



## MANAGEMENT DISCUSSION AND ANALYSIS

### INTRODUCTION

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The following Management Discussion and Analysis (“MD&A”) of Scorpio Gold Corporation (the “Company” or “Scorpio Gold”) is for the three-month period ended March 31, 2017 and is provided as of May 26, 2017. This MD&A is to be read in conjunction with the most recently issued annual consolidated financial statements for the year ended December 31, 2016 and the condensed interim consolidated financial statements of the Company for the three-month period ended March 31, 2017 which have been prepared in accordance with International Financial Reporting Standards (“IFRS”). These documents are available on the Company’s website ([www.scorpiogold.com](http://www.scorpiogold.com)) and filed on SEDAR ([www.sedar.com](http://www.sedar.com)). All dollar amounts are in US dollars unless otherwise indicated.

Scorpio Gold was incorporated under the Business Corporations Act (British Columbia). The Company is a reporting issuer in the provinces of British Columbia and Alberta. Scorpio Gold is listed on the TSX Venture Exchange (the “TSX-V”) under the trading symbol SGN. The Company and its subsidiaries conduct mining exploitation, exploration and development on mining properties, in the United States.

The Company’s condensed interim consolidated financial statements have been prepared on the going concern basis which assumes that the Company will continue to be able to meet its liabilities as they fall due for the foreseeable future.

Based on the Company’s current mine plan, the Company anticipates mining at Mineral Ridge through to August 2017, after which there will be residual but diminishing gold recoveries from the leach pads. As a result, the Company’s revenues from operations will be adversely affected, and the Company will be increasingly required to fund operations from its available cash. In addition, \$6.0 million principal of the Company’s long-term debt matures in August 2018. In light of the current mine plan, the Company does not expect that it will be able to generate sufficient cash flows to settle its long-term debt without it being refinanced. The Company is currently evaluating various business alternatives, which involve refinancing its long-term debt and/or raising financing through an equity financing or through other types of financing. Also, the Company could continue mining beyond its current mine plan at Mineral Ridge after receiving approval of its amendment to the revised Plan of Operations and/or following positive results from its exploration efforts provided that, in the Company’s opinion, it is economically viable to do so. The successful completion of a refinancing of the Company’s debt or raising financing through an equity financing or through other types of financing, obtaining operating permits and economic viability of any future mining and the ability to identify future profitable business operations beyond the current mine plan is not entirely within the control of the Company. These factors create significant doubt and material uncertainty over the Company’s ability to continue as a going concern in the foreseeable future.

**HIGHLIGHTS FOR THE FIRST QUARTER (“Q1”) ENDED MARCH 31, 2017**

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- 5,741 ounces of gold were produced at the Mineral Ridge mine during Q1 of 2017, compared to 8,508 ounces during Q1 of 2016.
- Revenue of \$9.9 million, compared to \$9.4 million during Q1 of 2016.
- Total cash cost per ounce of gold sold<sup>(1)</sup> of \$876 compared to \$801 during Q1 of 2016.
- Mine operating earnings of \$2.4 million compared to \$1.9 million during Q1 of 2016.
- Net earnings of close to nil (\$0.00 basic and diluted per share), compared to \$1.1 million (\$0.01<sup>(2)</sup> basic and diluted per share) during Q1 of 2016.
- Adjusted net earnings<sup>(1)</sup> of \$1.5 million (\$0.01 basic and diluted per share) compared to \$1.1 million (\$0.01<sup>(2)</sup> basic and diluted per share) for Q1 of 2016.
- Adjusted EBITDA <sup>(1)</sup> of \$2.1 million (\$0.01 basic and diluted per share) compared to \$1.6 million (\$0.01 basic and diluted per share) during Q1 of 2016.

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<sup>(1)</sup> This is a non-IFRS measure; please see Non-IFRS performance measures section.

<sup>(2)</sup> Please see Equity section.

## **OUTLOOK**

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Based on the Company's updated mine plan, the Company currently anticipates mining of gold at Mineral Ridge through August 2017. Given the Company's short remaining life of mine, it is taking initiatives to extend the life of mine at Mineral Ridge beyond this date through additional drilling to expand its resources, applying for permits to expand and extend current operations of new and existing pits, expanding the heap leach pad, and conducting a drilling program on its leach pad to determine if the leach pad material is amenable for further gold recovery using milling processes, as set out below.

Part of the initiatives being taken by the Company include the submittal of the revised Plan of Operations in late September 2016. This amendment, when approved by the applicable regulatory authorities will provide authorization for the development and mining of the new Custer and Oromonte surface pits, the Oromonte underground area, expansion of the high wall area of the Drinkwater pit, expansion of the Mary LC pit (Bunkhouse Hill area), the Bunkhouse Hill underground area, expansion of the heap leach pad from 7.6 to 10.3 million tons, provide for an additional 1,000 ton toll milling containment and 1,400 additional acres for exploration drilling. Approval of the amendment to the Plan of Operations is expected in Q4 of 2017.

Due to permitting timelines, the Company anticipates production of gold at Mineral Ridge to be 20 – 25,000 ounces from the Mary LC, Brodie and Bluelite south pits. The Custer pit and other areas for which permitting is outstanding, are not included in this production estimate and will be evaluated for economics of associated mining timelines when permits are received. There can be no assurances that, when the permits are received, production on the Custer Pit and other areas will commence if, in the Company's opinion, it is not economically viable to do so. Total cash costs are expected to be \$1,050 -\$1,100 per ounce of gold sold. This increase in costs is due to the projected lower production level in 2017 while fixed costs remain relatively constant. The 2017 mine plan calls for an average daily production rate of 11,500 tonnes which includes an average of 1,798 tonnes of ore delivered to the crusher on a daily basis over the 226 scheduled mining days.

The Company's proposed exploration activities for 2017 are intended to include geological mapping, geophysical surveying, sampling and drilling activities at Mineral Ridge's Drinkwater pit, North Springs, Tarantula and Eagle Canyon areas and at the Orleans and Goldwedge properties. Also included in the proposed exploration activities is an evaluation of potential unrecovered mineral resources of the Mineral Ridge leach pad with a view to a feasibility study for building a mill facility to recover additional gold.

In light of the current mine plan which anticipates mining at Mineral Ridge through to August 2017, the Company does not expect that it will be able to generate sufficient cash flows to settle its long-term debt, in the amount of \$6.0 million principal, when due in August 2018. The Company is currently evaluating various business alternatives, which involve refinancing its long-term debt and/or raising financing through an equity financing or through other types of financing.

The Company continues to seek and evaluate new projects, mergers and acquisitions that will increase its asset base as well as enhance value for its shareholders.

**KEY OPERATING AND FINANCIAL STATISTICS FOR THE THREE MONTHS ENDED**

	MARCH 31, 2017	MARCH 31, 2016
<b>Mining operations</b>		
<b>Mary LC pit</b>		
Ore tonnes mined	130,446	146,872
Waste tonnes mined	927,786	703,030
<b>Total mined</b>	<b>1,058,232</b>	<b>849,902</b>
Strip ratio	7.1	4.8
<b>Satellite pits</b>		
Ore tonnes mined	7,255	103,252
Waste tonnes mined	67,208	227,056
<b>Total mined</b>	<b>74,463</b>	<b>330,308</b>
Strip ratio	9.3	2.2
<b>Total producing pits</b>		
Ore tonnes mined	137,701	250,124
Waste tonnes mined	994,994	930,086
<b>Total mined</b>	<b>1,132,695</b>	<b>1,180,210</b>
Strip ratio	7.2	3.7
<b>Pits under development</b>		
Ore tonnes mined	178	-
Waste tonnes mined	212,595	55,622
	212,773	55,622
<b>Total mining operations</b>		
Ore tonnes mined	137,879	250,124
Waste tonnes mined	1,207,589	985,708
	1,345,468	1,235,832

	MARCH 31, 2017	MARCH 31, 2016
<b>Processing</b>		
Tonnes processed	<b>138,392</b>	251,587
Gold head grade (grams per tonne)	<b>1.70</b>	1.65
Recoverable gold ounces placed on the leach pad <sup>(1)</sup>	<b>5,175</b>	9,032
Availability <sup>(2)</sup>	<b>31.1%</b>	59.1%
Ounces produced		
Gold	<b>5,741</b>	8,508
Silver	<b>2,854</b>	3,921

<sup>(1)</sup>A weighted average metallurgical recovery factor has been applied to the estimated contained ounces crushed and placed on the leach pad, based on the pits from which the ore was mined.

<sup>(2)</sup>Processing Availability is based on hours of crusher operations versus permitted run time.

	MARCH 31, 2017	MARCH 31, 2016
<b>Financials</b>		
(In thousands of US dollars, except per ounce and per share numbers)	\$	\$
Total cash cost per ounce of gold sold <sup>(1)</sup>	<b>876</b>	801
Ounces sold		
Gold	<b>8,102</b>	8,300
Silver	<b>2,996</b>	4,000
Average price of gold		
London PM fix	<b>1,219</b>	1,183
Realized	<b>1,213</b>	1,129
Net earnings	<b>40</b>	1,079
Basic and diluted net (loss) earnings per share	<b>(0.00)</b>	0.01 <sup>(2)</sup>
Adjusted net earnings <sup>(1)</sup>	<b>1,461</b>	1,116
Basic and diluted adjusted net earnings per share <sup>(1)</sup>	<b>0.01</b>	0.01 <sup>(2)</sup>
Adjusted EBITDA <sup>(1)</sup>	<b>2,075</b>	1,569
Basic and diluted adjusted EBITDA per share <sup>(1)</sup>	<b>0.01</b>	0.01
Cash flow from (used by) operating activities	<b>3,449</b>	(366)

<sup>(1)</sup> This is a non-IFRS performance measure; please see Non-IFRS performance measures section.

<sup>(2)</sup> Please see Equity section.

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## MINERAL PROPERTIES

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The Company's Chairman, Mr. Peter J. Hawley, is the Company's qualified person under National Instrument 43-101-*Standards of Disclosure for Mineral Projects* ("NI 43-101"), and has reviewed and approved the following technical disclosure.

### **Mineral Ridge Property, Nevada**

On March 10, 2010, the Company acquired a 70% interest in the Mineral Ridge project and related assets, which was a former producing gold mine in Nevada. Mining by the Company commenced in June 2011 and Mineral Ridge entered commercial production in January 2012. The Company is currently receiving 70% of cash flows generated at the Mineral Ridge project in accordance with the project agreements.

### **General**

The Mineral Ridge Property is located about 56 km southwest of Tonopah, Nevada. The property consists of several consolidated claim blocks and historic mining operations dating from the 1860's through to the 1940's. Open pit mining began again in the area in 1989, primarily in the Drinkwater open pit. Gold mineralization is hosted in the lowest unit of the Wyman Limestone formation, typically referred to as the "Mary Limestone". Historic mining properties consolidated by the Mineral Ridge Property include the Drinkwater, Mary and Brodie underground mines. The areas surrounding these properties and the smaller satellite deposits nearby are the focus of current production plans by both open pit and possibly underground mining. The Mineral Ridge Property had historically produced almost 630,000 ounces of gold before its acquisition by the Company, including ~168,000 ounces from open pit and ~462,000 ounces from underground mining operations. The property is currently bonded and permitted for heap leach gold processing and production. The property hosts multiple gold bearing structures, veins and bodies and features an existing infrastructure consisting of roadways, power grid, heap leach pad, crushing circuit, gold Adsorption/Desorption/Recovery ("ADR") plant, water supply, maintenance shop, refueling and storage facilities and administrative buildings.

### **Resource and reserve estimates**

In July of 2014, the Company announced results of an updated Life of Mine Plan ("LOM") completed for the Drinkwater, Mary, Mary LC, Brodie, Bluelite, Solberry, Wedge and Oromonte deposits at the 70% owned Mineral Ridge Property, located in Nevada.

The updated mine plan, which included an updated mineral reserve estimate, projected mine life for the Mineral Ridge project extending into the 3rd quarter of 2016, or approximately 29 months as of the end of March 2014, the date of the LOM update. Average ore production over this time frame was estimated at 73,700 tons per month ("t/m") based on total estimated Probable Mineral Reserves of 2.1 million tons ("Mt") at a grade of 0.061 ounces per ton ("oz/ton") gold (131,190 oz contained gold) within estimated Indicated Mineral Resources of 2.7 Mt at a grade of 0.059 oz/ton (160,300 oz contained gold). Expansion and infill drilling of the existing pits has continued since the March 31, 2014 cut-off date for the LOM and has, as expected, added to the resource base, which may potentially support further conversion from mineral resources to mineral reserves.

This LOM is inclusive of the Drinkwater, Mary and Mary LC deposits and the five satellite deposits, Brodie, Wedge, Bluelite, Solberry and Oromonte. An Inferred Mineral Resource estimate for the Brodie, Wedge, Bluelite, and Solberry deposits, dated June 1, 2013, was reported in the Company's August 16, 2013 news release. Subsequent development drilling resulted in an upgrade of the previous resource estimate to include Indicated Mineral Resources containing Probable Mineral Reserves. The updated Indicated Mineral Resource estimate dated March 31, 2014 for the five satellite deposits is 625,100 tons at a grade of 0.061 oz/ton gold (38,360 oz contained gold), which includes Probable Mineral Reserves for four of the deposits of 463,880 tons at a grade of 0.065 oz/ton gold (30,050 oz contained gold) and was reported in the Company's new release dated July 21, 2014.

The Mineral Resource and Mineral Reserve estimates in the LOM were prepared by Jim Ashton, P.E., a former employee of the Company and a qualified person pursuant to NI 43-101 and audited by independent qualified person, Mr. Randy Martin, RM-SME of Welsh Hagen Associates. The LOM is an independent technical report

supporting the disclosure of the Mineral Resource and Mineral Reserve estimate, and was prepared by Welsh Hagen Associates and filed on SEDAR on September 3, 2014.

See the Company's news release dated July 21, 2014 for further details of the LOM and the mineral resource and mineral reserve estimates contained therein.

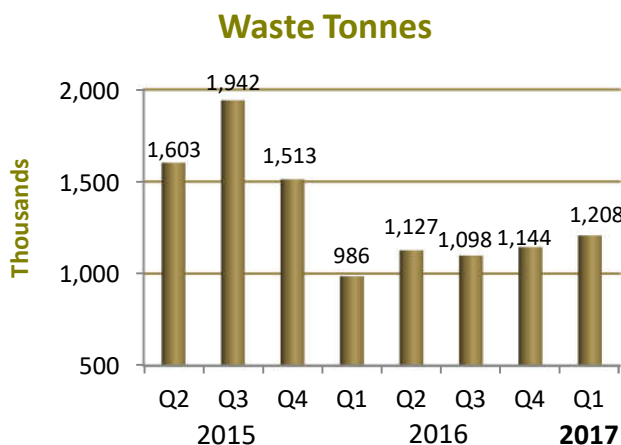
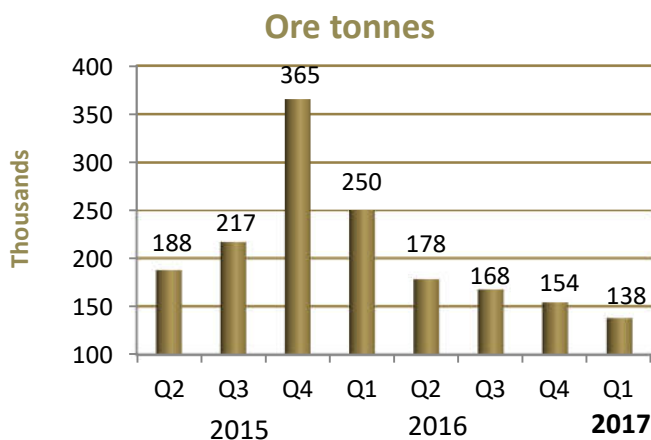
Since the July 2014 mineral resource and reserve estimates the Company has developed an updated mine plan which includes the Mary LC, Bluelite, Solberry, Missouri, Brodie (phase A, phase B and Southeast) and Bluelite South pits. To date, the Drinkwater, Bluelite, Missouri, Solberry, Brodie phase A and Wedge pit resources have been depleted. Scheduled mining continues in the Mary LC, Brodie SE, Brodie Phase B and Bluelite South pits which currently extend mine life through August of 2017.

Permitting is ongoing for mining in the Custer expansion and the Oromonte pit as well as the Drinkwater High Wall area and further expansion of the Mary LC pit Bunkhouse Extension. Once the permit is received for these areas, the Company will evaluate the economics of mining these areas. There can be no assurance that, when the permits are received, that production on these areas will commence if it is not economically viable to do so.

**Mining activities**

Total mine production during the first quarter of 2017 was 1,345,468 tonnes compared to 1,235,832 tonnes mined in Q1 2016. During Q1 of 2017, mine production was composed of 137,879 tonnes of ore and 1,207,589 tonnes of waste compared to 250,124 tonnes of ore and 985,708 tonnes of waste during the same period in 2016. The ore was mined from the Mary LC pit, Brodie SE pit and the Bluelite South pit. Compared to 2016, the 2017 mine production was lower for ore tonnes and higher for waste due to the higher strip ratios. The Mary LC pit contributed 59% of the ore mined in 2016 as compared to 95% in 2017. The Satellite pits contributed 41% of the ore mined in 2016 as compared to 5% contribution in 2017. Based on the current mining model the strip ratio is expected to improve throughout the remaining mine life.

The average tonnes per day (“TPD”) production in for the first quarter of 2017 was 17,802, compared to 19,310 TPD during Q1 2016. Total mine production during Q1 of 2017 was 9% higher than Q1 of 2016 because of shorter waste hauls and a higher strip ratio. Mining operations occur on a one-shift per day, five days a week schedule with drilling operations working on a seven day per week schedule.



**Mine reconciliation:**

	Through Bench	Ore mined variance compare to Model	Gold grade variance compare to Model	Contained ounces variance compare to Model	Dilution
Mary LC	6390	31.3%	-20.0%	5.5%	16.1%
Bluelite South	7190	100.0%	100.0%	100.0%	2.0%
Brodie SE	7060	98.2%	113.9%	272.0%	6.1%

Due mainly to higher dilution occurring during the mining process, an overall higher tonnage of ore was delivered to be crushed and placed on the heap leach pad, at a lower average grade than was predicted. As reported above, approximately 95% of the ore delivered to the crusher during Q1 2017 was mined from the Mary LC pit. The negative variances indicated for the Mary LC deposit are attributable to the higher than anticipated dilution, the impact of historic underground mining, and the spacing of the development drill holes. This was somewhat offset by the favorable impact of lower dilution and higher grades for ore mined in the Bluelite South and Brodie SE pits.

**Operations activities**

Total estimated ore crushed and placed on the leach pad at Mineral Ridge during Q1 of 2017 was 138,392 tonnes compared to 250,124 tonnes for Q1 of 2016. This reduction is a direct function of the lower volume of ore mined during Q1 of 2017 compared to Q1 of 2016. The average crusher throughput per day was 1,538 tonnes during Q1 of 2017 compared to 2,765 tonnes during Q1 of 2016. The average head grade was 1.70 g/t (0.050 oz/ton) gold during Q1 of 2017 compared to 1.65 g/t (0.048 oz/ton) gold during Q1 of 2016.

The availability of the crushing facility for the first quarter of 2017 was 31.1 % (Q1 of 2016, 59.1%). Processing availability is based on hours of crusher operations versus permitted run time. The applicable air quality permit allows for a crusher throughput rate of 363 tonnes per hour and 24 hours of operation per day. Availability of ore to be processed is one of the important factors impacting calculation of availability.

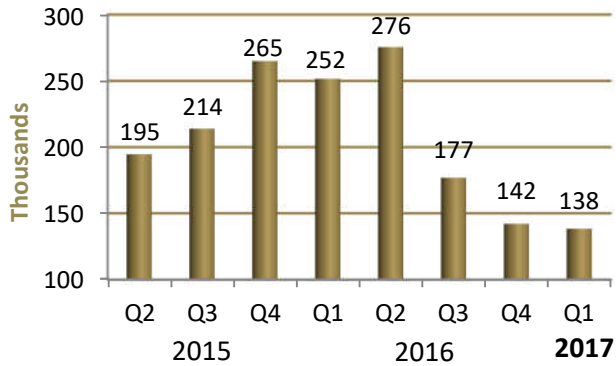
During Q1 of 2017, application of cyanide leach solution to the freshly stacked ore on the leach pad was 347 million gallons (Q1 of 2016 – 365 million gallons). Also during Q1 of 2017, 304 million gallons (Q1 of 2016 – 310 million gallons) of pregnant, gold-bearing solution were processed through the ADR plant's carbon column circuit at an average grade of 0.16 ppm (Q1 of 2016 - 0.26 ppm) gold and 0.14 ppm (Q1 of 2016 - 0.17 ppm) silver. Calculated efficiency for recovery of precious metals from solution processed through the ADR plant for Q1 of 2017 was 89.1% (Q1 of 2016 – 90.8%) for gold and 56% (Q1 of 2016 – 61.6%) for silver. The efficiency of this circuit is directly affected by the activity of the activated carbon utilized for recovery of precious metals from solution as well as the flow rate of the solution being pumped through the columns. The average flow rate for Q1 of 2017 was 2,362 gallons per minute ("gpm"), compared to 2,390 gpm in Q1 of 2016. This circuit is a closed loop circuit so any precious metals that are not recovered in the first pass will re-circulate and should eventually be recovered. The loaded carbon from this circuit is shipped off-site for custom stripping of the precious metals and upon completion of stripping, the carbon is returned to the site for re-use.

For Q1 of 2017, the Company produced 5,741 ounces of gold, a 33% decrease over the 8,508 ounces produced during Q1 of 2016 and 2,854 ounces of silver, a 27% decrease over the 3,921 ounces produced during Q1 of 2016. The decrease in Q1 of 2017 gold production was influenced by the following:

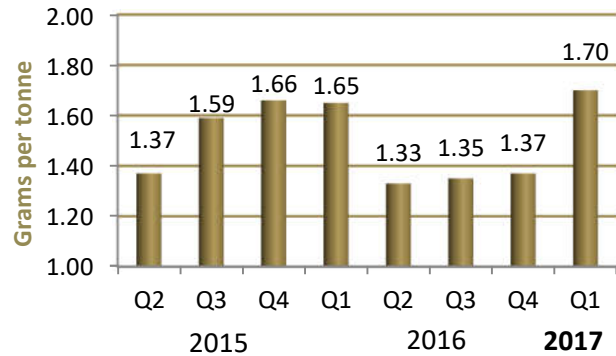
- Ore tonnes mined decreased by 45% from 250,124 in Q1 of 2016 to 137,879 in Q1 of 2017.
- Contained ounces placed decreased by 43%, from 9,032 in Q1 of 2016 to 5,175 in Q1 of 2017.
- Average grades increased by 3% from 1.65 in Q1 of 2016 to 1.70 in Q1 of 2017 and favorable heap leach pad recoveries somewhat offset the impact of reduced ounces placed during the quarter.



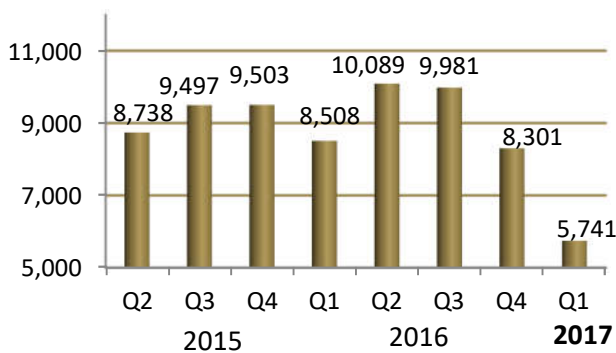
**Ore tonnes crushed**



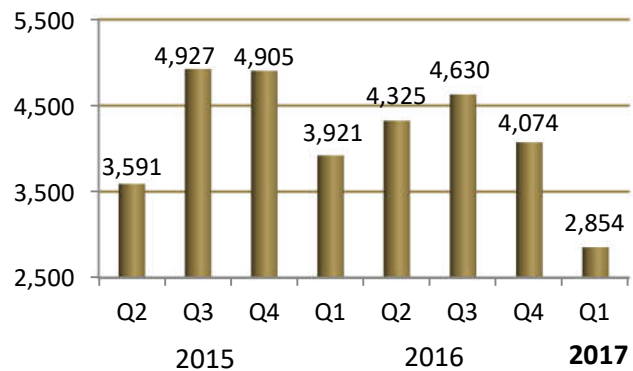
**Average head grade**



**Gold production**



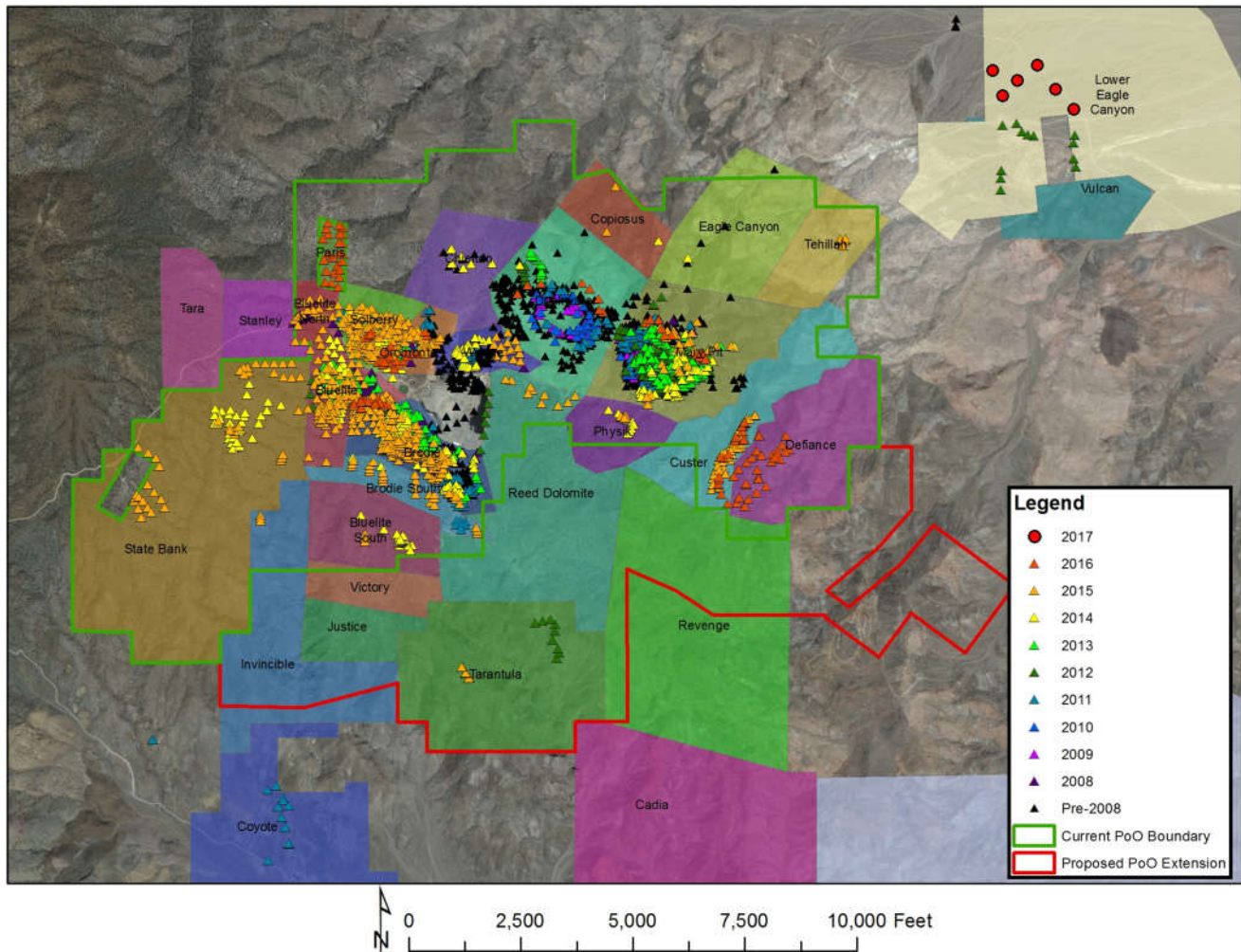
**Silver production**



Further information on the Mineral Ridge project is available at SEDAR ([www.sedar.com](http://www.sedar.com)) under the Company's profile, including the LOM, which is a NI 43-101 technical report entitled "Mineral Ridge Project, Esmeralda County, Nevada, USA, NI 43-101 Technical Report on Life of Mine Plan." by AMEC E&C Services Inc., dated July 15, 2012 and the "Amended and Restated NI 43-101 Technical Report on The Mineral Ridge Satellite Deposits, Esmeralda County, Nevada USA" by Telesito Nevada, Inc., a Welsh Hagen Company, dated April 4, 2014, and on the updated life of mine plan for the Drinkwater, Mary/LC, Brodie, Bluelite, Solberry, Wedge and Oromonte deposits, entitled "NI 43-101 Technical Report on the Mineral Ridge Project Life of Mine Plan, Esmeralda County, Nevada, USA", by Welsh Hagen Associates with an effective date of August 29, 2014.

**Current Exploration / Permitting**

**Mineral Ridge Drilling**



During Q1 2017, the Company staked 50 new un-patented claims in the Vanderbilt area, which is southeast of the Mineral Ridge claim block. As of March 31, 2017, the Mineral Ridge Gold, LLC project’s total land package consists of 678 unpatented mining lode claims, 1 unpatented mill site claim, and 60 patented mining claims covering a total of 12,897 acres. Other fee lands and town lots in Silver Peak add an additional 123 acres, for a total land package of 13,879 acres.

Proposed exploration activities for Mineral Ridge in 2017 include:

**Heap Leach Pad** – The heap leach pad at Mineral Ridge is being evaluated for its mineralization potential as there are approximately 7 million dry tons of mineralization with an estimated 125,000 ounces of unrecovered gold remaining. The Company has hired Mine Technical Services Ltd. (MTS) to perform a NI 43-101 compliant mineral resource review followed by a feasibility study for a milling circuit. During March and April, the heap leach pad was drilled with 34 sonic drill holes totaling 1,119 meters. The drilling samples obtained are currently undergoing metallurgical testing to confirm the mineralization and associated recoveries. If the results from this testing are positive, the Company plans to have MTS perform additional work in order to evaluate the feasibility of building a milling facility at Mineral Ridge.

**Drinkwater Pit** – RC infill drilling in the existing Drinkwater pit is scheduled to occur in Q2 2017 to further define potential mineable resources.

**Eagle Canyon** – The Eagle Canyon target is down dip and east of the Drinkwater and Mary pits. The Eagle Canyon exploration budget consists of geologic mapping and trenching. An in-house geophysical survey may be conducted to enhance our existing geophysics map in this area. A limited six hole, sonic drill program totaling 305 feet was completed in April. Samples are being prepared and awaiting analysis.

**North Springs** – The North Springs property consists of 2,421 acres and includes 129 lode claims that were staked by the Company in January 2013. The North Springs exploration budget includes geological mapping, an in-house geophysical survey and limited sampling to generate drill targets. This work is planned to occur during the second half of 2017.

**Tarantula** – The Tarantula area is inside the Mineral Ridge claim boundary and past drilling in this area was completed from existing roads to minimize disturbance. The Tarantula exploration budget consists of geological mapping, geophysical surveying to generate an effective drill plan to this near mine target. This work is planned to begin late in Q2 and to be completed during Q4 of 2017.

As of March 31, 2017, the remaining capacity on the leach pad was approximately 428,500 dry tons. The Company has developed a two-phased expansion plan for the heap leach pad, including a 1.8 million ton (“MT”) Phase I expansion to the western side of the existing facility, as well as a 0.9 MT Phase II expansion to the east, for a total increased capacity of approximately 2.7 MT. The current permitted capacity of the pad is 7.6 MT, which could be increased to a total of 10.3 MT with the construction of both phases. This expansion plan is included in the recent amendment to the Mineral Ridge Plan of Operations submitted to the BLM and NDEP-BMRR on September 29, 2016. This amendment will also provide authorization for the development and mining of the Custer and Oromonte surface pits, the Oromonte underground area, expansion of the high wall area of the Drinkwater pit, expansion of the Mary LC pit (Bunkhouse Hill area), the Bunkhouse Hill underground area, an additional 1,000 ton toll milling containment and 1,400 additional acres for exploration drilling. Approval of the amendment to the Plan of Operations is expected in Q4 of 2017.

### **Other properties**

#### **Goldwedge**

In December 2012, the Company acquired a 100% interest in the Goldwedge property from Royal Standard Minerals Inc.

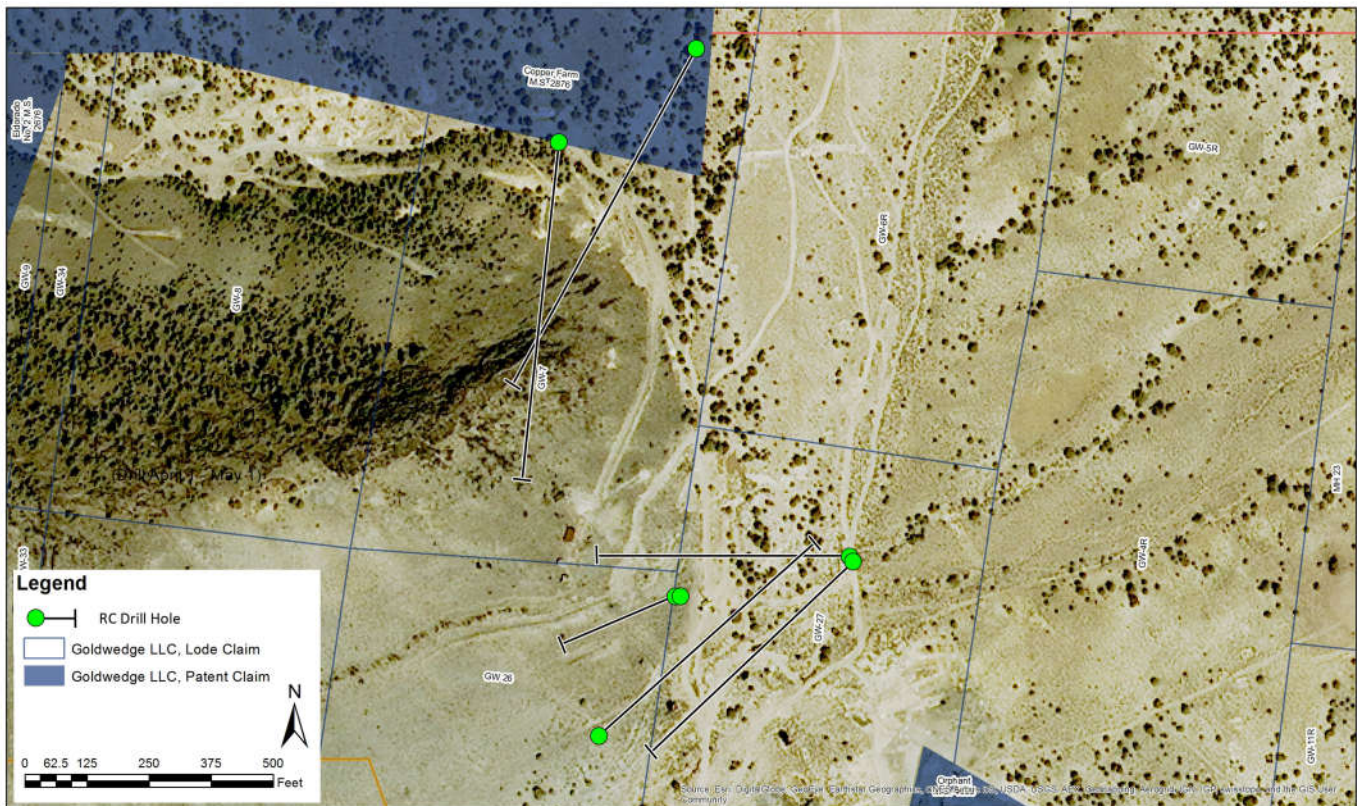
The Goldwedge property, including the Goldwedge mine and a processing plant, is located approximately 55 kilometers northeast of the town of Tonopah, in west-central Nevada, in a region of numerous historic and active gold mines.

In February 2017, the Company signed a letter of intent with Lode-Star Mining Inc. (“Lode-Star”) for a custom toll milling agreement. The companies completed permitting requirements to proceed with a test related to the potential toll milling arrangement. Prior to processing the test lot of Lode-Star’s mineralized material through the Goldwedge mill, it was necessary to rehabilitate the mill crushing system. The modifications began in Q1 of 2017 and were completed in April of 2017 and Lode-Star’s test material was milled in early May of 2017. The coarse gold component of Lode-Star’s material was recovered by the gravity circuit. Further testing will be conducted on the tailings to confirm recovery rates and evaluate the potential economics of shipping tailings to the Mineral Ridge heap leach operation for final recovery of cyanide-leachable precious metals. When completed, this analysis will also provide the baselines for metallurgical recoveries and mill throughput data to support Lode Star’s mine permitting with the NDEP. A definitive toll milling agreement will require completion of a cost analysis and other operational details which are expected to be concluded upon completion of the testing. Effective July 28, 2015, the Goldwedge mill facilities were placed on care and maintenance and the facility can be restarted on short notice.

On June 1, 2016, a Surface Exploration Plan of Operations for a 50-hole drilling program at Goldwedge was approved by the U.S. Forest Service. Proposed exploration activities for the Goldwedge property include:

- Phase I drilling of the Goldwedge property was completed in May 2017. The drilling consisted of 7 RC holes (2,350 meters) near existing underground workings designed to test down trend potential. The purpose of this drilling program is to test the down dip continuation of mineralization within the favorable host rock in the Reliance fault zone. Assays from this drilling program are pending. If successful, the results of this phase of drilling will be used to plan a Phase II drill program to add additional mineralized material that can provide feed to the properties permitted milling circuit. Phase I also includes geological mapping and soil sampling outside of existing workings.

**Goldwedge 2017 Phase I Drilling**



- A 12 hole (1,500 ft.) scout drilling program for the Keystone/Jumbo area is intended to follow-up on soil sampling work completed in 2016. The Keystone/Jumbo is located 3 miles south-east of the main Goldwedge claim block. It consists of 851 acres and includes 42 lode claims. This spring the district U.S. Forest Service has required an archeologic study of this area and should allow drilling to begin in the second half of 2017.

**Orléans**

The Company staked a new exploration target in 2016, named Orléans, which is located several miles to the northwest of the Mineral Ridge project. The claims are 100% owned by Scorpio Gold. The Orléans property consists of 330 acres and includes 16 lode claims. The Orléans target area displays geological and structural controls identical to those seen at Mineral Ridge. Early stage in-house mapping and rock chip sampling began shortly after claim staking was conducted. The 2017 proposed exploration activities include a phased geologic evaluation including rock and soil sampling, mapping, and in-house geophysics. All work is planned to build on successful fieldwork ultimately to direct future drill programs to evaluate down dip continuity and potential.

An aggressive surface sampling program was carried out in March 2017. Ninety rock chip samples of quartz outcrop and dump material were collected. These samples covered quartz outcrop across the central and southern portion of the claim block. This area is where the greatest historic work has been with shafts, adits, prospect pits and dozer trenches. These samples were sent to the ALS laboratory for gold and geochemical analysis. Seven samples came back above 0.034 ppm. The geochemical analysis are being reviewed to identify the type of quartz and the geochemical comparisons with formations from Mineral Ridge. The next phase of work to be conducted will include mapping and specific sampling to determine the source of the initial sample results.

### **Environmental Regulation**

Exploration and development activities are subject to various federal, state and provincial laws and regulations which govern the protection of the environment. These laws and regulations are continually changing and are generally becoming more restrictive.

Scorpio Gold conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. The Company expects to incur expenditures in the future to comply with such laws and regulations.

## RESULTS OF OPERATIONS

The financial information disclosed below, including comparative period information has been prepared in accordance with IFRS and is reported in US dollars. Tabular dollar amounts except per share amounts are reported in thousands of US dollars.

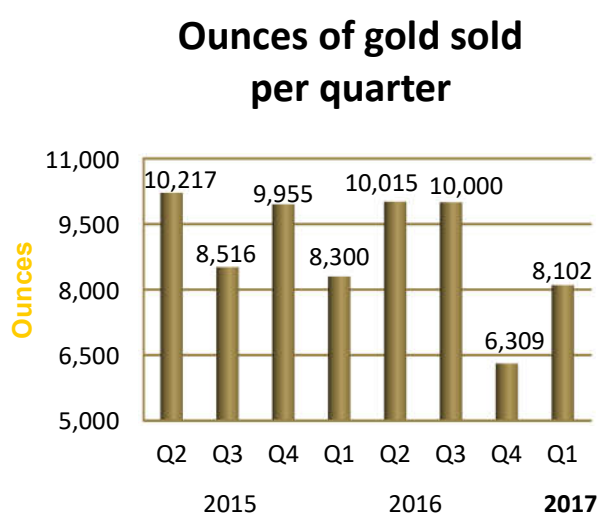
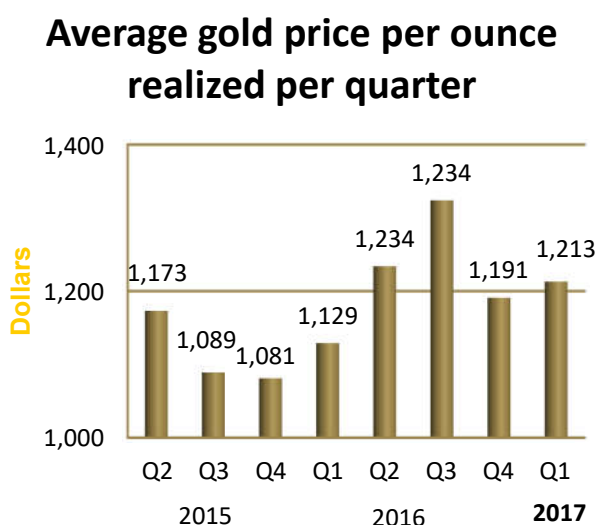
Scorpio Gold reported net earnings and comprehensive income of close to nil for the three months ended March 31, 2017, compared to \$1.1 million for the three months ended March 31, 2016. Net loss and comprehensive income attributable to the shareholders of the Company were \$0.1 million (\$0.00 per share) for the three months ended March 31, 2017, compared to \$0.7 million <sup>(1)</sup> (\$0.01 per share) for the three months ended March 31, 2016. Net earnings and comprehensive income attributable to non-controlling interest was \$0.2 million for the three months ended March 31, 2017, compared to \$0.4 million <sup>(1)</sup> for the three months ended March 31, 2016.

The most important differences between the three-month period ended March 31, 2017 and the three-month period ended March 31, 2016 results are explained below.

### Revenue

During Q1 of 2017, the Company sold 8,102 ounces of gold and 2,996 ounces of silver for total revenue of \$9.9 million. During Q1 of 2016, the Company sold 8,300 ounces of gold and 4,000 ounces of silver for total revenue of \$9.4 million. During Q1 of 2017, gold ounces were sold at an average realized price of \$1,213 (\$1,129 in Q1 of 2016) and silver ounces at an average price of \$17 (\$14 in Q1 of 2016).

The Company's realized average gold price is lower than the average London PM fix mainly because of timing of sales as well as the terms of the Company's gold and silver supply agreement. As of March 31, 2017, the Company had finished goods inventories including 483 ounces of gold available for sale compared to 2,851 ounces of gold as at December 31, 2016.



<sup>(1)</sup> Please see Equity section.

**Mine operating earnings**

Cost of sales, excluding depletion and amortization, was \$7.2 million for the three-month period ended March 31, 2017 compared to \$7.4 million for three-month period ended March 31, 2016. The variance is essentially attributed to the lower number of ounces sold and the variance in cash operating cost per ounce<sup>(1)</sup> described below.

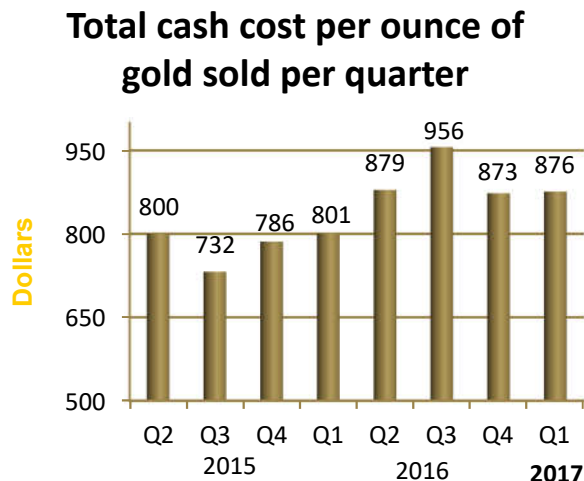
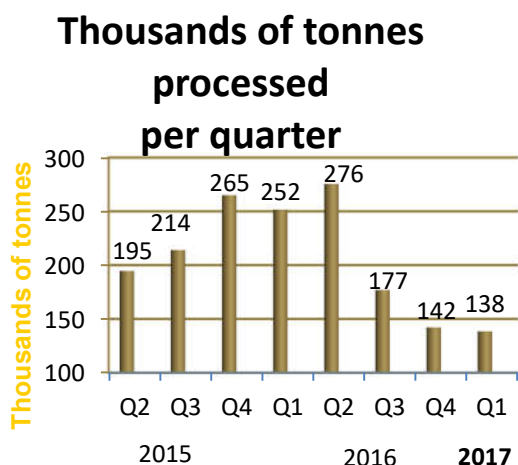
Cash operating cost per gold ounce sold<sup>(1)</sup>, after silver by-product credits, was \$858 for the three-month period ended March 31, 2017, compared to \$788 for the three-month period ended March 31, 2016. Total cash cost per ounce sold<sup>(1)</sup>, after silver by-product credits, was \$876 for the three-month period ended March 31, 2017 compared to \$801 the three-month period ended March 31, 2016. The most significant variances impacting cash cost per ounce sold are:

- Cash cost per ounce during the three-month period ended March 31, 2017 was negatively impacted by the higher strip ratio compared to the same period of 2016.
- During the three-month period ended March 31, 2017, cash cost per ounce was negatively impacted by the lower volume of ore tons mined and processed as compared to same period of 2016.

These variances were partially offset by favorable change in inventories.

Depletion and amortization was \$0.3 million for the three-month period ended March 31, 2017, compared to \$0.1 million for the three-month period ended March 31, 2016. Following the 2016 and 2015 impairment on assets at the Mineral Ridge mine, depletion and amortization recorded in the three-month period ended March 31, 2017 and in the three-month period ended March 31, 2016 is essentially related to capitalized development and stripping activities on producing mining interests during these periods.

Mine operating earnings were therefore \$2.4 million for the three-month period ended March 31, 2017 compared to \$1.9 million for the three-month period ended March 31, 2016.



<sup>(1)</sup> This is a non-IFRS financial performance measure. Please see Non-IFRS performance measures section.

## **Impairment**

### **Mineral Ridge**

The fact the carrying amount of the net assets of the Company was higher than the Company's market capitalization as of March 31, 2017 is an indicator of impairment. In determining the recoverable amount of the Mineral Ridge cash-generating unit ("CGU"), the Company determined the recoverable value using fair value less costs of disposal. Impairment testing is performed using life of mine discounted cash flow projections derived from expected future production, which incorporate reasonable estimates of life of mine, future metal prices, operating costs, capital expenditures and residual values of the assets. The determination of the recoverable value used Level 3 valuation inputs.

Based on its assessment, the Company calculated that a non-cash impairment charge for Mineral Ridge of \$2.7 million would be required, using a discount rate of 9% along with an average gold price assumption of \$1,250 for the rest of 2017. However, since the depreciable amount of the assets, being defined as the net of the carrying amounts and the residual value, amounted to \$1.5 million, the Company recorded a \$1.5 million non-cash impairment charge for Mineral Ridge as at March 31, 2017.

The Company has performed a sensitivity analysis to identify the impact of changes in long-term gold price which is the key assumption that impacts the impairment calculation mentioned above. Using the foregoing impairment testing model, a 10% increase in the gold price assumption and holding all other assumptions constant would reduce the amount of the impairment by \$0.2 million. A 10% decrease in the gold price assumption and holding all other assumptions constant has no impact on the impairment as the residual value of the assets remains constant.

## **General and administrative**

General and administrative expenses totalled \$0.4 million for Q1 of 2017, compared to \$0.3 million for the same period of 2016. The main variance between those periods relates to increased investor relations and project evaluation activities.

## **Income tax expense**

For Q1 of 2017 and Q1 of 2016, current income tax expense which relates to the Nevada net proceeds tax amounted to \$0.1 million.

Due to the different reversal periods of the accounting value and tax value of assets, mainly inventories, there is a future taxable temporary difference in respect of the Nevada net proceeds tax for which the Company recognized a deferred income tax liability and expense. During Q1 of 2017, due to the decrease in gold inventories, the Company recorded a \$0.1 million decrease in deferred income tax liability. During Q1 of 2016, due to the increase in gold inventories, the Company recorded a \$0.1 million increase in deferred income tax liability.

## **LIQUIDITY AND CAPITAL RESOURCES**

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As of March 31, 2017, the Company had \$6.1 million in cash compared to \$3.8 million as of December 31, 2016.

Working capital was \$7.8 million as of March 31, 2017, compared to \$8.4 million as of December 31, 2016.

As discussed in more detail below, under the heading "Restricted Cash and Provision for Litigation", during 2016, Mineral Ridge Gold LLC ("MRG") was required to provide a cash security deposit to a Court in the amount of \$2.3 million. In February 2017, the Company determined that it was in its best interest to settle the case for an amount of US\$1.0 million and end the costly litigation. This settlement was funded during Q1 of 2017 by the above mentioned \$2.3 million cash security deposit and the \$1.3 million balance was returned to the Company.



The Company intends to use its currently available cash balance and cash flow from operations to fund its planned exploration, development, capital expenditures, general corporate expenses and debt repayment obligations. The primary factors that will affect the future financial condition of the Company include the ability to generate positive cash flows, the ability to raise equity financing, or other types of financing as and when required and the level of exploration, development and capital expenditures required to meet its commitments. Moreover, given the short remaining life of the Mineral Ridge mine, the availability of mineralization, the timeliness of the receipt of permits for expanded operations as well as the price of gold will affect the future financial condition of the Company, including its capacity to repay its debt when due.

In light of the current mine plan, the Company anticipates mining at Mineral Ridge through to August 2017, after which there will be residual but diminishing gold recoveries from the leach pads. As a result, the Company's revenues from operations will be adversely affected, and the Company will be increasingly required to fund operations from its available cash. In addition, the Company does not expect that it will be able to generate sufficient cash flows to settle its long-term debt when due without it being refinanced. The Company is currently evaluating various business alternatives, which involve refinancing its long-term debt. The successful completion of a refinancing of the Company's long-term debt, raising financing through an equity financing or through other types of financing and the ability to identify future profitable business operations beyond the mine plan is not entirely within the control of the Company.

## **INVENTORIES**

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Inventories decreased from \$7.1 million as of December 31, 2016 to \$5.7 million as of March 31, 2017.

Metals in process increased by \$0.9 million during the three-month period ended March 31, 2017 mainly resulting from an increase in the number of ounces in process at a higher cost per ounce.

The nature of the heap leaching process used at Mineral Ridge inherently limits the ability to precisely monitor inventory levels on the leach pad. As at March 31, 2017, included in the metal in process inventories, are inventories on the leach pad for a total cost of \$3.2 million (\$1.9 million as at December 31, 2016). The ultimate recovery of mineralization from the heap leach pad will not be known until the total leaching process is concluded.

Finished goods inventory decreased by \$2.2 million during the three-month period ended March 31, 2017 to \$0.5 million, due mainly to the timing of the Company's gold sales.

## **PRODUCING MINING ASSETS**

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Producing mining assets stood at \$6.1 million as of March 31, 2017, compared to \$4.9 million as at December 31, 2016.

During Q1 of 2017, the Company added \$1.2 million to producing mining assets, which mainly consisted of \$0.9 million relating to stripping activities and \$0.2 million of mobile equipment at Mineral Ridge.

Management concluded that the Brodie SE pit commenced commercial production during Q1 of 2017 and therefore its related book value of \$0.3 million was transferred from non-producing mining assets to producing mining assets.

During Q1 of 2017, an amount of \$0.3 million has been recorded as depletion and amortization of producing mining assets.

As a result of the impairment discussed above, the Company recorded a non-cash impairment charge of \$1.0 million related to Mineral Ridge producing mining assets during the three-month period ended March 31, 2017.

## **NON-PRODUCING MINING ASSETS AND OTHER**

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Non-producing mining assets and other stood at \$3.3 million as of March 31, 2017, compared to \$2.6 million as at December 31, 2016.

During Q1 of 2017, the Company added \$0.9 million to non-producing mining assets. Of this amount, \$0.7 million mainly relates to the development of satellite pits and \$0.2 million relates to the construction in progress and heap leach drilling.

As discussed above, management of the Company concluded that the Brodie SE pit commenced commercial production during Q1 of 2017 and therefore its related book value of \$0.3 million was transferred from non-producing mining assets to producing mining assets.

As a result of the impairment discussed above, the Company recorded a non-cash impairment charge of \$0.5 million related to Mineral Ridge non-producing mining assets during the three-month period ended March 31, 2017.

## **CURRENT LIABILITIES**

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Total current liabilities were \$4.7 million as at March 31, 2017, compared to \$5.8 million as at December 31, 2016.

This decrease is mostly explained by the payment of \$1.0 million following the settlement of the litigation discussed in the “Restricted Cash and Provision for Litigation” section below.

Income taxes payable relates to Nevada net proceeds tax.

## **LONG-TERM DEBT**

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On August 14, 2015, the Company executed definitive agreements with Waterton Precious Metals Fund II Cayman LP (“Waterton Fund”), an affiliate of Elevon, LLC (“Elevon”), for a loan in the principal amount of \$6 million (the “Loan”) having a term of 36 months. The Loan bears interest at a rate of 10% per annum, payable quarterly, and is secured by a first priority security interest over all of the Company’s assets. The Company incurred a \$0.12 million structuring fee upon the advancement of the Loan, together with \$0.16 million of associated legal costs. The Loan may be voluntarily prepaid by the Company at any time, provided that upon such prepayment the Company shall pay the lesser of 24 months of interest on the principal amount, or such interest as would be payable between the date of such prepayment and the maturity date of the Loan. Also, the Loan is subject to mandatory prepayment in certain circumstances, including upon a change of control of the Company, as defined in the definitive Loan agreement. There are certain restrictions placed on the Company pursuant to the Loan, including, among others, a limitation on additional debt that can be incurred by the Company and the requirement that the Company’s trade payables not exceed \$8.0 million. The Company has complied with all restrictions pursuant to the Loan as at March 31, 2017.

## **EQUITY**

Total equity stood at \$10.4 million as at March 31, 2017, compared to \$10.6 million as at December 31, 2016.

As part of the operating agreement of the Company's 70% owned subsidiary Mineral Ridge Gold, LLC ("MRG"), Scorpio earns management fees from MRG which are eliminated upon consolidation. The non-controlling interest's share of MRG's net income (loss) had been previously calculated by excluding the management fee expense incurred by MRG; during the year ended December 31, 2016, the Company determined that the management fees should have been considered. This correction had no impact on the Company's total net loss for the three-month period ended March 31, 2016. However, this correction decreased the net earnings attributable to non-controlling interest in the three-month period ended March 31, 2016 by \$0.1 million and increased the net loss attributable to the shareholders of the Company by the same amount. This correction increased the basic and diluted net earnings per share by \$0.01 for the period ended March 31, 2016. This correction impacted some of the previously disclosed information which has been adjusted in this MD&A.

## **RESTRICTED CASH AND PROVISION FOR LITIGATION**

During 2016, the Second Judicial District Court of Washoe County, Nevada issued a judgment awarding National EWP, Inc. ("National") US\$2.3 million in its lawsuit against ("MRG") for additional costs related to the construction of a water well. The Company and its legal advisors disagreed with both the Court's legal conclusions and its factual findings and began the appeals process. To prevent any collection activities during the pendency of the appeal, MRG was required to provide cash security to the Court in the amount of the judgment of US\$2.3 million.

During the early stages of the appeal, Nevada court rules required both parties to attend a settlement conference with a court-appointed mediator to seek agreeable settlement terms. After negotiation with National in February 2017, the Company determined that it was in its best interest to settle the case for an amount of US\$1 million and end the costly litigation. In February 2017, the cash security provided by MRG to the Court was released. From the released funds, the settlement amount has been paid to National and the remaining funds have been returned to MRG. Also during Q1 of 2017, the Company settled another litigation case for \$15,000.

## **SUMMARY OF QUARTERLY RESULTS**

The following table sets out selected quarterly financial information for each of the last eight quarters:

<b>Quarter Ending</b>	<b>Revenues</b>	<b>Net (loss) earnings</b>	<b>Basic and diluted (loss) earnings per share</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>March 31, 2017</b>	9,875	40	(0.00)
<b>December 31, 2016</b>	7,569	(4,270)	(0.03)
<b>September 30, 2016</b>	13,328	2,331	0.01
<b>June 30, 2016</b>	12,434	1,199	0.01 <sup>(1)</sup>
<b>March 31, 2016</b>	9,428	1,079	0.01 <sup>(1)</sup>
<b>December 31, 2015</b>	10,828	(4,665)	(0.03)
<b>September 30, 2015</b>	9,333	(15,823)	(0.11)
<b>June 30, 2015</b>	12,083	1,747	0.01

Due to the effect of rounding, the sum of individual quarterly per share amounts may not be equal to the earnings (loss) per share shown in the condensed interim consolidated statements of comprehensive income.

<sup>(1)</sup> Please see Equity section.

## **CASH FLOWS**

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Cash flows generated from operating activities was \$3.4 million for Q1 of 2017, compared to cash flows used for operating activities of \$0.4 million for the same period of 2016. Even though the Company sold slightly fewer ounces in Q1 of 2017 compared to Q1 of 2016, the higher average realized price of \$1,213 in Q1 of 2017 compared to \$1,129 for Q1 of 2016 explains most of the increase in the cash flow from operating activities before movements in working capital. During Q1 of 2017, the decrease in inventories resulted in cash inflows while the increase in inventories during Q1 of 2016 resulted in cash outflows. Variance in trade and other payables compared to the prior year explain most of the remaining variance.

Cash flows used in investing activities were \$0.7 million for the three months ended March 31, 2017. Payments related to non-producing mining asset additions in Q1 of 2017 totalled \$0.9 million and mainly relate to development of satellite pits. During Q1 of 2017, investing activities related to producing mining assets were mainly related to stripping activities. As discussed above, \$1.3 million of cash that had been deposited with the Court was returned to the Company in February of 2017 after the litigation settlement.

Cash flows used for investing activities were \$1.2 million for the three months ended March 31, 2016. Payments related to non-producing mining asset additions in Q1 of 2016 totalled \$1.1 million and mainly relate to exploration related to targets surrounding the areas currently in production and development at the Mineral Ridge mine as well as development related to a satellite pit. During Q1 of 2016, investing activities related to producing mining assets were mainly related to stripping activities.

Cash flows used for financing activities were \$0.4 million for the three months ended March 31, 2017. These cash flows are related to \$0.3 million of cash distributions to the non-controlling interest in Mineral Ridge Gold, LLC, and by interest payment related to the Loan with Waterton Fund, repayments on the loan on mobile equipment and repayment of financing lease.

Cash flows from financing activities were \$0.2 million for the three months ended March 31, 2016. These cash flows are mainly related to \$0.3 million of cash contributions received from the non-controlling interest in Mineral Ridge Gold, LLC, which was partially offset by interest payment related to the Loan with Waterton Fund and the repayments on the loan on mobile equipment.

## **NON-IFRS PERFORMANCE MEASURES**

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Non-IFRS performance measures are furnished to provide additional information to readers to supplement the Company's financial statements, which are presented in accordance with IFRS. The Company believes that these measures, together with the measures determined in accordance with IFRS, provide investors with an ability to evaluate the underlying performance of the Company. These performance measures do not have a meaning within IFRS and, therefore, amounts presented may not be comparable to similar data presented by other mining companies. These performance measures should not be considered in isolation or as a substitute for measures of performance presented in accordance with IFRS.

### **Adjusted net earnings**

The Company uses the financial measure "Adjusted Net Earnings" to supplement information in its condensed interim consolidated financial statements. The Company believes that in addition to conventional measures prepared in accordance with IFRS, the Company and certain investors and analysts use this information to evaluate the Company's performance. The presentation of adjusted measures are not meant to be a substitute for net earnings presented in accordance with IFRS, but rather should be evaluated in conjunction with such IFRS measures.

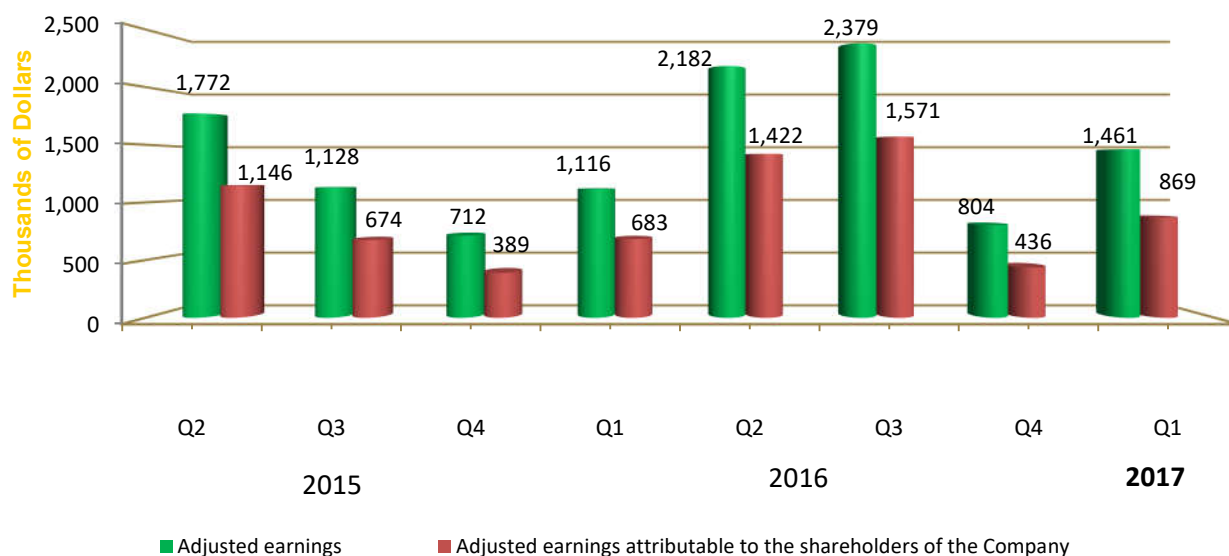
The term "Adjusted Net Earnings" does not have a standardized meaning prescribed by IFRS, and therefore the Company's definitions are unlikely to be comparable to similar measures presented by other companies. Management believes that the presentation of Adjusted Net Earnings provides useful information to investors

because they exclude non-cash and other charges and are a better indication of the Company's profitability from operations. The items excluded from the computation of Adjusted Net Earnings, which are otherwise included in the determination of net earnings prepared in accordance with IFRS, are items that the Company does not consider to be meaningful in evaluating the Company's past financial performance or the future prospects and may hinder a comparison of its period-to-period profitability.

The following table provides a reconciliation of adjusted net earnings to the condensed interim consolidated financial statements:

	<b>Three months ended March 31, 2017</b>	Three months ended March 31, 2016
	\$	\$
Net earnings for the periods	40	1,079
Gain on disposal of mining assets	-	(39)
Impairment of mining assets	1,549	-
Foreign exchange loss	-	1
Deferred income tax (recovery) expense	(128)	75
Adjusted net earnings for the periods	1,461	1,116
Non-controlling interest	(592)	(433) <sup>(1)</sup>
Adjusted net earnings for the periods attributable to the shareholders of the Company	869	683 <sup>(1)</sup>
Adjusted basic and diluted net earnings per share	0.01	0.01 <sup>(1)</sup>

### Adjusted net earnings



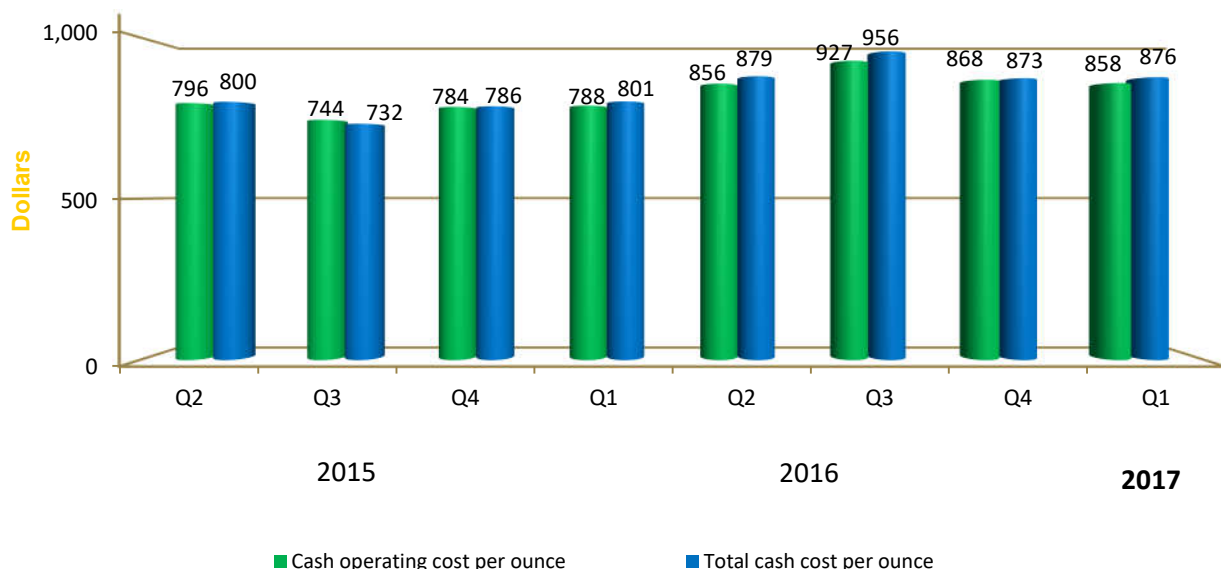
<sup>(1)</sup> Please see Equity section.

**Cash operating cost and total cash costs per gold ounce sold calculation**

The Company has included as non-IFRS performance measures, cash operating costs and total cash costs per gold ounce sold, throughout this document. The Company reports cash costs on a sales basis. In the gold mining industry, cash cost per ounce is a common performance measure but does not have any standardized meaning. The Company follows the recommendations of the Gold Institute Production Cost Standard. The Company believes that, in addition to conventional measures prepared in accordance with IFRS, certain investors use this information to evaluate the Company's performance and ability to generate cash flow. The following table provides a reconciliation of cash operating costs and total cash costs per gold ounce sold to cost of sales per the condensed interim consolidated financial statements.

	Three months ended March 31, 2017	Three months ended March 31, 2016
	\$	\$
<b>Cash costs</b>		
Cost of sales excluding depletion and amortization per consolidated financial statements	7,226	7,416
Inventory adjustment	(219)	(764)
By-product silver sales	(51)	(57)
Royalties	(9)	(60)
Cash operating costs	6,947	6,535
Nevada net proceeds tax- current	149	109
Total cash cost	7,096	6,644
Divided by ounces of gold sold	8,102	8,300
<b>Cash operating cost per gold ounce sold</b>	<b>858</b>	<b>788</b>
<b>Total cash costs per gold ounce sold</b>	<b>876</b>	<b>801</b>

**Cash operating and total cash cost per gold ounce sold per quarter**



**Adjusted EBITDA**

EBITDA is a non-IFRS financial measure, which excludes the following from net earnings:

- Finance costs;
- Depletion and amortization; and
- Income tax expense

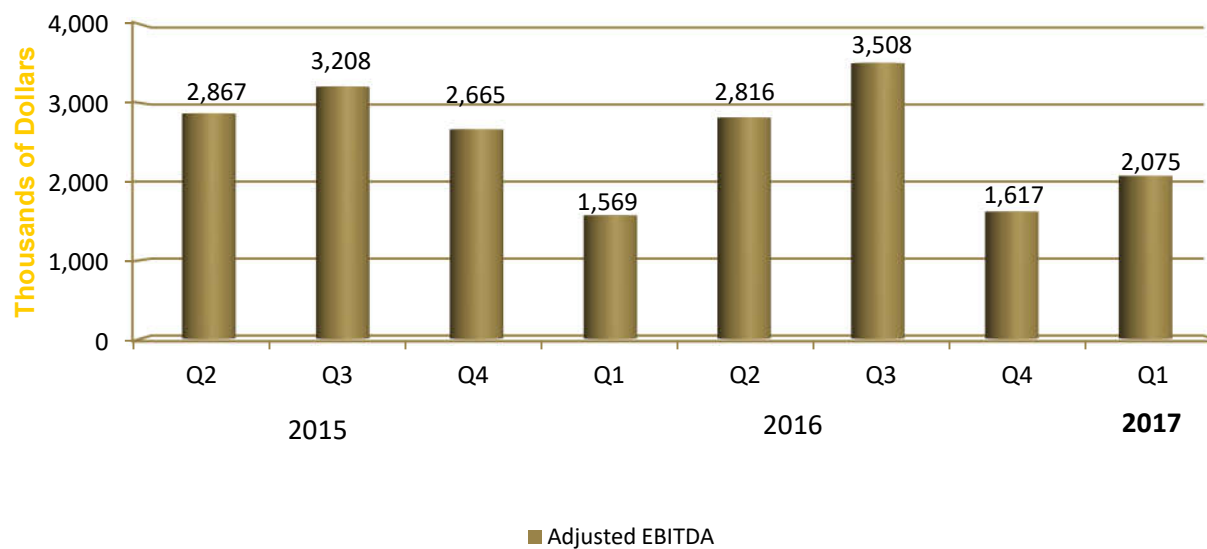
Management believes that EBITDA is a valuable indicator of the Company's ability to generate liquidity by producing operating cash flow to: fund working capital needs, service debt obligations and fund capital expenditures. EBITDA is also frequently used by investors and analysts for valuation purposes whereby EBITDA is multiplied by a factor or "EBITDA multiple" that is based on observed values to determine the approximate total enterprise value of a company. Adjusted EBITDA removes the effects of "share-based compensation", "impairments of mining assets", "gain or loss on write-off and disposal of mining assets" and "foreign exchange loss or gain". These charges are not reflective of the Company's ability to generate liquidity by producing operating cash flow and therefore these adjustments will result in a more meaningful valuation measure for investors and analysts to evaluate the Company's performance in the period and assess future ability to generate liquidity. EBITDA and adjusted EBITDA are intended to provide additional information to investors and analysts and do not have any standardized definition under IFRS and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. EBITDA and adjusted EBITDA exclude the impact of cash costs of financing activities and taxes, and the effects of changes in operating working capital balances, and therefore is not necessarily indicative of operating profit or cash flow from operations as determined under IFRS. Other companies may calculate EBITDA and adjusted EBITDA differently.

The following table provides a reconciliation of adjusted and standardized EBITDA to the condensed interim consolidated financial statements:

	Three months ended March 31, 2017	Three months ended March 31, 2016
	\$	\$
Net earnings for the periods	40	1,079
Finance costs	192	193
Depletion and amortization	273	151
Income tax expense	21	184
Standardized EBITDA	526	1,607
Impairment of mining assets	1,549	-
Gain on disposal of mining assets	-	(39)
Foreign exchange loss	-	1
Adjusted EBITDA	2,075	1,569
Non-controlling interest	(724)	(516) <sup>(1)</sup>
Adjusted EBITDA attributable to the shareholders of the Company	1,351	1,053 <sup>(1)</sup>
Adjusted basic and diluted EBITDA per share	0.01	0.01

(1) Please see Equity section.

### Adjusted EBITDA per quarter





**SELECTED QUARTERLY FINANCIAL AND OPERATING SUMMARY FOR QUARTERS ENDED**

	DECEMBER 2015	MARCH 2016	JUNE 2016	SEPTEMBER 2016	DECEMBER 2016	MARCH 2017
<b>Mining operations</b>						
<b>Mary LC pit</b>						
Ore tonnes mined	119,891	146,872	138,795	119,574	148,161	130,446
Waste tonnes mined	743,394	703,030	919,453	919,556	977,246	927,786
Total mined	863,285	849,902	1,058,248	1,039,130	1,125,407	1,058,232
Strip ratio	6.2	4.8	6.6	7.7	6.6	7.1
<b>Satellite pits</b>						
Ore tonnes mined	245,569	103,252	39,493	48,029	6,028	7,255
Waste tonnes mined	769,186	227,056	139,664	152,883	5,888	67,208
Total mined	1,014,755	330,308	179,157	200,912	11,916	74,463
Strip ratio	3.1	2.2	3.5	3.2	1.0	9.3
<b>Total producing pits</b>						
Ore tonnes mined	365,460	250,124	178,288	167,603	154,189	137,701
Waste tonnes mined	1,512,580	930,086	1,059,117	1,072,439	983,134	994,994
Total mined	1,878,040	1,180,210	1,237,405	1,240,042	1,137,323	1,132,695
Strip ratio	4.1	3.7	5.9	6.4	6.4	7.2
<b>Pits under development:</b>						
Ore tonnes mined	-	-	-	-	-	178
Waste tonnes mined	-	55,622	67,732	25,876	160,672	212,595
Total mined	-	55,622	67,732	25,876	160,672	212,773
<b>Total mining operations</b>						
Ore tonnes mined	365,460	250,124	178,288	167,603	154,189	137,879
Waste tonnes mined	1,512,580	985,708	1,126,849	1,098,315	1,143,806	1,207,589
Total mined	1,878,040	1,235,832	1,305,137	1,265,918	1,297,995	1,345,468

	DECEMBER 2015	MARCH 2016	JUNE 2016	SEPTEMBER 2016	DECEMBER 2016	MARCH 2017
<b>Processing</b>						
Tonnes processed	265,017	251,587	275,551	176,901	142,101	138,392
Gold head grade (grams per tonne)	1.66	1.65	1.33	1.35	1.37	1.70
Availability	59.3%	59.1%	58.9%	41.3%	30.3%	31.1%
Ounces produced						
Gold	9,503	8,508	10,089	9,981	8,301	5,741
Silver	4,905	3,921	4,325	4,630	4,074	2,854
<b>Precious Metal Sales (ounces)</b>						
Gold	9,955	8,300	10,015	10,000	6,309	8,102
Silver	4,755	4,000	4,425	4,450	3,448	2,996
<b>Exploration Drilling</b>						
Holes	111	116	32	6	31	-
Meters	9,612	16,465	3,353	691	3,859	-
<b>Financial results</b>						
	\$	\$	\$	\$	\$	\$
Cash operating cost per ounce of gold sold <sup>(1)</sup>	784	788	856	927	868	858
Total cash cost per ounce of gold sold <sup>(1)</sup>	786	801	879	956	873	876
Average price of gold						
London PM fix	1,107	1,183	1,260	1,335	1,222	1,219
Realized	1,081	1,129	1,234	1,324	1,191	1,213
Net (loss) earnings	(4,665)	1,079	1,199	2,331	(4,270)	40
Net (loss) earnings per share	(0.03)	0.01 <sup>(2)</sup>	0.01 <sup>(2)</sup>	0.01	(0.03)	(0.00)
Adjusted net earnings <sup>(1)</sup>	712	1,115	2,183	2,379	804	1,461
Adjusted basic and diluted net earnings per share <sup>(1)</sup>	0.00	0.01 <sup>(2)</sup>	0.01	0.01	0.00	0.01
Adjusted EBITDA <sup>(1)</sup>	2,665	1,569	2,816	3,508	1,617	2,075
Adjusted basic and diluted EBITDA per share <sup>(1)</sup>	0.01	0.01	0.02	0.02	0.01	0.01

<sup>(1)</sup> For further information and a detailed reconciliation, refer to section "Non-IFRS performance measures".

<sup>(2)</sup> Please see Equity section.

## CONTINGENCIES

Due to the size, complexity and nature of the Company's operations, various legal matters are outstanding from time to time. In the opinion of management, there are no legal matters that could have a material effect on the Company's consolidated financial position or results of operations.

## OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements as at March 31, 2017.

## TRANSACTIONS WITH RELATED PARTIES

a) Compensation of key management personnel and directors

The Company considers its key management personnel to be the CEO and the individuals having the authority and responsibility for planning, directing and controlling the activities of the Company, either directly or indirectly.

The remuneration of directors and key management personnel during the three-month periods ended March 31, 2017 and March 31, 2016 is as follows:

	Three months ended March 31, 2017	Three months ended March 31, 2016
Salaries and directors' fees	\$ 209	\$ 204
Consulting fee with a director	6	-
	215	204

During the three-month period ended March 31, 2017, the Company incurred legal services of \$6,103 with David Smalley Law Corporation, whose principal is a director of the Company. These services were incurred in the normal course of operations.

As at March 31, 2017, an aggregate of \$84,542 resulting from transactions with key management is included in trade and other payables.

Key management personnel were not paid post-employment benefits, termination benefits, or other long-term benefits during the three-month periods ended March 31, 2017 and March 31, 2016.

b) Waterton Precious Metals Fund II Cayman, LP (“Waterton Fund”)

Waterton Fund, the Company’s lender, controls Elevon, LLC (“Elevon”) which owns a 30% non-controlling interest in Mineral Ridge Gold, LLC. Management considers that Waterton Fund is a related party.

Related party transactions entered into with Waterton Fund during the periods ended March 31, 2017 and March 31, 2016 are as follows:

	Three months ended March 31, 2017	Three months ended March 31, 2016
	\$	\$
Interest on long-term debt	148	149

**FINANCIAL INSTRUMENTS**

a) Financial risk factors

The Company’s risk exposures and the impact on the Company’s financial instruments are summarized below:

Liquidity risk

The Company’s approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. The Company’s current policy to manage liquidity risk is to keep cash in bank accounts.

The following table outlines the expected maturity of the Company’s significant financial liabilities into relevant maturity grouping based on the remaining period from the date of the statement of financial position to the contractual maturity date:

	Total	Less than 1 year	1-3 years	4-5 years	More than 5 years
	\$	\$	\$	\$	\$
Trade and other payables	3,883	3,883	-	-	-
Principal and interest on long-term debt and financing lease	7,063	721	6,342	-	-
Provision for environmental rehabilitation	4,990	163	2,889	1,441	497

b) Fair Value

The fair value of cash, reclamation bonds, trade and other payables approximate their carrying amount due to their short-term nature. Fair value of long-term debt is not significantly different from its carrying amount since interest rates in the market have not materially changed since the Company entered into the debt facility in August 2015.

## **INDUSTRY, ECONOMIC AND ENVIRONMENTAL RISK FACTORS AFFECTING PERFORMANCE**

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As a mineral exploration and development company, Scorpio Gold's performance is affected by a number of industry and economic factors and exposure to certain environmental risks, and other regulatory requirements. These have been detailed in the Company's annual MD&A available for the year ended December 31, 2016 under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

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Except as set out below, the preparation of financial data is based on accounting principles and practices consistent with those used in the preparation of the annual audited consolidated financial statements as at December 31, 2016. The accompanying unaudited condensed interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2016.

The following policy reflects policy being applied in the current quarter which was not applicable in the 2016 consolidated financial statements:

### Amendments to Statement of Cash Flows ("IAS 7")

On January 1, 2017, the Company adopted the amendments to Statement of Cash Flows ("IAS 7"). The amendments improve information provided to users of financial statements about the Company's financing activities. The adoption of these amendments did not have any significant impact on the presentation of the Company's financial statements.

### Management judgments and estimates

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and revenue and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods.

Judgments made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the current and following fiscal years are discussed in Note 3(d) of the Company's annual audited consolidated financial statements for the year ended December 31, 2016.

## **CONTROLS AND PROCEDURES CERTIFICATION**

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The Chief Executive Officer and the Chief Financial Officer, together with other members of management, have designed the Company's disclosure controls and procedures in order to provide reasonable assurance that material information relating to the Company and its consolidated subsidiaries would have been known to them, and by others, within those entities.

Management has also designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. There has been no change in the design of the Company's internal controls over financial reporting during the

three-month period ended March 31, 2017, that would materially affect, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

### **Limitations of controls and procedures**

The Company's management, including the Chief Executive Officer and the Chief Financial Officer, believe that any disclosure controls and procedures or internal controls over financial reporting, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the controls. The design of any systems of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected.

### **RECENT ACCOUNTING PRONOUNCEMENTS**

Certain amendments and new standards were issued by the International Accounting Standards Board ("IASB") or the IFRS Interpretations Committee ("IFRIC"). Those not applicable to or that do not have a significant impact on the Company have been excluded from the list below. The following is a description of the new or amended standards that have not yet been adopted by the Company.

i) Financial instruments ("IFRS 9")

*Financial instruments* ("IFRS 9") was issued by the IASB and will replace *Financial instruments: recognition and measurement* ("IAS 39"). IFRS 9 utilizes a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. The approach in IFRS 9 is based on how an entity

manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Final amendments also introduce a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company is currently assessing the impact of this new standard on its financial statements.

ii) Revenue from contracts with customers ("IFRS 15")

The core principle of this new standard is for companies to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements. These amendments are effective for annual periods beginning after January 1, 2018. The Company is currently assessing the impact of this new standard on its financial statements.

iii) Leases ("IFRS 16")

*Leases* ("IFRS 16") was issued by the IASB and will replace *Leases* ("IAS 17"). IFRS 16 requires most leases to be reported on a company's balance sheet as assets and liabilities. IFRS 16 is effective 1 January 2019. Early application is permitted for companies that also apply IFRS 15 *Revenue from Contracts with Customers*. The Company is currently assessing the impact of this new standard on its financial statements.

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**DISCLOSURE OF OUTSTANDING SECURITIES AS AT MAY 30, 2017**

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Outstanding common shares	124,948,235
Stock options	<u>7,700,000</u>
Fully diluted	<u>132,648,235</u>

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**FORWARD LOOKING STATEMENTS**

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*This discussion includes certain statements that may be deemed “forward-looking statements”. All statements in this discussion other than statements of historical facts, including statements that address future exploration drilling, exploration and development activities, production activities and events or developments that the Company expects, are forward looking statements. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in forward-looking statements. Factors that could cause actual results to differ materially from those in forward-looking statements include exploration successes, continued availability of capital and financing, and general economic, market or business conditions and other factors discussed under “Risk Factors” in the Company’s Management Discussion and Analysis for the year ended December 31, 2016 and available at [www.sedar.com](http://www.sedar.com) under the Company’s name.*