MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2016

INTRODUCTION

The following Management Discussion and Analysis ("MD&A") of Scorpio Gold Corporation (the "Company" or "Scorpio Gold") is for the year ended December 31, 2016 and is provided as of April 21, 2017. This MD&A is to be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2016 which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These documents are available on the Company's website (www.scorpiogold.com) and filed on SEDAR (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 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 and $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. 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 with the appropriate economic evaluation. The successful completion of a refinancing of the Company's debt, 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.

2016 HIGHLIGHTS

- 36,879 ounces of gold produced at the Mineral Ridge mine compared to 39,690 ounces during 2015.
- Revenue of $42.8 million compared to $44.6 million during 2015.
- Total cash cost per ounce of gold sold [1] of $881 compared to $781 during 2015.
- Mine operating earnings of $9.6 million compared to $7.7 million during 2015.
- Net earnings of $0.3 million ($0.00 basic and diluted net loss per share) after non-cash impairment charges of $3.6 million, $1.4 million net loss on write-off and disposal of mining assets and $1.0 million loss on litigation, compared to a net loss of $18.0 million ($0.13 basic and diluted per share) after non-cash impairment charges of $21.9 million during 2015.
- Adjusted net earnings [1] of $6.5 million ($0.03 basic and diluted per share) compared to $4.6 million ($0.02 basic and diluted per share) during 2015.
- Adjusted EBITDA[1] of $9.5 million ($0.05 basic and diluted per share) compared to $10.6 million ($0.06 [2] basic and diluted per share) during 2015.
- Cash flow from operating activities of $11.0 million compared to $11.2 million during 2015.

FOURTH QUARTER 2016 ("Q4") HIGHLIGHTS

- 8,301 ounces of gold produced at the Mineral Ridge mine compared to 9,503 ounces in Q4 of 2015.
- Revenue of $7.6 million in Q4 of 2016 compared to $10.8 million during Q4 of 2015.
- Total cash cost per ounce of gold sold [1] of $873 in Q4 of 2016 compared to $786 during Q4 of 2015.
- Mine operating earnings of $1.5 million in both Q4 of 2016 and 2015.
- Net loss of $4.3 million ($0.03 basic and diluted per share), compared to $4.7 million ($0.03 basic and diluted per share) during Q4 of 2015. During Q4 of 2016, impairments of $3.6 million on the mining assets, $1.0 million loss on litigation and $0.4 million write-off of mining assets were recorded. During Q4 of 2015, impairments of $4.9 million were recorded on the mining assets.
- Adjusted net earnings [1] of $0.8 million ($0.00 basic and diluted per share) compared to $0.7 million ($0.00 basic and diluted per share) during Q4 of 2015.
- Adjusted EBITDA [2] of $1.6 million ($0.01 basic and diluted per share) compared to $2.7 million ($0.01 basic and diluted per share) during Q4 of 2015.
- Cash flow from operating activities of $0.6 million compared to close to nil in Q4 of 2015.

(1) This is a non-IFRS measure; please see Non-IFRS performance measures section.
(2) Please see Equity section.

OUTLOOK

In 2016, the Company completed its fifth year of commercial production while maintaining profitable margins and exceeding its guidance for produced ounces. The Company produced 36,879 gold ounces exceeding its guidance of 30 – 35,000 ounces. Total cash cost per ounce sold for the year was $881, well below guidance of $900 – 950 per ounce.

Based on the Company's current mine plan, the Company currently anticipates mining of gold at Mineral Ridge through to 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 includes conducting further definition drilling in the Custer area. This drilling aided in confirming the mineral resource and was the basis for the amendment to the revised Plan of Operations. 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. 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. There can be no assurances that, when the permits are received, production on the Custer Pit and other areas will commence if it is not economically viable to do so.

The Company has also budgeted on $1.3 million for exploration expenditures for 2017. This budget will include geological mapping, geophysical surveying, sampling and drilling activities at Mineral Ridge's North Springs, Orleans, Tarantula and Eagle Canyon areas and at the Goldwedge property. Also included in the exploration budget 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.

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

	2016	2015
Mining operations		
Producing pits:		
Mary LC pit		
Ore tonnes mined	**553,402**	203,468
Waste tonnes mined	**3,519,285**	1,684,728
Total mined	**4,072,687**	1,888,196
Strip ratio	**6.4**	8.3
Satellite pits		
Ore tonnes mined	**196,802**	487,234
Waste tonnes mined	**525,491**	2,045,787
Total mined	**722,293**	2,533,021
Strip ratio	**2.7**	4.2
Mary pit		
Ore tonnes mined	**-**	202,002
Waste tonnes mined	**-**	1,053,992
Total mined	**-**	1,255,994
Strip ratio	**-**	5.2
Total producing pits		
Ore tonnes mined	**750,204**	892,704
Waste tonnes mined	**4,044,776**	4,784,507
Total mined	**4,794,980**	5,677,211
Strip ratio	**5.4**	5.4
Pits under development:		
Ore tonnes mined	**-**	92,146
Waste tonnes mined	**309,902**	1,995,432
Total mined	**309,902**	2,087,578
Total mining operations		
Ore tonnes mined	**750,204**	984,850
Waste tonnes mined	**4,354,678**	6,779,939
Total mined	**5,104,882**	7,764,789

	2016	2015
Processing		
Tonnes processed	**846,140**	891,997
Gold head grade (grams per tonne)	**1.44**	1.52
Recoverable gold ounces placed on the leach pad [(1)]	**26,549**	29,189
Availability [(2)]	**47.3%**	49.9%
Ounces produced		
Gold	**36,879**	39,690
Silver	**16,950**	19,742

(1) 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.

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

	2016	2015
Financials		
(In thousands of US dollars, except per ounce and per share numbers)	**$**	$
Total cash cost per ounce of gold sold[(1)]	**881**	781
Ounces sold		
Gold	**34,624**	39,096
Silver	**16,323**	19,245
Average price of gold		
London PM fix	**1,251**	1,107
Realized	**1,227**	1,081
Net earnings (loss)	**339**	(17,986)
Basic and diluted net loss per share	**(0.00)**	(0.13)
Adjusted net earnings[(1)]	**6,481**	4,591
Basic and diluted adjusted net earnings per share[(1)]	**0.03**	0.02
Adjusted EBITDA[(1)]	**9,510**	10,611
Basic and diluted adjusted EBITDA per share [(1)]	**0.05**	0.06 [(2)]
Cash flow from operating activities	**11,000**	11,192

(1) This is a non-IFRS performance measure; please see Non-IFRS performance measures section.
(2) Please see Equity section.

MINERAL PROPERTIES

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. For more information, see Results of Operations – Long-term Debt.

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.

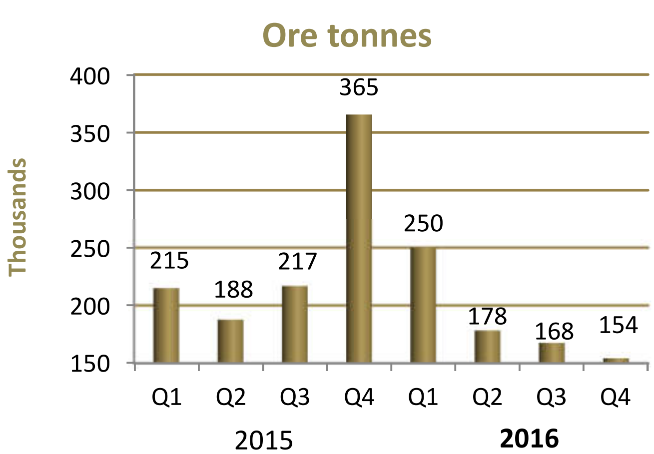
Since the July 2014 mineral resource and reserve estimates the Company has developed an updated mine plan which includes the Mary LC, Bluelite, Solberry, Missouri, Brodie (phase A, phase B and Southeast) and Bluelite South pits. To date, the Drinkwater, Bluelite, Missouri, Solberry, Brodie phase A and 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 to August of 2017**.**

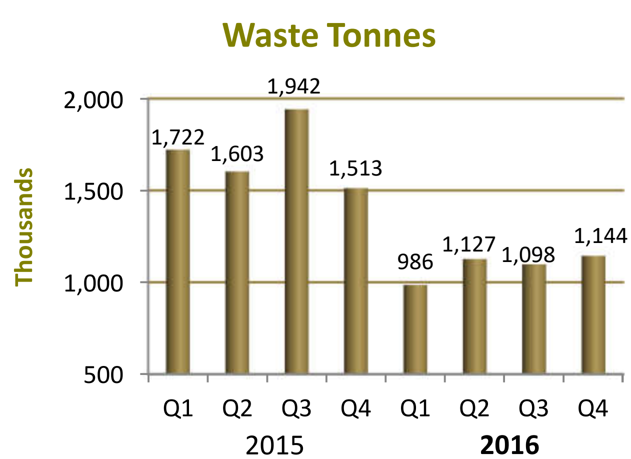
Permitting is ongoing for mining in the Custer expansion and the Oromonte pit as well as the Drinkwater High Wall area and further expansion of the Mary LC pit Bunkhouse Extension. Once the permit is received for these areas, evaluation of the economics for mining can be completed. There can be no assurance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

<u>Mining activities</u>

Total mine production for 2016 was 5,104,882 tonnes (2015 - 7,764,789 tonnes) which is composed of 750,204 tonnes of ore (2015 – 984,850) and 4,354,678 tonnes of waste (2015 – 6,779,939 tonnes). The ore was mined from the Mary LC pit, Brodie Phase A pit, Missouri pit, Solberry pit, and the Bluelite pit. The Bluelite and Solberry pits were depleted in Q2 of 2016 and the Missouri pit was depleted in Q4 of 2016. Compared to 2015, the 2016 mine production was lower for both ore and waste due to the depletion of the Bluelite and Solberry pits, depletion of the Mary pit in Q3 of 2015, smaller work areas, and a decrease in the strip ratio. The Mary pit contributed 20% of the ore mined in 2015 as compared to nil in 2016. The Mary LC pit contributed 29% of the ore mined in 2015 as compared to 74% contribution in 2016. The Satellite pits contributed 50% of the ore mined in 2015 as compared to 26% contribution in 2016. Mining in the Mary LC pit remained steady throughout 2016 while mining in the Satellite pits decreased.

The mining contractor, LEDCOR CMI Inc.'s, performance continued at a slower pace in 2016 than was seen in 2015 due to the aforementioned factors. Ledcor however exceeded the 2016 mine plan by over 400,000 tonnes. Average tonnes per day ("TPD") production for 2016 was 18,167 tonnes (2015 – 23,901 tonnes). Ledcor currently operates seven days per week, one shift per day utilizing two crews. Ledcor is responsible of the mining and drilling operations for the mine.





Mine reconciliation:

	Through Bench	Ore mined variance compare to Model	Gold grade variance compare to Model	Contained ounces variance compare to Model	Dilution
Drinkwater	6460	17%	9%	24%	11%
Mary	6390	35%	-12%	18%	14.9%
Mary LC	6430	41%	-23%	9%	16.5%
Bluelite	7120	24%	-12%	9%	14.9%
Solberry	7250	32%	-24%	-0.1%	17.4%
Wedge	7100	21%	-9%	11%	9%
Brodie	7000	99%	-14%	50%	15.9%
Missouri	7090	1.5%	-19%	-17.8%	17%

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. The negative variance seen throughout most of the deposits is attributable to the higher than anticipated dilution, the impact of historic underground mining, and the spacing of the development drill holes.

Operations activities

Total estimated ore crushed and placed on the leach pad at Mineral Ridge in 2016 was 846,140 tonnes (2015 - 891,997 tonnes), The average crusher throughput per day was 2,312 tonnes during 2016 compared to 2,444 tonnes during 2015. The average head grade was 1.44 g/t (0.042 oz/ton) gold in 2016 compared to 1.52 g/t (0.044 oz/ton) gold in 2015.

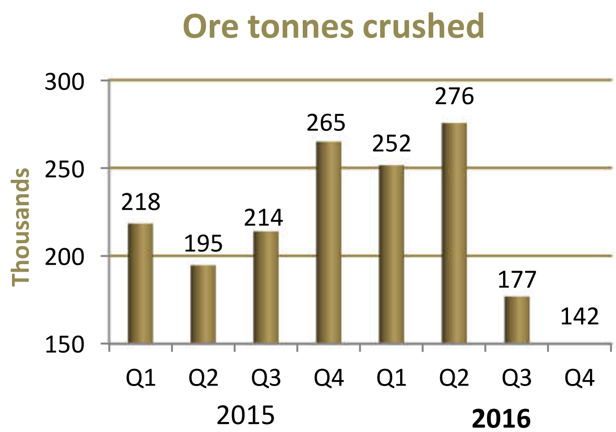
The availability of the crushing facility for 2016 was 47.3 % (2015, 49.9%). Processing availability is based on hours of crusher operations versus permitted run time. The applicable air quality permit allows for a crusher throughput rate of 363 tonnes per hour and 24 hours of operation per day. Availability of ore to be processed is one of the important factors impacting calculation of availability.

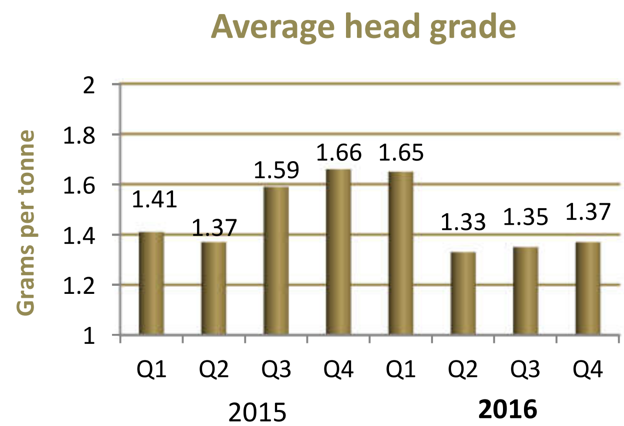
In 2016, application of cyanide leach solution to the freshly stacked ore on the leach pad was 1.43 billion gallons (2015 – 1.38 billion gallons). Also in 2016, 1.23 billion gallons (2015 – 1.21 billion gallons) of pregnant, gold-bearing solution were processed through the ADR plant's carbon column circuit at an average grade of 0.28 ppm (2015 - 0.29 ppm) gold and 0.20 ppm (2015 - 0.23 ppm) silver. Calculated efficiency for recovery of precious metals from solution processed through the ADR plant for 2016 was 90.0% (2015 – 87.8%) for gold and 57.9% (2015 – 57.0%) 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 2016 was 2,317 gallons per minute ("gpm"), compared to 2,301 gpm in 2015. 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. In late October 2016, the old carbon column circuit was taken offline and all the ADR flow was processed through the vertical carbon column circuit. Utilizing the vertical carbon column system reduced the volume of carbon necessary for operating both circuits and decreased associated man-hours.

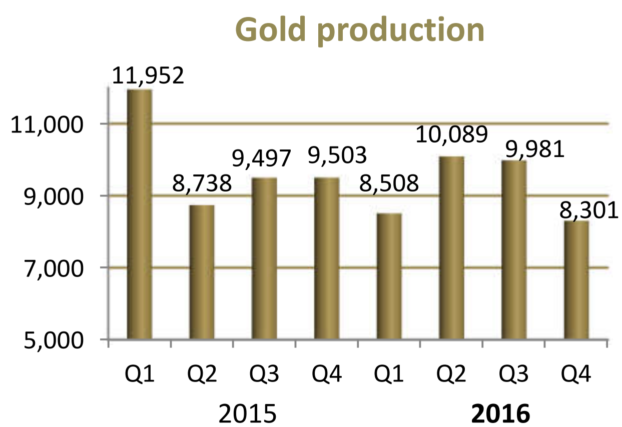
For 2016, the Company produced 36,879 ounces of gold, a 7% decrease over the 39,690 ounces produced during 2015 and 16,950 ounces of silver, a 14% decrease over the 19,742 ounces produced during 2015. The decrease in 2016 gold production was influenced by the following:

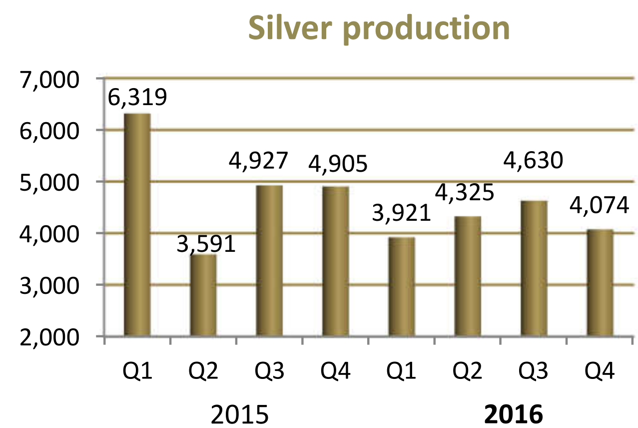
- Ore tonnes mined decreased by 24% from 984,850 in 2015 to 750,204 in 2016.
- Contained ounces placed decreased by 10%, a decrease of 4,455 ounces, from 43,539 in 2015 to 39,084 in 2016.
- The average grade of the ore processed decreased by 0.08 g/t (0.002 oz/ton) or 5% which resulted in fewer ounces available for recovery.

- An increased drawdown of inventory on the leach pad during 2016 helped in reducing the negative effects stated above.





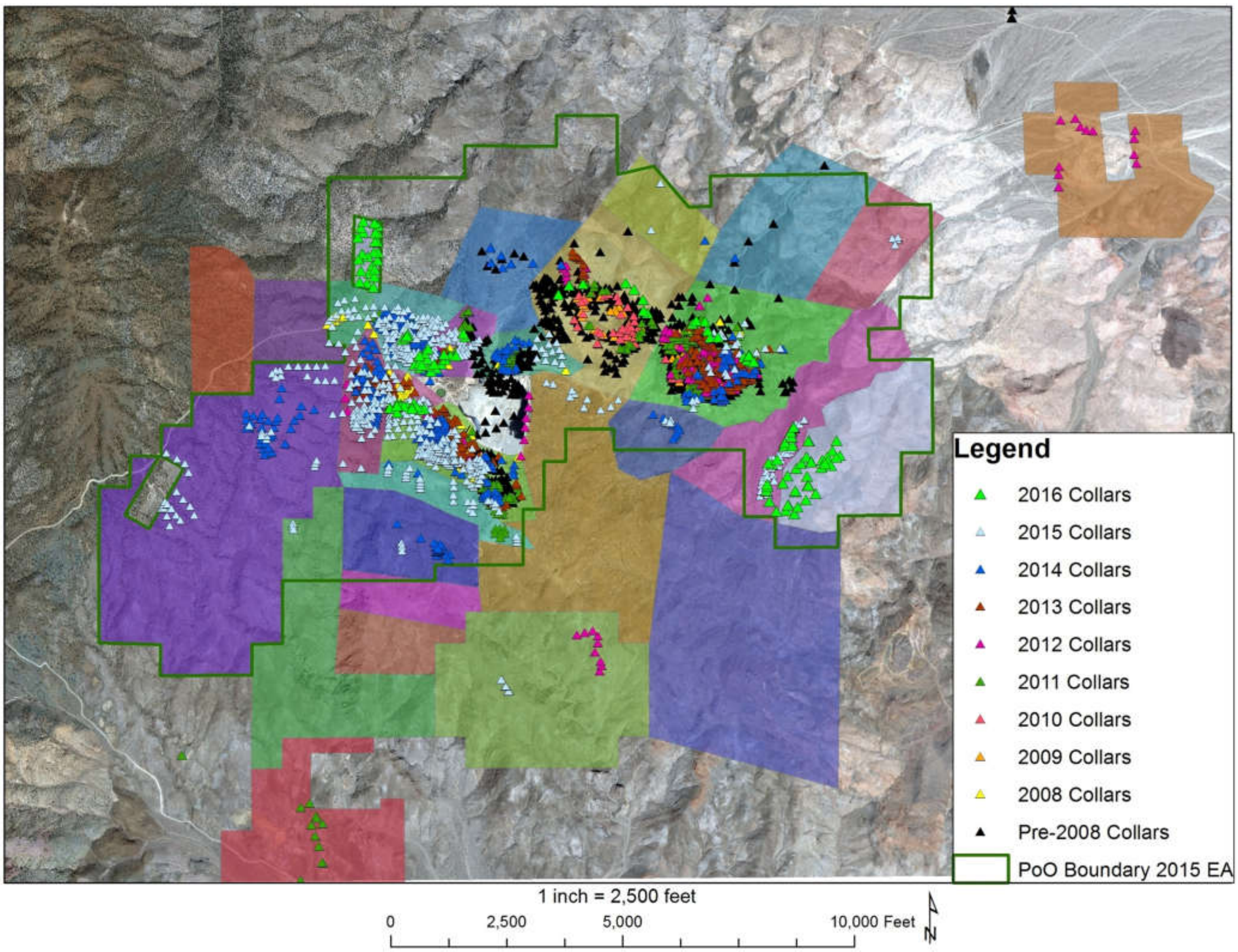




Further information on the Mineral Ridge project is available at SEDAR (www.sedar.com) under the Company's profile, including the LOM, which is a NI 43-101 technical report entitled "Mineral Ridge Project, Esmeralda County, Nevada, USA, NI 43-101 Technical Report on Life of Mine Plan." by AMEC E&C Services 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 Telesto 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

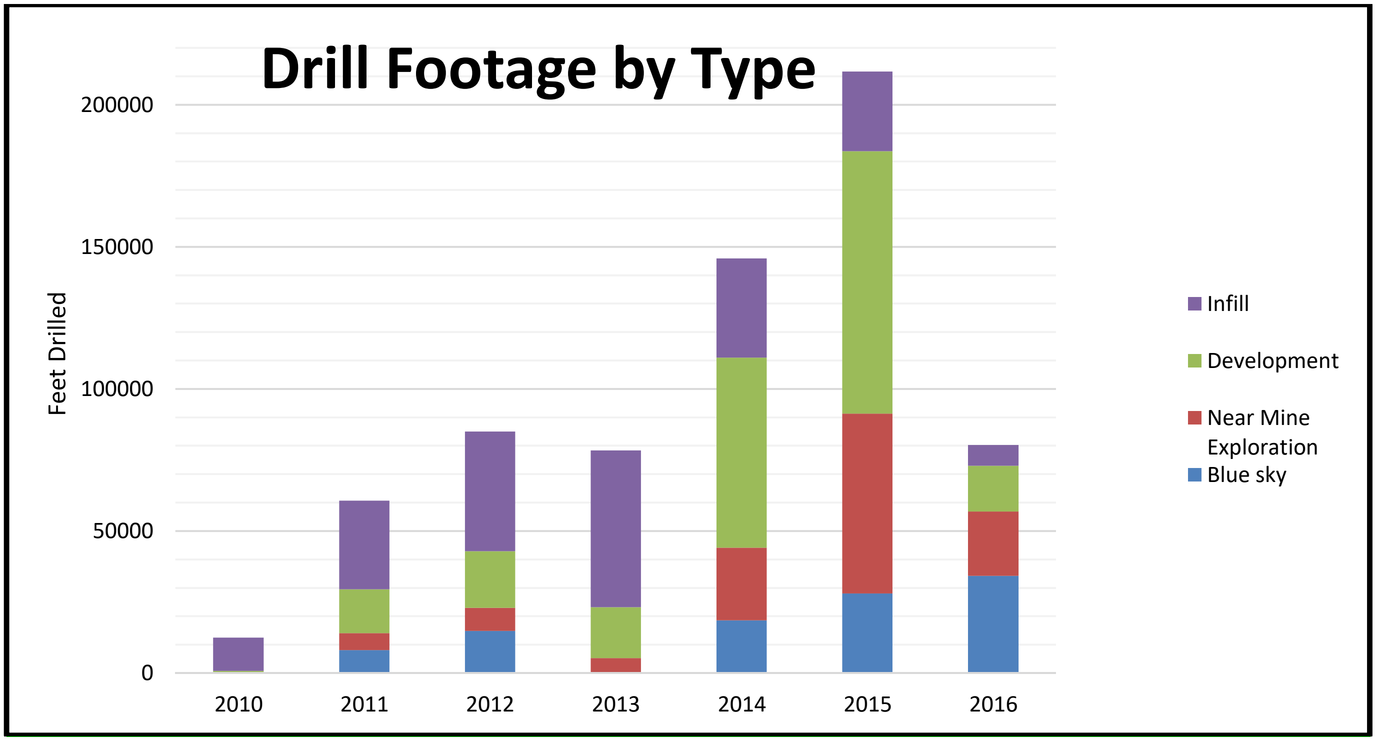
Mineral Ridge Drilling



As of December 31, 2016, the Mineral Ridge Gold, LLC project's total land package consists of 628 unpatented mining lode claims, 1 unpatented mill site claim, and 60 patented mining claims covering a total of 12,735 acres. Other fee lands and town lots in Silver Peak add an additional 123 acres, for a total land package of 12,858 acres.

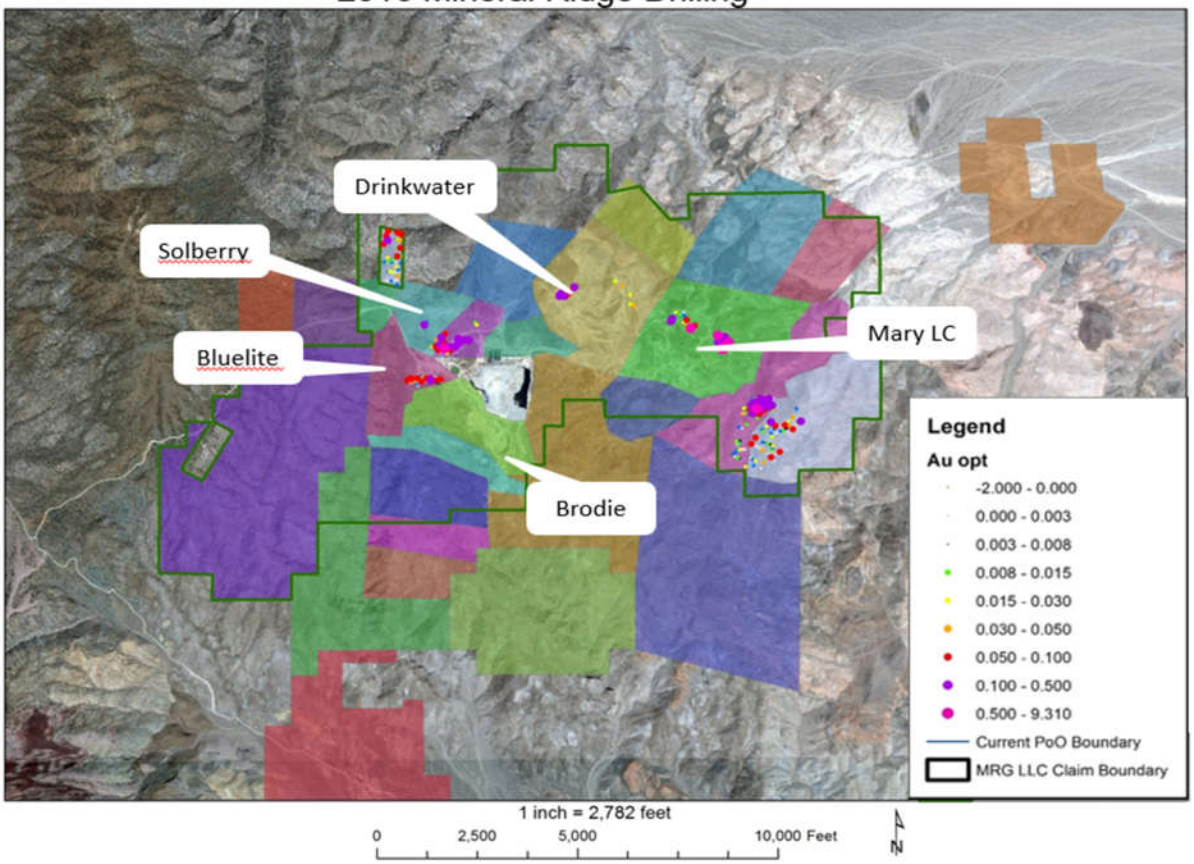
In 2016, a combination of two 1,500 Foremost Reverse Circulation ("RC") track mounted drill rigs and one core drill rig completed a total of 24,368 meters of drilling in 185 holes at Mineral Ridge, far surpassing the original forecast of 14,326 meters of drilling for the year and was funded by $904,000 of additional spending approved by the Company. The RC program included 171 holes for 22,698 meters of drilling while the oriented drill core program accounted for 1,670 meters of drilling in 14 holes.

Drilling at Mineral Ridge by target area can be categorized as follows: primary targets including 92 percent of the total drilling footage included the Defiance, Custer, Oromonte Paris Bunkhouse Hill, Drinkwater HW and Bluelite areas. Secondary targets included Mary LC, Drinkwater Pit and Solberry and totaled 8 percent of the 2016 drilling total. In 2016, drilling in the Defiance area was an attempt to expand the Custer mineralization to the southeast. Although this program was not successful in adding additional resources to the Mineral Ridge property it did aide in defining the southeast extent of the Custer resource. The purpose of additional drilling in the Custer and Oromonte areas was to further define the resource extent and increase the drilling density to reduce the inferred ounces and improve the geology database. This program was very successful for both areas and accomplished the intended goals. Drilling in the Paris claim was designed to define the potential for a new resource in this area and follow up on a positive 2009 surface sampling program. Although the drilling in this area did define a steeply dipping mineralized trend similar to the Oromonte deposit the associated thickness and grades of the mineralized trend were not sufficient to be considered a viable resource. The Bunkhouse Hill drill program was designed to target the down dip potential of the Mary LC mineralization. This program was very successful in proving the continuation of the mineralized trend and will require additional drilling to further define its extent. Due to the surface topography and increasing depths of mineralization, this area would not be considered for open pit mining at current gold prices but could be an underground resource when further defined. The Drinkwater highwall drilling program was intended to follow up on significant drill intercepts encountered in previous drilling campaigns and further define the northwest extent, voids, and continuity of the mineralized trend. In reviewing the results from this drilling, when combined with previous drilling programs and the associated strip ratios, the Drinkwater highwall mineralization was not considered economic at current gold prices. Drilling in the Bluelite south area was successful in adding 1,100 additional ounces of gold mineralization to the Mineral Ridge resource which are budgeted to be mined in 2017. The Mary LC, Drinkwater and Solberry drilling was necessary to provide additional infill drilling to further increase reserves in these areas. Drilling on the Solberrry and Drinkwater areas was not succesfull in adding mineralization currently considered for mining.

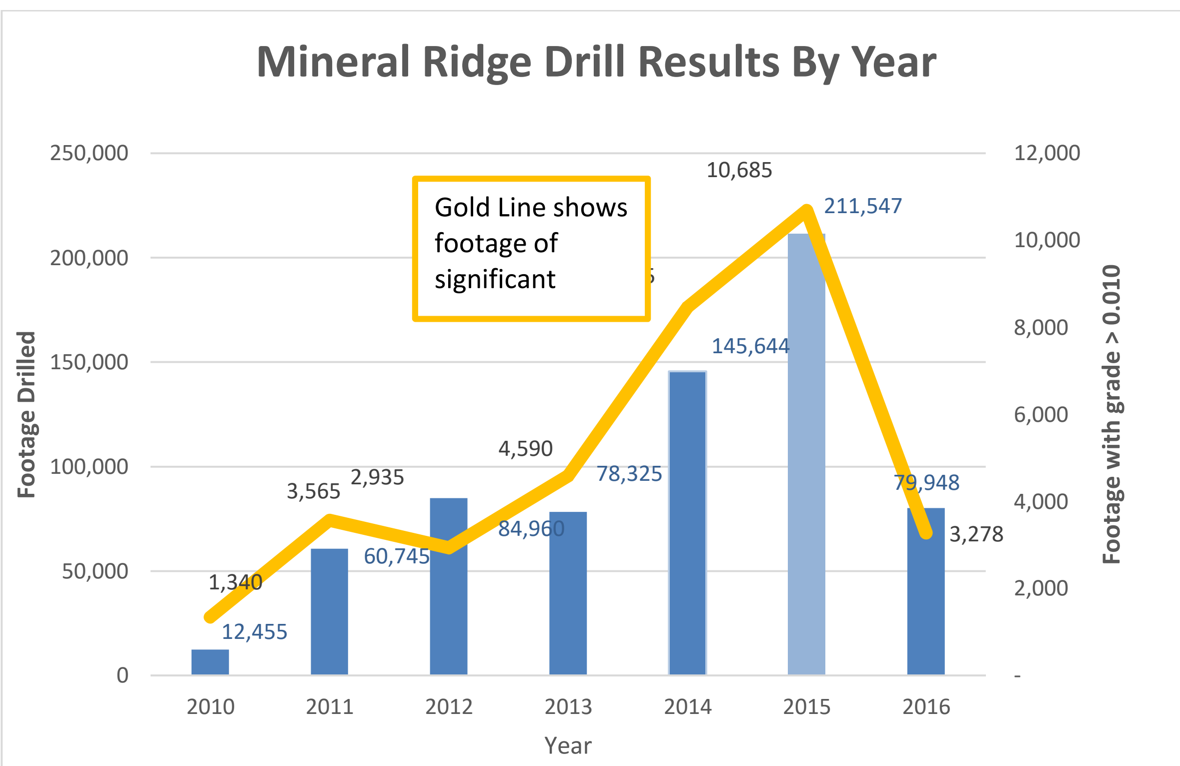


The 2016 drilling program focused on blue sky exploration and as a result footage increased 22% from the 2015 drilling campaign. Near mine exploration, development and infill drilling were all greatly reduced to give priority to blue sky exploration.

2016 Mineral Ridge Drilling



Significant mineralization was encountered in 2016 as shown by the above figure.



The chart above highlights the effectiveness of the 2016 drill program, which intercepted 999 meters (3,278 feet) of mineralization grading higher than 0.34 grams (0.01 oz/ton).

As of December 31, 2016, the remaining capacity on the leach pad was approximately 581,000 dry tons. The Company has developed a two-phased expansion plan for the heap leach pad, including a 1.8 million tons ("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.

The exploration budget for 2017 at Mineral Ridge amounts to $0.5 million and includes:

- North Springs – The North Springs property consists of 2,421 acres and includes 129 lode claims that were filed for in January 2013. The North Springs exploration budget includes geological mapping, in-house geophysical survey and stream sediment sampling to generate drill targets
- 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 and drilling.
- Eagle Canyon – The Eagle Canyon target is down dip and east of the Drinkwater and Mary pits. The Eagle Canyon exploration budget consists of in house geophysical surveys and mapping. This will be followed by trenching and sonic drilling to test the placer potential in the shallow alluvium.
- Heap Leach Pad – The heap leach pad at Mineral Ridge is being evaluated for its resource potential as there are roughly 7 million dry tons of mineralization with an estimated 125,000 ounces of unrecovered gold remaining. The Company has hired Mine Technical Services Ltd. to perform a NI 43-101 compliant resource review followed by a feasibility study for a milling circuit. The Heap Leach exploration budget includes sonic drilling of the pad to provide material for metallurgical testing to confirm the resource and associated recoveries. If the results from this testing are positive, the budget is expected to be increased to include a feasibility study to evaluate building a milling facility at Mineral Ridge.

Other properties

Goldwedge

In December 2012, the Company acquired 100% interests 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.

The Goldwedge mill facilities have been placed on care and maintenance effective July 28, 2015. The facility can be restarted on short notice. In February 2017, the Company signed a letter of intent with Lode-Star Mining for a custom toll milling agreement. Testing of Lode-Star's mineralized material is expected to commence in Q2 of 2017. This testing will provide the baselines for metallurgical recoveries and mill throughput data to support Lode Star's mine permitting with the NDEP. The coarse gold component of Lode-Star's material will be recovered by the gravity circuit. Further testing will be conducted on the tailings to determine the potential economics of shipping tailings to the Mineral Ridge heap leach operation for final recovery of cyanide-leachable precious metals. The companies are moving forward with permitting requirements associated with the toll milling arrangement. 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.

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.

The 2017 exploration budget for the Goldwedge property totals $0.7 million and includes:

- Phase 1 drilling of the Goldwedge property will occur near existing underground workings on permitted drill locations. The Goldwedge budget allows for drilling 6 RC holes (6,850 ft.) near existing underground workings designed to test down trend potential. If this initial drill program is successful, a follow up underground core drilling program is planned, for purposes adding additional mineable resources that can provide feed to the properties permitted milling circuit. Also included is additional geological mapping and soil sampling outside of existing workings.

- A 12 hole (1,500 ft.) scout drilling program for the Keystone/Jumbo area which 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.

Orléans

In Q3 of 2016, the Company staked a new exploration target, 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 budget of $76,000 allows for additional surface sampling and geophysical analysis. If positive results are obtained, additional drilling will be considered.

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.

SELECTED ANNUAL INFORMATION

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.

	Year ended December 31, 2016	Year ended December 31, 2015	Year ended December 31, 2014
	$	$	$
Revenue	42,759	44,587	52,026
Net earnings (loss)	339	(17,986)	(27,414)
Net loss attributable to shareholders of the Company	(390)	(16,167)[(1)]	(19,719)[(1)]
Basic and diluted loss per share	(0.00)	(0.13)	(0.16)
Working capital	8,385	8,019	8,042
Total assets	27,514	27,455	40,943
Long-term liabilities	11,041	11,611	6,057

RESULTS OF OPERATIONS

Scorpio Gold reported net earnings of $0.3 million for the year ended December 31, 2016, compared to a net loss of $18.0 million for the year ended December 31, 2015.

For the year ended December 31, 2016, the net loss attributable to the shareholders of the Company was $0.4 million ($0.00 per share), compared to $16.2 million [(1)] ($0.13 per share) for the year ended December 31, 2015.

The net earnings attributable to the non-controlling interest was $0.7 million for the year ended December 31, 2016, compared to a net loss of $1.8 million [(1)] for the year ended December 31, 2015.

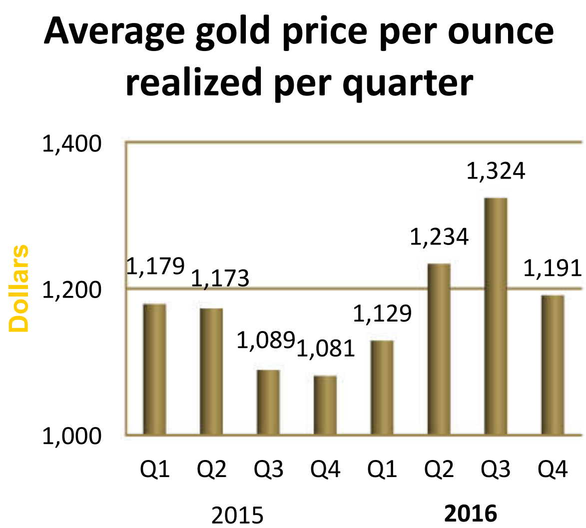
The major differences between the two years are explained below.

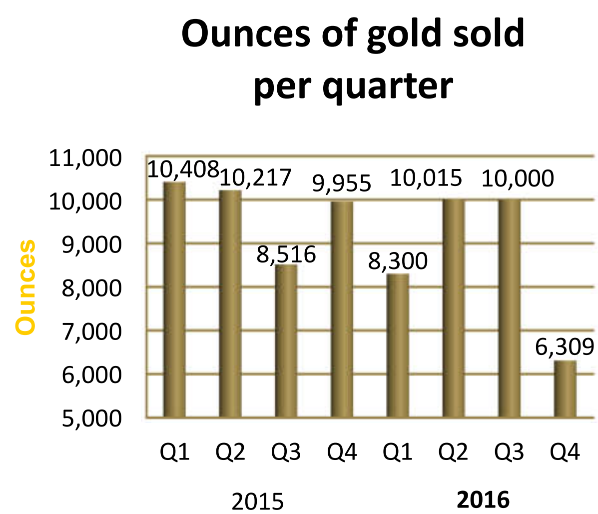
(1) Please see Equity section.

Revenue

During the year ended December 31, 2016, the Company sold 34,624 ounces of gold and 16,323 ounces of silver for total revenue of $42.8 million. During the year ended December 31, 2015, the Company sold 39,096 ounces of gold and 19,245 ounces of silver for total revenue of $44.6 million. During the year ended December 31, 2016, gold ounces were sold at an average price of $1,227 ($1,133 in 2015) and silver ounces at an average price of $17 ($15 in 2015).

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 December 31, 2016, the Company had finished goods inventories including 2,851 ounces of gold available for sale compared to 627 ounces of gold as at December 31, 2015. This increase in finished goods inventory along with the lower number of gold ounces produced during 2016 compared to 2015 explain the lower number of ounces of gold sold during 2016 compared to 2015.





Mine operating earnings

Cost of sales, excluding depletion and amortization, was $31.6 million for the year ended December 31, 2016 compared to $31.4 million for year ended December 31, 2015. The variance is essentially impacted by the lower number of ounces sold and the variance in cash operating cost per ounce[(1)] described below.

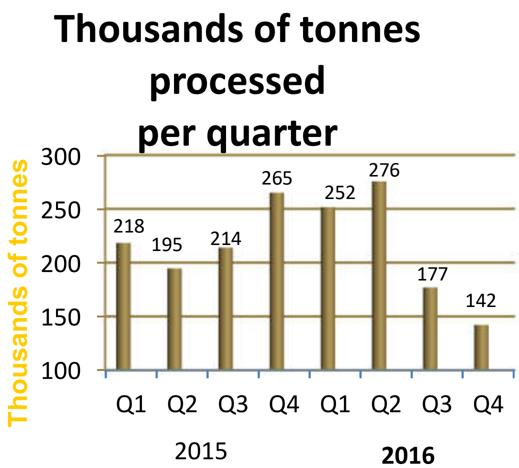
Cash operating cost per gold ounce sold[(1)], after silver by-product credits, was $862 for the year ended December 31, 2016, compared to $780 for the year ended December 31, 2015. Total cash cost per ounce sold [(1)], after silver by-product credits, was $881 for the year ended December 31, 2016 compared to $781 the year ended December 31, 2015. The most significant variances impacting cash cost per ounce sold are:

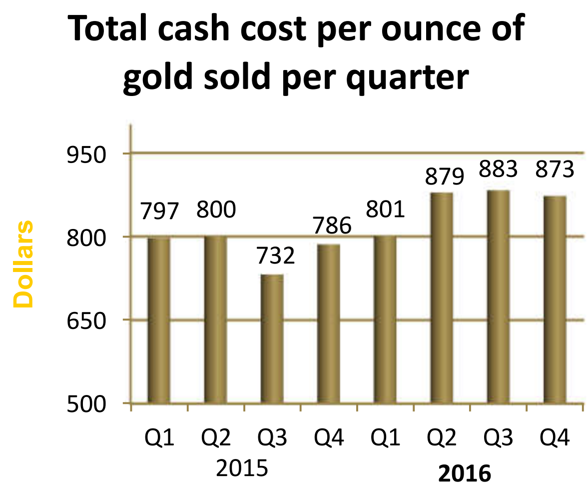
- Cash cost per ounce during the year ended December 31, 2016 was negatively impacted by lower head grade compared to the same period of 2015.
- During the year ended December 31, 2015, cash cost per ounce benefited from lower cost development of ore, as associated waste costs are capitalized thus excluded from both cash cost and cost of sales.
- These variances were partially offset by cost savings realized during the year ended December 31, 2016 compared to year ended December 31, 2015.

[(1)] This is a non-IFRS financial performance measure. Please see Non-IFRS performance measures section.

Depletion and amortization was $1.6 million for the year ended December 31, 2016, compared to $5.5 million for the year ended December 31, 2015. Following the 2015 impairment on assets at the Mineral Ridge mine which significantly decreased the carrying value of the assets being depleted, depletion and amortization recorded in 2016 is essentially related to 2016 capitalized development and stripping activities on producing mining interests.

Mine operating earnings were therefore $9.6 million for the year ended December 31, 2016 compared to $7.7 million for the year ended December 31, 2015.





General and administrative

General and administrative expenses were $1.2 million for the year ended December 31, 2016, compared to $2.5 million for the year ended December 31, 2015. The main variance between those periods relates to the fact that on March 6, 2015, the Company announced a strategic financing to raise $15 million from the issuance of equity to an affiliate of Coral Reef Capital LLC. This financing was subsequently terminated and as such the Company was obligated to pay a $0.5 million break fee along with approximately $0.3 million of related due diligence and legal costs during the year ended December 31, 2015.

The decrease is also explained by reduced salary and benefits as a result of the termination of a senior member of management during 2015, reduction in project evaluation expenditures as well as a more favorable USD/CAD exchange rate for the year ended December 31, 2016 compared to the year ended December 31, 2015 given that most of the Company's general and administrative expenses are incurred in Canadian dollars.

Care and maintenance

Starting on July 28, 2015, the Goldwedge property and mill facility was placed on temporary care and maintenance and continued in care and maintenance for the year ended December 31, 2016. The Company incurred $0.7 million care and maintenance costs including amortization during the year ended December 31, 2016 compared to $0.3 million during the year ended December 31, 2015.

Loss on disposal and write-off of mining assets

Net loss on disposal and write-off of mining assets amounts to $1.4 million for the year ended December 31, 2016, compared to close to nil for the year ended December 31, 2015. Based on results of drilling activity performed on the Paris, Defiance and Drinkwater NW targets and the area between the Brodie Northwest and Blueberry deposits and based on results from the Goldfield Basin project, the Company concluded that no further exploration activity is planned for those areas. Consequently, $1.4 million of previously capitalized costs were written off during the year ended December 31, 2016.

Impairments

Mineral Ridge

The fact that the carrying amount of the net assets of the Company was higher than the Company's market capitalization as of December 31, 2016 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 the value in use. 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 $5.3 million would be required, using a discount rate of 9% along with an average gold price assumption of $1,225 for 2017. However, since the depreciable amount of the assets, being defined as the net of the carrying amounts and the residual value, amounted to $3.1 million, the Company recorded a $3.1 million non-cash impairment charge for Mineral Ridge as at December 31, 2016.

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% change in the gold price assumption and holding all other assumptions constant has no impact on the impairment since the residual value of the assets remains constant.

During the year ended December 31, 2015, the Company recorded non-cash impairment charges of $26.9 million, using a discount rate of 9% along with an average gold price assumption varying of $1,216 for 2016 and $1,250 thereafter. During the year ended December 31, 2015, the Company also reconsidered building a processing facility at the Mineral Ridge mine and thus recognized a non-cash impairment loss of $0.5 million related to expenditures incurred to date by the Company on that project. During the year ended December 31, 2015, the Company also recognized an impairment loss of $0.5 million on certain non-producing mining assets.

Goldwedge property and mill

The fact the carrying amount of the net assets of the Company was higher than the Company's market capitalization as of December 31, 2016 is an indicator of impairment. In determining the recoverable amount of the Goldwedge CGU, the Company determined the recoverable value using the fair value less costs of disposal using Level 3 valuation inputs. The Company also includes in its estimate an estimated amount for costs to sell the CGU. Based on its assessment, the Company recorded a non-cash impairment charge of $0.5 million (2015; $9.9 million) during the year ended December 31, 2016.

Other income (expenses)

Finance costs totaled $0.8 million during the year ended December 31, 2016, compared to $0.4 million for the comparative period.

On March 11, 2015, the Company fully repaid the long-term debt owing to Waterton Global Value L.P. ("Waterton Global"). In August 2015, the Company entered into a new senior secured non-revolving credit facility with Waterton Precious Metals Fund II Cayman, LP ("Waterton Fund"). During the year ended December 31, 2016, the Company incurred $ $0.6 million of interest compared to $0.3 million during 2015.

During the year ended December 31, 2015, the Company incurred a foreign exchange loss of $0.2 million mainly related to the CAD$2.5 million debt representing a cash payment owing from the sale of the Pinon property, due to a less favorable USD/CAD exchange rate. On March 5, 2015, payment of this debt was received by the Company.

During Q1 of 2015, the Company sold 6,750,000 shares of Gold Standard for net proceeds of $3.3 million and as a result a gain on disposal of investments of $0.2 million was recorded.

Income tax expense

For the year ended December 31, 2016, current income tax expense which relates to the Nevada net proceeds tax amounted to $0.7 million, compared to close to nil for the same period of 2015. This variance is mainly as a result of higher development and stripping activity during the the year ended December 31, 2015 compared to the same period of 2016, which are allowable deductions for purposes of Nevada net proceeds tax.

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 the year ended December 31, 2016, due to the decrease in gold inventories, the Company recorded a $0.1 million decrease in deferred income tax liability.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2016, the Company had $3.8 million in cash compared to $2.3 million as of December 31, 2015.

Working capital was $8.4 million as of December 31, 2016, compared to $8.0 million as of December 31, 2015.

As discussed in more detail below, under the heading “Restricted Cash, Provision for Litigation and Subsequent Event”, 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 will use its currently available cash balance and cash flow from operations to fund its planned exploration, development, capital expenditures, general corporate purposes 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 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. The successful completion of a refinancing of the Company’s debt and ability to identify future profitable business operations beyond the mine plan is not entirely within the control of the Company.

INVENTORIES

Inventories decreased from $10.5 million as of December 31, 2015 to $7.1 million as of December 31, 2016.

During the year ended December 31, 2016, the Company processed 95,936 more ore tonnes than hauled from the mine during the same period, resulting in a decrease in the ore stockpile inventory by $2.0 million during the year ended December 31, 2016 to $0.2 million.

Metals in process decreased by $3.4 million during the year ended December 31, 2016 mainly resulting from a drawdown of gold inventory from the leach pad.

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 December 31, 2016, included in the metal in process inventories, are inventories on the leach pad for a total cost of $1.9 million ($4.4 million as at December 31, 2015). The ultimate recovery of gold from the heap leach pad will not be known until the total leaching process is concluded.

Finished goods inventory increased by $2.1 million during the year ended December 31, 2016 to $2.7 million, due mainly to the timing of the Company's gold sales.

PRODUCING MINING ASSETS

Producing mining assets stood at $4.9 million as of December 31, 2016, compared to $5.0 million as at December 31, 2015.

During the year ended December 31, 2016, the Company added $3.2 million to producing mining assets, which mainly consisted of $2.6 million related to stripping activities and $0.5 million related to mobile equipment at Mineral Ridge.

Management concluded that the Missouri pit commenced commercial production during 2016 and therefore its related book value of $0.4 million was transferred from non-producing mining assets to producing mining assets.

During the the year ended December 31, 2016, an amount of $1.6 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 $1.1 million related to Mineral Ridge producing mining assets and $0.1 million related to Goldwedge producing mining assets during the year ended December 31, 2016.

NON-PRODUCING MINING ASSETS AND OTHER

Non-producing mining assets and other stood at $2.6 million as of December 31, 2016, compared to $3.0 million as at December 31, 2015.

During the year ended December 31, 2016, the Company added $4.0 million to non-producing mining assets. Of this amount, $3.7 million is mainly constituted of exploration costs related to exploration targets surrounding the areas currently in production at the Mineral Ridge mine.

As discussed above, management concluded that the Missouri pit commenced commercial production during 2016 and therefore its related book value of $0.4 million was transferred from non-producing mining assets to producing mining assets.

As discussed above, based on results of drilling activity performed on the Paris, Defiance and Drinkwater NW targets and the area between the Brodie Northwest and Blueberry deposits and based on results from the Goldfield Basin project, the Company concluded that no further exploration activity is planned for those areas. Consequently, $1.4 million of previously net capitalized costs were written off during 2016.

As a result of the impairment discussed above, during the year ended December 31, 2016, the Company recorded a non-cash impairment charge of $2.0 million related to Mineral Ridge non-producing mining assets and $0.4 million related to Goldwedge non-producing mining assets.

During the year ended December 31, 2015, the Company recorded a non-cash impairment charge of $3.4 million related to Mineral Ridge non-producing mining assets and $8.1 million related to Goldwedge non-producing mining assets.

CURRENT LIABILITIES

Total current liabilities were $5.8 million as at December 31, 2016, compared to $5.7 million as at December 31, 2015.

Trade and other payables decreased from $5.6 million as at December 31, 2015 to $4.1 million as at December 31, 2016 mainly as a result of the reduction in mining levels at the Mineral Ridge mine.

The provision for litigation recorded as at December 31, 2016 refers to the settlement in February 2017 of two pending cases, for an aggregate amount of US$1.0 million. Refer to "Restricted Cash, Provision for Litigation and Subsequent Event" section below.

Income taxes payable relates to Nevada net proceeds tax discussed above.

LONG-TERM DEBT

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 December 31, 2016.

Change to the Mineral Ridge operating agreement

In connection with the Loan with Waterton Fund completed in 2015 described above, the Company has modified the Mineral Ridge operating agreement so that the Company's wholly owned subsidiary that holds the interest in Mineral Ridge will owe and accrue to Elevon an amount equal to 10% of aggregate amounts actually distributed to the partners in the Mineral Ridge mine (the "Accrued Distribution Amount"). The Accrued Distribution Amount shall become due and payable upon a change of control of the Company, or if the settlement price of gold on the LBMA PM fix is equal to or exceeds US$1,350 per ounce (the "Accrual Payment Date").

The Company holds a 70% interest in the Mineral Ridge mine, but was previously entitled to 80% of cash distributions from the mine. As a result of the foregoing amendment, the Company has effectively reverted to being entitled to 70% of cash flows distributed from the Mineral Ridge mine, but this change did not affect its cash position until the Accrual Payment Date, at which time the Accrued Distribution Amount was paid in full.

In early July 2016, the settlement price of gold on the LBMA PM fix exceeded US$1,350 per ounces and as such the Company paid Elevon $35,714, corresponding to 10% of the aggregate amounts actually distributed after August 2015. As a consequence, Elevon is entitled to receive 30% of cash distributions from Mineral Ridge Gold, LLC.

PROVISION FOR ENVIRONMENTAL REHABILITATION

The provision for environmental rehabilitation decreased in 2016 to $4.7 million as of December 31, 2016 from $5.4 million as of December 31, 2015.

The provision for environmental rehabilitation relating to the Mineral Ridge mine has decreased by $0.8 million. The provision changed throughout the year due to the actual environmental disturbance that occurred, the revision of the estimates in timing of rehabilitation work and estimated cash flows of such rehabilitation work.

DEFERRED INCOME TAX LIABILITY

As mentioned above, due to the different reversal period of the accounting value and tax value, 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 of $0.4 million during the year ended December 31, 2015. During the year ended December 31, 2016, due to the decrease in gold inventories, the Company recorded a $0.1 million decrease in deferred income tax liability.

EQUITY

Total equity stood at $10.6 million as at December 31, 2016, compared to $10.1 million as at December 31, 2015. Most of this increase is attributable to the $0.3 million net earnings for the year ended 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. The cumulative impact of this correction as at December 31, 2014 is a $1.5 million reduction in the non-controlling interest in MRG with a corresponding decrease to the deficit attributable to the Company's shareholders. This correction had no impact on the Company's total net loss for the year ended December 31, 2015. However, this correction increased the net loss attributable to non-controlling interest in the year ended December 31, 2015 by $0.4 million and reduced the net loss attributable to the shareholders of the Company by the same amount. This correction impacted some of the previously disclosed information which has been adjusted in this MD&A.

RESTRICTED CASH, PROVISION FOR LITIGATION AND SUBSEQUENT EVENT

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 cost 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:

Quarter Ending	Revenues $	Net (loss) earnings $	Basic and diluted (loss) earnings per share $
December 31, 2016	7,569	(4,270)	(0.03)
September 30, 2016	13,328	2,331	0.01
June 30, 2016	12,434	1,199	0.01[1]
March 31, 2016	9,428	1,079	0.01[1]
December 31, 2015	10,828	(4,665)	(0.03)
September 30, 2015	9,333	(15,823)	(0.11)
June 30, 2015	12,083	1,747	0.01
March 31, 2015	12,343	755	0.00

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 consolidated statements of operations.

(1) Please see Equity section.

FOURTH QUARTER

The Company reported revenue of $7.6 million in the fourth quarter of 2016, compared to $10.8 million in the fourth quarter of 2015. Revenue in the fourth quarter of 2016 was derived from the sale of 6,309 ounces of gold, compared to 9,955 ounces sold during the fourth quarter of 2015. During the fourth quarter ended December 31, 2016, gold ounces were sold at an average price of $1,191, compared to $1,081 for the same period in 2015.

Cash operating cost per gold ounce sold [(1)], after silver by-product credits, was $868 for Q4 of 2016, compared to $784 in Q4 of 2015. Total cash cost per ounce sold [(1)], after silver by-product credits, was $873 for Q4 of 2016, compared to $786 in Q4 of 2015. The most significant variances impacting cash cost per ounce sold are:

- Cash cost per ounce during the fourth quarter ended December 31, 2016 was negatively impacted by lower head grade compared to the same period of 2015.
- Higher strip ratio during the quarter ended December 31, 2016 as compared to 2015, negatively impacted cash cost per ounce.
- These variances were partially offset by inventory adjustments more favorable during the quarter ended December 31, 2016 compared to the same period of 2015.

During the fourth quarter of 2016 the Company recorded impairments of $3.6 million on mining assets, compared to impairments of $4.9 million on mining assets during the fourth quarter of 2015.

During the three-month period ended December 31, 2016, the net loss was $4.3 million, compared to a net loss of $4.7 million during the fourth quarter of 2015.

Cash flows generated from operating activities were $0.6 million during Q4 of 2016, compared to close to nil during Q4 of 2015. During Q4 of 2016, the Company sold 37% fewer gold ounces compared to Q4 of 2015 at a higher cash cost per ounce of gold sold partly offset by a higher realized metals prices, which negatively impacted the 2016 cash flow from operations. Change in working capital items explained the higher cash flow from operations in Q4 of 2016 compared to Q4 of 2015.

During Q4 of 2016, cash outflows used in investing activities were $4.1 million. Investing activities related to producing mining assets totalled $0.7 million and are mostly related to stripping activities. Non-producing mining asset additions totalled $1.0 million for Q4 of 2016 and are mainly related to payments of exploration costs at the Mineral Ridge mine. During Q4 of 2016, the Company put aside $2.3 million related to the unfavorable judgment against the Company refer to “Restricted Cash, Provision for Litigation and Subsequent Event” section above.

During Q4 of 2015, cash outflows used in investing activities were $2.0 million. Investing activities related to producing mining assets totalled $0.8 million and are mostly related to stripping activities. Non-producing mining asset additions totalled $1.1 million for Q4 of 2015 and are mainly related to payments of exploration costs at the Mineral Ridge mine.

Cash outflows used in financing activities were $0.4 million for Q4 of 2016 and relate to distributions to the non-controlling interest in the amount of $0.2 million and payments of $0.2 million related to service of the Company’s long-term debts.

Cash flows from financing activities were $0.4 million for Q4 of 2015. Contributions from the non-controlling interest in the amount of $0.6 million were partly offset by payments of $0.2 million related to service of the Company’s long-term debts.

[(1)] This is a non-IFRS financial performance measure. Please see Non-IFRS performance measures section.

CASH FLOWS

For the year ended December 31, 2016, cash flows generated from operating activities were $11.0 million, compared to $11.2 million for the year ended December 31, 2015.

During the year ended December 31, 2016, cash outflows used in investing activities were $8.7 million. Payments related to non-producing mining assets during the year ended December 31, 2016 totaled $3.7 million and mainly related to exploration related to targets surrounding the areas in development and production at the Mineral Ridge mine and various construction in process projects. During the year ended December 31, 2016, investing activities related to producing mining assets amounted to $2.9 million and were mainly related to stripping activities and payments related to fixed asset acquisitions. Also, the Company put aside $2.3 million related to an unfavorable judgment against the Company.

During the year ended December 31, 2015, cash outflows used in investing activities were $13.7 million. Payments related to non-producing mining assets during the year ended December 31, 2015 totalled $13.8 million and mainly related to development costs of the Mary LC and satellite pits, exploration related to targets surrounding the areas in development and production at the Mineral Ridge mine and various construction in process projects. During 2015, the Company disposed of its 6,750,000 shares in Gold Standard and received payment of the debt from Gold Standard represented by a promissory note, for total proceeds of $5.3 million. During the year ended December 31, 2015, investing activities related to producing mining assets amounted to $4.8 million and were mainly related to stripping activities and payments related to fixed asset acquisitions. During the year ended December 31, 2015, the Company also invested $0.4 million in cash collateral related to the reclamation bonds.

Cash outflows used in financing activities were $0.8 million for the year ended December 31, 2016. Payment of $0.6 million interest and repayment of long-term debt and financing lease for $0.1 million along with $0.4 million distribution to the non-controlling interest were the most significant outflows. During the year ended December 31, 2016, the Company also received $0.3 million cash contribution from the non-controlling interest.

Cash inflows from financing activities were $3.5 million for the year ended December 31, 2015. The financing activities having the most significant impact during year ended December 31, 2015 are related to the $6.0 million proceeds from the Loan described above, the payment of $0.3 million of debt issue costs, the payment of $0.3 million interest and the net $1.6 million cash contribution received from the non-controlling interest. During the year ended December 31, 2015, the Company also fully repaid the long-term debt with Waterton Global for an amount of $3.4 million and made repayments on the loan on mobile equipment.

NON-IFRS PERFORMANCE MEASURES

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 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.

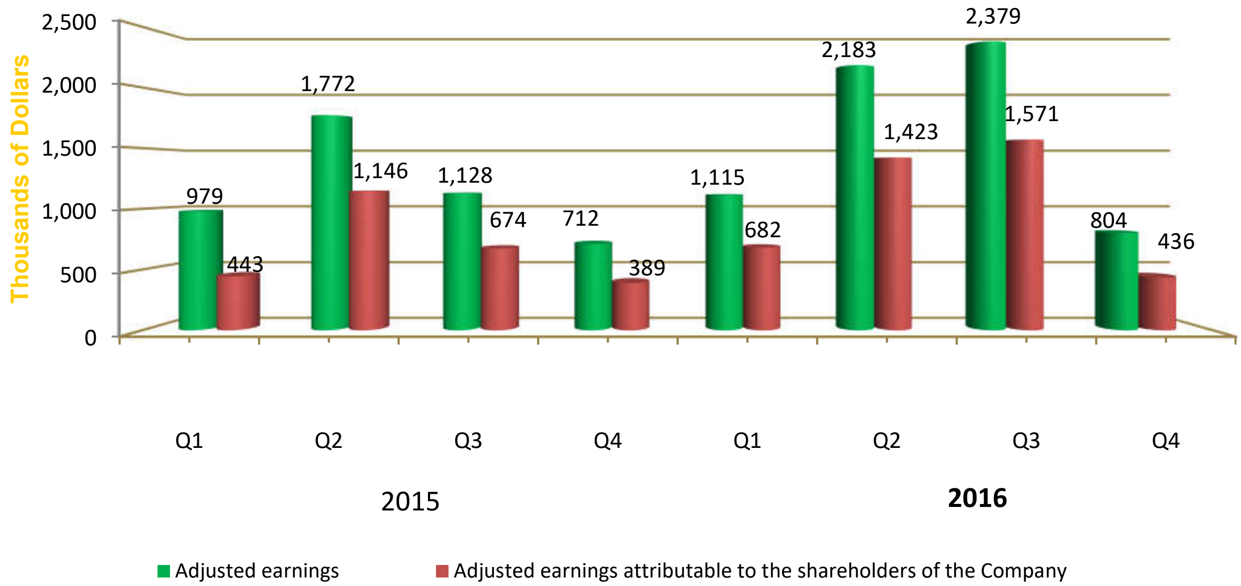
The term “Adjusted Net Earnings” does not have a standardized meaning prescribed by IFRS, and therefore the Company’s definitions are unlikely to be comparable to similar measures presented by other companies. Management believes that the presentation of Adjusted Net Earnings provides useful information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

	Three months ended December 31, 2016	Three months ended December 31, 2015	**Year ended December 31, 2016**	Year ended December 31, 2015
	$	$	**$**	$
Net (loss) earnings for the periods	**(4,270)**	(4,665)	**339**	(17,986)
Share-based compensation	**1**	-	**167**	183
Gain on disposal of investments	**-**	-	**-**	(172)
Loss (gain) on disposal and write-off of mining assets	**436**	(14)	**1,432**	43
Impairments of mining assets	**3,624**	4,946	**3,624**	21,888
Loss on litigation	**1,015**	-	**1,015**	-
Foreign exchange loss	**3**	1	**-**	191
Deferred income tax expense (recovery)	**(5)**	444	**(96)**	444
Adjusted net earnings for the periods	**804**	712	**6,481**	4,591
Non-controlling interest	**(368)**	(323)(1)	**(2,369)**	(1,939)(1)
Adjusted net earnings for the periods attributable to the shareholders of the Company	**436**	389(1)	**4,112**	2,652(1)
Adjusted basic and diluted net earnings per share	**0.00**	0.00	**0.03**	0.02

(1) Please see Equity section.

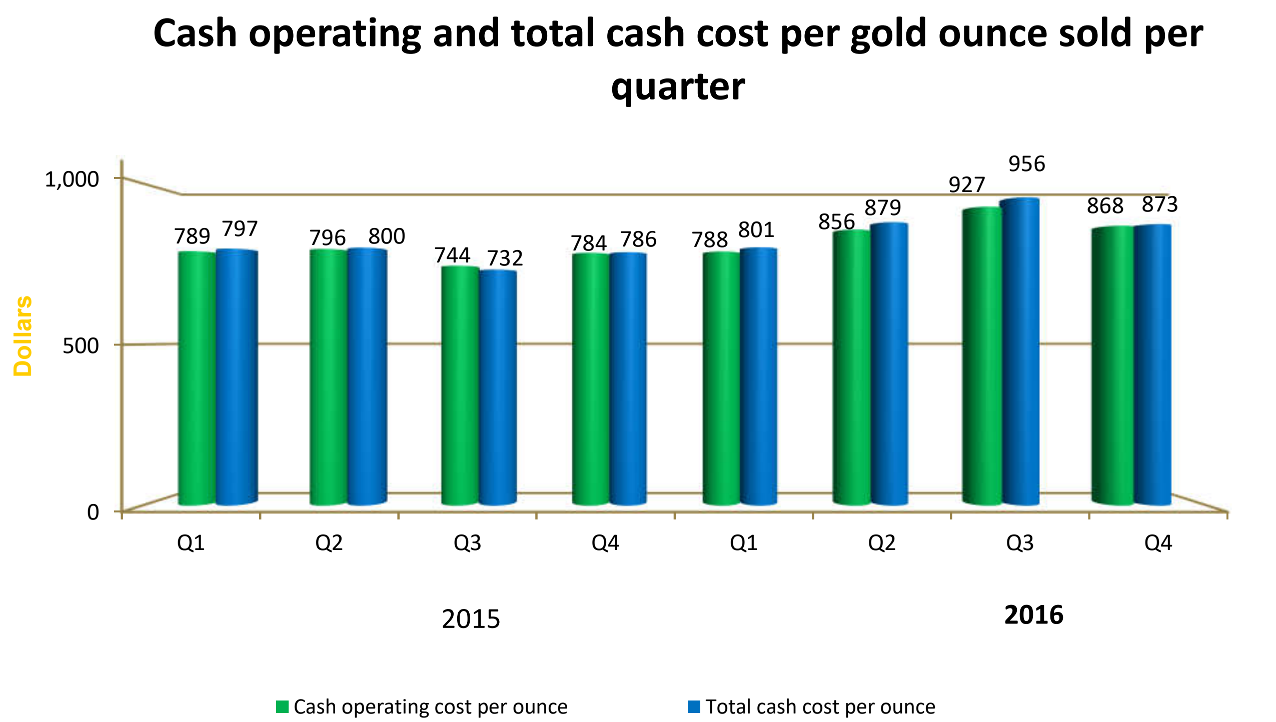
Adjusted net earnings



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 consolidated financial statements.

	Three months ended December 31, 2016	Three months ended December 31, 2015	**Year ended December 31, 2016**	Year ended December 31, 2015
	$	$	**$**	$
Cash costs				
Cost of sales excluding depletion and amortization per consolidated financial statements	**5,468**	7,649	**31,566**	31,357
Share-based compensation	**-**	-	**(95)**	(98)
Inventory adjustment	**101**	244	**(1,155)**	(437)
By-product silver sales	**(57)**	(68)	**(270)**	(296)
Royalties	**(41)**	(25)	**(201)**	(48)
Cash operating costs	**5,471**	7,800	**29,845**	30,478
Nevada net proceeds tax- current	**34**	23	**664**	44
Total cash cost	**5,505**	7,823	**30,509**	30,522
Divided by ounces of gold sold	**6,309**	9,955	**34,624**	39,096
Cash operating cost per gold ounce sold	**868**	784	**862**	780
Total cash costs per gold ounce sold	**873**	786	**881**	781


Cash operating and total cash cost per gold ounce sold per quarter
Dollars
1,000
500
0
789
797
796
800
744
732
784
786
788
801
856
879
927
956
868
873
Q1
Q2
Q3
Q4
Q1
Q2
Q3
Q4
2015
2016
Cash operating cost per ounce
Total cash cost per ounce

Adjusted EBITDA

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

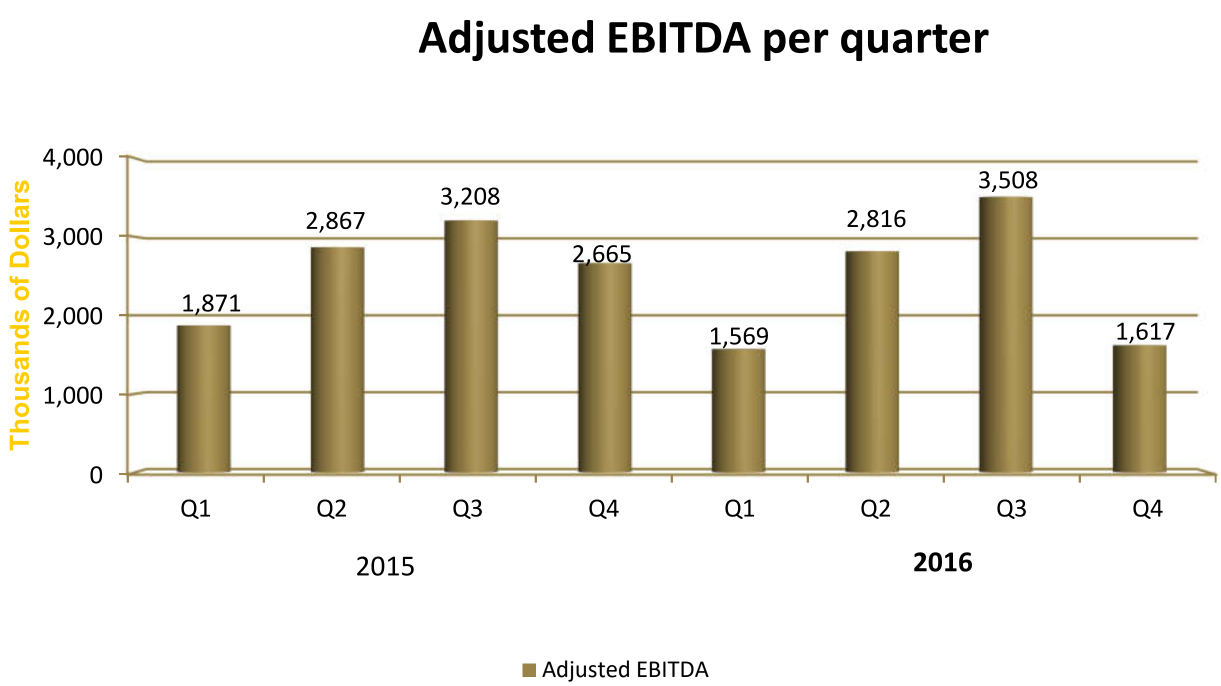
- Finance costs;
- Depletion and amortization; and
- Income tax expense

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", "Gain on disposal of investment', "gain or loss on write-off and disposal of mining assets", "foreign exchange loss or gain", "loss on litigation" and "impairment of mining assets". 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 consolidated financial statements:

	Three months ended December 31, 2016	Three months ended December 31, 2015	**Year ended December 31, 2016**	Year ended December 31, 2015
	$	$	**$**	$
Net (loss) earnings for the periods	**(4,270)**	(4,665)	**339**	(17,986)
Finance costs	**198**	197	**785**	415
Depletion and amortization	**582**	1,733	**1,580**	5,561
Income tax expense	**28**	467	**568**	488
Standardized EBITDA	**(3,462)**	(2,268)	**3,272**	(11,522)
Share-based compensation	**1**	-	**167**	183
Gain on disposal of investment	**-**	-	**-**	(172)
Loss (gain) on write-off and disposal and of mining assets	**436**	(14)	**1,432**	43
Foreign exchange loss	**3**	1	**-**	191
Loss on litigation	**1,015**	-	**1,015**	-
Impairments of mining assets	**3,624**	4,946	**3,624**	21,888
Adjusted EBITDA	**1,617**	2,665	**9,510**	10,611
Non-controlling interest	**(557)**	(855)[1]	**(3,062)**	(3,631)[1]
Adjusted EBITDA attributable to the shareholders of the Company	**1,060**	1,810[1]	**6,448**	6,980[1]
Adjusted basic and diluted EBITDA per share	**0.01**	0.01	**0.05**	0.06[1]

(1) Please see Equity section.



SELECTED QUARTERLY FINANCIAL AND OPERATING SUMMARY FOR QUARTERS ENDED

	SEPTEMBER 2015	DECEMBER 2015	MARCH 2016	JUNE 2016	SEPTEMBER 2016	DECEMBER 2016
Mining operations						
Mary LC pit						
Ore tonnes mined	83,577	119,891	146,872	138,795	119,574	148,161
Waste tonnes mined	941,334	743,394	703,030	919,453	919,556	977,246
Total mined	1,024,911	863,285	849,902	1,058,248	1,039,130	1,125,407
Strip ratio	11.3	6.2	4.8	6.6	7.7	6.6
Satellite pits						
Ore tonnes mined	127,546	245,569	103,252	39,493	48,029	6,028
Waste tonnes mined	990,728	769,186	227,056	139,664	152,883	5,888
Total mined	1,118,274	1,014,755	330,308	179,157	200,912	11,916
Strip ratio	7.8	3.1	2.2	3.5	3.2	1.0
Mary pit						
Ore tonnes mined	5,695	-	-	-	-	-
Waste tonnes mined	10,311	-	-	-	-	-
Total mined	16,006	-	-	-	-	-
Strip ratio	1.8	-	-	-	-	-
Total producing pits						
Ore tonnes mined	216,818	365,460	250,124	178,288	167,603	154,189
Waste tonnes mined	1,942,373	1,512,580	930,086	1,059,117	1,072,439	983,134
Total mined	2,159,191	1,878,040	1,180,210	1,237,405	1,240,042	1,137,323
Strip ratio	9.0	4.1	3.7	5.9	6.4	6.4
Pits under development:						
Ore tonnes mined	-	-	-	-	-	-
Waste tonnes mined	-	-	55,622	67,732	25,876	160,672
Total mined	-	-	55,622	67,732	25,876	160,672
Total mining operations						
Ore tonnes mined	216,818	365,460	250,124	178,288	167,603	154,189
Waste tonnes mined	1,942,373	1,512,580	985,708	1,126,849	1,098,315	1,143,806
Total mined	2,159,191	1,878,040	1,235,832	1,305,137	1,265,918	1,297,995

	SEPTEMBER 2015	DECEMBER 2015	MARCH 2016	JUNE 2016	SEPTEMBER 2016	DECEMBER 2016
Processing						
Tonnes processed	213,957	265,017	251,587	275,551	176,901	142,101
Gold head grade (grams per tonne)	1.59	1.66	1.65	1.33	1.35	1.37
Availability	45.0%	59.3%	59.1%	58.9%	41.3%	30.3%
Ounces produced						
Gold	9,497	9,503	8,508	10,089	9,981	8,301
Silver	4,927	4,905	3,921	4,325	4,630	4,074
Precious Meal Sales (ounces)						
Gold	8,516	9,955	8,300	10,015	10,000	6,309
Silver	4,168	4,755	4,000	4,425	4,450	3,448
Exploration Drilling						
Holes	204	111	116	32	6	31
Meters	18,163	9,612	16,465	3,353	691	3,859
Financial results						
	$	$	$	$	$	$
Cash operating cost per ounce of gold sold (1)	744	784	788	856	927	868
Total cash cost per ounce of gold sold (1	732	786	801	879	956	873
Average price of gold						
London PM fix	1,124	1,107	1,183	1,260	1,335	1,222
Realized	1,089	1,081	1,129	1,234	1,324	1,191
Net (loss) earnings	(15,823)	(4,665)	1,079	1,199	2,331	(4,270)
Net (loss) earnings per share	(0.11)	(0.03)	0.01(2)	0.01(2)	0.01	(0.03)
Adjusted net earnings	1,128	712	1,115	2,183	2,379	804
Adjusted basic and diluted net earnings per share (1)	0.01	0.00	0.01(2)	0.01	0.01	0.00
Adjusted EBITDA (1)	3,208	2,665	1,569	2,816	3,508	1,617
Adjusted basic and diluted EBITDA per share (1)	0.02	0.01	0.01	0.02	0.02	0.01

(1) For further information and a detailed reconciliation, refer to section "Non-IFRS performance measures".
(2) 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 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 December 31, 2016.

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 other 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 years ended December 31, 2016 and December 31, 2015 is as follows:

	2016	2015
	$	$
Salaries and directors fees	**837**	895
Consulting fee with directors	**6**	44
Share-based compensation [1]	**68**	84
Severance	**-**	250
	911	1,273

[1] Share-based compensation is the fair value of options expensed during the period to key management personnel and directors.

During the year ended December 31, 2016, the Company incurred legal services of $5,415 with David Smalley Law Corporation and consulting fees of $745 with Peter J. Hawley.

During the year ended December 31, 2015, the Company incurred consulting fees of $44,216 with Brigill Investments Ltd, a firm controlled by Brian Lock, a director of the Company. These services were incurred in the normal course of operations in relation to a scoping study on the design and construction of a potential gold/silver processing and refining facility at the Mineral Ridge mine in Nevada and for corporate financing work.

As at December 31, 2016, an aggregate of $112,125 (2015, $103,219) resulting from transactions with key management is included in trade and other payables.

Other than a severance payment indicated above, key management personnel were not paid post-employment benefits, termination benefits, or other long-term benefits during the years ended December 31, 2016 and December 31, 2015.

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 and Elevon are related parties of the Company.

Related party transactions entered into with Waterton Fund during years ended December 31, 2016 and December 31, 2015 are as follows:

	2016	2015
	$	$
Interest on long-term debt	**600**	228
Debt structuring fee	**-**	120
	600	348

c) Elevon

In connection with the Loan with Waterton Fund completed on August 14, 2015, the Company modified the Mineral Ridge operating agreement so that the Company would owe and accrue to Elevon an amount equal to 10% of aggregate amounts actually distributed to the Company and Elevon by MRG, LLC (the “Accrued Distribution Amount”). The Accrued Distribution Amount shall become due and payable by the Company upon a change of control of the Company, or if the settlement price of gold on the LBMA PM fix is equal to or exceeds US$1,350 per ounce. The Company and Elevon also agreed that following payment of the Accrued Distribution Amount, Elevon will remain entitled to receive 30% of all further distributions by MRG.

An Accrued Distribution Amount of $35,714 was paid in early July 2016 after the settlement price of gold on the LBMA PM exceeded US$1,350 per ounce. As a consequence, Elevon, LLC is entitled to receive 30% of cash distributions from MRG.

FINANCIAL INSTRUMENTS

a) Financial risk factors

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

(i) Credit risk

Credit risk is the risk of loss associated with a counterparty’s inability to fulfill its payment obligations. The Company’s credit risk is attributable to cash, restricted cash, trade and other receivables and reclamation bonds. The credit risk on cash, restricted cash as well as reclamation bonds is limited because the Company invests its cash, restricted cash and reclamation bonds in deposits with well capitalized financial institutions with strong credit ratings. Trade receivables on regular precious metal sales are generally received within a week after delivery. The Company has no past due accounts and has not recorded a provision for doubtful accounts.

(ii) 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	4,118	4,118	-	-	-
Principal and interest on long-term debt and financing lease	7,248	728	6,520	-	-
Provision for litigation	1,015	1,015	-	-	-
Provision for environmental rehabilitation	4,990	163	2,889	1,441	497

(iii) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and price risk.

1) Interest rate risk

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's senior secured, non-revolving credit facility is fixed at an interest rate of 10% per annum and accordingly is not subject to cash flow interest rate risk due to changes in the market rate of interest. The Company does not use financial derivatives to manage its exposure to interest rate risk.

2) Currency Risk

The Company is exposed to foreign currency risk through the following financial assets and liabilities denominated in Canadian dollars ("CAD$") and presented in thousands of US dollars.

	2016	2015
	$	$
Cash	**117**	**144**
Value added tax and other receivables	**3**	**2**
Trade and other payables	**(10)**	**(7)**

A reasonably possible change in the USD/CAD exchange rate of 10%, would not have a significant impact on net earnings or comprehensive income.

The Company does not use derivatives to manage its exposure to currency risk.

3) Price Risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments in the market. The Company is not exposed to any significant price risk as at December 31, 2016. The Company does not use derivatives to manage its exposure to price risk.

b) Fair Value

The fair value of cash, restricted cash, trade and other receivables, reclamation bonds as well as 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.

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability (for example, interest rate and yield curves observable at commonly quoted intervals, forward pricing curves used to value currency and commodity contracts and volatility measurements used to value option contracts), or inputs that are derived principally from or corroborated by observable market data or other means.
- Level 3 inputs are unobservable (supported by little or no market activity).

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. The Company has no financial instruments classified as Level 1, Level 2 or Level 3. There has been no transfers between levels of the fair value hierarchy.

RISKS AND UNCERTAINTIES

The financing, exploration, development and exploitation of the Company's properties and the operation of the Company's business are subject to a number of factors, including metal prices, laws and regulations, political conditions, currency fluctuations, hiring qualified people and obtaining necessary services in jurisdictions where the Company operates.

The following is a brief discussion of those distinctive or special characteristics of the Company's operations and industry that have a material impact on, or constitute risk factors in respect of the Company's future financial performance.

The risks below are not the only ones facing the Company. Additional risks not currently known to the Company, or that the Company currently deems immaterial may also impair the Company's operations. The order in which the following risk factors appear does not necessarily reflect management's opinion of their order or priority.

Limited Operating History

The Company commenced mineral exploitation operations in 2011 and the Mineral Ridge project commenced commercial production in 2012 and has a limited history of earnings. There are limited known commercial quantities of mineral reserves on the Company's properties. The likelihood of success of the Company must be considered in light of the problems, expenses, difficulties, complications and delays frequently encountered in connection with the establishment of any business. The Mineral Ridge mine has a limited mine life which currently extends through August 2017 and there can be no assurance that the life of mine can be extended. It is the Company's only operating mine at the present time.

The Company has limited financial resources and there is no assurance that additional funding will be available to it for further operations or to fulfill its obligations under applicable agreements. There can be no assurance that the Company can generate revenues, operate profitably, or provide a return on investment, or that it will successfully implement its plans.

Exploration and Development Risks

Resource exploration and development is a speculative business, characterized by a number of significant risks including, among other things, unprofitable efforts resulting not only from the failure to discover mineral deposits but also from finding mineral deposits that, though present, are insufficient in quantity and quality to return a profit from production. The price and marketability of minerals acquired or discovered by the Company may be affected by numerous factors that are beyond the control of the Company and that cannot be accurately predicted, such as market fluctuations, the proximity and capacity of milling facilities, mineral markets and processing equipment, and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting minerals and environmental protection, the combination of which factors may result in the Company not receiving an adequate return of investment capital. Certain of the claims to which the Company has a right to acquire an interest or the claims which the Company has an interest in are in the exploration stage only and are without a known body of commercial ore. Development of the subject mineral properties would follow only if favourable exploration results are obtained.

The business of exploration for minerals and mining involves a high degree of risk. Few properties that are explored are ultimately developed into producing mines. There is no assurance that the Company's mineral exploration and development activities will result in any discoveries of commercial bodies of ore. The long-term profitability of the Company's operations will, in part, be directly related to the costs and success of its exploration programs, which may be affected by a number of factors.

Substantial expenditures are required to establish reserves through drilling and to develop the mining and processing facilities and infrastructure at any site chosen for mining. Although substantial benefits may be derived from the discovery of a major mineralized deposit, no assurance can be given that minerals will be discovered in sufficient quantities to justify commercial operations or that funds required for development can be obtained on a timely basis.

The Company has one producing mine, the Mineral Ridge Gold mine, in Nevada, USA, at the present time. The economics of developing gold, silver and other mineral properties is affected by many factors including the cost of operations, variations in the grade of ore mined, fluctuations in metal markets, costs of processing equipment and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals and environmental protection. Properties on which mineral reserves are not found will have to be discarded causing the Company to write each respective property off, thus sustaining a loss.

The mineral reserve and resource estimates contained or referred to in this MD&A or the Company's other disclosure documents are only estimates and no assurance can be given that any particular level of recovery of minerals will be realized or that an identified reserve or resource will qualify as a commercially mineable (or viable) deposit which can be legally and economically exploited. The Company relies on laboratory-based recovery models and historical performance of its processing plant to project estimated ultimate recoveries by ore type at optimal crush sizes. Actual recoveries in a commercial mining operation may exceed or fall short of projected laboratory test results.

In addition, the grade of mineralization ultimately mined may differ from the grades indicated by the drilling results and the difference may be material. Production can be affected by such factors as permitting regulations and requirements, weather, environmental factors, unforeseen technical difficulties, unusual or unexpected geological formation, inaccurate or incorrect geologic, metallurgical or engineering work, and work interruptions, among other things. Short-term factors, such as the need for an orderly development of deposits or the processing of new or different grades, may have an adverse effect on mining operations or the results of those operations. There can be no assurance that minerals recovered in small scale laboratory tests will be duplicated in large scale tests under on-site conditions or in production scale operations and there can be no assurance that historical performance of the processing plant will continue in the future. Material changes, inaccuracies or reductions in proven and probable reserves or resource estimates, grades, waste-to-ore ratios or recovery rates could have a material adverse impact on the Company's future operations, cash flows, earnings, results of operations, financial condition and the economic viability of projects. The estimated proven and probable reserves and resources described herein should not be interpreted as assurances of mine life or of the profitability of future operations.

The Company has engaged expert independent technical consultants to advise it on, among other things, mineral reserves and resources, metallurgy and project engineering. The Company believes that these experts are competent and that they have carried out their work in accordance with all internationally recognized industry standards. If, however, the work conducted by, and the mineral reserve and resource estimates of these experts are ultimately found to be incorrect or inadequate in any material respect, such events could materially and adversely affect the Company's future operations, cash flows, earnings, results of operations, financial condition and the economic viability of its projects.

The Mineral Ridge mine has a limited mine life which currently extends through August of 2017. The Company has applied for permits to expand and extend operations. There can be no assurance that the life of mine can be extended. It is the Company's only operating mine at the present time.

Lack of Availability of Resources

Mineral exploration requires ready access to mining equipment such as drills, and crews to operate that equipment. There can be no assurance that such resources will be available to the Company on a timely basis or at a reasonable cost. Failure to obtain these resources when needed may result in delays in the Company's exploration programs.

Requirement for Additional Financing

The further exploration development and exploitation of the Company's projects may depend upon the Company's ability to obtain financing through equity financing, joint ventures, debt financing, or other means. There is no assurance that the Company will be successful in obtaining required financing as and when needed. Volatile markets for precious and base metals may make it difficult or impossible for the Company to obtain equity financing or debt financing on favourable terms or at all. Failure to obtain additional financing on a timely basis may cause the Company to postpone its development plans, forfeit rights in some or all of its properties or reduce or terminate some or all of its operations.

Uninsurable Risks

The Company's business is subject to a number of risks and hazards generally, including adverse environmental conditions, industrial accidents, labour disputes, unusual or unexpected geological conditions, ground or slope failures, cave-ins, changes in the regulatory environment and natural phenomena such as inclement weather conditions, floods and earthquakes. Such occurrences could result in damage to mineral properties or production facilities, personal injury or death, environmental damage to the Company's properties or the properties of others, delays in mining, monetary losses and possible legal liability.

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

Environmental Regulations, Permits and Licenses

The Company's operations may be subject to environmental regulations promulgated by government agencies from time to time. Environmental legislation provides for restrictions and prohibitions on spills, releases or emissions of various substances produced in association with certain mining industry operations, such as seepage from tailings disposal areas, which would result in environmental pollution. A breach of such legislation may result in the imposition of fines and penalties. In addition, certain types of operations require the submission and approval of environmental impact assessments.

Environmental legislation is evolving in a manner that means standards are stricter, and enforcement, fines and penalties for non-compliance are more stringent. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and directors, officers and employees. The cost of compliance with changes in governmental regulations has a potential to reduce the profitability of operations.

The Company intends to comply fully with all environmental regulations. The current or future operations of the Company, including development activities and commencement of production on its properties, require permits from various federal, provincial, state and local governmental authorities, and such operations are and will be governed by laws and regulations governing prospecting, development, mining, production, exports, taxes, labour standards, occupational health, waste disposal, toxic substances, land use, environmental protection, mine safety and other matters.

Applications for permitting for the development of additional pits, as well as expansion of the heap leach pad have been made to both the BLM and the Nevada Division of Environmental Protection – Bureau of Mining Regulation and Reclamation ("NDEP-BMRR"). If these additional permits are not granted in a timely manner, or if the costs in obtaining these are too expensive for the Company to proceed, this could have an adverse effect on the Company.

Such operations and exploration activities are also subject to substantial regulation under applicable laws by governmental agencies that may require the Company to obtain permits from various governmental agencies. There can be no assurance, however, that all permits that the Company may require for its operations and exploration activities will be obtainable on reasonable terms or on a timely basis or that such laws and regulations will not have an adverse effect on any mining project which the Company might undertake.

Failure to comply with applicable laws, regulations, and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations and, in particular, environmental laws.

Amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in capital expenditures or production costs or reduction in levels of production at producing properties or require abandonment or delays in the development of new mining properties.

To the best of the Company's knowledge, it is operating in all material respects in compliance with all applicable rules and regulations

Mineral Exploration and Mining Carry Inherent Risks

Mining operations are subject to hazards normally encountered in exploration, development and production. These include unexpected geological formations, rock falls, flooding, dam wall failure and other incidents or conditions which could result in damage to plant or equipment or the environment and which could impact production throughput. Although it is intended to take adequate precautions to minimize risk, there is a possibility of a material adverse impact on the Company's operations and its financial results.

Title Risks

Although the Company has exercised the usual due diligence with respect to determining title to properties in which it has a material interest, there is no guarantee that title to such properties will not be challenged or impugned. The Company's mineral property interests may be subject to prior unregistered agreements or transfers or native land claims and title may be affected by undetected defects. Surveys have not been carried out on any of the Company's mineral properties in accordance with the laws of the jurisdiction in which such properties are situated; therefore, their existence and area could be in doubt.

Until competing interests in the mineral lands have been determined, the Company can give no assurance as to the validity of title of the Company to those lands or the size of such mineral lands.

Aboriginal Land Claims

The Company's mineral properties could become subject to aboriginal land claims to title, which could adversely affect the Company's title to its properties. While the Company actively consults with all groups which may be adversely affected by the Company's activities, including aboriginal groups, there can be no assurance that satisfactory agreements can be reached.

Competition

The mining industry is intensely competitive in all its phases, and the Company competes with other companies that have greater financial resources and technical facilities. Competition could adversely affect the Company's ability to acquire additional suitable properties or prospects in the future.

Management

The success of the Company is currently largely dependent on the performance of its board of Directors and senior management. The loss of the services of these persons will have a material adverse effect on the Company's business and prospects. There is no assurance the Company can maintain the services of its board and management or other qualified personnel required to operate its business. Failure to do so could have material adverse effect on the Company and its prospects.

Metal Prices are Volatile

The mining industry is intensely competitive and there is no assurance that, even if commercial quantities of a mineral resource are discovered, a profitable market will exist for the sale of the same. There can be no assurance that metal prices will be such that the Company's properties can be mined at a profit. Factors beyond the control of the Company may affect the marketability of any minerals discovered. Metal prices are subject to volatile price changes from a variety of factors including international economic and political trends, expectations of inflation, global and regional demand, currency exchange fluctuations, interest rates and global or regional consumption patterns, speculative activities and increased production due to improved mining and production methods. The supply of, and demand for, the Company's principal product and exploration target, gold, is affected by various factors, including political events, economic conditions and production costs.

Infrastructure

Mining, processing, development and exploration activities depend, to one degree or another, on adequate infrastructure. Reliable roads, bridges, power sources and water supply are important determinants which affect capital and operating costs. Unusual or infrequent weather phenomena, terrorism, sabotage, government or other interference in the maintenance or provision of such infrastructure could adversely affect the Company's operations, financial condition and results of operations.

Conflict of Interests

Certain of the directors and officers of the Company are directors or officers of, or may have significant shareholdings in other mineral resource companies and, to the extent that such other companies may participate in ventures in which the Company may participate or may wish to participate, the directors of the Company may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. Such other companies may also compete with the Company for the acquisition of mineral property rights.

In the event that any such conflict of interest arises, a director or officer who has such a conflict will disclose the conflict to a meeting of the directors of the Company and, if the conflict involves a director, the director will abstain from voting for or against the approval of such a participation or such terms. In appropriate cases, the Company will establish a special committee of independent directors to review a matter in which several directors, or management, may have a conflict. From time to time, several companies may participate in the acquisition, exploration and development of natural resource properties thereby allowing their participation in larger programs, permitting involvement in a greater number of programs and reducing financial exposure in respect of any one program.

It may also occur that a particular company will assign all or a portion of its interest in a particular program to another of these companies due to the financial position of the company making the assignment. In accordance with the provisions of the Business Corporations Act (British Columbia), the directors and officers of the Company are required to act honestly and in good faith, with a view to the best interests of the Company.

In determining whether or not the Company will participate in a particular program and the interest therein to be acquired by it, the directors will primarily consider the potential benefits to the Company, the degree of risk to which the Company may be exposed and its financial position at that time.

Key Personnel

Recruiting and retaining qualified personnel is critical to the Company's success. The number of persons skilled in the acquisition, exploration and development of mining properties is limited and competition for such persons is intense. As the Company's business activity grows, it will require additional key financial, administrative, mining, marketing and public relations personnel as well as additional staff on the operations side. Although the Company believes that it will be successful in attracting and retaining qualified personnel, there can be no assurance of such success.

Operations Dependent on Revenues and Financings

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. The successful completion of a refinancing of the Company's debt and ability to identify future profitable business operations beyond the mine plan is not entirely within the control of the Company.

The continued operation of the Company will be dependent upon its ability to generate operating revenues and to procure additional financing. There can be no assurance that any such revenues can be generated or that other financing can be obtained. If the Company is unable to generate such revenues or obtain such additional financing, any investment in the Company may be lost. In such event, the probability of resale of securities of the Company would be diminished.

As of December 31, 2016, the Company had cash of approximately $3.8 million. The Company will use current cash and future cash flow from operations to fund exploration and development work, additional required mine capital, for general corporate purposes and for repayment of its debt when due. There can be no assurance that operating cash flows will be sufficient to cover these liabilities, which would otherwise require the Company to raise additional financing. The Company may also encounter significant unanticipated liabilities or expenses. The Company's ability to continue its planned exploration, development and mining activities depends in part on its ability to maintain or to generate free cash flow from its operating mine, which is subject to certain risks and uncertainties. The Company may be required to obtain additional financing in the future to fund exploration and development activities, mine capital expenditures or acquisitions of additional projects. Moreover, given the short remaining life of the Mineral Ridge mine, the availability of mineralized materials 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.

The Company has historically raised capital primarily through debt and equity financing and in the future may raise capital through equity or debt financing, joint ventures or other means. There can be no assurance that the Company will be able to obtain the necessary financing in a timely manner, on acceptable terms or at all.

The Company prepares estimates of mine production for the Mineral Ridge mine project. The Company cannot give any assurance that it will achieve its production estimates. The failure of the Company to achieve its production estimates could have a material and adverse effect on any or all of its future cash flows, results of operations and financial condition. These production estimates are dependent on, among other things, the accuracy of mineral reserve estimates, the accuracy of assumptions regarding ore grades and recovery rates, ground conditions and physical characteristics of ores and the accuracy of estimates rates and costs of mining and processing.

The Company's actual production may vary from its estimates for a variety of reasons, including actual ore mined varying from estimates of grade, tonnage, dilution and metallurgical and other characteristics; short-term operating factors such as the need for sequential development of ore bodies and the processing of new or different ore grades from those planned; mine failures or equipment failures; industrial accidents; natural phenomena such as inclement weather conditions, floods, droughts, landslides and earthquakes; encountering unusual or unexpected geological conditions; changes in power costs and potential power shortages; shortages of principal supplies needed for operation, including explosives, fuels, chemical reagents, water, equipment parts and lubricants; labour shortages or strikes; civil disobedience and protests; and restrictions or regulations imposed by government agencies or other changes in the regulatory environments. Such occurrences could result in damage to mineral properties, interruptions in production, injury or death to persons, damage to property of the Company or others, monetary losses and legal liabilities. These factors may cause a mineral deposit that has been mined profitably in the past to become unprofitable, forcing the Company to cease production.

It is not unusual in mining operations to experience unexpected problems, including during development and expansion stages. As a result of the foregoing risks and, in particular, given the Company's short remaining life of mine and its plans to further explorations of the project, expenditures on the project, actual production quantities and rates, and cash costs may be materially and adversely affected and may differ materially from anticipated expenditures, production quantities and rates, and costs. Any such events could materially and adversely affect the Company's business, financial condition, results of operations and cash flows.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Critical Accounting Estimates

The preparation of its consolidated financial statements requires the Company to use estimates and assumptions that affect the reported amounts of assets and liabilities as well as revenues and expenses.

The Company's discussion and analysis of its financial condition and results of operations is based upon its consolidated financial statements, which have been prepared in accordance with IFRS. The Company's significant accounting policies are contained in Note 3 to the consolidated financial statements for the year ended December 31, 2016 which also discusses changes in those policies.

Certain of these policies involve critical judgements because they require the Company to make particularly subjective or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts could be reported under different conditions or using different assumptions.

Information about critical judgements and estimates in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are as follows. Management considers these estimates to be an important part of understanding the Company's consolidated financial statements.

Critical judgments:

i) Capitalization of exploration and evaluation costs and determination of economic viability of a project

Management has determined that exploration, development and evaluation costs incurred which were capitalized have future economic benefits. Management uses several criteria in its assessment of economic recoverability and probability of future economic benefit including geological and metallurgical information, accessible facilities, existing permits and life of mine plans.

ii) Determination of functional currency

The functional currency of the Company and its US subsidiaries is the currency of the primary economic environment in which the entity operates. The Company has determined that its functional currency and that of its US subsidiaries' functional currency is the US dollar. Determination of functional currency may involve certain judgments to determine the primary economic environment in which the entity operates and the Company reconsiders functional currency if there is a change in events and conditions which determined the primary economic environment.

iii) Commencement of commercial production

Prior to reaching commercial production of a mine, costs incurred are capitalized as part of the costs of related non-producing mining assets and proceeds from precious metal sales are offset against costs capitalized. Depletion of capitalized costs for mining properties begins when commercial production has been reached.

Commercial production is deemed to have commenced when management determines that the completion of operational commissioning of the mine and plant is completed, operating results are being achieved consistently for a period of time and there are indications that these operating results will be continued.

The Company determines commencement of commercial production based on the following factors which indicate that planned principal operations have commenced:

(a) A significant portion of plant capacity is consistently achieved,
(b) All necessary permits have been obtained; and,
(c) A pre-determined, reasonable period of time has passed.

iv) Commencement of commercial production of an open pit

Prior to reaching commercial production for an open pit, costs incurred are capitalized as part of the costs of related non-producing mining assets. Depletion of capitalized costs for mining properties begins when commercial production has been reached.

In order to determine when commercial production of an open pit is deemed to have commenced, management considers various operating results compared to expectations, sustainability of those operating results and other qualitative factors.

Estimates:

i) Asset carrying values and impairment

The Company performs impairment testing when impairment indicators are present. In the determination of carrying values and impairment charges, management considers the recoverable amount which is the greater of fair value less costs of disposal and value in use in the case of mining assets. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period.

a) Mineral Ridge mine

The fact the carrying amount of the net assets of the Company was higher than the Company’s market capitalization as of December 31, 2016 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 the value in use. 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 $5.3 million would be required, using a discount rate of 9% along with an average gold price assumption of $1,225 for 2017. However, since the depreciable amount of the assets, being defined as the net of the carrying amounts and the residual value, amounted to $3.1 million, the Company recorded a $3.1 million non-cash impairment charge for Mineral Ridge as at December 31, 2016.

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% change 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.

During the year ended December 31, 2015, the Company recorded non-cash impairment charges of $26.9 million, using a discount rate of 9% along with an average gold price assumption varying of $1,216 for 2016 and $1,250 thereafter. During the year ended December 31, 2015, the Company also reconsidered building a processing facility at the Mineral Ridge mine and thus recognized a non-cash impairment loss of $0.5 million related to expenditures incurred to date by the Company on that project. During the year ended December 31, 2015, the Company also recognized an impairment loss of $0.5 million on certain non-producing mining assets.

b) Goldwedge property and mill

The fact the carrying amount of the net assets of the Company was higher than the Company’s market capitalization as of December 31, 2016 is an indicator of impairment. In determining the recoverable amount of the Goldwedge CGU, the Company determined the recoverable value using the fair value less costs of disposal using Level 3 valuation inputs. The Company also includes in its estimate an estimated amount for costs to sell the CGU. Based on its assessment, the Company recorded a non-cash impairment charge of $0.5 million (2015; $9.9 million) during the year ended December 31, 2016.

ii) Estimation of asset lives and residual values

Depletion, depreciation and amortization expenses are allocated based on assumed asset lives and estimated residual values. Should the asset life, residual values, depletion rates or depreciation rates differ from the initial estimate, an adjustment would be made in the consolidated statements of operations.

iii) Mineral reserve estimates

The figures for mineral reserves and mineral resources are determined in accordance with National Instrument 43-101, “Standards of Disclosure for Mineral Projects”, issued by the Canadian Securities Administrators. There are numerous uncertainties inherent in estimating mineral reserves and mineral resources, including many factors beyond the Company's control. Such estimation is a subjective process, and the accuracy of any mineral reserve or mineral resource estimate is a function of the quantity and quality of available data and of the assumptions made and judgments used in engineering and geological interpretation. Differences between management's assumptions including economic assumptions such as metal prices and market conditions could have a material effect in the future on the Company's financial position and results of operation.

iv) Recognition of deferred taxes

In assessing the probability of realizing income tax assets, management makes estimates related to expectations of future taxable income, applicable tax opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified.

Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. Forecasted cash flows from operations are based on life of mine projections internally developed and reviewed by management. Weight is attached to tax planning opportunities that are within the Company's control, and are feasible and implementable without significant obstacles. The likelihood that tax positions taken will be sustained upon examination by applicable tax authorities is assessed based on individual facts and circumstances of the relevant tax position evaluated in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates may occur that materially affect the amounts of income tax assets recognized. At the end of each reporting period, the Company reassesses unrecognized deferred income tax assets.

v) Estimation of environmental rehabilitation and the timing of expenditure and related accretion

The Company's provision for environmental rehabilitation represents management's best estimate of the present value of the future cash outflows required to settle estimated reclamation and closure costs at the end of mine's life. The provision reflects estimates of future costs, inflation and assumptions of risks associated with the future cash outflows, and the applicable interest rates for discounting the future cash outflows. Changes in the above factors can result in a change to the provision recognized by the Company.

Changes to the provision for environmental rehabilitation are recorded with a corresponding change to the carrying amounts of related mining properties. Adjustments to the carrying amounts of related mining properties can result in a change to future depletion expense.

vi) Stripping activity asset

In the determination of its stripping activity asset and depreciation charge, management uses mineral reserve estimates which are subject to numerous uncertainties inherent in estimating mineral reserves and mineral resources. Differences between management's estimates in mineral reserves and resources could have a material effect in the future on the Company's financial position and results of operation. Changes in estimated strip ratios can also result in a change to the future capitalization of stripping activity asset.

vii) Inventories

In determining cost of inventories, management makes estimates of quantities of ore stacked on leach pad and in process and the recoverable gold in this material to determine the average costs of finished goods sold during the period. Changes in these estimates can result in a change in cost of sales excluding depletion and amortization of future periods and carrying amounts of inventories.

CONTROLS AND PROCEDURES CERTIFICATION

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 year ended December 31, 2016, 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) Amendments to Statement of Cash Flows ("IAS 7")

The IASB published amendments to *Statement of Cash Flows* ("IAS 7"). The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. They are effective for annual periods beginning on or after January 1, 2017. The Company is currently assessing the impact of this new standard on its financial statements.

ii) 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.

iii) 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.

iv) 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.

DISCLOSURE OF OUTSTANDING SECURITIES AS AT APRIL 21, 2017

Outstanding common shares	124,948,235
Stock options	7,715,000
Fully diluted	132,663,235

FORWARD LOOKING STATEMENTS

This discussion includes certain statements that may be deemed "forward-looking statements". All statements in this discussion, other than statements of historical facts, including all 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 this MD&A.