



Consolidated Financial Statements
For the year ended December 31, 2016 and 2015
(Expressed in Canadian Dollars)



May 1, 2017

Independent Auditor's Report

To the Shareholders of Marlin Gold Mining Ltd.

We have audited the accompanying consolidated financial statements of Marlin Gold Mining Ltd., which comprise the consolidated statements of financial position as at December 31, 2016 and December 31, 2015 and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers Place, 250 Howe Street, Suite 1400, Vancouver, British Columbia, Canada V6C 3S7

T: +1 604 806 7000, F: +1 604 806 7806

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Marlin Gold Mining Ltd. as at December 31, 2016 and December 31, 2015 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

(signed) “PricewaterhouseCoopers LLP”

Chartered Professional Accountants

MARLIN GOLD MINING LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)

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As at	Notes	December 31, 2016 \$	December 31, 2015 \$
ASSETS			
Cash		1,708,222	2,835,363
Receivable and refundable taxes	6, 7	6,863,230	6,778,050
Inventories	8	49,948,314	6,648,162
Investment in securities	9	9,134,910	2,557,210
Prepaid expenses, and other		622,510	248,964
		68,277,186	19,067,749
Mineral property, plant and equipment	11	5,899,577	37,464,369
Resource property costs	12	26,355,941	14,719,801
Other assets	6, 10, 12 (b)	1,640,715	662,046
		102,173,419	71,913,965
LIABILITIES			
Accounts payables and accrued liabilities		10,509,636	7,020,896
Due to related parties	14	732,512	195,559
		11,242,148	7,216,455
Deferred tax liability	19	113,613	2,079,000
Loans	16	54,596,868	45,068,751
Provision for reclamation and rehabilitation	15	7,393,826	4,745,001
		73,346,455	59,109,207
SHAREHOLDERS' EQUITY			
Share capital	13	124,234,314	104,462,869
Contributed surplus	13	17,619,203	11,003,696
Accumulated other comprehensive income		19,235,265	15,240,911
Deficit		(132,261,818)	(117,902,718)
		28,826,964	12,804,758
		102,173,419	71,913,965

Nature of operations and liquidity (Note 1)

Approved on behalf of the Board of Directors:

"Akiba Leisman"
Director (Chair of the audit committee)

"John Pontius"
Director

The accompanying notes are an integral part of these consolidated financial statements.

MARLIN GOLD MINING LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)

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For the year ended December 31,	Notes	2016 \$	2015 \$
Revenue		28,393,978	22,780,587
Cost of Sales			
Production costs	17	(10,991,034)	(20,238,071)
Write down to NRV	8	(8,364,768)	(14,393,236)
Impairment write-down	8	-	(6,007,494)
Depreciation, depletion and amortization		(11,728,284)	(3,462,250)
		(31,084,086)	(44,101,051)
Gross loss		(2,690,108)	(21,320,464)
Operating and Administrative Expenses			
Accounting and legal		(626,654)	(550,474)
Exploration expenses		(1,832,799)	(1,150,578)
General office and rent	14(a)	(1,303,168)	(1,151,976)
Impairment of mineral property		-	(22,620,352)
Management and consulting fees	14(a)	(3,412,333)	(2,640,449)
Salaries, benefits and bonuses	13(c) (d) & 14(a)	(458,039)	(569,003)
Transfer agent fees and regulatory fees		(5,584)	(62,271)
Write-off of resource properties / loss on disposal on disposal of subsidiaries	12(c)&(d)	-	(853,649)
		(7,638,577)	(29,598,752)
Other (expenses) and income			
Accretion and interest expense	15 & 16	(7,589,876)	(5,031,985)
Change in fair value of deferred consideration receivable	6	21,833	(2,277)
Foreign exchange loss		(423,842)	(4,577,361)
Gain on disposal of securities, net of transaction costs	9(b)	2,199	-
Gain in change in fair value of securities	9(b)	8,805	7,199
Interest and other income		102,881	89,298
Write-down in securities	9	-	(1,786,201)
		(7,878,000)	(11,301,327)
Loss before taxes		(18,206,685)	(62,220,543)
Income tax expense	19	(115,332)	(112,256)
Deferred tax recovery	11 (b)	3,962,917	1,385,294
Net loss for the year		(14,359,100)	(60,947,505)
Other comprehensive income (loss) for the year:			
<i>Items subject to reclassification into statement of loss</i>			
Change in fair value of AFS securities, net of taxes of \$660,113	9	6,203,886	(586,654)
Reclassification of change in fair value of AFS securities	9	373,321	1,359,534
Reclassification of foreign currency translation upon disposal of subsidiaries	6	-	(1,411,767)
Cumulative translation adjustment, net of taxes \$1,337,400		(2,582,853)	11,414,988
Other comprehensive income (loss) for the year		3,994,354	10,776,101
Comprehensive loss for the year		(10,364,746)	(50,171,404)
Basic and diluted loss from continued operations per share		\$ (0.10)	\$ (0.62)
Weighted average number of shares outstanding		148,391,487	98,953,083

The accompanying notes are an integral part of these consolidated financial statements.

MARLIN GOLD MINING LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)

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For the year ended December 31,	Notes	2016 \$	2015 \$
Cash provided by (used for):			
Operating Activities			
Net loss for the year		(14,359,100)	(60,947,505)
Non-cash items	18	21,853,431	56,051,334
		7,494,331	(4,896,171)
Changes in non-cash working capital			
Receivable and refundable taxes		(266,562)	(5,712,041)
Prepaid expenses, and other		(376,762)	141,547
Inventories		(4,973,625)	(10,867,751)
Accounts payable and accrued liabilities		(3,902,606)	4,187,480
Due to / from related parties		461,383	(14,533)
		(1,563,841)	(17,161,469)
Investing Activities			
Change in refundable taxes		-	4,606,121
Interest received		59,059	11,943
Acquisition of Commonwealth, net of cash acquired		-	(9,795,555)
Proceeds on disposal of securities, net of transaction costs	9(b)	1,483,623	-
Cash given up on disposal of subsidiaries, including transaction costs		-	(85,657)
Purchase of investment securities		(813,000)	(100,000)
Expenditures on resource property costs		(11,913,874)	(387,898)
Expenditures on mineral property, plant and equipment		(17,208,179)	(14,412,310)
Other assets		(859,277)	(485,167)
		(29,251,648)	(20,648,523)
Financing Activities			
Common shares issued, net of share issuance costs		20,631,911	21,679,787
Common shares purchased and returned to treasury		(907,716)	-
Loans received		10,097,650	35,163,700
Interest paid on loans		-	(857,721)
Commonwealth Bridge Loan repaid		-	(2,550,000)
Loans repaid		-	(13,735,900)
		29,821,845	39,699,866
Net increase (decrease) in cash		(993,644)	1,889,874
Cash - beginning of year		2,835,363	683,951
Foreign exchange (gain) loss on cash		(133,497)	261,538
Cash - end of year		1,708,222	2,835,363

Supplemental disclosure with respect to cash flows (Note 18)

The accompanying notes are an integral part of these consolidated financial statements.

MARLIN GOLD MINING LTD.**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY***(Expressed in Canadian Dollars)*

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	Shareholders' Equity					
	Number of shares	Amount \$	Contributed surplus \$	Accumulated other comprehensive income / (loss) \$	Deficit \$	Total \$
Balance, December 31, 2014	75,799,003	82,539,082	10,896,076	4,464,810	(56,955,213)	40,944,755
Equity financing	38,839,286	21,750,000	-	-	-	21,750,000
Shares issued for Sprott loan	100,000	62,000	-	-	-	62,000
Share issuance costs		(70,213)	-	-	-	(70,213)
RSUs issued and vested	650,000	182,000	107,620	-	-	289,620
Other comprehensive income	-	-	-	10,776,101	-	10,776,101
Net loss	-	-	-	-	(60,947,505)	(60,947,505)
Balance, December 31, 2015	115,388,289	104,462,869	11,003,696	15,240,911	(117,902,718)	12,804,758
Equity financing	59,370,680	21,017,204	-	-	-	21,017,204
Share issuance costs	-	(385,293)	-	-	-	(385,293)
Common shares returned to treasury	(2,000,000)	(907,716)	-	-	-	(907,716)
RSUs issued and vested	168,750	47,250	(47,250)	-	-	-
Share based payments	-	-	334,018	-	-	334,018
Gain on extinguishment of Wexford Loan	-	-	6,328,739	-	-	6,328,739
Other comprehensive income	-	-	-	3,994,354	-	3,994,354
Net loss	-	-	-	-	(14,359,100)	(14,359,100)
Balance, December 31, 2016	172,927,719	124,234,314	17,619,203	19,235,265	(132,261,818)	28,826,964

The accompanying notes are an integral part of these consolidated financial statements.

1. NATURE OF OPERATIONS AND LIQUIDITY

Marlin Gold Mining Ltd. ("Marlin Gold" or the "Company") is a public company listed on the TSX Venture Exchange ("TSX-V") under the symbol "MLN". The Company is incorporated and domiciled in British Columbia, Canada. The address of its registered and head office is 2833 – 595 Burrard Street, Vancouver, B.C. V7X 1J1. The Company is primarily engaged in the exploration for, development of and production of gold in Mexico, exploration of silver in Arizona and acquiring royalty streaming agreements.

On October 30, 2015, the Company completed the sale of its subsidiary Oro Silver Resources Ltd., which owns the fully permitted El Compas Gold-Silver Mining Project in Mexico (refer to Note 6).

On May 21, 2015, the Company completed the acquisition of Commonwealth Silver and Gold Mining Inc. ("Commonwealth") (refer to Note 5).

These consolidated financial statements have been prepared by management on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company incurred a net loss of \$14,359,100 (2015 – \$60,947,505) for the year ended December 31, 2016. As at December 31, 2016, the Company had an accumulated deficit of \$132,261,818 and working capital of \$57,035,038. Since September 15, 2016, the Company has been mining the high grade portion of the La Trinidad mine and as a result has been generating positive cash flows from operations. In addition to expected collection of its value added taxes (IVA), management believes that the cash flows being generated from the La Trinidad mine will enable the Company to meet its liabilities and repay the loans advanced by Wexford Spectrum Investors LLC ("WSI") and Wexford Catalyst Trading Limited ("WCT") (together the "Wexford Funds") ("Wexford Loans") (refer to Note 16) as they become due for the next 12 months. These loans and related interest from the controlling shareholder come due January 15, 2018. In the event that the cash flows generated from operations are not sufficient to repay the loans and accrued interest on the maturity date, the Company may need to negotiate further extension of the maturity date or seek other forms of financing. The Company has a controlling shareholder which has provided approximately \$126,560,000 of equity financings and loans to date.

These consolidated financial statements were approved by the board of directors for issue on April 24, 2017.

2. SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES

The Company has consistently applied the following accounting policies to all periods presented in these consolidated financial statements.

(a) Basis of presentation

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The consolidated financial statements have been prepared on a going concern basis, under the historical cost convention, as modified by financial assets carried at fair value.

2. SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES (cont'd)

(a) Basis of presentation (cont'd)

These consolidated financial statements are expressed in Canadian dollars and include the accounts of Marlin Gold Mining Ltd. and its subsidiaries. Subsidiaries are entities over which the Company has control. The Company controls a subsidiary when it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over its subsidiary. The Company's subsidiaries are:

Name of subsidiary	Referred to as	Place of Incorporation	Proportion of Ownership Interest	Principal Activity
Oro Silver Resources Ltd.	"Oro Silver"	Canada	100%	Parent of Minera Oro Silver Disposed on October 30, 2015
Marlin Gold Mining USA Ltd.	"Marlin Mining"	Canada	100%	Parent of Commonwealth (US)
Oro Gold de Mexico, S.A. de C.V.	"Oro Gold de Mexico"	Mexico	100%	Holds mineral interests in Mexico
Minera Oro Silver de Mexico, S.A. de C.V.	"Minera Oro Silver"	Mexico	100%	Holds mineral interests in Mexico Disposed on October 30, 2015
Prestadora de Servicios Zacatecas, S.A. de C.V.	"Prestadora"	Mexico	100%	Performs payroll functions in Mexico
Exploracion y Desarrollo Minero Oro, S.A. de C.V.	"EDM"	Mexico	100%	Inactive company in Mexico
Marlin Gold Trading Inc.	"Marlin Gold Trading"	Barbados	100%	Commodity streaming company
Marlin Gold US Corporation	"Marlin US"	USA	100%	Management services company
Commonwealth Silver and Gold Mining Corp.	"Commonwealth (US)"	USA	100%	Holds mineral interest in USA
Sailfish Royalty Corp.	"Sailfish"	British Virgin Islands	100%	Royalty / streaming company

All inter-company transactions, balances, revenue and expenses are eliminated in full on consolidation.

(b) Foreign currency translation

The Company's functional and reporting currency is the Canadian dollar. The functional currencies of its subsidiaries are:

- Oro Silver and Marlin Mining – Canadian Dollars;
- Oro Gold de Mexico, Minera Oro Silver, Marlin Gold Trading, Marlin US, Sailfish and Commonwealth (US) – US Dollars;
- Prestadora and EDM – Mexican Pesos.

Determination of functional currency involves certain judgments to determine the primary economic environment and the parent entity reconsiders the functional currency of its entities if there is a change in events or conditions which determined the primary economic environment.

Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on dates of transactions. At the end of each reporting period, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at that date.

2. SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES (cont'd)

(b) Foreign currency translation (cont'd)

Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at rates prevailing at the date when the fair value was determined. Nonmonetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

The financial statements of the subsidiaries with other than Canadian dollar functional currencies are translated into the Canadian dollar presentation currency as follows:

- Assets and liabilities are translated into the Canadian dollar using exchange rates prevailing at the end of the reporting period.
- Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used.
- Exchange differences are recognized in other comprehensive income and accumulated in equity.

Generally, foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in currencies other than a subsidiary's functional currency are recognized in the statement of loss.

(c) Cash and cash equivalents

Cash and cash equivalents include cash held in bank accounts and highly liquid investments with original maturities of three months or less.

(d) Inventories and inventory valuation

Inventories are valued at the lower of average cost and net realizable value ("NRV"). Costs incurred in bringing each product to its present location and condition is accounted for as follows:

Ore in process inventory consists of stockpiled ore, ore on leach pads, crushed ore, and in-circuit material. Finished metal inventory consists of gold in doré awaiting refinement or bullion.

Ore in process and finished metal costs consist of direct production costs including mining, crushing and processing; site administration costs; and allocated indirect costs, including depreciation and amortization of mineral property, plant and equipment. Inventory costs are charged to production costs on the basis of quantity of metal sold. The Company regularly evaluates and refines estimates used in determining the costs charged to production costs and costs absorbed into inventory carrying values based upon actual gold recoveries and operating plans. NRV is the estimated selling price, less the estimated costs of completion and selling expenses. Any write-downs of inventory to NRV are recorded as cost of sales in the

2. SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES (cont'd)

(d) Inventories and inventory valuation (cont'd)

statement of loss, except prior to commercial production in which case the amounts are capitalized against mine construction and development costs. If there is a subsequent increase in the value of inventories, the previous write-downs to NRV are reversed to the extent that the related inventory has not been sold.

Supplies and spare parts inventory consists of consumables used in operations, such as fuel, chemicals, reagents and spare parts, which are valued at the lower of average cost and NRV and, where appropriate, less a provision for obsolescence. Costs include acquisition, freight and other directly attributable costs. NRV is estimated based on replacement costs.

(e) Property, plant and equipment

Property, plant and equipment are carried at cost, less accumulated amortization and accumulated impairment losses. Cost comprises the fair value of consideration given to acquire an asset and includes the direct charges associated with bringing the asset to the location and condition necessary for putting it into use along with the future cost of dismantling and removing the asset. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs relating to any producing mineral interests are amortized on a unit-of-production basis over the estimated ounces of gold. Costs incurred after the property is placed into production that increase production volume or extend the life of a mine are capitalized.

Amortization is calculated over the useful life on a declining balance basis as follows:

- Building - 10%;
- Equipment - 20 - 45%;
- Producing mineral interest - units-of-production, over estimated proven and probable reserves, resources or metric and
- Vehicles - 30%.

(f) Stripping costs

As part of its mining operations, the Company incurs stripping costs during both the development and production phase. Stripping costs incurred in the development phase of a mine, before commercial production commences, are capitalized as part of the cost of constructing the mine and subsequently amortized over its useful life using a units-of-production method. Stripping costs incurred during the production phase of a mine are considered production costs and included in the cost of inventory produced during the period in which the stripping costs are incurred, unless the stripping activity provides additional access to the ore to be mined in the future, in which case the stripping costs are capitalized. Stripping costs incurred to prepare the ore body for extraction are capitalized as mine development costs (pre-stripping). Capitalized stripping costs are amortized on a unit-of-production basis over the estimated resource of the component to which they relate.

The stripping activity asset is initially measured at cost, which is the accumulation of costs directly incurred to perform the stripping activity that provides additional access to the identified component of ore, plus an allocation of directly attributable overhead costs.

2. SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES (cont'd)

(f) Stripping costs (cont'd)

If the costs of the inventory produced and the stripping activity asset are not separately identifiable, a relevant production measure is used to allocate the production stripping costs between the inventory produced and the stripping activity asset. This production measure is calculated for the identified component of the ore body and is used as a benchmark to identify the extent to which the additional activity of creating a future benefit has taken place. The Company uses the expected volume of waste extracted compared with the actual volume for a given volume of ore production of each component.

The stripping activity asset is accounted for as an addition to, or an enhancement of, an existing asset, being the mine asset, and is presented as part of property, plant and equipment in the statement of financial position. This forms part of the total investment in the relevant cash generating unit, which is reviewed for impairment if events or changes of circumstances indicate that the carrying value may not be recoverable.

Economically recoverable resources are used to determine the expected useful life of the identified component of the ore body. The stripping activity asset is then carried at cost less depreciation and any impairment losses.

(g) Resource property costs

Resource property acquisition costs are capitalized. These include any cash consideration and advance royalties paid, and the fair market value of shares issued, if any, on the acquisition of the resource property interest. Properties acquired under option agreements, whereby payments are made at the sole discretion of the Company, are recorded in the accounts when the payments are made. Exploration and evaluation expenditures are expensed as incurred.

Once the technical feasibility and commercial viability of the extraction of resources from a particular mineral property has been determined, resource property acquisition costs are tested for impairment and then reclassified to mine properties within property, plant and equipment and carried at cost until the properties to which they relate are placed into commercial production, sold, abandoned or determined by management to be impaired in value.

At each reporting date, capitalized resource property acquisition costs are assessed for indicators of impairment. Where a potential impairment is indicated, impairment tests are performed for each area of interest, as described in Note 2(i) of these consolidated financial statements. To the extent that resource property acquisition costs are not expected to be recovered, they are charged to net loss.

Proceeds from the sale of properties or cash proceeds received from option payments are recorded as a reduction of the related resource property costs.

2. SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES (cont'd)

(h) Share capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares are recognized as a deduction from equity. Proceeds from unit placements are allocated between shares and warrants issued according to their relative fair value.

(i) Impairment

At each reporting period, management reviews all assets for indicators of impairment. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs of disposal ("FVLCD") and value in use ("VIU"). In assessing FVLCD, recent market transactions (where available) are taken into account. If no such transactions can be identified, an appropriate valuation model is used. In assessing VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset/cash generating unit ("CGU"). If the recoverable amount of the asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in net loss for that period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which that asset belongs.

Past impairments are also considered at each reporting period and where there is an indication that an impairment loss may have decreased, the recoverable amount is calculated as outlined above to determine the extent of the recovery. If the recoverable amount of the asset is more than its carrying amount, the carrying amount of the asset is increased to its recoverable amount and the impairment loss is reversed in the net loss for that period. The increased carrying amount due to reversal may not be more than what the depreciated historical cost would have been if the impairment had not been recognized.

(j) Share-based payments

The Company grants stock options and restricted share units ("RSUs") to directors, officers, employees and service consultants. Each tranche in an award is considered a separate award with its own vesting period. Changes to the estimated number of awards that will eventually vest are accounted for prospectively. The Company applies the fair-value method of accounting for share-based compensation. The fair value of stock options is calculated using the Black-Scholes option pricing model ("BS model") with market related inputs as of the date of grant. The fair value of RSUs is the market value of the underlying shares as of the date of grant.

Share-based compensation for employees and others providing similar services is determined based on the grant date fair value. Share-based compensation for non-employees is determined based on the fair value of the goods or services received or option granted measured at the date on which the Company obtains such goods or services. When such fair value cannot be estimated reliably, fair value is measured based on the quoted market value of the Company's shares on the date of share issuance.

2. SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES (cont'd)

(j) Share-based payments (cont'd)

Share-based compensation expense is recognized over each tranche's vesting period, in net loss or capitalized as appropriate, based on the number of awards expected to vest. The number of stock options expected to vest is adjusted each reporting period. No expense is recognized for stock-based awards that do not ultimately vest. If stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital.

(k) Provision for reclamation and rehabilitation

An obligation to incur restoration, rehabilitation and environmental costs arises when the environmental disturbance is caused by the exploration or development of a mineral property interest. Such costs arising from the dismantling, remediation and ongoing treatment and monitoring of a mine and other site preparation work, discounted to their net present value, are provided for and capitalized at the start of each project to the carrying amount of the asset, along with a corresponding liability as soon as the obligation to incur such costs arises. The timing of the actual rehabilitation expenditure is dependent on a number of factors such as the life and nature of the asset, the operation license conditions and, when applicable, the environment in which the mine operates. Discount rates using a pre-tax rate that reflects the time value of money and the risk associated with the liability are used to calculate the net present value. These costs are capitalized and then charged against net loss over the economic life of the related asset, through amortization using either the unit-of-production or the straight line method. The corresponding liability is progressively increased as the effect of discounting unwinds creating a finance expense in net loss.

Decommissioning costs are also adjusted at each reporting date for changes in estimates. These may include revised expected cash flows, the timing of the cash flows and discount rate. Those adjustments are accounted for as a change in the corresponding capitalized cost, except where a reduction in costs is greater than the unamortized capitalized cost of the related assets, in which case the capitalized cost is reduced to nil and the remaining adjustment is recognized in net loss. The operations of the Company have been, and may in the future be, affected by changes in environmental regulations, including those for site restoration costs.

(l) Loss per share

Loss per common share is calculated using the weighted average number of common shares outstanding. Diluted loss per share is not presented as it is anti-dilutive.

(m) Revenue recognition

Revenue from the sale of metals is recognized when the significant risks and rewards of ownership have passed to the buyer; it is probable that economic benefits associated with the transaction will flow to the Company; the sale price can be measured reliably; the Company has no significant continuing involvement; and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Proceeds from sales of pre-commercial production are recorded as a reduction of property plant and equipment. Revenue is measured at the fair value of the consideration received or receivable.

2. SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES (cont'd)

(n) Taxes

Deferred taxes

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable net loss.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Mining taxes and royalties

Mining taxes and royalties are treated and disclosed as current and deferred taxes if they have the characteristics of an income tax. This is considered to be the case when they are imposed under government authority and the amount payable is calculated by reference to taxable income. Obligations arising from royalty arrangements and other types of taxes that do not satisfy these criteria are recognized as current provisions and included in cost of sales.

Value added tax ("IVA")

IVA credit refundable is from the Government of Mexico and is currently calculated as 16% of expenditures in Mexico. IVA refunds receivable are reviewed for impairment at each financial reporting date in accordance with the policy for impairment of financial assets.

(o) Borrowing costs

Borrowing costs are expensed as incurred except where they are directly attributable to the financing of acquisition, construction or development of qualifying assets requiring a substantial period of time to prepare for their intended future use. Interest is capitalized up to the date when substantially all the activities necessary to prepare the asset for its intended use are complete.

(p) Financial instruments

Financial assets

The Company classifies its financial assets in the following categories: Fair value through profit or loss ("FVTPL"), loans and receivables, and available-for-sale ("AFS"). The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at recognition.

2. SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES (cont'd)

(p) Financial instruments (cont'd)

Financial assets (cont'd)

- (i) Loans and receivables - Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets or non-current assets based on their maturity date. Loans and receivables are carried at amortized cost less any impairment. Loans and receivables are comprised of cash and receivables.
- (ii) AFS - AFS financial assets are non-derivatives that are either designated as available-for-sale or not classified in any of the other financial asset categories. Changes in the fair value of AFS financial assets are recognized as other comprehensive income and classified as a component of equity. AFS assets include investment in securities.
- (iii) FVTPL - Financial assets at FVTPL are initially recognized at fair value with changes in fair value recorded through net loss. Investments in warrants are included in this category.
- (iv) Impairment of financial assets - The Company assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. An evaluation is made as to whether a decline in fair value is "significant" or "prolonged" based on indicators such as significant adverse changes in the market, economic or legal environment. Any impairments charges are recognized in net loss.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

- (v) Derecognition of financial assets and liabilities: Financial assets are derecognized when the investments mature or are sold, and substantially all the risks and rewards of ownership have been transferred. Any accumulated fair value adjustments recognized in other comprehensive income (loss) are then included in net loss. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired. Gains and losses on derecognition are recognized within other income and finance costs.

Financial liabilities

The Company classifies its financial liabilities in the following categories: FVTPL, other financial liabilities, and derivative financial liabilities. The Company has no financial liabilities categorized as FVTPL.

- (i) Other financial liabilities - Other financial liabilities are non-derivatives and are recognized initially at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in net loss over the period to maturity using the effective interest method.

2. SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES (cont'd)

(p) Financial instruments (cont'd)

Financial liabilities (cont'd)

Other financial liabilities are classified as current or non-current based on their maturity date. Financial liabilities include accounts payable, which are non-interest bearing, loans, and due to related parties.

- (ii) Derivatives - Derivatives are initially recognized at their fair value on the date the derivative contract is entered into and are subsequently re-measured at their fair value at each reporting period with changes in the fair value recognized in net loss.

3. RECENT ACCOUNTING PRONOUNCEMENTS

The IASB issued the following new or revised pronouncements that may affect the Company's future financial statements. The Company is currently evaluating the impact on the financial statements.

- IFRS 9: Financial Instruments ("IFRS 9"): This standard replaces the current IAS 39: Financial Instruments Recognition and Measurement. The standard introduces new requirements for classifying and measuring financial assets and liabilities. The effective implementation date of IFRS 9 is January 1, 2018.
- IFRS 15: Revenue from Contracts with Customers ("IFRS 15"): This standard replaces IAS 11: Construction Contracts, IAS 18: Revenue and IFRIC 13: Customer Loyalty Programmes. This standard outlines a single comprehensive model for entities to account for revenue arising from contracts with customers. The latest date of mandatory implementation of IFRS 15 is January 1, 2018.
- IFRS 16: Leases ("IFRS 16"): This standard replaces IAS 17 – Leases and its associated interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting remains similar to current accounting practice. The standard is effective for annual periods beginning on or after January 1, 2019, with early application permitted for entities that apply IFRS 15.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY AND CRITICAL ACCOUNTING JUDGEMENT

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY AND CRITICAL ACCOUNTING JUDGEMENT (cont'd)

Estimates and underlying assumptions are reviewed at each period end. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Outlined below are some of the areas which require management to make significant estimates and assumptions in determining carrying values.

Estimated recoverable resources, ore in process and production costs

Recoverable ounces are estimates of the amount of ore that can be economically and legally extracted from the Company's mining properties. The Company estimates its recoverable ounces based on information compiled by appropriately qualified persons relating to the geological data on the size, depth and shape of the ore body, and requires complex geological judgments to interpret the data. The estimation of recoverable ounces is based upon factors such as estimates of foreign exchange rates, commodity prices, future capital requirements, metallurgical recoveries, and production costs along with geological assumptions and judgments made in estimating the size, and grade of the ore body. Changes in the recoverable ounces may impact the carrying value of inventories, operating costs of future periods, mining interests, mine restoration provisions, recognition of deferred tax assets, and depreciation and amortization charges. The Company does not have proven and probable reserves and monitors the recovery of gold ounces from the leach pad on an ongoing basis and may refine its estimate based on these results. Assumptions used in inventory valuation include tonnes mined, grams of gold per tonne, recovery rate based on the type of ore placed on the leach pad, assays of ore tonnes, solutions and gold on carbon, among others.

Deferred income taxes

The determination of income tax expense and deferred income tax involves judgment and estimates as to the future taxable earnings, expected timing of reversals of deferred tax assets and liabilities, and interpretation of laws in the countries in which the Company operates. The Company is subject to assessments by tax authorities who may interpret the tax law differently. Changes in these estimates may materially affect the final amount of deferred income taxes or the timing of tax payments.

Impairment of non-current assets

At each reporting date, the Company reviews its non-current assets to determine whether there are any indications of impairment. Calculating the estimated recoverable amount for the non-current asset impairment tests requires management to make estimates and assumptions with respect to estimated recoverable resources, estimated future commodity prices, the expected future operating and capital costs and discount rates. Changes in any of the assumptions or estimates used in determining the recoverable amount could impact the impairment analysis.

Reclamation and remediation provisions

Reclamation and remediation provisions represent the present value of estimated future costs for the reclamation of the Company's mines and properties. These estimates include assumptions as to the cost of services, timing of the reclamation work to be performed, inflation rates, exchange rates and interest rates. The actual cost to reclaim a mine may vary from the estimated amounts because there are uncertainties in factors used to estimate the cost and potential changes in regulations or laws governing the reclamation of a mine.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY AND CRITICAL ACCOUNTING JUDGEMENT (cont'd)

Reclamation and remediation provisions (cont'd)

Management periodically reviews the reclamation requirements and adjusts the liability as new information becomes available and will assess the impact of new regulations and laws as they are enacted.

Impairment of securities

At each reporting date, management conducts a review of the investment in securities to determine whether there are any indications of impairment. This determination requires significant judgment. In making this judgment, management evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its carrying value; and the financial health of and business outlook for the investee, including factors such as industry and sector performance, and operational and financing cash flow. If the declines in fair value below carrying value are considered significant or prolonged, the Company will recognize a loss, being the transfer of the accumulated fair value adjustments recognized in other comprehensive income on the impaired AFS financial asset to net loss.

Critical judgement

Impairment of mineral property plant and equipment and resource property costs

Critical judgement was applied on the assessment of impairment indicators for the Company's mineral property plant and equipment and resource property costs. In 2015, management determined there were impairment indicators at the La Trinidad mine. The recoverable amount of the La Trinidad mine was determined as FVLCD using a discounted cash flow model, which resulted in an impairment loss of \$22,620,352. In 2015, the recoverable amount of the El Compas resource property was determined based on management's best estimate of the fair value of the common shares to be received upon disposal, which resulted in an impairment of \$1,400,000. In 2015, management also recorded a write-down of \$383,561 relating to the El Rosario resource property. Refer to Notes 11 and 12.

Stripping costs

Significant judgement is required to identify and define the components of the La Trinidad mine, and also to determine the expected volumes (e.g., in tonnes) of waste to be stripped and ore to be mined in each of these components. Management has determined that the La Trinidad consists of one component.

Judgement is also required to identify a suitable production measure to be used to allocate production stripping costs between inventory and any stripping activity asset(s). The Company considers that the ratio of the expected volume (e.g., in tonnes) of waste to be stripped for an expected volume (e.g., in tonnes) of ore to be mined over the estimated resource, is the most suitable production measure.

Furthermore, judgements and estimates are also used to apply the units-of-production method in determining the depreciable lives of the stripping activity asset(s).

5. ACQUISITION OF COMMONWEALTH SILVER AND GOLD MINING INC. ("COMMONWEALTH")

On May 21, 2015, the Company completed the acquisition of all the issued and outstanding common shares of Commonwealth, a privately held entity, by way of a statutory plan of arrangement under the Canada Business Corporations Act (the "Commonwealth Arrangement"). The total cash consideration paid to the Commonwealth shareholders was \$7,396,292. As part of the consideration, the Company also advanced \$1,516,000 to settle liabilities. As part of the transaction, the Company assumed the \$2,550,000 bridge loan that was provided to Commonwealth by the Wexford Funds ("the Commonwealth Bridge Loan"). As part of the Commonwealth Arrangement, the Company agreed to advance funds to Commonwealth to pay a break away fee of \$400,000 to a third party.

This transaction has been accounted for as an acquisition of assets and liabilities as Commonwealth did not constitute a business, as defined in IFRS 3. Other than a small working capital amount and the loan assumed the remainder of the value for this transaction was assigned to resource properties.

The allocation of the purchase price of \$9,855,885 to the assets acquired and liabilities assumed is based upon estimated fair values at the date of acquisition as set out below:

	\$
Working capital	64,565
Fixed assets	10,987
Resource properties	12,330,333
Commonwealth Bridge Loan	(2,550,000)
Net assets acquired	9,855,885

The Commonwealth Bridge Loan had an interest rate of 15% until March 15, 2015 and thereafter 18%, compounded daily, until repaid. The Commonwealth Bridge Loan was repayable on or before August 11, 2015. On June 8, 2015, the Company repaid the Commonwealth Bridge Loan and interest of \$116,628. Interest of \$24,863 was recorded in net loss for the year ended December 31, 2015 and the remaining balance of \$91,765 was included as part of the accrued liabilities acquired in the Commonwealth acquisition.

Following the Commonwealth Arrangement, the Company changed the name of Commonwealth to Marlin Gold Mining USA Ltd.

6. DISPOSAL OF SUBSIDIARIES

On October 30, 2015, the Company closed the transaction whereby Canarc Resource Corp. ("Canarc") acquired 100% of the El Compas Gold-Silver Mining Project ("El Compas") in Zacatecas, Mexico (the "Canarc Transaction"). (Refer to Note 12). Canarc issued the Company a total of 19,000,000 Canarc common shares in exchange for a 100% interest in El Compas and on each of the first three anniversaries of the closing date, Canarc will advance 55 troy ounces of gold (or the US dollar equivalent) to the Company ("Deferred Consideration Receivable"). The Company will receive a 1.5% net smelter return ("NSR") on all Non-Altiplano claims that currently have no royalty associated with them.

6. DISPOSAL OF SUBSIDIARIES

On May 30, 2016, Canarc completed the sale of El Compas to Endeavour Silver Corp ("Endeavour"). Endeavour will now assume Canarc's obligation to pay an aggregate of 165 troy ounces of gold from production to the Company and the 1.5% NSR.

The fair value of the 19,000,000 common shares received is \$1,330,000 based on Canarc's share price on the date the Canarc Transaction was completed. The Deferred Consideration Receivable was fair valued at \$244,851 using the gold spot selling price as at October 30, 2015.

	\$
Net consideration	1,489,194
Carrying value of Oro Silver Group	(3,318,849)
Reclassification of cumulative translation adjustment from AOCI upon disposal of subsidiaries	1,411,767
Loss on disposal of the Oro Silver Group recorded in loss for the year ended December 31, 2015	417,888

As at December 31, 2016, the fair value of the Deferred Consideration Receivable is \$171,196 (December 31, 2015 - \$242,574) and is disclosed in the consolidated statement of financial position as follows:

	December 31, 2016	December 31, 2015
	\$	\$
Current receivable, disclosed as Receivable (Note 7)	85,598	80,858
Non-current receivable, disclosed as Other assets	85,598	161,716
Total	171,196	242,574

Changes in the fair value of the Deferred Consideration Receivable are recognized in profit or loss. On October 28, 2016, the Company received \$93,211 (US\$69,644), the cash equivalent of 55 troy ounces of gold, of the Deferred Consideration Receivable and recorded a gain of \$12,353.

For the year ended December 31, 2016, a gain in the change in the fair value of the Deferred Consideration Receivable of \$9,480 (2015 - \$Nil) was recognized in profit and loss.

7. RECEIVABLE AND REFUNDABLE TAXES

	December 31, 2016	December 31, 2015
	\$	\$
Value added taxes (IVA)	6,611,120	6,667,113
Current portion of Deferred Consideration Receivable (Note 6)	85,598	80,858
Other	166,512	30,079
	6,863,230	6,778,050

IVA credit refundable is from the Government of Mexico and is currently calculated as 16% of expenditures in Mexico. Subsequent to December 31, 2016, the Company received IVA of approximately \$2,053,000.

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8. INVENTORIES

	December 31, 2016	December 31, 2015
	\$	\$
Ore in process	40,333,791	4,210,351
Finished metal inventory	8,068,561	819,006
Supplies and spare parts	1,545,962	1,618,805
	49,948,314	6,648,162

On December 31, 2016, ore in process and finished metal inventory was recorded at cost. During the year ended December 31, 2016, the Company recorded write downs to NRV of \$8,364,768 (2015 - \$ 14,393,236), and an impairment write down of \$Nil (2015 - \$6,007,494), related to changes in the expected recovery of gold ounces from mineralized material in the ore in process inventory. As at December 31, 2016, ore in process is comprised of stockpile inventory of \$11,704,652 (2015 - \$nil) and leach pad inventory of \$28,629,139. On December 31, 2015, ore in process and finished metal inventory was recorded at NRV.

9. INVESTMENT IN SECURITIES

	December 31, 2016		December 31, 2015	
	Cost	Fair value	Cost	Fair value
	\$	\$	\$	\$
Golden Reign Resources Ltd.				
30,933,333 (2015 – 21,333,333) common shares	4,047,534	9,125,333	3,279,534	1,493,333
Canarc Resources Corp.				
Nil (2015 – 20,666,666) common shares	-	-	1,406,654	1,033,333
250,000 (2015 – 833,333) warrants	10,575	9,577	23,346	30,544
Total	4,058,109	9,134,910	4,709,534	2,557,210

(a) Golden Reign Resources Ltd.

On July 10, 2014, the Company acquired ownership of 21,333,333 common shares (the “Acquired Shares”) of Golden Reign Resources Ltd. (“Golden Reign”) representing 18.51% of the issued and outstanding common shares of Golden Reign at the acquisition date. The Acquired Shares were purchased at a price of \$0.15 per Acquired Share, for aggregate cost of \$3,200,000 and incurred acquisition costs of \$79,534.

Concurrent with the purchase of the Acquired Shares, the Company and Golden Reign entered into a US\$15,000,000 (the “GRR Purchase Price”) Gold Streaming Arrangement (the “GRR Arrangement”) for the construction and development of Golden Reign’s San Albino gold deposit, located in Nueva Segovia, Nicaragua. The GRR Purchase Price is only due once a preliminary cost assessment report has been provided for the development of the Golden Reign’s San Albino gold deposit and has been approved by Sailfish (see also Note 10).

9. INVESTMENT IN SECURITIES (cont'd)

(a) Golden Reign Resources Ltd. (cont'd)

Under the GRR Arrangement, the Company's wholly-owned subsidiary, Sailfish, will be entitled to purchase 40% of gold production from the San Albino gold deposit, at US\$700 per troy ounce, subject to a 1% per year cost escalation beginning three years from commercial production, until Sailfish recovers US\$19.6 million. Thereafter, Sailfish will be entitled to purchase 20% of gold production at US\$700 per troy ounce and is subject to a 1% per year cost escalation beginning three years from commercial production, plus 50% of the price differential above US\$1,200 per troy ounce subject to certain adjustments.

Prior to commercial production Sailfish will be entitled to receive an 8% semi-annual coupon payment on the GRR Purchase Price and Golden Reign will be required to make minimum monthly payments of US\$282,800 per month when commercial production commences.

The investment in Golden Reign is classified as AFS and is measured at fair value with changes in fair value recognized in other comprehensive income. During the three months ended September 30, 2015, management made the assessment that the investment in Golden Reign had experienced a prolonged decline in fair value. Accordingly, an impairment of \$1,359,534 was transferred from accumulated other comprehensive loss and recognized in net loss. The fair value remained below average cost as at December 31, 2015.

For the year ended December 31, 2015, the Company recorded a write-down in securities of \$1,786,201 in net loss.

On March 23, 2016, the Company participated in Golden Reign's private placement acquiring 9,600,000 common shares for a cost of \$768,000. Following this participation, the Company's interest in Golden Reign increased to 19.90%. Refer to Note 23 (a).

For the year ended December 31, 2016, the Company recorded a gain in the change in fair value in securities of \$6,864,000 in other comprehensive income.

(b) Canarc Resources Corp.

In October 2015, concurrently with the Canarc Transaction (refer to Note 6), the Company participated in a private placement of units of Canarc (the "Canarc Private Placement") with each unit consisting of one common share (the "Canarc Shares") and one-half of one warrant to acquire a common share of Canarc at a price of \$0.08 per common share for a period of 36 months from the date of issuance (the "Canarc Warrants"). The Company acquired 1,666,666 units consisting of 1,666,666 Canarc Shares and 833,333 Canarc Warrants pursuant to the Canarc Private Placement at a price of \$0.06 per unit for aggregate consideration of \$100,000. The Canarc Shares were fair valued at the market price on the date they were issued and the fair value of the Canarc Warrants was calculated using the BS model. The total consideration of \$100,000 paid was allocated on a proportionate basis to the Canarc Shares (\$76,654) and to the Canarc Warrants (\$23,346).

9. INVESTMENT IN SECURITIES (cont'd)

(b) Canarc Resources Corp. (cont'd)

On March 3, 2016, the Company participated in Canarc's private placement acquiring 500,000 units of Canarc for gross proceeds of \$45,000. Each Canarc unit is comprised of one common share and one-half share purchase warrant. Each full warrant entitles the holder to purchase one additional share at \$0.12 for a three-year period. The Canarc shares were fair valued at the market price on the date they were issued and the fair value of the Canarc warrants was calculated using the BS model. The total consideration of \$45,000 paid was allocated on a proportionate basis to the Canarc shares (\$34,422) and to the Canarc warrants (\$10,578). Following this participation, the Company's interest in Canarc decreased from 12% to 9.9%.

During the year ended December 31, 2016, the Company disposed of 21,166,666 Canarc shares for gross proceeds of \$1,491,891, incurred transaction costs of \$40,833 and recorded a gain on disposal of \$9,981.

During the year ended December 31, 2016, the Company disposed of 833,333 Canarc warrants, with an exercise price of \$0.08 per share, for net proceeds of \$32,567 and recorded a loss on disposal of \$7,782, which was offset against previously recorded gains in the change in fair value.

The investment in Canarc shares is classified as AFS and is measured at fair value with changes in fair value recognized in other comprehensive income. The investment in Canarc warrants is classified as a derivative and is measured at fair value using the BS model with changes in fair value recognized in net loss.

As at December 31, 2016, the Company owns a total of Nil (December 31, 2015 – 20,666,666) common shares and 250,000 (December 31, 2015 – 833,333) warrants of Canarc. For the year ended December 31, 2016, the Company transferred \$373,321 from accumulated other comprehensive income to net loss following the sale of all the common shares held in Canarc and recorded a gain in the change in the fair value of the Canarc warrants of \$8,805 (2015 - \$7,199) in net loss.

10. ADVANCES

On October 7, 2015, the Company entered into an agreement with Golden Reign (Refer to note 9) whereby the Company will advance a minimum of US\$516,600 to provide working capital to advance Golden Reign's San Albino gold deposit. All funds advanced under this agreement will be credited against the GRR Purchase Price pursuant to the GRR Arrangement and will earn interest at 8% per annum. As at December 31, 2016, the Company advanced \$1,326,801 (US\$988,159) (2015 - \$410,663 (US\$294,567)) and accrued to pay \$75,570 (US\$56,2182) (2015 - \$Nil). The advance is included in other assets.

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11. MINERAL PROPERTY, PLANT AND EQUIPMENT

	Mine Property \$	Building \$	Equipment \$	Vehicles \$	Total \$
For the year ended December 31, 2016					
Opening net book value	35,946,581	11,770	1,068,981	437,037	37,464,369
Translation adjustment	(2,338,058)	(177)	(31,731)	(17,129)	(2,387,095)
Additions	20,041,423	14,615	162,179	23,759	20,241,976
Depreciation charge	(48,995,409)	(1,881)	(101,380)	(321,003)	(49,419,673)
Closing net book value	4,654,537	24,327	1,098,049	122,664	5,899,577
As at December 31, 2016					
Cost	62,069,413	26,900	2,506,715	670,256	65,273,284
Accumulated depreciation	(57,414,876)	(2,573)	(1,408,666)	(547,592)	(59,373,707)
Net book value	4,654,537	24,327	1,098,049	122,664	5,899,577

	Mine Property \$	Building \$	Equipment \$	Vehicles \$	Total \$
For the year ended December 31, 2015					
Opening net book value	43,498,893	7,853	887,557	340,560	44,734,863
Translation adjustment	8,817,759	1,699	172,712	68,070	9,060,240
Additions	12,145,309	11,507	408,800	-	12,565,616
Disposal of assets	-	(11,777)	(59,635)	(14,916)	(86,328)
Impairment	(22,620,352)	-	-	-	(22,620,352)
Depreciation charge	(5,895,028)	2,488	(340,453)	43,323	(6,189,670)
Closing net book value	35,946,581	11,770	1,068,981	437,037	37,464,369
As at December 31, 2015					
Cost	42,768,956	12,456	2,414,699	666,047	45,862,158
Accumulated depreciation	(6,822,375)	(686)	(1,345,718)	(229,010)	(8,397,789)
Net book value	35,946,581	11,770	1,068,981	437,037	37,464,369

11. MINERAL PROPERTY, PLANT AND EQUIPMENT (cont'd)

(a) Mine Property

The Trinidad area is located in Sinaloa, Mexico and is comprised of 9 concessions, subject to the following agreements:

Don Paulino Agreement

Certain concessions, including the Trinidad area concessions, Nancy, Santa Cesilia and La Poderosa, are subject to an option to purchase agreement originally dated February 9, 2006, (as amended) (the "Don Paulino Agreement"). Pursuant to the Don Paulino Agreement, the Company has the option to purchase all the concessions within nine years in consideration of an aggregate payment of US\$600,000 and the grant of a 0.5% to 1.5% NSR payable upon exercise of the option and once the Company has recovered its initial investment or the mine has been in production for 2 years. The NSR consideration will be 0.5% if the price per ounce of gold is less than US\$400; 1% if the price is greater than US\$400 but less than US\$499.99; and price per ounce of gold is less than US\$400; 1% if the price is greater than US\$400 but less than US\$499.99; and 1.5% if the price is equal or greater than US\$500. The NSR can be purchased by the Company for US\$1,000,000.

During the year ended December 31, 2015 the Company made a US\$ 113,000 payment bringing the total paid to US\$543,000 pursuant to this agreement. The final instalment of US\$57,000 was paid in May 2016.

Following is a detailed breakdown of mine property.

	As at December 31, 2015	Additions	Translation adjustment	As at December 31, 2016
	\$	\$	\$	\$
Construction and mine costs	38,082,391	619,850	(1,888,227)	36,814,014
Deferred stripping costs	18,011,419	16,748,912	(401,582)	34,358,749
Provision for reclamation and rehabilitation	4,649,215	2,672,661	(126,341)	7,195,535
Capitalized borrowing costs	899,289	-	(31,542)	867,747
Pre-commercial production loss	3,766,424	-	(132,103)	3,634,321
Reclassification from resource property costs	746,745	-	(26,192)	720,553
Property acquisition costs	439,238	-	(15,405)	423,833
	66,594,721	20,041,423	(2,621,392)	84,014,752
Depreciation	(8,027,788)	(48,995,409)	(391,681)	(57,414,878)
Impairment	(22,620,352)	-	675,015	(21,945,337)
Total Mine Property	35,946,581	(28,953,986)	(2,338,058)	4,654,537

11. MINERAL PROPERTY, PLANT AND EQUIPMENT (cont'd)

(b) Impairment

For the year ended December 31, 2015 the Company recorded an impairment write down of \$22,620,352. Due to lower gold prices and to the acceleration of gaining access to the higher grade area of the resource at the La Trinidad mine, management embarked on a mine plan that removed an estimated 40,000 recoverable ounces in the south side of the pit until such time that the gold price allows for these ounces to be mined economically. The change in the mine plan and the associated reduction in recoverable ounces made up a significant portion of the impairment write down.

The Company conducted an impairment analysis whereby the carrying value of the La Trinidad mine was compared to the mine's recoverable amount which was determined to be its VIU as at December 31, 2016. In testing the La Trinidad mine for impairment, the Company utilized a discounted cash flow models incorporating estimates and assumptions that included such factors as future production levels, metallurgical recovery estimates, operating and capital costs in its life-of-mine plan, future metal prices, foreign exchange rates and discount rates.

Management's estimate of the VIU of its CGUs is classified as level 3 in the fair value hierarchy. The Company's estimate of future cash flows is subject to risks and uncertainties and therefore could change in the future if the underlying assumptions change.

The Company's analysis concluded that the carrying values of the La Trinidad Mine as at December 31, 2015 was impaired resulting in an impairment charge of \$22,620,352 and deferred tax recovery of \$1,385,294 in net loss for the year ended December 31, 2015.

In 2016, there was no impairment or impairment reversal.

12. RESOURCE PROPERTY COSTS

	Commonwealth	Other	El Rosario	El Compas	Total
	(a)	(b)	(d)	(c)	
	\$	\$	\$	\$	\$
Balance -December 31, 2015	13,643,453	1,076,348	-	-	14,719,801
Additions	10,201,344	1,712,530	-	-	11,913,874
Mineral property costs for the year	10,201,344	1,712,530	-	-	11,913,874
Cumulative translation adjustment	(268,081)	(9,653)	-	-	(277,734)
Balance - December 31, 2016	23,576,716	2,779,225	-	-	26,355,941

12. RESOURCE PROPERTY COSTS (cont'd)

	Commonwealth	Other	El Rosario	El Compas	Total
	(a)	(b)	(d)	(c)	
	\$	\$	\$	\$	\$
Balance -December 31, 2014	-	-	383,561	2,974,810	3,358,371
Acquisition	11,597,185	733,148	-	-	12,330,333
Additions	258,400	129,200	-	-	387,600
Write down of property acquisition costs	-	-	(383,561)	(1,400,000)	(1,783,561)
Mineral property costs for the year	11,855,585	862,348	(383,561)	(1,400,000)	10,934,372
Cumulative translation adjustment	1,787,868	214,000	-	(19,553)	1,982,315
Disposal	-	-	-	(1,555,257)	(1,555,257)
Balance - December 31, 2015	13,643,453	1,076,348	-	-	14,719,801

On May 21, 2015, the Company acquired the interest in the Commonwealth Project and the Blue Jeep, San Ignacio and Six Mile Hill properties (collectively, "Other") in Arizona, United States.

(a) Commonwealth Project

On February 11, 2011, Commonwealth (US), signed a definitive lease with option to purchase agreement (the "Commonwealth Agreement"), with the underlying property owners to acquire an 88% interest in eight patented mining claims hosting the historic Commonwealth Mine and 100% of the mineral rights on ten adjoining unpatented mining claims in Cochise County, Arizona for total option payments of US\$4,500,000. Upon acquiring Commonwealth (US) in 2015, the Company was required to make the remaining option payments pursuant to the Commonwealth Agreement totaling US\$3,450,000 (paid) to the underlying property owners. During the year ended December 31, 2016, the Company completed the acquisition of the mineral claims per the Commonwealth Agreement by making the final option payments (US\$3,250,000). Upon completion of the property option payments, title in the mining claims was transferred to the Company.

These mineral claims are subject to a 2% NSR royalty on all mineral production from the unpatented mining claims and on 88% of mineral production from the patented mining claims, up to 1% of which can be bought back at any time at the Company's discretion for US\$2,000,000 in two separate payments of US\$1,000,000, each for 0.5%. The total US\$4,500,000 in property option payments represents an advance against the future NSR and in the event that the property goes into production, the amount will be recovered as a credit for pre-payment of the first US\$4,500,000 of the NSR. The Company shall have the right to transfer its interest in the property at all times and the property can be abandoned by the Company at any time with no further amounts owing and no minimum work requirements.

Prior to the Commonwealth Arrangement, Commonwealth (US) had completed the outright purchase of an additional 10% interest in the eight patented mining claims, covered by the Commonwealth Agreement, bringing the Company's interest to 98%. There is no NSR on the additional 10% interest. Commonwealth (US) had also acquired a 100% ownership interest in the mineral rights on twelve unpatented mining claims

12. RESOURCE PROPERTY COSTS (cont'd)

(a) Commonwealth Project (cont'd)

and mineral and surface rights on a private parcel of land, all adjoining the mining claims covered by the Commonwealth Agreement.

During the year ended December 31, 2016, the Company acquired land and associated patented mining claims contiguous to the Commonwealth Project for a purchase price of US\$750,000; and acquired the surface and mineral rights surrounding the patented mining claims of the Commonwealth Project for a purchase price of US\$3,600,000.

(b) Other (Blue Jeep, San Ignacio, Six Mile Hill Projects)

On January 25, 2011, Commonwealth (US) signed a definitive lease with option to purchase agreement (the "Cartmell Agreement"), with the underlying property owners to acquire a 100% interest in the mineral rights on thirty-four unpatented mining claims in Cochise County, Arizona for total option payments of US\$2,000,000. These mining claims surround the historic Commonwealth Mine in Pearce, Arizona and include the Blue Jeep, San Ignacio and Six Mile Hill properties. The Blue Jeep property consists of ten contiguous mining claims known as Blue Jeep 1 through 9 and the Brindle Steer. The San Ignacio property consists of eighteen mining claims known as San Ignacio 1 through 18. The Six Mile Hill property consists of six mining claims known as San Ramon 1 through 6.

Upon acquiring Commonwealth (US) in 2015, the Company was required to make the remaining option payments pursuant to the Cartmell Agreement totaling US\$1,350,000 (paid) to the underlying property owners. During the year ended December 31, 2016, the Company completed the acquisition of the mineral claims per the Cartmell Agreement by making the final option payments (US\$1,250,000). Upon completion of the property option payments, title in the mining claims was transferred to the Company.

These mineral claims are subject to a 2% NSR royalty on all mineral production, 1% of which can be bought back at any time at the Company's option for US\$1,000,000. The total US\$2,000,000 in property option payments represents an advance against the future NSR and in the event that the property goes into production, the amount will be recovered as a credit for pre-payment of the first US\$2,000,000 of the NSR.

Restricted cash

A reclamation bond of \$12,084 (US\$9,000) has been posted with Arizona's Bureau of Land Management, against any potential future land reclamation costs. The Company has also issued a letter of credit for US\$46,600, which is secured with \$60,000 cash. As at December 31, 2016, restricted cash of \$72,084 (December 31, 2015 - \$72,456) is included in other assets.

12. RESOURCE PROPERTY COSTS (cont'd)

(c) El Compas Area

The El Compas area, subdivided in 2 properties, is located in the state of Zacatecas, Mexico and consists of 24 owned concessions and 1 concession application. Six concessions within the El Compas Area (the "Altiplano property") are subject to a 3% NSR royalty payable on production, half of which can be purchased by the Company for US\$1,500,000.

At June 30, 2015, the Company revised the estimated recoverable amount of El Compas based on management's best estimate of the fair value of the common shares to be received based on the Canarc Transaction using a five-day volume weighted average price of \$0.07 per common share as at June 30, 2015 which resulted in the Company recording a further impairment of \$1,400,000. On October 30, 2015, the Company completed the sale of the El Compas assets (refer to Note 6).

(d) El Rosario Area

The El Rosario area includes the Cimarron and San Isidro properties.

Cimarron

On November 30, 2011, the Company and DFX Exploration Ltd. ("DFX"), entered into a joint venture agreement for the Company's 100% owned Cimarron property which was subsequently transferred to Goldplay de Mexico SA de CV. ("Goldplay").

On December 31, 2015, the Company recorded an impairment of \$383,561 on the El Rosario resource property based on recoverable amount indicated by an agreement to transfer the title of this property to Goldplay de Mexico SA de CV and an additional expense of \$52,200 that was recorded directly in net loss for a total impairment expense of 435,761. The Company retained a 1% NSR and the right to acquire an additional 0.75% NSR for US\$600,000 from third party holders.

13. SHARE CAPITAL AND CONTRIBUTED SURPLUS

- (a) Authorized - Unlimited number of common shares with no par value.
- (b) Issued share capital is as follows:
 - (i) On August 24, 2016, the Company completed a bought deal brokered private placement of 2,430,000 common shares (the "Brokered Offering") with Red Cloud Klondike Strike Inc. (the "Underwriter"), for gross proceeds of \$1,215,000. In addition to the Brokered Offering, the Company also completed, on a non-brokered basis, a subscription for 600,000 common shares for gross proceeds of \$300,000.
 - (ii) On July 22, 2016, the Company completed a non-brokered private placement for \$6,500,000 and issued 13,000,000 common shares to the Wexford Funds, existing shareholders of the Company.
 - (iii) On May 16, 2016, the Company completed a rights offering for \$13,002,204 and issued 43,340,680 common shares.
 - (iv) During the year ended December 31, 2016, the Company purchased 2,000,000 common shares of the Company under the normal course issuer bid ("NCIB") for \$907,716. As at December 31, 2016, 2,000,000 common shares acquired by the Company under the NCIB were cancelled.
 - (v) On January 1, 2016, 168,750 restricted share units ("RSU") vested with a fair value of \$47,250. Refer to Note 13(d).
 - (vi) For the year ended December 31, 2016, share issue costs of \$385,293 (2015 - \$70,213) were incurred.
 - (vii) On October 30, 2015, 650,000 RSU's vested with a fair value of \$182,000. Refer to Note 13(d).
 - (viii) On June 3, 2015, the Company completed a non-brokered private placement equity financing with the Wexford Funds, existing shareholders of the Company, issuing 18,571,429 common shares to WST, and 4,642,857 common shares to WCT, for gross proceeds to the Company of \$13,000,000. The Company did not pay any broker or finder's fees.
 - (ix) On May 27, 2015, the Company issued 100,000 common shares of the Company to Sprott (Refer to Note 17 (b)) in lieu of a waiver to the Sprott Loan (refer to Note 17(a)). The fair value of the common shares was \$0.62, per common share, determined using the issue date closing price.
 - (x) On May 20, 2015, the Company completed a non-brokered private placement equity financing with the Wexford Funds, issuing 13,281,250 common shares to WST, and 2,343,750 common shares to WCT, for gross proceeds to the Company of \$8,750,000. The Company did not pay any broker or finder's fees.

13. SHARE CAPITAL AND CONTRIBUTED SURPLUS (cont'd)

(c) Stock options

The Company has a share option plan for its employees, directors, officers and consultants. The plan provides for the issuance of incentive options to acquire up to a total of 10% of the issued and outstanding common shares of the Company. The exercise price of each option shall not be less than the minimum prescribed amount allowed under the TSX-V. The options can be granted for a maximum term of 5 years with vesting provisions if determined by the Company.

The continuity of incentive stock options issued and outstanding is as follows:

	Number of Options	Weighted Average Exercise Price \$
Outstanding December 31, 2014	507,625	2.18
Expired during year	(380,125)	2.47
Outstanding December 31, 2015	127,500	1.33
Expired during year	(97,500)	1.40
Granted during year	6,000,000	0.15
Outstanding December 31, 2016	6,030,000	0.15

On February 5, 2016, the Company granted stock options to a director and an officer of the Company entitling them to purchase 6,000,000 common shares at a price of \$0.15 per common share for a period of five years, expiring on February 5, 2021, replacing the RSUs cancelled (Refer to Note 13(d)). On the grant date, 300,000 stock options vested immediately and 300,000 stock options will vest at each quarter commencing on March 31, 2016 with the last tranche vesting on September 30, 2020. The incremental fair value of these options was calculated as \$453,233 using the BS model. As at December 31, 2016, 1,500,000 options vested. The Company recorded share-based payments of \$334,018 (2015 - \$Nil) for the year ended December 31, 2016 which are included in salaries, benefits and bonuses expense in net loss.

The following assumptions and inputs were used to fair value the options on the grant date: expected life – 5 years; weighted average expected volatility – 92.10%; expected dividend yield – 0.0%; risk free interest rate – 0.5%; share price - \$0.15. The expected volatility assumptions have been developed taking into consideration historical volatility of the Company's share price.

No stock options were granted or vested during the year ended December 31, 2015.

13. SHARE CAPITAL AND CONTRIBUTED SURPLUS (cont'd)

(c) Stock options (cont'd)

As of December 31, 2016, the following options were outstanding and vested:

Exercise Prices \$	Number of Options Outstanding	Number of Options Exercisable	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price \$
0.15	6,000,000	1,500,000	4.10	0.15
1.10	30,000	30,000	0.47	1.10
	6,030,000	1,530,000	4.08	0.15

(d) Restricted Stock Units ("RSU")

On October 30, 2015, the Company granted 2,000,000 RSUs to senior management of the Company of which 650,000 vested immediately with the remainder vesting quarterly until October 1, 2017. Once vested, each RSU is exercisable into one common share entitling the holder to receive the common share for no additional consideration. The fair value was \$0.28 per RSU with a total fair value of \$560,000 based on the market value of the underlying shares at the date of issuance. The maximum number of common shares authorized for issue under the RSU plan is 3,500,000.

For the year ended December 31, 2015, total share-based compensation relating to RSUs was \$289,620, of which all is included in the statements of loss.

At December 31, 2015, there were 1,350,000 RSUs outstanding. On January 1, 2016, a further 168,750 RSUs vested and on February 5, 2016 the Company cancelled the remaining 1,181,250 RSUs and issued stock options – see (c) above. As at December 31, 2016, there are no RSU's authorized for issue.

14. RELATED PARTIES

(a) Key management compensation

Key management comprises directors and executive officers. The compensation to key management was as follows:

For the year ended December 31,	2016 \$	2015 \$
Short-term employment benefits		
Director fees	60,000	60,137
Senior management	796,200	1,124,160
Share-based payment	334,018	289,620
Total	1,190,218	1,473,917

Amounts due to key management as at December 31, 2016 were \$92,637 (2015 - \$83,098).

14. RELATED PARTIES (cont'd)

(b) Related party transactions

The Company entered into the following related party transactions:

- (i) During the year ended December 31, 2016, fees relating to management, geological, and mining consulting services of \$Nil (2015 - \$29,325 (US\$23,108)) were charged by a private company controlled by one director of the Company via an intermediate corporation. Charges of \$Nil (2015 - \$5,516 (US\$4,350)) are expensed as consulting fees and charges of \$Nil (2015 - \$23,809 (US\$18,758)) are included in deferred expenses. During the year ended December 31, 2016, \$Nil (2015 - \$29,325 (US\$23,108)) was offset against the amounts due from Sonoran Resources LLC ("Sonoran") a private company controlled by one director of the Company.

Amounts payable as at December 31, 2016 were \$Nil (2015 - \$Nil).

- (ii) During the year ended December 31, 2016, fees relating to travel, investor relations and consulting services of \$2,299,450 (US\$1,745,250) (2015 - \$1,851,062 (US\$1,440,692)) were charged by Sonoran. Charges of \$2,050,128 (US\$1,557,391) (2015 - \$1,680,279 (US\$1,309,306)) are included in consulting fees and charges of \$249,322 (US\$187,859) (2015 - \$22,098 (US\$17,572)) are included in travel expenses.

During the year ended December 31, 2016, fees of \$991,652 (US\$749,874) were charged by Sonoran as part of the working capital paid to advance the Golden Reign's San Albino gold deposit. (Refer to Note 10).

During the year ended December 31, 2016 \$Nil (2015 - \$34,595 (US\$27,635)) was offset against the amounts due from Sonoran. As at December 31, 2015, the balance receivable from the Sonoran Loan was \$Nil.

Amounts payable to Sonoran as at December 31, 2016 were \$639,875 (US\$476,556) (2015 - \$Nil).

(c) Transactions with controlling shareholder

- (i) As at December 31, 2016, the Wexford Funds held 145,965,387 common shares of the Company.

On a non-diluted basis and after giving effect to the above changes in equity, Wexford Funds' ownership percentage has increased from 80.43% to 84.41% of the Company's issued and outstanding common shares as at December 31, 2016.

- (ii) During the year ended December 31, 2016, the Wexford Funds loaned the Company an additional \$10,097,650 (US\$7,500,000) (2015 - \$35,097,047 (US\$27,000,000)) (Refer to Note 16(a)(ii)). As at December 31, 2016, US\$37,500,000 (2015 - US\$30,000,000) is payable by the Company to the Wexford Funds.

14. RELATED PARTIES (cont'd)

(c) Transactions with controlling shareholder (con't)

As at December 31, 2016, interest of \$6,735,995 (2015 - \$2,839,001) and withholding taxes of \$791,884 (2015 - \$709,750) was accrued on the Wexford Loans.

(iii) As part of the Commonwealth acquisition (refer to Note 5), the Company assumed the Commonwealth Bridge Loan of \$2,550,000 to Wexford Funds. The loan and interest of \$116,628 was repaid to the Wexford Funds on June 8, 2015.

(iv) Under a service agreement, effective January 1, 2015, between the Company and an affiliate of the Wexford Funds, the Company was charged \$92,463 (US\$69,809) (2015 - \$103,934 (US\$81,287) for shared office space and administration services for the year ended December 31, 2016.

As at December 31, 2016 \$Nil (US\$Nil) (2015 - \$112,461 (US\$81,258)) is included in due to related parties

15. RECLAMATION AND REHABILITATION OBLIGATIONS

The provision for environmental reclamation and rehabilitation as at December 31, 2016 is \$7,393,826 (2015 - \$4,745,001). The expected timing of cash flows in respect of the provision is based on the estimated life of the mining operation. The provision was determined using a discount rate of 1.03% (2015 - 1.31%) and estimated cash outflows commencing in 2 years (2015 - 2 years) for the La Trinidad property.

	\$
Balance – December 31, 2014	3,396,312
Changes in estimate	600,497
Accretion expense	59,689
Cumulative translation adjustment	688,503
Balance – December 31, 2015	4,745,001
Changes in estimate	2,692,171
Accretion expense	61,996
Cumulative translation adjustment	(105,342)
Balance – December 31, 2016	7,393,826

16. LOANS

	December 31, 2016	December 31, 2015
	\$	\$
Non-current liabilities		
Wexford Loan B	48,435,348	41,520,000
Accrued interest and related withholding taxes	6,161,520	3,548,751
Total loans	54,596,868	45,068,751

(a) Wexford Loan

(i) Wexford Loan A

On September 9, 2014, the Company entered into a term facility with the Wexford Funds for US\$3,000,000 (the "Wexford Loan A"). Wexford Loan A bore interest at a rate of 15% per annum, payable on the date of the first drawdown and was not secured. The Company was required to make payments on Wexford Loan A from any funds received from: (i) the IVA refund; and (ii) proceeds of any equity financing, subject, in the case of any equity financing that separately or together with any other equity financings exceed C\$1,000,000, to receipt of waiver from Sprott under the Sprott Loan. (Refer to Note 16(b)).

On September 10, 2014, \$3,280,500 (US\$3,000,000) was drawn down on the facility and interest payable by way of an original issue discount of \$246,308 (US\$225,000) was paid. The Company recorded the interest paid against the balance of the debt and amortized the interest using an effective interest rate of 17.34%.

For the year ended December 31, 2015, the Company incurred interest expense of \$224,339 relating to Wexford Loan A, all of which was expensed in the statement of loss.

On June 3, 2015, the Wexford Loan A was repaid in full with additional interest of \$133,571 (US\$107,260).

(ii) Wexford Loan B

On November 13, 2014, an additional \$3,412,800 (US\$3,000,000) was borrowed by the Company (the "Wexford Loan B"). The Wexford Loan B bears interest at a rate of 15% per annum, payable in full on or before November 13, 2015. On August 21, 2015, the Wexford Funds extended the maturity date from November 13, 2015 to January 15, 2017.

During the year ended December 31, 2016, the Wexford Funds loaned an additional \$10,097,650 (US\$7,500,000) (2015 - \$35,163,700 (US\$27,000,000)), increasing the Wexford Loan B to US\$37,500,000 (2015 - US\$30,000,000).

16. LOANS (cont'd)

(a) Wexford Loan (cont'd)

(ii) Wexford Loan B (cont')

On March 18, 2016, the Wexford Funds decreased the annual interest rate on the Wexford Loans from 15% to 8% and extended the maturity by one year to January 15, 2018. Management determined that the March 18, 2016 amended terms were substantially different to the terms previously in place and accounted for the amendment as an extinguishment of the original liability and recognition of a new liability in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. As at March 18, 2016, the Company recorded a gain of \$5,691,073 on the extinguishment of the original Wexford Loan B and an additional amount of \$637,665 arising from the difference between the estimated fair value and the loans received after March 18, 2016. As the Wexford Funds are significant shareholders, management recognized the total gain of \$6,328,739 in equity as contributed surplus.

As at December 31, 2016, the Wexford Loan B was recorded at a fair value of \$54,596,868 and includes accreted interest and withholding taxes of \$6,161,521.

For the year ended December 31, 2016, the Company recorded \$6,735,995 (2015 - \$2,603,727) interest expenses and \$791,884 (2015 - \$99,604) withholding taxes.

For the year ended December 31, 2016, IVA refunds of approximately \$5,268,000 (2015 - \$5,221,000) were received, to which the Wexford Funds waived their right to receive payment.

(b) Sprott Loan

On May 14, 2014, the Company entered into a credit facility with Sprott Resource Lending Partnership ("Sprott") for \$10,000,000 (the "Sprott Loan"). The Sprott Loan bore interest at a rate of 10% per annum, payable monthly and was secured against all of the assets of the Company and the majority of the assets of its subsidiaries. The Sprott Loan matured on or before October 31, 2015.

On May 14, 2015, Sprott and the Company entered into a modification agreement whereby the Company agreed to make a prepayment on the Sprott Loan of \$5,000,000 on or before June 1, 2015 (paid).

On May 27, 2015, the Company issued 100,000 common shares of the Company to Sprott in consideration for the waiver of the cash and cash equivalent covenant and the mandatory prepayment covenant.

During the year ended December 31, 2015, the Company recorded interest expense of \$1,347,567 relating to the Sprott Loan, which is comprised of \$624,150 interest paid, a modification fee of \$100,000 paid and amortized borrowing costs of \$623,417.

On October 28, 2015, the Company repaid the Sprott Loan in full.

17. PRODUCTION COSTS

For the year ended December 31,	2016	2015
	\$	\$
Mining, crushing and conveying, and processing	9,634,791	16,585,433
Mine general and administrative	2,530,358	3,098,470
Laboratory	263,154	359,078
Refining	31,338	45,317
Selling expenses and silver credits	167,150	41,175
Royalty expenses and mining taxes	326,301	108,598
less: insurance proceeds received	(1,962,058)	-
	10,991,034	20,238,071

On September 7, 2015, the Company's La Trinidad mine was affected by hurricane Linda, a category 2 hurricane that hit the area of the mine. As a result of heavy rains and flooding, the La Trinidad mine incurred damages to mine infrastructure and an interruption in its business. During the year ended December 31, 2016, the Company received \$1,962,058 (US\$1,481,357) in insurance proceeds relating to costs incurred as a result of an interruption in its business and is recorded as a reduction in production costs.

18. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

For the year ended December 31,	2016	2015
	\$	\$
The significant non-cash investing transactions consisted of:		
Change in property, plant and equipment included in accounts payable and accrued liabilities	(651,666)	(1,470,654)
Accretion of borrowing costs included in interest expense	-	714,234
Total interest paid	-	857,721
Total taxes paid	97,258	125,179

18. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS (cont'd)

For the year ended December 31,	2016	2015
	\$	\$
Non-cash items		
Accretion expense	61,997	59,689
Change in fair value of receivables	(21,833)	2,277
Deferred income tax (reversal)	(3,962,869)	(1,385,294)
Depreciation, depletion and amortization	11,734,407	3,494,559
Gain on disposal of securities	(2,199)	-
Interest due from related party	-	(750)
Interest and other income	(102,881)	(11,943)
Interest expense	7,527,879	4,947,437
Impairment of mineral property	-	22,620,352
Share-based payment	334,018	289,620
Unrealized foreign exchange	(2,071,051)	3,002,006
Write down of inventory to NRV	8,364,768	14,393,236
Impairment of inventory	-	6,007,494
Write down of securities	-	1,779,002
Write off of resource properties / loss on disposal of subsidiaries	-	853,649
Gain in change in fair value of receivables	(8,805)	-
	21,853,431	56,051,334

19. INCOME TAX EXPENSE AND DEFERRED TAXES

- (a) A reconciliation of income tax provision computed at Canadian statutory rates to the reported income tax provision is provided as follows:

For the year ended December 31,	2016	2015
	\$	\$
Loss for the year	(18,206,685)	(62,220,543)
Canadian statutory tax rate	26.0%	26.0%
Income tax benefit computed at statutory rates	(4,733,738)	(16,177,341)
Change in deferred tax assets not recognized	1,626,269	14,950,165
Effect of change and difference in tax rates	(418,116)	(1,918,600)
Mining royalty	(2,154,570)	(802,848)
Other	127,040	496,243
Permanent differences	1,705,530	2,179,343
Income tax expense (recovery)	(3,847,585)	(1,273,038)
Disclosed as follows:		
Income tax expense	115,332	112,256
Deferred tax recovery	(3,962,917)	(1,385,294)
	(3,847,585)	(1,273,038)

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19. INCOME TAX EXPENSE AND DEFERRED TAXES (cont'd)

- (b) The tax effected items that give rise to significant portions of the deferred income tax assets and deferred income tax liabilities are presented below:

As at	December 31, 2015 \$	Recognized in Net Loss \$	Recognized in OCI \$	Reconginized in CTA \$	December 31, 2016 \$
Deferred tax assets					
Non-capital losses carried forward	383,100	11,169,600	-	-	11,552,700
Deferred tax liabilities					
Book value over tax values of equipment	-	(13,100)	-	-	(13,100)
Special mining royalty	(2,079,000)	1,878,700	-	86,700	(113,600)
Book value over tax values of loans	-	-	-	(1,424,100)	(1,424,100)
Book value over tax value of inventories	(373,200)	(8,519,800)	-	-	(8,893,000)
Book value over tax value of investments	-	-	(660,013)	-	(660,013)
Other book values over tax values	(9,900)	(552,600)			(562,500)
	(2,462,100)	(7,206,800)	(660,013)	(1,337,400)	(11,666,313)
Net deferred tax assets (liabilities)	(2,079,000)	3,962,800	(660,013)	(1,337,400)	(113,613)

As at	December 31, 2014 \$	Recognized in Net Loss \$	Recognized in OCI \$	Reconginized in CTA \$	December 31, 2015 \$
Deferred tax assets					
Non-capital losses carried forward	904,737	(521,637)	-	-	383,100
Deferred tax liabilities					
Book value over tax values of mineral property	(552,500)	552,500	-	-	-
Special mining royalty	(2,997,200)	1,385,300	-	(467,100)	(2,079,000)
Book value over tax value of loans	(341,900)	341,900	-	-	-
Book value over tax value of inventories	-	(373,200)	-	-	(373,200)
Other book values over tax values	(12,700)	2,800		-	(9,900)
	(3,904,300)	1,909,300	-	(467,100)	(2,462,100)
Net deferred tax assets (liabilities)	(2,999,563)	1,387,663	-	(467,100)	(2,079,000)

19. INCOME TAX EXPENSE AND DEFERRED TAXES (cont'd)

- (c) The Company recognizes tax benefits on losses or other deductible amounts generated in countries where it is probable the Company will generate future taxable income. The Company's unrecognized deductible temporary differences and unused tax losses for which no deferred tax asset is recognized consist of the following amounts:

As at	December 31, 2016 \$	December 31, 2015 \$
Tax value over book value of investments	-	281,400
Tax value over book value of equipment	-	27,200
Non-capital losses carried forward	21,081,400	19,449,200
Special mining royalty deduction	100	586,600
Tax value over book value of share issue costs	128,700	104,200
Other tax value over book value	1,337,600	859,200
Unrecognized deductible temporary differences	22,547,800	21,307,800

The Company's unused non-capital losses expire as follows:

Year of Expiry	Canada \$	Mexico \$	Barbadian \$	United States \$
2017	-	1,063,000	-	-
2018	-	2,671,000	-	-
2019	-	466,000	-	-
2020	-	743,000	-	-
2021	-	623,000	-	-
2022	-	232,000	-	-
2023	-	-	-	-
2024	-	3,908,000	-	-
2025	-	25,126,000	-	-
2033	1,857,000	-	-	-
2034	3,675,000	-	-	-
2035	8,401,000	-	-	282,000
2036	10,223,000	-	-	1,693,000
Total	24,156,000	34,832,000	-	1,975,000

20. MANAGEMENT OF FINANCIAL RISK

(a) Overview

The Company has exposure to credit risk, liquidity risk and market risk from its use of financial instruments. This note presents information about the Company's exposure to each of these risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

(b) Fair Value of Financial Instruments

Financial instruments must be classified at one of three levels within a fair value hierarchy according to the relative reliability of the inputs used to estimate their values. The three levels of the hierarchy are as follows:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3: Inputs that are not based on observable market data.

The carrying values, fair market values, and fair value hierarchical classification of the Company's financial instruments are as follows:

Investment in securities is measured using level 1. The Loans are classified as other financial liabilities and are carried at fair value. The fair value of all other financial instruments, other than marketable securities which are carried at fair value, approximates their carrying value due to their short-term maturity or capacity of prompt liquidation. However, due to going concern risk the fair value of accounts payable and accrued liabilities is less than carrying value.

The Company does not have any financial instruments that are measured using level 2 or level 3 inputs.

During the year ended December 31, 2016 there were no transfers between level 1, level 2 and level 3 classified assets and liabilities.

(c) Credit Risk

Credit risk is the risk of potential loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to cash held by Canadian, American, Barbadian, and Mexican financial entities. The carrying amount of financial assets recorded in the financial statements represents the Company's maximum exposure to credit risk.

The Company limits its exposure to credit risk on liquid financial assets through investing its cash and cash equivalents with high-credit quality financial institutions.

20. MANAGEMENT OF FINANCIAL RISK (cont'd)

(d) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities and through the management of its capital structure. Accounts payable and accrued liabilities of \$10,509,636 and due to related parties of \$732,512 are due in the first quarter of fiscal 2017, and \$48,435,348 loan payable plus accrued interest and withholding taxes of \$6,161,520 is due on January 15, 2018. Refer to Note 1.

(e) Market Risk

(i) Foreign Currency Risk

Foreign exchange risk is the risk arising from changes in foreign currency fluctuations. The Company operates in more than one country. As a result, a portion of the Company's expenditures, amounts receivable, accounts payable and accruals are denominated in U.S. Dollars and Mexican Pesos and are therefore subject to fluctuation in exchange rates. As at December 31, 2016 a 5% change in the exchange rate between the U.S. dollar and the Canadian Dollar would result in a net gain of approximately \$421,000 and a 5% change in the exchange rate between the Mexican peso and the Canadian Dollar would result in a net loss of approximately \$299,000. The Company does not use any derivative instruments to reduce its exposure to fluctuations in foreign currency rates.

(ii) Interest Rate Risk

The interest rate risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to interest rate risk on the Loans is limited as the interest rates are fixed.

(iii) Other Price Risk

Other price risk is the risk that the future cash flows of a financial instrument will fluctuate due to changes in market prices, other than those arising from currency risk or interest rate risk. The Company's investment in securities is carried at market value and is therefore directly affected by fluctuations in the market value of the underlying securities. The Company's sensitivity analysis suggests that a 5% change in market prices would result in a change in the fair value of the Company's investment in securities of approximately \$456,000.

21. SEGMENT INFORMATION

As at December 31, 2016, the Company has one business segment, the production of gold and exploration of resources. The Company's principal product is gold doré with the refined gold bullion sold in the London spot market by the subsidiary in Barbados. The gold doré is produced at the La Trinidad mine in Mexico. All of the Company's significant non-current assets are distributed by geographic locations as follows:

As at	December 31, 2016		December 31, 2015	
	Mineral property, plant and equipment \$	Resource property costs \$	Mineral property, plant and equipment \$	Resource property costs \$
Mexico	5,848,963	-	37,439,457	-
USA	50,614	26,355,941	24,912	14,719,801
Total	5,899,577	26,355,941	37,464,369	14,719,801

22. CAPITAL MANAGEMENT

The Company manages and adjusts its capital structure based on available funds in order to support its operations and the acquisition, exploration and development of mineral properties. The Company considers its capital under management to consist of cash and cash equivalents, share capital, contributed surplus and debt. The Company manages the capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of the Company's assets.

The Company's objectives of capital management are intended to ensure the entity's ability to support the Company's normal operating requirements on an ongoing basis, continue the development and exploration of its mineral properties, and support any expansionary plans.

To effectively manage the entity's capital requirements, the Company has in place a planning and budgeting process to help determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives. The Company may finance acquisition, development and exploration activity through cash flows from operations, joint ventures and by raising additional debt or share capital when market conditions are suitable.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the year ended December 31, 2016. Also refer to Note 1.

23. EVENTS AFTER THE REPORTING PERIOD

Except as disclosed elsewhere in these consolidated financial statements the following events occurred after the reporting period:

- (a) In January 2017, the Company purchased 5,363,931 common shares in Golden Reign at \$0.22 per share. This brings the Company's current shareholding in Golden Reign to 36,297,264 shares and represents an 18.9% ownership in Golden Reign.
- (b) On January 25, 2017 and March 20, 2017, the Company repaid US\$5,500,000 and US\$2,000,000, respectively of the Wexford Loan principal reducing the outstanding loan principal to US\$30,000,000.