



**ARIZONA GOLD CORP (formerly “KERR MINES INC”)**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS**  
**FOR THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2020**  
**EXPRESSED IN CANADIAN DOLLARS**

**Prepared by:**

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## **Introduction**

The following management’s discussion and analysis (“MD&A”) of the financial condition and results of the operations of Arizona Gold Corp (formerly “Kerr Mines Inc”), (“Arizona Gold” or the “Company”) constitute management’s review of the factors that affected the Company’s financial and operating performance for the three and six months ended December 31, 2020. This MD&A was written to comply with the requirements of National Instrument 51-102 – Continuous Disclosure Obligations. This discussion should be read in conjunction with the audited annual consolidated financial statements of the Company for the year ended June 30, 2020, together with the notes thereto. Results are reported in Canadian dollars, unless otherwise noted. In the opinion of management, all adjustments (which consist only of normal recurring adjustments) considered necessary for a fair presentation have been included. The results for the three and six months ended December 31, 2020 are not necessarily indicative of the results that may be expected for any future period. Information contained herein is presented as of February 15, 2021, unless otherwise indicated.

The Company’s consolidated financial statements and the financial information contained in this MD&A are prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the IFRS Interpretations Committee (“IFRIC”).

For the purposes of preparing this MD&A, management, in conjunction with the Board of Directors, (the “Board”) considers the materiality of information. Information is considered material if: (i) such information results in, or would reasonably be expected to result in, a significant change in the market price or value of Arizona Gold common shares; (ii) there is a substantial likelihood that a reasonable investor would consider it important in making an investment decision; or (iii) it would significantly alter the total mix of information available to investors. Management, in conjunction with the Board, evaluates materiality with reference to all relevant circumstances, including potential market sensitivity.

Further information about the Company and its operations is available on Arizona Gold’s website at [www.arizona-gold.com](http://www.arizona-gold.com) or on the System for Electronic Documents Analysis and Retrieval (SEDAR) at [www.sedar.com](http://www.sedar.com).

## **Caution Regarding Forward-looking Statements**

This MD&A contains certain forward-looking information and forward-looking statements, as defined in applicable securities laws (collectively referred to herein as “forward-looking statements”). These statements relate to future events or the Company’s future performance. All statements other than statements of historical fact are forward-looking statements. Often, but not always, forward-looking statements can be identified by the use of words such as “plans”, “expects”, “is expected”, “budget”, “scheduled”, “estimates”, “continues”, “forecasts”, “projects”, “predicts”, “intends”, “anticipates” or “believes”, or variations of, or the negatives of, such words and phrases, or statements that certain actions, events or results “may”, “could”, “would”, “should”, “might” or “will” be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those anticipated in such forward-looking statements. The forward-looking statements in this MD&A speak only as of the date of this MD&A or as of the date specified in such statement. The following table outlines certain significant forward-looking statements contained in this MD&A and provides the material assumptions used to develop such forward-looking statements and material risk factors that could cause actual results to differ materially from the forward-looking statements.

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Forward-looking statements	Assumptions	Risk factors
<p>Potential of Arizona Gold's interests to contain economic deposits of gold production.</p>	<p>Financing will be available for development and further exploration of Arizona Gold's property; the actual results of Arizona Gold's development and exploration activities will be favourable; operating, development and exploration costs will not exceed Arizona Gold's expectations; the Company will be able to retain and attract skilled staff; all requisite regulatory and governmental approvals for development and further exploration projects and other operations will be received on a timely basis upon terms acceptable to Arizona Gold, and applicable political and economic conditions will be favourable to Arizona Gold; the price of gold and applicable interest and exchange rates will be favourable to Arizona Gold; no title disputes exist with respect to the Company's properties.</p>	<p>Precious metal price volatility; uncertainties involved in interpreting geological data and confirming title to acquired properties; the possibility that further exploration results will not be consistent with Arizona Gold's expectations; availability of financing for and actual results of Arizona Gold's development activities; ongoing uncertainties relating to the COVID-19 virus; increases in costs; environmental compliance and changes in environmental and other local legislation and regulation; interest rate and exchange rate fluctuations; changes in economic and political conditions; the Company's ability to retain and attract skilled staff.</p>
<p>The Company's cash balance as at December 31, 2020, is sufficient to fund its consolidated operating expenses in the short term with additional funds required for the longer term. As at December 31, 2020, the Company's consolidated cash balance is \$6,232,448. Additional funds will be required for the longer term.</p>	<p>The operating and exploration activities of the Company for the twelve-month period ending December 31, 2021, and the costs associated therewith, will be dependent on raising sufficient capital consistent with the Company's current strategy; debt and equity markets, exchange and interest rates and other applicable economic conditions are favourable.</p>	<p>Adverse changes in capital markets for debt and equity; timing and availability of external financing on acceptable terms; ongoing uncertainties relating to the COVID-19 virus; increases in costs; environmental compliance and changes in environmental and other local legislation and regulation; interest rate and exchange rate fluctuations; changes in economic conditions.</p>

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<p>Management’s outlook regarding future trends (see “Trends”).</p>	<p>Financing will be available for the Company’s operating activities and longer-term price of gold will be favourable to the Company.</p>	<p>The volatility of the price of gold; changes in debt and equity markets; interest rate and exchange rate fluctuations; ongoing uncertainties relating to the COVID-19 virus; changes in economic and political conditions will impact the context of the Capital Markets.</p>
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Inherent in forward-looking statements are risks, uncertainties and other factors beyond Arizona Gold’s ability to predict or control. Please refer to those risk factors included in the “Risk Factors” section below. Readers are cautioned that the above chart does not contain an exhaustive list of the factors or assumptions that may affect the forward-looking statements, and that the assumptions underlying such statements may prove to be incorrect. Actual results and developments are likely to differ and may differ materially, from those expressed or implied by the forward-looking statements contained in this MD&A.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause Arizona Gold’s actual results, performance or achievements to be materially different from any of its future results, performance or achievements expressed or implied by forward-looking statements. All forward-looking statements herein are qualified by this cautionary statement. Accordingly, readers should not place undue reliance on forward-looking statements. The Company undertakes no obligation to update publicly or otherwise revise any forward-looking statements whether as a result of new information or future events or otherwise, except as may be required by law. If the Company does update one or more forward-looking statements, no inference should be drawn that it will make additional updates with respect to those or other forward-looking statements, unless required by law.

**Description of Business**

Arizona Gold Corp is a TSX listed emerging American gold producer advancing the re-start of its fully permitted past-producing Copperstone gold project located in mining-friendly Arizona. The Company has a 100% leasehold interest in the exploration and development stage Copperstone project which encompasses approximately 12,258 acres of surface area and mineral rights in La Paz County, Arizona, within a 50 square km land package. Arizona Gold controls 546 federal unpatented mining claims and two Arizona state mineral leases which together comprise the Copperstone Project area. The federal claims cover approximately 10,920 acres. Copperstone lies in the 350-mile long Arizona-centered Detachment Fault Terrane, stretching from southern Nevada to southeastern Arizona, and along the Colorado River between Arizona and California. The terrane includes the Mesquite Mine in California, with historic production and resources of over 10 million troy ounces of gold.

Within the Copperstone project is the Copperstone Mine. The Copperstone Mine, previously operated by Cyprus Minerals Corporation, produced nearly one-half million ounces of gold between 1987 and 1993 by way of open pit mining. Ackerman (1998) reported production by Cyprus at Copperstone of 514,000 oz of gold from 5,600,000 Mt of ore grading 2.8 g/tonne (0.089 oz/t) of gold.

Considerable infrastructure constructed by the Company’s predecessor company, American Bonanza Gold Corp, remains and will serve to substantially reduce the current capital requirements for the re-start of mining operations. Existing infrastructure includes a power line and substation, three water wells, 4,300 feet of

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underground development, supporting infrastructure, offices, maintenance shops, a laboratory building, permitted tailings facility and 600 tons per day mineral processing facility, all sufficient for the currently contemplated restart of operations at the Copperstone Mine. In addition, the Copperstone Mine is fully permitted for immediate re-start subject to project funding with all modified permits received in 2019 and 2020.

As outlined in the National Instrument 43-101 Technical Report: Preliminary Feasibility Study for the Copperstone Project, La Paz County, Arizona, USA” dated May 18, 2018. prepared by Hard Rock Consulting, LLC and endorsed by Zachary J. Black, SME-RM; J.J. Brown, P.G., SME-RM, Jeff Choquette, P.E., MMSA-QP; Deepak Malhotra, PhD, SME-RM each of whom are independent “Qualified Persons” as defined in NI 43-101 (the “**Copperstone Report**”), the Copperstone Zone, located down dip of the ore body mined by Cyprus, using a model cut-off of 0.100 ounces per ton and a gold price per ounce of US\$1,250, contains a Measured + Indicated mineral resource of 1,239,800 tons at 0.223 ounces per ton average grade for 276,100 ounces of contained gold and an Inferred resource of 734,100 tons at 0.198 ounces per ton average grade for 145,700 ounces of contained gold.

### **Corporate**

In 2018, the Company announced that it had received approval for and signed a term sheet for a finance facility with Sprott Resource Lending (Collector) LP for up to US\$25 Million of senior secured project financing to fund the development and production of gold at the Copperstone Mine (the “Sprott Project Financing Package”).

On November 28, 2018, the Company closed the US\$2 million (CDN\$2.7 million) 9% senior redeemable convertible note (the “Sprott Note”) financing with Sprott Resource Lending LP. The Sprott Note is convertible into Common Shares at any time prior to maturity at a conversion price of CDN\$0.16 per share. The Corporation can redeem the Sprott Note at any time by paying the outstanding principal amount in cash, or with the agreement of the holder, in common shares of the Corporation, together with interest payable to maturity. In connection with the Sprott Note, the Corporation issued to Sprott one million common share purchase warrants entitling the holder to purchase one common share at a price of CDN\$0.15 until November 27, 2021, subject to acceleration.

In connection with the Sprott Note, on November 28, 2018 the Company completed a non-brokered private placement of 21,239,409 units at a price of \$0.14 per unit for gross proceeds of \$2,973,517. The offering, initially announced on November 9, 2018 and targeting proceeds of \$2.5 million, was oversubscribed.

On January 8, 2019, the Company provided an operational update included: that the Company had engaged Major Drilling International to commence a resource expansion program focused on mine life extension within the C & D zones of the Copperstone Zone; that the Company is well under way with the minor modifications to its existing permits, and that the Company was proceeding with additional Metallurgical work to validate prior findings and to assess the economic viability of incorporating a SART system to exploit Copper as a by-product revenue source.

On January 31, 2019, the Company announced the appointment of Mr. Giulio T. Bonifacio as a new member to the Board of Directors. Mr. Bonifacio was the founder and CEO of Nevada Copper Corp. since inception in 2005 until 2018. He is a CPA with extensive experience in the capital markets, securities matters, project finance while also leading efforts at every stage of development from exploration, permitting, construction and production. Mr. Bonifacio was also the Co-Founder and Director of American Bonanza Gold Corp. from 2002 – 2012 during the initial development and advancement of the Copperstone Project into a high-grade underground mining opportunity.

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On February 5, 2019, the Company announced that its resource expansion program commenced at the Copperstone Mine located in Arizona, USA. In addition, Arizona Gold has received approval for the modification of a key State of Arizona Department of Environmental Quality environmental permit governing air and is continuing with advanced metallurgical testing.

On February 26, 2019, the Company announced its achievement in a 97% Gold Recovery from Metallurgical Test Work.

On April 4, 2019, the Company released initial 2019 Resource Expansion Highlights drilling results:

- Drill hole 18-08A-02 returned an interval of 12.2 meters at 11.7 g/t Au, including 3 meters of 38.3 g/t Au, indicating the zone is higher grade and thicker than initially anticipated with an effective mining width of 17.7 meters.
- Additional intervals include 6.1 meters @ 5.8 g/t Au (18-05A-01); 4.6 meters @ 9.8 g/t Au (18-05A-06) and 4.6 meters @ 18.3 g/t Au (18-08A-03).

On April 15, 2019, the Company announced the appointment of Mr. Giulio T. Bonifacio as Chief Executive Officer and completed a non-brokered private placement of 3,350,000 units of the Company at a price of \$0.14 per unit for gross proceeds of \$469,000. Mr. Bonifacio subscribed for 3,000,000 units of the offering and Peter Damouni, a director of the Company, subscribed for 350,000 units of the offering. Claudio Ciavarella resigned from the Chief Executive Officer position and was appointed Executive Vice-Chairman.

On May 1, 2019, the Company released further drill results from its drilling program:

- Drill hole 18-21-06, an exploration step-out hole returned an interval of 16.8 meters at 40.0 g/t gold, including 3 meters of 98.3 g/t gold further indicating the zone is significantly of higher grade and thickness than initially anticipated with a total effective mining width of 17.9 meters.
- Drill hole 18-21-04, an exploration step-out hole returned an interval of 10.7 meters at 17.5 g/t gold, including 6.1 meters of 29.5 g/t gold with a total effective mining width of 12 meters.

On June 5, 2019, the Company released additional results from its drill program:

- Drill hole 18-21A-05, an exploration step-out hole, returned an interval of 6.1 meters at 15.02 g/t gold, including 3 meters of 22.4 g/t gold further indicating the zone is significantly of higher grade and thickness than initially anticipated with a total effective mining width of 13.1 meters.
- Drill hole 18-04-01, a conversion hole returned, an interval of 6.1 meters at 15.91 g/t gold, including 4.6 meters of 21.02 g/t gold with a total effective mining width of 3.2 meters.

On July 9, 2019, the Company released the final results from its 2019 Resource Expansion program:

- Drill Hole 18-18-02, a conversion hole, returned a high-grade gold mineralized interval of 3 meters at 27.45 g/t gold, including 1.5 meters of 52.30 g/t gold, in an area where additional down-dip step-out drilling is planned for the next phase of drilling while further indicating the zone is significantly of higher grade and thickness than initially anticipated.
- Drill Hole 18-05-06, a conversion hole, intercepted Indicated resource of 6.1 meters at 3.71 g/t gold, which along with an intercept in nearby drill hole 18-05A-06 of 7.6 meters at 3.80 g/t gold,

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demonstrates the width and strong continuity of mineralization in this area and is expected to allow for the expansion of a designed stope panel, the edge of which is 15.2 meters down-dip.

On September 5, 2019, Mr. Bonifacio exercised 2,200,000 stock options at an exercise price of \$0.125 per share for total gross proceeds of \$275,000.

On September 19, 2019, the Company announced the granting of another key environmental permit modification. The permit modification received is the Arizona Department of Environmental Quality Aquifer Protection Permit which regulates water quality.

On January 22, 2020 the U.S. Bureau of Land Management (“BLM”) issued a Decision of Record (“DOR”) based on a finding of no significant impact (“FONSI”) formally approving the Company’s Mine Plan of Operations (“MPO”) at its 100-percent-owned Copperstone Mine gold project located in Arizona.

Following Arizona Gold’s application in June of 2018, the BLM conducted an environmental assessment on the Copperstone Mine as required by National Environmental Policy Act. This process involved a number of independent studies to evaluate the effect of the project including cultural and biological resources, traffic, noise, water and air quality. Additionally, the BLM provided for public comment allowing the public to review study results, discuss the proposed plans with Arizona Gold’s representatives and submit formal comments to BLM.

Receipt of the DOR based on FONSI and approved MPO was part of strategic value-enhancing process undertaken by the company to restart the Copperstone gold mine and will result in the following positive project implications:

- Increase of gold ore production from the current allowable limit of 450 tons per day to 600 tons per day;
- Use of cyanide for recovery of gold from ore using captive steel tanks located in the gold ore processing facility;
- Storage of stabilized tailings produced from the ore processing facility;
- Construction and use of a water evaporation and infiltration basin to be used to manage surplus water generated from underground operations;
- Improved operating conditions, which will further improve project economics.

This final approval and receipt of the DOR marks the conclusion of the permit modification effort that commenced in 2018. On Feb. 5, 2019, the company announced the Arizona Department of Environmental Quality (ADEQ) issued approval for the modification of the existing air permit governing air quality. On Sept. 19, 2019, the company announced the ADEQ issued approval for the modification of the existing aquifer protection permit. The water permit is effective for the life of mine and the air permit is valid for five years.

On February 28, 2020, the Company closed a private placement, by issuing 22,913,486 units of the Company (the “Units”) at a price of \$0.14 per Unit for total gross proceeds of \$3,207,888. Each unit is comprised of one common share and one common share purchase warrant. Each warrant entitles the holder thereof to acquire a common share at a price of \$0.21 per share for a period of 24 months from the date of issuance, provided, that if, at any time the common shares trade at a volume weighted average trading price of \$0.30, or greater, per share for a period of 20 consecutive trading days. The Company may accelerate the expiry date of the warrants by giving notice to the holders thereof and in such case the warrants will expire on the 30th day after the date on which such notice is given by the Company.

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On March 20, 2020, the Company completed an addition of US\$500,000 under its current US\$1.5 million senior secured convertible note. The Sprott Note bears interest at a rate of 9% per annum payable semi-annually. The maturity date of the Sprott Note has also been extended to May 31, 2021. The new US\$500,000 advance under the Sprott Note is convertible into Common Shares at any time prior to maturity at a conversion price of CDN\$0.13 per share. In connection with the Sprott Note and the extension, the Company issued to Sprott an additional 650,000 common share purchase warrants (the “Sprott Warrants”). Each Sprott Warrant entitles the holder to purchase one Common Share at a price of \$0.13 until November 28, 2023. The Company and Sprott have also agreed to extend the expiry date of the 1,000,000 common share purchase warrants at a price of \$0.15 issued to Sprott on November 28, 2018 in connection with the issuance of the Sprott Note from November 28, 2021 to November 28, 2023. The extension became effective on April 6, 2020.

The financings announced on February 28, 2020 and March 23, 2020 was for purposes of funding the mine life extension and resource expansion drilling program which was initially scheduled to commence in Q2-2020. This was postponed as a result of a localized failure of the highwall of the historic open pit mine at the Copperstone Project. The highwall failure impacted certain of the infrastructure at one of the two portals to the underground workings, including the power infrastructure. Initial estimates to repair the damage were approximately US\$1 million. The Company advised its insurers of the incident and the insurers sent claim adjusters to site to review all damages. Initial oral and written representations from the Company’s insurers indicated that all damages would be covered and that the costs of remediation of the damages would also be recoverable.

The remediation was completed in June 2020 at a total cost of approximately US\$1.8 million. The actual costs were higher than estimated due to significantly higher costs to provide temporary power to the underground workings required to ensure on-going dewatering and mitigate incurring further damages. During the remediation process and since its completion the Company has been provided the insurers with all required documentation to substantiate the entire claim. As a result of the further delays by the insurer, the Company filed a Statement of Claim on August 12, 2020. During the three months ended December 31, 2020, the Company received approximately US\$1.4 million.

On July 27, 2020, the Company announced it has entered into an agreement to acquire a 3% Gross Production Royalty (“Royalty”) from Trans Oceanic Mineral Company Ltd. (“TOMCL”), which will reduce the aggregate Royalty on the Copperstone Gold Mine from 6% to 3%. The Copperstone Gold Mine is currently subject to an aggregate 6% Royalty held by TOMCL (4.5%) and the Angie Patch Survivor’s Trust (1.5%). The purchase agreement entered into between the Company’s subsidiary, Bonanza Explorations Inc. (“Bonanza”), and TOMCL provides for the buyback of a 3% Royalty held by TOMCL for US\$2,500,000 on or before March 31, 2021 (the “Royalty Buyback”). The Royalty Buyback is conditional on the Company successfully arranging project financing for the re-start of production at the Copperstone Gold Mine.

On August 10, 2020, the Company closed a bought deal financing for aggregate gross proceeds of \$5,000,800 (the “Offering”). Pursuant to the Offering, the Company issued a total of 35,720,000 units of the Company (the “Units”) at a price of C\$0.14 per Unit. Each Unit consists of one common share in the capital of the Company (a “Common Share”) and one half of one Common Share purchase warrant (a “Warrant”). Each whole Warrant entitles the holder thereof to purchase one Common Share at a price of C\$0.22 for a period of 24 months. Haywood Securities Inc. acted as sole underwriter for the Offering.

With funding in hand, the Company will commence its 2020 resource and reserve expansion drilling program, consisting of 8,000 meters, which will expand upon a very successful drilling program in 2019. A



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drill contractor has been selected and a drill rig is currently being mobilized to the Copperstone project. With the recent agreement to buy-back a 3 per cent gross production royalty the Company is well positioned for the restart of production at the Copperstone gold project, subject to arranging project financing.

On November 12, 2020, the Company and Star Royalties Ltd. ("Star Royalties") announced the execution of a definitive US\$18 million gold streaming agreement ("Streaming Agreement") to finance the restart of operations and gold production at the Copperstone in Arizona, USA. The key transaction terms are as follows:

- Star Royalties will purchase from Arizona Gold 9.9% of gold produced until a cumulative 21,000 ounces are delivered, then 3.3% of gold produced until a cumulative 27,200 ounces are delivered, then 1.2% of gold produced thereafter for the life of mine;
- Star Royalties will provide a cash payment to Arizona Gold for each ounce of gold delivered equal to 25% of the average gold spot price for the five consecutive trading days prior to delivery.
- The advance of the first tranche of US\$6 million is subject to Arizona Gold repaying the outstanding US\$2 million convertible promissory note held by Sprott and customary closing conditions, including completion of the requisite security package.
- Additionally, it was agreed with Sprott that US\$500,000 with a conversion price of CAD\$0.13 and US\$1,500,000 with conversion price of CAD0.16 would not be exercised.

The US\$18 million prepayment under the Streaming Agreement will be provided in three equal installments, with the first installment advanced on November 20, 2020. The remaining two tranches will be advanced at the request of Arizona Gold as it incurs expenditures for the restart of Copperstone Gold Mine Project with US\$6 million on or before February 28, 2021 and a further US\$6 million on or before April 30, 2021.

In connection with the Streaming Agreement, the Company amended the promissory notes payable and the Kerr debentures I and II (combined the "Notes") as follows:

- The maturity dates of outstanding Notes held by Braydon and TOMCL will each be extended from August 22, 2021 to December 31, 2023;
- The rate of interest payable on the principal of the Notes will be increased from 8% to 10%, with interest payable quarterly starting on the commencement of commercial production;
- The two \$1,000,000 unconvertible promissory notes, one held by each of Braydon and TOCML, will be amended to include a conversion feature providing that the principal amount of the notes can be converted into common shares of Arizona Gold at any time prior to maturity at a price of CAD\$0.16 per share, subject to early conversion in the event the volume-weighted average trading price of the common shares exceeds CAD\$0.30 for twenty consecutive trading days.

Arizona Gold has also agreed to make prepayments against the principal of the Notes by way of preferential payments, in certain circumstances.

As at December 31, 2020, the Company had assets of \$24,976,127 (June 30, 2020 - \$18,277,460) and a net equity position of \$1,956,456 (June 30, 2020 – net deficit of \$676,941). As at December 31, 2020, the Company had current liabilities of \$1,093,762 (June 30, 2020 - \$3,847,139). The Company had net exploration and evaluation expenditures of \$2,218,790 during the six months ended December 31, 2020 (six months ended December 31, 2019 - \$1,195,454) on its gold interests.

### **Current and Future Plans Related to Exploration and Development Activities**

In 2019 the Company completed 5,030 meters of its mine life extension and resource expansion program. In September 2020 commenced its next phase of up to 10,000 meters of surface and underground drilling. The Company will continue to target the Copperstone zone and newly discovered mineralized zone, the Footwall Zone, at the Copperstone Project with a focus on mine life extension and resource expansion. See “Liquidity and Capital Resources” below.

In accordance with Copperstone preliminary feasibility study published in 2018, the Company is continuing efforts to improve and optimize project economics while extending the current mine life. The company anticipates a reduction in the estimated initial project capital from what has been reflected in the Copperstone prefeasibility study. These reductions are facilitated by way of internal trade-off studies and advancement of the detailed engineering of the mine and mineral processing. These reductions are expected to improve project economics as a result of moving forward with a mineral processing strategy that moves to refurbishment and modification of the existing mineral processing and gold recovery circuit.

The mineral processing optimization work is being performed primarily with Resource Development Inc. and FLSmidth, and is based on historic and recent metallurgical test work, packaged pricing, and a thorough assessment of refurbishment costs. Further metallurgical testing will be completed in order to complete the optimization of the existing plant flow sheet and bring both cost and gold production performance to final detailed engineering level prior to the commencement of any refurbishment and modification activities.

In addition, further project optimization is being undertaken on the mine operations aspect of the project. In an effort to further reduce execution risk, the company has been actively engaged with mine operations contractors in planning several options to use contractor services in the preproduction and startup phases of mine production and development.

### **Operational Highlights**

The Company is focused on delivering shareholder value in the following ways:

- Continue to execute on its Resource Expansion and Mine Life Extension Program consisting of exploration drilling with the goal of adding new resources and in-fill drilling for the purposes of converting existing resources to higher classification and inclusion into Proven and Probable Reserves.
- Continue to advance the Copperstone Project with the goal of achieving commercial production with a development plan for production of up to approximately 35,000 to 40,000 ounces of gold per annum with a current mine life of 4-5 years, which will include:
  - Completing metallurgical testing to provide information for detailed gold processing plant design and detailed engineering for the mine and mill.
  - Undertaking mobile and fixed equipment purchases.
  - Enhancing existing mine development to provide access to newly defined mining areas.
  - Continuing efforts to further optimize the project including advancing detailed engineering and project costing related to the mine and mill.
  - Pursuing the necessary project financing.

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*Operational Update*

The Company announced results from preliminary feasibility study highlights in April 2018. Copperstone PFS highlights (all values US\$ unless otherwise noted) included:

- Base case \$1,250/oz gold;
- Initial capital of \$22.7 million which includes a mine equipment capital lease;
- Study life operating margin (EBITDA) of \$89M, Internal rate of return of 40%;
- Payback of initial capital within 2.3 years of 2019 production start;
- Recovery of gold averaging 95% using crushing, grinding and whole ore leach;
- Average annual sales of 38,347 ounces gold;
- Cash Operating Cost of \$684 per gold ounce;
- All-in Sustaining Cost (“AISC”) of \$875 per gold ounce;
- Measured and Indicated (“M&I”) Mineral Resources of 1,124,800 tonnes averaging 7.63 g/tonne gold;
- 276,100 ounces contained gold in M&I Resource;
- Inferred Mineral Resources of 666,000 tonnes averaging 6.81 g/tonne gold;
- 145,700 ounces contained gold in Inferred;
- Proven and Probable (“P&P”) Mineral Reserves of 802,048 tonnes averaging 6.79 g/tonne gold;
- 175,093 ounces contained gold in P&P Reserve;
- M&I gold resources ounces, which are not part of the P&P reserve ounces, are targeted for potential inclusion in the P&P reserves through recommended future drilling;
- Inferred gold resources are open for further expansion and conversion through recommended future drilling in the Copperstone and Footwall zones.

On January 8, 2019, the Company provided an operational update included: that the Company had engaged a drilling contractor to commence a resource expansion program focused on resource expansion and mine life extension within the C & D zones of the Copperstone Zone. The Company also conducted additional Metallurgical work to validate prior findings and to assess the economic viability of incorporating a Sulfidization, Acidification, Thickening and Recycling (“SART”) system to exploit Copper as a by-product revenue source.

On February 5, 2019, the Company announced that the Phase I resource expansion program has commenced at the Copperstone Mine located in Arizona, USA. In addition, Arizona Gold has received approval for the modification of a key State of Arizona Department of Environmental Quality environmental permit governing air and is continuing with advanced metallurgical testing.

On February 26, 2019, the Company announced that it had achieved 97% Gold recovery from Whole Ore Leach metallurgical testwork. The testwork resulted in higher gold recoveries than were indicated in the 2018 PFS (97% vs. 95%) and up to US\$2.50 per ton milled lower operating costs due to lower reagent consumption.

On April 4, 2019, the Company announced initial results from its Phase II underground resource expansion program. Highlights include drill hole 18-08A-02 returning an interval of 12.2 meters at 11.7 g/t gold,

**including 3 meters of 38.3 g/t gold**, indicating the zone is higher grade and thicker than initially anticipated with an effective mining width of 17.7 meters. Drilling established continuity between previously drilled mineralized intercepts in the existing Inferred category while extending mineralization along strike and dip.

On May 1, 2019, the Company announced further results from its Phase II underground resource expansion program. Highlights include drill hole 18-21-06, an exploration step-out hole, returned an interval of **16.8 meters at 40.0 g/t gold, including 3 meters of 98.26 g/t gold** further indicating the zone is significantly of higher grade and thickness than initially anticipated with a total effective mining width of 17.9 meters. Drilling also further established continuity between previously drilled mineralized intercepts in the existing Inferred category while extending mineralization along strike and dip

On June 5, 2019 and July 9, 2019 the Company released the final drilling results for a total drilling program of 5,060 meters which was focused on the D and C zones of the Copperstone zones to increase mine life by adding new Inferred resources and converting new and existing Inferred resources into Measured and Indicated resources.

On September 19, 2019, the Company announced the granting of another key environmental permit modification. The permit modification received is the Arizona Department of Environmental Quality Aquifer Protection Permit which regulates water quality.

On January 22, 2020 the U.S. Bureau of Land Management (“BLM”) issued a Decision of Record (“DOR”) based on a Finding of No Significant Impact (“FONSI”) formally approving Arizona Gold’s Mining Plan of Operation (“MPO”) at its 100% owned Copperstone Mine gold project located in Arizona, USA.

Receipt of the DOR based on FONSI and approved MPO was part of strategic value-enhancing process undertaken by the Company to re-start the Copperstone gold mine and will result in the following positive project implications:

- Increase of gold ore production from the current allowable limit of 450 tons per day to 600 tons per day;
- Use of cyanide for recovery of gold from ore using captive steel tanks located in the gold ore processing facility;
- Storage of stabilized tailings produced from the ore processing facility;
- Construction and use of a water evaporation and infiltration basin to be used to manage surplus water generated from underground operations; and,
- Improved operating conditions which will further improve project economics.

### **Technical Disclosure**

Scientific and Technical information in this AIF has been reviewed and approved by Michael R. Smith, SME Registered Member (Geology), and a “qualified person” under NI 43-101.

### **Trends**

Although there can be no assurance that additional funding will be available to the Company, management is of the opinion that the project is at a pre-production stage and hence it may be possible to obtain additional funding for its project.

Due to the reaction to the worldwide COVID-19 pandemic, material uncertainties may arise that could influence management’s going concern assumption. Management cannot accurately predict the future impact policies related to COVID-19 may have on:

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- Global gold prices;
- Demand for gold and the ability to explore for gold;
- The severity and the length of potential measures taken by governments to manage the spread of the virus, and their effect on labor availability and supply lines;
- Availability of government supplies, such as water and electricity;
- The ability to complete a transaction;
- Purchasing power of the Canadian dollar and United States Dollar; and
- Ability to obtain funding.

The Canadian federal government, the provincial government of Ontario and the government of the United States of American have not introduced measures that have directly impeded the operational activities of the Company. Management believes the business will continue and, accordingly, the current situation has not impacted management’s going concern assumption. However, it is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company in future periods.

Apart from these and the risk factors noted under the heading “Risk Factors”, management is not aware of any other trends, commitments, events or uncertainties that would have a material effect on the Company’s business, financial condition or results of operations. See “Risk Factors” below.

**Quarterly Information**

A summary of selected financial information of Arizona Gold for each of the eight most recently completed quarters is as follows:

Three Months Ended	Total Revenue (\$)	Loss (Income)		Total Assets (\$)
		Total (\$)	Per Share (\$)	
December 31, 2020	-	2,159,676	0.01	24,976,127
September 30, 2020	-	2,155,735	0.01	20,490,464
June 30, 2020	-	4,099,398	0.01	18,277,460
March 31, 2020	-	160,483	0.00	20,182,136
December 31, 2019	-	1,452,540	0.01	17,726,045
September 30, 2019	-	1,102,234	0.00	17,965,626
June 30, 2019	-	3,323,212	0.01	18,465,142
March 31, 2019	-	2,327,192	0.01	20,104,161

**Discussion of Operations**

Three months ended December 31, 2020, compared with the three months ended December 31, 2019

Arizona Gold’s net loss totaled \$2,159,676 for the three months ended December 31, 2020, with basic and diluted loss per share of \$0.01. This compares with a net loss of \$1,452,004 with basic and diluted loss per share of \$0.01 for the three months ended December 31, 2019. The increase in the net loss of \$707,672, was principally because:

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- For the three months ended December 31, 2020, the Company recorded a loss on warrant extension revaluation of \$854,645, compared \$nil for the three months ended December 31, 2019 due to the extension of the exercise period of 21,239,409 outstanding share purchase warrants from November 27, 2020 to the new expiry date of November 27, 2021 and 3,350,000 outstanding share purchase from April 15, 2021 and the new expiry date of April 15, 2022.
- For the three months ended December 31, 2020, the Company recorded a loss on foreign exchange expense of \$620,928, compared to \$186,892 for the three months ended December 31, 2019 due to fluctuations in the exchange rate.
- Consulting fees and salaries were \$515,467 during the three months ended December 31, 2020, compared to \$98,262 for the three months ended December 31, 2019 due to prior fees being approved and invoiced..

Six months ended December 31, 2020, compared with the six months ended December 31, 2019

Arizona Gold’s net loss totaled \$4,315,411 for the six months ended December 31, 2020, with basic and diluted loss per share of \$0.01. This compares with a net loss of \$2,554,238 with basic and diluted loss per share of \$0.01 for the six months ended December 31, 2019. The increase in the net loss of \$1,761,173, was principally because:

- For the six months ended December 31, 2020, the Company recorded a loss on warrant extension revaluation of \$854,645, compared \$nil for the six months ended December 31, 2019 due to the extension of the exercise period of 21,239,409 outstanding share purchase warrants from November 27, 2020 to the new expiry date of November 27, 2021 and 3,350,000 outstanding share purchase from April 15, 2021 and the new expiry date of April 15, 2022.
- For the six months ended December 31, 2020, the Company recorded a loss on foreign exchange expense of \$946,668, compared to \$79,261 for the six months ended December 31, 2019 due to fluctuations in the exchange rate.
- Consulting fees were \$613,512 during the six months ended December 31, 2020, compared to \$196,402 for the six months ended December 31, 2019 due to prior consulting fees being approved and invoiced.

**Liquidity and Capital Resources**

The activities of the Company, principally the exploration and development of its flagship asset, the Copperstone project was financed through the completion of equity transactions such as equity offerings and the exercise of stock options and warrants.

The Company had cash of \$6,232,448 as at December 31, 2020 (June 30, 2020 - \$378,331). The increase in cash of \$5,854,117 during the six months ended December 31, 2020 was primarily due to the cash provided by financing activities of \$9,591,416.

Cash used in operating activities was \$2,752,347 for the six months ended December 31, 2020. Operating activities were affected by changes in non-cash working capital balances because of decreases in amounts receivable of \$30,749 and accounts payable and accrued liabilities of \$133,398 and increases in prepaid expenditures and other assets of \$41,314. The Company also recorded a net loss of \$4,315,411 and

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depreciation of assets of \$165,678, accretion expense of \$300,459; and accrued interest of \$615,625. Cash used in operating activities for the six months ended December 31, 2019 were \$1,455,610 and was affected by changes in non-cash working capital balances because of decreases in accounts receivable of \$199,933, and prepaid expenditures and other assets of \$73,979 and an increase in accounts payable and accrued liabilities of \$51,021. The Company also recorded a net loss of \$2,554,238 and depreciation of assets of \$193,786, and accrued interest of \$462,118.

Cash used in investing activities for the six months ended December 31, 2020, was \$1,671,874 due to development cost related to the Copperstone project.

Cash provided by financing activities was \$9,591,416, for the six months ended December 31, 2020, primarily because the proceeds received from issuing 35,720,000 units of the Company at a price of \$0.14 per unit for total gross proceeds of \$5,000,800; receipts from Star Royalties under Streaming Agreement of \$7,842,600; and the repayment of the Sprott convertible note payable and interest of \$2,707,657. For the six months ended December 31, 2019, cash provided by financing activities was \$1,068,138, primarily because of proceeds from the exercise of options and cash received for shares to be issued of \$809,400

As at December 31, 2020, the Company had 346,062,553 common shares issued and outstanding, 21,700,000 stock options that would raise approximately \$3,770,000 if exercised and vested in full, and 69,156,095 warrants outstanding that would raise approximately \$14,611,000, if exercised in full. This is not anticipated until the market price of the Company’s traded common shares increases.

As at December 31, 2020, the Company had working capital of \$5,468,788 (June 30, 2020 - working capital deficit of \$3,149,272). Based on the rate of expenditure, the Company has sufficient cash on hand along with the future funding from the Star Royalties streaming facility to substantially fund both the development of the mine and its working capital requirements.

The Company has used the majority of the proceeds from the August bought deal financing towards advancing work related to its planned exploration and drilling program at the Copperstone Project during fiscal 2021, as set out below:

<b>Activity or Nature of Expenditure</b>	<b>Estimated Use of Net Proceeds (\$)</b>	<b>Spent (\$)</b>
Copperstone Project Drilling <sup>(1)</sup>	2,125,000	1,300,484
Metallurgical Testing and Engineering	200,000	255,291
Technical Report <sup>(2)</sup>	150,000	143,573
Site Cost & Personnel <sup>(3)</sup>	1,000,000	1,413,390
Accounts Payable	450,000	188,560
General & Administrative & Working Capital	75,752	231,792
<b>Total Net Proceeds</b>	<b>\$4,500,752</b>	<b>3,533,090</b>

**Notes:**

- (1) Approximately 8,000 meters inclusive of sampling cost, assaying, logging and consumables. Estimated based on actual drilling costs previously incurred, being an approximate average cost of \$260 per meter for core drilling and reverse circulation drilling.
- (2) NI 43-101 technical report with updated resource estimate.
- (3) Includes site labor, utilities monthly recurring costs.

Although the Company intends to expend the net proceeds from the Offering as set forth above, there may be circumstances where, for sound business reasons, a reallocation of funds may be deemed prudent or necessary and may vary materially from that set forth above, as the amounts actually allocated and spent will depend on a number of factors, including the Company’s ability to execute on its business plan. While

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actual expenditures may differ from the above amounts and allocations, the net proceeds will be used by the Company in furtherance of, and for activities at, the Copperstone Project and for general corporate purposes. All operational personnel required for the drill program are currently located in the United States and, as such, there is no necessity for any person to enter into the United States and the Company is not aware of any US federal or state executive orders or restrictions that are expected to affect the drill program. Although the Company believes that the pandemic will not impact the Company’s ability to complete the current drill program, the future impacts of the pandemic on the operations of the Company cannot be predicted as many of the factors are not within the control of the Company. Potential delays in exploration activities or stoppages to exploration activities could result in additional costs, project delays, cost overruns, and operational restart costs. See “Risk Factors” below.

At the date of this MD&A, the second phase of resource expansion drilling of up to 10,000 meters has commenced at the Copperstone project.

The Company is in the exploration and development stage with no source of operating revenue and is dependent upon equity or debt financing to maintain its current operations. Accordingly, the Company had negative operating cash flows for the financial six months ended December 31, 2020 and 2019. The Company anticipates that negative operating cash flows will continue until profitable commercial production is achieved at the Copperstone Project. As a result, certain of the net proceeds from the Offering may be used to fund such negative cash flow from operating activities in future periods.

The Company will need to secure additional financing to carry on further project development and normal course business activities. Although the Company has been successful in raising funds to date, there is no assurance that future equity capital or debt will be available to the Company in the amounts or at the times desired or on terms that are acceptable to the Company, if at all. Management remains confident that with the continued support of its advisors, strategic shareholders and creditors and improving equity markets, it will be able to proceed with its strategy to further develop and re-start commercial production at the Copperstone Mine.

See “Risk Factors” below.

#### **Outstanding Share Data**

As at the date of this MD&A, the Company had the following number of common shares and issuable shares outstanding:

<b>Securities</b>	
Common shares	346,062,553
Issuable under options	22,200,000
Issuable under warrants	69,156,095
<b>Total Securities</b>	<b>437,418,648</b>

#### **Disclosure Controls and Procedures and Internal Controls over Financial Reporting**

Management is responsible for establishing and maintaining adequate disclosure controls and procedures (“DCP”) as well as internal controls over financial reporting (“ICFR”) as described in our 2020 annual MD&A.



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The Company’s Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), with the participation of management last completed an evaluation of the design and operating effectiveness of the Company’s DCP’s and ICFR’s as at June 30, 2020. Based on that assessment, management concluded that the Company’s ICFR were operating effectively as at June 30, 2020, which was based on the COSO Model.

During the three and six months ended December 31, 2020, the CEO and CFO have evaluated whether there were any changes to the ICFR that have materially affected, or are reasonably likely to materially affect, the ICFR. No such significant changes were identified through their evaluation which was based on the COSO Model.

### **Critical Accounting Judgements, Estimates and Assumptions**

The Company makes estimates about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates.

#### *Judgments:*

Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the unaudited condensed interim consolidated financial statements within the next three months are discussed below:

#### Exploration and evaluation stage

In management’s judgement, the Company’s operations are in the exploration and development stage.

#### Mineral properties

##### *Operating levels intended by management for the Copperstone mine*

Prior to a mine being capable of operating at levels intended by management, costs incurred are either expensed or capitalized based on the type of costs incurred. Costs related to developing the property are generally capitalized, while care and maintenance costs and costs related to exploration and evaluating new ore bodies are expensed. Management considers the Copperstone mine is capable of operating at levels intended by management once it has reached consistent production of no less than 60% of planned volume for a period of 30 consecutive days. As at December 31, 2020, and June 30, 2020, the Copperstone mine had not met this target.

#### Functional currency

The functional currency for the Company’s subsidiaries is the currency of the primary economic environment in which the entity operates. Determination of functional currency may involve certain judgments to determine the primary economic environment and the Company reconsiders the functional currency of its entities if there is a change in events and conditions which determined the primary economic environment.

#### Impairment of property, plant and equipment

Assets or cash generating units are evaluated at each reporting date to determine whether there are any indications of impairment. If any such indication exists, a formal estimate of recoverable amount is performed and an impairment loss recognized to the extent that carrying amount exceeds recoverable amount. The

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recoverable amount of an asset or cash-generating group of assets is measured at the higher of fair value less costs to sell and value in use.

Fair value is determined as the amount that would be obtained from the sale of the asset in an arm’s-length transaction between knowledgeable and willing parties and is generally determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset, including any expansion prospects, and its eventual disposal.

Present values are determined using a risk-adjusted pre-tax discount rate appropriate for the risks inherent to the asset. Future cash flow estimates are based on expected production and sales volumes, commodity prices (considering current and historical prices, price trends and related factors), reserves, operating costs, restoration and rehabilitation costs and future capital expenditure. The Company’s management is required to make these estimates and assumptions which are subject to risk and uncertainty; hence, there is a possibility that changes in circumstances will alter these projections, which may impact the recoverable amount of the assets. In such circumstances, some or all of the carrying value of the asset may be impaired and the impairment would be charged against profit or loss.

*Estimates:*

The following are some of the more significant estimates made in the preparation of these unaudited condensed interim consolidated financial statements:

Provisions

Provisions are recognized for liabilities of uncertain timing or amount that have arisen as a result of past transactions, including legal or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

The Company’s mining activities are subject to various laws and regulations governing the protection of the environment. The Company recognizes management’s best estimate for asset retirement obligations in the period in which they occur. Actual costs incurred in future periods could differ materially from the estimates. The ultimate cost of environmental remediation can vary in response to many factors including future changes to environmental laws and regulations, the emergence of new restoration techniques, changes in the life of mine estimates and in discount rates, which could affect the carrying amount of this provision.

Derivatives and Debt Valuation

The valuation of debt and embedded derivatives for convertible instruments is based on the application of a recognized option valuation formula, which is highly dependent on, amongst other things, the expected volatility of the Company’s registered shares and the expected life of the options. The Company uses an expected volatility rate for its shares based on past stock trading data, adjusted for future expectations, and actual volatility may be significantly different.

The resulting value calculated is not necessarily the value that the holder of the instrument could receive in an arm’s length transaction. It is management’s view that the value derived is highly subjective and dependent entirely upon the input assumptions made.

Share-based payments

The fair value of share-based payments is estimated using the Black-Scholes option pricing model and rely on a number of estimates, such as the expected life of the option, the volatility of the underlying share price, the risk free rate of return, and the estimated rate of forfeiture of options granted.

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Allowance for expected credit losses

IFRS 9 Financial instruments introduces an expected credit loss (“ECL”) impairment model applicable to all debt instruments within financial assets classified as amortized cost or at fair value through other comprehensive income (“FVTOCI”), as well as certain off-balance sheet loan commitments. The general principle of the ECL model is to reflect the pattern of deterioration or improvement in the credit quality of the associated financial instruments. The calculated allowance is designed to be an unbiased and probability-weighted amount that has been determined by evaluating possible outcomes; the time value of money; reasonable and supportable information about past events; and current and forecasted economic conditions. The IFRS 9 ECL approach has three stages:

Stage 1 – includes financial instruments that have not had a significant increase in credit risk since initial recognition, or that have low credit risk at the reporting date. An ECL equal to expected credit losses resulting from default events over the next 12 months is recognized and interest revenue is calculated on the assets’ gross carrying amounts;

Stage 2 – includes financial instruments that have had significant increase in credit risk since initial recognition, but for which there is no objective evidence of impairment at the reporting date. An ECL equal to expected credit losses resulting from default events over the assets’ lifetime (“lifetime ECL”) is recognized and interest revenue is calculated on the assets’ gross carrying amounts. In general, an asset’s lifetime is considered to be its remaining contractual lifetime;

Stage 3 – includes financial instruments that have objective evidence of impairment at the reporting date. The lifetime ECL is recognized and interest revenue is calculated on the assets’ net carrying amounts, which are determined as the asset amount net of their lifetime ECL.

**Capital Management**

The Company manages its capital with the following objectives:

- to safeguard the Company's ability to continue as a going concern,
- to raise sufficient proceeds from share issues to meet general, administrative and exploration and development expenditures to advance the Copperstone project,
- to provide an adequate return to shareholders by advancing the Company’s projects to production while ensuring it meets the listing requirements of the Toronto Stock Exchange, and
- to maintain the royalty prepayments within the limits allowed by the agreement.

The Company has promissory notes payable, convertible promissory notes payable, accounts payable and accrued liabilities and equity, and consequently defines capital as all of the components of debt and equity which as at December 31, 2020 amount to \$13,397,161 (June 30, 2020 - \$14,030,584). The Company’s capital structure is adjusted based on the funds available to the Company such that it may continue exploration and development of its properties for the mining of minerals that are economically recoverable. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company’s properties are in the exploration and development stage and, as a result, the Company currently has no source of operating cash flow. The Company intends to raise such funds as and when required to complete its projects. There is no assurance that the Company will be able to raise additional funds on reasonable terms. The only sources of future funds presently available to the Company are through

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the exercise of outstanding stock options or warrants, the sale of equity capital of the Company, funds received from Streaming Agreement, or the sale by the Company of an interest in any of its properties in whole or in part. The ability of the Company to arrange such financing in the future will depend in part upon the prevailing capital market conditions as well as the business performance of the Company. There can be no assurance that the Company will be successful in its efforts to arrange additional financing, if needed, on terms satisfactory to the Company.

The directors of the Company review the capital structure from time to time. As part of this review, the directors considered the cost of capital and the risks associated with each class of capital. The Company will balance its overall capital structure through issue of new shares, new debt or the redemption or extension of existing debt. There were no changes in the Company’s approach to capital management during the six months ended December 31, 2020.

### **Financial Instruments**

Fair value hierarchy - IFRS 7, Financial instruments: Disclosures, establishes a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value as follows:

Level 1: Valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3: Valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The classification of a financial instrument in the fair value hierarchy is based upon the lowest level of input that is significant to the measurement of fair value. There was no movement between different levels for the six months ended December 31, 2020 and the year ended June 30, 2020.

Marketable securities are marked-to-market at each period end and so the carrying amount also represents the fair value and were classified as level 1 financial instruments.

The fair value of the derivative financial liability (conversion feature) was estimated by using Black-Scholes pricing model with the assumptions and was classified as level 2 financial instruments.

The fair value of accounts receivable, restricted investments, accounts payable and accrued liabilities, promissory notes payable, convertible promissory notes payable, other loan, lease liability and decommissioning liabilities approximates their carrying values due to their short-term nature.

### **Credit risk**

The Company's maximum exposure to credit risk, which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties, totals the carrying amount of these assets as stated in the unaudited condensed interim consolidated statements of financial position.

The Company's principal financial assets are cash, restricted investments and accounts receivable, which represent the Company's exposure to credit risk in relation to financial assets.

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The credit risk on cash and restricted investments is mitigated by transacting with banks with high credit ratings assigned by international credit-rating agencies.

An allowance for expected credit losses is established based upon factors surrounding the credit risk of specific accounts, historical trends and other information when necessary. As at December 31, 2020 and June 30, 2020, there were no receivables past due.

**Interest rate risk**

The interest rate risk is the risk that fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk arising from fluctuations in interest rates on its promissory notes payable and convertible promissory notes payables.

Liquidity Risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2020, the Company had cash of \$6,232,448 (June 30, 2020 - \$378,331) to settle current financial liabilities of \$1,093,762 (June 30, 2020 - \$3,750,969). There can be no assurance that the Company will be successful in its efforts to arrange additional financing on terms satisfactory to the Company.

The following table details the Company's contractual maturities for its financial liabilities as at December 31, 2020 and June 30, 2020, due by year:

<b>December 31, 2020</b>	<b>Carrying amount \$</b>	<b>Contractual cash flow \$</b>	<b>0 to 12 months \$</b>	<b>12 to 24 months \$</b>	<b>After 24 months \$</b>
Accounts payable and accrued liabilities	1,065,724	1,065,724	1,065,724	Nil	Nil
Promissory notes payable	6,614,962	7,339,802	Nil	Nil	7,339,802
Convertible promissory notes payable	4,825,743	5,062,701	Nil	Nil	5,062,701
Lease liability	42,805	45,462	30,308	15,154	Nil
Other loan	198,874	198,874	Nil	198,874	Nil
Provisions	2,367,925	2,367,925	Nil	Nil	2,367,925
	<b>15,116,033</b>	<b>16,080,488</b>	<b>1,096,032</b>	<b>214,028</b>	<b>14,770,428</b>

<b>June 30, 2020</b>	<b>Carrying amount \$</b>	<b>Contractual cash flow \$</b>	<b>0 to 12 months \$</b>	<b>12 to 24 months \$</b>	<b>After 24 months \$</b>
Accounts payable and accrued liabilities	1,199,122	1,199,122	1,199,122	Nil	Nil
Promissory notes payable	7,031,402	7,031,402	Nil	7,031,402	Nil
Convertible promissory notes payable	7,676,123	7,943,230	2,725,600	5,217,630	Nil
Lease liability	60,060	64,884	32,442	32,442	Nil
Other loan	212,869	212,869	Nil	212,869	Nil
Provisions	2,530,645	2,530,645	Nil	Nil	2,530,645
	<b>18,710,221</b>	<b>18,982,152</b>	<b>3,957,164</b>	<b>12,494,343</b>	<b>2,530,645</b>

### Currency Risk

The Company's exploration activities are conducted in Ontario, Canada and Arizona, United States. Major purchases and exploration expenditures are transacted in US dollars. Administrative expenditures and cash and cash equivalents balances are primarily transacted in Canadian dollars. The Company has exposure to foreign currency risk on its cash held in US bank, convertible promissory notes payable and lease obligation. As at December 31, 2020, the Company held US\$4,373,666 of monetary assets and held US\$12,435,587 in monetary liabilities. A \$0.05 fluctuation in the value of the Canadian dollar would result in an increase or decrease to profit or loss of approximately \$403,000. The Company mitigates the risk of foreign currency fluctuations by converting Canadian dollars to US currency when required to fund expenditures. The Company does not currently hedge its foreign exchange risk.

### **New Standard Adopted**

#### IFRS 3, Business Combinations ("IFRS 3")

Amendments to IFRS 3, issued in October 2018, provide clarification on the definition of a business. The amendments permit a simplified assessment to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendments are effective for transactions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020. The adoption of the amendments had no impact on the Company's unaudited condensed interim consolidated financial statements.

#### IAS 1, Presentation of Financial Statements ("IAS 1")

Amendments to IAS 1, issued in October 2018, provide clarification on the definition of material and how it should be applied. The amendments also align the definition of material across IFRS and other publications. The amendments are effective for annual periods beginning on or after January 1, 2020 and are required to be applied prospectively. The adoption of the amendments had no impact on the Company's unaudited condensed interim consolidated financial statements.

#### IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8")

Amendments to IAS 8, issued in October 2018, provide clarification on the definition of material and how it should be applied. The amendments also align the definition of material across IFRS and other publications. The amendments are effective for annual periods beginning on or after January 1, 2020 and are required to be applied prospectively. The adoption of the amendments had no impact on the Company's unaudited condensed interim consolidated financial statements.

### **New Standards not yet Adopted**

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods commencing on or after January 1, 2021. Many are not applicable or do not have a significant impact to the Company and have been excluded.

### **Related Party Balances and Transactions**

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Related parties include the Board, officers, close family members and enterprises that are controlled by these individuals as well as certain persons performing similar functions.

The noted transactions below are in the normal course of business and are measured at the exchange amount, as agreed to by the parties, and approved by the Board of Directors in strict adherence to conflict of interest laws and regulations.

(a) Loans from related parties

	As at December 31, 2020 \$	As at June 30, 2020 \$
<b>Directors</b>		
Promissory note payables	6,614,962	7,031,402
Convertible promissory note payables	4,825,743	5,153,264
Derivative financial liabilities	227,843	112,616
<b>Total</b>	<b>11,668,548</b>	<b>12,297,282</b>

(b) The Company entered into the following transactions with related parties:

Names	Three Months Ended December 31, 2020 \$	Three Months Ended December 31, 2019 \$	Six Months Ended December 31, 2020 \$	Six Months Ended December 31, 2019 \$
The Marrelli Group <sup>(i)</sup>	20,417	18,830	43,356	31,679
Peterson McVicar LLP <sup>(ii)</sup>	79,077	31,493	172,850	41,698
Braydon Capital Corporation <sup>(iii)</sup>	110,685	110,480	253,424	218,761
Trans Oceanic Minerals Corporation <sup>(iv)</sup>	110,251	136,108	264,732	238,829
Forte Fixtures & Millwork <sup>(iv)</sup>	430,000	Nil	430,000	Nil
<b>Total</b>	<b>750,430</b>	<b>296,911</b>	<b>1,164,362</b>	<b>530,967</b>

(i) During the three and six months ended December 31, 2020, the Company paid professional fees and disbursements of \$20,417 and \$43,356, respectively, (three and six months ended December 31, 2019 - \$18,830 and \$31,679, respectively) to Marrelli Support Services Inc., DSA Corporate Services Inc., DSA Filing Services Limited, Marrelli Press Release Services Limited, together known as the "The Marrelli Group", for:

- Carmelo Marrelli, President of Marrelli Group, to act as the Chief Financial Officer (“CFO”) of the Company;
- Accounting and Financial related services;
- Regulatory filing services;
- Corporate secretarial services, and

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- Press release services.

These services were incurred in the normal course of operations for general accounting and financial reporting matters. As at December 31, 2020, the Marrelli Group was owed \$nil (June 30, 2020 - \$19,396).

- (ii) A director is a partner in a legal firm that provided legal services to the Company. The amounts paid or accrued to the firm relating to services provided in the normal course during the three and six months ended December 31, 2020 was \$79,077 and \$172,850, respectively (three and six months ended December 31, 2019 - \$31,493 and \$41,698, respectively). The amounts owing to the firm as at December 31, 2020 was \$52,914 (June 30, 2020 - \$66,720).
  - (iii) During the three and six months ended December 31, 2020, the Company accrued interest to Braydon for the promissory note payables and loan payable of \$110,685 and \$253,424, respectively (three and six months ended December 31, 2019 - \$110,480 and \$253,424, respectively).
  - (iv) During the three and six months ended December 31, 2020, the Company accrued interest to TOMCL for the promissory note payables and convertible promissory notes payable of \$110,251 and \$264,732, respectively (three and six months ended December 31, 2019 - \$136,108 and \$238,829, respectively).
  - (v) During the three and six months ended December 31, 2020, the Company expensed consulting fees and rent in the amount of \$430,000 (three and six months ended December 31, 2019 - \$nil) to Forte Fixtures & Millwork Inc, a company controlled by a director of the Company. The amounts paid or accrued to the firm relate to services provided in the normal course of business. As at December 31, 2020, the company was owed \$400,000 (June 30, 2020 - \$nil).
  - (vi) During the six months ended December 31, 2019, an officer and director of the Company exercised 2,200,000 stock options exercised at \$0.125 per share for total proceeds of \$275,000 (six months ended December 31, 2020 - \$nil).
- (c) Remuneration of directors and key management personnel of the Company was as follows:

	<b>Three Months Ended December 31, 2020 \$</b>	<b>Three Months Ended December 31, 2019 \$</b>	<b>Six Months Ended December 31, 2020 \$</b>	<b>Six Months Ended December 31, 2019 \$</b>
Salaries and Benefits	72,703	74,249	148,230	148,522
Consulting	87,500	87,500	175,000	175,000
<b>Total</b>	<b>160,203</b>	<b>161,749</b>	<b>323,230</b>	<b>323,522</b>



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	<b>Three Months Ended December 31, 2020</b>	<b>Three Months Ended December 31, 2019</b>	<b>Six Months Ended December 31, 2020</b>	<b>Six Months Ended December 31, 2019</b>
<b>Option-based payments <sup>(i)</sup></b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Claudio Ciavarella (Executive Chairman and Director)	Nil	3,192	Nil	6,383
Martin Kostuik (President and Director)	Nil	3,191	Nil	6,382
Giulio Bonifacio (CEO and Director)	Nil	243,800	Nil	243,800
<b>Total</b>	<b>Nil</b>	<b>250,183</b>	<b>Nil</b>	<b>256,565</b>

<sup>(i)</sup> The dollar values in respect of the options were arrived at using the Black-Scholes valuation model.

The non-executive directors do not have employment or service contracts with the Company. Directors are entitled to director fees and stock options for their services.

#### **Off-Balance-Sheet Arrangements**

As of the date of this filing, the Company does not have any off-balance-sheet arrangements that have, or are reasonably likely to have, a current or future effect on the financial performance or financial condition of the Company, including, and without limitation, such considerations as liquidity and capital resources.

#### **Proposed Transactions**

The Company routinely evaluates various business opportunities which could entail direct acquisitions, trades and/or divestitures. In this regard, the Company is currently in discussions with various parties, but no definitive agreements with respect to any proposed transactions have been entered into as of the date of this MD&A. There can be no assurances that any such transactions will be concluded in the future.

#### **Commitments and Contingencies**

- The Company has placed a surety bond of an insurance company in connection with the Copperstone Property as required by the US Bureau of Land Management. Cash collateral of \$1,071,503 (US\$841,583) is held with the Bank of New York in the name of the Company in a short term cashable account.
- The activities of the Company are subject to environmental laws and regulations promulgated by government agencies from time to time. Environmental legislation generally provides for restrictions and prohibitions on spills, releases or emissions into air, discharges into water, management of waste, management of hazardous substances, protection of natural resources, endangered species and reclamation of lands disturbed by mining operations. The Company believes it complies with all laws and regulations which currently apply to its activities.

## **Risk Factors**

An investment in the securities of the Company is highly speculative and involves numerous and significant risks. Such investment should be undertaken only by investors whose financial resources are sufficient to enable them to assume these risks and who have no need for immediate liquidity in their investment. Prospective investors should carefully consider the risk factors that have affected, and which in the future are reasonably expected to affect, the Company and its financial position. Please refer to the section entitled "Risk Factors" in the Company's Annual Information Form dated September 28, 2020 and Annual MD&A dated September 28, 2020 (available on SEDAR at [www.sedar.com](http://www.sedar.com)).

### Covid-19 Risks

The worldwide emergency measures taken to combat the COVID-19 pandemic may continue, could be expanded, and could also be reintroduced in the future following relaxation. As governments implement monetary and fiscal policy changes aimed to help stabilize economies and capital markets, we cannot predict legal and regulatory responses to concerns about the COVID-19 pandemic and related public health issues and how these responses may impact our business. The COVID-19 pandemic, actions taken globally in response to it, and the ensuing economic downturn has caused significant disruption to business activities and economies. The depth, breadth and duration of these disruptions remain highly uncertain at this time. Furthermore, governments are developing frameworks for the staged resumption of business activities. As a result, it is difficult to predict how significant the impact of the COVID-19 pandemic, including any responses to it, will be on the global economy and our business.

## **Subsequent Events**

Subsequent to December 31, 2020, the Company granted 500,000 options at \$0.14 with an expiry date of 5 years to an Officer of the Company. Options will be fully vest by June 30, 2021.