

**SPANISH MOUNTAIN GOLD LTD.**

**Management Discussion & Analysis**

**For the Year Ended December 31, 2016**

Dated: April 25, 2017

**Spanish Mountain Gold Ltd.**  
**MD&A for the year ended December 31, 2016**

---

The following is management's discussion and analysis ("MD&A") of the financial condition and results of operations of Spanish Mountain Gold Ltd. (the "Company"). This MD&A should be read in conjunction with the audited consolidated financial statements, including the notes thereto, of the Company for the years ended December 31, 2016 and 2015.

The accompanying audited consolidated financial statements ("financial statements") and related notes are presented in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These financial statements, together with the following MD&A dated April 25, 2017 ("Report Date"), are intended to provide investors with a reasonable basis for assessing the financial performance of the Company as well as potential future performance. Please refer to the cautionary notices at the end of this MD&A, especially in regard to forward looking statements. All dollar amounts are in Canadian dollars unless otherwise noted.

Additional information relating to the Company including its Financial Statements may be found on the Company's website at [www.spanishmountaingold.com](http://www.spanishmountaingold.com) as well as under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

This MD&A was reviewed by the Audit Committee and approved and authorized for issue by the Board of Directors on April 25, 2017. The information contained within this MD&A is current to the same date.

**OVERVIEW**

The Company's December 31, 2016 financial statements reflect the financial position and results for the year then ended including those for its wholly-owned subsidiary, Wildrose Resources Ltd. ("Wildrose"). All material inter-company transactions have been eliminated.

The Company is an exploration stage company engaged in the acquisition, exploration and development of mineral properties. The Company's primary asset is the Spanish Mountain property located approximately 180 kilometres (km) north of Kamloops, British Columbia. The Spanish Mountain property refers to the contiguous mineral and placer claims the Company holds while the Spanish Mountain gold project (the "Project") refers to the mineral resource that the Company has defined in an area within the property. On April 10, 2017 the Company announced the results of a Preliminary Economic Assessment ("PEA") for the First Zone of the Spanish Mountain gold project. The resource estimate for the Project was also updated in connection with the PEA.

On August 18, 2016 the Company announced it had successfully obtained a refund totaling approximately \$3.9 million in relation to the British Columbia mining exploration tax credit ("BC METC") attributable to qualified mining exploration expenses incurred for the Project.

On September 29, 2016 the Company announced the appointment of Larry Yau as Chief Executive Officer. Larry was appointed the Company's interim CEO in June 2015 and has served as CFO since January 2010. Larry will also serve the role of interim Chief Financial Officer.

On October 12, 2016 the Company announced two targeted programs for advancing the Project involving a lower tonnage mine plan and streamlined metallurgical process. A new mine plan was announced on November 22, 2016 affirming the potential viability of a 20,000 tonnes per day operations as opposed to a 40,000 tpd scenario adopted in the 2012 PEA. On January 31, 2017, the Company announced that the gravity concentration and prefloat circuit can be eliminated from the flowsheet used in the 2012 PEA without any detrimental effect on either gold recovery or concentrate quality. The resulting flowsheet is a standard grind-float-regrind-concentrate leach flowsheet used throughout the industry. The positive results from these two studies were incorporated in the new PEA for the Project.

As indicated earlier, the Company announced the results of a new PEA on April 10, 2017. The PEA is based on a 20,000 tonnes per day (tpd) processing rate with a streamlined flowsheet to process the Measured and Indicated

Resources within the high grade core (the First Zone). The results demonstrate the positive economics of a lower throughput mining operations at substantially lower initial capital while extending mine life to at least 24 years producing approximately 2.2 million ounces of gold and 1.5 million ounces of silver. Additional information about the PEA, an NI 43-101 Technical Report for which will be filed by the end of May 2017, is shown in the sections below.

## **MINERAL ASSET**

### **Spanish Mountain Gold Project, B.C.**

The Spanish Mountain property is located in the Cariboo region of central British Columbia, 6 km east of the village of Likely, and 66 km northeast of the City of Williams Lake. The property, which comprises approximately 45 contiguous mineral claims and 6 placer claims and covers an area of approximately 7,700 hectares (or 30 square miles), is 100% owned by the Company.

The property can be reached from Williams Lake via a paved secondary road that leaves Highway 97 at 150 Mile House, approximately 16 km south of Williams Lake, and continues for 87 km to the village of Likely. From Likely, the property is accessed from the Spanish Mountain Forest Service Road 1300.

The Company has been actively drilling on the property since 2005. The Spanish Mountain gold deposit is a bulk-tonnage, gold system of finely disseminated gold. The largest zone carrying significant gold mineralization is called the Main Zone, which has been traced by drilling over a length of approximately 900 metres (m) north-south and a width of 800 metres. The mineralization of the Main Zone extends northward covering another area of about 400m north-south with a similar width.

Gold mineralization occurs predominately as disseminated within the black, graphitic argillite. Gold grain size is typically less than 30 microns, and is often, but not always, associated with pyrite. Gold mineralization also occurs within quartz veins as free, fine to coarse (visible) gold. Although the highest grades have come from coarse gold within quartz veins, disseminated gold within the argillite units is the most economically important type of mineralization. The area of gold enrichment has been traced for over 2 km, occurring in multiple stratigraphic horizons.

The Spanish Mountain gold deposit is classified as sediment-hosted vein ("SHV") deposit, as it has many of the features common to these deposits, including some of the structural characteristics, regional extent of alteration, alteration mineralogy, mineralization style and gold grade.

The following highlights the key recent developments in respect of the Spanish Mountain gold project which is located in the northern part of the property area:

#### **1. Metallurgy**

Under the direction of Dr. Morris Beattie, extensive metallurgical test work has been completed through a series of work programs. The resource is amenable to conventional milling process resulting in an overall gold recovery of 90%. A recent metallurgical study concluded the flowsheet previously used for the 2012 PEA can be streamlined with the elimination of gravity and pre-float recovery steps without reducing the overall gold recovery. The new streamlined flowsheet led to savings in capital and operating costs and had been incorporated in the new PEA.

## 2. Drilling and Other Field Activities

The Company completed its latest drilling program during the third quarter of 2014. The results of this program had been incorporated in the resource estimate completed in conjunction with the updated PEA released in April 2017.

The Company's exploration camp is being maintained and will be ready to reopen for future activities. At the report date, the Company has not finalized the details of a field program for the 2017 season.

The complete assay results for all the drilling programs are available under the Company's profile on SEDAR as well as the Company's website at [www.spanishmountaingold.com](http://www.spanishmountaingold.com).

## 3. Resource Estimate

On April 10, 2017, the Company released an updated resource estimate along with the results of a new PEA. The PEA established an economic cut-off of 0.15 g/t gold based on assumptions of operating costs for a potential open pit operation. The following table presents the updated resource at various categories at the economic cut-off grade of gold.

Spanish Mountain Updated Resource Estimate (at a 0.15 g/t gold cut-off) Effective April 2017

| Classification                 | Tonnes             | Gold grade (g/t) | Silver grade (g/t) | Gold (ounces)    | Silver (ounces)  |
|--------------------------------|--------------------|------------------|--------------------|------------------|------------------|
| Measured                       | 45,730,000         | 0.53             | 0.66               | 770,000          | 970,000          |
| Indicated                      | 260,800,000        | 0.37             | 0.67               | 3,110,000        | 4,450,000        |
| <b>Measured plus Indicated</b> | <b>306,530,000</b> | <b>0.39</b>      | <b>0.64</b>        | <b>3,880,000</b> | <b>6,280,000</b> |
| Inferred                       | 450,640,000        | 0.28             | 0.61               | 4,110,000        | 8,900,000        |

Tonnages and contained ounces presented above may not total as shown due to rounding. Readers are cautioned that mineral resources, which are not mineral reserves, do not have demonstrated economic viability.

Independent resource estimate consultant Gary Giroux MASc, P.Eng. (BC) of Giroux Consultants Ltd. has authorized the release of this estimate. Mr. Giroux is a qualified person by virtue of education, experience and membership in a professional association. He is independent of both the Company and ALS Chemex, the assay laboratory, applying all of the tests pursuant to section 1.5 of NI 43-101.

## 4. Preliminary Economic Assessment

The completion of a positive PEA for the pit-delineated high grade core (the "First Zone") of the Spanish Mountain gold project was announced by the Company on April 10, 2017. The PEA was prepared by Moose Mountain Technical Services (MMTS) under the direction of Marc Schulte, P. Eng., a Qualified Person (as defined under National Instrument 43-101) who is independent of the Company. An NI 43-101 PEA Technical Report is currently being prepared by MMTS, and will be filed on SEDAR before the end of May 2017.

The results of the PEA demonstrate the potential technical and economic viability of establishing a new gold mine and mill complex on the project site.

### (a) Proposed Operations

The PEA is based on an open pit mine with a conventional truck and shovel operation that provides mill-feed

**Spanish Mountain Gold Ltd.**  
**MD&A for the year ended December 31, 2016**

at 20,000 tpd for a mine life of 24 years. It is expected that mill-feed will be sourced from stockpile from year 12 through 24. The process plant is conventional in design and includes primary grinding, flotation, regrinding of the concentrate, and cyanidation via a CIL circuit to produce doré.

At an assumed LOM gold price of US\$1,250 per ounce (the base case), the First Zone generates a pre-tax NPV (@5%) of C\$597M and a post-tax NPV of C\$482M. Pre-tax and post-tax Internal Rates of Return are 21% and 19%, respectively. Payback of capital is expected to be less than four years.

Selected operational and cost metrics for Years 1 - 5; Years 1 - 10 and LOM are as follows:

|                              | Units | Years 1 - 5<br>Avg. | Years 1 - 10<br>Avg. | LOM  |
|------------------------------|-------|---------------------|----------------------|------|
| Gold grade                   | g/t   | 0.77                | 0.69                 | 0.43 |
| Strip Ratio                  |       | 0.96                | 1.55                 | 1.44 |
| Annual Gold Production       | koz   | 157                 | 142                  | 92   |
| Cash Cost/ oz                | US\$  | 469                 | 555                  | 595  |
| All-in-sustainable Cash Cost | US\$  | 533                 | 619                  | 659  |
| Total Cost/ oz               | US\$  | 667                 | 752                  | 792  |

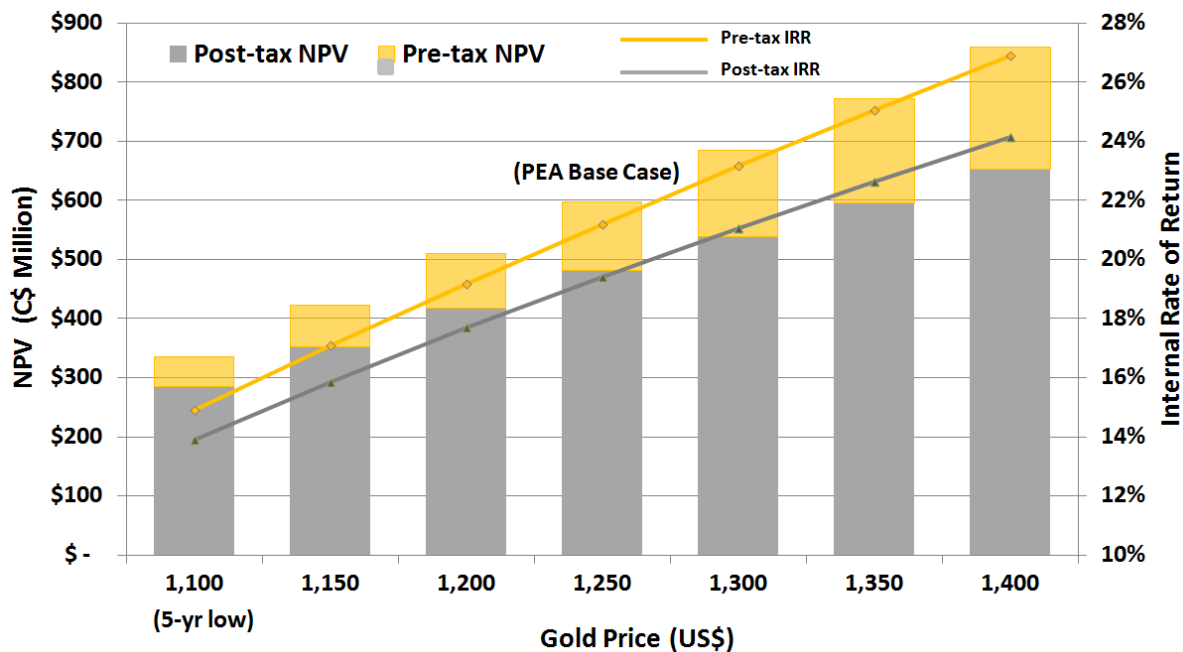
**(b) Comparison to 2012 PEA**

Compared to the 2011 PEA, the new PEA demonstrates significant improvements to the Project's economics as a result of the Two-Zone approach which focuses on a lower throughput, smaller footprint and small impact operation. Some of the key improvements are as follows:

- Compared with the previously (2012) estimated NPV (@5%) for the entire resource, the PEA has achieved an NPV for the First Zone alone that is up to 63% higher even at a gold price that is US\$210 lower than assumed for the 2012 PEA
- Post-tax IRR has increased from 12% to 19%
- Initial capital has decreased by up to C\$257M (or 33%) from C\$764M to C\$507M
- LOM All-in-sustainable Cash Cost per ounce has decreased from US\$834 to US\$659
- Project life for the First Zone extends to 24 years vs. 13 years for the entire resource in the 2012 PEA

|  | Units      | 2012 PEA-<br>100%<br>Resource | First Zone<br>(Standalone<br>Operations) | Change  |
|--|------------|-------------------------------|--|---------|
| Assumed LOM Gold Price per ounce                                       | US\$       | \$1,462                       | \$1,250                                  | - \$212 |
| Post-tax NPV@5%  | C\$million | \$295                         | \$482                                    | + \$187 |
| Post-tax Internal Rate of Return (IRR)                                 |            | 12%                           | 19%                                      | + 7%    |
| Payback Period   | Years      | 4.4                           | 3.7                                      | - 0.65  |
| LOM Cumulative Free Cashflow including<br>Initial Capex (undiscounted) | C\$million | \$704                         | \$963                                    | + \$259 |
| Initial Capital  | C\$million | \$764                         | \$507                                    | - \$257 |
| LOM Production   | koz        | 2,799                         | 2,210                                    | - 589   |
| Mine Life  | Years      | 14                            | 24                                       | + 10    |
| LOM Strip Ratio  |            | 2.3                           | 1.4                                      | - 0.86  |
| LOM Cash Cost per Ounce  | US\$       | \$774                         | \$595                                    | - \$179 |
| LOM AISC per Ounce   | US\$       | \$834                         | \$659                                    | - \$175 |

(c) Sensitivity of the First Zone's Economics to Gold Price:



(d) Initial Capital Cost

- The estimated development capital is based on data from the fourth quarter of 2016 and includes a contingency of C\$51 million.
- The initial capital cost estimate is summarized as follows:

| Direct Costs                                   | Initial Capital Cost (C\$ Million) |
|--|------------------------------------|
| Overall Site                                   | 16.6                               |
| Open Pit Mining                                | 97.3                               |
| Processing Plant (including Ore Handling)      | 140.0                              |
| Tailing Management Facility & Water Management | 56.8                               |
| Environmental                                  | 12.0                               |
| On-Site Infrastructure                         | 28.6                               |
| Off-Site Infrastructure                        | 14.3                               |
| <b>Sub-Total</b>                               | <b>C\$365.6</b>                    |
| <b>Indirect Costs</b>                          |                                    |
| Project Indirects                              | 84.6                               |
| Owner's Costs                                  | 5.8                                |
| Contingencies                                  | 51.1                               |
| <b>Sub-Total</b>                               | <b>C\$141.5</b>                    |
| <b>Total Initial Capital Cost</b>              | <b>C\$507.1</b>                    |

- The life-of-mine sustaining capital is estimated at C\$ 193.5 million.

**(e) Operating Costs**

Operating costs were estimated for each area of the project and life-of-mine average costs are summarized as follows:

| <b>Operating Costs</b>                | <b>C\$/tonne milled</b> |
|---------------------------------------|-------------------------|
| Mining                                | 4.79                    |
| Process                               | 4.01                    |
| Tailings                              | 0.05                    |
| G&A and Offsite costs (incl. royalty) | 1.09                    |
| <b>Total</b>                          | <b>9.94</b>             |

*The Company cautions, in accordance with NI 43-101 -- Standards of Disclosure for Mineral Projects as adopted by the Canadian Securities Regulators, that the PEA referred to herein is preliminary in nature, includes inferred mineral resources that are considered too speculative geologically to have the economic consideration applied to them that would enable them to be categorized as mineral reserves, and there is no certainty that the PEA will be realized. Mineral resources are not mineral reserves and do not have demonstrated economic viability.*

**(f) Qualified Persons**

The independent PEA was completed by Moose Mountain Technical Services and was prepared under the supervision of the following independent consultants:

| <b>Qualified Person</b> | <b>Company</b>          | <b>Areas of Responsibility</b>                           |
|-------------------------|-------------------------|--|
| Bill Gilmour, P.Geo.    | Discovery Consultants   | Geology and Exploration                                  |
| Gary Giroux, P.Eng.     | Giroux Consultants Ltd. | Mineral Resource Estimating                              |
| Marc Schulte P.Eng.     | MMTS                    | Lead Consultant, Mine Plan, and Capital                  |
| Tracey Meintjes, P.Eng. | MMTS                    | Metallurgy and Processing                                |
| Les Galbraith, P.Eng.   | Knight Piésold Ltd.     | Tailing, Water Management, Environmental, and Permitting |

**5. Current Activities**

The Company is currently assessing various programs to further advance the Project following the positive economics for the First Zone demonstrated by the new PEA.

**6. The Second Zone**

While the development of the balance of the geologic resource referred to as the "Second Zone" has not been incorporated into the PEA, it has the potential to benefit significantly from the infrastructure, equipment and labour put in place as a result of the development of the First Zone.

The Second Zone comprises multi-million ounces of gold contained within the current geologic resource estimate, primarily as Inferred Resources, and surrounds the pit that has been delineated for the PEA. The Company believes that the Second Zone, while not included in the PEA, could deliver additional value over time by expanding or extending the Project's overall production profile. There is no assurance that all or any part of an Inferred Resource will ever be upgraded to a higher category.

### **AGREEMENTS WITH FIRST NATIONS**

The Company executed Protocol Agreements with the Williams Lake Indian Band in March 2011 and the Soda Creek Indian Band (Xatśúll First Nation) in March 2012; and a Cooperation Agreement with Lhtako Dene Nation in September 2012. These agreements address issues in relation to the development of the Spanish Mountain gold project.

Under the agreements, the Company recognizes and respects the First Nations groups' asserted aboriginal rights and title in the area of the Spanish Mountain gold project and the First Nation groups recognize and respect the Company's rights and interests in the exploration and development of the Company's properties. They also reflect commitments by the parties for continued engagement in a respectful and collaborative manner.

The agreements provide capacity support to the First Nations groups for their ongoing involvement in the project as well as training, employment, and business opportunities. Additionally, the parties have committed to negotiating a more detailed agreement regarding the impacts and benefits associated with the construction, operation and reclamation of a large scale mine development.

### **ENVIRONMENTAL ASSESSMENT AND PERMITTING PROCESS**

On August 4, 2011, the Company announced that the Project Description for the Spanish Mountain gold project had been accepted by both the British Columbia Environmental Assessment Office and the Canadian Environmental Assessment Agency. The Project Description describes the technical, economic, social, environmental, heritage and health components of the construction and operation of the proposed gold mine on the Spanish Mountain property. The acceptance of the Project Description means that the project has now entered the 'Pre-Application' phase of the Environmental Assessment and Permitting process. As part of the process, public meetings will be scheduled although the Company has already held initial public meetings in the communities of Likely, Big Lake and Williams Lake and has held several meetings with both the Williams Lake Indian Band and Soda Creek Indian Band. As described above, the Company has separately signed a protocol agreement with each Indian band.

For further details on the Environmental Assessment and Permitting processes, please refer to the websites listed below:

- British Columbia Environmental Assessment Office: <http://www.eao.gov.bc.ca>
- Canadian Environmental Assessment Agency: <http://www.ceaa.gc.ca>
- Government of Canada Major Projects Management Office: <http://www.mpmo-bggp.gc.ca>



**RESULTS OF OPERATIONS**

**1. Summary of Quarterly Results**

The selected quarterly consolidated information set out below has been derived from and should be read in conjunction with the previous eight quarterly consolidated Financial Statements for each respective financial period.

|                    | <b>Revenue \$</b> | <b>G&amp;A Expenses \$</b> | <b>Net Income (Loss) \$</b> | <b>Income (Loss) per share \$</b> |
|--------------------|-------------------|----------------------------|-----------------------------|-----------------------------------|
| December 31, 2016  | Nil               | (261,790)                  | (220,712)                   | (0.00)                            |
| September 30, 2016 | Nil               | (384,385)                  | 1,710,021                   | 0.01                              |
| June 30, 2016      | Nil               | (153,780)                  | (113,665)                   | (0.00)                            |
| March 31, 2016     | Nil               | (130,411)                  | (96,304)                    | (0.00)                            |
| December 31, 2015  | Nil               | (143,816)                  | (20,675)                    | (0.00)                            |
| September 30, 2015 | Nil               | (114,520)                  | (96,431)                    | (0.00)                            |
| June 30, 2015      | Nil               | (160,442)                  | (134,990)                   | (0.00)                            |
| March 31, 2015     | Nil               | (153,963)                  | (117,598)                   | (0.00)                            |

In accordance with IFRS, general and administrative (“G&A”) items are charged to the period’s income as they are incurred. Factors that cause variation over the quarters and influence general trends include the following. Seasonal weather conditions affect the Company’s operations at its exploration camp. Typically its field program commences in spring or summer and is completed during the fourth quarter of the year. As a result, items such as impairment can only be reasonably determined after the program is completed. In addition, certain items that affect corporate tax provisions can only be accurately determined at the end of the year in the fourth quarter. Expenditures on mineral properties are capitalized and form part of the carrying values of the underlying assets.

**2. Three Months Ended December 31, 2016 Compared to Three Months Ended December 31, 2015**

G&A expenses are costs associated with the Company’s corporate head office and other expenditures that are not directly attributable to the Company’s exploration projects. Project expenditures, net of any recoveries, are capitalized and form part of the cost base of mineral properties in accordance with the Company’s accounting policy. For the three months ended December 31, 2016, G&A expenses totaled \$261,790, (2015 - \$143,816), which is an increase of \$117,974 compared with same period ended in the previous year. Salaries and wages increased by \$28,061 (2016 - \$102,776 vs. 2015- \$74,715) as the Company has re-instated certain executive salaries that were reduced and deferred in order to preserve the Company’s cash balance. In September 2016, the Company granted stock options to certain directors, employees and consultants to acquire up to 3,850,000 common shares at an exercise price of \$0.16 per share. The Company recognized \$116,216 in share based payment expense in accordance with the vesting schedule of these options. There were no share based payments recorded during the same period in the prior year as the Company has not granted stock options since 2012. Share-based payments recognize the portion of the fair values of granted options attributable to the periods in which they vest using the Black-Scholes valuation model. The fair values of options are influenced by such parameters as stock price volatility and current interest rates which are incorporated into the valuation model. Share-based payments are non-cash expenditures.

For the three months ended December 31, 2016, the Company earned interest income of \$7,026 on its surplus cash balance compared with \$778 during the same period in the prior year. A gain on debt settlement of \$8,639 (2015 – \$27,912) was also recognized during the same period after certain officers and vendors agreed to forgo a portion of accounts payable owed to them.

**Spanish Mountain Gold Ltd.**  
**MD&A for the year ended December 31, 2016**

---

For the three months ended December 31, 2016, the Company recorded deferred income tax recovery of \$25,413 (2015 – \$94,451) a decrease of \$69,038 over the same period in the previous year. Tax recoveries are primarily generated for taxable losses incurred during the period reflecting the potential benefits of offsetting future taxable income. The provision for the current period is offset by an adjustment related to recognized share based payments which is non-deductible for income tax purposes resulting in a lower overall provision inspite of a higher quarterly loss (2016 - \$274,527 vs. 2015 - \$115,126).

The Company initiated two programs for advancing its exploration project during the period ended December 31, 2016 and incurred gross expenditures on its mineral properties, before recoverable tax credits of \$161,918 (2015 - \$40,831) which is an increase of \$121,087 over the same period in the previous year. Mineral property expenditures are capitalized in accordance with the Company’s accounting policies. During the period, the most significant expenditures were geochemical assaying and geological consulting totaling \$112,757 related to the project’s studies; other expenditures include utilities and wages totaling \$36,556 for the maintenance of the Company’s exploration camp near Likely, BC.

**3. Selected Annual Information**

The selected annual consolidated information set out below has been derived from and should be read in conjunction with the previous consolidated financial statements for each respective financial period.

| <b>Years Ended<br/>December 31,</b> | <b>Net income (Loss)<br/>\$</b> | <b>Income (Loss) per share<br/>\$</b> | <b>Total assets</b> | <b>Non-current<br/>liabilities</b> |
|-------------------------------------|---------------------------------|---------------------------------------|---------------------|------------------------------------|
| 2016                                | 1,279,340                       | 0.00                                  | 77,430,222          | 480,773                            |
| 2015                                | (369,694)                       | (0.00)                                | 78,463,867          | 3,036,755                          |
| 2014                                | 333,913                         | 0.00                                  | 78,254,432          | 2,935,629                          |

**4. Year Ended December 31, 2016 Compared to Year Ended December 31, 2015**

During the year ended December 31, 2016 the Company received a BC METC refund of (plus interest) \$3,903,797 attributable to qualified mining exploration expenses incurred for the Spanish Mountain gold project. The receipt of this refund returned the Company to a positive working capital position and allowed the Company to resume project activities. Due to weak capital market conditions since 2012, the Company has implemented various austerity measures in order to conserve cash. Most of these measures remain in place.

G&A expenses for the year ended December 31, 2016 increased by \$357,625 compared to the same period in the previous year (2016 - \$930,366 vs. 2015 - \$572,741). Salaries and wages increased by \$212,041 (2016 - \$472,965 vs. 2015- \$260,924) as the Company has re-instated certain executive salaries that were reduced and deferred in order to preserve the Company’s cash balance. The Company also granted an executive a onetime performance bonus of \$100,000 as well as recognized \$214,595 (2015 - \$Nil) in share based payment expense in accordance with the vesting schedule of stock options granted in September 2016 which is disclosed in the section above.

In other areas, the Company continues to benefit from cost cutting initiatives and negotiated savings put in place since 2012. During the year ended December 31, 2016 the Company reduced its accounting and legal fees by \$34,645 compared to the previous year (2016 - \$65,044 vs. 2015 - \$99,689). There were also savings to the Company’s office and administrative costs by \$52,687 (2016 - \$47,251 vs. 2015 - \$99,938) over the prior year.

For the year ended December 31, 2016, the Company recorded a deferred income tax recovery of \$1,888,972 compared with \$173,902 in the prior year which is an increase of \$1,715,070. The increase in tax provision is mainly due to adjustments related to the Company’s deferred tax asset accounts and timing differences between the assets’ book values and tax values resulting from the receipt of a BC METC refund (plus interest) of \$3,903,797 in August 2016.

**Spanish Mountain Gold Ltd.**  
**MD&A for the year ended December 31, 2016**

---

During the year ended December 31, 2016, the Company resumed project activities and incurred project expenditures of (2016 - \$333,107 vs. 2015 - \$247,396), which is an increase of \$85,711 over the previous year. Mineral Expenditures are capitalized in accordance with the Company's accounting policies. The most significant expenditures during 2016 were consulting fees of \$138,199 and geochemical assaying of \$12,798 related to exploration project activities. Other expenditures including \$68,769 in wages and \$39,787 in utilities are related to the maintenance of the Company's exploration camp located near Likely, BC.

**LIQUIDITY AND CAPITAL RESOURCES**

At December 31, 2016, the Company has a working capital of \$2,449,273 (2015 – working capital deficit of \$629,765) and \$1,296,824 (2015 – \$413,098) in cash and cash equivalents. During August 2016, the Company obtained a refund totalling approximately \$3.9 million in relation to the BC METC. Proceeds from this refund are expected to be sufficient to fund the Company's operating and project expenditures for the foreseeable future.

Currently, the Company's budgeted non-project monthly expenditures are approximately \$60,000 and primarily comprise of payroll costs for current level of staff and other G&A costs for its head office. The Company's expenditures on its mineral properties, which are capitalized in accordance with its accounting policy, typically represent the most significant use of its capital resources.

The Company is at an exploration/development stage and has no revenue from its business operations. The Company's ability to meet its future obligations and maintain operations for the foreseeable future is contingent upon successful completion of additional financing arrangements. Although the Company has been successful in raising funds in the equity markets, there is no assurance that additional funding will be available in the future at reasonable terms. The Company also evaluates other financing opportunities that become available from time to time. As a prudent business practice for a non-revenue generating enterprise, management carefully monitors its cash resources and is exploring available options to address any potential shortfall.

On October 23, 2015, the Company completed a private placement of 16,666,667 Units for total gross proceeds of \$500,000. Each Unit consisted of one common share of the Company and one common share purchase warrant, which entitles its holder to purchase one common share at a price of \$0.05 per share for a period of five years. Cash share issue costs in the amount of \$21,997 were incurred. No finders' fee or commission was paid in connection with the offering. The proceeds from this private placement were used to fund critical operating expenditures.

The Company has not made commitments or otherwise incurred obligations with respect to expenditures on mineral properties or other capital items.

The change in cash flow activities are summarized as follows:

|  | <b>Increase (Decrease) in Cash and Cash Equivalents<br/>for the Year ended December 31</b> |             |
|--|--|-------------|
|  | <b>2016</b>  | <b>2015</b> |
| Operating Activities                             | \$(663,893)  | \$(202,735) |
| Financing Activities                             | Nil  | \$478,003   |
| Investing Activities                             | \$1,547,619  | \$(44,577)  |
| Total Increase (Decrease) in Cash                | \$883,726  | \$230,691   |
| Cash and Cash Equivalents, Beginning of the Year | \$413,098  | \$182,407   |
| Cash and Cash Equivalents, End of the Year       | \$1,296,824  | \$413,098   |

**Spanish Mountain Gold Ltd.**  
**MD&A for the year ended December 31, 2016**

---

Cash used in operating activities are primarily comprised of G&A expenditures as the Company is at an exploration/ project development stage and has no source of revenue. Cash used for operating activities increased by \$461,158 (2016 – \$663,893 vs. 2015 - \$202,735) during the year ended December 31, 2016 compared with the prior year as certain overdue outstanding trade payables were paid off. The Company continues to practice prudent cash management and preserve cash, which includes deferring payments to the maximum extent possible.

During the year ended December 31, 2016 the Company's investing activities increased by \$1,592,196 (2016 - \$1,547,619 vs. 2015 - (\$44,577)) primarily due to the receipt of the BC METC refund of \$3,743,840 (net of interest) which provided for surplus funds to be invested in short-term investments. This was offset by an increase in mineral property expenditures of \$482,358 (2016 - \$694,293 vs. 2015 - \$211,935).

**TRANSACTIONS WITH RELATED PARTIES**

Prior to May 31, 2015, the Company engaged Beattie Consulting Ltd., to provide technical and strategic advice. Following the appointment of Dr. Morris Beattie to the Company's Board of Directors in March 2011, Beattie Consulting Ltd., of which Dr. Beattie is major shareholder, has been classified as a related party. During the year ended 2015, the Company incurred \$38,000 in consulting fees from this firm. On May 31, 2015 Dr. Beattie retired and resigned from the Company's board and ceased to be a related party.

Compensation of key management personnel for the year ended December 31, 2016 increased by \$405,433 to \$589,852 compared with \$184,419 over the previous year. Main sources of this increase include the recording of share-based payments of \$201,972 which are the result of vesting stock options granted to certain directors and officers in September 2016. Share-based payments are an estimated, non-cash expenditure. Management salaries increased by \$219,629 to \$345,187 compared with \$125,558 over the previous year as the Company granted a onetime performance bonus to an officer and restored executive salaries which have been reduced and deferred since 2012 in order to conserve cash.

At December 31, 2016 accounts payable and accrued liabilities owed to related parties totaled \$288,702 (2015 - \$346,914). During the year ended December 31, 2016, certain officers agreed to forgo a portion of accounts payable owed to them resulting in a debt settlement gain of \$66,795.

Certain executive officers are entitled to termination benefits equivalent to two years' gross salary totaling maximum of approximately \$480,000 in the event of a change of control in the Company's ownership. No termination benefits were paid to any key management personnel during the year ended December 31, 2016 and 2015.

During 2015 certain directors and officers provided temporary liquidity in the form of cash advances to the Company totaling \$148,206. The Company has repaid most of these demand loans during the year ended December 31, 2016 while \$50,000 remains outstanding. The residual balance was repaid subsequent to the year end. These advances are non-interest bearing and have no specified terms of repayment.

All related party transactions were recorded at the amounts agreed upon between the parties. Any balances payable are payable on demand without interest.

**FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS**

**The Company has classified its financial instruments as follows:**

- Cash and cash equivalents as fair value through profit or loss ("FVTPL");
- Rent deposit and deposits for reclamation, as loans and receivables; and
- Accounts payable, accrued liabilities and returnable security deposits as other financial liabilities.

The carrying values of rent deposit, accounts payable, accrued liabilities and returnable security deposits, approximate their fair values due to the short-term maturity of these financial instruments. The carrying value of reclamation deposits approximates fair value since amounts held earn interest at market rates.

The Company's risk exposure and the impact on the Company's financial instruments are summarized below:

**(a) Credit risk**

Credit risk refers to the potential that counterparty to a financial instrument will fail to discharge its contractual obligations and arises principally from the Company's holdings of cash and cash equivalents. The Company manages credit risk, in respect of cash and cash equivalents by holding these at a major Canadian financial institution.

Concentration of credit risk exists with respect to the Company's cash and cash equivalents as all amounts are held at a single major Canadian financial institution.

**(b) Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in satisfying financial obligations as they become due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. At December 31, 2016, the Company had cash and cash equivalents in the amount of \$1,296,824 and accounts payable and accrued liabilities of \$399,380. Accounts payable and accrued liabilities have contractual maturities of 90 days or less.

**(c) 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. The Company is exposed to interest rate, foreign currency risk, and other price risk as follows:

i. Interest rate risk

The Company's cash and cash equivalents are held in bank accounts earning interest at variable interest rates. Due to the short-term nature of these financial instruments and the prevailing interest rate environment, fluctuations in market rates do not have a significant impact on estimated fair values as of December 31, 2016.

ii. Foreign currency risk

The Company's operations are located in Canada with substantially all transactions denominated in Canadian dollars and, accordingly, the Company is not exposed to significant foreign currency risk.

iii. Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices, other than those arising from interest rate risk. The Company is not exposed to significant other price risk with respect to its financial instrument as their fair values and future cash flows are not impacted by fluctuations in market prices.

**Spanish Mountain Gold Ltd.**  
**MD&A for the year ended December 31, 2016**

---

**OUTSTANDING SHARE DATA**

The Company had the following common shares, stock options and warrants outstanding at December 31, 2016 and the Report Date:

|   | <b>At December 31,<br/>2016</b> | <b>Subsequent<br/>Expiration</b> | <b>At Report<br/>Date</b> |
|---|---------------------------------|----------------------------------|---------------------------|
| <b>Common shares</b>                    | 218,114,373                     | -                                | 218,114,373               |
| <b>Stock options</b>                    | 6,625,000                       | 2,775,000                        | 3,850,000                 |
| <b>Warrants</b>                         | 16,666,667                      | -                                | 16,666,667                |
| <b>Fully Diluted shares outstanding</b> | <b>241,406,040</b>              | <b>2,775,000</b>                 | <b>238,631,040</b>        |

**OFF-BALANCE SHEET ARRANGEMENTS**

The Company has no off-balance sheet arrangements.

**PROPOSED TRANSACTIONS**

At the Report Date, the Company does not have any proposed material transactions. All material transactions including those completed subsequent to the Financial Statement date are fully disclosed in the Financial Statements for the year ended December 31, 2016.

**COMMITMENTS**

As at December 31, 2016 the Company's minimum gross combined lease payments for office premises are \$71,461 (including rent operating expenses of \$28,561) of which \$48,488 is expected to be recovered from a sub-tenant. The Company has no other outstanding equipment leases.

The Company has entered into a sub-lease agreement to share its office premises with a third party sub-tenant. The agreement commenced November 1, 2014 and expires May 31, 2017. The cumulative reduction to the Company's gross lease payments pursuant to this agreement is expected to be \$293,310 (including operating expenses of \$115,306). Pursuant to the sub-lease agreement, the sub-tenant may elect to terminate the agreement after November 2015 by providing the Company a three-month notice.

**COMMITMENTS RELATED TO MINERAL PROPERTIES ARE AS FOLLOWS:**

**Spanish Mountain Property, British Columbia**

Pursuant to the purchase agreement, certain mineral claims comprising the Spanish Mountain property are subject to various net smelter returns ("NSR") at 2.5%. The Company may, at its option, reduce the NSR to 1% or 1.5% dependent on the underlying mineral claims with a maximum aggregate payment of \$1,000,000 to the vendors.

On June 15, 2010, the Company acquired a 100% undivided interest in the Cedar Creek property, which is contiguous to the Spanish Mountain property. The wholly-owned property is subject to a 2.5% NSR in favour of a third party. The NSR may be purchased by the Company for \$500,000 per 1% NSR. On May 23, 2011 the Company acquired two additional mineral claims that are adjacent to the Cedar Creek Property for \$110,000 cash. The claims are subject to a 3% NSR, 2.5% of which may be purchased for \$1,000,000.

On August 21, 2012, the Company completed the acquisition of an additional group of mineral claims for considerations of \$500,000 in cash and 2,000,000 common shares of the Company. The property is subject to an underlying 4% NSR. The Company has the option to reduce the net NSR to 2% by paying a onetime cash payment of \$2,000,000 to the royalty holders.

#### **NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED**

All of the new and revised standards described below may be applicable to the Company and may be early-adopted. Only those which may have a significant impact on the Company are discussed below. The Company does not expect any material impact from adopting these standards.

##### **(a) IFRS 9 Financial Instruments**

This is a finalized version of IFRS 9, which contains accounting requirements for financial instruments, replacing IAS 39 *Financial Instruments: Recognition and Measurement*. The standard contains requirements in the following areas:

- Classification and measurement. Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a “fair value through other comprehensive income” category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39; however, there are differences in the requirements applying to the measurement of an entity's own credit risk.
- Impairment. The 2014 version of IFRS 9 introduces an “expected credit loss” model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognized.
- Hedge accounting. Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.
- Derecognition. The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

This is applicable to the Company's annual period beginning on January 1, 2018.

##### **(b) IFRS 16 Leases**

IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17 *Leases*.

This is applicable to the Company's annual period beginning on January 1, 2019.

### **SUBSEQUENT EVENTS**

In February 2017 the Company signed an Extension Agreement to renew the lease of its office premises. The new agreement commences June 1, 2017 and expires May 31, 2022. The total lease payment pursuant to the agreement is \$730,678 (including estimated operating expenses of \$342,622). Concurrently, the Company renewed an agreement to continue to sublease a portion of its office premises to a third party sub-tenant. The agreement commences June 1, 2017 and expires May 31, 2020. The rental recovery is expected to be \$272,902 (including estimated operating expenses of \$139,531). Pursuant to the sublease agreement, the sub-tenant may elect to extend the agreement for another 24 months which they have the option to terminate by providing a three-month notice to the Company. Assuming the sub-tenant exercises the option to extend the lease the rental recovery during the extension period is expected to be \$211,573 (including estimated operating expenses of \$93,021).

Subsequent to December 31, 2016 the following stock options expired without being exercised.

| <b>Number of Options</b> | <b>Exercise Price</b> | <b>Expiry Date</b> |
|--------------------------|-----------------------|--------------------|
| 1,000,000                | \$ 0.44               | April 11, 2017     |
| 1,775,000                | \$ 0.55               | April 23, 2017     |
| <b>2,775,000</b>         |                       |                    |

### **OTHER REQUIREMENTS**

Additional disclosure of the Company's technical reports, material change reports, news releases, and other information can be obtained under the Company's profile on [www.sedar.com](http://www.sedar.com).

### **RISKS AND UNCERTAINTIES**

The Company's principal activity is mineral exploration and development. Companies in this industry are subject to many and varied kinds of risks, including but not limited to, environmental, metal prices, political and economical.

Although the Company has taken steps to verify the title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

The Company has no significant source of operating cash flow and no revenues from operations. None of the Company's mineral properties currently have reserves. The Company has limited financial resources. Substantial expenditures are required to be made by the Company to establish ore reserves.

The property interests owned by the Company, or in which it has an option to earn an interest are in the exploration stages only, are without known bodies of commercial mineralization and have no ongoing mining operations. Mineral exploration involves a high degree of risk and few properties, which are explored, are ultimately developed into producing mines. Exploration of the Company's mineral properties may not result in any discoveries of commercial bodies of mineralization. If the Company's efforts do not result in any discovery of commercial mineralization, the Company will be forced to look for other exploration projects or cease operations.



The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and properties in which it has previously held an interest. The Company conducts its mineral exploration activities in compliance with applicable environmental protection legislation. The Company is not aware of any existing environmental problems related to any of its current or former properties that may result in material liability to the Company. During August 2014, there was a breach of the tailings dam of a copper/ gold mine, owned by a third party, located near Likely, B.C. resulting in significant environmental damages in the area. Although the Company's operations have not been directly affected by the incident, long-term impacts, if any, on the regulatory or permitting process in connection with the Company's project cannot be determined at this time.

#### **CAUTIONARY NOTICES**

The Company's Consolidated Financial Statements for the year ended December 31, 2016 and this accompanying MD&A contain statements that constitute "forward-looking statements" within the meaning of National Instrument 51-102, *Continuous Disclosure Obligations* of the Canadian Securities Administrators. Forward-looking statements often, but not always, are identified by the use of words such as "seek", "anticipate", "believe", "plan", "estimate", "expect", "targeting" and "intend" and statements that an event or result "may", "will", "should", "could", or "might" occur or be achieved and other similar expressions. Forward-looking statements in this MD&A include statements regarding the Company's future exploration plans and expenditures, the satisfaction of rights and performance of obligations under agreements to which the Company is a part, the ability of the Company to hire and retain employees and consultants and estimated administrative assessment and other expenses. The forward-looking statements that are contained in this MD&A involve a number of risks and uncertainties. As a consequence, actual results might differ materially from results forecast or suggested in these forward-looking statements. Some of these risks and uncertainties are identified under the heading "RISKS AND UNCERTAINTIES" in this MD&A. Additional information regarding these factors and other important factors that could cause results to differ materially may be referred to as part of particular forward-looking statements. The forward-looking statements are qualified in their entirety by reference to the important factors discussed under the heading "RISKS AND UNCERTAINTIES" and to those that may be discussed as part of particular forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties, assumptions and other factors that may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Factors that could cause the actual results to differ include market prices, exploration success, continued availability of capital and financing, inability to obtain required regulatory approvals and general market conditions. These statements are based on a number of assumptions, including assumptions regarding general market conditions, the timing and receipt of regulatory approvals, the ability of the Company and other relevant parties to satisfy regulatory requirements, the availability of financing for proposed transactions and programs on reasonable terms and the ability of third-party service providers to deliver services in a timely manner. Forward-looking statements contained herein are made as of the date of this MD&A and the Company disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events or results or otherwise. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.