ 46,910</u>
Supplementary information:		
Cash and cash equivalents, end of year comprise:		
Cash and balances with banks	\$ 402,281	\$ 17,111
Short-term investments	16,669	29,799
	<u>\$ 418,950</u>	<u>\$ 46,910</u>

Non-cash financing and investing activities (note 13)

*See accompanying notes to the consolidated financial statements.*

# Arizona Mining Inc.

Notes to Consolidated Financial Statements

For the year ended December 31, 2015

(U.S. dollars unless otherwise noted)

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## 1. Nature of Operations and Going Concern

Arizona Mining Inc. (formerly Wildcat Silver Corporation, the “Company” or “Arizona Mining”) is incorporated in British Columbia, Canada. The Company holds a majority ownership interest in the Hermosa property in Arizona, United States, through its ownership of 80% of the common shares and approximately 90% of the preference shares of Arizona Minerals Inc. (“AMI”), a Nevada corporation and the holder of the property. The remaining 20% of the common shares and approximately 10% of the preference shares of AMI are held by 5348 Investments Ltd. (“5348 Investments”), an indirect wholly owned subsidiary of a private British Columbia company controlled by Richard W. Warke, a Director of the Company and the Company’s Executive Chairman. The same private company also indirectly holds a 2% net smelter royalty interest in certain of the patented claims and unpatented claims on the Hermosa property. The Company’s registered 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 December 31, 2015 the Company had cash and cash equivalents of \$418,950, a working capital deficiency of \$1,040,085, a net loss for the year ended December 31, 2015 of \$1,505,649, and a deficit of \$28,827,658. On March 3, 2016, the Company closed 6.07 million units of a non-brokered private placement announced on February 22, 2016 at a price of \$0.42 per unit for gross proceeds of C\$2.55 million (see note 14b).

The Company will require funding to continue drilling and other work on its Hermosa Taylor Deposit including on the newly acquired patented mining claims and targets on the unpatented mining claims and for general working capital purposes. On March 21, 2016 the Company announced it had entered into a term sheet with Osisko Gold Royalties Ltd. for a 1% net smelter royalty on any lead/zinc/silver sulfide ores mined from its Hermosa Project for proceeds of \$10.0 million together with a private placement for gross proceeds of \$5.59 million (see note 14d). The royalty is subject to negotiation of a definitive agreement and the private placement is subject to completion of the royalty agreement and regulatory approval. There can be no assurance that the Company will close the royalty financing or private placement in which case the Company will need to raise funds through other means. The Company has historically raised funds principally through the sale of securities and more recently, through advances from Company insiders. 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.

The Company’s 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.

# Arizona Mining Inc.

## Notes to Consolidated Financial Statements

For the year ended December 31, 2015

(U.S. dollars unless otherwise noted)

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### 2. Basis of Presentation

#### a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

The Board of Directors authorized these financial statements for issue on March 21, 2016.

#### b) Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis except for financial instruments classified as fair value through profit and loss or available for sale securities which are stated at their fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

#### c) Basis of consolidation

These consolidated financial statements include the consolidation of Arizona Mining Inc. with its 80% owned subsidiary, AMI and its wholly owned subsidiary, Riva Gold Corporation (“Riva”). Subsidiaries are all entities (including structured entities) over which the Company has control. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control is transferred to the Company until the date that control ceases. All intercompany transactions and balances have been eliminated on consolidation.

#### d) Presentation and functional currency

These consolidated financial statements are presented in United States dollars, which is the Company’s presentation currency. The functional currency of the parent is the Canadian dollar and its financial statements have been translated into US dollars in accordance with IAS 21. These guidelines require that assets and liabilities be translated using the exchange rate at period end, and income, expenses and cash flow items are translated using the exchange rate at the dates of the transactions. All resulting exchange differences are reported as a separate component of reserves in shareholders’ equity entitled “Accumulated Other Comprehensive Income”. The functional currency of the Company’s 80% owned subsidiary, AMI, is the United States dollar.

Transactions in foreign currencies are initially recorded into the functional currency by applying the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate prevailing at the balance sheet date. Non-monetary assets and liabilities are translated at historical exchange rates, unless the item is carried at fair value, in which case it will be translated at the exchange rate in effect at the date when the fair value was determined. Resulting foreign exchange gains and losses are recognized in the income statement.

#### e) Use of estimates and judgements

The preparation of these consolidated financial statements requires management to make judgements, estimates and assumptions in the process of applying the Company’s accounting policies that affect the reported amounts of assets, liabilities and contingent liabilities at the date of

# Arizona Mining Inc.

## Notes to Consolidated Financial Statements

For the year ended December 31, 2015

(U.S. dollars unless otherwise noted)

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the consolidated financial statements and reported amounts of expenses during the reporting period. Estimates and assumptions are continually evaluated. However, actual outcomes could materially differ from these estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected. Information about critical judgements and estimates in applying accounting policies that have the most significant effect on amounts recognized in the consolidated financial statements are as follows:

- Exploration and evaluation assets impairment estimation – The Company assesses its exploration and evaluation assets on a periodic basis to determine whether any indication of impairment exists. Where an indicator of impairment exists, an estimate is made of the recoverable amount, which is the higher of the fair market value less costs to sell and its value in use. In determining the value in use the Company will develop an estimated cash flow for the mineral property, which will be based on the Company's estimates of ore reserves and mineral resources. The Company estimates its ore reserves and mineral resources based on information compiled by qualified persons as defined in accordance with Canadian Securities Administrators' National Instrument 43-101 Standards of Disclosure for Mineral Projects requirements. The estimation of mineral reserves and resources is based upon the results, assumptions and interpretation of various exploration techniques and information and includes additional factors such as metallurgical assumptions, expected commodity prices, capital requirements and operating costs that will also be used to develop the cash flow model. The Company must also determine an appropriate discount rate at which to discount the cash flows to determine the net present value. Changes in any of these assumptions, interpretations and estimates may have a significant impact on the net present value and therefore may also impact the carrying value of the exploration and evaluation assets.
- Stock based compensation – In determining the fair value of stock based compensation, the Company uses the Black-Scholes option pricing model. The Black-Scholes option pricing model requires the input of highly subjective assumptions such as the expected life of the options, estimates of interest rates and share price volatility that can materially affect the fair value estimate.

### 3. Summary of Significant Accounting Policies

The Company has consistently applied the same accounting policies throughout all periods presented.

#### a) Cash and cash equivalents

Cash and cash equivalents include amounts held in banks and short-term investments with maturities at point of purchase of 90 days or less or are cashable after 30 days at the option of the Company. Interest from cash and cash equivalents is recorded on an accrual basis.

#### b) Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation.

Depreciation is calculated using the straight-line method, based on the estimated useful lives of the assets as follows:

Storage containers	10 years straight-line
Vehicles	5 years straight-line
Furniture and equipment	5 years straight-line
Computer hardware and software	3 years straight-line

## Arizona Mining Inc.

### Notes to Consolidated Financial Statements

For the year ended December 31, 2015

(U.S. dollars unless otherwise noted)

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Core saws

2 years straight-line

#### c) Exploration and evaluation assets

Mineral property acquisition costs and resource exploration and evaluation costs are capitalized on an individual project basis once the legal right to explore a specific area has been obtained.

Capitalized costs are considered to be tangible assets as they form part of the underlying mineral property and are recorded within 'exploration and evaluation assets' at cost less impairment charges, if applicable. No amortization is charged during the exploration and evaluation phase because the asset is not available for use. When the Company considers that the technical feasibility and commercial viability of extracting a mineral resource are demonstrable, the associated exploration and evaluation assets are tested for impairment then reclassified to mineral properties.

Exploration and evaluation assets for properties placed into production will be amortized on a unit-of-production basis, based on proven and probable reserves. Costs for prospects that are abandoned are written off at the time a decision is made not to continue exploration and development. Payments received by the Company when a property is optioned to another party are recorded as an offset to acquisition costs until those payments exceed expenditures, at which point they are recognized in net income.

The Company reviews and evaluates its exploration and evaluation assets for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable. Where such indications exist the recoverable amount is estimated by calculating the higher of the asset's fair value less cost to sell and its value in use. Where information is available estimated future net cash flows are calculated using estimated future prices, proven and probable reserves, resources and operating and capital costs on a discounted basis. If the estimated discounted future net cash flows are less than the carrying value of the asset, an impairment charge is recorded. Where estimated future cash flows are not available the carrying value is written down to its estimated fair value.

A previously recognized impairment loss is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized such that the recoverable amount has increased.

#### d) Leases

Leases which transfer substantially all of the benefits and risks incidental to the ownership of property are accounted for as finance leases. Finance leases are capitalized at the lease commencement at the lower of the fair market value of the leased property and the net present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charge. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term.

All other leases are accounted for as operating leases wherein rental payments are expensed as incurred. The Company only has operating leases for the year ended December 31, 2015.

#### e) Share capital

Proceeds from share issuances are recorded net of issue costs. Share capital issued as non-monetary consideration is recorded at an amount based on the fair value of the consideration received.

## Arizona Mining Inc.

### Notes to Consolidated Financial Statements

For the year ended December 31, 2015

(U.S. dollars unless otherwise noted)

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The fair value of warrants issued in connection with common share placements are recognized on the date of issue as reserves. The Company uses the Black-Scholes option pricing model to estimate the fair value of the warrants issued, separately calculating the fair value of the common shares and the warrants, and prorating these amounts by the actual proceeds received.

#### f) Loss per share

Basic loss per share calculations are based on the net loss attributable to common shareholders for the period divided by the weighted average number of common shares issued and outstanding during the respective periods.

Diluted loss per share calculations are based on the net loss attributable to common shareholders for the period divided by the weighted average number of common shares outstanding during the period plus the effects of dilutive common share equivalents. The Company uses the treasury stock method to determine the dilutive effect of stock options and other dilutive instruments. The treasury stock method assumes that proceeds received from the in-the-money options and other dilutive instruments are used to repurchase common shares at the prevailing market rate.

#### g) Share-based payments

The Company has established a share-based payment plan (stock options) for eligible directors, officers, employees and contractors and accounts for this plan using the fair value method of accounting. Under this method, the grant date fair value of an award under the plan is recognized as an expense or addition to exploration and evaluation assets using a graded method, with a corresponding increase in reserves. The Company estimates the grant date fair value of the award using the Black-Scholes option pricing model. The number of options expected to vest are estimated at the grant date and reviewed at least annually thereafter. Where the stock options are exercised, the proceeds are credited to share capital and the associated fair value at the date of grant is reclassified from reserves to share capital.

For awards subject to vesting, the Company recognizes an expense or addition to exploration and evaluation assets over the period that the holder becomes unconditionally entitled to the awards. Awards not subject to vesting are recognized as an expense or addition to exploration and evaluation assets at the grant date.

#### h) Financial assets

Upon initial recognition all financial assets are initially recorded at fair value and designated into one of the following three categories: available-for-sale, loans and receivables, or at fair value through profit or loss ("FVTPL"). The designation depends on the purpose for which the financial assets were acquired.

Financial assets classified as available-for-sale are initially recorded at fair value plus transaction costs, and are subsequently carried at fair value. All unrealized gains and losses arising from changes in the fair value of assets classified as available-for-sale are recognized directly in other comprehensive loss, except for unrealized foreign exchange gains or losses on monetary financial assets and impairment losses which are recognized in the statement of loss. Any reversal of a previously recognized impairment loss on a non-monetary asset is recognized directly in other comprehensive loss. Realized gains and losses from the derecognition of available-for-sale assets are recognized in the consolidated statement of loss in the period derecognized with any unrealized gains or losses being recycled from other comprehensive loss. The Company has not classified any financial assets as available-for-sale.

## Arizona Mining Inc.

### Notes to Consolidated Financial Statements

For the year ended December 31, 2015

(U.S. dollars unless otherwise noted)

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Financial assets classified as loans and receivables are measured at amortized cost. The Company's cash and cash equivalents and amounts receivable are classified as loans and receivables.

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through earnings. The Company has not designated any financial assets upon initial recognition as FVTPL. Transaction costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

#### i) Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss ("FVTPL") or other financial liabilities. All of the Company's financial liabilities are classified as other financial liabilities.

Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. The effective interest rate method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial liability, to, where appropriate, a shorter period. The Company's accounts payable and accrued liabilities and due to related party are classified as other financial liabilities.

#### j) Reclamation and restoration provision

Reclamation and restoration provisions arise due to legal or constructive obligations as a result of the Company's exploration activities, and are recorded in the period in which the activity generating the liability is incurred. The estimated present value of such reclamation and restoration costs, calculated using a risk-free, pre-tax discount rate, are capitalized to exploration and evaluation assets along with the recording of a corresponding liability as soon as the obligation to incur such cost arises. The liability is adjusted each year for the unwinding of the discount rate, changes to the current market based discount rate and for the amount or timing of the underlying cash flows needed to settle the obligation.

#### k) Income taxes

Income tax is recognized in net income (loss) for the period except to the extent that it relates to items recognized either in other comprehensive income or directly in equity, in which case it is recognized in other comprehensive income or equity, respectively. Deferred tax is provided using the balance sheet method whereby deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they are realized or settled, based on the laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is not recognized for temporary differences which arise on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting, nor taxable profit or loss.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

# Arizona Mining Inc.

## Notes to Consolidated Financial Statements

For the year ended December 31, 2015

(U.S. dollars unless otherwise noted)

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### l) 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 issues 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 is currently assessing the impact of IFRS 16 on its financial statements.

### 4. Amounts Receivable

	December 31, 2015	December 31, 2014
Due from 5348 Investments (Note 5)	\$ 139,089	\$ 11,136
Due from related party (Note 8)	4,530	-
GST/HST receivable	7,228	7,247
Other	22,104	1,205
	<u>\$ 172,951</u>	<u>\$ 19,588</u>

All amounts receivable are current and the Company does not have any allowance for doubtful accounts. Due to their short-term maturities, the fair value of amounts receivable approximates their carrying value.

### 5. Non-Controlling Interest

Non-controlling interest ("NCI") represents the 20% interest in the common shares and approximately 10% interest in the preference shares of AMI held by 5348 Investments. See Note 14(c) "Subsequent Events" with respect to an agreed transaction for the Company to acquire the minority interest in AMI.

Pursuant to a shareholders' agreement (the "Shareholders' Agreement") governing the affairs of AMI, the Company controls the affairs of AMI and acts as the operator of the Hermosa property. Funding is provided to AMI in accordance with the Shareholders' Agreement and is by way of advances, which are subsequently converted to preference shares. The preference shares have priority over the common shares with respect to distributions and repayment. The Shareholders' Agreement generally requires 5348 Investments to fund 10% of AMI costs incurred on the originally acquired patented and unpatented claims on the Hermosa property and 20% of AMI costs incurred on any other claims subsequently acquired or staked. The Shareholders' Agreement provides for dilution of 5348 Investments' interest in the common shares to a minimum of 10% in the event it fails to fund its share of any funding for approved programs.



## Arizona Mining Inc.

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Non-controlling interest increased by \$359,019 in the year ended December 31, 2015 (December 31, 2014 – \$257,105) as a result of \$329,981 (December 31, 2014 – \$271,017) of required contributions plus the non-controlling interest share of income for the year of \$29,038 (December 31, 2014 – loss of \$13,912). Amounts receivable includes \$139,089 (December 31, 2014 – \$11,136) outstanding from 5348 Investments with respect to these arrangements.

Summarised financial information for AMI, before intragroup eliminations, is set out below:

	December 31, 2015	December 31, 2014
Non-current assets	\$ 52,705,845	\$ 50,027,416
Current assets	42,624	43,500
	<u>\$ 52,748,469</u>	<u>\$ 50,070,916</u>
Current liabilities	\$ 64,541	\$ 756,952
Total liabilities	64,541	756,952
Equity attributable to shareholders of the Company	46,629,294	43,618,349
Equity attributable to non-controlling interests	6,054,634	5,695,615
	<u>\$ 52,748,469</u>	<u>\$ 50,070,916</u>
Income (loss) and comprehensive income (loss) for the year attributable to shareholders of the Company	\$ 116,153	\$ (55,647)
Income (loss) and comprehensive income (loss) for the year attributable to NCI	29,038	(13,912)
Income (loss) and comprehensive income (loss) for the year	<u>\$ 145,191</u>	<u>\$ (69,559)</u>
Net cash used in operating activities	\$ 162,524	\$ (81,090)
Net cash from financing activities	3,224,774	2,828,140
Net cash used in investing activities	(3,389,827)	(2,785,278)
Net cash outflow	<u>\$ (2,529)</u>	<u>\$ (38,228)</u>

## 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 property, in Arizona, United States.

Subsequent to the year end the Company closed the acquisition of certain patented mining claims (see note 14).

The following is a summary of changes in exploration and evaluation assets for the years ended December 31, 2015 and 2014:

	2015	2014
Balance, start of year	\$ 70,371,838	\$ 67,085,359
Additions:		
Mineral property acquisition costs	327,426	26,643
Drilling	970,368	588,996
Property access, restoration and maintenance	381,818	299,854
Assay and analysis	162,417	124,503

## Arizona Mining Inc.

### Notes to Consolidated Financial Statements

For the year ended December 31, 2015

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Salaries, benefits and stock based compensation	811,119	898,771
Geologic consulting and support	118,512	226,984
Engineering and metallurgy	57,321	443,472
Environmental baseline studies & permitting	50,945	319,184
Claims maintenance	113,731	119,040
Other	193,077	239,032
	<u>3,186,734</u>	<u>3,286,479</u>
Balance, end of year	<u>\$ 73,558,572</u>	<u>\$ 70,371,838</u>

## 7. Share Capital

### a) Common shares

Authorized: Unlimited common shares and unlimited preferred shares, with no par value

Issued and fully paid: 161,951,958 (December 31, 2014 – 148,040,893)

The common shares of the Company rank equally as to dividends, voting powers and participation in assets and as to all other benefits which might accrue to holders of the common shares. No shares have been issued subject to call or assessment. Each common share carries one vote at shareholder meetings of the Company. The preferred shares have a priority over the common shares with respect to the payment of dividends and the distribution of assets upon the liquidation of the Company with respect to the repayment of capital.

### b) Shares issued for debt settlement

On December 18, 2015, C\$2,044,000 (\$1,472,410) of loans from the Company's Executive Chairman together with C\$21,898 (\$15,775) accrued interest and financing fees payable were converted into 5,902,566 units of the Company at a price of C\$0.35 per unit (see note 8). Each unit is comprised of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share at a price of C\$0.45 per common share until December 18, 2020.

The Company determined that the fair value of the warrants issued on December 18, 2015 was \$581,910. This 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 5 years; annualized volatility of 91%; a risk free interest rate of 0.74%; and zero expected dividend yield. The expected volatility is based on the historical volatility of the Company's shares.

On June 12, 2015, C\$2,320,000 (\$1,885,566) of loans from the Company's directors and officers together with C\$83,400 (\$67,782) accrued interest and financing fees payable were converted into 6,008,499 units of the Company at a price of C\$0.40 per unit (see note 8). Each unit is comprised of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share at a price of C\$0.60 per common share until June 12, 2017.

The Company determined that the fair value of the warrants issued on June 12, 2015 was \$457,499. This 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 2 years; annualized volatility of 72%; a risk free interest rate of 0.64%; and zero expected dividend yield. The expected volatility is based on the historical volatility of the Company's shares.

## Arizona Mining Inc.

### Notes to Consolidated Financial Statements

For the year ended December 31, 2015

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#### c) Private placement

On November 10, 2015, the Company closed a C\$700,000 (US\$527,943) private placement of 2,000,000 units at a price of C\$0.35 per share with the Company's directors and officers. Each unit is comprised of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share at a price of C\$0.45 per common share until November 10, 2020.

The Company determined that the fair value of the warrants issued on November 10, 2015 was \$202,598. This 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 5 years; annualized volatility of 92%; 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 August 20, 2014, the Company closed a C\$2,025,000 (US\$1,850,329) private placement of 4.5 million units at a price of C\$0.45 per share with a company owned by the Company's Executive Chairman. The Company received cash of C\$1,370,238 (US\$1,252,045), after taking account of the conversion of the loan advances previously received together with accrued interest (note 8). Each unit is comprised of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share at a price of C\$0.55 per common share for a period of two years following the closing of the private placement.

The Company determined that the fair value of the warrants issued on August 20, 2014 was \$511,156. This 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 2 years; annualized volatility of 74%; a risk free interest rate of 1.1%; and zero expected dividend yield. The expected volatility is based on the historical volatility of the Company's shares.

#### d) Stock options

At the Company's Annual General and Special Meeting of Shareholders on June 29, 2015 the shareholders approved the Company's Amended and Restated Stock Option Plan ("Plan") including approving all unallocated stock options under the Plan and giving the authority to grant stock options pursuant to and subject to the terms and conditions of the Plan until June 29, 2018. In addition, the shareholders approved the cancellation of certain stock options and the grant of stock options described below.

The Company's stock option plan provides for the issuance of options that shall not at any time exceed 10% of the total number of issued and outstanding common shares of the Company as at the date of grant of the options. The Company may grant options to directors, officers, employees, consultants and other personnel of the Company or any of its subsidiaries. The exercise price of each option is determined by the Board of Directors but cannot be lower than the previous day's closing market price of the Company's shares on the date of grant. The options vest and become exercisable as determined by the Board of Directors at the time of the grant. Unless determined otherwise by the Board of Directors, the options expire within 5 years from the date of grant.

The following table shows the change in the Company's stock options during the years ended December 31, 2015 and 2014:

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### Notes to Consolidated Financial Statements

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(U.S. dollars unless otherwise noted)

	2015		2014	
	Number of Options	Weighted Average Exercise Price (in CAD)	Number of Options	Weighted Average Exercise Price (in CAD)
Balance, start of year	4,171,160	\$0.97	6,218,160	\$0.84
Granted	10,950,000	\$0.39	152,000	\$0.54
Exercised	-	-	(407,000)	\$0.41
Forfeited	(51,500)	\$0.81	(24,000)	\$0.62
Expired	(3,995,660)	\$0.98	(1,768,000)	\$0.63
Balance, end of year	11,074,000	\$0.39	4,171,160	\$0.96

For the year ended December 31, 2015, the Company recognized a stock-based compensation charge against income of \$585,873 (December 31, 2014 – \$184,469). A further \$206,618 (December 31, 2014 – \$64,076) was capitalized to exploration and evaluation assets.

The assumptions used in the Black-Scholes option-pricing model for the options granted during the years ended December 31, 2015 and 2014 were as follows:

Weighted average:	2015	2014
Expected term (years)	5	5
Volatility <sup>(1)</sup>	91%	90%
Expected dividend yield	-	-
Risk-free interest rate	1.0%	1.6%

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

During the year ended December 31, 2014, 407,000 options with a weighted average exercise price of C\$0.41 were exercised under the cashless exercise provisions of the Company's stock option plan resulting in the issuance of 141,057 common shares of the Company. The cashless exercise feature allows the optionee, on exercise, to receive that number of common shares in the Company equivalent to the market value of the common shares underlying the number of options exercised less the exercise price, without payment of cash or any other consideration. The weighted average share price, at the date of exercise, of the options exercised during the year ended December 31, 2014 was C\$0.63.

The following table provides information on outstanding and exercisable stock options at December 31, 2015:

Grant Date	Exercise Price (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	3.23	8,000	3.23
August 18, 2014	\$0.51	100,000	3.63	100,000	3.63
May 25, 2015	\$0.40	9,390,000	4.40	250,000	4.40
May 27, 2015	\$0.43	125,000	4.41	62,500	4.41
October 29, 2015	\$0.29	1,435,000	4.83	-	4.83
		11,074,000	4.45	420,500	4.20

#### e) Warrants

The following summarizes the Company's warrants at December 31, 2015:

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### Notes to Consolidated Financial Statements

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(U.S. dollars unless otherwise noted)

Date of Issue	Exercise Price (C\$)	Expiry Date	December 31, 2014	Issued	December 31, 2015
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
			4,500,000	13,911,065	18,411,065

## 8. Related Party Transactions

### *Compensation of key management*

Key management includes the Company's directors and certain senior management. Key management compensation, which is expensed or allocated to exploration and evaluation assets depending on the nature of the services provided for the years ended December 31, 2015 and 2014 comprised:

	2015	2014
Salaries and benefits	\$ 546,104	\$ 633,294
Stock based compensation	633,668	138,517

### *Related party transactions*

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

The Company shares office space, equipment, personnel and various administrative services with other companies (Catalyst Copper Corp. 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. The Company was charged for the following with respect to these arrangements in the years ended December 31, 2015 and 2014:

	2015	2014
Salaries and benefits	\$ 510,421	\$ 545,847
Office and administrative	299,285	366,902
Other income	(26,680)	-
Additions to other assets	-	15,646
	\$ 783,026	\$ 928,395

In addition, for the year ended December 31, 2015, the Company charged out \$6,062 (December 31, 2014 – \$9,129) and at December 31, 2015, amounts receivable includes \$4,530 (December 31, 2015 – \$92) and prepaids and other includes \$25,962 (December 31, 2014 – \$70,577) with respect to these arrangements.

Other assets of \$217,885 (December 31, 2014 – \$259,937) 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 December 31, 2015, due to related party includes C\$2,000,000 plus accrued interest of C\$55,912 (\$1,485,486) due to the Company's Executive Chairman for loans advanced subsequent to June 8, 2015. The loans are unsecured, bear interest at 8% per annum and are 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

## Arizona Mining Inc.

### Notes to Consolidated Financial Statements

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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.

In late 2015, the Company received financial support from the Company's Executive Chairman by way of loan advances of C\$2,044,000. The loans were unsecured, bore interest at a rate of 10% per annum compounded monthly and were be repayable on the earlier of the Company completing a private placement of C\$2,044,000 or more and one year. On December 18, 2015, the loans, together with C\$21,898 of accrued interest and financing fees were settled by way of the issuance of units of the Company (see note 7b).

In late 2014 and early 2015, the Company entered into loan agreements with its directors and officers for an aggregate amount outstanding of C\$2,320,000 (December 31, 2014 – C\$685,000). The loans were unsecured, bore interest at a rate of 12% per annum and were repayable on the earlier of (i) one year from the date of advance, (ii) the completion of a financing of C\$3.5 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, or (iii) a change of control of the Company. A fee of 2% of the principal amount of the loans was paid or payable to the lenders. On June 12, 2015, the loans, together with C\$83,400 of accrued interest and financing fees were settled by way of the issuance of units of the Company (see note 7b).

During the second quarter of 2014, the Company received financial support from the Company's Executive Chairman by way of unsecured loan advances of C\$643,337. The loan advances and interest which accrued at 7%, totalling C\$654,762, were converted into units of the Company as part consideration for the private placement that closed on August 20, 2014 (see note 7c).

## 9. Financial Instruments and Capital Management

The Company's financial instruments are classified into the following categories of financial assets and liabilities (shown at carrying value):

Category	Measurement	December 31, 2015	December 31, 2014
Cash and cash equivalents	Loans and receivables	\$ 418,950	\$ 46,910
Amounts receivable	Loans and receivables	\$ 172,951	\$ 19,588
Accounts payable and accrued liabilities	Other financial liabilities	\$ 211,630	\$ 1,003,943
Due to related party – current	Other financial liabilities	\$ 1,485,486	\$ -
Due to related party – non-current	Other financial liabilities	\$ -	\$ 608,251

The carrying values of the Company's financial instruments in the table above approximate their fair values as a result of their short-term nature.

### **Financial Risk Management**

The Company is exposed to various financial instrument risks and assesses the impact and likelihood of this exposure and attempts to manage the risk, where possible. These risks include market risk, liquidity risk and credit risk.

#### a) Market risk

Market risk represents the risk that the fair value of cash flows of a financial instrument will fluctuate because of changes in market prices. In particular:

## Arizona Mining Inc.

### Notes to Consolidated Financial Statements

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#### *Foreign exchange risk*

Foreign exchange risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rate.

The Company incurs expenditures in Canadian and US dollars with the majority of the expenditures being incurred in US dollars exploring on its Hermosa property. The parent company has adopted a policy of converting the majority of its cash balances into US dollars, except to the extent Canadian dollars are required to fund corporate operations. As the functional currency of the parent company is Canadian dollars, foreign exchange risk arises because the amount of the US dollar cash and cash equivalents will vary in Canadian dollar terms due to changes in exchange rates. However, to the extent the US dollar balances will be used to fund future exploration expenditures on the Hermosa property the risk is mitigated and provides more certainty in terms of the funds available for that purpose.

At December 31, 2015, the Company is exposed to currency risk through the following assets and liabilities denominated in US dollars held by the Canadian parent company:

	December 31, 2015		December 31, 2014
Cash and cash equivalents	US\$ 397	US\$	197
Amounts receivable	664		434
Due from related party	139,089		11,136
Accounts payable and accrued liabilities	(53,310)		(22,293)
	<u>US\$ 86,840</u>	US\$	<u>(10,526)</u>

As at December 31, 2015, based on the above net exposures a 10% change in the Canadian-US dollar exchange rate would impact the Company's earnings by approximately \$9,000 (December 31, 2014 – \$1,000). As the Company reports in US dollars this amount would be offset by an approximately equivalent amount as part of other comprehensive income.

#### *Price and Interest rate risk*

Price risk is the risk that the fair value or future cash flows from a financial instrument will fluctuate because of changes in market prices other than those arising from interest rate and currency risk. The Company is not materially exposed to price risk at this time.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not materially exposed to interest rate risk at this time.

#### b) Liquidity risk

Liquidity risk represents the risk that the Company will be unable to meet its obligations associated with its financial liabilities. The Company endeavours to manage its liquidity risk by maintaining sufficient readily available cash in order to meet its liquidity requirements at any point in time (see discussion on going concern in note 1).

#### c) Credit risk

Credit risk represents the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. Credit risk arises for the Company from cash and cash equivalents held with banks and financial institutions, as well as credit exposure on outstanding

## Arizona Mining Inc.

### Notes to Consolidated Financial Statements

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amounts receivable and amounts due from a related party. The maximum exposure to credit risk is equal to the carrying value of the financial assets.

The Company manages its exposure to credit risk by holding its cash and cash equivalents through Canadian or US chartered banks, with short-term investments held in high-interest bank accounts and GIC's.

#### **Capital Management**

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its Hermosa property and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk level.

There are no externally imposed capital requirements on the Company. In the definition of capital, the Company includes shareholders' equity. The Company's properties are at the exploration stage and as such the Company is dependent on external financing to fund all of its activities. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions, its expected funding requirements and the risk characteristics of its underlying assets. The Company's funding requirements are determined based on cash forecasts, which are approved by the Company's board of directors. To maintain or adjust the capital structure, the Company may issue shares, issue debt, acquire or dispose of assets and/or consider strategic alliances. In order to maximize ongoing exploration efforts, the Company does not pay cash dividends.

#### **10. Commitments**

During the year ended December 31, 2014 the Company received \$743,873 from a company previously related through certain common directors and management with respect to the provisions of the agreements governing certain shared operating leases. The amount has been recorded as deferred rental contribution and will be amortized to office and administrative expense over the remaining term of the leases. The following is a summary of changes in deferred rental contribution:

	December 31, 2015	December 31, 2014
Balance, start of year	\$ 594,235	\$ -
Deferred rental contribution received	-	743,873
Amortization of deferred rental contribution	(221,145)	(98,985)
Effect of foreign currency exchange differences	(79,644)	(50,653)
Balance, end of year	<u>\$ 293,446</u>	<u>\$ 594,235</u>

In addition to the commitments disclosed elsewhere in these condensed consolidated interim financial statements, at December 31, 2015, the Company is committed to payments for office premises through 2018 in the total amount of approximately \$589,300. Payments by fiscal year are:

2016	222,100
2017	223,100
2018	\$ 144,100

#### **11. Segment Information**

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



## Arizona Mining Inc.

### Notes to Consolidated Financial Statements

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	United States	Canada	Total
Long-term assets as at:			
December 31, 2015	\$ 73,583,922	\$ 217,988	\$ 73,801,910
December 31, 2014	\$ 70,425,139	\$ 260,581	\$ 70,685,720

## 12. Income Tax

The provision for income taxes reported differs from the amount computed by applying the cumulative Canadian Federal and Provincial income tax rates to the loss before the tax provision due to the following:

	Year ended December 31, 2015	Year ended December 31, 2014
Statutory tax rate	26.00%	26.00%
Expected income tax recovery	\$ (391,469)	\$ (418,538)
Difference in tax rates with foreign jurisdictions	17,692	(8,476)
Non-deductible expenses	158,598	51,659
Unrecognized tax losses	215,179	375,355
Income tax recovery	\$ -	\$ -

At December 31, 2015, the Company had Canadian tax loss carry forwards of approximately C\$11,260,000 (December 31, 2014 – C\$9,748,000) and US tax loss carry forwards of approximately \$7,516,000 (December 31, 2014 – \$5,467,000). The tax loss carry forwards expire at various times between 2025 and 2035.

At December 31, 2015, the Company had Canadian deductible temporary differences of approximately C\$3,450,481 with respect to exploration and evaluation assets (December 31, 2014 – C\$3,450,481) for which no deferred tax asset has been recognized. The Company had US taxable temporary differences of approximately \$6,899,162 (December 31, 2014 – \$4,699,372) with respect to exploration and evaluation assets for which no deferred tax liability has been recognized. The deductible temporary differences do not expire under current legislation.

## 13. Non-Cash Financing and Investing Activities

	December 31, 2015	December 31, 2014
Settlement of advances from related parties by issuance of units (note 7b)	\$ (3,441,533)	\$ -
Change in accounts payable and accrued liabilities reflected in investing activities	\$ (692,722)	\$ 370,295

## 14. Subsequent Events

### a) Acquisition of Patented Mining Claims

On January 26, 2016, the Company announced it has closed the acquisition of certain patented mining claims adjacent to the Company's Hermosa Taylor Deposit.

As consideration for the acquisition, the Company has assumed the environmental liabilities relating to past activities on the site. 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 US\$2.9 million of which the Company's share is US\$1.9 million with the

## Arizona Mining Inc.

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US\$1.0 balance contributed by a former owner of the claims. In addition, the Company has posted two bonds totaling US\$1.97 million as security for the future operating performance of the passive water treatment system. The Company has posted US\$0.86 million with the bond surety company as collateral for the bonds.

In connection with the acquisition, the Company borrowed C\$4.0 million from a company controlled by the Company's Executive Chairman. The loan is unsecured, 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 payable after three months if the loan remains outstanding. In addition, 1,000,000 warrants have been issued to the lender with each warrant exercisable for an additional common share of the Company at a price of C\$0.30 per common share for a period of five years from the date of issue.

#### b) Private Placement

On February 22, 2016 the Company announced a non-brokered private placement for a total of 6.7 million units at a price of C\$0.42 per unit for gross proceeds of C\$2.8 million. On March 2, 2016, the Company closed 6.07 million units of the private placement for gross proceeds of C\$2.55 million. The balance of the private placement of 0.65 million units for gross proceeds of \$0.27 million was placed with directors and/or officers of the Company and is expected to close following shareholder approval at the Company's upcoming annual shareholders' meeting being held on April 22, 2016 in accordance with TSX policies. Each unit consists of one common share and one half of one common share purchase warrant. Each whole common share purchase warrant is convertible into one common share of the Company at a price of \$0.60 for a period of 18 months.

#### c) Acquisition of Minority Interest in AMI

On February 26, 2016 the Company announced it had entered into a letter of intent with a private company controlled by Richard W. Warke, a Director and Executive Chairman of the Company, to acquire the 20% interest in the common shares and approximately 10% of the preference shares of AMI that the Company does not currently own. The Company has agreed to issue 40 million common shares and 5 million common share purchase warrants as consideration for the acquisition. Each share purchase warrant is convertible into one common share of the Company at a price of \$0.50 for a period of three years from closing. The acquisition is subject to, among other things, execution of a definitive purchase agreement, the approval of the Toronto Stock Exchange and the approval of a majority of the votes cast by the shareholders of the Company, excluding votes cast by the seller and its related parties and joint actors.

#### d) Royalty Financing and Private Placement

On March 21, 2016 the Company announced it had entered into a term sheet with Osisko Gold Royalties Ltd. ("Osisko") for a 1% net smelter royalty on any lead/zinc/silver sulfide ores mined from its Hermosa Project for proceeds of \$10.0 million. In addition, the Company announced a non-brokered private placement of 9.99 million units at a price of \$0.56 per unit, calculated using the five day volume weighted average share price, for gross proceeds of \$5.59 million. Osisko will subscribe for 8.93 million of the units. Each unit consists of one common share and one half of one common share purchase warrant. Each whole common share purchase warrant is convertible into one common share of the Company at a price of \$0.75 for a period of 18 months from closing. The royalty is subject to negotiation of a definitive agreement and the private placement is subject to completion of the royalty agreement and regulatory approval.