ARIZONA MINING INC.

Management's Discussion and Analysis

For the Year Ended December 31, 2016

Introduction

This management's discussion and analysis ("MD&A") of Arizona Mining Inc. (the "*Company*", "*Arizona Mining*", "*we*", "*us*", or "*our*") covers the year ended December 31, 2016, with comparative information for the year ended December 31, 2015. This MD&A takes into account information available up to and including March 30, 2017. This MD&A should be read in conjunction with the accompanying consolidated financial statements and notes for the year ended December 31, 2016, which are available on the Company's website at www.arizonamining.com and on the SEDAR website at www.sedar.com.

The Company has prepared the consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

All dollar amounts reported herein are in US dollars unless indicated otherwise.

Cautionary Note Regarding Forward-Looking Information

Certain information contained in this document constitutes forward-looking statements. All statements, other than statements of historical facts, are forward looking statements, including without limitation, statements with respect to the Company's expectations for completing a resource update, preliminary economic assessment and further exploration drilling on the Taylor Deposit and the statements under "Summary and Outlook" later in this document. Forward-looking statements are often, but not always, identified by the use of words such as *may*, *will*, *seek*, *anticipate*, *believe*, *plan*, *estimate*, *budget*, *schedule*, *forecast*, *project*, *expect, intend*, or similar expressions.

The forward-looking statements are based on a number of assumptions which, while considered reasonable by the Company, are subject to risks and uncertainties. The Company cautions readers that forward-looking statements involve and are subject to known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to differ materially from those expressed in or implied by such forward-looking statements and forward-looking statements are not guarantees of future results, performance or achievement. These risks, uncertainties and factors include general business, economic, competitive, political, regulatory and social uncertainties; actual results of exploration activities and economic evaluations; fluctuations in currency exchange rates; changes in project parameters; changes in costs, including labour, infrastructure, operating and production costs; future prices of silver and other minerals; variations of mineral grade or recovery rates; operating or technical difficulties in connection with exploration, development or mining activities, including the failure of plant, equipment or processes to operate as anticipated; delays in completion of exploration, development or construction activities; changes in government legislation and regulation; the ability to maintain and renew existing licenses and permits or obtain required licenses and permits in a timely manner; the ability to obtain financing on acceptable terms in a timely manner; contests over title to properties; employee relations and shortages of skilled personnel and contractors; the speculative nature of, and the risks involved in, the exploration, development and mining business; and the factors discussed in the section entitled "Risks and Uncertainties" in this MD&A.

Although the Company has attempted to identify important risks, uncertainties and other factors that could cause actual performance, achievements, actions, events, results or conditions to differ materially from those expressed in or implied by the forward-looking information, there may be other risks, uncertainties and other factors that cause performance, achievements, actions, events, results or conditions to differ from those anticipated, estimated or intended. Unless otherwise indicated, forward-looking statements contained herein are as of the date hereof and the Company disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events or results or otherwise, except as required by applicable law.

About Reserves and Resources

This MD&A uses the terms measured, indicated and inferred resources as a relative measure of the level of confidence in the resource estimate. Readers are cautioned that: (a) mineral resources are not economic mineral reserves; (b) the economic viability of resources that are not mineral reserves has not been demonstrated; and (c) it should not be assumed that further work on the stated resources will lead to mineral reserves that can be mined economically. In addition, inferred resources are considered too geologically speculative to have any economic considerations applied to them. It cannot be assumed that all or any part of an inferred mineral resource will ever be upgraded to a higher category. Under Canadian rules, estimates of inferred mineral resources may not form the basis of feasibility or pre-feasibility studies or economic studies except for preliminary economic assessments as defined under NI 43-101. Readers should also refer to the Company's Annual Information Form for the year ended December 31, 2016 and other continuous disclosure documents available at www.sedar.com, which is subject to the qualifications and notes set forth therein.

Description of Business

Arizona Mining Inc. is a Canadian mineral exploration and development company focused on the exploration and development of its 100%-owned Hermosa Project located in Santa Cruz County, Arizona. The Hermosa Project is a polymetallic mineral exploration project located approximately 100 kilometres southeast of Tucson, Arizona and about 15 kilometres north of the US – Mexico border. The Hermosa Project currently comprises two deposits, the Taylor Deposit and the Central Deposit. The Taylor Deposit, a zinc-lead-silver carbonate replacement deposit, has 31.1 million tons in the Indicated Mineral Resource category grading 10.9% zinc equivalent ("ZnEq") plus 82.7 million tons of Inferred Mineral Resource grading 11.1% ZnEq, both reported in accordance with NI 43-101 guidelines utilizing a 4% ZnEq cutoff grade. The Taylor Deposit remains open to the north, west and south over land controlled by the Company. In addition to the zinc-lead-silver mineralization other target types have been identified on the mineral holdings and will be drill tested. Metallurgical test work on drill core from the Taylor Deposit projects overall recoveries of 92.7% Zn, 95.4% Pb and 92.4% Ag using industry standard froth flotation processing technology. The Company's other project on the Hermosa property is the Central Deposit, a silver-manganese manto oxide development project. The most recent technical documents for the Taylor Deposit, including certain aspects for the Central Deposit, are available on the Company's website at www.arizonamining.com or on SEDAR at www.sedar.com.

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

Summary and Outlook

2016 was a very significant year for the Company as the major potential of the Taylor Deposit began to reveal itself as the year progressed. A number of catalysts enabled the advancement of the project to gather speed during the year including:

- James Gowans joining the Company on January 1, 2016 as President and CEO;
- The acquisition on January 26, 2016 of approximately 300 acres of land adjacent to the Company's existing patented claims that host the Taylor Deposit. Consideration consisted of the assumption of the environmental liabilities, estimated at $5.3 million, relating to past activities on the site, with $1.0 contributed by a former owner of the claims;
- The release on February 1, 2016 of an updated resource estimate for the Taylor Deposit with 39.4 million tonnes of inferred resource with a zinc equivalent grade (ZnEq) of 11.04% at a 6% cut-off (based on $0.85 zinc and lead price, $15 silver price, 85% zinc recovery and $45.75/tonne mine, process and general and administration cost);
- The acquisition of the 20% interest in the Hermosa project that the Company did not own that was announced on February 26, 2016. The total fair value of the consideration recorded for the acquisition was $37.1 million;
- Raising C$15.0 million from Osisko Gold Royalties Ltd. through the sale of a 1% net smelter royalty for C$10.0 million and a C$5 million private placement. These funds enabled the Company to aggressively

(U.S. dollars)

expand its drilling program on the Taylor Deposit;
- The Company completed a further C$18 million (gross proceeds) private placement in June, 2016;
- Issued an updated resource estimate on October 31, 2016 that further increased the estimated size of the resource to 31.1 million tons in the Indicated Mineral Resource category grading 10.9% ZnEq plus 82.7 million tons of Inferred Mineral Resource grading 11.1% ZnEq utilizing a 4% ZnEq cutoff grade (see details later in this MD&A);
- Raised a further C$36 million gross proceeds through a bought deal offering that closed on December 6, 2016; and
- In February 2017, the Company announced the discovery of the new Taylor Deeps zone that lies below the Taylor Deposit and is open in all directions.

The Company is currently working on a further resource update from the October 31, 2016 resource based on subsequent drilling and analysis and a preliminary economic assessment, both of which are expected to be completed towards the beginning of the second quarter of 2017. The Company will then transition into completing a feasibility study on the Taylor Deposit with a targeted completion around the end of 2017.

Taylor Deposit

Resource Update

On October 31, 2016 the Company announced a Mineral Resource update for the Taylor Zn-Pb-Ag sulfide deposit. The deposit now comprises 31.1 million tons in the Indicated Mineral Resource category grading 10.9% zinc equivalent ("ZnEq") plus 82.7 million tons of Inferred Mineral Resource grading 11.1% zinc equivalent (ZnEq), both reported in accordance with NI 43-101 guidelines utilizing a 4% ZnEq cutoff grade.

Table 1. Taylor Deposit Indicated and Inferred Mineral Resources

Indicated Mineral Resource						
Cutoff ZnEq %	**Short Tons**	**ZnEq %**	**Zn %**	**Pb %**	**Cu %**	**Ag opt**
25	1,775,000	32.8	13.4	12.8	0.4	6.6
20	3,640,000	27.2	11.4	10.8	0.3	5.0
15	6,499,000	22.7	9.8	9.0	0.3	4.0
10	12,303,000	17.8	7.7	7.1	0.2	3.0
6	22,280,000	13.3	5.8	5.3	0.2	2.2
5	26,265,000	12.1	5.2	4.8	0.1	2.0
4	31,143,000	10.9	4.7	4.4	0.1	1.8
3	38,571,000	9.5	4.1	3.8	0.1	1.6
0	185,918,000	2.4	1.0	0.9	0.0	0.4
Inferred Mineral Resource						
Cutoff ZnEq %	**Short Tons**	**ZnEq %**	**Zn %**	**Pb %**	**Cu %**	**Ag opt**
25	5,231,000	36.1	16.4	13.7	0.4	6.1
20	8,399,000	30.9	13.4	12.1	0.4	5.4
15	15,713,000	24.4	9.9	10.0	0.3	4.5
10	32,203,000	18.2	7.1	7.6	0.2	3.6
6	61,112,000	13.3	5.1	5.6	0.2	2.6
5	71,222,000	12.2	4.6	5.1	0.2	2.4
4	82,748,000	11.1	4.2	4.7	0.2	2.2
3	98,671,000	9.9	3.7	4.1	0.1	2.0
0	749,354,000	1.6	0.6	0.6	0.0	0.3

The resource is based on assay results from 59 surface diamond drill holes, totaling 206,192 feet (62,863 meters) of drilling, which have all intersected stratabound carbonate replacement sulfide mineralization within the Taylor Deposit. The updated Mineral Resource Estimate was prepared by AMC Mining Consultants (Canada) Ltd. (AMC) of Vancouver, B.C.

Mineral Resources are not Mineral Reserves and do not have demonstrated economic viability. There is no certainty that all or any part of mineral resources will be converted to mineral reserves. Inferred Mineral Resources are based on limited drilling which suggests the greatest uncertainty for a resource estimate and that geological continuity is only implied. Additional drilling will be required to verify geological and mineralization continuity and there is no certainty that all of the inferred resources will be converted to measured and indicated resources. Quantity and grades are estimates and are rounded to reflect the fact that the resource estimate is an approximation.

Estimation Parameters

The Taylor Deposit Mineral Resource update was carried out using Ordinary Kriging of drill core sample data that was composited to 10 feet in length. The compositing process honored lithological domain boundaries. Tonnages and grades of lead, zinc and silver were estimated for seven separate lithological domains. In all cases boundaries between domains were treated as "hard", meaning that grades from adjacent domains were not used to influence the estimation of grades within a given domain.

Because of the sparsity of bulk density data, a formula using the analyzed abundances of zinc, lead and copper was used. This formula produces bulk density values within approximately 10% of a set of 30 samples of various grades of mineralization for which bulk density measurements were made.

Top cut analysis was carried out using log cumulative probability plots for all metals. Only silver was determined to require capping and was capped at 42 ounces per short ton.

Variographic analysis was carried out for lead, zinc, silver and copper assay grades and the variograms were employed in the kriging estimation. Search ellipses were constructed for each domain and honoured the attitude of mineralization within each domain. Most search ellipses were 600 feet long in the strike direction, 300 feet wide in the cross-strike direction and 100 feet high (vertical direction). Several domains were estimated using ellipses with a vertical height of 50 feet because of the restricted nature of the mineralization in those domains.

Grades were estimated in a single pass. For a grade to be interpolated into a block it was necessary that a minimum of four composites were located within the search ellipse. A maximum of two composites per hole was allowed to ensure that at a minimum, each block was informed by composites from at least two drill holes. A maximum of 10 composites, representing five drill holes, was allowed.

Blocks were classified as an Indicated or Inferred Mineral Resource. For a block to be classified as Indicated it was necessary that a minimum of eight and a maximum of 10 composites were located within 300 feet of the block centroid; for a block to be classified as Inferred, it was necessary that a minimum of four and a maximum of 10 composites were located within 600 feet of a block centroid. No blocks were classified as Measured Resources as at present, mineralization has not been exposed by underground openings, a circumstance that would be necessary to provide sufficient evidence of continuity to warrant that classification.

Estimation results

The Mineral Resource has been stated in terms of Zinc Equivalent, (ZnEq). The ZnEq formula and the underlying parameters used in its formulation are set out in Table 2. Although the grade of copper was estimated, it was not used as a component of the ZnEq formula because of its relatively low abundance and uncertain mineral processing route.

(U.S. dollars)

Table 2. Zinc Equivalent parameters and formula[1]

Metal	Price (US$)	Recovery (%)
Lead	0.90/lb	95
Zinc	0.95/lb	90
Silver	20.00/oz	85

[1] ZnEq = [(Pb/100)*0.9*2000)*0.95 + (Zn/100)*0.95*2000)*0.90 + (20*Ag)*0.85] / (2000*0.95*0.9/100)

The Mineral Resource is summarized in Table 1 (above) at a range of ZnEq cut-off grades. Grades have been rounded to the nearest 0.1% for lead and zinc and the nearest 0.1 ounce per ton for silver. Tons have been rounded to the nearest thousand.

Drill Program

The Company continued its drill program following the release of the October 31, 2016 resource estimate with 14 drill rigs on site. Since that time the Company has reported on 36 holes, primarily in-filling the area of the resource estimate with some step out holes designed to expand the resource area. In the process of this campaign the Company identified a new mineralized sulfide zone called Taylor Deeps, which has been defined based on a reinterpretation of previous drill results in addition to results from two new holes reported on February 9, 2017. The new zone lies below a low angle thrust fault that separates it from the current Taylor sulfide resource. Results to date indicate Taylor Deeps mineralization is continuous, open in all directions, and offers excellent potential to expand the current resource. Some of the more significant drill results reported since the October 31, 2016 resource update include:

DH_ID	*From (feet)*	*To (feet)*	*Interval (in feet)*	*From (meters)*	*To (meters)*	Interval (meters)	*Ag opt*	*Pb%*	*Zn%*	*Cu%*	*Zone**
HDS-353	3170	3202	32	966.2	975.9	9.8	2.25	8.19	12.21	0.69	TS
Including	3170	3187	17	966.2	971.4	5.2	3.79	14.75	22.04	1.21	TS
HDS-359	1313.5	1346.5	33	400.3	410.4	10.1	12.19	20.17	22.78	0.13	Vein
HDS-396	1779	2303	524	542.2	701.9	159.7	2.53	6.87	8.47	0.40	TS
Including	1779	1810	31	542.2	551.7	9.4	5.46	18.27	11.96	4.90	TS
Including	1957	1972	15	596.5	601.0	4.6	2.73	9.13	12.00	0.52	TS
Including	2032	2062	30	619.3	628.5	9.1	2.91	8.98	12.00	0.23	TS
Including	2141	2245	104	652.5	684.2	31.7	5.58	14.61	22.14	0.18	TS
HDS-397	2342.5	2404.5	62	714	732.9	18.9	9.35	15.08	6.54	0.37	TS
Including	2347	2363	16	715.3	720.2	4.9	29.6	42.93	10.7	1.26	TS
HDS-399	3377	3501	124	1029.3	1067.1	37.8	5.15	14.83	7.41	0.53	TS
Including	3377	3422	45	1029.3	1043.0	13.7	10.43	31.70	12.72	0.84	TS
HDS-402	3352	3480	128	1021.6	1060.7	39.0	2.14	6.07	6.13	0.32	TDS
Including	3352	3370	18	1021.6	1027.1	5.5	7.11	23.60	15.66	0.71	TDS
Including	3430	3445	15	1045.4	1050.0	4.6	4.21	11.03	19.75	1.00	TDS
HDS-413	1765	2167	402	537.9	660.5	122.5	2.29	7.15	12.75	0.17	TS
Including	2007	2094	87	611.7	638.2	26.5	5.00	15.44	31.65	0.28	TS
HDS-422B	3332.5	3413.5	81	1015.7	1040.4	24.7	4.26	10.22	7.01	0.39	TDS
Including	3332.5	3354	21.5	1015.7	1022.2	6.6	9.17	22.44	17.12	0.76	TDS

Sulfide drill intervals are down-the-hole drill widths but are considered to be within +/- 5% of true width based on the dip of the mineralized stratigraphy at 22 degrees. The exception to this are the intervals noted as veins. It is not possible to determine the true width of the veins based on the drill density and no representation is made here regarding true width of the veins.

Other Taylor Deposit Activities

Extensive metallurgical testing on the Taylor Deposit has been completed by SGS Laboratories in Ontario. Numerous open and locked cycle tests have been performed on representative ores from the deposit to optimize the process flow sheet and maximize recoveries of zinc, lead and silver. The locked cycle tests returned significantly improved zinc and lead recoveries of 92.7% and 95.4%, respectively, compared to 85.5% and 92.9% previously. In addition, the testing achieved a silver recovery of 92.4% compared to 91% previously, with 69.3% reporting to the lead concentrate and 23.2% reporting to the zinc concentrate, and expected to be payable in both concentrates. The achieved grade for the zinc concentrate was 56.1% and contained approximately 331 grams per ton ("g/t") silver. Grade for the lead concentrate was 69.7%, and contained approximately 1,072 g/t silver.

Central Deposit Metallurgical Testwork

During 2016, the Company initiated metallurgical testwork on a number of samples from the Central Deposit's mantos oxide mineralization to re-examine the proposed process for extracting the minerals. The testwork has indicated that alternative processing flow sheets may be available for this mineralization. Work is ongoing in this area.

Land Position

On January 26, 2016, the Company closed the acquisition of approximately 300 acres of patented mining claims. The addition of the land package has greatly enhanced Arizona Mining's surface lands available for further exploration of the Taylor Deposit and any future mining operations and continues to be drill tested, as previously discussed.

As consideration for the acquisition, the Company assumed the environmental liabilities, estimated at $5.3 million, relating to past activities on the site. The Company submitted a remediation work plan that addressed 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 $2.9 million of which the Company's share is $1.9 million with the $1.0 balance contributed by a former owner of the claims. In addition, the Company has posted two bonds totaling $1.97 million as security for the future operating performance of the passive water treatment system. The Company has posted $0.86 million with a bond surety company as collateral for the bonds.

Financing and Corporate Activities

Royalty Financing and Private Placement

On April 25, 2016, the Company closed a financing for a total of C$15.6 million, comprised of the sale of a net smelter royalty and certain private placements. Osisko Gold Royalties Ltd. ("Osisko") acquired a 1% net smelter royalty ("NSR") 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 proceeds of C$10.0 million ($7,886,435). Osisko also subscribed for a total of 8.93 million units (each a "Unit") at a price of C$0.56 per Unit, for gross proceeds of C$5.00 million ($3,943,218) and other parties subscribed for 1.06 million Units for a further C$0.59 million ($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 consists 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.

Other Financings

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). On April 28, 2016, the Company closed the balance of the March 2, 2016 private placement issuing a further 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 September 2, 2017 in the case of the March 2, 2016 closing and October 28, 2017 in the case of the April 28, 2016 closing.

(U.S. dollars)

On June 9, 2016, the Company closed a private placement of 14,000,000 common shares of the Company at a price of C$1.29 per common share for aggregate gross proceeds of C$18,060,000 ($14,185,846). The offering was underwritten by a syndicate of underwriters led by Scotia Capital Inc. ("Scotiabank") and RBC Dominion Securities Inc. ("RBC"), acting as joint bookrunners and co-lead underwriters, and including National Bank Financial Inc. ("National Bank") and TD Securities Inc. ("TD").

On December 6, 2016 the Company closed a C$36,005,250 ($27,110,346) bought deal offering of 11,805,000 common shares at a price of C$3.05 per common share. The offering was underwritten by a syndicate of led by Scotiabank, National Bank, RBC and TD and Raymond James Ltd.

Acquisition of Minority Interest in the Hermosa Project

On May 4, 2016, following shareholder approval of the transaction at the Company's Annual General Meeting held on April 22, 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 Arizona Minerals Inc. ("AMI") that it did not own. The existing 2% NSR royalty on certain of the patented and unpatented mining claims was not transferred as part of the transaction. The acquisition was 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. Set out below is a summary of the acquisition:

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 the deficit.

Management Appointment

On August 8, 2016 the Company appointed Susan Muir as Vice President Investor Relations and Corporate Communications. Ms. Muir is a seasoned investor relations executive, and was most recently Vice President, Investor Communications at Barrick Gold Corporation following a series of increasingly senior roles since 2007. Prior to Barrick, Ms. Muir also has 25 years of experience analyzing and covering large and small cap precious metals equities for several major Canadian investment banks. Ms. Muir holds a Bachelor of Arts from Concordia University.

(U.S. dollars)

Project Costs Capitalized to Exploration and Evaluation Assets

The following shows total costs deferred on the Company's Hermosa Project during the respective periods:

		2016		2015
Balance, start of year	$	73,558,572	$	70,371,838
Additions:				
Mineral property acquisition costs – see below		4,277,480		-
Mineral property acquisition costs – other		552,629		327,426
Drilling		17,682,623		970,368
Property access, restoration and maintenance		2,956,960		381,818
Drilling and other supplies		915,550		28,192
Assay and analysis		1,675,036		162,417
Salaries, benefits and stock based compensation		2,193,829		811,119
Geologic consulting and support		1,398,956		118,512
Engineering and metallurgy		1,187,750		57,321
Environmental baseline studies and permitting		764,931		50,945
Claims maintenance		143,995		113,731
Reclamation and remediation		589,875		-
Other		942,597		164,885
		35,282,211		3,186,734
Sale of NSR		(7,886,435)		-
		27,395,776		3,186,734
Balance, end of year	$	100,954,348	$	73,558,572

During the year ended December 31, 2016 the Company capitalized $27,395,776 of expenditures on its Hermosa Project compared to $3,186,734 in the year ended December 31, 2015. The costs for 2016 reflect the aggressive drilling and exploration program currently underway on the Taylor Deposit. The costs for 2016 also include $4,277,480 for the acquisition of approximately 300 acres of patented lands adjacent to the Company's existing patented claims that host the Taylor Deposit. Mineral property acquisition costs also include the costs for staking new claims to the north of the Taylor Deposit. The exploration and evaluation costs capitalized in 2016 are net of $7,886,435 received on the sale of a royalty interest in the Hermosa Project (see "Financing and Corporate Activities" earlier in this MD&A).

The Company recommenced its drilling program on the Taylor Deposit in the first quarter of 2016 beginning with two drills on site. Following positive drill results and funding received in the second quarter of 2016, the number of drill rigs was gradually increased to 14 core drills by the fourth quarter of 2016. Property access, restoration and maintenance, which include costs to access and build drill pad sites, increased in 2016 as a result of the increase in the number of holes drilled (forty-one holes drilled in 2016 compared to five holes drilled on the Taylor Deposit in 2015) and other related site activities. Drilling and other supplies, assays and analysis and geologic consulting costs all increased in 2016 compared to 2015 for the same reason. Salaries and benefits costs increased in 2016 compared to the prior year due to the addition of new employees to support the increased drilling activity, and certain salary adjustments.

Engineering and metallurgy and environmental baseline studies and permitting costs both increased in 2016 compared to 2015 as the Company performed additional metallurgical test work to optimize metal recoveries and determine the operational process flow sheet and continued its environmental baseline studies in preparation for a preliminary economic assessment. The costs for 2015 primarily relate to the scoping level metallurgical study conducted on a composite of the Taylor Deposit drill core to estimate metal recoveries and concentrate characteristics.

(U.S. dollars)

Costs Expensed, Net Loss and Comprehensive Loss

	Year ended December 31, 2016	2015
Expenses:		
Salaries and benefits	$ 942,951	$ 590,776
Stock based compensation	688,588	585,873
Investor relations	419,968	44,409
Professional services	232,528	91,487
Office and administrative	191,400	167,292
Filing and regulatory	61,829	68,443
Directors' fees	46,923	50,466
Travel	42,575	22,051
Depreciation	4,977	7,040
Loss from operations	(2,631,739)	(1,627,837)
Interest and finance charges	(593,338)	(140,244)
Loss on disposition of property, plant and equipment	(47,885)	-
Foreign exchange gain (loss)	77,136	(31,192)
Interest and other income	66,454	110,419
Gain on settlement of accounts payable	-	183,205
Net loss	(3,129,372)	(1,505,649)
Other comprehensive income:		
Items that may be reclassified to profit or loss:		
Foreign currency translation gain (loss)	(1,175,107)	232,407
Comprehensive loss	$ (4,304,479)	$ (1,273,242)
Net income (loss) attributable to:		
Shareholders of the Company	$ (3,128,158)	$ (1,534,687)
Non-controlling interest	(1,214)	29,038
	$ (3,129,372)	$ (1,505,649)
Comprehensive loss attributable to:		
Shareholders of the Company	$ (4,303,265)	$ (1,302,280)
Non-controlling interest	(1,214)	29,038
	$ (4,304,479)	$ (1,273,242)
Basic and diluted net loss per share attributable to shareholders of the Company	$ (0.015)	$ (0.010)
Weighted average number of shares outstanding	211,287,978	151,855,825

For the year ended December 31, 2016, the Company reported a net loss of $3,129,372 compared to a net loss of $1,505,649 in 2015. After accounting for the income attributable to the non-controlling interest, the net loss attributable to the Company was $3,128,158 ($0.015 per common share) for 2016 compared to a net loss attributable to the Company of $1,534,687 ($0.010 per common share) for 2015. The increase in net loss reflects the increase in corporate activity, commensurate with the increase in overall exploration activity on the Taylor Deposit.

Salaries and benefits expense of $942,951 for the year ended December 31, 2016 compares to $590,776 for the year ended December 31, 2015. The increase in salaries and benefits expense in 2016 reflects new executive appointments and certain salary adjustments.

The increase in stock based compensation expense, a non-cash cost, in the year ended December 31, 2016 compared to the year ended December 31, 2015 is primarily a result of the full-year expense of the grants on May 25, 2015 of 9,390,000 stock options and October 29, 2015 grant of 1,435,000 stock options. The Company uses the Black-Scholes option pricing model to determine the value of stock options, which is then amortized as an expense over the three year vesting period.

Investor relations expense of $419,968 for the year ended December 31, 2016 compares to $44,409 for the year ended December 31, 2015. Investor relations expense increased in 2016 as a result of increased marketing in North America and Europe, digital marketing campaigns, and attendance at investor conferences and trade shows to broaden market awareness of the Company and the Taylor Deposit.

Professional services expense increased to $232,528 in 2016 from $91,487 in 2015 as a result of the various initiatives and transactions completed in 2016.

Interest and finance charges increased to $593,338 in 2016 from $140,244 in 2015, reflecting the increased borrowing in 2015 and early 2016 from the Company's Executive Chairman to support the Company's operations.

The foreign exchange gain of $77,136 for the year ended December 31, 2016 and foreign exchange loss of $31,192 for the year ended December 31, 2015 primarily reflects the impact of the weakening of the Canadian dollar during the year, and the increase in the parent company's cash held in US dollars.

The Company recorded a gain of $183,205 in 2015 on the settlement of certain accounts payable for less than the amount owing as it sought to strengthen its balance sheet and direct available funds towards its exploration activities.

Other comprehensive loss on the translation of the parent company's Canadian dollar financial statements into US dollars for presentation purposes of $1,175,107 for the year ended December 31, 2016 compares to a gain of $232,407 for the year ended December 31, 2015. The loss primarily arises as a result of the impact of the weakening Canadian dollar on the Company's net assets denominated in Canadian dollars. After adjusting for the foreign currency translation loss there was a comprehensive loss for the year ended December 31, 2016 of $4,304,479 compared to a comprehensive loss of $1,273,242 in 2015.

Liquidity and Capital Resources

At December 31, 2016, the Company had cash and cash equivalents of $19,236,855 compared to $418,950 at December 31, 2015.

Operating activities used cash in the amount of $1,830,573 in the year ended December 31, 2016 compared to a use of cash of $993,152 in the year ended December 31, 2015. The increased use of cash is primarily attributable to the increased corporate cash costs, as previously discussed, as well as the impact of the timing of receipts and payments from non-cash working capital items, primarily accounts payable and accrued liabilities.

Cash inflow from financing activities of $45,083,902 for the year ended December 31, 2016 compares to an inflow of $5,068,079 for the year ended December 31, 2015. Cash inflow from financing activities in 2016 primarily relates to the closing of a number of public and private placements totaling $48,040,043 less share issue costs of $2,597,119 (see "Financing and Corporate Activities", earlier in this MD&A). In addition cash flow from financing activities in 2016 includes $1,994,347 from the exercise of 4,600,000 warrants into common shares of the Company at $0.55 per warrant.

Cash flow from financing activities includes the repayment of C$6.0 million ($4,659,931) of loans received from a company controlled by the Company's Executive Chairman together with accrued interest and financing fees of $491,815. Of the loans that were repaid, C$2.0 million had been received in 2015, and the other C$4.0 million ($2,798,377) received on January 13, 2016 in connection with the acquisition of certain patented mining claims.

Cash inflow from financing activities in 2015 primarily relates to loans from insiders totaling C$5,679,000 ($4,391,804) that were advanced at various times during the year to support the Company's operations and in particular its exploration of the Taylor Deposit. Of this amount, $2.0 million was repaid in cash in 2016, as discussed above, with the balance settled in 2015 through the issuance of units comprising common shares and share purchase warrants in the Company.

Cash inflow from financing activities in 2015 also includes contributions from the previous non-controlling interest of $202,028 and a private placement of 2,000,000 units at a price of C$0.35 per unit with the Company's directors and officers that closed on November 10, 2015 for proceeds of C$700,000 ($527,943). 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.

Investing activities for the year ended December 31, 2016 used cash of $23,876,261 compared to $3,663,307 in 2015. The increase in cash used for investing activities in 2016 compared to 2015 reflects the Company's intensive drilling and exploration program on the Taylor Deposit following receipt of funding early in the second quarter of 2016. Included in investing activities for the year ended December 31, 2016 is the $2,310,833 contribution to the escrow and surety bond collateral requirements arising on the acquisition of the patented mining claims in the first quarter of 2016 and proceeds of C$10,000,000 ($7,886,435) from the sale of a royalty interest in the Hermosa project. In addition, investing activities for 2016 used cash of $1,101,123 for the purchase of property, plant and equipment primarily to support the increased exploration activity on the Taylor Deposit.

At December 31, 2016 the Company had contractual cash flow commitments as follows ($000's):

	< 1 Year	1-3 Years	3-5 Years	> 5 Years	Total
Accounts payable and accrued liabilities	$ 3,509	$ -	$ -	$ -	$ 3,509
Operating lease obligations	158	176	62	26	422
	$ 3,667	$ 176	$ 62	$ 26	$ 3,931

At December 31, 2016 the Company had cash and cash equivalents of $19,236,855, working capital of $16,207,700, a net loss for the year ended December 31, 2016 of $3,129,372 and a deficit of $62,814,006. As a consequence of the expenditure of funds subsequent to the year-end aggressively drilling on its Hermosa Taylor Project, the Company will require additional funding in 2017 for its operating expenses and to continue exploration 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.

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. The 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.

Selected Financial Information

Information for the three years ended December 31, 2016, as extracted from the Company's audited financial statements, is presented as follows:

	2016	2015	2014
Net Loss	$ 3,129,372	$ (1,505,649)	$ (1,609,761)
Net Loss per share (basic and diluted)	$ (0.02)	$ (0.01)	$ (0.01)
Cash and cash equivalents	$ 19,236,855	$ 418,950	$ 46,910
Exploration and evaluation asset additions	$ 27,395,776	$ 3,186,734	$ 3,286,479

Total Assets	$	125,195,249	$	74,458,941	$	70,884,385

Quarter Ended December 31, 2016

For the quarter ended December 31, 2016 the Company recorded a net loss of $440,264 ($0.002 per common share) compared to a net loss of $331,210 ($0.002 per common share) in the same period of 2015. The net loss in the fourth quarter of 2016 reflects increases in salaries and benefits expense of $90,080, professional services of $64,101 and investor relations of $85,144 all reflecting the increase in corporate activity as discussed earlier in this MD&A. These increases were partially offset by a decrease in stock based compensation expense of $95,191 as a result of the first tranche of the May 25, 2015 grant of options vesting in May, 2016. Non-operating items include an increase in the foreign exchange gain on the Company's holding of US dollar denominated cash of $342,548. The net loss for the three months ended December 31, 2015 includes the gain of $183,205 with respect to the settlement of certain accounts payable for less than the amount owing.

The Company capitalized $13,445,763 of exploration and evaluation expenditures during the quarter ended December 31, 2016 compared to $854,147 in the comparable quarter of 2015. The expenditures were higher in 2016 as a result of the exploration program on the Taylor Deposit, with 14 drill rigs on site by the fourth quarter of 2016. Accordingly, all cost categories associated with the drilling have increased substantially over the 2015 comparable amounts.

During the fourth quarter of 2016, the Company received proceeds of C$36,005,250 ($27,110,346) from a Bought Deal Offering of 11,805,000 common shares at a price of C$3.05 per common share, less share issue costs of $1,808,674 and repaid the remaining loan balance of C$2.0 million ($1,512,745) and accrued interest of C$309,254 ($233,911) to a company controlled by the Company's Executive Chairman.

During the fourth quarter of 2015, the Company received funding from its Executive Chairman of C$2,306,500 ($1,742,090) of which $1,541,594 was converted into units of the Company during the quarter, as previously discussed. The Company also received proceeds of C$700,000 ($527,943) from a private placement of 2,000,000 units at a price of C$0.35 per share with the Company's directors and officers that closed on November 10, 2015, less share issue costs of $16,630.

Quarterly Review of Financial Information

The Company's financial statements are reported under IFRS issued by the IASB. The following table provides highlights from the Company's financial statements of quarterly results for the past eight quarters.

Unaudited	2016				2015			
($000s, unless otherwise stated)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Net loss	$ (440)	$ (781)	$ (1,068)	$ (841)	$ (331)	$ (444)	$ (429)	$ (302)
Exploration and evaluation assets additions	$ 13,446	$ 8,901	$ (971)	$ 6,020	$ 855	$ 448	$ 1,078	$ 806
US$ to C$ Exchange rate - period end	$ 1.3427	$ 1.3117	$ 1.3009	$ 1.2971	$ 1.3840	$ 1.3394	$ 1.2474	$ 1.2683
Basic and diluted net income (loss) per share	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

The most significant factors influencing the Company's quarterly results over the last eight quarters are:

- Impact of the weakening Canadian dollar in the fourth quarter of 2016, primarily on the parent company's US cash balances, resulting in foreign exchange gains of $323,765.
- Additions to exploration and evaluation assets from the first quarter of 2016 onwards reflect the aggressive drill program on the Taylor Deposit with the variation in expenditures by quarter dependent on the level of drilling and associated activity in the quarter and the other factors previously noted. Other factors include:

  - The acquisition of patented mining claims in the first quarter of 2016 at a net cost of $4,277,480.
  - Receipt of $7.9 million on the sale of a 1% NSR on the Hermosa property in the second quarter of 2016 that was applied for accounting purposes against the Exploration and Evaluation assets. Excluding this, the additions in the second quarter of 2016 are $7.3 million.
- Additions to exploration and evaluation assets in 2015 reflect the earlier drill program on the Taylor Deposit and ongoing property maintenance costs with the variation in expenditures by quarter largely dependent on the level of funding available for drilling and associated activities.
- Impact of the weakening Canadian dollar in the second quarter of 2016, primarily on the Company's cash balances, which are largely denominated in Canadian dollars resulting in foreign exchange losses of $250,939.
- Increased staffing levels and corporate activity in 2016 in response to the increased exploration on the Taylor Deposit.
- The impact of the timing of stock option grants on stock based compensation expense including the higher expense where a portion of the grant vests immediately.
- The fourth quarter of 2015 includes a gain of $183,205 with respect to the settlement of certain accounts payable for less than the amount owing.

Share Capital Information

As at March 30, 2017, the Company had an unlimited number of common shares authorized for issuance with 249,666,630 issued and outstanding and an unlimited number of preferred shares authorized with nil outstanding. Also at March 30, 2017, the Company had outstanding 14,154,000 stock options held by directors, officers and employees of the Company and 28,413,401 warrants issued in connection with private placements and loans to the Company.

Proposed Transactions

There are no undisclosed proposed transactions that will materially affect the performance of the Company.

Off-Balance Sheet Arrangements

The Company does not have any material off-balance sheet arrangements.

Related Party Transactions

In addition to the related party transactions or balances disclosed elsewhere in this MD&A, 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 directors and management in common. 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, 2016 and 2015:

		2016		2015
Salaries and benefits	$	836,616	$	510,421
Office and administrative		346,984		299,285
Other income		(29,679)		(26,680)
	$	1,153,921	$	783,026

In addition, for the year ended December 31, 2016, the Company charged out $5,755 (December 31, 2015 – $6,062) and at December 31, 2016, amounts receivable includes $3,677 (December 31, 2015 – $4,530) and prepaids and other includes $62,838 (December 31, 2015 – $25,962) with respect to these arrangements.

Other assets of $224,587 (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.

On January 13, 2016, the Company entered into a loan agreement with a company controlled by the Company's Executive Chairman for $4.0 million ($2,798,377), in connection with the acquisition of certain patented mining claims. The loan was 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 completed a financing of C$10.0 million or more by way of sale of securities from treasury or through the issuance of debt or other form of financing. The loan bore interest at 16% per annum, compounded monthly and was subject to a cash fee of 1% with an additional 1% fee that was payable after three months if the loan remained outstanding. In addition, 1,000,000 share purchase warrants were also 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 Company repaid C$2.0 million ($1,561,646) of the loan plus accrued interest of C$143,474 ($112,028) on June 20, 2016 following the $15.6 million financing that closed on April 25, 2016. The lender waived its right to early repayment on the balance of the loan of C$2.0 million, which was subsequently repaid on December 8, 2016 with accrued interest of C$309,254 ($233,911).

On April 26, 2016 the Company repaid three loans totalling C$2.0 million plus accrued interest of C$108,682 ($86,160). The loans were received at various times in 2015 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.

In late 2015, the Company received additional 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 repayable on the earlier of the Company completing a private placement of C$2,044,000 or more or 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 5,902,566 units of the Company at a price of C$0.35 per unit. 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.

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. 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 6,008,499 units of the Company at a price of C$0.40 per unit. 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.

Critical Accounting Policies and Estimates

The Company's accounting policies are described in its consolidated financial statements for the year ended December 31, 2016. The preparation of the Company's 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 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 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 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.

- Reclamation and remediation provision – The Company's present value of estimated future legal or constructive obligations as a result of the Company's exploration activities include assumptions as to the future estimated costs, timing of the cash flows to discharge the obligation, inflation rates, and the prevalent market discount rates. Any changes to the assumptions will result in an adjustment to the provision which affects the Company's liabilities.

- 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.

Changes in Accounting Policies

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* is mandatorily effective for the Company's consolidated financial statements for the year ending December 31, 2018. IFRS 9 brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost; fair value through profit and loss; and fair value through other comprehensive income. IFRS 9 introduces the expected credit loss model for impairment of financial assets which replaces the incurred loss model used in IAS 39. IFRS 9 amends the rules on hedge accounting to align the accounting treatment with the risk management practices of the business. Lastly, IFRS 9 amends some of the requirements of IFRS 7, *Financial Instruments: Disclosures*, including added disclosures about investments in equity instruments measured at fair value in other comprehensive income, and guidance on financial liabilities and derecognition of financial instruments.

On January 13, 2016, the IASB issued IFRS 16 *Leases* ("IFRS 16") in accordance with which, all leases will be recorded on the statement of financial position of lessees, except those that meet the limited exception criteria. As a result, for the Company's office rental leases, rent expense will be removed and replaced by the recording of depreciation and finance expenses. IFRS 16 is mandatorily effective for the Company's consolidated financial statements for the year ending December 31, 2019.

Financial Instruments

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:

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, 2016, 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, 2016		December 31, 2015
Cash and cash equivalents	US$	7,763,600	US$	397
Amounts receivable		13,903		664
Due from related party		-		139,089
Accounts payable and accrued liabilities		(12,874)		(53,310)
	US$	7,764,629	US$	86,840

As at December 31, 2016, based on the above net exposures a 10% change in the Canadian-US dollar exchange rate would impact the Company's earnings by approximately $784,000 (December 31, 2015 – $9,000) and comprehensive income (loss) by $1,898,000 (December 31, 2015 – $104,000).

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 earlier in this MD&A).

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 amounts receivable. 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 GICs.

Risks and Uncertainties

An investment in the Company's common shares is highly speculative and subject to a number of risks and uncertainties. Only those persons who can bear the risk of the entire loss of their investment should participate. An investor should carefully consider the risks described below and the other information filed with the Canadian securities regulators before investing in the Company's common shares. The risks described below are not the only ones faced. Additional risks that the Company currently believes are immaterial may become important factors that affect the Company's business. If any of the following risks occur, or if others occur, the Company's business, operating results and financial condition could be seriously harmed and investors may lose part or all of their investment.

Dependence on one principal exploration stage property

At present, the Company's only mineral property is its Hermosa Project in Arizona. As a result, any significant adverse development that impacts the progress or financial or technical characteristics of the two identified deposits on the Hermosa Project may have a material adverse effect on the Company's share price, financial position, results of operations and future prospects.

The Company will require external financing or may need to enter into a strategic alliance to develop its mineral property

As discussed under "Going Concern" earlier in this MD&A, at December 31, 2016 the Company had cash and cash equivalents of $19,236,855, working capital of $16,207,700, a net loss for the year ended December 31, 2016 of $3,129,372 and a deficit of $62,814,006.

The Company will require funding to continue drilling and other work on its Taylor Deposit including on the newly acquired patented mining claims and targets on the unpatented mining claims and for general working capital purposes.

The continued development of the Taylor Deposit or the Central Deposit on the Hermosa Property will require the commitment of substantial resources for operating expenses and exploration and development expenditures, which may increase in subsequent years as needed consultants, personnel and equipment associated with advancing exploration, development and commercial production of the deposits are added. The amounts and timing of expenditures will depend on the progress of ongoing exploration and development, the results of consultants' analysis and recommendations, the rate at which operating losses are incurred, the acquisition of additional properties, and other factors, many of which are beyond the Company's control.

The Company has no source of operating income. 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 sources of financing the Company may use to fund future expenditures on the project may include public or private offerings of equity or debt, streaming and offtake agreements, and project or bank financing. In addition, the Company may enter into a strategic alliance, sell certain of its assets or utilize a combination of all of these alternatives. Additional equity financing may cause dilution to Arizona Mining's existing shareholders. In addition, the unrestricted resale of shares resulting from the exercise of dilutive securities may have a negative effect on the market for the Company's common shares. There can be no assurance that financing will be available on acceptable terms, if at all.

Negative operating cash flow

The Company is an exploration stage company and has not yet commenced commercial production on the Hermosa Property and, accordingly, has not generated cash flow from operations. The Company is devoting significant resources to the exploration of the Hermosa Property, however there can be no assurance that it will generate positive cash flow from operations in the future. The Company expects to continue to incur negative consolidated operating cash flow and losses until such time as it is able enter into commercial production and will not generate consolidated revenues sufficient to fund the exploration and development of the Hermosa Property. The Company has had negative operating cash flows from operations to date, reporting a loss from operations of $2,631,739 for the year ended December 31, 2016 and $1,627,837 for the year ended December 31, 2015. To the extent that the Company has negative cash flow in future periods, the Company may need to deploy a portion of its cash reserves to fund such negative cash flow. There is no assurance that additional funding will be available to the Company for exploration and development. Furthermore, additional financing will be required to continue the exploration of the Company's properties even if the Company's exploration programs are successful. There can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favourable. Failure to obtain such financing could result in delay or indefinite postponement of further exploration and development of the Company's properties.

The Company may be adversely affected by fluctuations in zinc, lead, silver, copper, manganese, and other metal prices

The development of the Company's Hermosa Project and future profitable operations is dependent, to a large extent, on the market price of the Hermosa Project's primary metals being zinc, lead and silver in the case of the Taylor Deposit and silver and manganese in the case of the Central Deposit. Mineral prices fluctuate widely and are affected by numerous factors beyond the Company's control such as interest rates, exchange rates, inflation or deflation, global and regional supply and demand, and the political and economic conditions of mineral producing countries throughout the world.

Lower mineral prices, especially if over extended periods, could result in a reduction in the Company's ore reserves and resources and a re-evaluation of the economics of the two deposits on the Hermosa Project. This could result in the delay or deferral of the development of the deposits. It could also result in difficulty in the Company raising new funding, the possible impairment to the carrying value of the exploration and evaluation assets and a decrease in the Company's share price.

The Company may be subject to risks relating to the global economy

Market events and conditions, including disruptions in the international credit markets and other financial systems and the deterioration of global economic conditions, could impede the Company's access to capital or increase the cost of capital.

The Company is also exposed to liquidity risks in meeting its operating and capital expenditure requirements in instances where its cash position is unable to be maintained or appropriate financing is unavailable. These factors may impact the ability of the Company to obtain loans and other credit facilities in the future and, if obtained, on terms favourable to the Company. Increased market volatility may impact the Company's operations which could adversely affect the trading price of the Company's common shares.

The Company will require various permits to enable it to conduct its current and anticipated future operations

The Company's current and anticipated future operations, including further exploration and development activities and commencement of any production from the Company's property in Arizona require permits from various United States federal, state and local authorities. The granting, continuing validity and enforcement of the terms of such permits are, as a practical matter, often subject to the discretion of the applicable governments or government officials. There can be no assurance that all permits that the Company requires will be obtainable on reasonable terms, or at all, or will continue to be valid. To the extent such permits are delayed or not obtained the Company may be curtailed or prohibited from proceeding with the development, construction or operation of its Hermosa deposits. Failure to comply with applicable laws, regulations and permitting requirements may also result in enforcement actions thereunder including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions including compensation and civil or criminal fines or penalties.

Amendments to current laws, regulations and permits governing operations and activities of mining and exploration companies, or more stringent implementation thereof could have a material adverse impact on the Company and cause increases in costs and delays or abandonment of new mining projects.

The Company is subject to government regulation

The Company's mineral exploration is, and any development activities will be, subject to various United States laws governing exploration, development, production, taxes, labour standards and occupational health, mine safety, environmental protection, toxic substances, land use, water use and other matters. Failure to comply with applicable laws and regulations may result in civil or criminal fines or penalties or enforcement actions, including orders issued by regulatory authorities curtailing the Company's operations or requiring corrective measures, any of which could result in the Company incurring substantial expenditures. At present, there is no royalty payable to the United States on production from unpatented mining claims, although legislative attempts to impose a royalty have occurred in recent years. Amendments to current laws and regulations governing operations and activities of mining and milling or more stringent implementation thereof could have a material adverse impact on our business and financial condition. No assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could limit or curtail exploration or development.

The Company's business activities are subject to environmental laws and regulations

The Company's operations are subject to United States federal, state and local laws and regulations regarding environmental matters. These laws address, among other things, emissions into the air, discharges into water, management of waste, management of hazardous substances, protection of natural resources, antiquities and endangered species, and reclamation of lands disturbed by mining operations. Environmental laws and regulations change frequently, and are generally becoming more stringent. Amendments to current laws, regulations and permits governing operations and activities of exploration companies, or more stringent implementation thereof, could have a material adverse impact on our business and cause increases in exploration expenses, capital expenditures or production costs or reduction in levels of production, when producing, or require abandonment or delays in development of our mineral properties. In addition, as previously discussed the Company closed the acquisition of approximately 300 acres of patented mining claims on January 26, 2016 and assumed the environmental liabilities relating to past activities on the site. The Company has submitted a remediation work plan that addresses the environmental liabilities, which has been approved by the Arizona Department of Environmental Quality. While the Company believes it has identified all of the environmental liabilities and that its planned actions should remediate the site there can be no assurance that other environmental liabilities both on and off the site may be identified in the future or that the planned actions will effectively remediate the site. This may result in additional costs to the Company or delays in the advancement of its projects, which could have an adverse material impact on the Company.

The Company has no history of developing properties into production

The Company's two deposits on its Hermosa Project are not in commercial production, and the Company has not recorded any revenues from mining operations. Mineral exploration and development involves a high degree of risk and few properties that are explored are ultimately developed into producing mines. The future development of any properties found to be economically feasible will require permits, financing and the construction and operation of mines, processing plants and related infrastructure. As a result, the Company will be subject to all of the risks associated with establishing new mining operations including: the timing and cost of the construction of mining and processing facilities; the availability and cost of skilled labour and mining equipment; the availability and costs of suitable refining and smelting arrangements; the need to obtain necessary environmental and other governmental approvals and permits, and the timing of those approvals and permits; the availability of funds to finance the development and construction activities; the impact of any opposition to the developmental activities from non-governmental, environmental, local or other groups that may delay or prevent development; potential increases in construction or operating costs due to changes in the cost of supplies and materials and changes in foreign exchange rates.

Mineral resource estimates

The Company's resources as reported herein are estimates only and no assurance can be given that any particular level of recovery of zinc, lead, silver, copper, manganese or other metals will in fact be realized or that an identified mineral deposit will ever qualify as a commercially mineable (or viable) ore body which can be economically exploited. Mineral resources which are not mineral reserves do not have demonstrated economic viability. Any material change in the quantity of mineralization, grade, mineral prices, metal recoveries, costs or other assumptions used to calculate mineral resources may affect the economic viability of any property held by the Company.

Exploration, development and mining activities can be hazardous and involve a high degree of risk

The Company's operations are subject to all the hazards and risks normally encountered in the exploration, development and production of base or precious metals, including, without limitation, unusual and unexpected geologic formations, seismic activity, rock bursts, pit-wall failures, cave-ins, flooding, fires and other conditions involved in the drilling and removal of material, any of which could result in damage to, or destruction of, mines and other producing facilities, damage to life or property, environmental damage and legal liability. Milling operations, if any, are subject to various hazards, including, without limitation, equipment failure and failure of retaining dams around tailings disposal areas, which may result in environmental pollution and legal liability.

The Company has a history of losses and anticipates that it will continue to incur losses for the foreseeable future

The Company has historically incurred losses as evidenced by the consolidated statements of operations and deficit, which can be found on SEDAR at www.sedar.com. The Company incurred a net loss of $3,129,372 for the year ended December 31, 2016 and has an accumulated deficit of $62,814,006 as at December 31, 2016.

The Company's efforts to date have been focused on acquiring and exploring its mineral property. The Company does not anticipate that it will earn any revenue from operations or other means unless and until its property is placed into production, which is not expected to be for several years, if at all, or is sold to a third party.

Inadequate infrastructure may delay or prevent the Company's operations

Exploration, development and ultimately mining and processing activities depend, to one degree or another, on the availability of adequate infrastructure. Reliable air service, roads, bridges, power sources and water supply are significant contributors in the determination of capital and operating costs. Inadequate infrastructure could significantly delay or prevent the Company exploring and developing its project and could result in higher costs.

The Company does not and likely will not insure against all risks

The Company's insurance will not cover all the potential risks associated with a mining company's operations. The Company may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Moreover, insurance against risks such as environmental pollution or other hazards as a result of exploration and production is not generally available to the Company or to other companies in the mining industry on acceptable terms. The Company might also become subject to environmental liability or other hazards which may not be insured against or which we may elect not to insure against because of premium costs or other reasons. Losses from these events may cause the Company to incur significant costs that could have a material adverse effect upon its financial condition and results of operations.

The Company's common shares may be subject to price and volume fluctuations and the market price for the common shares of the Company may drop below the price at which such common shares were purchased

Securities markets experience considerable price and volume volatility, and the market prices of securities of many companies may be subject to wide fluctuations not necessarily related to the operating performance, underlying asset values, exploration success or prospects of such companies. The market price of a publicly traded stock, especially a junior resource issuer, may be affected by many variables including the market for junior resource stocks, the strength of the economy generally, commodity prices, the availability and attractiveness of alternative investments, and the breadth of the public market for the stock. The effect of these and other factors on the market price of securities on the stock exchanges on which the Company trades, suggest the trading price of the common shares will continue to be volatile. There can be no assurance that such fluctuations will not affect the price of the Company's common shares and that the price of such common shares may decline below the purchase price paid for such common shares.

In the past, following periods of volatility in the market price of a company's securities, shareholders have often instituted class action securities litigation against those companies. Such litigation, if instituted, could result in substantial costs and diversion of management attention and resources, which could significantly harm the Company's profitability and reputation.

The Common Shares are publicly traded and are subject to various factors that have historically made their market price volatile.

The market price of the Common Shares has in the past been, and may in the future be, subject to large fluctuations which may result in losses for investors in the Common Shares. The market price of the Common Shares may increase or decrease in response to a number of events and factors, including:

- the results from the Company's continuing drill program, technical operations and economic analysis and its operating performance and the performance of competitors and other similar companies;
- volatility in the price of zinc, lead, silver, copper, manganese and other metal prices;
- the ability of the Company to raise capital to meet its funding needs;
- the public's reaction to the Company's news releases, other public announcements and the Company's filings with the various securities regulatory authorities;
- recommendations by research analysts who track the Company's securities or the securities of other

companies in the mining sector;
- changes in general economic and/or political conditions;
- the arrival or departure of key personnel; and
- acquisitions, strategic alliances or joint ventures involving the Company or its competitors.

In addition, the market price of the Common Shares is affected by many variables not directly related to the Company's success and not within its control, including other developments that affect the market for all mining sector securities or the equity markets generally, the breadth of the public market for the Common Shares, and the attractiveness of alternative investments. The effect of these and other factors on the market price of the Common Shares has historically made the Company's share price volatile, and the Company expects that the market price of the Common Shares will continue to be volatile in the future.

Future sales or issuances of Common Shares could decrease the value of any existing Common Shares, dilute investors' voting power and reduce the Company's earnings per share.

The Company may issue additional Common Shares in subsequent offerings (including through the sale of securities convertible into, or exchangeable for, Common Shares) and under the Company's stock option plan. The Company may also issue Common Shares to finance future acquisitions and other projects. The Company cannot predict the size of future issuances of Common Shares or the effect, if any, that future issuances of Common Shares will have on the market price of the Common Shares. Sales or issuances of a substantial number of Common Shares, or the perception that such sales or issuances could occur, may adversely affect prevailing market prices for Common Shares. With any additional issuance of Common Shares, investors will suffer dilution to their voting power and the Company may experience dilution in the Company's earnings per share.

The Company is dependent on key personnel

The Company's success depends in part on its ability to recruit and retain qualified personnel. Due to its relatively small size, the loss of the services of one or more of such key management personnel could have a material adverse effect on the Company. In addition, despite its efforts to recruit and retain qualified personnel, even when those efforts are successful, human error could result in a significant uninsured loss to the Company.

The Company competes with larger, better-capitalized competitors in the mining industry

The mining industry is competitive in all of its phases. The Company faces strong competition from other mining companies in connection with the acquisition of properties producing, or capable of producing, precious or other metals. Many of these companies have greater financial resources, operational experience and technical capabilities than Arizona Mining. As a result of this competition, the Company may be unable to maintain or acquire attractive mining properties on terms it considers acceptable or at all.

Title to the Company's property may be subject to other claims

Although the Company believes it has exercised commercially reasonable due diligence with respect to determining title to properties it owns, controls or has the right to acquire by option, there is no guarantee that title to such properties will not be challenged or impugned. The Company's mineral property interests may be subject to prior unrecorded agreements or transfers or other land claims and title may be affected by undetected defects. There may be valid challenges to the title of the Company's properties, which, if successful, could impair development and/or operations. In addition, mineral properties may be leased and may be subject to defects in title.

Litigation may adversely affect the Company

The Company may be involved in disputes with other parties in the future, which may result in litigation or arbitration. The results of litigation or arbitration cannot be predicted with certainty. If the Company is unable to resolve these disputes favourably, it may have a material adverse impact on the Company.

The Company's officers and directors may have potential conflicts of interest

The Company's directors and officers may serve as directors and/or officers of other public and private companies and devote a portion of their time to manage other business interests. This may result in certain conflicts of interest. To the extent that such other companies may participate in ventures in which the Company is also participating, such directors and officers may have a conflict of interest in negotiating and reaching an agreement with respect to the extent of each company's participation. However, applicable law requires the directors and officers to act honestly, in good faith, and in the best interests of the Company and in the case of directors, to refrain from participating in the relevant decision in certain circumstances.

Disclosure Controls and Procedures

The Company, under the supervision and with the participation of its President and Chief Executive Officer and Chief Financial Officer has evaluated the effectiveness of the Company's disclosure controls and procedures. Based upon the results of that evaluation, the Company's President and Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2016, the Company's disclosure controls and procedures were effective in providing reasonable assurance that the information required to be disclosed by the Company in reports it files is recorded, processed, summarized and reported, within the appropriate time periods and is accumulated and communicated to management, including the President and Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Internal Control over Financial Reporting

The Company's management, with the participation of its President and Chief Executive Officer and Chief Financial Officer is responsible for establishing and maintaining adequate internal control over financial reporting. Under the supervision of the President and Chief Executive Officer and Chief Financial Officer the Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company with the participation and under the supervision of its President and Chief Executive Officer and Chief Financial Officer assessed the effectiveness of the Company's internal control over financial reporting. In making this assessment, management used the criteria set forth in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, the President and Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2016, the Company's internal control over financial reporting was effective.

There were no changes in the controls, which materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting during the three months ended December 31, 2016.

Assays and Quality Assurance/Quality Control

To ensure reliable sample results, the Company has a rigorous QA/QC program in place that monitors the chain-of-custody of samples and includes the insertion of blanks, duplicates, and certified reference standards in each batch of samples. Core is photographed and split in half with one-half retained in a secured facility for verification purposes.

Sample preparation (crushing and pulverizing) is performed at ALS Minerals Laboratories, an ISO/IEC accredited lab located in Tucson, Arizona. ALS Minerals Laboratories prepares a pulp of all samples and sends the pulps to their analytical laboratory in Vancouver, B.C. Canada for analysis. ALS analyzes the pulp sample by ICP following a 4-acid digestion (ME-ICP61 for 33 elements) including Cu (copper), Pb (lead), and Zn (zinc). All samples in which Cu (copper), Pb (lead), or Zn (zinc) are greater than 10,000 ppm are rerun using four acid digestion with an

ICP – AES finish (Cu-OG62;Pb-OG62; and Zn-OG62) with the elements reported in percentage (%). Silver values are determined by ICP (ME-ICP61) with all samples with silver values greater than 100 ppm repeated using four acid digestion with an ICP-AES finish (Ag-OG62) calibrated for higher levels of silver contained. Any values over 1,500 ppm Ag triggers a fire assay with gravimetric finish analysis. Gold values are determined by a 30 gm fire assay with an ICP-AES finish (Au-ICP21).

Qualified Person

The QP for the Mineral Resource estimate announced on October 31, 2016 is G. Z. Mosher, P.Geo, an associate of AMC. The Mineral Resource estimate has been prepared under the guidelines of National Instrument 43-101 ("NI 43-101") for reporting of Mineral Resources.

Scott Wilson, President of Metal Mining Consultants, is an independent qualified person as defined by National Instrument 43-101 and approved and verified the information in relation to the February 1, 2015, updated Taylor Deposit resource estimate. Mr. Wilson is a Certified Professional Geologist and member of the American Institute of Professional Geologists (CPG #10965) and a Registered Member (#4025107) of the Society of Mining, Metallurgy and Exploration, Inc., a professional association and designation recognized by the Canadian regulatory authorities.

The results of Arizona Mining's drilling results on the Taylor Deposit have been reviewed, verified and compiled by Donald Taylor, MSc., PG Chief Operating Officer for Arizona Mining, a qualified person as defined by National Instrument 43-101 (NI 43-101). Mr. Taylor has more than 25 years of mineral exploration and mining experience, and is a Registered Professional Geologist through the SME (registered member #4029597). Mr. Taylor is also a Licensed Professional Geologist in several US states.

Head Office	#555 – 999 Canada Place Vancouver, BC, Canada V6C 3E1 Telephone: (604) 687-1717 Facsimile: (604) 687-1715
Directors	James Gowans Poonam Puri Donald Siemens Donald R. Taylor Robert P. Wares Richard W. Warke (Executive Chairman)
Officers	Richard W. Warke – Executive Chairman James Gowans – President and Chief Executive Officer Donald R. Taylor – Chief Operating Officer Paul J. Ireland – Chief Financial Officer Gregory F. Lucero – Vice President, Government and Community Relations Susan Muir – Vice President, Investor Relations and Corporate Communications Purni Parikh – Vice President, Corporate Secretary
Registrar and Transfer Agent	Computershare Investors Services Inc. 510 Burrard St, 2nd Floor Vancouver, BC V6C 3B9
Auditors	PricewaterhouseCoopers LLP Chartered Professional Accountants 250 Howe Street, Suite 1400 Vancouver, BC V6C 3S7
Solicitors	Davies Ward Phillips & Vineberg LLP 155 Wellington Street West Toronto, Ontario M5V 3J7
Shares Listed	Toronto Stock Exchange (TSX) Trading symbol ~ AZ
Investor Relations	Info@arizonamining.com (604) 687-1717