# ARIZONA MINING INC.

Management's Discussion and Analysis

Three and Nine Months Ended September 30, 2017 and 2016

## 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 nine months ended September 30, 2017. This MD&A takes into account information available up to and including November 14, 2017. This MD&A should be read in conjunction with the accompanying condensed consolidated interim financial statements and notes for the three and nine months ended September 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 is the primary focus of the Company. The Company completed a mineral resource update and Preliminary Economic Assessment ("PEA") for the Taylor Deposit on April 3, 2017. The PEA indicated the Taylor Deposit has an after-tax Net Present Value at 8% of $1.3 billion with a 42% after-tax internal rate of return and a 1.7 year payback. 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% zinc equivalent (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 continuous to be aggressively drilled to test the limits of the resource.

The Company closed a private placement on May 16, 2017 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 fully funded to complete its three key strategic priorities: to aggressively drill to further test the size of the Taylor Deposit, to obtain key state permits and to complete a Feasibility Study by mid-year 2018.

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".

### Highlights and Activities

The Company continued to make significant progress in advancing its Taylor Deposit during the third quarter of

2017, with significant milestones achieved and reported during and after the quarter including:

- The continuation of very encouraging drill results from the exploration drill program focused on the Taylor Sulfide (TS) and Taylor Deeps (TD) zones. The Company drilled 98,000 feet (29,870 metres) during Q3 2017.
- The TD program has shown higher grades than the average grade of the PEA resource over wide intervals, and the mineralization has continued to shallower depths up-dip to the southeast. This could have a material impact on the NPV of the project by bringing in higher grade earlier in the mine plan.
- The TD is also extending at depth to the west and the TS continues to be extended beyond the initial footprint of the PEA resource. This could also have a material impact on the NPV of the project as the overall resource will increase.
- Determined that the capacity of the water supply testing well and supporting aquifer should be more than sufficient to supply the estimated 650 gallons per minute water requirement for the proposed mining operations outlined in the PEA.
- Strengthened the management team with the appointment of Tom Whelan as Chief Financial Officer.
- Strengthened the Hermosa-Taylor development team with the appointment of Richard Lock, P. Eng, as Senior Vice President and Project Director, John Barber, PE as Vice President, Mining, Ryan Hoel as Vice President, Logistics/Construction and the engagement of metallurgical consultant, Greg Sharp.

The Company is continuing its aggressive exploration program on the Taylor Deposit, recently increasing the number of drills on site to 15. The Company intends to drill an additional 155,000 feet (47,244 metres) during Q4 2017. The Q4 2017 drilling will be a combination of exploration drilling to extend the resource, infill drilling to convert inferred resources to a measured and indicated category and condemnation drilling for future infrastructure sites and potential decline routing.

The Hermosa-Taylor development team is executing on the corporate objectives to advance the project to Feasibility Study and ultimately to production by the end of 2020. Key activities include: additional land acquisition, permitting, local and state stakeholder engagement and progression on various studies and other technical areas to improve the overall economics. The focus for the second half of 2017 is on completion of various trade-off studies including ore access, mine design (optimized stope design and mine plan sequence) alternatives and the ability to utilize a higher percentage of tailings in the paste backfill. Metallurgical testing is focused on increases to the grind size (which would reduce both capital and operating costs) and improving silver recoveries, particularly in the lead concentrate. The Company also anticipates receiving four key permits which will allow the Company to complete a Voluntary Remediation Program ("VRP") in 2018 and 2019 on the historic tailings by constructing a new lined tailings disposal area and completing the construction of an active water treatment plant for effluent.

The Company continues to receive routine inquiries about the quantum and the quality of the proposed zinc and lead concentrates. Both concentrates are of high quality due to their elevated concentrate grade and will be readily marketable to smelters around the world. The Company believes the demand for its products, in addition to the long life, low cost nature of the deposit with early payback, will ensure a competitive landscape of financing alternatives for the Company to evaluate.

**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.

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.

*Proposed Mine Plan*

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 ton per day (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 15 drill rigs as of October 7, 2017. The drill program is focused on expansion of the Taylor Sulfide ("TS") Zone and the Taylor Deeps ("TD") Zone. The Company has drilled 157,000 feet (47,854 metres) since April 3, 2017 and intends to drill an additional 155,000 feet (47,244 metres) during Q4 2017 with 15 drill rigs on site.

The results from an additional 13 drill holes have been released during the third quarter of 2017 with significant step out exploration holes indicating the potential for grade and resource growth and infill drilling further increasing the Company's confidence in the quality of the resource. The drill results on the TD Zone indicate its significant size potential and robust grade as it continues to grow to the southeast at shallower depths and to the west at greater depth. The assay results continue to indicate substantially higher grades for all metals compared to the TS Zone. This could potentially have a significant positive impact on the overall mine plan for the deposit.

**State Permitting**

The Company currently has 530 acres of private, patented mining claims. In order for the Company to be able to build the required infrastructure on these claims, certain State permits must be obtained. The Company has been engaged in extensive discussion with the regulators to ensure it has a clear understanding of the process and potential timelines for permit issuances. The project will require a number of state approvals in order to operate on patented ground, including an Aquifer Protection Permit ("APP"), Arizona Pollutant Discharge Elimination System Permit ("AZPDES") and a Class II Air Quality Permit "(AQP") from the Arizona Department of Environmental Quality ("ADEQ"), a Dam Safety Permit and a Permit to Appropriate Public Water from Arizona Department of Water Resources ("ADWR"), and a Reclamation Plan from the Arizona State Mine Inspector ("ASMI"). The APP, AZPDES, Dam Safety Permit, and Permit to Appropriate Public Water are required in order to complete the VRP, which includes the construction of a lined tailings facility and an active water treatment plant. Applications for the APP, ADWR, and Dam Safety permits were submitted in the second quarter of 2017 and our expectation is that they will be received by the end of 2017. The Application for the Permit to Appropriate Public Water was submitted in the third quarter of 2017 and our expectation is that it will be received in the first quarter of 2018. The Company has already received approval of its Reclamation Plan. The AQP will be submitted during Q4 2017 and is expected to be received by the end of Q2 2018. The AQP is required to allow for the construction of an exploration decline.

### Corporate Activities

*Management Appointments*

On August 15, 2017, the Company announced it has added four senior technical staff to the Hermosa-Taylor development team:

- Richard Lock, P. Eng was appointed Senior Vice President and Project Director. Mr. Lock has more than 20 years of experience in project management, development and operations for large companies including Rio Tinto, Western Potash, DeBeers and Anglo American. He has been involved with projects including Rio Tinto's Resolution and Keystone projects and its Bingham Canyon and Diavik mines, and most recently was project director at Yara International's potash project in Ethiopia. Mr. Lock has a Bachelor of Science in Mine Engineering from University College Cardiff and is a registered professional engineer in Canada.
- John Barber, PE was appointed Vice President, Mining. Mr. Barber has more than 40 years of experience in underground mine operations, engineering, and project management. He has also been responsible for mine construction and production, as well as feasibility and optimization studies, for several large underground operations and projects, including Freeport-McMoRan's Deep Ore Zone and Big Gossan Mines at Grasberg, Rio Tinto's Resolution and Oyu Tolgoi projects, and Lundin Gold's Fruta del Norte project. Just prior to joining Arizona Mining, he served as Technical Director – Underground Mining at Amec Foster Wheeler. Mr. Barber has a Bachelor of Science (Cum Laude) in Mining Engineering from Virginia Polytechnic Institute and State University, and is a registered Professional Engineer in several states including Arizona.
- Ryan Hoel was appointed Vice President, Logistics/Construction. Mr. Hoel is an experienced mining professional with 18 years of experience in transportation logistics, mine operations, operational readiness, procurement, and business development and improvement with resource companies including New Gold, Rio Tinto and Lundin Mining. Mr. Hoel has a Bachelor of Science in Mining Engineering from the South Dakota School of Mines and Technology and an MBA from Westminster (Gore School of Business).
- Greg Sharp was engaged as metallurgical consultant. Mr. Sharp has more than 40 years of experience in process development and design, engineering and construction, operation of mineral processing plants and metallurgical research and development. Mr. Sharp developed the metallurgical processes for Tahoe Resources' Escobal project in Guatemala, a 4,500 ton per day underground lead-zinc-silver mine with froth flotation recovery similar to that envisioned for the Hermosa-Taylor Deposit. He will be instrumental in overseeing feasibility level metallurgical test work, finalizing the process flow sheet and building the plant at Hermosa-Taylor. Mr. Sharp received a Bachelor of Science in Metallurgical Engineering from the University of Idaho.

On September 19, 2017 the Company appointed Tom Whelan as Chief Financial Officer effective September 20, 2017. Mr. Whelan joins Arizona Mining from Nevsun Resources Ltd., where he was Chief Financial Officer since 2014. He is a Chartered Professional Accountant (CPA, CA) and was previously a partner with the international accounting firm EY LLP where he was the EY Global Mining & Metals Assurance sector leader, the leader of the EY Assurance practice in Vancouver and previously EY's Canadian Mining & Metals sector leader. Mr. Whelan is a very experienced executive with extensive public company experience, having over 20 years of experience working with some of Canada's largest mining companies and global mining companies with operations in Canada. Mr. Whelan graduated with a Bachelor of Commerce from Queen's University.

*Board Appointment*

On October 26, 2017, the Company appointed Gillian Winckler to its Board of Directors pursuant to the

Company's agreement with South32. Ms. Winckler is a former mining and business executive with over 25 years of diversified experience in the metals and mining industry and the financial sector. Ms. Winckler spent 16 years with BHP Billiton where she was involved with corporate and divisional strategy, mergers and acquisitions, divestments and exploration, as well as project evaluation and development. Upon leaving the company she joined Coalspur Limited, a thermal coal development company listed in Canada and Australia, as President and CEO. Ms. Winckler held this position for three years, and also acted as Chief Financial Officer for a brief period, until the company was acquired in June 2015. Prior to her mining experience, Ms. Winckler spent five years as a corporate financier in South Africa and London and five years in the auditing profession. Ms. Winckler's professional expertise includes strategic planning, mergers, acquisitions and divestments in the mining sector, as well as IFRS, GAAP, risk management and regulatory reporting. Ms. Winckler is currently a director of Pan American Silver Corp. and West Fraser Timber Co. Ltd.

**Summary of Quarterly 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) | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 |
| Net loss | $ (1,842) | $ (1,255) | $ (1,438) | $ (440) | $ (781) | $ (1,068) | $ (841) | $ (331) |
| Exploration and evaluation assets additions | $ 12,787 | $ 9,284 | $ 12,496 | $ 13,446 | $ 8,901 | $ (971) | $ 6,020 | $ 855 |
| US$ to C$ Exchange rate - period end | $ 1.2480 | $ 1.2977 | $ 1.3322 | $ 1.3427 | $ 1.3117 | $ 1.3009 | $ 1.2971 | $ 1.3840 |
| Basic and diluted net income (loss) per share | $ (0.01) | $ - | $ - | $ - | $ - | $ - | $ - | $ - |

The Company has not generated any income to date other than interest income. The Company has selected an accounting policy to capitalize all of its exploration and evaluation activities. Accordingly the statement of net loss and comprehensive income (loss) is comprised of corporate head office costs and foreign currency fluctuations on our cash balances.

**Exploration and Evaluation Assets**

During the nine months ended September 30, 2017 the Company capitalized exploration and evaluation expenditures of $34,567 (2016 – $13,950) on its Hermosa Project primarily related to activities related to the Taylor Deposit. The increase of $20,617 reflects the increased drilling and exploration program, accelerated environmental and permitting activities and the build out of the overall project team to deliver on the necessary work to complete a feasibility study planned for mid-year 2018. Offsetting these increases was a $3,437 decrease in mineral property acquisitions during 2017.

During the nine months ended September 30, 2017, the Company capitalized $1,362 (2016 – $4,799) related to mineral property and other acquisition costs. The Company continued to strategically acquire additional land near the Hermosa Project in 2017. The expenditures decreased from 2016 when the Company completed the acquisition of 300 acres of patented lands adjacent to the Taylor Deposit.

During the nine months ended September 30, 2017 the Company capitalized $16,126 (2016 – $9,893) related to drilling costs. The Company drilled a total of 276,000 feet (84,125 metres) during the nine months ended September 30, 2017 compared to 164,000 feet (49,987 metres) drilled during the nine months ended September 30, 2016, reflecting the Company's increased focus on resource growth with the goal to test the size and growth potential of Taylor Deeps and other high priority targets. Property access, restoration and maintenance costs of $3,164 (2016 – $1,718), assay and analysis costs of $1,879 (2016 – $1,043) and geological consulting costs of $1,548 (2016 – $719) increased correspondingly to the level of drilling.

During the nine months ended September 30, 2017, the Company capitalized $2,652 (2016 – $408) and $1,149

(2016 – $412) related to environmental baseline studies and permitting costs and engineering and metallurgy respectively. The increase reflects the intensifying of various activities required to advance these critical activities.

During the nine months ended September 30, 2017, the Company capitalized $3,164 (2017 – $1,514) related to salaries, benefits and stock based compensation costs of hourly and salaried employees of employees working directly on the project. The increase primarily reflects additional employees that have been hire to strengthen the Hermosa-Taylor development team.

Tailings storage facility costs for the nine months ended September 30, 2017 of $968 represents the engineering services for the design of the dry stack tailings storage facility on the Hermosa property.

The Company also capitalized $1,551 (2016 – $640) of other expenditures primarily related to legal, public relations, and site administration and support costs. The increase reflects the intensifying of various activities as discussed above.

### Expenses

For the nine months ended September 30, 2017, the Company reported a net loss of $4,535 ($0.02 per common share) compared to a net loss of $2,689 ($0.01 per common share) for the same period in 2016. The increase in the net loss primarily reflects an increase in stock based compensation expense and salaries as the Company builds out the corporate team to support bringing the Taylor Deposit to feasibility.

The Company incurred stock based compensation expense, a non-cash cost, of $1,984 for the nine months ended September 30, 2017 (2016 – $565). The increase reflects the additional stock option grants provided to existing employees during Q1 2017 and the additional stock option grants to new employees and directors that have joined the Company during the year.

The Company incurred salaries and benefits expense of $1,424 for the nine months ended September 30, 2017 (2016 – $705). The increase reflects the additional employees and increase in compensation from the prior year.

The Company incurred general and administration expenses of $811 for the nine months ended September 30, 2017 ($715). The increase relates to an increase in annual financial statement filing fees.

The foreign exchange loss of $667 (2016 – $247) in the nine months ended September 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 $7,309 for the nine months ended September 30, 2017 and compares to a loss of $758 in the same period for 2016. The gain reflects the impact of the strengthening Canadian dollar on the net assets of the Company denominated in Canadian dollars since the last reporting period. The Company holds most of its cash and cash equivalents balance in Canadian dollars.

### Liquidity and Capital Resources

At September 30, 2017, the Company had cash and cash equivalents of $73,019 compared to $19,237 at December 31, 2016.

Cash outflow from operating activities was $2,125 in the nine months ended September 30, 2017 and compares to a use of cash of $1,586 in the same period for 2016. This outflow primarily reflects corporate head office expenditures.

Cash inflow from financing activities of $85,591 for the nine months ended September 30, 2017 (2016 – $21,529) primarily relates to the closing of the private placement by South 32 (as described under "Description of Business", earlier in this MD&A) and the exercise of $4,774 of stock options and share purchase warrants of the Company.

Investing activities for the nine months ended September 30, 2017 used cash of $36,322 compared to $11,883 in the same period for 2016. The increase in cash used for investing activities during 2017 reflects the increased spend on exploration and evaluation expenditures (as discussed under "Exploration and Evaluation Assets", earlier in this MD&A) and an increase in the purchase of property, plant and equipment. Investing activities for the nine months ended September 30, 2016 includes proceeds from the sale of a royalty interest ($7,886) in the Hermosa Project and the use of cash 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 September 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 | $ 3,492 | $ - | $ - | $ - | $ 3,492 |
| Operating lease obligations | 462 | 842 | 252 | 3 | 1,559 |
| | $ 3,954 | $ 842 | $ 252 | $ 3 | $ 5,051 |

## Share Capital Information

As at November 14, 2017, the Company had an unlimited number of common shares authorized for issuance with 310,795,039 issued and outstanding and an unlimited number of preferred shares authorized with nil outstanding. Also at November 14, 2017, the Company had outstanding 16,422,334 stock options held by directors, officers and employees of the Company and 12,902,566 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

Other than the operating leases referred to in the table above, 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 these condensed consolidated interim financial statements, the Company had the following related party transactions.

The Company shares office space, equipment, personnel and various administrative services with other companies (NewCastle Gold Ltd., 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.

(In thousands of United States dollars, unless otherwise stated)

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

| | Three months ended September 30, 2017 | Three months ended September 30, 2016 | Nine months ended September 30, 2017 | Nine months ended September 30, 2016 |
|---|---|---|---|---|
| Salaries and benefits | $ 284 | $ 192 | $ 1,069 | $ 621 |
| Office and administrative | 95 | 66 | 316 | 267 |
| Other assets | 115 | - | 145 | - |
| | $ 494 | $ 258 | $ 1,530 | $ 888 |

In addition, for the three and nine months ended September 30, 2017, the Company charged out $nil and $2, respectively, with respect to these arrangements (September 30, 2016 – $nil and $5). At September 30, 2017, prepaids and other includes $86 (December 31, 2016 – $67) with respect to these arrangements.

Other assets of $386 (December 31, 2016 – $225) 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) 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 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 ($1,562) of the loan plus accrued interest of C$143 ($112) 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$109 ($86). 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.

- 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.

In January 2016, the IASB issued IFRS 16, *Leases*, which eliminates the classification of leases as either operating or finance leases for a lessee. Under IFRS 16, all leases are considered finance leases and will be recorded on the balance sheet. The only exemptions to this classification will be for leases that are 12 months or less in duration or for leases of low-value assets. The requirement to record all leases as finance leases under IFRS 16 will increase lease assets and lease liabilities on an entity's financial statements. IFRS 16 will also change the nature of expenses relating to leases as the straight-line lease expense previously recognized for operating leases will be replaced with depreciation expense for lease assets and finance expense for lease liabilities. IFRS 16 includes an overall disclosure objective and requires a company to disclose (a) information about lease assets and expenses and cash flows related to leases; (b) a maturity analysis of lease liabilities; and (c) any additional company-specific information that is relevant to satisfying the disclosure objective. IFRS 16 is effective from January 1, 2019 and can be applied before that date but only if IFRS 15 is also applied. The Company is currently assessing the effect of this standard on its financial statements. As at September 30, 2017, the Company has developed an understanding of the requirements of IFRS 16 but has not commenced analysis of existing arrangements or possible changes that may result from adoption of IFRS 16.

The final version of IFRS 9, *Financial Instruments*, was issued by the IASB in July 2014 and will replace IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 requires financial assets to be classified into three measurement categories on initial recognition: those measured at fair value through profit and loss, those measured at fair value through other comprehensive income and those measured at amortized cost. Investments in equity instruments are required to be measured by default at fair value through profit or loss. However, there is an irrevocable option for each equity instrument to present fair value changes in other comprehensive income. Measurement and classification of financial assets is dependent on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. IFRS 9 also introduces a forward-looking "expected loss" impairment model and a substantially reformed approach to hedge accounting.

(In thousands of United States dollars, unless otherwise stated)

IFRS 9 is effective for annual periods beginning on or after January 1, 2018, but is available for early adoption. The Company plans to adopt the standard beginning January 1, 2018. The Company is currently assessing the effect of this standard and its related amendments on its financial statements. At this stage, the Company does not expect this standard to have a material effect on its financial statements.

## Financial Instruments

The carrying values of the Company's financial instruments 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 September 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:

| | | September 30, 2017 | | December 31, 2016 |
|---|---|---|---|---|
| Cash and cash equivalents | US$ | 9,982 | US$ | 7,764 |
| Prepaids and other | | 2 | | 14 |
| Accounts payable and accrued liabilities | | (3) | | (13) |
| | US$ | 9,981 | US$ | 7,765 |

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$90,820 at September 30, 2017 (December 31, 2016 – C$25,488). As at September, 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 $990 (December 31, 2016 – $784) and comprehensive income (loss) by $7,277 (December 31, 2016 – $1,898).

*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 nine months ended September 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).