



ARIZONA MINING INC.

Management's Discussion and Analysis

For the Three Months Ended March 31, 2018 and 2017

# Arizona Mining Inc.

Management's Discussion and Analysis

Three Months Ended March 31, 2018 and 2017

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

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## Introduction

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This management's discussion and analysis ("MD&A") of Arizona Mining Inc. (the "Company", "Arizona Mining", "we", "us", or "our") covers three months ended March 31, 2018. This MD&A takes into account information available up to and including May 10, 2018. This MD&A should be read in conjunction with the accompanying condensed consolidated interim financial statements and notes for the three months ended March 31, 2018, and for the year ended December 31, 2017, which are available on the Company's website at [www.arizonamining.com](http://www.arizonamining.com) and on the SEDAR website at [www.sedar.com](http://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

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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, completing the Feasibility Study and statements under 'Outlook' later in this MD&A. 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 zinc, lead, 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; the potential for litigation including with respect to contests over title to properties; insurance not covering all the potential risks associated with a mining company operations; employee relations and shortages of skilled personnel and contractors; the speculative nature of, and the risks involved in, the exploration, development and mining business; and the factors discussed in the section entitled "Risks and Uncertainties" in this MD&A.

Although the Company has attempted to identify important risks, uncertainties and other factors that could cause actual performance, achievements, actions, events, results or conditions to differ materially from those expressed in or implied by the forward-looking information, there may be other risks, uncertainties and other factors that cause performance, achievements, actions, events, results or conditions to differ from those anticipated, estimated or intended. It is recommended that readers consult the more complete discussion of risks and uncertainties facing the Company included in the Company's Annual Information Form for the year ended

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December 31, 2017. 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

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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, 2017 and other continuous disclosure documents available at [www.sedar.com](http://www.sedar.com), which is subject to the qualifications and notes set forth therein.

### About Arizona Mining

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Arizona Mining Inc. is a mineral exploration and development company with its corporate office located in Vancouver, British Columbia. The Company is incorporated in British Columbia, and its shares are listed on the Toronto Stock Exchange and trade under the symbol "AZ".

The Company owns 100% of the 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, the primary focus of the Company, is a zinc-lead-silver carbonate replacement deposit, with a resource of 15.2 million tons in the Measured Mineral Resource category grading 4.0% zinc, 4.0% lead and 1.6 opt silver, or 9.6% ZnEq, plus 85.8 million tons in the Indicated Mineral Resource category grading 4.2% zinc, 4.3% lead and 2.2 opt silver, or 10.5% ZnEq, and 43.6 million tons of Inferred Mineral Resources grading 3.9% zinc, 4.8% lead and 3.4 opt silver or 11.9% ZnEq, all reported in accordance with NI 43-101 guidelines utilizing a 4% ZnEq cutoff grade. The updated Preliminary Economic Assessment ("2018 PEA" defined below) indicates the Taylor Deposit has an after-tax Net Present Value at an 8% discount rate of \$2.0 billion with a 48% after-tax internal rate of return and a 1.6 year payback. The Taylor and Taylor Deeps (a zone below the Taylor Deposit) Deposits remain 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.

The Company is scheduled to deliver a Feasibility Study during Q3 2018. The Feasibility Study will be a critical milestone as it will refine the estimated capital and operating costs of the mine. The Company will apply to amend the key permits previously obtained from the State of Arizona based on the output from the Feasibility Study which would allow for construction of the processing facilities. The Company would expect to receive the updated permits during H1 2019.

The Company's other deposit 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](http://www.arizonamining.com) or on SEDAR at [www.sedar.com](http://www.sedar.com). The Company is spending \$1 million on the Central Deposit to advance metallurgical and marketing studies.

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### Highlights and Activities

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The Company continued to make significant progress in advancing its Taylor Deposit during 2018, with significant milestones achieved and reported including:

- On January 10, 2018, the Company announced it had received three permits from the State of Arizona – the Aquifer Protection Permit (“APP”), the Arizona Pollutant Discharge Elimination System Permit (“AZPDES”) and the Dam Safety Permit.
- On January 16, 2018, the Company released an updated Mineral Resource estimate (the “2018 Resource Estimate”) increasing the total measured and indicated tons by 39% to 101 million tons grading 10.4 zinc equivalent (“ZnEq”) and the inferred resource by 13% to a total of 43.6 million tons grading 11.9% ZnEq at a 4% ZnEq cut off grade.
- On January 16, 2018, the Company released a revised PEA (the “2018 PEA”) to the 2017 PEA for the Taylor Deposit indicating an after-tax NPV at an 8% discount rate of \$2.0 billion with a 48% after-tax IRR and a 1.6 year payback.
- On February 13, 2018, the Company issued 836,279 common shares at a price of C\$4.48 per share to South32 Limited (“South32”) pursuant to the exercise, in full, by South32 of its top-up right to December 31, 2017 in accordance with the Investor Rights Agreement (“the IR Agreement”) with the Company for a total of C\$3,747 (\$2,973).
- The Company drilled a total of 75,355 feet (22,968 metres) during the three months ended March 31, 2018
- On March 26, 2018, the Company announced that it had received all required permits and notices for twin exploration declines on the Hermosa Project. The twin exploration declines will enable earlier access to key platforms from underground allowing for lower cost infill and expansion drilling, as well as further testing of the high-grade Trench Vein System while maintaining the Company's development schedule. The project has a scheduled completion date of the first quarter of 2020.
- Construction of the lined tailings storage facility (“TSF”) and active water treatment plant (“WTP”) is underway and on schedule. As at March 31, 2018, the Company has incurred \$4,745 on the TSF and \$499 on the WTP.
- The Company commenced portal preparation for the twin exploration declines, with development scheduled to commence in Q2 2018. The Company has incurred \$1,081 during Q1 2018.
- The Company awarded the contract for delivery of the Feasibility Study to the Wood Group (“Wood”).

### Outlook

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The Company's key objectives during 2018 include the construction of the TSF and the WTP, continuing to test the potential of the Taylor deposit with an estimated \$15 – \$20 million success-based exploration program, initiating work with respect to the twin exploration declines and delivering a Feasibility Study during Q3 2018. The Company is funded for these objectives.

The Company has begun discussions with a range of financial partners to determine the best option or options to finance the construction of the mine. All funding alternatives are being considered. The Company will provide additional information on its financing strategy after the issuance of the Feasibility Study. The Company continues to receive routine inquiries about the quantum 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

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deposit with early payback, will ensure a competitive landscape of financing alternatives for the Company to evaluate.

The H1 2018 drilling will be a combination of step-out exploration drilling, infill drilling to explore the continued potential for resource growth and increased grades and condemnation drilling for future infrastructure sites. The drilling to the end of January 2018, following the September 2017 drilling cut-off date for the 2018 PEA, is part of an additional 145,688 feet (44,406 metres) of infill and step-out drilling that will be included in the Feasibility Study. Should the drill results be positive, the Company may elect to allocate additional capital to exploration in 2018. In addition, the Company has submitted a Plan of Operations ("POO") to the US Forest Service to allow for drilling on Company held unpatented mining claims whose surface rights are administered by the US Forest Service.

### Hermosa Project

On January 16, 2018 the Company announced the results of a 2018 PEA for its Taylor zinc-lead-silver sulfide deposit. The technical report is available on the Company's website at [www.arizonamining.com](http://www.arizonamining.com) and on the SEDAR website at [www.sedar.com](http://www.sedar.com).

The following table summarizes the results of the 2018 PEA (discussed in 'Highlights and Activities') compared to the PEA released on April 3, 2017.

### Financial and Operating Summary (all tons are short tons unless otherwise noted)

Financial Summary		Jan 2018	Apr 2017	% Chg
After-tax NPV (8%)	\$(000's)	\$1,979,101	\$1,260,764	57%
After-tax IRR	%	48%	42%	6%
Payback	Years	1.6	1.7	6%
Pre-production Capex	\$(000's)	\$518,959	\$457,170	14%
Sustaining Capex	\$(000's)	\$725,261	\$500,196	45%
LOM Capex	\$(000's)	\$1,244,220	\$957,366	30%
Operating Summary				
Mineable Resource	m tons	96,671	60,846	59%
Mine Life	years	29	19	53%
Zinc Equivalent Head grade	% ZnEq	10.44	10.34	1%
Zinc Head grade	% Zn	4.01	4.43	-9%
Lead Head grade	% Pb	4.34	4.31	1%
Silver Head grade	opt Ag	2.22	1.71	30%
LOM Avg. Annual Payable Zinc Production <sup>1</sup>	m lbs	211	224	-6%
LOM Avg. Annual Payable Lead Production <sup>1</sup>	m lbs	262	250	5%
LOM Avg. Annual Payable Silver Production <sup>1</sup>	m oz	5.6	4.3	30%
Zinc concentrate treatment charge (base)	\$/dmt <sup>2</sup>	210	210	0%
Zinc treatment charge (Mn penalty)	\$/dmt	13	13	0%
Lead concentrate treatment charge (base)	\$/dmt	190	190	0%
All concentrates transportation charge	\$/dmt	97	97	0%
Operating Costs per Ton				
Mining	\$/t	\$38.02	\$35.35	8%
Processing	\$/t	\$10.54	\$10.73	-2%
Site-G&A	\$/t	\$2.00	\$2.00	0%
Total operating costs (mine, processing, G&A)	\$/t	\$50.56	\$48.08	5%
C1 Zinc Co-Product Cost <sup>3</sup>	\$/lb	\$0.49	\$0.51	-4%
C1 Lead Co-Product Cost <sup>3</sup>	\$/lb	\$0.37	\$0.38	-3%
All-in Sustaining Cost (ZnEq) <sup>4</sup>	\$/lb	\$0.61	\$0.61	0%

1. Average annual payable metal for Life of Mine.

2. Dry metric tonne.

3. Silver treated as a by-product.

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4. 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.

The Company cautions the reader that the 2018 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 includes inferred mineral resources that are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves. There is no certainty that the results of the PEA will be realized. The basis for the preliminary economic assessment and any qualifications and assumptions are made by the qualified person as disclosed in this MD&A.

### Financing and Corporate Activities

#### South32 Exercise of Top-Up Right

On February 13, 2018, the Company issued 836,279 common shares at a price of C\$4.48 per share to South32 Limited ("South32") pursuant to the exercise, in full, by South32 of its top-up right to December 31, 2017 in accordance with the Investor Rights Agreement ("the IR Agreement") with the Company for a total of C\$3,747 (\$2,973), maintaining its ownership in the Company of 15% on a non-diluted, post-subscription basis. Provided South32 maintains a minimum ownership of 12.5% on a non-diluted basis: it has a pre-emptive right to participate in future equity financings to maintain its ownership percentage at 15% on a non-diluted basis.

### Summary of Quarterly Financial Information

The Company's quarterly financial statements are reported under IFRS, as applicable to interim financial reporting. The following table provides highlights from the Company's financial statements of quarterly results for the past eight quarters.

	2018 Q1	2017 Q4	2017 Q3	2017 Q2
Net Loss for the period	\$ (1,917)	\$ (1,519)	\$ (1,842)	\$ (1,255)
Net Loss per share (basic and diluted)	\$ (0.01)	\$ -	\$ (0.01)	\$ -
Weighted-average number of common shares outstanding	312,681,986	309,844,790	302,955,110	274,392,528
Exploration and evaluation asset additions	\$ 17,906	\$ 19,475	\$ 12,787	\$ 9,284
Working capital	\$ 32,647	\$ 56,013	\$ 70,237	\$ 80,005

  

	2017 Q1	2016 Q4	2016 Q3	2016 Q2
Net Loss for the period	\$ (1,438)	\$ (440)	\$ (781)	\$ (1,068)
Net Loss per share (basic and diluted)	\$ -	\$ -	\$ -	\$ -
Weighted-average number of common shares outstanding	249,581,463	240,964,510	235,365,326	204,345,308
Exploration and evaluation asset additions	\$ 12,496	\$ 13,446	\$ 8,901	\$ (971)
Working capital	\$ 2,863	\$ 16,208	\$ 4,827	\$ 13,256

### Quarterly Information Trends

The Company has had no revenue from mining operations to date. The Company has selected an accounting policy to capitalize all of its exploration and evaluation activities. Accordingly, the statement of net loss and comprehensive loss is comprised of corporate head office costs and foreign currency fluctuations on the Company's cash balances. Major variations in costs are summarized below:

- Exploration and evaluation asset additions can vary from quarter to quarter depending on the priorities of

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the exploration program.

- Stock based compensation expense can vary from quarter to quarter depending on the timing and amount of stock option awards, including higher expense where a portion of the grant vests immediately.
- Foreign currency fluctuations can result in a gain or loss for the quarter, primarily as a result of the Company's cash balances, largely denominated in Canadian dollars.

### Exploration and Evaluation Assets

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During the three months ended March 31, 2018 the Company capitalized \$7,209 (2017 – \$9,795) related to drilling costs. The Company drilled a total of 75,355 feet (22,968 metres) during the three months ended March 31, 2018 compared to 118,535 feet (36,125 metres) drilled during the same period of fiscal 2017. The Company continues to focus on infill drill holes highlighting the continued potential for resource growth and increased grades to ensure as much of the high-grade results are included in the cut-off for the Feasibility Study as possible, as well as drilling extensions to the northwest and southeast of the Taylor Deposit.

The permitting costs increased to \$912 in the first quarter of 2018 compared to \$393 in the first quarter of 2017, leading to the receipt of three key permits. Permitting costs also include ongoing environmental baseline studies, hydrogeologic studies, tailings and lithologic characterization and air quality permit activities in support of future permitting actions.

In the first quarter of 2018, the Company capitalized \$1,660 related to studies (2017 – \$970), which includes the trade-off studies, metallurgical studies, and consulting fees in connection with the Feasibility Study expected in Q3 2018.

Salaries, benefits, stock based compensation and consulting fees increased to \$873 in the first quarter of 2018 compared to \$326 in the first quarter of 2017. Site services as well as administration, public relations and professional fees increased to \$1,683 and \$1,004 respectively in the first quarter of 2018, compared to \$358 and \$256 in the first quarter of 2017. The increase in these categories primarily reflect additional employees and consultants as well as an increase in site and administrative activities to support the project team to deliver on the necessary work to complete the TSF, WTP and twin exploration decline capital projects as well as the Feasibility Study.

The reclamation and remediation provision represents the estimated costs required to provide restoration and rehabilitation for: past activities on certain acquired patented mining claims, estimated closure and post-closure costs related to the tailings storage facility, long-term operations and maintenance of the water treatment plant, and ongoing activities on the project site. Reclamation and remediation increased to \$3,332 in the first quarter of 2018 compared to \$97 in the first quarter of 2017, primarily in connection with the APP and AZPDES permits issued by the Arizona Department of Environmental Quality ("ADEQ") in January, 2018.

During the three months ended March 31, 2018, the company capitalized \$1,233 (2017 – \$301) related to mineral property and other acquisition costs, with the acquisition of two patented mining claims. As at March 31, 2018, the Hermosa Project is comprised of 30 patented mining claims totaling approximately 563 acres (2017 – 28 patented mining claims approximately 533 acres) with the surface and mineral rights owned fee simple. The patented land is surrounded by 1,113 unpatented lode mining claims approximately 19,115 acres (2017 – 1,104 unpatented lode mining claims approximately 19,012 acres).

### Expenses

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The Company incurred stock based compensation expense, a non-cash cost, of \$1,392 for the three months ended March 31, 2018, compared to \$442 for the same period of previous year reflecting the impact of an overall increase in outstanding stock options, with an additional grant of options to employees and directors during Q1 2018.

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The Company incurred general and administration expenses of \$473 for the three months ended March 31, 2018, compared to \$298 in the same period of previous year. The increase in general and administrative expenses is consistent with the increased overall corporate activity to support bringing the Taylor Deposit to the feasibility stage.

The foreign exchange gain of \$318 during three months ended March 31, 2018 compares to a foreign exchange loss of \$160 during the same period of fiscal 2017. The gain reflects the impact of the strengthening of the US dollar since December 31, 2017 on the Canadian parent's US dollar cash balances.

Other comprehensive loss of \$1,263 for the three months ended March 31, 2018 represents the loss on the translation of the parent company's Canadian dollar financial statements into US dollars for presentation purposes and compares to a gain of \$294 for the three months ended March 31, 2017. The loss reflects the impact of the weakening of the Canadian dollar on the net assets of the Company denominated in Canadian dollars since December 31, 2017. The Company holds most of its cash and cash equivalents balance in Canadian dollars.

### Liquidity and Capital Resources

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At March 31, 2018, the Company had cash and cash equivalents of \$41,257 compared to \$61,101 at December 31, 2017.

Cash outflow from operating activities was \$710 in the three months ended March 31, 2018 and compares to a use of cash of \$1,025 in the same period for 2017. This outflow primarily reflects corporate head office expenditures.

Cash inflow from financing activities was \$3,498 for the three months ended March 31, 2018, compared to the cash provided from financing activities of \$32 during the same period of fiscal 2017. The inflow in the first quarter of 2018 primarily relates to the South32 exercising its top-up right (as described under "Financing and Corporate Activities" earlier in this MD&A), and a deferred rental contribution of \$537.

Investing activities for the three months ended March 31, 2018 used cash of \$21,692 compared to \$12,587 in the same period of fiscal 2017. The increase in cash used for investing activities during the first quarter of 2018 reflects the increased spend on property, plant and equipment, primarily due to the construction of the TSF, WTP, and twin exploration decline portal preparation, along with an increase in additions to exploration an evaluation expenditures related to permitting, studies and site services, offset by lower drilling activity.

At March 31, 2018 the Company had contractual cash flow commitments as follows:

	< 1 Year	1-3 Years	3-5 Years	> 5 Years	Total
Accounts payable and accrued liabilities	\$ 9,946	\$ -	\$ -	\$ -	\$ 9,946
Deferred rental contribution	545	-	-	-	545
Operating lease obligations	590	1,001	239	-	1,830
Construction in progress	2,002	-	-	-	2,002
Other	84	252	168	-	504
	\$ 13,167	\$ 1,253	\$ 407	\$ -	\$ 14,827

The deferred rental contribution represents the unamortized balance of amounts received from companies previously related through certain common directors and management with respect to the provisions of agreements governing certain shared operating leases. The amount is being amortized to general and administration expense over the remaining term of the leases.

### Share Capital Information

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As at May 10, 2018, the Company had an unlimited number of common shares authorized for issuance with

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313,129,150 issued and outstanding and an unlimited number of preferred shares authorized with nil outstanding. Also at May 10, 2018, the Company had outstanding 19,169,834 stock options held by directors, officers, employees and consultants of the Company and 12,902,566 warrants issued in connection with private placements and settlement of loans to the Company.

### Proposed Transactions

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

### Off-Balance Sheet Arrangements

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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

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The Company shares office space, equipment, personnel and various administrative services with other companies (NewCastle Gold Ltd. until December 22, 2017, Titan Mining Corporation and Armor Minerals Inc.) related by virtue of certain directors and management in common. These services have been mainly provided through a management company equally owned by the related companies. Costs incurred by the management company are allocated between the related companies based on time incurred and use of services and are charged at cost.

The Company was charged for the following with respect to these arrangements in the three months ended March 31, 2018 and 2017:

		2018		2017
Salaries and benefits	\$	398	\$	510
General and administration		239		134
	\$	637	\$	644

In addition, for the three months ended March 31, 2018, the Company charged out \$nil (March 31, 2017 – \$2) and at March 31, 2018, prepaids and other includes \$70 (December 31, 2017 – \$53) with respect to these arrangements.

Other assets of \$446 (December 31, 2017 – \$459) relate to the Company's share of jointly owned assets (primarily security deposits, leasehold improvements, and furniture and equipment) held by the management company.

### Critical Accounting Policies and Estimates

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The Company's accounting policies are described in its consolidated financial statements for the year ended December 31, 2017 with the exception of those related to the adoption of IFRS 9, *Financial Instruments: Classification and Measurement* ("IFRS 9") which are discussed further below.

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 re-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. Information about critical judgements and estimates in applying accounting policies that have the most significant effect on amounts recognized in the

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consolidated financial statements are as follows:

- a) Exploration and evaluation assets impairment estimation – The application of the Company's accounting policy for impairment of exploration and evaluation assets requires judgement to determine whether indicators of impairment exist. Factors that the Company considers in its impairment indicator assessments include whether: the period for which the Company has the right to explore has expired or will expire in the future, and is not expected to be renewed; substantive expenditures on further exploration for and evaluation of mineral resources in the specific area are neither budgeted or planned; exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources; and sufficient data exists to indicate that, although a development of in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale. Management has assessed impairment indicators on the Company's exploration and evaluation assets and has concluded that no impairment indicators exist as of March 31, 2018.
- b) Reclamation and remediation provision – The present value of estimated future legal or constructive obligations to remediate the Company's project sites is based on a number of assumptions. These 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 recorded provision and related asset.

### Changes in Accounting Policies

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The accounting policies applied in the preparation of the condensed consolidated interim financial statements are consistent with those applied and disclosed in the Company's audited financial statements for year ended December 31, 2017, except for the adoption, on January 1, 2018, of IFRS 9.

IFRS 9 uses a single approach to determine whether a financial asset is classified and measured at amortized cost or fair value, replacing the multiple rules in IAS 39, *Financial Instruments; Recognition and Measurement* ("IAS 39"). The approach in IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities is unchanged.

On adoption of IFRS 9, there were no changes to the Company's recognition or measurement of financial assets or financial liabilities and no restatement of prior period financial information was required.

The following are the Company's new accounting policy for financial assets under IFRS 9:

#### *Financial assets*

Financial assets are classified at initial recognition as either: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income ("FVTOCI") or at amortized cost. The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows.

For those assets measured at fair value, gains and losses will either be recorded in earnings or loss or OCI. For investments in debt securities, the classification will depend on the business model for the instrument held. For investments in equity instruments that are not held for trading, the classification will depend on whether the Company has made an irrevocable election at initial recognition to account for the investment as FVTOCI.

On initial recognition, all financial assets are measured at fair value, plus, in the case of those at amortized cost, directly attributable transaction costs. Financial assets containing embedded derivatives are considered in their entirety when assessing the classification of the asset.

The criteria for classification of financial assets is as follows:

*Financial assets at amortized cost:* A financial asset is measured at amortized cost if the objective of the business model is to hold the financial asset for the collection of contractual cash flows, and the asset's contractual cash

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flow are comprised solely of payment of principal and interest. These financial assets are classified as current asset or non-current assets based on their maturity date, and are initially recognized at fair value and subsequently carried at amortized cost less any impairment.

*Financial assets at FVTOCI:* Financial assets that are held for collection of contractual cash flows and for selling of the financial assets, where the assets' cash flows represent sole payment of principal and interest are measured as FVTOCI. For these instruments, changes in value are recorded in OCI except for interest income, impairment gains and losses and foreign exchange, which are recorded in earnings or loss.

Investments in equity instruments may also, at the Company's election, be classified as FVTOCI. For investments in equity instruments at FVTOCI, there is no subsequent reclassification of fair value gains and losses to earnings or loss following the disposition or de-recognition of these assets.

*Financial assets at FVTPL:* Assets that do not meet the criteria to be held at amortized cost or at FVTOCI are measured as FVTPL. Financial assets carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the statement of net loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets held at FVTPL are included in the statement of net loss in the period.

*Impairment of financial assets at amortized cost:* The Company recognizes a loss allowance for expected credit losses on financial assets measured at amortized cost.

The following table summarizes the original measurement under IAS 39 and the subsequent measurement under IFRS 9 of the Company's financial assets and financial liabilities:

	Measurement Category	
	Original (IAS 39)	New (IFRS 9)
Cash and cash equivalents	Amortized cost	Amortized cost
Restricted cash	Amortized cost	Amortized cost
Accounts payable and accrued liabilities	Amortized cost	Amortized cost

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 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 the balance sheets. 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. The Company is currently assessing the effect of this standard on its financial statements. As at March 31, 2018, 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.

### Financial Instruments

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The carrying values of the Company's financial instruments approximate their fair values due to their short-term nature.

### Financial risk management

The Company is exposed to various financial instrument risks. The impact of exposure to these risks is managed where possible. These risks include market risk, liquidity risk and credit risk.

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

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### 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 in US dollars for exploration 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 are used to fund future exploration expenditures on the Hermosa property, maintenance of US dollar cash provides more certainty in terms of the funds available for that purpose.

At March 31, 2018, the Company is exposed to currency risk through the following assets and liabilities denominated in US dollars held by the Canadian parent company:

		March 31, 2018		December 31, 2017
Cash and cash equivalents	\$	3,657	\$	113
Accounts payable and accrued liabilities		(32)		(22)
	\$	3,625	\$	91

The Company is also exposed to currency risk through other comprehensive income as the C\$52,179 at March 31, 2018 (December 31, 2017 – C\$72,543) net assets (mainly cash) of the parent company are measured in Canadian dollars. As at March 31, 2018, based on the above net exposures a 10% change in the Canadian-US dollar exchange rate would impact the Company's earnings by approximately \$357 (December 31, 2017 – \$2) and comprehensive income (loss) by \$4,047 (December 31, 2017 – \$5,783).

#### *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, for example, metal price 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. The maximum exposure to credit risk is equal to the carrying value of the financial assets.

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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**

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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, 2017, which are available on the Company's website at [www.arizonamining.com](http://www.arizonamining.com) and SEDAR at [www.sedar.com](http://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**

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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**

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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 March 31, 2018.

### **Assays and Quality Assurance/Quality Control**

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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

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(%). 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**

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The QP for the Mineral Resource estimate announced on January 16, 2018 is Dinara Nussipakynova, P.Geo, an employee 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 and compiled by Mr. Chris Kaye, President and Principal Process Engineer of Mine and Quarry Engineering Services Inc., a qualified person as defined by National Instrument 43-101 (NI 43-101). Mr. Kaye has more than 35 years of mineral processing experience and is a Registered Member of the Society for Mining, Metallurgy & Exploration; and a Fellow of the AusImm.

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).