ARIZONA MINING INC.

Management's Discussion and Analysis

For the Three and Six Months Ended June 30, 2017

Introduction

This management's discussion and analysis ("MD&A") of Arizona Mining Inc. (the "*Company*", "*Arizona Mining", "we"*, "*us"*, or "*our")* covers the three and six months ended June 30, 2017. This MD&A takes into account information available up to and including August 11, 2017. This MD&A should be read in conjunction with the accompanying condensed consolidated interim financial statements and notes for the three and six months ended June 30, 2017, and the audited consolidated financial statements 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 condensed consolidated interim financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting.

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 statements with respect to the Company's intentions for its Hermosa Project in Arizona, USA including, without limitation, future drilling and other work on the Taylor Deposit. The Company would also like to caution the reader that the preliminary economic assessment ("PEA") on the Company's Taylor Deposit that supports the technical feasibility or economic viability of the Taylor Deposit, including the marketability of the concentrate, mining methods, costs, recoveries and any other technical aspects related to the Taylor Deposit, is preliminary in nature and there is no certainty that the PEA will be realized. 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 the MD&A for the year ended December 31, 2016.

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 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 an estimated resource of 8.6 million tons in the Measured Mineral Resource category grading 4.2% zinc, 4.0% lead and 1.6 opt silver, or 9.7% ZnEq, plus 63.8 million tons in the Indicated Mineral Resource category grading 4.5% zinc, 4.4% lead and 1.9 opt silver, or 10.6% ZnEq, and 38.6 million tons of Inferred Mineral Resources grading 4.4% zinc, 4.2% lead and 3.1 opt silver or 11.6% ZnEq, all 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 and will be aggressively drilled to test the limits of the resource. A recently completed preliminary economic assessment on the Hermosa-Taylor project showed robust economics, including an estimated 42% after-tax internal rate of return, after-tax NPV at 8% of $1.3 billion and a 1.7 year payback. The Company's other project on the Hermosa property is the Central Deposit, a silver-manganese-zinc manto oxide exploration 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

The Company continued to make significant progress in advancing its Taylor Deposit during the second quarter of 2017, with significant milestones achieved and reported during and after the quarter including:

- The release on April 3, 2017 of a mineral resource update and Preliminary Economic Assessment ("PEA") for its Taylor Deposit, with the Company reporting an upgraded resource estimate and an estimated after tax net present value ("NPV") at 8% for the project of $1.3 billion and 42% after-tax internal rate of return ("IRR").
- The closing on May 16, 2017 of a private placement of 45 million common shares in the Company at a price of C$2.45 per share with South32 Limited ("South32") for gross proceeds of C$110.3 million. The Company is now fully funded to complete its plans over the next year including an aggressive drilling campaign to further test the size of the Taylor Deposit.
- The continuation of very encouraging drill results from the exploration drill program focused on the Taylor Sulfide, Taylor Deeps and Trench Vein systems. The Taylor Deeps program has shown higher grades

(U.S. dollars)

over wide intervals as the mineralization has continued to shallower depths up-dip to the South-East, which suggests a positive impact on the mine plan when this is refined in the feasibility study. Due to the encouraging results, the Company has deferred completion of the feasibility study on the Taylor deposit until the first half of 2018.
- Enhancing the profile of the Company's board of directors with the appointment of John Boehner, former Speaker of the United States House of Representatives, and William Mulrow, Senior Advisor at the Blackstone Group.
- Strengthened the management team with the appointment of Jerrold Annett, formerly with ScotiaBank, as Senior Vice President, Corporate Development.

The Company is continuing its aggressive exploration program on the Taylor Deposit, recently increasing the number of drills on site to 9, while concurrently progressing work on the feasibility study.

Taylor Deposit

On April 3, 2017 the Company announced the results of an updated mineral resource and a PEA for its Taylor zinc-lead-silver sulfide deposit. The technical report is available on the Company's website at www.arizonamining.com and on the SEDAR website at www.sedar.com.

<u>Updated Resource</u>

The Mineral Resource is shown below at a range of zinc equivalent ("ZnEq") cut-off grades. The base case for the resource is at a ZnEq cut-off grade of 4%. The deposit is estimated to now comprise 8.6 million tons in the Measured Resource category grading 9.7% ZnEq, plus 63.8 million tons in the Indicated Resource category grading 10.6% ZnEq and 38.6 million tons in the Inferred Resource category grading 11.6% ZnEq. Tons are rounded to the nearest thousand.

Taylor Deposit Global Measured, Indicated and Inferred Resources[1,2,3]

Measured						
Cut-off ZnEq (%)	**Short Tons**	**ZnEq (%)**	**Pb (%)**	**Zn (%)**	**Ag (opt)**	**Cu (%)**
25	372,000	32.5	12.8	14.1	5.9	0.3
20	703,000	27.7	11.1	12.0	4.8	0.3
15	1,260,000	23.0	9.4	9.9	4.0	0.2
10	2,793,000	17.2	7.1	7.4	2.9	0.2
6	5,533,000	12.4	5.2	5.4	2.1	0.1
5	6,832,000	11.1	4.6	4.8	1.8	0.1
4	**8,613,000**	**9.7**	**4.0**	**4.2**	**1.6**	**0.1**
3	10,961,000	8.4	3.5	3.6	1.4	0.1
2	12,792,000	7.6	3.1	3.2	1.3	0.1
1	13,367,000	7.3	3.0	3.1	1.2	0.1
Indicated						
Cut-off ZnEq (%)	**Short Tons**	**ZnEq (%)**	**Pb (%)**	**Zn (%)**	**Ag (opt)**	**Cu (%)**
25	2,938,000	33.0	13.2	15.1	5.1	0.3
20	5,996,000	27.4	11.2	12.2	4.4	0.3
15	11,961,000	22.4	9.2	9.7	3.7	0.3
10	24,264,000	17.1	7.1	7.4	2.9	0.2
6	47,334,000	12.6	5.2	5.3	2.2	0.2
5	55,398,000	11.6	4.8	4.9	2.0	0.1
4	**63,840,000**	**10.6**	**4.4**	**4.5**	**1.9**	**0.1**
3	72,637,000	9.8	4.1	4.1	1.7	0.1
2	80,778,000	9.0	3.8	3.8	1.6	0.1
1	85,565,000	8.6	3.6	3.6	1.5	0.1

(U.S. dollars)

Measured + Indicated						
Cut-off ZnEq (%)	**Short Tons**	**ZnEq (%)**	**Pb (%)**	**Zn (%)**	**Ag (opt)**	**Cu (%)**
25	3,310,000	32.9	13.2	15.0	5.2	0.3
20	6,699,000	27.5	11.2	12.2	4.4	0.3
15	13,221,000	22.4	9.2	9.8	3.7	0.3
10	27,057,000	17.1	7.1	7.4	2.9	0.2
6	52,867,000	12.6	5.2	5.3	2.2	0.2
5	62,231,000	11.5	4.8	4.9	2.0	0.1
4	**72,453,000**	**10.5**	**4.4**	**4.3**	**1.7**	**0.1**
3	83,597,000	9.6	4.0	4.0	1.7	0.1
2	93,570,000	8.8	3.7	3.7	1.6	0.1
1	98,933,000	8.4	3.5	3.5	1.5	0.1
Inferred						
Cut-off ZnEq (%)	**Short Tons**	**ZnEq (%)**	**Pb (%)**	**Zn (%)**	**Ag (opt)**	**Cu (%)**
25	3,283,000	35.1	11.5	16.0	8.0	0.2
20	5,270,000	30.3	10.3	13.0	7.3	0.2
15	8,402,000	25.4	8.8	10.5	6.4	0.2
10	14,845,000	19.6	7.0	7.8	5.0	0.2
6	28,902,000	13.8	5.0	5.4	3.7	0.2
5	33,480,000	12.7	4.6	4.9	3.4	0.2
4	**38,627,000**	**11.6**	**4.2**	**4.4**	**3.1**	**0.1**
3	44,779,000	10.5	3.8	3.9	2.9	0.1
2	51,617,000	9.4	3.4	3.5	2.6	0.1
1	58,225,000	8.5	3.1	3.2	2.3	0.1

1. For a full list of drill holes included in the updated resource, please refer to www.arizonamining.com/projects/taylor-deposit/resources.
2. Mineral Resources are reported as of 29 March 2017. Stated at a cut-off grade of 4% ZnEq based on prices, recovery and costs as follows: prices of $1.00/lb for zinc, $0.95/lb for lead and $20.00/oz for silver; average processing recovery factors of 90% for zinc, 95% for lead, and 85% for silver; total operating costs estimated to be in the order of $60/ton.
3. 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.

The resource is based on assay results from 96 holes totaling 358,250 feet (109,189 meters) of drilling, which have all intersected sulfide vein or strata-bound carbonate replacement sulfide mineralization within the Taylor Deposit. The updated Mineral Resource estimate and mine plan was prepared by AMC Mining Consultants (Canada) Ltd. ("AMC") of Vancouver, B.C.

Mineral Resource Estimation

The Mineral Resource has been stated in terms of Zinc Equivalent. The ZnEq formula and the underlying parameters used in its formulation are set out below. 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)

Zinc Equivalent Parameters and Formula[1]

Metal	Price (US$)	Recovery (%)
Lead	0.95/lb	95.0
Zinc	1.00/lb	92.0
Silver	20.00/oz	90.0

1. ZnEq=(((PB%/100)*0.95*2000*0.95)+((ZN%/100)*1*2000*0.92)+(AG_OPT*0.9*20))/((1*2000*0.92)/100)

Mineral Resource Estimation Parameters

The Taylor Deposit Mineral Resource update was carried out using both Ordinary Kriging (OK) and Inverse Distance Squared (ID^2) estimations. Tonnages and grades of lead, zinc and silver were estimated for six separate lithological domains. Sample data was composited to 10 feet in length for the Concha, Scherrer, Epitaph and Taylor Deeps domains. Drill core sample data that was used for estimation of the shallower Trench Vein System and the Sub-Taylor Deeps domains were composited to nominal five-foot lengths because of their comparatively narrow dimensions. The compositing process honored lithological domain boundaries. 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.

Mineral Resources were classified as Measured, Indicated and Inferred. For a block to be classified as Measured, it was necessary that a minimum of sixteen (16) composites were located within 250 feet of the block centroid; for a block to be classified as Indicated, it was necessary that a minimum of eight (8) composites were located within 500 feet of the block centroid and for a block to be classified as Inferred, it was necessary that a minimum of two (2) composites be located within 750 feet of the block centroid or three (3) composites within 1,500 feet of the block centroid.

PEA Results

Financial and Operating Summary

Financial Summary			
After-tax NPV (8%)	$000	$	1,260,764
After-tax IRR	%		42%
Payback	Years		1.7
Pre-production Capex	$000	$	457,170
Sustaining Capex	$000	$	500,196
LOM Capex	$000	$	957,366
Operating Summary			
Average Annual Zinc Production[1]	m lbs		287
Average Annual Lead Production[1]	m lbs		286
Average Annual Silver Production[1]	m oz		5.5
Zinc concentrate treatment charge (base)	$/dmt[2]		210
Zinc treatment charge (Mn penalty)	$/dmt		13
Lead concentrate treatment charge (base)	$/dmt		190
All concentrates transportation charge	$/dmt		97
Operating Costs per Ton[(3)]			
Mine	$/t	$	35.35
Process	$/t	$	10.73
G&A	$/t	$	2.00
Total operating costs (mine, processing, G&A)	$/t	$	48.08
C1 Zinc Co-Product Cost[4]	$/lb	$	0.51
C1 Lead Co-Product Cost[4]	$/lb	$	0.38
All-in Sustaining Cost (ZnEq)[5]	$/lb	$	0.61

[1] Recoverable average annual production at full production before smelter deductions of 15% for zinc, 5% for lead and 14.3% for silver.

[2] Dry metric tonne.

[3] Short tons - used throughout this MD&A PEA discussion.

[4] Silver treated as a by-product.

[5] Based on long-term prices of $1.10/lb zinc, $1.00/lb lead and $20/oz silver, respectively. ZnEq Formula: payable zinc production plus lead revenue divided by zinc price plus silver revenue divided by zinc price.

Sensitivities to a 10% Change in Zinc and Lead Prices

		After-tax NPV 8% ($000)				After-tax IRR		
Lead Price $/lb		Zinc Price $/lb				Zinc Price $/lb		
		$0.99	$1.10	$1.21		$0.99	$1.10	$1.21
	$0.90	$ 998,437	$ 1,133,762	$ 1,268,226		36%	39%	42%
	$1.00	$ 1,126,301	$ 1,260,764	$ 1,395,515		39%	42%	44%
	$1.10	$ 1,253,302	$ 1,387,922	$ 1,522,880		41%	44%	47%

(U.S. dollars)

The Company cautions the reader that the PEA on the Company's Taylor Deposit that supports the technical feasibility or economic viability of the Taylor Deposit, including the marketability of the concentrate, mining methods, costs, recoveries and any other technical aspects related to the Taylor Deposit, is preliminary in nature and there is no certainty that the PEA will be realized.

Advanced Metallurgical Work

As reported on March 29, 2017, a series of locked cycle tests returned significantly improved recoveries for all target metals compared to initial metallurgical testing. In addition, the testing indicated silver is expected to be payable in both concentrates.

Taylor Deposit Advanced Metallurgical Results

	% Change	April 2017	October 2016
Recoveries in Zinc Concentrate			
Zinc	+8	92.7	85.5
Silver	+55	23.2	15.0
Recoveries in Lead Concentrate			
Lead	+3	95.4	92.9
Silver	-9	69.3	76.0
Concentrate Grades			
Lead in concentrate	-7	69.7	75
Zinc in concentrate	n/a	56.1	56

While all mineralized zones were tested, the final results of this phase of testing focused on the Epitaph Zone, which hosts approximately 50% of the resource, to develop the optimized flowsheet and scheme of reagents. The full metallurgical test work program, completed at SGS Lakefield, was done on more than 12 composite samples, comprised of head grade ranges from 5% combined lead-zinc in increments up to and including 20% combined lead-zinc for each of the three main mineralized horizons – Concha, Scherrer, and Epitaph. Lead recoveries were typically over 90% and increasing with increasing grades of lead in the feed, as expected. The lead mineral, galena, and zinc mineral, sphalerite, are typically found in coarse crystals which make for generally good recoveries and concentrate grades.

Based on indicated grades, the Taylor zinc and lead concentrates are suitable for most smelters, and analyses indicates these concentrates can be considered of good quality and high grade, with valuable levels of payable silver in both concentrates and no significant deleterious elements which might affect their marketability, including manganese.

Proposed Mine Plan – 10,000 Tpd Underground Operation

The PEA for the Taylor Sulfide Deposit is based on an underground mine plan. The zinc-lead-silver ores will be hoisted to the surface by a vertical shaft and processed through a 10,000 tpd concentrator located on the Trench patented property. The initial mine plan is based on a subset of 60.8 million tons (of the 72.5 million tons of Measured and Indicated Resources) grading 4.4% zinc, 4.3% lead and 1.7 opt silver.

Processing of the zinc-lead ores will be through a 10,000 tpd standard crushing and grinding circuit followed by froth flotation, concentrate thickening and filtration. The operation will produce two concentrates: a lead (galena) concentrate that will assay approximately 69% lead and approximately 1,100 g/t silver, and a zinc (sphalerite) concentrate that will assay approximately 56% zinc and approximately 350 g/t silver, with an approximate gross revenue split of 42% zinc, 43% lead and 15% silver. Specifications for both concentrates have been reviewed by industry experts and potential offtake partners. Tailings or waste material from the mining and processing will be filtered to minimize water losses. Approximately 45% of the tailings will be mixed with cement and used as structural backfill in the underground operations. The remaining tailings will be dry-stacked in a lined and permitted facility on the patented Trench property.

The major components of estimated pre-production capital of $457 million include $99 million for the process plant, $84 million for the shaft, $67 million for underground development, $63 million for contingency, $61 million for site infrastructure and $32 million for mining equipment. Life of mine sustaining capital is projected to be $500 million.

Exploration Drilling

Exploration drilling has continued on Arizona Mining's extensive land package since the April 3, 2017 resource update, now with nine drill rigs. The drill program is focused on expansion of the Taylor Sulfide Zone, the Taylor Deeps Zone, which lies below a low angle thrust fault that separates it from the Taylor Sulfide Zone, and definition of the Trench Vein System, a series of steeply dipping veins which extend across the property in a northeast/southwest direction.

The results from 32 drill holes have been released to date with significant step out exploration holes indicating the potential for grade and resource growth. The drill results on Taylor Deeps indicate its significant size potential and robust grade as it continues to grow to the southeast at shallower depths. The assay results indicate substantially higher grades for all metals compared to the Taylor Sulfide Zone and it could have a significant positive impact on the overall mine plan for the deposit. Results for Taylor Deeps include:

- HDS-435, which included 61 feet assaying 16.47% zinc, 13.81% lead and 9.84 ounces per ton ("opt") silver
    - Including a 31 foot zone which assayed 27.25% zinc, 22.36% lead and 14.85 opt silver
- HDS-446, which included 67 feet assaying 20.5% zinc; 18.1% lead; and 7.5 opt silver
- HDS-447, which included 149 feet assaying 4.7% zinc; 6.2% lead; and 4.3 opt silver
    - Including a 43 foot zone which assayed 11.4% zinc; 18.6% lead; and 12.3 opt silver

Drill holes targeting the Trench Vein System have encountered mixed results. As expected, the vein swarms pinch and swell along strike, however the drilling has encountered some significant mineralization, especially with respect to silver. Results for the Trench Vein System include:

- HDS-425 is a vertical hole drilled to infill a large gap in the previously reported mineral resource and target the Taylor Sulfide Vein System. The drill hole intercepted four veins in the volcanics including 31 feet assaying 6.47% zinc, 6.12% lead and 5.57 opt silver
- HDS-431 is an angled hole (-82 degrees) drilled to infill an area of the previously reported mineral resource. The drill hole encountered three mineralized veins in the volcanics and two mineralized veins in the carbonates including 21 feet assaying 8.33% zinc, 6.08% lead and 4.06 opt silver.

The Company is continuing its aggressive drill program on the Taylor Deposit with the 9 drill rigs on site.

State Permitting Initiated in H1 2017

The Company initiated permitting with the State of Arizona in the first half of 2017 with the expectation, based on extensive discussions with regulators that the full state permitting process on the Company's patented properties should take in the order of 12-18 months. The project will require a number of state approvals in order to operate on patented ground, including an Aquifer Protection Permit ("APP"), Air Permit, and Arizona Pollutant Discharge Elimination System ("AZPDES") from the Arizona Department of Environmental Quality ("ADEQ") and the Arizona State Mine Inspector ("ASMI"). The APP and AZPDES are required in order to break ground for the construction of the tailings facility and the water treatment plant. Applications for these two permits were submitted in the second quarter of 2017 and our expectation is that they will be received by the end of 2017.

Corporate Activities

South 32 Private Placement

On May 16, 2017 the Company closed a private placement of 45 million common shares in the Company at a price of C$2.45 per common share with South32 Limited for gross proceeds of C$110.3 million (US$81.1 million), representing approximately 15% of the Company's outstanding common shares on a non-diluted, post-subscription basis.

The proceeds will be used to add drill rigs and fully test the Taylor Deeps, Trench Vein System and other high priority targets, as well as to advance the Company's Taylor Deposit to the feasibility and permitting stage.

Provided South 32 maintains a minimum ownership of 12.5% on a non-diluted basis: it will have a pre-emptive right to participate in future equity financings to maintain its ownership percentage at 15% on a non-diluted basis, and will be restricted from selling any common shares for one year from the closing date of the Placement; South32 also has the right, which it has not yet exercised, to nominate one Director to the Company's Board of Directors; South 32 also has the right to appoint one member to an Operations Committee with the Company appointing the other three members with decisions taken by majority vote.

Provided the Company's board of directors maintain a minimum of 20% of the Company's shares on a non-diluted basis, South 32 may not make a hostile bid for the Company nor increase its ownership in the Company to 19.9% or more prior to November 16, 2018 unless another party makes an unsolicited or hostile bid for the Company or the Company announces a sale of the Company or its assets.

Management Appointment

On May 23, 2017 the Company appointed Jerrold Annett as Senior Vice President, Corporate Development, effective June 1, 2017. Mr. Annett is a Professional Engineer in Mining Engineering with a specialty in metallurgy from Queen's University. He has over 11 years of experience with Teck and Falconbridge and an additional 10 years in capital markets, most recently with Scotiabank. In 1996, he commenced work for Cominco as a metallurgist at their lead-zinc Polaris Mine, followed by the prolific Sullivan lead-zinc mine, and the Quebrada Blanca Mine in Chile. In 2001, Mr. Annett entered the commercial side of the mining business when he joined the by-product sales group for the Trail Metallurgical Smelter in British Columbia. Here he worked closely with the company's business development group with a focus on improving netbacks and new product initiatives. Key in his new and prior roles is his extensive technical expertise in mining and metallurgy which clients appreciate as they assess the risk profile of potential investments. Mr. Annett was ranked a Brendan Woods TopGun SuperLeague Sales Professional as voted by both Corporate and Institutional Clients during the last two surveys in 2015 and 2012.

Board Appointments

On June 8, 2017, the Company appointed two new directors to the Company's Board of Directors - former Speaker of the House John Boehner and investment banker William Mulrow.

Mr. Boehner served as the 53rd Speaker of the United States House of Representatives from 2011 to 2015. A member of the Republican Party, Mr. Boehner was the U.S. Representative from Ohio's 8th congressional district, serving from 1991 to 2015. He previously served as the House Minority Leader from 2007 until 2011, and House Majority Leader from 2006 until 2007. Following his career in government service, Mr. Boehner joined Squire Patton Boggs, a global law and public policy firm. He earned a Bachelor of Arts in business administration from Xavier University.

Mr. Mulrow is a Senior Advisor at the Blackstone Group, an alternative asset manager. Previously, he was a Director of Global Capital Markets at Citigroup, Inc., a Managing Director of Paladin Capital Group, a Senior Vice

(U.S. dollars)

President and Head of New Product Development at Gabelli Asset Management (now GAMCO Investors), a Managing Director in Corporate Finance for Rothschild Inc., and a Managing Director and Head of Public Finance Banking for Donaldson, Lufkin and Jenrette Securities Corporation. He is a graduate of the Kennedy School of Government at Harvard University and of Yale College where he graduated Cum Laude and was a Rhodes Scholar finalist.

Project Costs Capitalized to Exploration and Evaluation Assets

The following shows total costs deferred on the Company's Hermosa Project during the three and six months ended June 30, 2017 and 2016:

	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Balance, start of period	$ 113,450,384	$ 79,578,203	$ 100,954,348	$ 73,558,572
Additions:				
Mineral and other property acquisitions	525,007	167,424	826,371	4,637,774
Drilling	3,943,394	4,416,040	10,781,233	4,761,107
Property access, restoration and maintenance	973,320	673,360	2,052,935	842,209
Drilling and other supplies	148,090	305,368	346,653	356,521
Assay and analysis	400,527	355,123	1,357,432	362,295
Salaries, benefits and stock based compensation	980,809	574,526	1,867,918	884,322
Geologic consulting and support	401,911	273,028	936,007	285,636
Engineering and metallurgy	(80,488)	28,029	874,258	100,359
Environmental baseline studies & permitting	733,680	174,405	1,029,657	270,524
Reclamation and remediation	111,492	-	208,200	-
Tailings storage facility	719,045	-	719,045	-
Other	426,618	(51,618)	779,732	434,569
	9,283,405	6,915,685	21,779,441	12,935,316
Sale of NSR	-	(7,886,435)	-	(7,886,435)
	9,283,405	(970,750)	21,779,441	5,048,881
Balance, end of period	$ 122,733,789	$ 78,607,453	$ 122,733,789	$ 78,607,453

During the three and six months ended June 30, 2017 the Company capitalized expenditures of $9,283,405 and $21,779,441, respectively on its Hermosa Project compared to $6,915,685 and $12,935,316 in the corresponding periods of 2016. The costs for 2017 primarily reflect the drilling and exploration program and engineering and other work on the Taylor deposit that was incorporated into the resource update and PEA that was released on April 3, 2017 as well as the continuation of the exploration drilling and feasibility related engineering and other work into the second quarter. For the comparative periods of 2016, in addition to a drill program that was started mid-way through the first quarter, the costs also include $4,277,480 for the acquisition of the Trench property comprising approximately 300 acres of patented mining claims.

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 until the substantial completion of the infill portion of the drill program by the end of the first quarter of 2017. The Company is now focussing its drilling efforts on targeting the expansion of the Taylor Deeps Zone and definition of the Trench Vein System with nine drills, which is expected to increase as drills become available. For the six months ended June 30, 2017 all cost categories associated with the drilling have increased as a result of the increase in the number of holes drilled compared to the same period of fiscal 2016.

Engineering and metallurgy and environmental baseline studies and permitting costs both increased for the three and six months ended June 30, 2017 compared to the prior year as the Company performed additional metallurgical test work to optimize metal recoveries and determine the operational process flow sheet, continued its environmental baseline studies and worked on the inputs for the PEA released on April 3, 2017.

(U.S. dollars)

Salaries, benefits and stock based compensation costs capitalized increased for the three and six months ended June 30, 2017 compared to the prior year as a result of an increase in the number of employees, employee incentive awards and salary adjustments.

Tailings storage facility costs for the three and six months ended June 30, 2017 represent the engineering services for the design of the dry stack tailings storage facility on the Hermosa property.

Costs Expensed, Net Income (Loss) and Comprehensive Income (Loss)

	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Expenses:				
Stock based compensation	$ 725,699	$ 222,840	$ 1,167,847	$ 441,738
Salaries and benefits	297,932	233,376	853,894	492,329
Investor relations	88,831	25,324	194,911	121,388
Office and administrative	53,235	50,546	98,379	99,729
Filing and regulatory	36,004	19,027	82,692	41,001
Professional services	28,133	49,542	93,121	100,929
Directors' fees	13,002	12,401	24,717	23,415
Travel	7,500	28,544	30,727	38,350
Depreciation	-	1,343	-	2,275
Loss from operations	(1,250,336)	(642,943)	(2,546,288)	(1,361,154)
Foreign exchange loss	(100,618)	(250,939)	(260,662)	(195,497)
Interest and finance charges	(2,003)	(187,824)	(4,746)	(363,330)
Gain on disposition of property, plant and equipment	-	4,805	-	2,227
Interest and other income	99,325	9,257	120,289	9,257
Net loss	(1,253,632)	(1,067,644)	(2,691,407)	(1,908,497)
Other comprehensive income (loss):				
Items that may be reclassified to profit or loss:				
Foreign currency translation gain (loss)	3,771,322	(554,778)	4,065,553	(618,132)
Comprehensive income (loss)	$ 2,517,690	$ (1,622,422)	$ 1,374,146	$ (2,526,629)
Net loss attributable to:				
Shareholders of the Company	$ (1,253,632)	$ (1,067,783)	$ (2,691,407)	$ (1,907,283)
Non-controlling interest	-	139	-	(1,214)
	$ (1,253,632)	$ (1,067,644)	$ (2,691,407)	$ (1,908,497)
Comprehensive income (loss) attributable to:				
Shareholders of the Company	$ 2,517,690	$ (1,622,561)	$ 1,374,146	$ (2,525,415)
Non-controlling interest	-	139	-	(1,214)
	$ 2,517,690	$ (1,622,422)	$ 1,374,146	$ (2,526,629)
Basic and diluted net loss per share attributable to shareholders of the Company	$ (0.005)	$ (0.005)	$ (0.010)	$ (0.010)
Weighted average number of shares outstanding	274,392,528	204,345,308	262,055,534	184,115,687

For the three and six months ended June 30, 2017, the Company reported a net loss of $1,253,632 ($0.005 per common share) and $2,691,407 ($0.010 per common share), respectively compared to a net loss of $1,067,644 ($0.005 per common share) and $1,908,497 ($0.005 per common share) for the same periods in 2016. The increase in the net loss primarily reflects an increase in stock based compensation expense and salaries discussed below.

The increase in stock based compensation expense, a non-cash cost, in both the three and six month periods ended June 30, 2017 is primarily a result of the grant on March 2, 2017 of 3,005,000 stock options with an exercise price of C$2.76 per share to directors, officers and employees of the Company and a grant on June 7, 2017 of 250,000 stock options with an exercise price of C$2.12 per share to directors of the Company. 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 vesting period.

Salary and benefits costs increased in both periods of 2017 compared to 2016 as a result of a new hire, employee incentive awards in recognition of 2016 performance and salary adjustments.

Investor relations expense increased in both periods of 2017 compared to 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.

Interest and finance charges of $2,003 and $4,746 for the three and six months ended June 30, 2017 compares to $187,824 and $363,330 for the three and six months ended June 30, 2016. The interest and finance charges in 2016 reflect the borrowing in early 2016 from the Company's Executive Chairman to support the Company's operations at that time.

The foreign exchange loss of $100,618 in the three months and $260,662 in the six months ended June 30, 2017 primarily reflects the impact of the strengthening of the Canadian dollar since the last reporting period on the Canadian parent's US dollar cash balances.

Other comprehensive income represents the gain on the translation of the parent company's Canadian dollar financial statements into US dollars for presentation purposes of $3,771,322 for the three months and $4,065,553 for the six months ended June 30, 2017 and compares to a loss of $554,778 for the three months and $618,132 in the same periods of 2016. The gain reflects the impact of both the strengthening Canadian dollar and an increase in the net assets of the Company denominated in Canadian dollars since the last reporting period. After adjusting for the foreign currency translation gain (loss), there was a comprehensive gain for the three and six months ended June 30, 2017 of $2,517,690 and $1,374,146 compared to a comprehensive loss of $1,622,422 and $2,526,629 for the same periods in 2016.

Liquidity and Capital Resources

At June 30, 2017, the Company had cash and cash equivalents of $82,716,410 compared to $19,236,855 at December 31, 2016.

Cash outflow from operating activities was $198,289 in the three months and $1,223,678 in the six months ended June 30, 2017 and compares to a use of cash of $501,930 and $955,820 in the same periods of 2016. The decreased use of cash in the three months ended June 30, 2017 is primarily attributable to the impact of the timing of payments of accounts payable and accrued liabilities. The increased use of cash in the six months ended June 30, 2017 is primarily attributable to the increased corporate cash costs, previously discussed.

Cash inflow from financing activities $83,832,348 for the three months and $83,864,274 for the six months ended June 30, 2017 primarily relates to the closing of the private placement by South 32 for $81,090,026 less share issue costs of $273,449 (as described under "Corporate Activities", earlier in this MD&A). Cash inflow from financing activities for the six months ended June 30, 2017 also includes $31,926 from the exercise of 105,000 stock options into common shares of the Company at an average exercise price of C$0.41 and $3,015,771 from the exercise of 7,020,399 share purchase warrants of the Company at an average exercise price of $0.58. Cash inflow from financing activities of $14,897,218 for the three months and $19,547,046 for the six months ended June 30, 2016 primarily relates to the closing of a number of private placements for $19,037,046 less share issue costs of $763,184 and the repayment of C$4.0 million ($3,147,186) of loans from a company controlled by the Company's Executive Chairman together with accrued interest and fees of $229,458. Cash inflow from financing activities for the six months ended June 30, 2016 also includes a loan from the Company's Executive Chairman of C$4.0 million ($2,798,377) received on January 13, 2016 in connection with the acquisition of the Trench patented mining claims and proceeds from a private placement of $1,892,651.

Investing activities for the three and six months ended June 30, 2017 used cash of $10,377,435 and $22,964,606 compared to a source of cash of 1,086,980 in the three months and a use of cash of $2,399,092 in the six months ended June 30, 2016. The increase in cash used for investing activities in both periods of 2017 compared to 2016 reflects the Company's intensive drilling and exploration program on the Taylor Deposit and costs associated with the completion of the updated resource estimate and PEA. Investing activities for the three and six months ended June 30, 2016 includes proceeds of $7,886,435 (C$10,000,000) from the sale of a royalty interest in the Hermosa project and the use of cash of $2,310,833 for the escrow and surety bond collateral requirements arising from the acquisition of the Trench patented mining claims in the first quarter of 2016.

At June 30, 2017 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	$ 3,231	$ -	$ -	$ -	$ 3,231
Operating lease obligations	202	408	281	10	901
	$ 3,433	$ 408	$ 281	$ 10	$ 4,132

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	2017		2016				2015	
($000s, unless otherwise stated)	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Net loss	$ (1,254)	$ (1,438)	$ (440)	$ (781)	$ (1,068)	$ (841)	$ (331)	$ (444)
Exploration and evaluation assets additions	$ 9,283	$ 12,496	$ 13,446	$ 8,901	$ (971)	$ 6,020	$ 855	$ 448
US$ to C$ Exchange rate - period end	$ 1.2977	$ 1.3322	$ 1.3427	$ 1.3117	$ 1.3009	$ 1.2971	$ 1.3840	$ 1.3394
Basic and diluted net income (loss) per share	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

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

- 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.
- Increased corporate activity in the first quarter of 2017 in response to the increased exploration on the Taylor Deposit.
- 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, which 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 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 August 11, 2017, the Company had an unlimited number of common shares authorized for issuance with 301,967,195 issued and outstanding and an unlimited number of preferred shares authorized with nil outstanding. Also at August 11, 2017, the Company had outstanding 15,764,000 stock options held by directors, officers and employees of the Company and 21,134,502 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., Armor Minerals Inc. and Titan Mining Corporation) 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:

	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Salaries and benefits	$ 274,851	$ 194,473	$ 785,244	$ 429,667
Office and administrative	87,288	93,541	221,395	200,263
Other assets	29,387	-	29,387	-
	$ 391,526	$ 288,014	$ 1,036,026	$ 629,930

In addition, for the three and six months ended June 30, 2017, the Company charged out $nil and $1,993, respectively, with respect to these arrangements (June 30, 2016 – $4,529 and $4,550). At June 30, 2017, amounts receivable includes $5,837 (December 31, 2016 – $3,677) and prepaids and other includes $37,258 (December 31, 2016 – $62,838) with respect to these arrangements.

Other assets of $261,762 (December 31, 2016 – $224,587) 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 borrowed C$4.0 million (US$2,798,377) from a company controlled by the Company's Executive Chairman in connection with the acquisition of certain patented mining claims. The loan was 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 completed 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 bore interest at 16% per annum, compounded monthly and was subject to a cash fee of 1% with an additional 1% fee payable after three months if the loan remained outstanding. In addition, 1,000,000 warrants were 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 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 later in 2016.

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.

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 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.

(U.S. dollars)

- 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. The Company has not early adopted these new standards and is currently assessing the impact, if any, that these amendments will have on the Company's Financial Statements.

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

Category	Measurement		June 30, 2017		December 31, 2016
Cash and cash equivalents	Loans and receivables	$	82,716,410	$	19,236,855
Amounts receivable	Loans and receivables	$	91,440	$	65,936
Restricted cash	Loans and receivables	$	3,310,833	$	3,310,833
Accounts payable and accrued liabilities	Other financial liabilities	$	3,231,372	$	3,508,571

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:

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. 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 June 30, 2017, the Company is exposed to currency risk through the following assets and liabilities denominated in US dollars held by the Canadian parent company:

		June 30, 2017		December 31, 2016
Cash and cash equivalents	US$	3,868,597	US$	7,763,600
Amounts receivable		1,627		13,903
Accounts payable and accrued liabilities		(32,291)		(12,874)
	US$	3,837,933	US$	7,764,629

The Company is also exposed to currency risk through other comprehensive income as a result of the net assets (mainly cash) held in Canadian dollars of C$106,973,184 at June 30, 2017 (December 31, 2016 – C$25,488,487). As at June 30, 2017, based on the above net exposures a 10% change in the Canadian-US dollar exchange rate would impact the Company's earnings by approximately $388,000 (December 31, 2016 – $784,000) and comprehensive income (loss) by $8,243,000 (December 31, 2016 – $1,898,000).

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.

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 invest in the Company's common shares. An investor should carefully consider the risks and the other information filed with the Canadian securities regulators before investing in the Company's common shares. Arizona Mining's business is subject to a number of risks and uncertainties including those described in the Company's Annual Information Form and Management's Discussion and Analysis for the year ended December 31, 2016, which are available on the Company's website at www.arizonamining.com and SEDAR at www.sedar.com. Any of the risks and uncertainties described in the above-noted documents could have a material adverse effect on the Company's business and financial condition and accordingly, should be carefully considered in evaluating the Company's business.

Disclosure Controls and Procedures and Internal Control over Financial Reporting

The Company's management, under the supervision of the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), have designed disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"), as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, based on the 2013 control framework developed by the Committee of Sponsoring Organizations of the Treadway Commission.

The DC&P have been designed to provide reasonable assurance that material information relating to the Company is made known to the CEO and CFO, particularly during the period in which the interim filings are prepared and the information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified. The ICFR have been designed to provide reasonable assurance regarding the reliability of financial reporting for external purposes in accordance with international financial reporting standards. Due to the inherent limitations associated with any such controls and procedures, management recognizes that, no matter how well designed and operated, they may not prevent or detect misstatements on a timely basis.

Changes in Internal Control over Financial Reporting

NI 52-109 also requires Canadian public companies to disclose any changes in ICFR during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, ICFR. No material changes were made to internal controls in the three months ended June 30, 2017.

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 at statistically derived intervals within 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) has been 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 trigger 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 April 3, 2017 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.

The results of the metallurgical tests have been reviewed, verified and compiled by Qinghua Jin, MSc., P.E., Senior Process Engineer for SGS North America Inc., a qualified person as defined by National Instrument 43-101 (NI 43-101). Mr. Jin has more than 26 years of mineral processing experience and is a member of the Association of Arizona State Board of Technical Registration (License #53463), and a registered member of the Society for Mining, Metallurgy & Exploration (04138753).

Arizona Mining's drilling results on the Taylor Deposit have been reviewed, verified and compiled by Donald R. Taylor, MSc., PG Chief Operating Officer for Arizona Mining Inc., 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).

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