

EMGOLD MINING CORP
Form 20-F
May 02, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) or 12(g) OF THE *SECURITIES EXCHANGE ACT OF 1934*
OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE *SECURITIES EXCHANGE ACT OF 1934*
For the fiscal year ended December 31, 2015
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF *THE SECURITIES EXCHANGE ACT OF 1934*
OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE *SECURITIES EXCHANGE ACT OF 1934*
Date of event requiring this shell company report _____

Commission file number 000-51411

EMGOLD MINING CORPORATION
(Exact Name of Registrant as Specified in its Charter)
BRITISH COLUMBIA, CANADA
(Jurisdiction of incorporation or organization)

Suite 1010, 789 West Pender Street
Vancouver, British Columbia, Canada, V6C 1H2
(Address of principal executive offices)

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Vancouver, British Columbia, Canada, V6C 1H2
Tel: (604) 639-0909 Fax: (778) 375-3109
(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class Name of each exchange on which registered
None None

Securities registered or to be registered pursuant to Section 12(g) of the Act:

Common Shares without par Value
(Title of class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None
(Title of class)

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Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: 78,295,684 common shares

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

International Financial Reporting Standards as issued by the International Accounting Standards Board

Other

If "Other" has been checked in response to the previous question, indicate by a check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18 **NOT APPLICABLE**

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If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Certain statements in this Annual Report under the captions “Risk Factors”, “Business Overview”, “Operating and Financial Review and Prospects” and “Quantitative and Qualitative Disclosures about Market Risk” and elsewhere in this Annual Report and the documents attached as exhibits constitute “forward-looking statements” within the meaning of the United States securities laws. Some forward-looking statements may be identified by such terms as “believes,” “anticipates,” “intends” or “expects.” These forward-looking statements are based on the Company’s current expectations and projections about future events and financial trends affecting the financial condition of its business and the industry in which it operates. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the Company, or industry results to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements and the Company expressly disclaims any obligation to revise or update forward-looking statements in respect of actual results, performance or achievements. Such factors include, among others, the following: general economic and business conditions, which will, among other things, impact demand for gold and other metals; industry capacity; the ability of the Company to implement its business strategy; changes in, or the unintentional failure to comply with, government regulations (especially safety and environmental laws and regulations); changes in the uses of gold and other metals; gold and commodity price volatility; increased competition; mining risks; exploration programs not being successful; inability to obtain financing; inability to obtain or, cancellation of, government permits; changes to regulations and mining law; increased reclamation obligations; title defects with respect to properties; risks associated with international operations; and foreign exchange and currency fluctuations.

Conversion of metric units into imperial equivalents is as follows:

Conversion Factors (Metric and Imperial Units)

Metric units Multiply by Imperial units

Hectares	2.471	= acres
Metres	3.281	= feet
Kilometres	0.621	= miles (5,280 feet)
Grams	0.032	= ounces (troy)
Tonnes	1.102	= tons (short) (2,000 lbs)
grams/tonne	0.029	= ounces (troy)/ton

CAUTIONARY NOTE TO U.S. INVESTORS

This Annual Report uses the terms "measured resources" and "indicated resources." We advise U.S. investors that while such terms are recognized and permitted under Canadian regulations, the U.S. Securities and Exchange Commission does not recognize them. U.S. investors are cautioned not to assume that any part or all of the mineral deposits in these categories will ever be converted into reserves.

This Annual Report may use the term "inferred resources." We advise U.S. investors that while such term is recognized and permitted under Canadian regulations, it is not recognized by the U.S. Securities and Exchange Commission. "Inferred resources" have a significant amount of uncertainty as to their existence, and uncertainty as to their economic and legal feasibility. It cannot be assumed that all or any part of an inferred mineral resource will ever be upgraded to a higher category. Under Canadian rules estimates of inferred mineral resources may not form the basis of feasibility or other economic studies. **U.S. investors are cautioned not to assume that any part or all of an inferred resource exists, or is economically or legally mineable.**

S.E.C. Industry Guide 7

Reserve: That part of a mineral deposit which could be economically and legally extracted or produced at the time of the reserve determination. The United States Securities and Exchange Commission requires a final or full Feasibility Study to be completed in order to support either Proven or Probable Reserves and does not recognize other classifications of mineralized deposits. Note that for industrial mineral properties, in addition to the Feasibility Study, "sales" contracts or actual sales may be required in order to prove the project's commerciality and reserve status.

Proven Reserves: Reserves for which a quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes; grade and/or quality are computed from the results of detailed sampling of the sites for inspection, sampling and measurement are spaced so closely and the geologic character is so well defined that size, shape, depth and mineral content of reserves are well established.

Probable Reserves: Reserves for which quantity and grade and/or quality are computed from information similar to that used for proven reserves, but the sites for inspection, sampling and measurement are farther apart or are otherwise less adequately spaced. The degree of assurance, although lower than that for proven reserves, is high enough to assume continuity between points of observation.

National Instrument 43-101

Mineral Reserve: The economically mineable part of a Measured or Indicated Mineral Resource demonstrated by at least a Preliminary Feasibility study. This study must include adequate information on mining, processing, metallurgical, economic, and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified.

Proven Mineral Reserve: The economically mineable part of a Measured Mineral Resource demonstrated by at least a Preliminary Feasibility study. This study must include adequate information on mining, processing, metallurgical, economic, and other relevant factors that demonstrate, at the time of reporting, that economic extraction is justified.

Probable Mineral Reserve: The economically mineable part of an indicated, and in some circumstances, a Measured Mineral Resource, demonstrated by at least a Preliminary Feasibility Study. This study must include adequate information on mining, processing, metallurgical, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified.

Glossary of Abbreviations

AA	Annexation Application
Ag	Silver
Au	Gold
Ba	Barium
Co	Cobalt
Cu	Copper
EM	Electromagnetic
Fe	Iron
gpm	Gallons per minute
gpt	Grams per tonne
g/t	Grams per tonne
IP	Induced Polarization geophysical survey
Ni	Nickel
NSR	Net smelter returns royalty
oz	Troy ounce
Pb	Lead
Pd	Palladium
ppb	Parts per billion
ppm	Parts per million
Pt	Platinum
S	Sulphur
ton	Short ton (2,000 pounds)
tonne	Metric ton (1000 kilograms - 2204.62 pounds)
tpd	Tons per day
VLF	Very low frequency electromagnetic geophysical survey
VMS	Volcanogenic massive sulphide

All currency amounts in this Annual Report are stated in United States dollars unless otherwise indicated.

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PART 1

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

This form 20-F is being filed as an annual report under the Securities Exchange Act of 1934, as amended and as such, there is no requirement to provide any information under this item.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

This form 20-F is being filed as an annual report under the Securities Exchange Act of 1934, as amended and as such, there is no requirement to provide any information under this item.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

The selected financial data of Emgold Mining Corporation (“Emgold” or the “Company”) for the years ended December 31, 2015, 2014, 2013, 2012, and 2011 was derived from the Company’s consolidated financial statements as audited by MNP LLP, Chartered Accountants for 2015, 2014, and 2013, and MSCM LLP, Chartered Accountants for 2011, as indicated in the audit reports included elsewhere in this Annual Report. The financial reporting represents consolidated reporting for Emgold’s 100% subsidiary companies Emgold U.S. Corporation (“Emgold U.S.”), Idaho-Maryland Mining Corporation (“IMMC”), and Golden Bear Ceramics Company (“GBC”).

Our consolidated financial statements as of and for the years ended December 31, 2015, 2013, 2012, and 2011 have been prepared in conformity with IFRS.

The selected financial information as of and for the years ended December 31, 2015, 2014, 2013, 2012, and 2011 set forth below should be read in conjunction with, and is qualified in its entirety by reference to “Item 5. Operating and Financial Review and Prospects” and our audited consolidated financial statements and the notes thereto.

The Company has not declared any dividends on its common shares since incorporation and does not anticipate that it will do so in the foreseeable future. The present policy of the Company is to retain future earnings for use in its operations and the expansion of its business.

Selected Consolidated Statement of Financial Position**Amount in conformity with IFRS****(Year End December 31, United States Dollars)**

	2015	2014	2013	2012	2011
Total assets	1,129,450	1,383,981	\$1,290,459	\$1,677,936	\$2,198,166
Total liabilities	941,100	760,678	671,063	1,125,067	1,543,237
Contributed surplus	7,062,781	7,062,781	7,062,781	7,035,197	6,800,722
Share capital	43,975,360	43,935,360	43,687,315	43,390,203	42,817,739
Warrants	686,349	686,349	686,349	686,349	1,219,617
Deficit	(51,536,140)	(51,061,187)	(50,817,049)	(50,558,880)	(50,183,149)
Equipment and mineral property interests	619,113	1,339,231	1,231,071	1,474,581	1,053,339
Assets held for sale	490,508	-	-	-	-
Shareholders' equity (deficiency)	188,350	623,303	619,396	552,869	654,929
Number of outstanding common shares	78,295,684	77,823,462	72,587,462	66,651,462	58,714,504

No cash or other dividends have been declared on common shares.

Selected Consolidated Statement of Comprehensive Income (Loss)

Amount in conformity with IFRS

(Year End December 31, United States Dollars)

	2015	2014	2013	2012	2011
Revenue	\$ --	\$ --	\$ --	\$ --	\$ --
Investment and other income	--	--	--	--	--
General and administrative expenses	461,152	242,375	508,195	704,970	1,030,920
Exploration expenses	39,802	43,601	106,529	1,187,329	1,307,140
Loss according to financial statements	474,953	244,138	258,169	(375,731)	(2,338,060)
Loss per share – basic and diluted	(0.01)	(0.00)	(0.00)	(0.01)	(0.06)

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Financial Risk Factors

Readers should carefully consider the risks and uncertainties described below before deciding whether to invest in shares of the Company's common stock.

Emgold currently has no source of operating cash flow, a negative working capital position, and has a history of operating losses. Emgold currently has no revenue from operations and all of its mineral property interests are in the exploration or development stages. The Company does not expect to receive significant revenue from operations at any time in the near future, and Emgold has had no prior years' history of earnings or operating cash flow. Neither Emgold nor its predecessors have paid dividends on their shares since incorporation and the Company does not anticipate doing so in the foreseeable future.

Emgold has no source of revenue other than interest income and advance royalty payments. The Company has potential to generate income by advancing its exploration and development properties into production or by conducting the sale, joint venture, or other business transactions related to its properties. A mining project can typically require ten to twenty years or more between discovery, definition, development construction, and eventually operation. As a result, no production revenue is expected from any of the Company's exploration properties for at least 4 or more years. All of Emgold's short to medium-term operating and exploration expenses must be paid from its existing cash position or external financing. At December 31, 2015, Emgold had working capital deficiency of \$931,000, compared to a working capital deficit of \$727,000 at December 31, 2014. Working capital is defined as current assets less current liabilities.

The Company has taken significant steps to reduce operating costs since 2008. The Company is currently exploring all options that have potential to generate cash for the Company, including equity investment, sale of assets, joint ventures, mergers, or other types of business transactions. The Company cannot guarantee the success of any of these transactions.

Emgold may be unable to obtain the funds necessary to hold or conduct further exploration or permitting activities for its properties. Emgold has been undergoing a three phase permitting process to complete an Environmental Impact Report and to obtain a Conditional Mine Use Permit for the I-M Project, located in Grass Valley, California. On October 26, 2011, Phase 3 of the permitting process was placed on hold by the Company pending resurgence of the junior mining equity markets. On September 10, 2012, the Company's permitting application was "deemed withdrawn" by the City due to inactivity and the Company was instructed it would have to re-file its applications when it had the funds to move forward. It is unknown if and when additional funds will be available to advance the I-M Project and the Company has stated that if necessary, the Company will drop the I-M Project to focus on other assets the Company currently has in its portfolio (see October 26, 2011, September 07, 2012, and February 1, 2013 press releases).

On February 1, 2013, a Lease Option to Purchase Agreement with the BET Group for 91 acres of surface rights and 2,750 acres of mineral rights associated with the I-M Project expired. The Company has proposed to extend this Agreement on more favourable terms. Should negotiations to extend the agreement be unsuccessful, Emgold has stated it will terminate the Project and focus on the other assets the Company currently has in its portfolio (see February 1, 2013 press release).

In 2014, the BET Group listed the surface and mineral rights associated with the I-M Project for sale and indicated to Emgold that their preference is to sell the surface and mineral rights, as opposed to leasing them. The purchase price was listed as \$2.7 million. If funding is not available to complete an acquisition or lease of the surface and mineral rights, or the surface and mineral rights are purchased by others, Emgold will terminate the I-M Project and focus on other assets the Company currently has in its portfolio.

On September 4, 2013, the Company announced it sold 18 acres of non-core real estate in Grass Valley for proceeds of \$450,000. This decreased the number of acres of real estate owned by the Company in Grass Valley from 52 to 34 acres. Emgold has listed the 34 acres of remaining properties for sale. Should these properties be sold, Emgold will terminate the I-M Project and focus on other assets the Company currently has in its portfolio. Alternatively, if funding is raised to acquire or lease the surface and mineral rights for the I-M Project, Emgold would retain these properties.

In 2012, 2013, and 2014, Emgold announced a series of transactions with Rawhide Mining LLC ("RMC") whereby RMC provided Cdn\$1.0 million in equity financing to Emgold in a series of tranches (See November 14, 19, and 26, 2012 press releases; December 28, 2012 press release; January 30, 2013 press release; and July 11 and 18, 2014 press release). Part of these financings, totalling \$510,000, were used to purchase the underlying property and royalty rights to 52 claims that are part of the Buckskin Rawhide East Property, NV (see July 28, 2014 press release). Upon completion of these transactions, the Buckskin Rawhide East Property was leased to RMC, who will explore the Property (see August 21, 2014 press release). The lease will include:

1. The Lease Term is 20 years.
2. Advance royalty payments will be \$10,000 per year, paid by RMC to Emgold, with the first payment due at signing and subsequent payments due on the anniversary of the Lease Agreement.
3. During the Lease Term, RMC will make all underlying claim fees to keep the claims in good standing.
4. RMC will conduct a minimum of US\$250,000 in exploration activities by the end of Year 1.
5. RMC will conduct an additional minimum of US\$250,000 in exploration activities by the end of Year 3, for a total of US\$500,000 in exploration activities by the end of Year 3.
6. RMC will have the option of earning a 100% interest in the Property by bringing it into commercial production. Upon bringing the Property into commercial production, RMC will make "Bonus Payments" to Emgold.
7. Bonus Payments will be US\$15 per ounce of gold when the price of gold ranges between US\$1,200 per ounce and US\$1,799 per ounce. If the price of gold exceeds US\$1,800 per ounce, the Bonus Payment will increase to US\$20 per ounce

After meeting its exploration requirements, should RMC subsequently elect to drop the Property or decide not to advance it, the Property will be returned to Emgold. Should Emgold subsequently advance the Property into production, RMC shall then be entitled to the same type of Bonus Payments as contemplated in 7 above.

Since, the Company did not have any substantive expenditure in the past three years, there are no current exploration plans for this property, and the property is safely held to January 2023 without additional work, an impairment loss of \$208,718 has been recognized in the consolidated statement of comprehensive loss bringing the carrying value to \$1.

Property payments for the Koegel Rawhide and Buckskin Rawhide West properties, both of which are leases, remain small at this point in time. Payments can be made in Emgold stock or cash at this point in time, at the discretion of the lessor. In 2015, Emgold elected not to conduct exploration work on these properties.

Emgold presently does not have sufficient financial resources to undertake all of the Company's plans as outlined in previous periods, and will require additional financing to complete the permitting of the I-M Project and start the engineering studies to enable the I-M Project to enter the feasibility stage of development. The Company also requires additional funds to complete exploration of its properties, excluding Buckskin Rawhide assuming the above transactions are completed. Currently the Company is reviewing strategies for equity financings, joint ventures, mergers, or other business transactions that may be able to carry the Company through the next year of operations and into the future. The Company cannot guarantee the success of any of these transactions. The transactions, if completed, could result in dilution of the Company's shares.

In spite of the current relatively high market price of gold, the market conditions in the junior mining and exploration sector are very depressed and therefore it is very difficult raising additional capital. Emgold has been successful in the past in obtaining financing through the sale of equity securities, but as an exploration stage company, it may be difficult to obtain adequate financing in the future or financings with favourable terms. If Emgold fails to obtain additional financing on a timely basis, the Company could forfeit its interest in its mineral property interests, dilute its interests in the properties and/or reduce or terminate operations. Exploration programs would have to be prioritized to fit within cash availability.

On 15 March 2016, the Company sold 27 acres of land located in Nevada County, California in the amount of \$350,000; the cost of the property was \$336,056. The proceeds of the sale will be used for general working capital.

Changes in the market prices of gold, which have fluctuated widely, will affect our operations and can negatively impact the economic viability of the mineral properties. Emgold has no history of mining or current source of revenue. The Company is exploring for gold, and historically, the prices of the common shares of junior mining companies are very volatile. This volatility may be partly attributed to the volatility of gold prices, and also to the success or failure of the Company's exploration programs. The market price of gold may not remain at current levels. In particular, an increase in worldwide supply and consequent downward pressure on prices may result over the longer term from increased gold production from mines developed or expanded as a result of current metal price levels.

The ability to raise funds for exploration and development in a venture capital company is affected by factors such as the price of gold, a factor over which the Company has no control. Annual average, high and low gold prices since 2000 are shown below, demonstrating the fluctuation in the price of gold (source: Kitco.com). Metals prices also affect the rate of return of a mining property that reaches the development stage over the longer term.

Gold Price

2000 to Present \$US

Year	Average Price per ounce (US\$)	High Price per ounce (US\$)	Low Price per ounce (US\$)
2000	279.11	312.70	263.80

2001	271.04	293.25	255.95
2002	309.73	349.30	277.75
2003	363.38	416.25	319.90
2004	409.72	454.20	375.00
2005	444.74	536.50	411.10
2006	603.46	725.00	524.75
2007	695.39	841.10	608.40
2008	871.96	1,011.25	712.50
2009	972.35	1,212.50	810.00
2010	1,224.53	1,421.00	1,058.00
2011	1,571.52	1,895.00	1,319.00
2012	1,668.98	1,791.75	1,540.00
2013	1,411.23	1,693.75	1,195.25
2014	1,266.40	1,385.00	1142.00
2015	1,160.06	1,295.75	1,049.40

Fluctuations in the world markets, including the TSX Venture Exchange, can have a negative impact on the Company's share price, can have a negative impact on the availability of capital for investment in junior mining companies, and can negatively impact the Company's ability to raise funds. The world markets are currently being affected by a poor recovery from a major recession in the U.S., a deficit crisis in the U.S., high oil prices, political turmoil in the Middle East (Syria, Afghanistan, Iraq, Iran), political turmoil in the Ukraine, a European debt crisis, and other international economic and political factors. Over the past several years, there have been major fluctuations in the markets caused by the housing mortgage crisis in the U.S., bail out of several major banks world-wide, bail out of Freddie Mac and Fannie Mae in the U.S., bail out of several major automobile manufacturers world-wide, and bail out of several countries in the world such as Greece. This has caused record deficits in several countries, including the U.S. These crises, which have occurred over a multi-year period, have affected the Company's ability to raise capital and have negatively impacted the stocks of many junior exploration companies. It is likely there will be future turmoil in the world markets over the next several years, and this uncertainty may negatively impact the Company's ability to raise necessary capital and advance the I-M Project or its exploration properties.

Emgold may not be able to find equity investment to further fund GBC to build a recycled stone and ceramics processing facility using commercially available technology to process mine waste at the I-M Project. Emgold has developed and is planning to use commercially available technology in connection with the operation of the I-M Project to process development rock (rock mined to access the gold ore) and mine tailings (the remains of the gold ore after the gold has been removed). Permitting of the I-M Project included a 1,200 ton per day recycled stone and ceramics, processing facility, which may be the first commercial plant of its kind. This technology is being developed in Emgold's wholly owned subsidiary, GBC. The Company is in the process of converting GBC into an independent operating entity. The Company has decided to finance GBC and its recycled stone and ceramics processing facility separately from Emgold, if possible, to allow GBC to pursue opportunities for growth on a global basis and construct a series of production plants.

If the Company is unable to obtain equity or some other form of financing to develop the recycled stone and ceramics processing facilities, the proposed use of such facilities at the I-M Project may be at risk. The I-M Project is not dependent on the use of a recycled stone and ceramics plant and the expected alternative would be to dispose of 100% of the mine tailings from the I-M Project as underground backfill (mine tailings used to backfill the voids created by gold and industrial mineral (aggregate) mining).

If suitable financing is obtained, GBC plans to complete a detailed feasibility study and basic engineering by utilizing independent consultants to design the first commercial plant. GBC will not be able to conduct further research and development or prepare marketing and feasibility studies until it has independently raised sufficient financing for that purpose.

Environmental and Regulatory Risk Factors

Emgold may be unable to obtain necessary permits for the I-M Project. IMMC had submitted applications to acquire a Conditional Mine Use Permit ("CMUP") and other entitlements to allow the Company to dewater, explore, construct, operate, and reclaim the Idaho-Maryland Mine in Grass Valley, California. The Company had a proactive community outreach program to inform local residents and decision makers and stakeholders about the I-M Project and its benefits to the region, as well as to obtain their input and incorporate it into the project permitting. On October 26, 2011, Phase 3 of the permitting process was placed on hold by the Company pending resurgence of the junior mining equity markets. On September 10, 2012, the Company's permitting application was "deemed withdrawn" by the City due to inactivity and the Company was instructed it would have to re-file its applications when it had the funds to move forward. Additional environmental investigations may be required as a part of the permitting process and for the future development of the surface properties for the purposes of mining and milling of ore. Currently the Company believes that the potential to obtain the permits is reasonable provided that the Company is able to maintain adequate funding through the permitting process. Obtaining or reviewing governmental permits is a complex and time-consuming process. The duration and success of efforts to obtain and renew permits are contingent upon variables not within the Company's control. Delays or failure to obtain the CMUP, or the expiry, revocation or failure by us to comply with the terms of any such permits we have obtained would adversely affect our business.

Compliance with environmental regulations could affect future profitability and timeliness of operations. The current and anticipated future operations of the Company, including development activities and commencement of production on its properties, require operating permits from various federal, state, and local governmental authorities. Companies engaged in the development and operation of mines and related facilities generally experience increased costs, and delays in production and other schedules as a result of the need to comply with applicable laws, regulations and permits as well as the effects of inflation and the availability of mining specific goods and services.

The Company's exploration activities and its potential mining and processing operations are subject to various laws governing land, air and water use, the protection of the environment, prospecting, development, production, commodity prices, exports, taxes, labour standards, occupational safety and health, waste disposal, toxic substances, mine safety and other matters. Emgold believes it is in substantial compliance with all material laws and regulations which currently apply to its activities. There is no assurance that the Company will be able to obtain all permits required for exploration, development and construction of mining facilities and conduct of mining operations on reasonable terms or that new legislation or modifications to existing legislation, would not have an adverse effect on any exploration or mining project which the Company might undertake.

Readers are cautioned that the CMUP is required in order to dewater the existing mine workings at the I-M Project and to construct a decline to conduct underground exploration and complete feasibility work. A production decision must be made before the mine can go into production.

The I-M Project could have “growth inducing impacts” in Grass Valley, CA. The Company will need to address those impacts associated with growth due to industrial development proximate to an urban center. The Company believes that it has defined and disclosed the extent of and can mitigate the potential impacts in all of these areas in ways satisfactory to all of its stakeholders. Where required and agreed, local jurisdictions may receive direct compensation for the cost of improving roadway intersections and expanding services to accommodate potential increased demands on social services and local infrastructure.

The I-M Project contains areas that have been impacted by historic mining activities and clean up of historic tailings will be required. The Company has historically leased this Property and is not conducting any mining operations; therefore no reclamation liability has been accrued. As part of the CMUP process, the Company has completed test work to characterize the historic tailings and will be entering into agreements with the California Department of Toxic Substance Control who will be the Lead Agency overseeing the cleanup of historic tailings on site. The Company worked with the California Regional Water Quality Control Board and has remediated the location where two historic fuel tanks were removed by the previous owners of the land. Costs for cleanup and short and long term liabilities for cleanup of the site are being addressed with State and local agencies. Should the economics of site cleanup of historic mine tailings on site become prohibitive, the Company could elect not to complete the purchase of this Property and discontinue the project. However, information available at this time indicates that cleanup of the site can be completed in a reasonable and economic fashion, and this cleanup will be a benefit to the local community in the long term.

California is in the process of implementing a number of rules related to air quality and greenhouse gas emissions through the California Air Resources Board under the California Global Warming Solutions Act (AB32). These regulations include cap-and-trade legislation that is being designed to reduce California’s green house gas emissions to 1990 levels by the year 2020 and ultimately achieve an 80% reduction in green house gas emissions from 1990 levels by the year 2050. The cap and trade program started on January 1, 2012 with an enforceable compliance obligation beginning with 2013 green house gas emissions. The legislation is being developed on an ongoing basis and is constantly being modified and amended. While this new legislation is being addressed as part of the permitting process for the I-M Project, it is unknown how this legislation will impact operating and capital costs of the project and such impacts, as a worst case, could result in the I-M Project not being economically viable. It is expected that as part of the CMUP process, IMMC will be required to mitigate any air quality impacts that may result from the I-M Project. The scope and cost of these mitigations are unknown at this time.

Specific to U.S. properties, costs involved in complying with various government environmental regulations vary by operation and regulatory jurisdiction. Typically, surface sampling does not require any permits. Agency review and approval for exploration drilling and access construction can vary from several hundred dollars to several thousands of dollars, depending upon the level of activity. Permitting and environmental compliance costs vary, depending upon the level of activities proposed and the sensitivity of the areas where mineral activities are proposed.

In addition, certain types of operations related to the opening and operation of the mine will require the submission and approval of environmental impact assessments. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and directors, officers and employees. The cost of compliance with changes in governmental regulations has a potential to reduce or eliminate the profitability of operations. For example, if the Company is unable to obtain required permits, and the reasons that the permits cannot be obtained are deemed to be financially insurmountable, the development of the I-M Project would be curtailed, and operations in Grass Valley,

California would cease.

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On the Federal, State or Provincial or County level, regulations deal with environmental quality and impacts upon air, water, soils, vegetation and wildlife, as well as historical and cultural resources. Approval must be received from the applicable departments before exploration can begin, and will also involve ongoing monitoring of operations. For the I-M Project, the City acts as the Lead Agency and is responsible for representing other regulatory agencies during the permitting process. If operations result in negative effects upon the environment, government agencies will usually require the Company to carry out remedial actions to correct the negative effects.

Information about the I-M Project is distributed at community events. Issues of concern to the community are addressed and communicated to all interested parties at public workshops and meetings, community events as well as through local news media, direct mail-outs, circulars and brochures. A website, devoted to the I-M Project, www.idaho-maryland.com, operated during the permitting process, provided general I-M Project information, permitting documentation and addresses community concerns regarding the expected impact of dewatering existing mine workings, underground development, exploration and the possible operation of a mine on the community and the environment.

The Company may be required to post reclamation bonding in California to ensure that areas will be reclaimed after exploration. Reclamation bonds are also required in British Columbia, and have all been posted. The exploration activity in British Columbia to date has been limited to drilling, and as such, the reclamation bonds posted are nominal. If exploration activity is carried out on the Buckskin Rawhide Project in Nevada, a reclamation bond will also be required for any such work.

Failure to comply with environmental and reclamation rules could result in penalties. Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violation of applicable laws or regulations. Environmental legislation provides for restrictions and prohibitions on spills, releases or emissions of various substances produced in association with certain mining industry operations, such as seepage from tailings disposal areas, which would result in environmental pollution. A breach of such legislation may result in the imposition of fines and penalties. At present, the Company has estimated that no funds are required for reclamation at the I-M Project, as reclamation related to a drilling program is normally defined in the drilling permit and completed at the end of the program. The Company is not conducting any mining operations; therefore, no reclamation liability has been accrued. To date, Emgold has been successful in obtaining all permits that it has applied for and believes it has a good working relationship with local regulators. The Company and its employees have been engaged in the exploration and development of mineral properties for many years. Currently, the operations of the Company have been limited to exploration and permitting. To date, no mining activity has yet been undertaken by the Company.

Risk Factors Associated with Mining and Exploration

Emgold's exploration and development efforts may be unsuccessful in locating viable mineral resources. Resource exploration and development is a speculative business, characterized by a number of significant risks, including, among other things, unprofitable efforts resulting not only from the failure to discover mineral deposits but also from finding mineral deposits, which, though present, are insufficient in quantity and quality to return a profit from

production.

There is no certainty that the expenditures to be made by the Company on the exploration of its properties and prospects as described herein, in particular, the I-M Project, will result in discoveries of mineralized material in commercial quantities.

Emgold may not be able to market the minerals acquired or discovered by the Company due to factors beyond the control of the Company. The marketability of minerals acquired or discovered by the Company may be affected by numerous factors which are beyond the control of the Company and which cannot be accurately predicted, such as market fluctuations, the proximity and capacity of milling facilities, mineral markets and processing equipment, and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals and environmental protection, the combination of which factors may result in the Company not receiving an adequate return on investment capital.

Other Risk Factors

Emgold's title to mineral property interests may be challenged. Although Emgold has completed a review of titles to its mineral interests and has had two title opinions prepared on the I-M Project, it has not obtained title insurance or any formal legal opinion with respect to all of its properties and there is no guarantee of title. The mineral properties may be subject to prior unregistered agreements or transfers or native land claims, and title may be affected by undetected defects. Emgold's mineral property interests include mineral claims in British Columbia and Nevada, which have not been surveyed, and therefore, the precise area and location of such claims or rights may be in doubt. As there are unresolved native land claim issues in British Columbia, the Company's properties and prospects in this jurisdiction may be affected in the future.

Currency fluctuations between the United States dollar and the Canadian dollar may affect Emgold's financial position and results. Many of Emgold's principal financial obligations are in United States dollars, which make it subject to foreign currency fluctuation and such fluctuations may materially affect its financial position and results. The Company's consolidated financial statements are reported in United States dollars and the functional currency of the Company is United States dollars.

We may not be able to insure certain risks which could negatively impact our operating results. In the course of exploration, development and production of mineral properties, certain risks, and in particular, unexpected or unusual geological and operating conditions including rock bursts, unusual or unexpected formations, formation pressures, cave-ins, land-slides, fires, explosions, flooding and earthquakes, power outages, labour disruptions, and the inability to obtain suitable or adequate machinery, equipment or labour may occur. It is not always possible to fully insure against such risks and the Company may decide not to take out insurance against such risks as a result of high premiums or other reasons. Should such liabilities arise, they could reduce or eliminate any future profitability and result in increasing costs and a decline in the value of the securities of the Company.

U.S. investors may not be able to enforce their civil liabilities against the Company or its directors, controlling persons and officers. It may be difficult to bring and enforce suits against the Company. The Company is a corporation incorporated in British Columbia under the *Business Corporations Act (British Columbia)* and, consequently, there is a risk that Canadian courts may not enforce judgements of U.S. courts or enforce, in an original action, liabilities predicated directly upon U.S. federal securities laws. A majority of the Company's directors and officers are residents of Canada and a substantial portion of the Company's assets are located outside of the United States. Consequently, it may be difficult for United States investors to effect service of process upon those directors or officers who are not residents of the United States, or to realize in the United States upon judgements of United States courts predicated upon civil liabilities under United States securities laws. It is unlikely that an original action could be brought successfully in Canada against any of such persons or the Company predicated solely upon such civil liabilities under the U.S. Securities Act.

Emgold's directors and officers serve as directors and officers of other publicly traded junior resource companies. Some of the directors and officers of Emgold serve as officers and/or directors of other resource exploration

companies and are engaged and will continue to be engaged in the search for additional resource opportunities on their own behalf and on behalf of other companies, and situations may arise where these directors and officers will be in direct competition with Emgold. Such potential conflicts, if any, will be dealt with in accordance with the relevant provisions of British Columbia corporate and common law. In order to avoid the possible conflict of interest which may arise between the directors' duties to Emgold and their duties to the other companies on whose boards they serve, the directors and officers of Emgold expect that participation in exploration prospects offered to the directors will be allocated among or between the various companies that they serve on the basis of prudent business judgement and the relative financial abilities and needs of such companies.

Emgold is dependent on its ability to recruit and retain key personnel. Emgold has relied on and may continue to rely upon consultants and others for exploration, development and technical expertise. The Company strongly depends on the business and technical expertise of its management and key personnel. As the Company's operations expand additional general management and human resources will be required. It may be difficult for Emgold to continue to find and retain the services of qualified personnel.

Risks associated with the commercialization of the stone and ceramics products. Emgold's management and consultants have identified possible areas of risk concerning the commercialization of the recycled stone and ceramic building materials to be produced from mine development rock and tailings from the I-M Project or other similar operations. It will be necessary to address the remediation of these risks during the marketing and feasibility phases of the process and product development. Risks that may apply to the commercialization of the recycled stone and ceramics products include developing distribution networks, defining markets, and sales prices for the products. The capital and operating costs for a production plant will need to be determined as part of the feasibility process.

Risks Relating to an Investment in the Securities of the Company

The Company could be deemed a Passive Foreign Investment Company, which could have negative consequences for U.S. investors. Potential investors who are U.S. taxpayers should be aware that Emgold expects to be a passive foreign investment company (“PFIC”) for the current fiscal year, appears to have been a PFIC in prior years and may also be a PFIC in subsequent years. If Emgold is a PFIC for any year during a U.S. taxpayer’s holding period, then such U.S. taxpayer generally will be required to treat any so-called “excess distribution” received on its common shares, or any gain realized upon a disposition of common shares, as ordinary income and to pay an interest charge on a portion of such distribution or gain, unless the taxpayer makes a qualified electing fund (“QEF”) election or a mark-to-market election with respect to the shares of Emgold. In certain circumstances, the sum of the tax and the interest charge may exceed the amount of the excess distribution received, or the amount of proceeds of disposition realized, by the taxpayer. A U.S. taxpayer who makes a QEF election generally must report on a current basis its share of Emgold’s net capital gain and ordinary earnings for any year in which Emgold is a PFIC, whether or not Emgold distributes any amounts to its shareholders. A U.S. taxpayer who makes the mark-to-market election generally must include as ordinary income each year the excess of the fair market value of the common shares over the taxpayer’s tax basis therein. U.S. taxpayers are advised to seek the counsel of their professional tax advisors.

The liquidity of our shares in the United States markets may be limited or more difficult to effectuate because we are a “Penny Stock” issuer. Emgold’s stock may be subject to U.S. “Penny Stock” rules, which may make the stock more difficult for U.S. shareholders to trade on the open market. The SEC has adopted rules that regulate broker-dealer practices in connection with transactions in “penny” stocks. Penny stocks are equity securities with a price of less than \$5.00 per share (other than securities that meet certain requirements, including, for example, securities registered on certain national securities exchanges provided that current prices and volume information with respect to transactions in such securities is provided by the exchange or system).

The Penny Stock Rules require a broker-dealer, prior to effecting a transaction in a penny stock not otherwise exempt from such rules, to deliver a standardized risk disclosure document prepared by the SEC that provides information about penny stocks and the nature and level of risks in the penny stock market. In addition, the Penny Stock Rules require that prior to a transaction in a penny stock not otherwise exempt from such rules the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser’s written acknowledgment of the receipt of a risk disclosure statement, a written agreement to transactions involving penny stocks, and a signed and dated copy of a written suitability statement. At the present market prices, Emgold’s common shares will (and in the foreseeable future are expected to continue to) fall within the definition of a penny stock. Accordingly, United States broker-dealers trading in Emgold’s shares will be subject to the Penny Stock Rules. Rather than complying with those rules, some broker-dealers may refuse to attempt to sell penny stock. As a result, shareholders and their broker-dealers in the United States may find it more difficult to sell their shares of Emgold, if a market for the shares should develop in the United States.

Emgold's stock price may limit its ability to raise additional capital by issuing common shares. The low price of Emgold's common stock also limits Emgold's ability to raise additional capital by issuing additional shares. There are several reasons for these effects. First, the internal policies of certain institutional investors prohibit the purchase of low-priced stocks. Second, many brokerage houses do not permit low-priced stocks to be used as collateral for margin accounts or to be purchased on margin. Third, some brokerage house policies and practices tend to discourage individual brokers from dealing in low-priced stocks. Finally, broker's commissions on low-priced stocks usually represent a higher percentage of the stock price than commissions on higher priced stocks. As a result, Emgold's shareholders pay transaction costs that are a higher percentage of their total share value than if Emgold's share price were substantially higher.

The market for the Company's stock has been subject to volume and price volatility, which could negatively affect a shareholder's ability to buy or sell the Company's shares. The market for the common shares of the Company may be highly volatile for reasons both related to the performance of the Company or events pertaining to the industry as well as factors unrelated to the Company or its industry.

In 2007 and continuing, the U.S. credit markets began to experience serious disruption due to a deterioration in residential property values, defaults and delinquencies in the residential mortgage market (particularly, sub-prime and non-prime mortgages) and a decline in the credit quality of mortgage backed securities. These problems led to a slow-down in residential housing market transactions, declining housing prices, delinquencies in non-mortgage consumer credit and a general decline in consumer confidence. These conditions have continued, causing a loss of confidence in the broader U.S. and global credit and financial markets and resulting in the collapse of, and government intervention in, major banks, financial institutions and insurers and creating a climate of greater volatility, less liquidity, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions. Notwithstanding various actions by the U.S. and foreign governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate and venture stock markets to decline substantially. In addition, general economic indicators can affect the markets including declining consumer sentiment, increased unemployment and declining economic growth and uncertainty about corporate earnings. Economic factors in Europe, Asia and elsewhere around the world may cause further deterioration in economic indicators. Potential exists for interest rate increases as the U.S. deficit grows, which may further slow economic recovery.

These unprecedented disruptions in the current credit and financial markets have had a significant material adverse impact on a number of financial institutions and have limited access to capital and credit for many companies. These disruptions could, among other things, make it more difficult for us to obtain, or increase our cost of obtaining, capital and financing for our operations. The Company's access to additional capital may not be available on terms acceptable to it or at all.

The Company's share price is subject to reductions and downward pressures from significant potential equity dilution. A summary of Emgold's diluted share capital is as follows: Emgold has 5,000,000 stock options outstanding (at December 31, 2015), which are exercisable at prices ranging from Cdn\$0.10 to Cdn\$0.15 per share which is above the current market price for the Company's shares and makes it unlikely that the options will be exercised before expiry and acts as an upside damper on the trading range of Emgold's shares. At December 31, 2015, there were 2,500,000 warrants exercisable at a weighted average exercise price of \$0.10. The resale of outstanding shares from the exercise of dilutive securities would have a depressing effect on the market for Emgold's shares if there is a significant increase in the Company's share price. Dilutive securities, based on the trading range of Emgold's common shares, at December 31, 2015, include the 2,500,000 warrants and underlying warrants, and the 5,000,000 stock options above, which collectively represent approximately 10% (2014 - 19%) of Emgold's issued shares as at December 31, 2015.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

Emgold Mining Corporation ("Emgold" or the "Company") was originally incorporated under the Company Act (British Columbia) as 361869 BC Ltd. on March 17, 1989. The Company's name was changed to HLX Resources Ltd. ("HLX") on July 19, 1989. On August 31, 1989, HLX was amalgamated with four mineral exploration companies - Eastern

Mines Ltd. (incorporated March 10, 1980), Gallant Gold Mines Ltd. (incorporated January 18, 1979), Silver Sceptre Mines Ltd. (incorporated March 10, 1980) and Standard Gold Mines Ltd. (incorporated February 6, 1980). Eastern Mines Ltd., Silver Sceptre Mines Ltd. and Standard Gold Mines Ltd. originally had exploration properties in the Terrace Bay area of Ontario. Gallant Gold Mines Ltd. originally had exploration properties in the Rossland-Trail area of British Columbia. After the amalgamation, the resulting company continued to be named HLX Resources Ltd.

On March 30, 1992, HLX changed its name to Emperor Gold Corporation at which time a special resolution of the shareholders was passed to consolidate the common shares on a five old for one new common share basis and to increase the authorized share capital from 10,000,000 common shares without par value and 50,000,000 first preference shares without par value, to 50,000,000 common shares without par value and 50,000,000 first preference shares without par value. The Company's memorandum and articles were amended to reflect this change. On August 12, 1997, the Company's memorandum and articles were again amended as the Company changed its name to Emgold Mining Corporation. The name was changed due to the fact that there was an unrelated mining company with a very similar name to the Company, with offices in Vancouver, British Columbia.

In fiscal 2002, the Company's share capital was increased from 100,000,000 to 550,000,000 shares without par value, divided into 500,000,000 Common Shares without par value and 50,000,000 First Preference Shares without

par value, each share having attached thereto the special rights and restrictions set out in the Articles of the Company. The Company was continued under the Business Corporations Act in British Columbia in June 2005, and the authorized share capital of the Company was changed to an unlimited number of common shares without par value and an unlimited number of first preference shares.

The Company is in the business of acquiring, exploring, and developing mineral properties. For the past three completed financial years, and since 1993, the Company has been principally engaged in permitting and developing the I-M Project located near the City of Grass Valley (the "City") in Nevada County, California, U.S.A. The Company originally acquired the rights to the I-M Project in August 1993. Over the next five years, significant expenditures were made on the I-M Project. An Environmental Impact Report was successfully completed to dewater and explore the Idaho-Maryland Mine and a National Pollution Discharge Elimination System Permit obtained. However, in the late 1990's, with a decreasing gold price, it became impossible to raise capital to continue with the exploration the I-M Project. Gold prices continued to drop and the Company wrote-down the Property for a nominal carrying value of \$1 in 1999. The lease option to purchase agreement on the I-M surface property and mineral rights with the BET Group was eventually dropped. Permits to dewater the mine were cancelled or expired.

Emgold remained interested in the I-M Project and continued to pursue various financing alternatives. In fiscal 2002, the Company renegotiated the terms and conditions of a lease option to purchase agreement with the BET Group for certain property and mineral rights in Grass Valley. Details of expenditures relating to the Idaho-Maryland surface properties and mineral rights are included in Item 4 under "Property, Plant and Equipment" and "Idaho-Maryland Project – History of the Property". Emgold incorporated a 100 percent owned Nevada Corporation subsidiary company, the Idaho-Maryland Mining Corporation (the "IMMC"), to hold and develop the I-M Project. Activities and expenditures related to the I-M Project are completed through this subsidiary.

In 2003, Emgold acquired the licensing rights to a ceramics technology and changed the name of its second 100 percent owned Nevada Corporation subsidiary company, then called Holly Corporation, to Golden Bear Ceramics Company ("GBC"). Emgold recognized the potential application of the hot vacuum extrusion technology for the I-M Project (to eliminate the requirement for surface tailings and waste rock disposal) and as a business opportunity for processing a wide range of mineral waste materials to produce high quality recycled stone and ceramic building materials on a global basis. Emgold initiated work to commercialize the technology and to set up a research and development facility in Grass Valley, CA. GBC has since determined that it will be able to produce high quality stone and ceramic building materials from mine development rock and tailings from the I-M Project or other similar operations by using equipment and technology available in the commercial market place. GBC will need to find markets for its stone and ceramics products and construct a facility to produce such products from a wide variety of siliceous waste materials and raw materials, including mine tailings, fly ash and other waste materials, that would otherwise be disposed of in landfills, into high-strength, low-porosity, industrial stone and ceramic building products such as, floor tile, roof tile, brick, construction materials and other industrial and commercial products. Emgold is now planning to use commercially available technology not proprietary to Ceramext, LLC in connection with the operation of the I-M Project, and the licensing agreement with Ceramext, LLC has been terminated.

In 2005, Emgold commenced permitting of the I-M Project with acceptance of its Permit Applications by the City of Grass Valley, Nevada County, California (the “City”). The I-M Project is being permitted according to the California Environmental Quality Act (“CEQA”), the California Surface Mining and Reclamation Act (“SMARA”), and other applicable federal, state, and local legislation. The City has been designated to be the Lead Agency in the permitting process. The City commenced work to complete the permitting process for the Project, which was divided into three phases: Phase 1 is the Master Environmental Assessment, Phase 2 is the Initial Study and Phase 3 is the Environmental Impact Report. The City will then need to approve a Conditional Use Permit for the I-M Project. To date, Phase 1 and 2 have been completed.

Emgold also has additional mineral properties: the Rozan Property in B.C. (fully vested), the Stewart Property in B.C. (fully vested), the Buckskin-Rawhide East Property in Nevada (fully vested), the Buckskin Rawhide West Property in Nevada (under option), and the Koegel Rawhide Property in Nevada (under option). All the Canadian properties are located in the Nelson mining district north of Ymir in south-eastern British Columbia, Canada. Nevada properties are in the Rawhide mining district near Fallon, Nevada. The I-M Project is in the Grass Valley mining district in Grass Valley, CA.

B. Business Overview

General

Nature of Company: Emgold has historically been a mineral exploration company. The Company plans to permit and ultimately re-open the historic Idaho-Maryland Mine, located in Grass Valley, California. The Idaho-Maryland Mine was the second largest underground gold mine in California, producing 2.4 million ounces of gold between 1862 and 1956. The I-M Project is adjacent to the historic Empire Mine, which was the first mine operated by (i)Newmont Mining Corporation. The Empire Mine produced 5.8 million ounces of gold from 1850 to 1956, and was the largest gold mine in California. The Grass Valley District produced over 17 million ounces of gold. Emgold believes the I-M Project to be one of the largest underground gold exploration targets in North America with potential to become a significant high grade producing mine. Plans are to construct a 2,400 ton per day underground gold mine and gold processing facility, and establish Emgold as a mid-tier producing company.

Emgold also has two early-stage mineral exploration projects in British Columbia that contain gold, silver, molybdenum, tungsten, and other mineralization. These properties have been drilled by a number of companies over the years, with further work being completed by Emgold since their acquisition.

The company has an early stage gold and silver exploration project called the Buckskin-Rawhide East Property in Nevada where it controls 100% of 6 the unpatented claims The Property has been leased to RMC who plan to conduct exploration and, if exploration is successful, potentially bring any resources discovered into commercial production at the Denton Rawhide Mine.

Emgold also has two additional early stage exploration projects in Nevada called Buckskin Rawhide East and Koegel Rawhide. To date, Emgold has done limited exploration on these properties.

For several years, Emgold, through its wholly-owned subsidiary, GBC, has been developing a process to convert mineral wastes and other siliceous materials to stone and ceramic building products. Emgold originally intended to apply this process as a method to deal with development rock and mine tailings from the I-M Project and to eliminate the need for surface tailings impoundments and waste dumps associated with a traditional gold mine. Emgold successfully developed the process to a pilot plant stage using commercially available equipment. Since that time, the Company has determined that the use of commercially available equipment will enable GBC to readily manufacture 100 percent recycled “green” stone and ceramic building products from mineral wastes. Emgold is currently seeking funding to finance GBC, to allow it to expand independently of the I-M Project.

(ii) *Principal Markets:* Not Applicable.

(iii) *Seasonality*: Not Applicable.

(iv) *Raw Materials*: Not Applicable.

(v) *Marketing Channels*: Not Applicable.

(vi) *Dependence*: Not Applicable.

(vii) *Competitive Position*: Not Applicable.

Material Effect of Government Regulation: The Company's exploration activities and its potential mining and processing operations are subject to various laws governing land use, the protection of the environment, prospecting, development, production, contractor availability, commodity prices, exports, taxes, labour standards, occupational safety and health, waste disposal, toxic substances, mine safety and other matters. The Company believes it is in substantial compliance with all material laws and regulations that currently apply to its activities. There is no assurance that the Company will be able to obtain all permits required for exploration, any future development and construction of mining facilities and conduct of mining operations on reasonable terms or that new legislation or modifications to existing legislation would not have an adverse effect on any exploration or mining project which the Company might undertake.

Idaho-Maryland Mining Corporation

The Company is seeking to reopen the historical Idaho-Maryland Mine (also referred to in this Annual Report as “I-M Project”, or the “Idaho-Maryland”), in accordance with all applicable federal, state, and local laws and regulations. Readers are cautioned that a Conditional Mine Use Permit (“CMUP”) is required in order to remove water from the existing mine workings at the I-M Project and to conduct underground exploration and complete a feasibility study.

The Company formally applied to the City of Grass Valley (“City”) for the CMUP on February 9, 2005, and the Project Applications were received as substantially complete on May 24, 2005. Following this, the City completed Phase 1 of the permitting process to obtain the CMUP with included completion of a Master Environmental Assessment (“MEA”) in June 2006. Phase 2 was the Notice of Preparation and Initial Study (“NOP” and “IS”), which was completed on January 8, 2008. The Company then made modifications and clarifications and completed a 2007 Revised Project Applications, which was accepted by the City in May 2007.

Phase 3, the preparation of an Environmental Impact Report (“EIR”), was commenced by the City in June 2008. A Draft EIR was completed in October, 2008. The public hearings related to the Draft EIR were completed in January 2009. The Draft EIR was positive, with air quality identified as the only concern that could not be successfully mitigated due to the fact that Nevada County is a non-attainment area for ozone related gases due to ozone blowing into the Sierra Foothills from the Bay and Sacramento area several days during the year. The Company’s internal review of the Draft EIR concluded that the City and its consultants had failed to analyze the cleanup of historic tailings on the Idaho-Maryland site and this failure would require a revised Draft EIR and recirculation for public comment. After meeting with various public agencies in the first half of 2009 and knowing that re-circulation would be required, the Company elected to make several improvements to the I-M Project based on its internal review of the Draft EIR and analysis of public comment.

The Company’s 2011 Revised Project Application was accepted by the City in May 2011. The City then completed a competitive bid process in November 2011 and elected to retain a new consultant to complete the EIR process. With a budget, scope, and schedule now available to complete Phase 3 of the permitting process, the Company requested 90 days to complete financing activities to allow it to move forward with the permitting process. The Company indicated it might take longer than 90 days to complete financing, given the poor equity markets. At the end of the 90 days, the Company updated the City, explaining the continuing poor equity markets, and asked for another 90 days to obtain financing. The City elected to give the Company 180 days, or until September 10, 2012 or the Company’s applications would be “deemed withdrawn” and would have to be resubmitted when the Company had sufficient funds in place. On September 7, 2012, with worsening equity markets, the Company put out a press release and notified the City that the applications would be deemed withdrawn.

Once funding is available and the Company resubmits its Project Application, it is expected a Revised Draft EIR will be completed, with public comment, followed by completion of the Final EIR. The Final EIR is expected to take

approximately 12 to 18 months from commencement of the work. Emgold is currently attempting to raise funds to allow the permitting process to move forward. The Company estimates the budget to be \$2.5 million to complete the CMUP process, excluding corporate overhead costs.

The Company has had a mining lease and option to purchase agreement (the "BET Agreement") for the I-M Project that was originally signed in 2003 and had a five-year term. The BET Agreement covers the lease and purchase of approximately 2,750 acres of mineral rights and 91 acres of surface rights associated with the Idaho-Maryland Project. Emgold owns certain other mineral and surface rights associated with the Project. The BET Agreement has been extended three times to date, with the last extension from February 1, 2011, for an additional two years to February 1, 2013. Lease payments during the extension period were \$30,000 per quarter. The Company has the ability to exercise the purchase option of the BET Agreement at any time while the option agreement remains in good standing. At December 31, 2012, the Company was in compliance with all the terms of the BET Agreement. However, on February 1, 2013, the BET Agreement expired as announced by press release dated 01 February, 2013. The Company is currently in negotiations to extend the BET Agreement. The success or failure of these negotiations is unknown at this time. Emgold has stated that if negotiations are unsuccessful, it will drop the I-M Project to focus on other assets the Company currently has in its portfolio.

Under a previous lease agreement extension, Emgold was to make quarterly option payments of \$30,000 beginning on February 1, 2009, until January 31, 2010. For the period from February 1, 2010, to January 31, 2011, the quarterly option payments were to increase to \$60,000 per quarter. The BET Group agreed to defer 50 percent of the quarterly lease payment for 2010, amounting to \$30,000 per quarter. The amount of the deferral, totaling \$120,000, was added to the purchase price of the property and mineral rights, the first installment of which was to become due on February 1, 2013 under the third lease extension, in the event that the Company exercises its option to purchase the I-M Property. The deferral of \$120,000 was subject to interest calculated at 5.25% compounded annually. In 2013, this lease agreement expired as did the requirement to pay the deferred quarterly payment because the option to purchase was not exercised.

There is no guarantee that the City of Grass Valley will approve the project or that other agencies will approve the permits necessary to operate. However, two gold mines (the Mesquite Mine operated by New Gold Inc. and the Briggs Mine operated by ATNA Resources Ltd.) have recently returned to operation in California. Sutter Gold Mining Inc. has obtained permits to operate the Sutter Gold Mine and Golden Queen Mining Company Ltd is in the process of obtaining permits to open the Soledad Mountain Project in California.

An EIR for the Idaho-Maryland Project was previously completed in 1995 to dewater and explore the mine with Nevada County as the Lead Agency. Emgold believes there is no technical reason to prevent the mine from being permitted and the risk is the political uncertainty of permitting in the United States and the State of California with constantly evolving regulations at all levels of government that may impact the permitting requirements at some future date. In particular, potential legislation from the California Air Resources Board and the Federal EPA related to carbon emissions and potential cap and trade rules may have an effect on mining operations in the United States.

Information about the I-M Project is distributed at community events. Issues of concern to the community are addressed and communicated to all interested parties at public workshops and meetings and community events as well as through local news media, direct mail-outs, circulars and brochures. During the permitting process, a website devoted to the I-M Project, www.idaho-maryland.com, provided general I-M Project information and permitting documentation and addresses community concerns regarding the expected impact of dewatering existing mine workings, underground development, exploration and the possible operation of a mine on the community and the environment. The Company has participated in public workshops held during the preparation of the draft EIR.

In addition to its interest under the BET Agreement, IMMC owns 28 acres of the former sawmill site adjacent to the one of the surface property owned by the BET outlined above, and the two properties encompass the 85 acres known as the Idaho-Maryland site. The company also owned 7 acres known as the Round Hole site. IMMC also owns the subsurface mineral rights of 70% of the Dana-Christopher Columbus patented mining claims and 100% of the Golden Gate West and Golden Gate East subsurface patented mining claims, totalling about 30 acres. These mineral rights are contiguous, are considered part of the I-M Project, and consist of only subsurface mineral rights.

The Idaho-Maryland site has sufficient surface rights to construct a portal and shaft for underground access, gold milling and recycled stone and ceramic manufacturing facilities, aggregate crushing and screening plant, maintenance

facilities, tile storage areas, a Mining Education Center and an administrative site. The New Brunswick site will be primarily used for dewatering the mine. The Company's plan is to use the Round Hole Shaft as a ventilation shaft and emergency access way for the I-M Project during operations.

The existing mine workings are currently flooded with approximately 2,500 acre-feet of ground water, or approximately 500 million gallons of water. In order to conduct underground exploration, the mine workings must be pumped out or "dewatered". The Company anticipates pumping water to surface up to a maximum rate of 12 acre-feet per day for approximately 9 to 12 months to complete the dewatering, if the pumping is conducted 24 hours a day and depending on the local precipitation and the water flow in the receiving waterway. The water will be transferred via pipeline to the Idaho-Maryland site, treated, and pumped into the adjoining Wolf Creek. The timeframe will lengthen accordingly if pumping is not constant over the 24-hour period.

The Company may consider mining and toll milling of gold ore should sufficient gold bearing ore be mined during the initial stages of underground exploration and development. A positive feasibility study may need to be completed and a production decision must be made before the mine can go into production. The outcome of this feasibility work and receipt of the CMUP will have a direct impact on the ability of the Company to put the I-M Project into production.

The long-term development plan for the I-M Project includes underground exploration to define further resources possibly leading to staged construction and operation of up to a 2,400 Short Tons Per Day (“STPD”) underground gold mine and mill, a 1,200 STPD manufacturing plant for recycled stone and ceramic building materials, as well as a 365 STPH aggregate crushing and screening plant. The recycled stone and ceramics plant would be designed to process development rock and gold mine tailings as feedstock to produce high-quality recycled stone and ceramic building materials, to reduce the effective cost of gold production and to mitigate the environmental impact of the proposed mining operations. The aggregate crushing and screening plant would be used to process development rock to make a series of aggregate products for sale into the local and regional market.

Golden Bear Ceramics Company

Emgold, through GBC, has developed a recycling technology because of its potential to provide a tailings management strategy for the I-M Project while contributing a significant revenue stream to the mine. The Company believes there is also a global business opportunity to process a wide range of siliceous waste and naturally occurring materials and to produce high quality stone and ceramic building materials. The recycled stone and ceramics technology has been demonstrated on a laboratory and pilot plant basis. It has been possible to perform forming operations on a wide variety of silicate materials at elevated temperatures. Stone and ceramic materials of high quality, strength, and very low porosity have been produced. The process production volume has not yet been scaled up and therefore cannot be considered commercialized. The Company has determined that the use of commercially available equipment should enable GBC to readily manufacture 100 percent recycled “green” stone and ceramic building products from mineral wastes. These materials will qualify for Leadership in Energy and Environmental Design (“LEED”) credits.

The Company is continuing to seek capital investment to commercialize its products. If the Company were able to obtain investment to develop GGC, additional marketing studies, a feasibility study, and basic engineering would need to be completed independently of the mining operations. It is anticipated that these studies could be completed within 12 to 14 months from financing.

C. Organizational Structure

The Company has three direct and indirect wholly owned subsidiaries, Idaho-Maryland Mining Corporation (formerly Emperor Gold (U.S.) Corp.), Golden Bear Ceramics Company (formerly Holly Corporation (U.S.)) and Emgold (U.S.) Corporation (“Emgold US”), all incorporated in the State of Nevada. Unless the context otherwise requires, references herein to the “Company” or “Emgold” include the subsidiaries of the Company. Emgold U.S. holds the Golden Bear subsidiary.

D. Property, Plant and Equipment

The Company has mineral exploration interests in six properties: the I-M Project (California), the Stewart Property (British Columbia), the Rozan Property (British Columbia), the Buckskin-Rawhide East Property (Nevada), the Buckskin Rawhide West Property (Nevada), and the Koegel Rawhide Property (Nevada). The Company's principal Property is the I-M Project, which is comprised of three separate areas: the Idaho-Maryland, New Brunswick and Round Hole sites.

In 2004, the Company entered into a joint venture with a private, non-related company to acquire approximately 45 acres, locally called the Lausman Property adjacent to other properties under option by the Company in Grass Valley, California. The Company's share of the purchase price was \$542,500, plus legal costs. The Lausman Property was initially acquired to complement the I-M Project, as the combined 102 acre site would be suitable for mining, milling and ceramic manufacturing facilities. The Company and its arm's-length partner have since terminated the joint venture, and the Company's portion of the title has been transferred to the Company's name. The land is expected to be used for buildings that may be needed for construction of mining operations including storage areas, access for vehicular traffic and to provide buffer zones to isolate the mine from adjacent properties. Development of the site is subject to review and approval of the City.

In 2009, the Company acquired 7.13 acres of land, locally called the Round Hole Property, in Grass Valley, California. The Round Hole Property contains a historic five foot diameter shaft that was historically part of the Idaho-Maryland Mine workings. The Company plans to utilize this shaft as a ventilation shaft and escape way as part of the Idaho-Maryland Project development. Under the terms of the agreement, the Company issued 280,823 (post-consolidation) common shares to the seller for the purchase of the Round Hole Property at a deemed market price of Cdn\$0.55 on the date of filing.

In 2013, the Company elected to sell 18 acres of the 45 acre Lausman Property for gross proceeds of \$450,000. This property was considered a non-core asset and not required for development of the I-M Project. This sale reduced the size of the Idaho-Maryland site to 84 acres.

On 15 March 2016, the Company sold 27 acres of land located in Nevada County, California in the amount of \$350,000; the cost of the property was \$336,056. The proceeds of the sale will be used for general working capital.

None of the Company's projects has known reserves, and all proposed programs are exploratory in nature. The I-M Project has National Instrument 43-101 compliant mineral resources in Measured, Indicated, and Inferred categories.

Idaho-Maryland Project

Surface and Mineral Rights

The I-M Project is located 1.5 miles east of downtown Grass Valley, Nevada County, within the State of California. The I-M Project comprises approximately 2,800 acres of subsurface mineral rights and 128 acres of surface rights. The surface rights are centered around three of the historic mine shafts at the properties. The properties comprise the 84 acre Idaho-Maryland site (including the 28 acre Lausman Property), the 37 acre New Brunswick site, and the 7 acre Round Hole site. The mineral rights are severed from the surface rights at variable depths from surface, with all mineral rights being contiguous below 200 ft from surface. Most of the Property is located in the City of Grass Valley, but the New Brunswick Property is located in Nevada County adjacent to the City.

History of the Property

The Grass Valley mining district is one of the most productive and famous mining districts in the State of California. The mines in the district were known as the “Northern Mines” and were not part of the Mother Lode gold belt. The first and second largest underground gold producing mines in the state, the Empire and Idaho-Maryland, are located adjacent to one another within the district. Placer gold was first found in Wolf Creek, adjacent to the Idaho-Maryland Mine, in 1848. Gold-bearing quartz was discovered at Gold Hill in 1850. The original claim on the Idaho-Maryland Mine was staked in 1851 and high-grade gold mineralization was discovered in 1861, with the commencement of mining in 1863. It has been estimated that over the approximately 106 years of gold mining activity in the Grass Valley district from 1850 to 1956, a total of 17 million ounces of gold were produced. The district is still considered the fifth largest gold-producing area in the United States, although most of the mines have not been in production since 1956. The Idaho-Maryland Mine yielded an estimated 2,383,000 ounces of gold from 5,546,000 short tons for a recovered grade of 0.43 ounces of gold per short ton. The Idaho-Maryland Mine was mined only to the 3,280-foot level while its neighbour, the Empire Mine, was systematically mined to the 5,000-foot level below surface.

The claims around the deposit were consolidated in 1915 to form the Idaho-Maryland Mine. Metals Exploration Company of New York acquired control of the surface properties and mineral rights, dewatered the mine, deepened the Idaho shaft to 2,000 ft and moved the Union Hill stamp mill to the Idaho shaft area. Full production, however, was never achieved in the 1920’s. Control over the properties and mineral rights changed in 1926 when Errol MacBoyle and Edwin Oliver created holdings that included the Idaho-Maryland, Brunswick, and Morehouse mines. Production commenced the same year. From 1926 to 1942 the Idaho Mine produced 650,000 ounces of gold from 1.1 million tons of ore. The Brunswick Mine restarted production in 1934 after deepening its shaft to 3,460 ft and constructing a 750 STPD mill. The mines were closed in 1942, due to the enactment of the Federal War Production Boards Limitation Order L-208, and were reopened again in 1945. Production was hampered by depleted operating funds, rising costs, skilled labour shortages, and negligible exploration and underground development work. Gold mining ceased at the Idaho-Maryland Mine in 1954, being briefly replaced by government-subsidized tungsten production until 1957. Mining activity stopped altogether in 1957. At the time of closure, Idaho-Maryland Industries, Inc. owned the Mine. In 1963 Idaho-Maryland Industries, Inc. executed a Quit Claim Deed to William and Marian Ghidotti. Ownership of the mineral rights eventually passed to Mary Bouma, Erica Erickson, and William Toms (referred to as the BET Group) in 1983.

In August 1993, Emgold originally leased, with an option to purchase, the initial four land parcels in Grass Valley, California from the BET Group, the unrelated owners of the properties. Until 1999, the Company held interests in four land parcels in Grass Valley, California (collectively referred to herein as the “I-M Project”) through its subsidiary, IMMC. The four parcels were comprised of the subsurface (generally below 200 feet mineral rights to 2,745 acres of land and the surface rights to three parcels, one of 37 acres surrounding the 3,460 foot deep New Brunswick shaft, one of 80 acres adjacent to and south of the New Brunswick shaft (the “Brunswick Millsite”) and one of 13 acres surrounding the Round Hole Shaft.

The Company held a 100% interest in the Round Hole Shaft Property until December 2000. It also held a lease and option to purchase a 100% interest in the other three land parcels, which expired. These land parcels were held as security for a convertible debenture held by Frank A. Lang and a convertible debenture held by Lang Mining Corporation, a private company controlled by Frank A. Lang. As the Company and the debenture holders could not come to mutually acceptable terms for an extension to the convertible debentures, which expired on June 8, 2000, the convertible debentures were cancelled and the land held as security was transferred to a private company controlled by Frank A. Lang. In June 2009, the Company announced it had reached an agreement with Frank A. Lang to re-purchase approximately 7 acres of the original land parcels that were transferred to Mr. Lang’s private company in 2000 and the land transfer was completed in 2010. The subject acreage is located at the intersection of Idaho-Maryland and Brunswick Roads in Grass Valley, CA, and overlies part of the mineral rights associated with the I-M Project and is the location of the historic Round Hole Shaft and is called locally the Round Hole Property. The agreement to re-purchase was conducted by way of share issuance.

Emgold had incurred significant expenditures on the I-M Project prior to 1999. Under Canadian generally accepted accounting principles and the policy of the Company, the status of the I-M Project was reviewed and the Company recorded a write-down in its interest in the I-M Project of \$6,982,016 to a nominal carrying value of \$1. Gold prices were low, and it was difficult to raise capital for exploration of mineral properties. In 2002 Emgold changed its accounting policy with respect to exploration and development expenditures, whereby such costs are expensed until a pre-feasibility or feasibility study has been completed that indicates a property is economically feasible. Acquisition costs relating to option payments, land payments and share issuances are capitalized, until the mineral property is determined to be uneconomic or is advanced by disposition, or further development. During 2012, it was expended by the Company on exploration and permitting activities on the I-M Project.

In fiscal 2002, the Company renegotiated the 1993 lease and option to purchase agreement with the the BET Group for the Idaho-Maryland mineral rights and certain surface properties in the Grass Valley Mining District, California. This is called the BET Agreement. The initial term of the BET Agreement was five years, commencing on June 1, 2002, and ending on May 31, 2007. The owners granted to the Company the exclusive right and option to purchase all of the leased BET Property and mineral rights. The BET mineral rights were subject to a 3% Net Smelter Royalty (“NSR”) from production. if the mineral rights were still being leased. Any royalty payments made prior to exercising the purchase option may be deducted from the purchase price. Lease payments of \$25,500 were payable quarterly commencing May 1, 2004, and continuing until February 1, 2007.

In February 2007, for a one-time payment of \$75,000, the Company negotiated an extension to the BET Agreement whereby the term of the exercise date was extended from May 31, 2007, to December 31, 2008, with quarterly lease payments of \$75,000. In 2009, the BET Agreement was extended a second time to run from February 1, 2009 to February 1, 2011 with quarterly payments of \$30,000 in year one and quarterly payments of \$60,000 in year two. In 2010, the BET Agreement was extended a third time to run an additional two years from February 1, 2011 to February 1, 2013. Quarterly lease payments were \$30,000 per quarter.

In 2010, as part of negotiations for the third extension of the BET Agreement, the BET Group agreed to defer fifty percent of the quarterly leases payments for 2010, amounting to \$30,000 of the \$60,000 per quarter outlined above. The amount of the deferral, totaling \$120,000, would be added to the purchase price of the Property, of which the first installment would become due on February 1, 2013, in the event that the Company exercised its option to purchase the BET Properties and mineral rights. The deferral of \$120,000 would be subject to interest calculated at 5.25% compounded annually. On February 1, 2013, the third extension of the BET Agreement expired without being renewed. The Company is proposing to extend the lease or come to some other suitable business transaction with the BET Trust, subject to successful negotiations and financing.

The Company has capitalized a total of \$619,113 (2014 - \$1,337,563) in Mineral Property Interests. In 2015, in case a suitable agreement cannot be reached with property in California, Emgold has listed its land in California for sale. Under IFRS 5, the Company classified the mineral property in California, in the amount of \$490,508 as held for sale as at 31 December, 2015. Additional properties have been acquired for a total of \$40,000.

On 15 March 2016, the Company sold 27 acres of land located in Nevada County, California in the amount of \$350,000; the cost of the property was \$336,056. The proceeds of the sale will be used for general working capital.

Accessibility, Climate, Local Resources, Infrastructure and Physiography

The I-M Project is within the area of influence of the city of Grass Valley as defined in their 2020 General Plan. Both Grass Valley and Nevada City are Sierra Nevada foothill communities located approximately 20 miles north of Auburn and approximately 55 miles northeast of Sacramento. Highway 49 and Highway 20 connect the Grass Valley/Nevada City area regionally.

Geological Setting

The I-M Project and the Grass Valley Mining District are situated in the northern portion of the Sierra Nevada Foothills Gold Belt, a geographic area containing many historic gold mines. This belt averages 50 miles in width and extends for 320 miles in a north-northwest orientation along the western slope of the Sierra Nevada range. The location of the Sierra Nevada Foothills Gold Belt coincides closely with a zone of metamorphic rocks and regional faults known as the outcrop area of the Sierra Nevada Foothills Metamorphic Belt.

Exploration

Historic Drilling

Until the mine closed in the 1950's exploratory and delineation diamond drilling regularly took place. Historically, eleven hundred holes totalling 230,000 ft were diamond drilled. Hole traces have been input into the geological database, as have the historical assay, stope, and geology various plans and drawings. No historical drill logs have been found in the historical information.

Down hole surveys were not conducted in early drilling, and deviation of the drill holes was common. Recorded in the geology monthly reports were experiences such as driving an underground heading on a drill hole only to find that the

hole soon curved significantly from the planned orientation. The deviation was not consistent, and so could not be predicted. This observation was one of the main reasons a technical report prepared for the Company by AMEC Americas Limited (“AMEC”) recommended that mineral resources defined by drilling alone should be classified as inferred mineral resources. No core was preserved from past mining operations at the Idaho-Maryland Mine.

Sampling and Analysis

The I-M Project contains a historic database with over 100,000 assays. The historic assays, which are almost exclusively for gold, were done on samples taken from underground workings (walls and backs from drifts and crosscuts, walls from raises). Sample quality can be inferred by the reconciliation of historic production records to underground sample data. These studies, as well as a recent investigation on mill-to-resource prediction, show that the resource or reserve estimates consistently underestimated the amount of gold produced by milling, a discrepancy most likely reflective of sample size influence rather than laboratory technique. Gold deposits with coarse gold areas are best sampled with large sample sizes, which was not common practice when the mine was in production. Therefore, any estimates made using this historic data should include comparisons with values unadjusted and adjusted for the regular underreporting of grade (i.e., call factor). It is believed that the comprehensive set of assay plans, supported by records of muck car stope samples and mapped geology data, as well as the detailed historical production records, all support the integrity of the assay data for the Idaho-Maryland Mine. These data are deemed suitable for use in mineral resource estimation, and have been utilized in the reports prepared for the Company by AMEC.

Gold Exploration

The gold exploration program has consisted of an extensive geologic evaluation of the historical mine records plus additional diamond drilling from surface. This rather unique program was possible because of the excellent and comprehensive preservation of the historical Idaho-Maryland mine and mill records. This data is exhaustive and essentially complete, although without any historical drill data, and has been used to generate a consistent, property-wide structural geology model and vein set definition and chronology. Un-mined mineralization was identified along underground workings and in historical diamond drill holes. Interpretation of the updated geologic model defined new vein sets and extensions of known vein sets. This data has been entered into a three-dimensional computer model using MineSight® software to help with interpretations.

Emgold believes that there is significant potential to identify substantial additional gold resources on the I-M Project, and intends to continue with an ongoing gold exploration program. Once dewatering and access to the mine is achieved it is planned to establish underground drilling stations for further drill testing of key gold target areas, plus definition and expansion of known gold resources.

Gold Mineral Resource and Mineral Reserve Estimates

In 2002, Emgold completed a NI 43-101 Technical Report (required by regulatory authorities in Canada) on the Idaho-Maryland Mine. This report was prepared by AMEC. The report summarized Measured, Indicated, and Inferred Mineral Gold Resources for the I-M Project. The resources for the I-M Project were estimated under the direction of Mark Payne (Registered Geologist 7067, State of California) and a Qualified Person for the purposes of NI 43-101, using traditional longitudinal sections, hand calculations and 3-D geologic models by commercial mine planning software (Vulcan® and MineSight®). AMEC's review concentrated on the geologic interpretation of the mineralization controls, the most critical factor in the resource estimate. Historic production information was also used in establishing confidence in continuity of mineralization. The mineral resource classification logic was also examined. A cut-off grade of 0.1 oz/ton was used in this estimate.

In 2004, as part of a NI-43-101 Preliminary Assessment of the industrial mineral resource (see below), the gold resources for the I-M Project were increased. This report was also prepared by AMEC. The resources for the I-M Project were estimated under the direction of Mark Payne (Registered Geologist 7067, State of California) and a Qualified Person for the purposes of NI 43-101, using traditional longitudinal sections, hand calculations and 3-D geologic models by commercial mine planning software (Vulcan® and MineSight®). The same methodology, cut-off grade, and gold price were used as in the 2002 Technical Report.

In 2007, a subsequent small increase in the resource numbers was estimated under the direction of Robert Pease, Professional Geologist (California), Chief Geologist for the I-M Project, and a Qualified Person in accordance with NI 43-101 in Canada. This resource increase represented only an additional 50,000 inferred ounces over and above the 2002 NI 43-101 Technical Report prepared by AMEC, or approximately 5%, and was announced by Emgold in a March 1, 2007, press release. The same methodology, cut-off grade, and gold price were used in the 2007 resource calculation as in the 2002 and 2004 Technical Reports to keep the methodology consistent with past reports. The resource cut off grade used in all reports is calculated as follows:

Cut off grade = mining cost/(mill recovery gold price) = \$35/(0.93 x \$375) = 0.1 opt.

The gold price has risen significantly since the original 2002 report and it is anticipated that further resource estimates will be updated with the current gold price and lower cut off grade. The mineral resource classification of the I-M Project deposits used methods consistent with the CIM definitions referred to in NI 43-101. Measured mineral resources are supported only in areas exposed by underground development and estimated from detailed underground sampling. The gold resources for the I-M Project are summarized in the following table:

Cautionary Note to U.S. Investors concerning estimates of Measured and Indicated Resources: This section uses the terms “measured” and “indicated resources.” We advise U.S. investors that while those terms are recognized and required by Canadian regulations, the U.S. Securities and Exchange Commission does not recognize them. **U.S. investors are cautioned not to assume that any part or all of mineral deposits in these categories will ever be converted into reserves.**

Cautionary Note to U.S. Investors concerning estimates of Inferred Resources: This section uses the term “inferred resources.” We advise U.S. investors that while this term is recognized and required by Canadian regulations, the U.S. Securities and Exchange Commission do not recognize it. “Inferred resources” have a great amount of uncertainty as to their existence, and great uncertainty as to their economic and legal feasibility. It cannot be assumed that all or any part of an Inferred Mineral Resource will ever be upgraded to a higher category. Under Canadian rules, estimates of Inferred Mineral Resources may not form the basis of feasibility or pre-feasibility studies, except in rare cases. **U.S. investors are cautioned not to assume that part or all of an inferred resource exists, or is economically or legally mineable.**

Summary Idaho-Maryland Gold Measured and Indicated Mineral Resource, March 1, 2007

Classification	True Thickness (ft)	Tonnage (ton)	Gold Grade (oz/ton)	Gold Grade
				w/ MCF (oz/ton)
Measured Mineral Resource ¹	13.3	271,000	0.22	0.31
Measured Mineral Resource ²	70.7	831,000	0.15	0.15
Indicated Mineral Resource	8.1	489,000	0.35	0.50
Measured + Indicated Mineral Resources	41.1	1,666,000	0.22	0.28

1. MCF = Mine Call Factor (not applicable to Waterman Group resources).

2. Idaho-Maryland measured resources are split into two categories: 1) the Eureka, Idaho, Dorsey, and Brunswick Groups, and 2) the Waterman Group (stockwork / slate type ore).

Summary Idaho-Maryland Gold Inferred Mineral Resource, March 1, 2007

Classification	True Thickness (ft)	Tonnage (ton)	Gold Grade (oz/ton)	Gold Grade
				w/MCF (oz/ton)
Inferred Mineral Resources 9.1		2,573,000	0.27	0.39

Mine Call Factor: The mine "call" factor was determined from the historical mining information and was used while the mine was in operation to predict the head grade of ore fed to the mill. Historically the planned mill feed tonnage and gold grade rarely matched the actual results. This was a result of a variety of factors that could be resolved by adjusting the planned production by a constant number. This number or factor is called the multiplier factor or mine call factor. Commonly, these deposit types typically under-predict the gold produced. Causes include poor sampling of high-grade material, inconsistent assaying procedures for the high-grade samples and, in places, the use of too low a bulk density number for the ore. Prior studies have included a detailed investigation into historic mine-mill reconciliation at the Idaho-Maryland mine. Analysis of data from later years (1950 to 1952), where the records of mine and mill production were kept in some detail and were traceable to parts of the mine, were examined and two factors were calculated: a "model" (underground sampling) to "mine" (muck car sampling) factor, equal to 1.21, and a "mine" to "mill" factor, calculated to be 1.19. The total Mine Call Factor is equal to 1.44. AMEC reviewed the work done by previous studies and has agreed with their results. The use of the Mine Call Factor can be used to establish a relationship between the historic underground channel samples and expected production. This factor should only be used on the nugget vein system data.

Industrial Minerals Resource and Mineral Reserve Estimates

When Emgold acquired the rights to a potential ceramics technology in 2003, the Company realized that the I-M Project may host mineral resources suitable as feedstock for the process and potentially for aggregate production. Initial investigations of the meta-volcanic rock commenced in June 2004 with a geotechnical drilling program designed to obtain data for the design of a mine access ramp. Geological information from this program was also analyzed to determine if the rock excavated during ramp construction would be suitable feedstock for the ceramics technology. The analysis included surface geologic mapping, outcrop sampling, sampling of the diamond drill core, and testing of samples to assess their suitability for ceramics manufacture. The result of these analyses was the definition of a large volume of igneous rocks of similar composition that were considered satisfactory as an industrial mineral resource suitable for ceramics manufacture. The industrial rocks are adequately defined by core drilling, but further testing, marketing, and production of ceramic products using the ceramics technology, and the beginning of underground development, will be necessary to upgrade this industrial rock into reserves. Sales contracts or actual sales may be required in order to prove the commerciality of the stone and ceramics products to bring the resource into reserve status. No further core drilling of the meta-volcanics is planned until access is developed underground.

The 2004 Preliminary Assessment presents industrial minerals (ceramics feedstock) resources and gold resources for the I-M Project. The industrial minerals resource was delineated by seven geotechnical core holes drilled at inclinations of 40° and 45°, one exploration core hole, seven surface sample sites, and certain geologic data from historical underground mine drifts. The average top boundary of the resource is 200 ft below the ground surface (due to depth of mineral rights). Drill hole spacing ranged from 80 ft to 1,200 ft. The lower boundary of the resource is based on the bottom of the drill holes. The west boundary is where the amount of gabbro and ultramafic rocks begins to increase. The east boundary is based on the limit of geotechnical drilling and surface sampling.

Since the initial acquisition of the ceramics technology, the Company has determined that production of recycled stone and ceramics products is possible using commercially available equipment. Additionally, more advanced equipment, which may be applied by the Company to produce high quality stone and ceramics building products from mine wastes, has since been developed by ceramics equipment producers and is readily available for sale.

Measurement uncertainty and impairment assessments: Emgold is currently in the exploration stage on its mineral property interests, and has expensed its exploration costs. The mineral property costs that are capitalized relate to mineral property acquisition costs. At December 31, 2015, the carrying value of mineral property interests was \$619,113. In 2015, in case a suitable agreement cannot be reached with property in California, Emgold has listed its land in California for sale. Under IFRS 5, the Company classified the mineral property in California, in the amount of \$490,508 as held for sale as at 31 December, 2015.

The balance of the costs relate to the Rozan, Stewart and Buckskin properties. To the extent that the cumulative exploration amounts expensed to date were significantly in excess of the property carrying value and in the absence of negative exploration results or a decision to abandon the property, management has concluded that the fair values of the properties is at least equal to or greater than its book value.

The Company also used an overall global valuation test, and compared the market capitalization to its net book value at December 31, 2015, as well as an assessment as to what premium. As of December 31, 2015, the Company determined that impairment indicators existed based on the Company's ability to raise financing and due to significant changes in one of the property's work programs. The Company completed an impairment assessment for each of its mineral property interests.

It is management's option that since, the Company did not have any substantive expenditures on the Rozan and Stewart properties in the past three years, there are no current exploration plans for these properties, and the property is safely held to January 2023 without additional work, an impairment loss of \$208,718 has been recognized in the consolidated statement of comprehensive loss bringing the carrying value to \$1.

In addition, the Company re-evaluates the carrying values of property, plant and equipment when events or changes in circumstance indicate that carrying values may not be recoverable. If it is determined that the estimated net

recoverable amount based on non-discounted cash flows is less than the carrying value, a write-down to the estimated fair value is made by a charge to earnings. Where estimates of future cash flows are not available and where other conditions suggest impairment, management assesses whether the carrying value can be recovered.

Mine Planning and Scheduling

The Company is currently reviewing underground exploration opportunities and developing several mining scenarios to optimize access to gold resources for drilling and potential conversion to proven and probable mining reserves.

Metallurgy

AMEC reviewed the mill operating statistics for 1934, 1936, 1937, 1938, 1941, and 1947. Results indicate stable overall gold recoveries and metallurgical response to gravity, flotation, and cyanidation, with overall gold recoveries ranging from 93.8% to 97.2%.

Tungsten was processed using gravity and flotation methods in the 1950s.

Overall gold recovery using modern technology should result in gold recoveries consistent with those achieved in the early milling circuits at the Idaho-Maryland mill. However, it can be expected that gold recovery from the gravity separation portion of the recovery plant using modern gravity technology may exceed the recoveries attained (i.e., average 65%) in the 1930s and 1940s. Test work to determine the maximum total gold recovery potential using gravity separation, flotation concentration and cyanidation has been recommended. The gold recovery from gravity separation using modern technology may be approximately 80% to 85%, with overall recovery including flotation concentration and cyanide recovery consistent with historical recoveries of 93.8% to 97.2%. This information is provided in detail in the Company's November 2002 NI 43-101 Technical Report and is discussed again in the November 2004 NI 43-101 Preliminary Assessment Technical Report.

Capital Cost Estimation

Estimation of capital costs for the I-M Project is ongoing and will be available upon completion of initial underground exploration and the preparation of a feasibility study.

Operating Cost Estimation

Estimation of operating cost for the I-M Project is ongoing and will be available upon completion of initial underground exploration and the preparation of a feasibility study.

Project Schedule

The CMUP is expected to be completed with 12-18 months of resuming the permitting process, which is subject to financing. It is anticipated that construction of the I-M Project will be conducted in three Phases as outlined in the Project Application with reclamation occurring in a fourth phase. After completion of the CMUP, financing activities will occur for Phase 1 of the project, consisting of dewatering, mine rehabilitation, development, and exploration.

Golden Bear Ceramics Company

Technology Development

Emgold initially licensed the worldwide rights to the Ceramext® technology pursuant to a World Wide License Agreement (the "Agreement") dated September 17, 2003 between the Company's wholly owned subsidiary GBC, and Ceramext, LLC. The agreement was entered into because of the apparent potential of the hot vacuum extrusion process to provide an effective tailings management strategy for the I-M Project while potentially contributing a significant revenue stream to the mine if utilized at the I-M Project. However, GBC has since determined that it has access to commercially available technology not proprietary to Ceramext, LLC that may be used for the further development of its recycling and stone and ceramics product business.

Emgold provided advance royalty payments, as per the Agreement, up to and including the December 21, 2008, payment. The March 2009 payment was not made and the Agreement was terminated as of May 7, 2009. The Company has continued to work to separate GBC from Emgold, and intends to provide minimal financial resources to its subsidiary until the potential separation is completed and GBC is independently financed.

GBC designed and operated a pilot plant in Grass Valley, California. GBC, subject to financing, is planning to complete marketing studies, a feasibility study and basic engineering of a production plant for converting mine tailings and other industrial waste materials into high quality recycled stone and ceramics products on a commercial basis. In 2005, the Company completed an initial ceramics marketing study. This comprehensive report is assisting the Company in planning aesthetics, distribution channels, market segmentation and other factors that will impact product development costs and the initial phases of the Company's marketing strategy. Additional marketing and distribution definition and studies were conducted in fiscal 2006 and are planned to be on-going in the future as products advance, subject to financing of GBC as a separate entity.

In 2007 and 2008, the development of the stone and ceramics products by Golden Bear was limited to patenting and financing activities while the Company focused on the permitting process for the I-M Project, the likely location of the first commercial manufacturing facility. Should sufficient funding be obtained and the schedule for the I-M Project be delayed, the Company would consider construction of a first commercial plant at a location other than the I-M Project. GBC has been able to source equipment from outside sources to further the development the proposed recycled stone and ceramics products using commercially available technology.

I-M Project and the Use of Waste Materials for the Production of Stone and Ceramics Products

Materials from the I-M Project geotechnical-drilling program and from surface exposures have been evaluated for their suitability for commercial exploitation. These have included historic Idaho-Maryland mine tailings and a variety of metamorphosed volcanic and intrusive igneous rocks derived from core samples and other exploration work. The goal was to determine which of the materials that will be processed during mine development and during ultimate gold processing may be suitable for use in manufacturing ceramic products.

The raw materials from the I-M Project processed and evaluated by GBC appear to be fully suitable for commercial use using commercially available equipment. Exploration for resource definition, early mining activities and partial mining operations may commence before a recycled stone and ceramics plant is constructed and operational on site.

In November 2004, a Preliminary Assessment for the I-M Project was prepared by AMEC using Measured, Indicated and Inferred Mineral Resources from the Idaho-Maryland Mine to evaluate the production of high quality stone and ceramic building materials. Although the report is preliminary in nature, it identifies the necessary activities for staged development of the I-M Project and includes estimated capital and operating costs that may allow the historic mine to return to production as a gold and ceramics producer. The Preliminary Assessment describes the staged development of the I-M Project to produce 1,200 to 2,400 tons per day ('tons/d') of ore and development rock. The development rock and tailings could then be used to produce from 160 million to 320 million equivalent square feet of ceramic tile per year.

The current plan deviates from the Preliminary Assessment with respect to the maximum ceramics production rate. The ceramics production is now planned to occur in staged with initial production set at 200 STPD then increasing to 1,200 STPD in 200 STPD increments. This translates into a maximum ceramic tile production of 160 million equivalent square feet of ceramic tile produced from 1,200 STPD of development rock and tailings. It is anticipated that a new Preliminary Assessment for the I-M Project will be completed to further describe the new plans once sufficient working capital is available.

Successful application of the recycled stone and ceramics manufacturing facility is expected to consume up to half of the tailings from the I-M Project with the other half returning underground as backfill. Excess development rock will be crushed, screened, and sold off site as aggregate. This eliminates the requirement for long-term surface storage of these materials. The successful production and sales of recycled stone and ceramic building materials would allow IMMC to continue with exploration of additional gold targets, and pre-production development, with the objective of defining an economic gold reserve while generating positive cash flow. The ultimate combination of a gold mine and processing facility, recycled stone and ceramics manufacturing facility, and aggregate mine and processing facility would greatly enhance the economic viability of the I-M Project and allow it to withstand fluctuations in metal prices that often impact a stand alone gold mine. If the recycled stone and ceramics plant does not get financed or the market is smaller than expected, the mine can operate by increasing aggregate production and placing up to 100% of the mine tailings underground.

Exploration Projects, British Columbia Properties

The Company has two early-stage exploration projects in British Columbia, Canada. The locations are shown on the map below, with details of the projects following.

Exploration activities on the Rozan and Stewart properties have been planned and carried out under the supervision of Linda Dandy, P. Geo, and Perry Grunenber, P. Geo both “Qualified Persons” for the purpose of NI 43-101, “Standards of Disclosure for Mineral Projects”.

Stewart Property, British Columbia

The Stewart Property in British Columbia is without known mineral resources and reserves and the proposed programs are exploratory in nature.

Property Location and Geology

The Stewart Property is an early stage poly-metallic exploration property located near the town of Ymir in south-eastern British Columbia. The Property consists of 28 mineral tenures totalling 5,789 hectares (15,305 acres). The Property is located in the Nelson Mining District and is a large regional geologic trend of gold, silver, molybdenum, tungsten, copper, and other mineralization.

The Stewart Property contains a number of gold, molybdenum, tungsten and silver-lead-zinc prospects that have been discovered by historic and recent exploration activity. The Property has been assessed by various operators since 1940's exploring for various types of mineralization. A significant amount of historic data is available from those programs for use in guiding current exploration efforts.

Exploration, to date, has included geological mapping, geochemical sampling, geophysics, trenching, and diamond drilling. This work has identified five key exploration targets. The targets include:

1. The Stewart Moly Zone
2. The Arrow Tungsten Zone

3. The Craigtown Creek Gold Zone
4. The Stewart Creek Gold Zone
5. The Free Silver Zone

Property Ownership

Pursuant to an option agreement entered into in 2001 and completed in 2008, the Company acquired a 100% right, title and interest in and to the Stewart Property by making payments totalling Cdn\$104,000 and issuing 260,000 common shares, subject only to a 3% NSR payable to the optionors. The Company has the right to purchase 66 % of the NSR for the sum of Cdn\$1,000,000 and has the first right of refusal to purchase the remaining 33 %.

Exploration Activity

The Stewart Property has been subject to an exploration activity by numerous companies over the years, many focusing on different metals. In 2001 Emgold conducted soil geochemistry sampling to verify prior historic work. In 2003 Emgold added airborne geophysics (magnetics, resistivity, and electromagnetics). In 2004, Emgold completed a 6 hold drill program (1530 meters or 5,108 feet) in the Craigtown Creek Gold Zone, resulting in several gold intersections. In 2005 Emgold completed a 5-hole diamond drill program (404.5 meters or 1,327 feet) in the Stewart Moly Zone, including twinning of historic holes. Both high grade and low grade molybdenum mineralization was intersected. In 2007, Emgold completed 28 trenches and 30 diamond drill holes (3,338 meters or 10,950 feet of drilling) focused on the Arrow Tungsten Zone. Both high and low grade tungsten mineralization was encountered. In 2011, The Company drilled 19 diamond drill holes (2,526 meters or 8,287 feet) focussed on the Stewart Moly Zone. The drilling focused on the Stewart Moly Zone with the goal of defining and expanding the Zone. Both high grade and low grade molybdenum mineralization was identified, with the presence of potential by-product metals gold and rhenium.

In 2012, the Company drilled 11 diamond drill holds (1,445 meters or 4,739 feet) of NQ size core. The drilling focused on the Stewart Creek Gold Zone, the Free Silver Zone, and the Stewart Moly Zone. Gold was intersected in the Stewart Creek Gold Zone, resulting in the discovery of a new gold exploration target. Low grade lead and zinc mineralization was encountered in drilling in the Free Silver Zone, warranting additional future work. The Stewart Moly Zone was extended to depth.

Since, the Company did not have any substantive expenditure in the past three years, there are no current exploration plans for this property, and the property is safely held until March 2023 without additional work, an impairment loss of \$49,224 has been recognized in the consolidated statement of comprehensive loss bringing the carrying value to \$1.

Rozan Gold Property, British Columbia

The Rozan Gold Property in British Columbia is without known mineral resources and reserves and the proposed programs are exploratory in nature.

Property Location and Geology

The Rozan Property is an early stage poly-metallic exploration property located near the town of Nelson, in south-eastern British Columbia. William Rozan staked the area in 1928 and operated a small scale high grade gold mining operation on the Property until the early 1970's. The Property consists of 32 mineral tenures covering an area of 1,950 hectares (4,819 acres). The Property is located in the Nelson Mining District and is a large regional geologic trend of gold, silver, molybdenum, tungsten, copper, and other mineralization.

Exploration, to date, has included geological mapping, geochemical sampling, geophysics, trenching, and diamond drilling. This work has identified 10 exploration targets to date, of which only two have been tested. Three of these targets called the Main Vein Zone, Sheeted Vein Zone, and West Vein Zone have had some initial diamond drilling completed on them with several gold intersections.

Property Ownership

In 2000 the Company acquired 100% of the rights to the Rozan Property, a prospect located south of the community of Nelson in the Red Mountain area of southeastern British Columbia. The Company earned its interest in the Property by making stepped payments totalling Cdn\$100,000 and issuing 200,000 common shares. In fiscal 2006 the claims were transferred to the Company. The Property is subject to a 3% NSR. The Company has the right to purchase 2/3 of the NSR for the sum of Cdn\$1,000,000 and has the first right of refusal to purchase the remaining 1/3. Currently the Property consists of 32 mineral claims totalling 1,950 acres.

In December 2010, the Company entered into a Lease and Option to Purchase Agreement (the "Agreement") with Valterra Resource Corporation ("Valterra"). The Agreement called for cumulative work commitments of \$1,000,000 over five years, with a commitment of \$50,000 in 2010, \$200,000 in 2011, and \$250,000 in each of years 3 to 5. The term of the Agreement was for a period of 5 years, with property payments of cash, common shares and five-year warrants to be made by Valterra to the Company during the lease as follows:

Terms of Option Agreement with Valterra Resources

Period	Cdn\$	Shares	5 Year Warrants
	Nil	50,000	50,000
Signing			
Year 1	\$30,000	50,000	50,000
Year 2	\$30,000	50,000	50,000
Year 3	\$40,000	50,000	50,000
Year 4	\$40,000	50,000	50,000
Year 5	\$60,000	100,000	100,000
Total	\$200,000	350,000	350,000

Upon completion of the lease payments and work commitments, Valterra would have acquired the Rozan Property, subject to an underlying NSR. Valterra was to use its best efforts to complete a NI 43-101 resource estimate for the Property by Year 5, subject to results obtained from exploration and development work.

In January 2011, Emgold and Valterra agreed to an amendment to the agreement whereby Valterra requested, and Emgold agreed, to accept securities of Valterra in satisfaction of the Year 1 cash payment of Cdn\$30,000. In February 2011 Emgold received the shares and warrants as specified in the agreement, and 600,000 units of Valterra in satisfaction of the Cdn\$30,000 cash payment. One unit of Valterra is comprised of one common share of Valterra and one warrant to acquire one additional share at an exercise price of Cdn\$0.10 per share for a period of 24 months from the date of issue.

In January 2012, The Rozan Property was returned to Emgold's ownership when Valterra was unable to meet its work commitments for 2011.

Exploration Activity

An initial work program on the Rozan Property was completed in fiscal 2000, and exploration programs required for assessment purposes and under the terms of the option agreement have been completed each year. In 2000, Emgold collected 169 soil samples and 19 rock chip samples, conducted a magnetometer geophysical survey and diamond drilled two BQ size holes to test a granodiorite ridge hosting sheeted stockwork veining and a second hole to test the Main Vein.

In 2003, Emgold retained Furgo Airborne Surveys Corp. who flew 161 line kilometres along NE-SW oriented flight lines using a DIGHEM V EM-MAG geophysical system to cover the Rozan Property. The survey identified 167

anomalies, with 88 traceable to discrete bedrock sources often indicative of conductive sulphides and several discrete weak conductors where located.

During 2004, the Company completed follow up soil sampling over the airborne anomalies. A total of 333 soil samples and 9 rock samples were collected. Several correlations were discovered between areas of anomalous magnetic and electromagnetic features, areas of mineralized veining, and alteration mapped during prospecting, as well as with gold-in-soil geochemical anomalies.

During 2007, a single drill hole of 107.29 meters (352 feet) in length was completed on the Property. This drill hole was designed to test the northern strike extension to the gold-bearing Rozan Main Vein. Further testing along the Main Vein, and within the stock work mineralized zone to the east was postponed due to weather limitations.

In fiscal 2009, the Property was optioned to Valterra. In 2010 and 2011, Valterra conducted topographical and geophysical compilation studies and re-logged, resampled and catalogued the historic drill core. In 2011, all previous soil sampling campaigns on the Property were digitally compiled into a single database (1,637 samples) by Valterra and tied to corrected UTM, NAD83 co-ordinates based on available grid stations identified/found from the old grid. The historic soil geochemical data was scanned and optically recognized using analytical certificates from assessment and company reports. Valterra conducted geological mapping (approximately two square kilometres) which indicated that the Jurassic aged Nelson Intrusions consisting of granodiorite and porphyritic diorite extend further north than previously thought, expanding the potential for further precious and base mineralization within and adjacent to the intrusives and Elise Formation mafic to intermediate tuffaceous rocks. The mapping also discovered that the Mount Verde fault consists of an approximately 200 meter (656 foot) wide breccia zone with local zones of extensive shearing. Coincident with the Mount Verde fault is spotty but strongly anomalous gold and molybdenum in soils. Also in 2011, Valterra conducted soil sampling comprising approximately 150 samples, to infill a gap in the historic soil sampling coverage and to expand the soil survey to the north. Results of the 2011 soil sampling compiled with previous soil samples has defined an area 1.8 by 1.6 kilometers (1.1 by 1.0 miles) in size with several gold anomalies based on a 55 part per billion gold grade contour. The gold in soil anomaly appears to have two preferential orientations being NW-SE and NE-SW. The northwest orientation is related to the contact between Elise Formation tuffaceous rocks to the west and granodiorite to the east. Gold values in soils ranged from 0.300 to 2.625 parts per billion. Mapping was completed for gold, arsenic, molybdenum, iron, tungsten and manganese. Assaying was done by Acme Labs of Vancouver, an independent laboratory, following standard laboratory procedures, with standard quality control measures (Payne, C., 2011).

A total of 10 gold anomalies were identified by Valterra in 2011. A NW-SE trending gold soil anomaly (Target A) extends for some 1.8 kilometers (1.1 miles) and is up to 200 meters (656 feet) wide (true width is unknown). Along the surface trace of the Mount Verde fault there is a strong anomaly (Target B) identified by gold, tungsten, arsenic, and manganese in the soils. The remaining gold soil anomalies are generally NE-SW oriented and are considered related to high grade or sheeted quartz vein gold mineralization (most of which remain unexplained) on the Property.

Of the NE 'trends', three targets C, D and G appear to be the most significant. Targets C and D are two sub-parallel NE trending gold in soil anomalies located within granodiorite and may suggest that the sheeted quartz vein system located at the NE end of the soil anomalies extends some 500 meters (1,640 feet) further to the SW. Trend G appears to originate at the historic Rozan workings and extends some 450 meters (1,476 feet) to the SW.

In 2012, Emgold completed 1,495 meters (4,903 feet) of diamond drilling consisting of 15 holes. Five holes tested the Main Vein Zone. Three holes tested the Sheeted Vein Zone. Five holes tested the West Vein Zone. Two holes tested an area north of the Sheeted Vein Zone.

Since, the Company did not have any substantive expenditure in the past three years, there are no current exploration plans for this property, and the property is safely held until March 2023 without additional work, an impairment loss of \$49,224 has been recognized in the consolidated statement of comprehensive loss bringing the carrying value to \$1.

Exploration Projects, Nevada

The Company has three early stage exploration properties all located in the vicinity of the Denton Rawhide Mine, near Fallon, Nevada.

Buckskin Rawhide East Property, Nevada

The Buckskin Rawhide East Property in Nevada is without known mineral resources and reserves and the proposed programs are exploratory in nature.

Property Location and Geology

The Buckskin Rawhide East Property is adjacent to the Rawhide Mining LLC's Denton Rawhide Mine about 40 miles southeast of Fallon, Nevada. The Denton Rawhide Mine was owned and operated by Kennecott Minerals Company ("Kennecott") from 1988 to 2009. It produced 1.5 million ounces of gold and 12.4 million ounces of silver (Muntean, 2010). In 2010, the Denton Rawhide Mine was acquired by RMC. They continued to produce gold from historic heap leach pads remaining after Kennecott ceased mining activity in 2003 due to low metal prices. In 2012, RMC resumed mining activities at Denton Rawhide Mine to take advantage of today's high metal prices. The Denton Rawhide Mine surrounds the Buckskin Rawhide East Property on the east and south.

The Buckskin Rawhide East Property is also adjacent to the Regent Property. The Regent Property was acquired by RMC in 2012 from Pilot Gold Corporation. The Regent Property was previously explored and drilled by Kennecott in the 1990's and by Pilot in 2011. The Regent Property surrounds the Buckskin Rawhide East Property on the north and on the west.

The Buckskin Rawhide East Property is a volcanic-hosted, structurally controlled, epithermal gold-silver target situated in the Walker Lane gold belt of western Nevada. The Walker Lane is a regional shear zone and known gold trend that has hosted large and small historic and recent gold-silver mines in western Nevada, including mines of the Comstock Lode, Tonopah District and Rawhide District. From 1981 through 2009, mines located in Mineral County that were situated in the Walker Lane gold trend have produced 2,800,448 ounces of gold and 56,112,442 ounces of silver (Muntean, 2010). The Property has potential for both high grade gold and silver vein targets and low grade bulk disseminated gold and silver targets.

Property Ownership

The Buckskin Rawhide East Property consists of 52 unpatented mineral claims. Forty-six of the claims were originally part of a Lease and Option to Purchase Agreement with Nevada Sunrise LLC that was signed by the Company in 2010. Emgold subsequently staked six additional claims in 2011. In 2012, Emgold signed an Option Agreement to acquire 100% interest in the 46 claims that were part of the Lease and Option to Purchase Agreement and subsequently acquired them through a series of transactions with the underlying property owners between 2012 to 2014. In 2014, Emgold leased the 52 claims making up the Buckskin Rawhide East Property to RMC

Exploration Activity

The Buckskin Rawhide East Property was previously explored and drilled by Kennecott Minerals, including over 27 drill holes. Results indicate the potential for high grade mineralized gold/silver veins and bulk minable disseminated gold/silver zones. The development alternatives would include advancing the Buckskin Rawhide East Property as a standalone gold/silver exploration project or combining it with other existing properties in the region.

In 2010, Emgold completed rock chip sampling and grab sampling of the Black Eagle vein area of the Buckskin Rawhide Property. Sampling results were announced in Emgold's January 12, 2011 news release and included very high grade chip samples, including the best sample averaging 9.00 ounces per ton gold and 17.58 ounces per ton silver. A high-grade mineralized shoot was delineated in the Black eagle vein, about 300 feet in strike length. Emgold believes the Property has potential for discovery of both high-grade and bulk disseminated gold and silver mineralization.

In 2011, Emgold continued sampling of the Black Eagle Fault. The Company expanded the Buckskin Rawhide East Property by staking 6 claims totalling 120 acres. The Company also announced initial results of surface sampling of the Chicago Mountain area. A bulk disseminated gold exploration target, called the Chicago Mountain Bulk Disseminated Target, was identified being approximately 4,000 feet long by 400 feet wide. A total of 105 historic grab samples in the target area averaged 0.04 ounces per ton gold. Emgold has taken 15 samples in this target area to date, with average grades of 0.02 ounces per ton gold. Ten reverse circulation drill holes were drilled by Kennecott historically in the mineralized area, with the average grade of mineralization in the holes being 0.008 ounces per ton gold and mineralization to a depth of 165 feet (and open to expansion at depth).

In 2012, Emgold continued sampling, mapping, and analysis of historic and Company sampling at Buckskin Rawhide East Property to further delineate the Black Eagle and Chicago Mountain Zones. On 30 January 2012, Emgold announced results of continuing surface exploration on two previously identified exploration targets, the Black Eagle High Grade Vein Target and the Chicago Mountain Bulk Disseminated Target. Samples were also taken along the Black Eagle Fault (which contained the Black Eagle High Grade Vein Target) and a new fault that was discovered by geological mapping.

In 2013, RMC conducted exploration drilling on the Buckskin Rawhide East Property.

During year 2015, RMC has made the \$10,000 royalty payment to the Company. Under the terms of the lease agreement, RMC must complete \$500,000 in exploration related expenditures on the property by 31 May 2016.

Buckskin Rawhide West Property, Nevada

The Buckskin Rawhide West Property in Nevada is without known mineral resources and reserves and the proposed programs are exploratory in nature.

Property Location and Geology

The Buckskin Rawhide West Property is situated within the Walker Lane structural zone and gold belt of western Nevada. The Walker Lane is a regional shear zone of right lateral strike slip faulting and a known gold trend that hosts large and small historic and currently operating gold-silver mines, including mines of the Comstock Lode, Tonopah Mining District and Rawhide Mining District. The geology and mineralization on the Property are associated with lithologic units and structures of the Rawhide volcanic centre, as well as structures from the Walker Lane and Basin and Range. The Buckskin Rawhide West Property is an early stage gold/silver exploration property located adjacent and west of the Regent Property and near the Denton Rawhide Mine. It is near, but not contiguous with the Buckskin Rawhide East Property, with claims of the Regent Property separating the two. The Property has potential for both high grade gold and silver vein targets and low grade bulk disseminated gold and silver targets.

Property Ownership

The Company has a lease and option to purchase agreement with Jeremy Wire, an individual, for 21 unpatented mining claims at Buckskin Rawhide West. The terms of this agreement were disclosed in an Emgold news release dated 24 January 2012. Emgold has agreed to lease the Property from Jeremy Wire subject to the following payments:

Terms of Lease Agreement with J. Wire

Buckskin Rawhide West

Year	Advance Royalty Payment
2012	\$10,000 (1)
2013	\$10,000 (2)
2014	\$10,000 (2)
2015	\$20,000 (3)
2016	\$30,000 (3)
2017	\$30,000 (3)
2018	\$30,000 (3)

Notes:

- (1) An initial lease payment paid 50% in cash and 50% in Emgold common shares.
- (2) Lease payments may be paid in cash or Emgold common shares, at the discretion of Emgold.
- (3) Lease payments may be paid in cash or Emgold common shares, at the discretion of the Lessor. Shares will be issued at "market value" which means the volume weighted closing price of the shares on the TSX Venture Exchange or the most senior stock exchange or quotation system on which the shares are then listed or quoted for fifteen (15) trading days ending on the date that is five (5) business days before the applicable payment.

During the lease period, Emgold may conduct exploration and, if warranted, complete a NI 43-101 Technical Report on the Property. On making the above payments, Emgold will acquire 100% ownership of the Property. In the event that commercial production occurs, Mr. Wire will be entitled to a two percent Net Smelter Royalty on production from the Property. Emgold will retain the right to purchase this royalty for \$1 million, less any advance royalty payments already made.

Exploration Activity

Minimal exploration has been done on the Property to date and the acquisition of the Property was initially done because of its strategic location to the Denton Rawhide Mine, the Regent Property, and the Buckskin Rawhide East Property.

Koegel Rawhide Property, Nevada

The Koegel Rawhide Property in Nevada is without known mineral resources and reserves and the proposed programs are exploratory in nature.

Property Location and Geology

The Koegel Rawhide Property is situated within the Walker Lane structural zone and gold belt of western Nevada. The Walker Lane is a regional shear zone of right lateral strike slip faulting and a known gold trend that hosts large and small historic and currently operating gold-silver mines, including mines of the Comstock Lode, Tonopah Mining District and Rawhide Mining District. The geology and mineralization on the Property are associated with lithologic units and structures of the Rawhide volcanic centre, as well as structures from the Walker Lane and Basin and Range. The Koegel Rawhide Property is an early stage gold/silver exploration property located about four miles south of the Denton Rawhide Mine, a gold/silver mine that is owned and operated by Rawhide Mining LLC. The Property has potential for both high grade gold and silver vein targets and low grade bulk disseminated gold and silver targets.

Property Ownership

Emgold's has a lease and option to purchase agreement with Jeremy Wire, an individual, for 19 unpatented mining claims at Koegel Rawhide. The terms of this agreement were disclosed in an Emgold news release dated 06 February 2012. Emgold has agreed to lease the Property from Jeremy Wire subject to the following payments:

Terms of Lease Agreement with J. Wire

Koegel Rawhide

Year	Advance Royalty Payment
2012	\$ 10,000 (1)
2013	\$ 10,000 (2)
2014	\$ 10,000 (2)
2015	\$ 20,000 (3)
2016	\$ 30,000 (3)
2017	\$ 30,000 (3)
2018	\$ 30,000 (3)

Notes:

- (1) An initial lease payment paid 50% in cash and 50% in Emgold common shares.
- (2) Lease payments may be paid in cash or Emgold common shares, at the discretion of Emgold.
- (3) Lease payments may be paid in cash or Emgold common shares, at the discretion of the Lessor. Shares will be issued at "market value" which means the volume weighted closing price of the shares on the TSX Venture Exchange or the most senior stock exchange or quotation system on which the shares are then listed or quoted for fifteen (15) trading days ending on the date that is five (5) business days before the applicable payment.

During the lease period, Emgold may conduct exploration and, if warranted, complete a NI 43-101 Technical Report on the Property. On making the above payments, Emgold will acquire 100% ownership of the Property. In the event that commercial production occurs, Mr. Wire will be entitled to a two percent Net Smelter Royalty on production from the Property. Emgold will retain the right to purchase this royalty for \$1 million, less any advance royalty payments already made.

Emgold subsequently has staked 17 additional unpatented mining claims (see 15 February 2012 press release) increasing the size of the Koegel Rawhide Property to 36 unpatented mineral claims totalling 720 acres.

Exploration Activity

Geologic mapping by Charles P. Watson, a consulting geologist, in the years 1991-1992, indicated the Property is covered mostly by Tertiary (Pliocene) age intermediate volcanic rocks including andesitic tuff breccias, sills and dikes. The volcanic units have been folded into minor anticlines and faulted. Faults of several orientations occur on the Property with north, northwest and northeast trends. Hydrothermal alteration (clay and silica) is present and is associated with structures and mineralization.

Gold and silver mineralization is present at Koegel Rawhide, based on historic randomly spaced surface sampling. A total of 464 samples were taken in geologically derived locations by consulting geologist Charles P. Watson in the years 1991-1992. The results of the historic grab samples ranged from non-detectable to 2 ounces per ton gold, and from non-detectable to 11 ounces per ton silver. The methods and quality control from the historic sampling are unknown and cannot be verified under NI 43-101, but the results are considered reliable for exploration purposes.

In 27 February and 28 March 2012 press releases, Emgold announced results of due diligence soil and rock chip sampling and analysis of historic soil and rock chip sampling at Koegel Rawhide. The Company identified a high grade vein target called T-10 with this sampling. Potential exists for both high grade vein and bulk disseminated gold and silver targets on the Property.

Exploration Expenditures

Cash Expenditures

Emgold's principal cash capital expenditures (there have been no material divestitures) over the last three fiscal years ended December 31 are as follows:

i) Amounts Deferred (capitalized or invested)

Emgold Principal Capital Expenditures (3 Year)

	Mineral Property Interests (Cumulative)	Equipment (Cumulative)
Year		
2015	490,508	610
2014	1,337,563	1,668
2013	1,227,563	3,508

ii) Amounts expensed

Exploration Expenses in the last three fiscal years ended December 31 are as follows:

Emgold Exploration Expenses (3 Years)

Year	Idaho-Maryland	Stewart	Rozan	Nevada	Total
				Properties	
2015	\$30,332	\$--	\$--	\$9,470	\$39,802
2014	\$34,065	\$(2,489)	\$(1,904)	\$13,929	\$43,601
2013	\$--	\$149	\$148	\$102,832	\$103,129

No Golden Bear Costs were expensed in any of the last three fiscal years.

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion and analysis should be read in conjunction with the audited consolidated financial statements of Emgold Mining Corporation for the years ended December 31, 2015, 2014, and 2013 and the related notes thereto. Our consolidated financial statements as of and for the years ended December 31, 2015, 2014, and 2013 have been prepared in conformity with IFRS.

Overview

Emgold is a mineral exploration company with no producing properties and consequently has no current operating income or cash flow. All of Emgold's short to medium-term operating and exploration cash flow must be derived from external financing. Emgold expects to raise additional financing to continue its planned exploration, permitting and development of its I-M Project and to separately finance the commercialization of its recycled stone ceramics business. Additional financing will also need to be raised for its early stage exploration projects.

Critical accounting policies and changes in accounting policies

The preparation of financial statements requires management to establish accounting policies, estimates and assumptions that affect the timing and reported amounts of assets, liabilities, revenues and expenses. These estimates are based upon historical experience and on various other assumptions that management believes to be reasonable under the circumstances, and require judgment on matters that are inherently uncertain. A summary of the Company's significant accounting policies is set out in Note 3 of the Company's consolidated financial statements for the year ended December 31, 2015, 2014 and 2013.

Recent accounting pronouncements

A Summary of recent accounting pronouncements issued which may affect the Company in the future is set out in Note 6 of the Company's consolidated financial statements for the year ended December 31, 2015, 2014 and 2013.

A.

Operating Results

Year Ended December 31, 2015 ("fiscal 2015") Compared to Year Ended December 31, 2014 ("fiscal 2014")

Emgold's loss in fiscal 2015 was \$474,953 or a loss per share of \$0.01, compared to a loss of \$244,138, or a loss per share of \$0.00 in fiscal 2014. This includes \$39,802 in exploration costs incurred in fiscal 2015, compared to \$43,601 incurred in fiscal 2014. Emgold's accounting policy is to expense exploration costs until the Company reaches the development stage on its mineral property interests.

Impairment of mineral properties of \$257,942 was booked in fiscal 2015 due to the Company having no current exploration plans for the two properties in British Columbia.

Legal, accounting and audit fees decreased to \$33,000 in fiscal 2015 from \$51,000 in fiscal 2014, due to the Company taking specific actions to reduce these fees.

Salaries and benefits decreased to \$nil in fiscal 2015 from \$30,000 in fiscal 2014 as a result of the Company laying off certain employees during the period in order to preserve cash.

Shareholder communications costs decreased to \$4,000 in fiscal 2015 from \$12,000 in fiscal 2014. This reduction is a result of the Company continuing efforts to curtail expenditures in uncertain times.

Exploration expenses – Idaho-Maryland Project:

Direct exploration expenditures on the I-M Project decreased to \$30,322 in fiscal 2015 from \$34,065 in fiscal 2014.

Exploration expenses – Buckskin Rawhide East, Buckskin Rawhide West, and Koegel Rawhide Properties, Nevada

Exploration expenditures on the Buckskin Rawhide East, Buckskin Rawhide West, and Koegel Rawhide Properties decreased to \$9,470 in fiscal 2015 from \$13,929 in fiscal 2014.

Exploration expenses - British Columbia Properties

Exploration expenditures on the Stewart and Rozan Properties amounts changed to \$nil in fiscal 2015 from a recovery of past expenses of \$4,978 in fiscal 2013.

Year Ended December 31, 2014 (“fiscal 2014”) Compared to Year Ended December 31, 2013 (“fiscal 2013”)

Emgold’s loss in fiscal 2014 was \$244,138 or a loss per share of \$0.00, compared to a loss of \$258,169, or a loss per share of \$0.00 in fiscal 2013. This includes \$43,601 in exploration costs incurred in fiscal 2014, compared to \$106,529 incurred in fiscal 2013. Emgold’s accounting policy is to expense exploration costs until the Company reaches the development stage on its mineral property interests.

Legal, accounting and audit fees decreased to \$51,000 in fiscal 2014 from \$73,000 in fiscal 2013, due to the Company taking specific actions to reduce these fees.

Salaries and benefits decreased to \$30,000 in fiscal 2014 from \$94,000 in fiscal 2013 as a result of the Company laying off certain employees during the period in order to preserve cash.

Shareholder communications costs decreased to \$12,000 in fiscal 2014 from \$31,000 in fiscal 2013. This reduction is a result of the Company continuing to curtail expenditures in uncertain times.

Stock-based compensation decreased to \$nil in fiscal 2014 from \$24,000 in fiscal 2013. This decrease relates to the timing of stock option issuances to officers, directors, and consultants.

Unrealized gain on warrant liability moved from (\$37,000) in fiscal 2013 to (\$3,000) in fiscal 2014. The unrealized (gain) loss on warrant liability is directly factored by the number of warrants outstanding. There were fewer warrants outstanding at the current period end than the comparative period, and as a result, the unrealized (gain) loss on warrant liability had been decreased.

Exploration expenses – Idaho-Maryland Project:

Direct exploration expenditures on the I-M Project increased to \$34,065 in fiscal 2014 from \$nil in fiscal 2013.

Exploration expenses – Buckskin Rawhide East, Buckskin Rawhide West, and Koegel Rawhide Properties, Nevada

Exploration expenditures on the Buckskin Rawhide East, Buckskin Rawhide West, and Koegel Rawhide Properties decreased to \$13,929 in fiscal 2014 from \$102,832 in fiscal 2013.

Exploration expenses - British Columbia Properties

Exploration expenditures on the Stewart and Rozan Properties amounted to a recovery of past expenses of \$4,978 compared to the expenses incurred of \$297 in fiscal 2013.

B. Liquidity and Capital Resources

Financial Conditions for year ended December 31, 2015

Historically, the Company's sole source of funding is and has been the issuance of equity securities for cash, primarily through private placements to sophisticated investors and institutions. The Company has issued common shares pursuant to private placement financings and the exercise of warrants and options.

The current market conditions, the challenging and inhospitable funding environment and the low price of the Company's common shares make it difficult to raise funds through private placements of shares. In addition the Company must endeavour to minimize dilution to existing shareholders. There is no assurance that the Company will be successful with any financing ventures. Please refer to Item 3 – Key Information – section D - Risk Factors in this document.

At December 31, 2015, the Company had a working capital deficiency of \$931,000, defined as current assets less current liabilities, compared with working capital deficiency of \$727,000 at December 31, 2014. The Company's consolidated financial statements were prepared using International Financial Reporting Standards applicable to a going concern. Several adverse conditions cast substantial doubt on the validity of this assumption – see "Going Concern" disclosure below. When the Company has unused cash, it primarily invests its unused cash in guaranteed investment certificates which are redeemable in full after 30 days with interest or in treasury bills. There have been no investments in commercial paper. Where the initial term of the guaranteed investment certificate is greater than 90 days it is recorded as a short-term investment.

Operations for the year ended December 31, 2015, have been funded primarily from sale of real estate holdings in Grass Valley, private placement financings, and loans from related parties.

Potential Restrictions on Transfer of Funds by Subsidiaries

The Company's three subsidiaries are Nevada incorporated corporations. There are no currency restrictions on transfer of funds from the United States to Canada.

The Company currently has no source of operating cash flow and has a history of operating losses. Emgold currently has no revenue from operations and all of its mineral property interests are in the exploration or development stages. The Company does not expect to receive significant revenue from operations at any time in the near future, and Emgold has had no prior years' history of earnings or operating cash flow. Neither Emgold nor its predecessors have paid dividends on their shares since incorporation and the Company does not anticipate doing so in the foreseeable future.

Investing Activities

As at December 31, 2015, Emgold has capitalized \$619,113 (2014 – 1,337,563; 2013 - 1,227,563) representing costs associated with the acquisition of its mineral property interests in Nevada and British Columbia.

In 2015, in case a suitable agreement cannot be reached with property in California, Emgold has listed its land in California for sale. Under IFRS 5, the Company classified the mineral property in California, in the amount of \$490,508 as held for sale as at 31 December, 2015.

Capital Resources

At December 31, 2015, Emgold's working capital, defined as current assets less current liabilities, was a deficit of \$931,000, compared to a working capital deficiency of \$727,000 in 2014 and \$627,000 in fiscal 2013. The Company's continued operations are dependent upon the Company's ability to obtain sufficient financing to carry on planned operations. Currently, the Company does not have sufficient working capital to carry on planned operations, and will have to cease operations, if it is unable to raise funds for general corporate maintenance.

Additional financing will be required in fiscal 2015 in order for the I-M Project and the Company or other projects to move forward. The Company currently does not have sufficient working capital for the next full year of operations and will therefore need to raise additional capital to continue operations, as it currently has no source of revenue. Such financing may be achieved through the sale or option of exploration properties, sale of real estate in Grass Valley, exercise of share purchase warrants, and through the issuance of common shares or other forms of financing.

Share Capital

At December 31, 2015 the Company had 78,295,684 (2014 – 77,832,462) common shares issued and outstanding.

The Company's continued operations are dependent upon the Company's ability to obtain sufficient financing to carry on planned operations. Currently, the Company does not have sufficient working capital to carry on planned operations and will have to cease operations if it is unable to raise funds for general corporate maintenance.

2015

On 20 April 2015, the Company issued 472,222 common shares in connection with its previously signed mineral property agreements with a contract value of \$40,000.

2014

On 11 April 2014, the Company issued 236,000 common shares in connection with its previously signed mineral property agreements with a contract value of \$20,000. On 18 July 2014, the Company issued 5,000,000 common shares to Rawhide Mining LLC at a price of CDN \$0.05 per Unit. The private placement is the third and final tranche of a CDN \$1 million private placement that is part of a series of Buckskin Rawhide East Property transactions.

The securities offered have not been registered under the United States Securities Act of 1933, as amended, and may not be offered or sold in the United States absent registration or an available exemption from the registration requirements.

Options and Warrants

2015

During the year ended 31 December 2015, a total of 1,966,665 options expired, with an average exercise price of Cdn \$0.16.

During the twelve months ended 31 December 2015, a total of 5,663,575 warrants expired, with an average price of 0.19.

2014

During the twelve months ended 31 December 2014, a total of 64,000 options expired, with an average exercise price of Cdn\$0.175.

During the twelve months ended 31 December 2014, the Company issued 2,500,000 warrants with an exercise price of Cdn\$0.10 and a 24 month life in connection with private placements described above. A total of 3,321,428 warrants expired with an average exercise price of \$0.19.

Financing Activities

2015

No financing activity was completed in 2015. Further financing will be required for corporate overhead costs, advancing the I-M Project, or advancing the Company's other exploration properties. The Company has been looking at various alternatives to implement Golden Bear's business plan as noted at Item 4 above. The Company is evaluating various financing options including equity financing, joint ventures, mergers, sale of assets, and other business transactions for the above.

2014

The Company completed a \$250,000 financing in 2014 as part of a transaction announced with Rawhide Mining LLC. A total of \$750,000 was previously raised in this financing in 2012 and 2013.

Going Concern

At December 31, 2015, the company has a working capital deficit and substantial additional financing will be required for both corporate overhead and to advance the Company's exploration and development properties. Executive salaries are being deferred voluntarily, together with Board remuneration and management and consulting fees, until such time as new financing is available.

The need to raise working capital directly impacts the ability of the Company to undertake planned exploration programs or advance permitting activities relating to the I-M Project. Sufficient work has been undertaken on all of the Company's current mineral property interests in Canada for several years. The Company has optioned its Buckskin Rawhide East Property to RMC who are currently covering its holding costs as part of the lease agreement. The Buckskin Rawhide West and Koegel Rawhide Properties can be held in the short term by the issuance of shares. If the Company is unable to perform additional exploration work in future years or with exploration partners, it may be necessary to write-down additional mineral property interests in future periods, and there is substantial doubt as to the Company's ability to continue as a going concern, without restructuring or some form of joint venture. If additional working capital is not raised, the Company might have to terminate its lease on the Buckskin Rawhide West Property in Nevada or the Koegel Rawhide Property in Nevada.

The Company's ability to continue as a going concern is contingent on its ability to obtain additional financing. The current equity and financial market conditions, the challenging environment for raising monies, and the low price of the Company's common stock make it difficult to obtain additional funding by private placements of shares. There is no assurance that the Company will be successful with any financing ventures. It is dependent upon the continuing financial support of shareholders and obtaining financing to continue exploration and/or development of its mineral property interest. While the Company is expanding its best efforts to achieve its plans by examining various financing alternatives including reorganizations, mergers, sales of assets, or other form of equity financing, there is no assurance that any such activity will generate funds that will be available for operations.

The consolidated financial statements do not include any adjustments to the recoverability and classification of recorded assets, or the amounts of, and classification of liabilities that would be necessary if the going concern assumption were not appropriate. Such adjustments could be material.

Plans for 2016

The Company continues to focus financing activities for both corporate overhead and to advance its exploration and development properties. It is estimated that the Company requires on average about \$20,000 per month to support its corporate overhead and hold its existing properties. To advance the Idaho-Maryland Project and its other properties,

approximately \$150,000 to \$250,000 per month is required. The Company's priority in 2016, due to continuing poor equity markets, is to raise sufficient capital to support its overhead costs and hold its properties, until equity markets improve. If additional funds can be raised, it will advance its properties as those funds allow. The Company will evaluate potential business transactions including equity financings, joint ventures, mergers, sale of assets, and other business transactions that will generate funds to support the Company.

Should the Company not obtain sufficient financing to continue the permitting for the I-M Project, the Company would be forced to abandon the Idaho-Maryland Project, at least in the short term. Should sufficient funds not be available, the Company might elect to drop its leases on the Buckskin Rawhide West and Keogel Rawhide Properties.

Contractual Obligations in 2015

See Item 5.F. for a table of contractual obligations at December 31, 2015.

C. Research and development, patents and licenses

Not applicable

D. Trend information

Gold Prices

As a natural resource exploration company, Emgold's activities are cyclical as metals prices have traditionally been cyclical in nature. The recent trend for metals prices has been somewhat volatile for gold and silver. From a historical perspective Emgold has strategically focused its exploration activities on potential gold-based prospects. The mineral exploration industry had been through a very difficult period with low prices for both precious and base metals over the period from 1999 to 2004 and again from 2011 to present. The lack of interest in minerals over these periods led to low market capitalizations for many exploration companies and large corporations found it was easier to expand by purchasing companies or mines rather than exploring for them. This led to downsizing of large company exploration departments and many mining industry professionals left the industry. As a result of these trends, there are fewer good gold and silver projects in the exploration and development stages and a significant shortage of experienced engineers and geoscientists in the mining industry. With improving metal prices and increasing demand, especially from Asia, supply difficulties may occur in the future and there is a discernible need for good exploration projects based on sound geological work.

See the risk section for average, high and low gold prices to the date of the filing of this Annual Report on Form 20-F.

Market for Stone and Ceramics

The US markets for stone and ceramic tile are very large and well established. After declining during the Great Recession, the market for both stone and ceramic floor and wall tiles has been growing steadily as shown in the tables below (source: Statistical Report 2014, Floor Covering Weekly, July 27 2015).

U.S. Stone and Ceramic Market Sales Value (in millions of manufacturers' US\$)

	2010	2011	2012	2013	2014
Ceramic Floor and Wall Tile	2,084	2,210	2,241	2,507	2,672
Stone Flooring	1,062	1,064	1,110	1,175	1,237

U.S. Stone and Ceramic Market Sales Volume (in millions of square feet)

	2010	2011	2012	2013	2014
Ceramic Floor and Wall Tile	1,992	2,078	2,166	2,366	2,456
Value Stone Flooring	260	262	271	286	295

E. Off-balance sheet arrangements

The Company does not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on the Company's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

F. Tabular disclosure of contractual obligations

The following table summarizes the Company's short-term and long-term obligations as at December 31, 2015:

Emgold Short-Term and Long-Term Obligations (\$US)

	January 1, 2015, to December 31, 2015	1-2 years	2-3 years	3-4 years	4-5 years	5th and subsequent years	Total (to 5 years)
Accounts payable and accrued liabilities, including related parties	\$941,100	\$--	\$--	\$--	\$--	\$--	\$941,100

Safe Harbour

See above – “Cautionary Statement Regarding Forward-Looking Information.”

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ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**A. Directors and Senior Management**

The following table lists the directors and senior management of the Company. The directors have served in their respective capacities since their election and/or appointment and will serve until the next annual general meeting or until a successor is duly elected, unless the office is vacated in accordance with the Articles of the Company.

Senior Officers and Directors of Emgold

Name and Position	Other Principal Directorships	Shares Beneficially Owned as at December 31, 2015	% Of Issued And Outstanding	Principal Business Activities Outside the Company
William J. Witte, – Independent Director	None	57,504	0.07%	Businessman and Mining Consultant
David Watkinson, President and Chief Executive Officer and Director	Northaven Resource Corporation	18,800	0.02%	None
Andrew MacRitchie, Independent Director	None	370,000	0.47%	CFO, Helio Resources CFO, Roughrider Exploration Ltd.
Allen Leschert, Non-Executive Chairman of the Board, Independent Director	Northaven Resource Corp.	NIL	0.00%	President and CEO, Northaven Resource Corp.
Grant T. Smith Chief Financial Officer	N/A	NIL	0.00%	Senior Partner, Clearline Chartered Accountants

David Watkinson, P. Eng., President and CEO, brings over 30 years of professional engineering experience in underground and open pit mine development, including mine permitting, engineering, feasibility, construction, and operations to Emgold. In addition, he has extensive experience in project management, having taken projects from grass roots start-up to successful operating status. Mr. Watkinson has been responsible for management of large capital projects and operations in Canada, the United States and the Philippines. He has held progressively senior positions with Placer Dome Inc., Kinross Gold Corporation, Thyssen Mining Construction and Vulcan Materials Company. Mr. Watkinson holds a B.Sc. in Applied Science, Mining Engineering, from Queen's University in Kingston, Ontario (1985) and is a Registered Professional Engineer in the Province of Ontario. Mr. Watkinson joined Emgold on June 22, 2006 and served as V.P. of Operations for Idaho-Maryland Mining Corporation. He was subsequently appointed as a director and President and Chief Operating Officer of Emgold on July 25, 2007, and President of the Company on October 16, 2007. In May 2010, Mr. Watkinson was appointed as President and Chief Executive Officer, merging the Chief Operating Officer and Chief Executive Officer positions.

Grant T. Smith, CFO, is a Chartered Accountant and has over a decade of experience in the accounting field. He is the senior partner with Clearline Chartered Accountants, a firm of chartered accountants with offices in Vancouver, North Vancouver and White Rock. Mr. Smith serves as the CFO for several Canadian TSX Venture mining companies with operations in Canada, the USA, and Mexico. Prior to establishing Clearline, Mr. Smith was at PricewaterhouseCoopers where he spent several years working with companies operating in the mineral sector. He also has extensive experience serving private companies in various industries as well as not-for-profit organizations. Mr. Smith is also active in serving his community, supporting both the arts and social services by serving on various Boards, until recently he was the President of the Vancouver Chamber Choir and served as the treasurer of the MS Society for five years. Mr. Smith is currently the treasurer of the Honour House Society. He holds a BFA (1984) from York University and received his designation as a CA in 2005. Mr. Smith became CFO of the Company on September 1, 2012.

William (Bill) J. Witte, Independent Director, has been an officer and director of the Company since June 1999. From 1995 to joining the Company in 1999, Mr. Witte was self-employed. From 1992 to 1995 he was an engineering manager and project manager, with Fluor Daniel Wright Inc. Mr. Witte has more than 30 years of mining, engineering, business, and entrepreneurial experience. He holds degrees in both Civil (University of Nevada, Reno 1976) and Mechanical Engineering (University of Arizona 1978), and is a registered Professional Engineer in the Province of British Columbia. His mining and engineering experience covers not only all aspects of mine exploration, process research and development, and operations, but also engineering, construction and corporate management. Mr. Witte has been responsible for various aspects of the financing, construction, design and operation of over 200 mining and technology projects around the world. Mr. Witte served as President or Chief Executive Officer of the Company from July 24, 2002 until August 1, 2007.

Andrew MacRitchie, Independent Director, has over 10 years of experience in various mineral exploration finance and accounting roles. Since 2014, Andrew has been Chief Financial Officer of Roughrider Exploration Limited a uranium exploration company with projects in Saskatchewan. Since 2007, Andrew has been Chief Financial Officer of Helio Resource Corp., a gold exploration company with projects located in Africa. Between 2003 and 2007 he worked for Quorum Management Services as Corporate Controller. Quorum provided accounting services for a group of exploration stage companies (including Emgold) with gold, silver, and base-metal projects located in North and South America. Andrew holds a B.Sc. Honors degree from the University of British Columbia and received his Chartered Accountant designation in 2003 while articling with PricewaterhouseCoopers. Mr. MacRitchie is also a Director of the Kidney Foundation of Canada. Mr. MacRitchie became an Independent Director of the Company on May 22, 2012.

Allen Leschert, Non-Executive Chairman of the Board and Independent Director, is a senior member of the securities bar in Vancouver B.C. with over 25 years of experience with public mining and exploration companies. He has pioneered a number of unique public company financing and transaction structures and has handled numerous public mining transactions, listings, joint ventures, financings, corporate takeovers, mergers and acquisitions in Canada and internationally. He is President of Armex Mining Corp. (a private B.C. based company) and is CEO and Chairman of the Board of Northaven Resources Corp. (a public B.C. based company). He holds an LLB from the University of Victoria and a B.Com. (with distinction) from the University of Alberta. Mr. Leschert became an Independent Director of the Company on August 21, 2013. He was subsequently appointed Non-Executive Chairman of the Board on November 27, 2013.

Technical Consultants and Employees

Robert R. Pease, R.G. Chief Geologist, has over 30 years of diversified experience in mineral development and engineering geology in the mining and construction industries. Mr. Pease has an extensive background in mother lode, Sierra Nevada, and basin-range geology applied to industrial minerals and gold, naturally occurring asbestos, surface and underground geologic mapping, drilling and sampling in difficult conditions, fracture-controlled ground water, and engineering geology. Mr. Pease has also conducted market research analyses of industrial minerals. He has developed reclamation plans for mining projects, and has conducted annual inspections of mines in Nevada County as

the consultant for that lead agency under SMARA. He has written documents requiring approval by government agencies, such as application documents for mining projects and hazardous materials plans. Mr. Pease is a Registered Geologist in California and holds B.S. and M.S. degrees in Geology from University of Nevada.

Patricia Nelson, an environmental consultant to the Company, manages the permitting and environmental compliance programs for the Company. She was an employee of the Company from 2005 to 2007. She has over 30 years of experience managing and directing multidisciplinary environmental projects for government, industry, and utility organizations that involved regulatory compliance, natural resource development and hazardous waste management. In addition, she has experience directing field work and construction projects; developing and implementing public participation programs; and conducting project specific environmental negotiations among government and industry stakeholders. She has a Bachelor of Science from the University of California at Berkeley, a Masters Degree in Business Administration from the University of San Francisco, and is a Certified Mediator from John F. Kennedy University. Ms. Nelson is also a Registered Environmental Assessor (REA) in California and has extensive hazmat training.

Jim Wood, MSc, P.G., Manager, Material Sciences, a consultant to the Company, was responsible for all test work and SPC on feed materials and final products. Jim was an employee of the Company from 2005 to 2007. He has 30 years of experience in the field of geological materials research. He has performed microscopic studies of rock and mineral materials using various analytical techniques including X-ray Diffraction mineral analysis, Polarized Light Microscopy and use of the Scanning Electron Microscope/Microprobe. Jim has worked for Unocal at their Science and Technology Research Center as a mineralogist. He has also been a forensics consultant on construction materials failure for a number of leading geotechnical consulting firms. He holds a B.S. degree in Earth Science from California State University, Long Beach and a M.S degree in Geology from California State University at Los Angeles. He is a registered Professional Geologist in California.

Family Relationships

There are no family relationships among any of the persons named above.

Arrangements

There are no arrangements or understandings regarding the selection of any of the persons named above.

B. Compensation

Compensation of Executive Officers

“Named Executive Officer” (“NEO”) means each of the following individuals:

(a) a Chief Executive Officer (“CEO”) or one who acted in a capacity similar to a chief executive officer, for any part of the financial year ended December 31, 2015;

(b) a Chief Financial Officer (“CFO”) or one who acted in a capacity similar to a chief financial officer, for any part of the financial year ended December 31, 2015;

(c) each of the three most highly compensated executive officers, or the three most highly compensated individuals acting in a similar capacity, other than the CEO and CFO, at the end of the most recently completed financial year whose total compensation was, individually, more than \$150,000 for that financial year; and

(d) each individual who would be a NEO under paragraph (c) but for the fact that the individual was neither an executive officer of the Company, nor acting in a similar capacity, as at the financial year ended December 31, 2015.

The Company has three Named Executive Officers. The following disclosure sets out the compensation that the Board intended to pay, make payable, award, grant give or otherwise provide to each NEO and director for the financial year ended December 31, 2015.

Compensation and Discussion Analysis

Compensation of Directors and NEOs

The Company's Corporate Governance and Compensation Committee ("CGCC") has responsibility for reviewing compensation for the Company's directors and senior management.

The independent directors are encouraged to meet at any time they consider necessary without any members of management including the non-independent directors being present. The Company's auditors, legal counsel and employees may be invited to attend. The independent directors exercise their responsibilities for independent oversight of management through a strong CGCC. The Board has appointed William Witte as Chairman of the Corporate Governance and Compensation Committee to assist the Board in being effective, cohesive and independent from management.

To determine compensation payable, the CGCC reviews compensation paid for directors and NEOs of companies of similar size and stage of development in the mineral exploration industry and determines an appropriate compensation reflecting the need to provide incentive and compensation for the time and effort expended by the directors and senior management while taking into account the financial and other resources of the Company. In setting the compensation, the CGCC annually reviews the performance of the NEOs in light of the Company's objectives and considers other factors that may have impacted the success of the Company in achieving its objectives and financial resources.

The Company's compensation policies and its stock option plan (the "Stock Option Plan") are intended to assist the Company in attracting, retaining and motivating Directors, officers and employees of the Company and of its subsidiaries and to closely align the personal interests of such Directors, officers and employees with those of the shareholders by providing them with the opportunity, through stock options, to acquire shares in the capital of the Company.

Option Based Awards

The Board of Directors of the Company implemented a stock option plan (the "Plan") effective April 29, 2005, as amended, which was approved by the TSX Venture Exchange and the shareholders of the Company and ratified by shareholders at the Company's 2006 Annual General Meeting. The number of Shares which may be issued pursuant to options previously granted and those granted under the Plan is a maximum of 10% of the issued and outstanding Shares at the time of the grant. In addition, the number of Shares which may be reserved for issuance to any one individual may not exceed 5% of the issued Shares on a yearly basis or 2% if the optionee is engaged in investor relations activities or is a consultant. Under Exchange policy, all such rolling stock option plans which set the number of common shares issuable under the plan at a maximum of 10% of the issued and outstanding common shares must be approved and ratified by shareholders on an annual basis.

The purpose of the Plan is to allow the Company to grant options to Directors, officers, employees and consultants, as an incentive for performance, and as an opportunity to participate in the success of the Company. The granting of such options is intended to align the interests of such persons with that of the shareholders. Options will be exercisable over periods of up to five years as determined by the Board of Directors of the Company and are required to have an exercise price no less than the closing market price of the Company's Shares prevailing on the day that the option is granted less a discount of up to 25%, the amount of the discount varying with market price in accordance with the policies of the Exchange. Pursuant to the Plan, the Board of Directors may from time to time authorize the issue of options to Directors, officers, employees and consultants of the Company and its subsidiaries or employees of companies providing management or consulting services to the Company or its subsidiaries. The Plan contains no vesting requirements, but permits the Board of Directors to specify a vesting schedule in its discretion. The Plan provides that if a change of control, as defined therein, occurs, all shares subject to option shall immediately become vested and may thereupon be exercised in whole or in part by the option holder.

At December 31, 2015, a total of 7,829,568 (2014 – 7,782,346) shares of Emgold were reserved for share incentive options to be granted at the discretion of Emgold’s board of directors to eligible optionees (the “Optionees”), of which 5,000,000 (2014 – 6,966,665) were outstanding under the plan at December 31, 2015.

During the year ended December 31, 2015, 1,966,665 stock options with an exercise price of Cdn\$0.16 expired unexercised (2014 – 64,000 options expired with an average exercise price of Cdn\$0.175), and nil options were forfeited (2014 - nil options forfeited).

The Board of Directors generally grants options to corporate executives further to the recommendation of the CGCC. As part of its annual work plan, the CGCC reviews, among other things, executive compensation and makes appropriate recommendations to the Board regarding such compensation, including but not limited to the grant of options. Options may be granted at other times of the year to individuals commencing employment with the Company.

Summary Compensation Table

The compensation paid to the NEOs during the Company's most recently completed financial year ended December 31, 2015, is as set out below:

Compensation Paid to Emgold NEOs

Name and principal position held during fiscal 2014	Year ⁽¹⁾	Salary (\$)	Share-based awards (\$)	Option-based awards (\$)	Non-equity incentive plan compensation ⁽³⁾ (\$)		Pension value (\$)	All other compensation ⁽²⁾ (\$)	Total compensation ⁽³⁾ (\$)
					Annual incentive plans	Long-term incentive plans			
David G. Watkinson ⁽⁵⁾ President & CEO	2015	92,500	NIL	NIL	NIL	NIL	NIL	NIL	92,500
	2014	92,500	NIL	NIL	NIL	NIL	NIL	NIL	92,500
	2013	185,000	NIL	3,500	NIL	NIL	NIL	NIL	188,500
	2015	28,153	NIL	NIL	NIL	NIL	NIL	NIL	28,153
Grant T. Smith ⁽⁶⁾ CFO	2014	36,000	NIL	NIL	NIL	NIL	NIL	NIL	36,000
	2013	36,000	NIL	1,750	NIL	NIL	NIL	NIL	37,750

Notes:

- (1) Includes the dollar value of cash and non-cash base salary earned during a financial year covered.
- (2) Includes any health, dental, parking, group plan insurance benefits and professional fees paid by the Company on behalf of the NEOs.
- (3) These amounts include all amounts set out in table from for each NEO.
- (4) Of the total salary for 2015, \$92,500 was accrued to David G. Watkinson for services as President and CEO for the year ended December 31, 2015, and was unpaid at December 31, 2015.
- (5) Appointment as CFO became effective September 1, 2012. Management fees were paid directly to Clearline Chartered Accountants, a company of which Grant T. Smith is a director.

As part of its annual work plan, the CGCC reviews, among other things, executive compensation and makes appropriate recommendations to the Board regarding such compensation.

Incentive Plan Awards

Outstanding Share-based Awards and Option-based Awards

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The following table sets out all share-based awards and option-based awards outstanding as at the financial year ended December 31, 2015, for each NEO:

Share and Option Based Awards for NEOs

Name	Option-based Awards			Share-based Awards ⁽²⁾		
	Number of securities underlying unexercised options (#)	Option exercise price (\$)	Option expiration date	Value of unexercised in-the-money options ⁽¹⁾ (\$)	Number of shares or units of shares that have not vested (#)	Market or payout value of share-based awards that have not vested (\$)
David G. Watkinson	700,000	0.10	11-Oct-2018	NIL		
Grant T. Smith	750,000	0.15	07-May-2017	NIL	N/A	N/A
	350,000	0.10	11-Oct-2018	NIL	N/A	N/A

Notes:

(1) On December 31, 2015, the closing market price of the Company's shares on the TSX Venture Exchange was Cdn\$0.01 per share.

(2) The Company does not have Incentive Plan Awards other than option-based awards.

Incentive Plan Awards – Value Vested or Earned During the Year

The following table sets out all incentive plans (value vested or earned) during the financial year ended December 31, 2015, for each NEO:

Incentive Plan Awards for NEOs

Name	Option-based awards – Value vested during the year (\$)	Share-based awards – Value vested during the year ⁽¹⁾ (\$)	Non-equity incentive plan compensation – Value earned during the year ⁽¹⁾ (\$)
David G. Watkinson	NIL	NIL	N/A
Grant T. Smith	NIL	NIL	N/A

Notes:

(1) The Company does not have Incentive Plan Awards in place other than option-based awards.

Discussion

Equity-settled share-based payments for directors, officers and employees are measured at fair value at the date of grant and recorded as compensation expense in the consolidated financial statements. The fair value determined at the grant date of the equity-settled share-based payments is expensed over the vesting period based on the Company's estimate of shares that will eventually vest. The number of forfeitures likely to occur is estimated on grant date and adjusted to actual. Any consideration paid by directors, officers, employees and consultants on exercise of equity-settled share-based payments is credited to share capital. Shares are issued from treasury upon the exercise of equity-settled share-based instruments. Compensation expense on stock options granted to non-employees is measured at the earlier of the completion of performance and the date the options are vested using the

fair value method and is recorded as an expense in the same period as if the Company had paid cash for the goods or services received.

When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured by use of a Black-Scholes valuation model. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

See "Option Based Awards" and "Securities Authorized for Issuance Under Equity Compensation Plans" for further information on the Stock Option Plan.

The Company does not have Incentive Plan Awards, pursuant to which cash or non-cash compensation intended to serve as an incentive for performance (whereby performance is measured by reference to financial performance or the price of the Company's securities) was paid.

Pension Plan Benefits

Defined Benefit Plan or Defined Contribution Plan

The Company has no pension plans for NEOs that provide for payment or benefits at, following, or in connection with retirement.

Deferred Compensation Plans

The Company has no deferred compensation plan for NEOs.

Termination and Change in Control Benefits

The Company and its subsidiaries have no contract, agreement, plan or arrangement that provides for payment to an NEO at, following or in connection with any termination (whether voluntary, involuntary or constructive), resignation, retirement, a change in control of the Company or a change in an NEO's responsibilities, with the exception of the following:

The contract of David G. Watkinson, by the Idaho-Maryland Mining Corporation, provides for payment to Mr. Watkinson of a minimum severance allowance equivalent to six (6) month's salary in the event of termination by the Company without cause. Additionally, the contract provides for payment to Mr. Watkinson of a severance allowance equivalent to a minimum of six (6) month's salary in the event of an acquisition or takeover by another company or other similar form of transaction.

Director Compensation

Directors are entitled to reimbursement for reasonable travel and other out-of-pocket expenses incurred in connection with attendance at meetings of the Board of Directors. The Board of Directors may award special remuneration to any director undertaking any special services on behalf of the Company other than services ordinarily required of a director. This is subject to recommendation by the Compensation and Corporate Governance committee. As indicated herein, the Chief Executive Officer who also serves as a director of the Company received compensation for their services through consulting contracts.

Directors' fees totalling \$NIL (2014 – \$NIL) were paid or are accrued and payable to three independent directors of the Company.

Director Compensation Table

The following table sets out all amounts of compensation provided to the directors who are not NEOs for the Company's most recently completed financial year:

Compensation for Directors Who are Not NEOs

Name	Fees earned (Cdn\$)	Share-based awards (\$)	Option-based awards (\$)	Non-equity incentive plan compensation (\$)	Pension value (\$)	All other compensation (\$)	Total (Cdn\$)
William J. Witte	NIL	NIL	NIL	NIL	NIL	NIL	NIL
Andrew MacRitchie	NIL	NIL	NIL	NIL	NIL	NIL	NIL
Allen Leschert	NIL	NIL	NIL	NIL	NIL	NIL	NIL

Outstanding Share-based Awards and Option-based Awards

The following table sets out all option-based awards outstanding as at the financial year ended December 31, 2015, for each director, excluding a director who is already set out in disclosure for a NEO for the Company:

Option and Share Based Awards for Directors Who are Not NEOs

Name	Option-based Awards				Share-based Awards	
	Number of securities underlying unexercised options (#)	Option exercise price (\$)	Option expiration date	Value of unexercised in-the-money options ⁽¹⁾ (\$)	Number of shares or units of shares that have not vested ⁽²⁾ (#)	Market or payout value of share-based awards that have not vested ⁽²⁾ (\$)
William J. Witte	350,000	0.10	11-Oct-2018	NIL	N/A	N/A
Andrew MacRitchie	200,000	0.15	07-May-2017	NIL	N/A	N/A
Allen Leschert	350,000	0.10	11-Oct-2018	NIL	N/A	N/A

Notes:

(1) The closing market price of the Company's shares on the TSX Venture Exchange was \$0.01 per share on December 31, 2015.

(2) The Company does not have Incentive Plan Awards in place other than option-based awards.

Incentive Plan Awards – Value Vested or Earned During the Year

The following table sets out all incentive plans (value vested or earned) during the financial year ended December 31, 2015 for each director, excluding a director who is already set out in disclosure for a NEO for the Company:

Option and Share Based Awards Vested for Directors Who are Not NEOs

Name	Option-based awards – Value vested during the year⁽¹⁾ (\$)	Share-based awards – Value vested during the year⁽²⁾ (\$)	Non-equity incentive plan compensation – Value earned during the year⁽²⁾ (\$)
William J. Witte	NIL	NIL	N/A
Andrew MacRitchie	NIL	NIL	N/A
Allen Leschert	NIL	NIL	N/A

Notes:

(1) The aggregate dollar value that would have been realized if the options had been exercised on the vesting date, based on the difference between the market price of the underlying securities at exercise and the exercise price of the options on the vesting date. Under the terms of the Company's stock option plan, all options vest upon the grant date.

(2) The Company does not have Incentive Plan Awards in place other than option-based awards.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides equity compensation plan information as for year ended December 31, 2015.

Equity Compensation Plan Information

Plan Category⁽¹⁾	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders ⁽²⁾	5,000,000	\$0.12	2,829,568
Equity compensation plans not approved by security holders	NIL	NIL	NIL
Total	5,000,000	\$0.12	2,829,568

Notes:

(1) The only "equity compensation plan" in place is the Company's stock option plan. See "Option Based Awards" above.

(2) As at December 31, 2015.

Indebtedness of Directors and Executive Officers

None of the director, executive officer, or associate of any such person, has been indebted to the Company at any time during the most recently completed financial year.

Aggregated Options Exercises During the Most Recently Completed Financial Year

During the year ended December 31, 2015, there were no Company stock options exercised.

C.

Board practices

All currently serving directors were elected at the Company's annual general meeting held on December 9, 2015 and have a term of office expiring at the next annual general meeting of Emgold. All officers have a term of office lasting until their removal or replacement by the Board of Directors.

An "unrelated" director under the TSX governance guidelines is a director who is independent from management and is free from any interest and any business or other relationship which could materially interfere with his or her ability to act in the best interest of the Company other than interests arising from shareholding. Where a company has a significant shareholder, in addition to a majority of "unrelated" directors, the Board should include a number of directors who do not have interest or relationships with either the Company or the significant shareholder. Mr. MacRitchie, Mr. Leschert, and Mr. Witte are independent directors. As such, the number of directors is four.

No director and/or executive officer has been the subject of any order, judgment, or decree of any governmental agency or administrator or of any court or competent jurisdiction, revoking or suspending for cause any license, permit or other authority of such person or of any corporation of which he is a director and/or executive officer, to engage in the securities business or in the sale of a particular security or temporarily or permanently restraining or enjoining any such person or any corporation of which he is an officer or director from engaging in or continuing any conduct, practice or employment in connection with the purchase or sale of securities, or convicting such person of any felony or misdemeanour involving a security or any aspect of the securities business or of theft or of any felony.

There are no director's services contracts with the Company providing for benefits upon termination of employment. Emgold and its subsidiaries have no compensatory plan or arrangement in respect of compensation received or that may be received by the directors of the Company in its most recently completed or current financial year to compensate such directors in the event of termination as director (resignation, retirement, change of control) or in the event of a change in control. There are no arrangements or understandings with any two or more directors or executive officers pursuant to which he was selected as a director or executive officer. Other than as disclosed herein, there is no compensation paid to outside directors other than stock-based compensation.

The following information is provided with respect to the Company's directors, and members of its administrative, supervisory or management body and includes the date of expiration of the current term of office and the period during which the person has served in that office.

Information on Current and Former Directors, Management, and Administrative Personnel

Name	Position(s) with Company	Term of Office/Period of Service
William J. Witte	Director	Director: June 1999 – Present, Executive Vice President: May 1999 - July 2002, President and CEO: July 2002 – July 2007
Grant Smith	Chief Financial Officer	Chief Financial Officer: September 2012 – Present
David Watkinson	Director and President and Chief Executive Officer	Director: October 2007 – Present, Vice-President Operations: June 2006 – July 2007, Chief Operating Officer: July 2007 – May 2010, President: October 2007 – Present; Chief Executive Officer: May 2010 - Present
Andrew MacRitchie	Director Chair Audit Committee	Director: May 2012 - Present
Allen Leschert	Director	Director: August 2013-Present, Non-Executive Chairman of the Board: November 2013 - Present
Lisa Maxwell	Corporate Secretary	Corporate Secretary: September 2012 – Present

Audit Committee

Andrew MacRitchie, William J. Witte, and Allen Leschert are currently the members of Emgold's audit committee. The audit committee is appointed annually by the directors of Emgold at the first meeting of the board held after Emgold's annual general meeting. The primary function of the audit committee is to review the financial statements of Emgold before they are submitted to the board for approval. The Committee is also available to assist the board if required with matters relating to the appointment of Emgold's auditor and the overall scope and results of the audit, internal financial controls, and financial information for publication for various purposes.

Corporate Governance and Executive Compensation Committee

Members of the Corporate Governance and Compensation Committee are William Witte, Allen Leschert, and Andrew MacRitchie. The committee was formed for making recommendations to the board with respect to developments in the area of corporate governance, the practices of the board, and appropriate candidates for nomination to the board and for evaluating the performance of the board.

D. Employees

At December 31, 2015, Emgold had one employee. Emgold and its subsidiaries contract staff on an as-needed basis, but usually not more than one or two individuals on a periodic basis. Emgold Mining Corporation administrative functions are primarily provided through Clearline Accounting Services. (“Clearline”).

E. Share ownership

See Item 6A, “Directors and Senior Management”, for the number and percentage of shares of the Company held by each NEO.

The following table sets forth, as at December 31, 2015, all stock options held by the directors and members of senior management of the Company, including the title and amount of securities called for by the options, the exercise price and expiration date of the options.

Stock Options Held by Directors and Senior Management as at December 31, 2015

Name and Title of Option Holder	Number of Shares Underlying Options	Title of Class	Exercise Price (Cdn\$)	Expiry Date
William Witte,	200,000	Common	0.15	May 7, 2017
Director	350,000	Common	0.10	October 11, 2018
Subtotal	550,000			
David Watkinson	750,000	Common	0.15	May 7, 2017
President and Chief Executive Officer, Director	350,000	Common	0.10	October 11, 2018
Subtotal	1,100,000			
Andrew MacRitchie	200,000	Common	0.15	May 7 2017
Director	350,000	Common	0.10	October 11, 2018
Subtotal	550,000			
Allen Leschert	350,000	Common	0.10	October 11, 2018
Director	350,000	Common	0.10	October 11, 2018
Subtotal	350,000			
Grant Smith	350,000	Common	0.10	October 11, 2018
Chief Financial Officer	350,000	Common	0.10	October 11, 2018
Subtotal	350,000			

TOTAL	2,900,000	Common
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ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

The Company is a publicly owned corporation, incorporated in the province of British Columbia, the shares of which are owned by residents of the United States, residents of Canada and other foreign residents. To the extent known by the directors and executive officers of the Company, the Company is not directly or indirectly owned or controlled by any corporation, government, or other natural or legal person or persons, severally or jointly. To the extent known by the directors and executive officers of the Company, as at the date of this report, the holders of 5% or more of the common shares of Emgold are as follows:

- Rawhide Mining Company LLC, holding approximately 17,343,000 common shares, or 22.15%, as at December 31, 2015.
- Gerbino Gold Group LLC, holding approximately 9,125,013 common shares, or 11.65%, as at December, 2015.

All shareholders, including major and/or controlling shareholders have the same voting rights with respect to the issued common shares.

Emgold's securities are recorded on the books of its transfer agent in registered form, however, the majority of such shares are registered in the name of intermediaries such as brokerage houses and clearing houses on behalf of their respective brokerage clients, and Emgold does not have knowledge of or access to information about the beneficial owners thereof. To the best of its knowledge, Emgold is not directly or indirectly owned or controlled by a corporation or foreign government. As of December 31, 2015, Emgold had authorized an unlimited number of common shares without par value of which 78,295,684 (2014 – 77,823,462) were issued and outstanding.

As of May 2, 2016, there were 101 registered shareholders of record holding a total of 79,004,017 common shares of Emgold. To the best of Emgold's knowledge there were 54 registered shareholders of record with registered addresses in Canada, no shareholders of record with registered addresses in the United States and no shareholders of record with a registered address in other countries. Shares registered in intermediaries are assumed to be held by residents of the same country in which the clearing-house was located.

To the best of the Company's knowledge, there are no arrangements in place the operation of which may result in a change of control of the Company.

B. Related Party Transactions

No director or senior officer, and no associate or affiliate of the foregoing persons, and no insider has or has had any material interest, direct or indirect, in any transactions, or in any other proposed transaction between January 1, 2015 and December 31, 2015, except as noted below.

Related Party Transactions

Name and Principal Position	Remuneration	
	Share-based or fees ⁽¹⁾	awards ⁽²⁾
CEO and President - management fees	\$ 92,500	NIL
A company of which the CFO is a director ⁽³⁾ – management fees	28,153	NIL
A company of which the CFO is a director ⁽³⁾ – accounting	7,121	NIL
Directors	NIL	NIL

Notes:

(1) Amounts disclosed were paid or accrued to the related party.

(2) The term “share-based awards” conforms to the presentation in the Company’s audited consolidated financial statements. As disclosed in Item 6 of this report, these are option-based awards.

(3) A company of which the CFO, Grant T. Smith, is a director.

At December 31, 2015, fees of \$793,301 (2014 – \$572,314) were payable to David Watkinson; fees of \$80,206 (2014 –\$55,767) were payable to Clearline; All amounts were included in due to related parties.

As at 31 December 2015, David Watkinson had loaned to the Company a total of \$40,000 (2014 - \$8,000), which was included in the due to related party amounts showed in the table above. The loan bears interest at 12% per annum. Remaining related party balances are non-interest bearing and are due on demand, with no fixed terms of repayment. These transactions occurred in the normal course of operations and are measured at their exchange amount, which is the amount of consideration established and agreed to by the related parties.

C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

See Item 18, "Financial Statements". The consolidated financial statements as required are attached as an exhibit and are found immediately following the text of this Annual Report. The audit report of MNP LLP, independent Chartered Professional Accountants, is included immediately preceding the consolidated financial statements that they audited.

Legal Proceedings

Emgold is not involved in any litigation or legal proceedings, and to Emgold's knowledge no material legal proceedings involving Emgold or any of its subsidiaries are presently anticipated to be initiated.

Dividend Policy

Emgold has not paid any dividends on its outstanding common shares since its incorporation and does not anticipate that it will do so in the foreseeable future. All funds of Emgold are being retained for exploration and development of its projects.

B. Significant Changes

There are no significant changes of financial conditions since the most recent audited financial statements included within this Annual Report.

ITEM 9. THE OFFER AND LISTING

A. Offer and listing details

Trading Markets

The tables below list the annual high and low prices for common shares of the Company for the past five years; the high and low market prices for each quarter during the two most recent years and the first quarter of 2016; and the high and low prices for each month for the six most recent months.

Year	EMR Annual Share Price Range – Last 5 Years (source – TMX website, Cdn\$)		EMR Annual Share Price Range – Last 5 Years (source – US OTC market, US\$)	
	High (Cdn\$)	Low (Cdn\$)	High (US\$)	Low (US\$)
2015	0.010	0.010	0.021	0.001
2014	0.040	0.020	0.039	0.008
2013	0.080	0.020	0.074	0.014
2012	0.120	0.045	0.124	0.050
2011	0.290	0.075	0.300	0.070

EMR Quarterly Share Price – Last 2 Years

(source – TMX website, Cdn\$)

**EMR
Quarterly
Share Price –
Last 2 Years**

(source – TMX website,
Cdn\$)

**EMR
Quarterly
Share Price –
Last 2 Years**

(source – US
OTC
market,
US\$)

Quarter	High	Low	High	Low
	(Cdn\$)	(Cdn\$)	(US\$)	(US\$)
Calendar 2016				
Second Quarter (to April 25, 2016)	0.040	0.020	0.025	0.007
First Quarter	0.020	0.010	0.012	0.003
Calendar 2015				
First Quarter	0.020	0.020	0.021	0.010
Second Quarter	0.010	0.010	0.010	0.009
Third Quarter	0.010	0.010	0.010	0.001
Fourth Quarter	0.010	0.010	0.005	0.001
Calendar 2014				
First Quarter	0.035	0.025	0.039	0.019
Second Quarter	0.040	0.020	0.039	0.020
Third Quarter	0.030	0.020	0.029	0.013
Fourth Quarter	0.030	0.020	0.016	0.008

**EMR Last Six
Months Share
Price**

(source – TMX website,
Cdn\$)

**EMR Last
Six Months
Share Price**

(source – US
OTC
market,
US\$)

Month	High	Low	High	Low
	(Cdn\$)	(Cdn\$)	(US\$)	(US\$)
April 2016 (to April 25, 2016)	0.04	0.02	0.025	0.007
March 2016	0.02	0.02	0.012	0.007
February 2016	0.02	0.01	0.012	0.003

January 2016	0.01	0.01	0.003	0.003
December 2015	0.01	0.01	0.003	0.001
November 2015	0.01	0.01	0.003	0.001

The high, low and closing price of the Company's common stock on the TSX Venture Exchange on April 25, 2016, was Cdn\$0.035, Cdn\$0.025, and Cdn\$0.035 respectively. The Company's common stock is issued in registered form.

B. Plan of Distribution

Not applicable.

C. Markets

The shares of Emgold have traded in Canada on the TSX Venture Exchange (formerly the Canadian Venture Exchange and successor, by merger, to the Vancouver Stock Exchange and the Alberta Stock Exchange) since August 31, 1989 (symbol-EMR).

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

Emgold's corporate constituting documents comprising Articles of Association and Memorandum are registered with the British Columbia Registrar of Companies under Corporation No. 361869. The Company was continued under the Business Corporations Act in British Columbia in June 2005. A copy of the Notice of Article and Articles have been filed as an exhibit to filings in prior periods.

Objects and Purposes

Emgold's Articles do not specify objects or purposes. Under British Columbia law, a British Columbia corporation has all the legal powers of a natural person. British Columbia corporations may not undertake certain limited business activities such as operating as a trust company or railroad without alterations to its form of articles and specific government consent.

Directors – Powers and Limitations

Emgold's articles do not specify a maximum number of directors (the minimum under British Columbia law for a public company is three). Shareholders at the annual shareholders meeting determine the number of directors annually and all directors are elected at that time. There are no staggered directorships. Under the British Columbia Business Corporations Act ("BCA") directors are obligated to abstain from voting on matters in which they may be financially interested after fully disclosing such interest. Directors' compensation is not a matter on which they must abstain.

Directors must be of the age of majority (18), and meet eligibility criteria including not being mentally infirm, not having any undischarged bankruptcies and having no fraud related convictions in the previous five years. There is no mandatory retirement age either under Emgold's Articles or under the BCA.

Directors' borrowing powers are not generally restricted where the borrowing is in Emgold's best interests, but the directors may not authorize Emgold to provide financial assistance for any reason where Emgold is insolvent or the providing of the guarantee would render it insolvent. Directors need not own any shares of Emgold in order to qualify as directors.

The Articles specify the number of directors shall be the number of directors fixed by shareholders annually, or the number that are actually elected at a general shareholders meeting. Shareholders at the annual shareholders' meeting determine the number of directors annually and all directors are elected at that time. Under the Articles the directors are entitled between successive annual general meetings to appoint one or more additional directors but not more than one-third of the number of directors fixed at a shareholders meeting or actually elected at the preceding annual shareholders' meeting. Directors automatically retire at the commencement of each annual meeting but may be re-elected thereat.

Under the Articles, a director who is in any way directly or indirectly interested in a proposed contract or transaction, or who holds any office or possesses any property whereby directly or indirectly a duty might be created which would conflict with his duty or interest as a director, shall declare the nature and extent of such interest in such contract or transaction. A director shall not vote in respect of any such contract or transaction and if he should vote, his vote shall not be counted, but he may be counted in the quorum present at the meeting. Similarly, under the BCA directors are obligated to abstain from voting on matters in which they may be financially interested after fully disclosing such interest.

Descriptions of rights, preferences and restrictions attaching to each class of shares

Common Shares

Emgold has authorized an unlimited number of common shares without par value. All common shares rank pari passu for the payment of dividends and distributions in the event of wind-up.

Some of the significant provisions under British Columbia law and Emgold's Articles relating to the common shares may be summarized as follows:

Capital Increases and Other Changes

Authorized capital increases as well as other changes to the constituting documents require the approval of the majority of votes of shareholders at a duly convened meeting.

Certain changes such as amalgamations, re-domiciling, and creation of new classes of shares may also give rise to dissent rights (the right to be paid the "fair value" for their shares in cash if the matter is proceeded with).

Shares Fully Paid

All Emgold shares must, by applicable law, be issued as fully paid for cash, property or services. They are, therefore, non-assessable and not subject to further calls for payment.

Pre-emptive Rights

There are no pre-emptive rights applicable to Emgold which provide a right to any person to participate in offerings of Emgold's securities

Liquidation

All common shares of Emgold participate rateably in any available assets in the event of a winding up or other liquidation, subject to the prior rights of First Preference Shares.

No Limitation on Foreign Ownership

There are no limitations under Emgold's Articles or in the BCA on the right of persons who are not residents of Canada or foreign shareholders to hold or vote common shares. (See also "Exchange Controls")

Dividends

Dividends may be declared by the Board out of available assets and are paid rateably to holders of common shares. No dividend may be paid if Emgold is, or would thereby become, insolvent.

Voting Rights

Each Emgold common share is entitled to one vote on matters to which common shares ordinarily vote including the election of directors, appointment of auditors and approval of corporate changes. There are no cumulative voting rights applicable to Emgold. At an annual meeting of shareholders, subject to the BCA, general meeting resolutions are decided by a show of hands, or upon request, by a poll. A simple majority is required to pass an ordinary resolution.

Shareholder Meetings

Shareholders' meetings are governed by the Articles of Emgold but many important shareholder protections are also contained in the Securities Act (British Columbia) and the BCA. The Articles provide that Emgold will hold an annual shareholders' meeting, will provide at least 21 days' notice and will provide for certain procedural matters and rules of order with respect to the conduct of the meeting. The Securities Act (British Columbia) and the BCA superimpose requirements that generally provide that shareholder' meetings require not less than a 60 day notice period from initial public notice and that Emgold makes a thorough advanced search of intermediary and brokerage registered shareholdings to facilitate communication with beneficial shareholders so that meeting proxy and information materials can be sent via the brokerages to unregistered but beneficial shareholders. The form and content of information circulars and proxies and like matters are governed by the Securities Act (British Columbia) and the BCA. This legislation specifies the disclosure requirements for the proxy materials and various corporate actions, background information on the nominees for election for director, executive compensation paid in the previous year and full details of any unusual matters or related party transactions. Emgold must hold an annual shareholders meeting open to all shareholders for personal attendance or by proxy at each shareholder's determination. The meeting must be held within 15 months of the previous annual shareholders' meeting. A quorum for a shareholders' meeting is two members or proxy holders present.

On October 18, 2013, Emgold adopted an Advance Notice Policy for future shareholder meetings. This was approved by Shareholders at the AGM on 27 November, 2013. The purpose of the Policy is to provide shareholders, directors and management of the Company with a clear framework for nominating directors of the Company. The Company is committed to: (i) facilitating an orderly and efficient annual general or, where the need arises, special meeting, process; (ii) ensuring that all shareholders receive adequate notice of the director nominations and sufficient information regarding all director nominees; and (iii) allowing shareholders to register an informed vote after having been afforded reasonable time for appropriate deliberation. The Policy is intended to further these objectives.

The Policy, among other things, includes a provision that requires advance notice to the Company in certain circumstances where nominations of persons for election to the Board of Directors are made by shareholders of the Company. The Policy fixes a deadline by which director nominations must be submitted to the Company prior to any annual or special meeting of shareholders and sets forth the information that must be included in the notice to the Company. No person will be eligible for election as a director of the Company unless nominated in accordance with the Policy.

In the case of an annual meeting of shareholders, notice to the Company must be made not less than 30 days and not more than 65 days prior to the date of the annual meeting; provided, however, that, in the event that the annual meeting is to be held on a date that is less than 50 days after the date on which the first public announcement of the date of the annual meeting was made, notice may be made not later than the close of business on the 10th day following such public announcement.

In the case of a special meeting of shareholders called for the purpose of electing directors (whether or not called for other purposes), notice to the Company must be made not later than the close of business on the 15th day following the day on which the first public announcement of the date of the special meeting was made.

Change in Control

Emgold has not implemented any shareholders' rights or other "poison pill" protection against possible take-overs. Emgold does not have any agreements, which are triggered by a take-over or other change of control. There are no provisions in its articles triggered by or affected by a change in outstanding shares which gives rise to a change in control. There are no provisions in Emgold's material agreements giving special rights to any person on a change of control.

Insider Share Ownership Reporting

The articles of Emgold do not require disclosure of share ownership. Share ownership of director nominees must be reported annually in proxy materials sent to Emgold's shareholders. There are no requirements under British Columbia corporate law to report ownership of shares of Emgold but the Securities Act (British Columbia) requires disclosure of trading by insiders (generally officers, directors and holders of 10% of voting shares) within 10 days of the trade. Controlling shareholders (generally those in excess of 20% of outstanding shares) must provide seven days advance notice of share sales.

Securities Act (British Columbia)

This statute applies to Emgold and governs matters typically pertaining to public securities such as continuous quarterly financial reporting, immediate disclosure of material changes, insider trade reporting, take-over protections to ensure fair and equal treatment of all shareholders, exemption and resale rules pertaining to non-prospectus securities issuances as well as civil liability for certain misrepresentations, disciplinary, appeal and discretionary ruling matters. All Emgold shareholders regardless of residence have equal rights under this legislation.

Future Capital Calls

The directors of the Company do not have any liability for future capital calls.

Preference Shares

Emgold has authorized an unlimited number of preference shares without par value of which none are outstanding as at December 31, 2015.

C. Material contracts

The following is a summary of each material contract, other than contracts entered into in the ordinary course of business, to which Emgold or any member of the Emgold group is a party, for the two years preceding the date of this document.

A five-year lease (as amended) initially had a term ending on May 31, 2007, with the owners of the Idaho-Maryland Mine at lease payments of \$25,500 quarterly on February, May, August and November 1st. The owners granted to the Company the exclusive right and option to purchase all of the leased properties and mineral rights owned by the BET Group. The mineral rights were subject to a 3% net smelter royalty from production if the properties and mineral rights were still being leased. Any royalty payments made prior to exercising the purchase option may be deducted from the purchase price. In February 2007, for a one-time payment of \$75,000, the Company negotiated an extension to the initial amended lease (First Extension), whereby the exercise date was extended to December 31, 2008. The Company agreed to a quarterly lease payment of \$75,000 beginning on May 1, 2007, and continuing for the term of the revised lease. The Company further amended the mining lease and option to purchase as follows: the payments, commencing on February 1, 2009, were reduced to \$30,000 per quarter during fiscal 2009. Commencing with the February 1, 2010, payment, quarterly payments are to be \$60,000 through to the end of the extended term, which is February 1, 2011. All other conditions of the original agreement, including the option purchase price and NSR remain unchanged. The quarterly lease payments are being expensed in the Consolidated Statements of Operations as holding costs, but are accrued and have not been paid due to the financial constraints of the Company.

On 1 February 2011, the Company extended its lease and option to purchase agreement on the BET Group for an additional two years to February 1, 2013. All lease payments related to the agreement are current as at December 31, 2012. Payments for the extension period will be \$30,000 per quarter. Fifty per cent of the quarterly payments for 2010 were deferred, lowering the quarterly payments from \$60,000 to \$30,000 per quarter. The deferred balance of \$120,000, subject to an interest rate of 5.25%, will be added to the purchase price of the properties and mineral rights, the first purchase payment being due February 1, 2013, if the option to purchase is exercised. The Company is currently in discussions with the BET Trust to extend and/or negotiate a new agreement, which would cover the lease and option to purchase of approximately 2,750 acres of mineral rights and 91 acres of surface rights associated with the Project.

D. Exchange controls

The Company is not aware of any Canadian federal or provincial laws, decrees or regulations that restrict the export or import of capital, including foreign exchange controls, or that affect the remittance of dividends, interest or other payments to a non-resident holder of Common Shares, other than withholding tax requirements. Any such remittances to United States residents are generally subject to withholding tax, however no such remittances are likely in the foreseeable future. See "Taxation", below.

There is no limitation imposed by the laws of Canada or by the charter or other constituent documents of Emgold on the right of a non-resident to hold or vote the Common Shares, other than as provided in the Investment Canada Act (the "Investment Act"). The following discussion summarizes the material features of the Investment Act for a non-resident who proposes to acquire the Common Shares. It is general only, it is not a substitute for independent advice from an investor's own advisor, and it does not anticipate statutory or regulatory amendments. Emgold does not

believe the Investment Act will have any effect on it or on its non-Canadian shareholders due to a number of factors including the nature of its operations and Emgold's relatively small capitalization.

The Investment Act generally prohibits implementation of a "reviewable" investment by an individual, government or agency thereof, corporation, partnership, trust or joint venture (each an "entity") that is not a "Canadian" as defined in the Investment Act (a "non-Canadian"), unless after review the Director of Investments appointed by the minister responsible for the Investment Act is satisfied that the investment is likely to be of net benefit to Canada. The size and nature of a proposed transaction may give rise to an obligation to notify the Director to seek an advance ruling. An investment in Emgold's Common Shares by a non-Canadian other than a "WTO Investor" (as that term is defined in the Investment Act and which term includes entities which are nationals of or are controlled by nationals of member states of the World Trade Organization) when Emgold was not controlled by a WTO Investor, would be reviewable under the Investment Act if it was an investment to acquire control of Emgold and the value of the assets of Emgold, as determined in accordance with the regulations promulgated under the Investment Act, was over a certain figure, or if an order for review was made by the federal cabinet on the grounds that the investment related to Canada's cultural heritage or national identity, regardless of the value of the assets of Emgold. An investment in the Common Shares by a WTO Investor, or by a non-Canadian when Emgold was controlled by a WTO Investor, would be reviewable under the Investment Act if it was an investment to acquire control of Emgold and the value of the assets of Emgold, as determined in accordance with the regulations promulgated under the Investment Act, was not less than a specified amount, which for 2013 is Cdn\$344 million. A non-Canadian would acquire control of Emgold for the purposes of the Investment Act if the non-Canadian acquired a majority of the Common Shares. The acquisition of less than a majority but one-third or more of the Common Shares would be presumed to be an acquisition of control of Emgold unless it could be established that, on the acquisition, Emgold was not controlled in fact by the acquirer through the ownership of the Common Shares.

The foregoing assumes Emgold will not engage in the production of uranium or own an interest in a producing uranium property in Canada, or provide any financial service or transportation service, as the rules governing these businesses are different.

Certain transactions relating to the Common Shares would be exempt from the Investment Act, including:

- a) an acquisition of the Common Shares by a person in the ordinary course of that person's business as a trader or dealer in securities,
- b) an acquisition of control of Emgold in connection with the realization of security granted for a loan or other financial assistance and not for a purpose related to the provisions of the Investment Act, and
- c) an acquisition of control of Emgold by reason of an amalgamation, merger, consolidation or corporate reorganization following which the ultimate direct or indirect control in fact of Emgold, through the ownership of the Common Shares, remained unchanged.

E.

Taxation

ALL PROSPECTIVE INVESTORS ARE ADVISED TO CONSULT THEIR OWN TAX ADVISORS WITH RESPECT TO THE SPECIFIC TAX CONSEQUENCES OF PURCHASING THE COMMON SHARES OF THE COMPANY.

Material Canadian Federal Income Tax Consequences for United States Residents

The following summarizes the material Canadian federal income tax consequences generally applicable to the holding and disposition of Common Shares by a holder (in this summary, a "U.S. Holder") who, (a) for the purposes of the Income Tax Act (Canada) (the "Tax Act"), is not resident in Canada, deals at arm's length with Emgold, holds the Common Shares as capital property and does not use or hold the Common Shares in the course of carrying on, or otherwise in connection with, a business in Canada, and (b) for the purposes of the Canada-United States Income Tax Convention, 1980 (the "Treaty"), is a resident solely of the United States, has never been a resident of Canada, and has not held or used (and does not hold or use) Common Shares in connection with a permanent establishment or fixed base in Canada. This summary does not apply to traders or dealers in securities, limited liability companies, tax-exempt entities, insurers, financial institutions (including those to which the mark-to-market provisions of the Tax Act apply), or any other U.S. Holder to which special considerations apply.

This summary is based on the current provisions of the Tax Act including all regulations thereunder, the Treaty, all proposed amendments to the Tax Act, the regulations and the Treaty publicly announced by the Government of Canada to the date hereof, and the current administrative practices of the Canada Customs and Revenue Agency. It has been assumed that all currently proposed amendments will be enacted as proposed and that there will be no other relevant change in any governing law or administrative practice, although no assurances can be given in these respects. This summary does not take into account provincial, U.S., state or other foreign income tax law or practice. The tax consequences to any particular U.S. Holder will vary according to the status of that holder as an individual, trust, corporation, partnership or other entity, the jurisdictions in which that holder is subject to taxation, and generally according to that holder's particular circumstances. Accordingly, this summary is not, and is not to be construed as, Canadian tax advice to any particular U.S. Holder.

Dividends

Dividends paid or deemed to be paid to a U.S. Holder by Emgold will be subject to Canadian withholding tax. Under the Treaty, the rate of withholding tax on dividends paid to a U.S. Holder is generally limited to 15% of the gross amount of the dividend (or 5% if the U.S. Holder is a corporation and beneficially owns at least 10% of Emgold's voting shares). Emgold will be required to withhold the applicable withholding tax from any such dividend and remit it to the Canadian government for the U.S. Holder's account.

Disposition

A U.S. Holder is not subject to tax under the Tax Act in respect of a capital gain realized on the disposition of a Common Share in the open market unless the share is “taxable Canadian property” to the holder thereof and the U.S. Holder is not entitled to relief under the Treaty. A Common Share will be taxable Canadian property to a U.S. Holder if, at any time during the 60 months preceding the disposition, the U.S. Holder or persons with whom the U.S. Holder did not deal at arm’s length alone or together owned, or had rights to acquire, 25% or more of Emgold’s issued shares of any class or series. If the shares of Emgold constitute taxable Canadian property to the holder, the holder may be subject to Canadian income tax on the gain. The taxpayer’s taxable capital gain or loss from a disposition of the share is the amount, if any, by which the proceeds of disposition exceed (or are exceeded by) the aggregate of the adjusted cost base and reasonable expenses of disposition. One-half of the capital gain is included in income and one-half of the capital loss is deductible from capital gains realized in the same year. Unused capital losses may be carried back three taxation years or forward indefinitely and applied to reduce capital gains realized in those years. It should be noted that Canada requires a withholding tax on the gross proceeds of a sale of taxable Canadian property by a non-resident. The withholding tax may be reduced on completion of a Clearance Certificate Request. If the disposition of the share is subject to tax in Canada, the non-resident must also file a Canadian income tax return reporting the disposition.

A U.S. Holder whose Common Shares do constitute taxable Canadian property, and who might therefore be liable for Canadian income tax under the Tax Act, will generally be relieved from such liability under the Treaty unless the value of such shares at the time of disposition is derived principally from real property situated in Canada. The value of Emgold’s common shares is not currently derived principally from real property situated in Canada.

United States Tax Consequences

United States Federal Income Tax Consequences

NOTHING CONTAINED IN THIS SUMMARY CONTAINING ANY U.S. FEDERAL TAX ISSUE IS INTENDED OR WRITTEN TO BE USED, AND IT CANNOT BE USED FOR THE PURPOSE OF AVOIDING U.S. TAX PENALTIES UNDER THE CODE.

The following is a discussion of material United States federal income tax consequences, under current law, generally applicable to a U.S. Holder (as hereinafter defined) of common shares of Emgold. This discussion does not address all potentially relevant federal income tax matters and it does not address consequences peculiar to persons subject to special provisions of federal income tax law, such as those described below as excluded from the definition of a U.S. Holder. In addition, this discussion does not cover any state, local or foreign tax consequences. (see “Taxation – Material Canadian Federal Income Tax Consequences for United States Residents” above) for Canadian tax

consequences. **Accordingly, we strongly recommend that holders and prospective holders of common shares of Emgold consult their own tax advisors about the specific federal, state, local, and foreign tax consequences to them of purchasing, owning and disposing of common shares of Emgold, based upon their individual circumstances.**

The following discussion is based upon the sections of the Internal Revenue Code of 1986, as amended (the “Code”), Treasury Regulations, published Internal Revenue Service (“IRS”) rulings, published administrative positions of the IRS and court decisions that are currently applicable, any or all of which could be materially and adversely changed, possibly on a retroactive basis, at any time and which are subject to differing interpretations. This discussion does not consider the potential effects, both adverse and beneficial, of any proposed legislation, which, if enacted, could be applied, possibly on a retroactive basis, at any time.

U.S. Holders

As used herein, a “U.S. Holder” means a holder of common shares of Emgold who is a citizen or individual resident of the United States, a corporation created or organized in or under the laws of the United States or of any political subdivision thereof, an estate whose income is taxable in the United States irrespective of source or a trust subject to the primary supervision of a court within the United States and control of a United States fiduciary as described Section 7701(a)(30) of the Code. This summary does not address the tax consequences to, and U.S. Holder does not include, persons subject to specific provisions of federal income tax law, such as tax-exempt organizations, qualified retirement plans, individual retirement accounts and other tax-deferred accounts, financial institutions, insurance companies, real estate investment trusts, regulated investment companies, broker-dealers, non-resident alien individuals, persons or entities that have a “functional currency” other than the U.S. dollar, shareholders subject to the alternative minimum tax, shareholders who hold common shares as part of a straddle, hedging or conversion transaction, and shareholders who acquired their common shares through the exercise of employee stock options or otherwise as compensation for services. This summary is limited to U.S. Holders who own common shares as capital assets, within the meaning of Section 1221 of the Code, and who own (directly and indirectly, pursuant to applicable rules of constructive ownership) no more than 5% of the value of the total outstanding stock of Emgold. This summary does not address the consequences to a person or entity holding an interest in a shareholder or the consequences to a person of the ownership, exercise or disposition of any options, warrants or other rights to acquire common shares. In addition, this summary does not address special rules applicable to persons holding common shares through a partnership.

Distribution on Common Shares of Emgold

Subject to the rules discussed under “Passive Foreign Investment Company” below, in general, U.S. Holders receiving dividend distributions (including constructive dividends) with respect to common shares of Emgold are required to include in gross income for United States federal income tax purposes the gross amount of such distributions, equal to the U.S. dollar value of such distributions on the date of receipt (based on the exchange rate on such date), to the extent that Emgold has current or accumulated earnings and profits (as determined under United States federal income tax principles), without reduction for any Canadian income tax withheld from such distributions. Such Canadian tax withheld may be credited, subject to certain limitations, against the U.S. Holder’s federal income tax liability or, alternatively, may be deducted in computing the U.S. Holder’s federal taxable income by those who itemize deductions. (See more detailed discussion at “Foreign Tax Credit” below). To the extent that distributions exceed current and accumulated earnings and profits of Emgold, they will be treated first as a return of capital up to the U.S. Holder’s adjusted basis in the common shares and thereafter as gain from the sale or exchange of property. Preferential tax rates for long-term capital gains are applicable to a U.S. Holder, which is an individual, estate or trust. There are currently no preferential tax rates for long-term capital gains for a U.S. Holder, which is a corporation.

In the case of foreign currency received as a dividend that is not converted by the recipient into U.S. dollars on the date of receipt, a U.S. Holder will have a tax basis in the foreign currency equal to its U.S. dollar value on the date of receipt. Generally any gain or loss recognized upon a subsequent sale or other disposition of the foreign currency, including the exchange for U.S. dollars, will be ordinary income or loss. However, an individual whose realized gain does not exceed \$200 will not recognize that gain, provided that there are no expenses associated with the transaction that meet the requirements for deductibility as a trade or business expense (other than travel expenses in connection with a business trip) or as an expense for the production of income.

Under current Treasury Regulations, dividends paid on Emgold’s common shares, if any, generally will not be subject to information reporting and generally will not be subject to U.S. backup withholding tax. However, dividends and the proceeds from a sale of Emgold’s common shares paid in the U.S. through a U.S. or U.S. related paying agent (including a broker) will be subject to U.S. information reporting requirements and may also be subject to the 28% U.S. backup withholding tax, unless the paying agent is furnished with a duly completed and signed Form W-9. Any amounts withheld under the U.S. backup withholding tax rules will be allowed as a refund or a credit against the U.S. Holder’s U.S. federal income tax liability, provided the required information is furnished to the IRS.

Foreign Tax Credit

A U.S. Holder who pays (or has withheld from distributions) Canadian income tax with respect to the ownership of common shares of Emgold may be entitled, at the option of the U.S. Holder, to either receive a deduction or a tax credit for such foreign tax paid or withheld. Generally, it will be more advantageous to claim a credit because a credit reduces United States federal income taxes on a dollar-for-dollar basis, while a deduction merely reduces the taxpayer’s income subject to tax. This election is made on a year-by-year basis and generally applies to all foreign taxes paid by (or withheld from) the U.S. Holder during that year. There are significant and complex limitations which apply to the credit; among which is the general limitation that the credit cannot exceed the proportionate share of the

U.S. Holder's United States income tax liability that the U.S. Holder's foreign source income bears to his or its worldwide taxable income. In the determination of the application of this limitation, the various items of income and deduction must be classified into foreign and domestic sources. Complex rules govern this classification process. In addition, this limitation is calculated separately with respect to specific classes of income such as "passive category income", and "general category income." Dividends distributed by Emgold will generally constitute "passive category income" or, in the case of certain U.S. Holders, "general category income" for these purposes. The availability of the foreign tax credit and the application of the limitations on the credit are fact specific, and U.S. Holders of common shares of Emgold should consult their own tax advisors regarding their individual circumstances.

Disposition of Common Shares of Emgold

Subject to the rules discussed under “Passive Foreign Investment Company” below, in general, U.S. Holders will recognize gain or loss upon the sale of common shares of Emgold equal to the difference, if any, between (i) the amount of cash plus the fair market value of any property received, and (ii) the shareholder’s tax basis in the common shares of Emgold. Preferential tax rates apply to long-term capital gains of U.S. Holders, which are individuals, estates or trusts. In general, gain or loss on the sale of common shares of Emgold will be long-term capital gain or loss if the common shares are a capital asset in the hands of the U.S. Holder and are held for more than one year. Deductions for net capital losses are subject to significant limitations. For U.S. Holders, which are not corporations, any unused portion of such net capital loss may be carried over to be used in later tax years until such net capital loss is thereby exhausted.

For U.S. Holders that are corporations (other than corporations subject to Subchapter S of the Code), an unused net capital loss may be carried back three years and carried forward five years from the loss year to be offset against capital gains until such net capital loss is thereby exhausted.

Passive Foreign Investment Company

United States income tax law contains rules governing “passive foreign investment companies” (“PFIC”) which can have significant tax effects on U.S. Holders of foreign corporations. These rules do not apply to non-U.S. Holders. Section 1297 of the Code defines a PFIC as a corporation that is not formed in the United States if, for any taxable year, either (i) 75% or more of its gross income is “passive income,” which includes interest, dividends and certain rents and royalties or (ii) the average percentage, by fair market value (or, if the corporation is not publicly traded and either is a controlled foreign corporation or makes an election, by adjusted tax basis), of its assets that produce or are held for the production of “passive income” is 50% or more. Emgold PFIC status has not been assessed for years ended December 31, 2015, 2014, 2013, 2012, or 2011. However Emgold appears to have been a PFIC for the fiscal year ended December 31, 2009 and at least certain prior fiscal years. In addition, Emgold may qualify as a PFIC in future fiscal years. **We strongly recommend that each U.S. Holder consult a tax advisor with respect to how the PFIC rules affect such U.S. Holder’s tax situation.**

Each U.S. Holder who holds stock in a foreign corporation during any year in which such corporation qualifies as a PFIC is subject to United States federal income taxation under one of three alternative tax regimes at the election of such U.S. Holder. The following is a discussion of such alternative tax regimes applied to such U.S. Holders of Emgold.

A U.S. Holder who elects to treat Emgold as a qualified electing fund (“QEF”) will be subject, under Section 1293 of the Code, to current federal income tax for any taxable year to which the election applies in which Emgold qualifies as a PFIC on his pro rata share of Emgold’s (i) “net capital gain” (the excess of net long-term capital gain over net short-term capital loss), which will be taxed as long-term capital gain, and (ii) “ordinary earnings” (the excess of

earnings and profits over net capital gain), which will be taxed as ordinary income, in each case, for the shareholder's taxable year in which (or with which) Emgold's taxable year ends, regardless of whether such amounts are actually distributed. A U.S. Holder's tax basis in the common shares will be increased by any such amount that is included in income but not distributed.

The procedure a U.S. Holder must comply with in making an effective QEF election, and the consequences of such election, will depend on whether the year of the election is the first year in the U.S. Holder's holding period in which Emgold is a PFIC. If the U.S. Holder makes a QEF election in such first year, i.e., a "timely" QEF election, then the U.S. Holder may make the QEF election by simply filing the appropriate documents at the time the U.S. Holder files his tax return for such first year. If, however, Emgold qualified as a PFIC in a prior year during the U.S. Holder's holding period, then, in order to avoid the Section 1291 rules discussed below, in addition to filing documents, the U.S. Holder must elect to recognize under the rules of Section 1291 of the Code (discussed herein), any gain that he would otherwise recognize if the U.S. Holder sold his stock on the qualification date. The qualification date is the first day of Emgold's first tax year in which Emgold qualified as a QEF with respect to such U.S. Holder. For purposes of this discussion, a U.S. Holder who makes (i) a timely QEF election, or (ii) an untimely QEF election and the above-described gain-recognition election under Section 1291 is referred to herein as an "Electing U.S. Holder." A U.S. Holder who holds common shares at any time during a year of Emgold in which Emgold is a PFIC and who is not an Electing U.S. Holder (including a U.S. Holder who makes an untimely QEF election and does not make the above-described gain-recognition election) is referred to herein as a "Non-Electing U.S. Holder." An Electing U.S. Holder (i) generally treats any gain realized on the disposition of his Emgold common shares as capital gain; and (ii) may either avoid interest charges resulting from PFIC status altogether, or make an annual election, subject to certain limitations, to defer payment of current taxes on his share of Emgold's annual realized net capital gain and ordinary earnings subject, however, to an interest charge. If the U.S. Holder is not a corporation, any interest charge imposed under the PFIC regime would be treated as "personal interest" that is not deductible.

In order for a U.S. Holder to make (or maintain) a valid QEF election, Emgold must provide certain information regarding its net capital gains and ordinary earnings and permit its books and records to be examined to verify such information. Emgold intends to make the necessary information available to U.S. Holders to permit them to make (and maintain) QEF elections with respect to Emgold. **We strongly recommend that each prospective U.S. Holder consult a tax advisor regarding the availability of, and procedure for making, the QEF election.**

A QEF election, once made with respect to Emgold, applies to the tax year for which it was made and to all subsequent tax years, unless the election is invalidated or terminated, or the IRS consents to revocation of the election. If a U.S. Holder makes a QEF election and Emgold ceases to qualify as a PFIC in a subsequent tax year, the QEF election will remain in effect, although not applicable, during those tax years in which Emgold does not qualify as a PFIC. Therefore, if Emgold again qualifies as a PFIC in a subsequent tax year, the QEF election will be effective and the U.S. Holder will be subject to the rules described above for Electing U.S. Holders in such tax year and any subsequent tax years in which Emgold qualifies as a PFIC. In addition, the QEF election remains in effect, although not applicable, with respect to an Electing U.S. Holder even after such U.S. Holder disposes of all of his or its direct and indirect interest in the shares of Emgold. Therefore, if such U.S. Holder reacquires an interest in Emgold, that U.S. Holder will be subject to the rules described above for Electing U.S. Holders for each tax year in which Emgold qualifies as a PFIC.

In the case of a Non-Electing U.S. Holder, special taxation rules under Section 1291 of the Code will apply to (i) gains realized on the disposition (or deemed to be realized by reasons of a pledge) of his Emgold common shares and (ii) certain “excess distributions,” as defined in Section 1291(b), by Emgold.

A Non-Electing U.S. Holder generally would be required to pro rate all gains realized on the disposition of his Emgold common shares and all excess distributions on his Emgold common shares over the entire holding period for the common shares. All gains or excess distributions allocated to prior years of the U.S. Holder (excluding any portion of the holder’s period prior to the first day of the first year of Emgold (i) which began after December 31, 1986, and (ii) for which Emgold was a PFIC) would be taxed at the highest tax rate for each such prior year applicable to ordinary income. The Non-Electing U.S. Holder also would be liable for interest on the foregoing tax liability for each such prior year calculated as if such liability had been due with respect to each such prior year. A Non-Electing U.S. Holder that is not a corporation must treat this interest charge as “personal interest” which, as discussed above, is wholly non-deductible. The balance, if any, of the gain or the excess distribution will be treated as ordinary income in the year of the disposition or distribution, and no interest charge will be incurred with respect to such balance. In certain circumstances, the sum of the tax and the PFIC interest charge may exceed the amount of the excess distribution received, or the amount of proceeds of disposition realized, by the U.S. Holder.

If Emgold is a PFIC for any taxable year during which a Non-Electing U.S. Holder holds Emgold common shares, then Emgold will continue to be treated as a PFIC with respect to such Registrant common shares, even if it is no longer definitionally a PFIC. A Non-Electing U.S. Holder may terminate this deemed PFIC status by electing to recognize gain (which will be taxed under the rules discussed above for Non-Electing U.S. Holders) as if such Emgold

common shares had been sold on the last day of the last taxable year for which it was a PFIC.

Effective for tax years of U.S. Holders beginning after December 31, 1997, U.S. Holders who hold (actually or constructively) marketable stock of a foreign corporation that qualifies as a PFIC may elect to mark such stock to the market annually (a “mark-to-market election”). If such an election is made, such U.S. Holder will generally not be subject to the special taxation rules of Section 1291 discussed above. However, if a Non-Electing U.S. Holder makes the mark-to-market election after the beginning of the holding period for the PFIC stock, then the Section 1291 rules will apply to certain dispositions of, distributions on and other amounts taxable with respect to Emgold common shares. A U.S. Holder who makes the mark-to market election will include in income for each taxable year for which the election is in effect an amount equal to the excess, if any, of the fair market value of the common shares of Emgold as of the close of such tax year over such U.S. Holder’s adjusted basis in such common shares. In addition, the U.S. Holder is allowed a deduction for the lesser of (i) the excess, if any, of such U.S. Holder’s adjusted tax basis in the common shares over the fair market value of such shares as of the close of the tax year, or (ii) the excess, if any, of (A) the mark-to-market gains for the common shares in Emgold included by such U.S. Holder for prior tax years, including any amount which would have been treated as a mark-to-market gain for any prior tax year but for the Section 1291 rules discussed above with respect to Non-Electing U.S. Holders, over (B) the mark-to-market losses for shares that were allowed as deductions for prior tax years. A U.S. Holder’s adjusted tax basis in the common shares of Emgold will be adjusted to reflect the amount included in or deducted from income as a result of a mark-to-market election. A mark-to-market election applies to the taxable year in which the election is made and to each subsequent taxable year, unless Emgold common shares cease to be marketable, as specifically defined, or the IRS consents to revocation of the election. A U.S. Holder makes a mark-to-market election by filing IRS Form 8621. No view is expressed regarding whether common shares of Emgold are marketable for these purposes or whether the election will be available.

Under Section 1291(f) of the Code, the IRS has issued Proposed Treasury Regulations that, subject to certain exceptions, would treat as taxable certain transfers of PFIC stock by Non-Electing U.S. Holders that are generally not otherwise taxed, such as gifts, exchanges pursuant to corporate reorganizations, and transfers at death. Generally, in such cases the basis of Emgold common shares in the hands of the transferee and the basis of any property received in the exchange for those common shares would be increased by the amount of gain recognized. Under the Proposed Treasury Regulations, an Electing U.S. Holder would not be taxed on certain transfers of PFIC stock, such as gifts, exchanges pursuant to corporate reorganizations, and transfers at death. The transferee's basis in this case will depend on the manner of the transfer. In the case of a transfer by an Electing U.S. Holder upon death, for example, the transferee's basis is generally equal to the fair market value of the Electing U.S. Holder's common shares as of the date of death under Section 1014 of the Code. The specific tax effect to the U.S. Holder and the transferee may vary based on the manner in which the common shares are transferred. **We strongly recommend that each prospective U.S. Holder of Emgold consult a tax advisor with respect to how the PFIC rules affect his or its tax situation.**

Certain special, generally adverse, rules will apply with respect to Emgold common shares while Emgold is a PFIC unless the U.S. Holder makes a timely QEF election. For example under Section 1298(b)(6) of the Code, a U.S. Holder who uses PFIC stock as security for a loan (including a margin loan) will, except as may be provided in regulations, be treated as having made a taxable disposition of such shares.

F. Dividends and Paying Agents

Not applicable.

G. Statement By Experts

Not applicable.

H. Documents on Display

Exhibits included with this Form 20-F are also available for viewing at the offices of Emgold, Suite 1010, 789 West Pender Street, Vancouver, British Columbia V6C 1H2 or on request of Emgold at (778) 375-3106. Copies of Emgold's financial statements and other continuous disclosure documents required under the British Columbia *Securities Act* are available for viewing on the Internet at www.SEDAR.com.

I. Subsidiary Information

Not applicable.

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ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

A. Quantitative Information About Market Risk

As at December 31, 2015, the Company has the following foreign denominated balances, which are recorded at the U.S. dollar amount and are subject to foreign exchange risk:

Foreign Denominated Balances (Rounded '000's)

	Canadian currency amount	U.S. currency amount
Cash	2,000	1,800
Accounts payable and accrued liabilities	(91,000)	(73,000)

B. Qualitative Information About Market RiskTransaction Risk and Currency Risk Management

Emgold's current operations do not employ financial instruments or derivatives. Currently the Company has no long-term debt or source of revenue as the Company is in the resource exploration and early development stage on its mineral property interests.

Exchange Rate Sensitivity

The majority of Emgold's operations are in the United States, but its administrative operations are in Canada. The Company is affected by exchange rate risk, as the equity financings by the Company to date have been denominated primarily in Canadian dollars. Excess cash is invested primarily in United States dollar denominated investments and may be affected by exchange rate risk for Canadian dollar expenditures. In future, it will be necessary to do further equity or other forms of financing. The funds may be received in either Canadian or U.S. dollars. Funds received in U.S. dollars will likely remain in U.S. dollars and be used for expenditures in U.S. dollars, to reduce exchange risk. The risk that the Company is subject to will be if expenses are incurred in Canadian dollars, with large fluctuations in the Canadian-U.S. dollar exchange rate at that time of the transaction. The Company's potential near-term exchange

risk associated with fluctuation of exchange rates is not believed to be material. Exchange gain in fiscal 2015 was a nominal amount.

Interest Rate Risk and Equity Price Risk

Emgold has been equity financed and does not have any debt that is subject to interest rate change risks.

Commodity Price Risk

While the value of Emgold's resource properties can always be said to relate to the price of precious metals and the outlook for same, Emgold currently does not have any operating mines and hence does not have any hedging or other commodity based risk respecting its operations.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not applicable.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Not applicable.

ITEM 15. CONTROLS AND PROCEDURES

a) Disclosure controls and procedures.

Management is responsible for designing, establishing and maintaining a system of internal controls over financial reporting to provide reasonable assurance that the financial information prepared by the Company for external purposes is reliable and has been recorded, processed, and reported in an accurate and timely manner in accordance with generally accepted accounting principles.

Management is also responsible for designing, establishing, and maintaining a system of disclosure controls and procedures. Disclosure controls and procedures are designed to provide reasonable assurance that material items requiring disclosure by the Company are identified and reported in a timely manner.

Based upon the evaluation, our CEO and CFO have concluded that as of December 31, 2015, our disclosure controls and procedures, as defined in Rule 13a-15(e) under the Exchange Act, were effective in providing reasonable assurance.

b) Management's annual report on internal control over financial reporting.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) under the Exchange Act. The Company's internal control system is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes.

The Chief Executive Officer and the Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures and assessed the design and the operating effectiveness of the Company's internal control over financial reporting as of December 31, 2015. In making the assessment, management used the criteria issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013 framework) in Internal Control-Integrated Framework. Based on that assessment, management concluded that, as at the date of the audit report of the December 31, 2015 financial statements, the Company's internal control over financial reporting was effective.

c) Attestation Report of the registered public accounting firm.

Not applicable

d) Changes in internal control over financial reporting.

There was no other change in the Company's internal control over financial reporting that occurred during the period covered by this Annual Report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. We have engaged in, and are continuing to engage in, efforts to improve our internal control over financial reporting and disclosures and procedures related to substantially all areas of our financial statements and disclosures.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

The members of the audit committee are Messrs. William J. Witte, Allen Leschert, and Andrew MacRitchie. The Company's Board of Directors has determined that Mr. MacRitchie qualifies as an "audit committee financial expert" and is "independent" as that term is defined under NYSE MKT rules. Mr. MacRitchie is a Chartered Accountant and CFO of a resource company. The other members of the audit committee also have significant financial experience within the mining industry and are considered financially literate, and they are also considered independent.

ITEM 16B. CODE OF ETHICS

The Company has adopted a code of ethics that applies to the Company's chief executive officer, the chief financial officer and other members of senior management. The Company's Code of Ethics is included as an exhibit to this Form 20-F. There have been no amendments to the code of ethics and no waivers during the year ended December 31, 2015, and to the date of this Form 20-F.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table discloses the aggregate fees billed for each of the last two fiscal years for professional services rendered by the Company's audit firm for various services:

Professional Service Fees from Audit Firm

Services:	Years ended December	
	31	
	2015 (Cdn\$)	2014 (Cdn\$)
Audit Fees	\$ 30,000	\$ 30,000
Audit-Related Fees ⁽¹⁾	--	--
Tax Fees	--	--
All Other Fees ⁽²⁾	--	--
Total Fees	\$ 30,000	\$ 30,000

Notes:

⁽¹⁾ "Audit-Related Fees" includes services that are traditionally performed by the auditor. These audit-related services include review of SEC documentation and audit or attest services not required by legislation or regulation.

⁽²⁾ Canadian Public Accounting Board and IFRS conversion fees.

From time to time, management of the Company recommends to and requests approval from the audit committee for non-audit services to be provided by the Company's auditors. The audit committee routinely considers such requests at committee meetings, and if acceptable to a majority of the audit committee members, pre-approves such non-audit services by a resolution authorizing management to engage the Company's auditors for such non-audit services, with set maximum dollar amounts for each itemized service. During such deliberations, the audit committee assesses, among other factors, whether the services requested would be considered "prohibited services" as contemplated by the United States Securities and Exchange Commission and whether the services requested and the fees related to such services could impair the independence of the auditors. All of the non-audit related services provided by the Company's audit firm were pre-approved by the audit committee.

During the year ended December 31, 2015, all of the services described above under “Principal Accountant Fees and Services” under the captions “Audit-Related Fees”, “Tax Fees”, and “All Other Fees” were approved by the Audit Committee pursuant to paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

Not applicable.

ITEM 16F. CHANGE IN CERTIFYING ACCOUNTANT

Disclosure relating to this item was previously reported in the Company’s Form 20-F annual report for the year ended December 31, 2014, as amended on November 4, 2015.

ITEM 16G. CORPORATE GOVERNANCE

Not applicable.

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

PART III

ITEM 17. FINANCIAL STATEMENTS

Not Applicable. See Item 18.

ITEM 18. FINANCIAL STATEMENTS

Independent Auditor's Reports	F-1
Consolidated Statements of Financial Position as at December 31, 2015, 2014, and 2013	F-1
Consolidated Statements of Comprehensive Income for the years ended December 31, 2015, 2014, and 2013	F-1
Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2015, 2014, and 2013	F-1
Consolidated Statements of Cash Flows for the years ended December 31, 2015, 2014, and 2013	F-1

Notes to the Consolidated Financial Statements for the years ended December 31, 2015, 2014, and 2013

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ITEM 19. EXHIBITS

Index to Exhibits

The following exhibits are filed with, or incorporated by reference in, this Annual Report on Form 20-F.

Exhibit Number	Description
F-1	<u>Consolidated Financial Statements for Years Ended December 31, 2015, 2014, and 2013 and Auditors' Reports.*</u>
1.1	Articles and Memorandum of Emgold Mining Corporation, originally incorporated as 361869 B.C. Ltd. on March 17, 1989.(1)
2.1	2005 Stock Option Plan (10% Rolling) – June 8, 2005, amended December 22, 2011 and approved by the TSX-V on February 2, 2012.(3)
4.1	Revised Mining Lease and Option to Purchase Agreement, Idaho-Maryland Project, dated May 29, 2002.(3)
4.2	Idaho-Maryland Project Lease Extension (1) dated January 26, 2007.(3)
4.3	Idaho-Maryland Project Lease Extension (2) dated February 6, 2009.(3)
4.4	Idaho-Maryland Project Lease Extension (3) dated July 22, 2010.(3)
8.1	List of subsidiaries.(2)
11.1	Code of Ethics, effective September 1, 2005.(3)
12.1	<u>Certification pursuant to Rule 13a-14(A)/15d-14(a) of Chief Executive Officer.*</u>
12.2	<u>Certification pursuant to Rule 13a-14(A)/15d-14(a) of Chief Financial Officer.*</u>
13.1	<u>Certification pursuant to 18 U.S.C. Section 1350 of Chief Executive Officer.*</u>
13.2	<u>Certification pursuant to 18 U.S.C. Section 1350 of Chief Financial Officer.*</u>
15.1	Idaho-Maryland Mine Project, Grass Valley, Technical Report, effective date December 8, 2009.(3)
	Notes:
	* Filed herewith.
	(1) Previously filed as exhibit to Form 6-K on March 8, 2010 and incorporated by reference.
	(2) Previously filed as exhibit to Form 20-F on July 1, 2005 and incorporated by reference.
	(3) Previously filed as exhibit to Form 20-F on May 21, 2013 and incorporated by reference.

END OF EXHIBITS

Glossary of Geologic and Mining Terms

- Anomaly** Any deviation from normal. Examples would include geologic features or concentrations of metal noticeably different than surrounding features or metals.
- Arsenopyrite** A sulphide of arsenic and iron.
- Assay** An analysis to determine the presence, absence or quantity of one or more components.
- Axis** An imaginary hinge line about which the fold limbs are bent. The axis of a fold can be at the top or bottom of the fold, can be tilted or horizontal.
- Batholith** An intrusion, usually granitic, which has a large exposed surface area and no observable bottom. Usually associated with orogenic belts. Of a large, deep-seated rock intrusion, usually granite, often forming the base of a mountain range, and uncovered only by uplifted erosion.
- Bed** The smallest division of a stratified rock series, marked by a well-defined divisional plane from its neighbours above and below; an ore deposit, parallel to the stratification, constituting a regular member of the series of formations.
- Bedding** Condition where planes divide sedimentary rocks of the same or different lithology.
- Bedrock** Solid rock exposed at the surface of the earth, or overlain by surficial deposits.
- Breccia** Rock made up of angular fragments in a matrix of finer-grained material or cementing material.
- Brecciated** Rock broken up by geological forces.
- Bulk sample** A very large sample, the kind of sample to take from broken rock, or from gravels and sands when testing placer deposits.
- Calcite** Calcium carbonate, a mineral found in limestone, chalk and marble and metamorphic rocks.
- Chalcopyrite** Copper iron sulphide mineral and an important ore of copper.
- Chip sample** A sample composed of discontinuous chips taken along a rock surface across a given line.
- Claim** That portion of public mineral lands, which a party has staked or marked out in accordance with provincial or state mining laws, to acquire the right to explore for the minerals under the surface.
- Contact** The place or surface where two different kinds of rocks come together.
- Crystalline** Means the specimen is made up of one or more groups of crystals.
- Cut-off grade** The minimum grade of mineralization used to establish quantitative and qualitative estimates of total mineralization.
- Deposit** A natural occurrence of a useful mineral or ore in sufficient extent and degree of concentration to invite exploitation.
- Diabase** Igneous hypabyssal rocks that are transitional from volcanic to plutonic. The name is applied differently in different parts of the world leading to considerable confusion.
- Diamond drill** A type of rotary drill in which the cutting is done by abrasion using diamonds embedded in a matrix rather than by percussion. The drill cuts a core of rock which is recovered in long cylindrical sections.
- Diamond drill hole** A method of obtaining a cylindrical core of rock by drilling with a diamond impregnated bit.
- Dilution** Results from the mixing in of unwanted waste rock with the ore during mining.
- Dip** The angle at which a stratum or drill hole is inclined from the horizontal. Alternatively, a geological measurement of the angle of maximum slope of planar elements in rocks.
- Displacement** Relative movement of rock on opposite side of a fault; also known as dislocation.
- Fault** A fracture or fracture zone along which there has been displacement of the sides relative to one another parallel to the fracture. Alternatively, a break in the continuity of a body of rock.

Feasibility study Engineering study to determine if a mineral property can be developed at a profit, and which methods should be used to develop it.

A group of aluminum silicate minerals closely related in chemical composition and physical properties. There are two major chemical varieties of feldspar: the potassium aluminum, or potash feldspars and the sodium-calcium-aluminum, or plagioclase feldspars.

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Felsic	Light-coloured silicate minerals, mainly quartz and feldspar, or an igneous rock comprised largely of felsic minerals (granite, rhyolite).
Folds	Flexures in bedded or layered rocks. They are formed when forces are applied gradually to rocks over a long period of time.
Footwall	The mass of rock that lies beneath a fault, an ore body, or a mine working; the top of the rock stratum underlying a vein or bed of ore.
Fracture	Breaks in a rock, usually due to intensive folding or faulting.
Gangue	Term used to describe worthless minerals or rock waste mixed in with the valuable minerals.
Geochemical anomaly	An area of elevated values of a particular element in soil or rock samples collected during the preliminary reconnaissance search for locating favourable metal concentrations that could indicate the presence of surface or drill targets.
Geochemical survey	A systematic measure of the abundance of different elements in rock, soil, water, etc.
Geochemistry	Study of chemical elements in rocks or soil.
Geological mapping	Surveys defining the surface distribution of rock varieties, age relationships and structural features.
Geophysics	The study of the physical properties of rocks, minerals, and mineral deposits.
Gouge	Soft, pulverized mixture of rock and mineral material found along shear (fault) zones and produced by the differential movement across the plane of slippage.
Grab sampling	A random sample of mineralized rock with no statistical validity, taken simply to check the type of mineralization.
Grade	The concentration of each ore metal in a rock sample, usually given as weight percent. Where extremely low concentrations are involved, the concentration may be given in grams per tonne (g/t) or ounces per ton (oz/t). The grade of an ore deposit is calculated, often using sophisticated statistical procedures, as an average of the grades of a very large number of samples collected from throughout the deposit.
Granite	An intrusive igneous rock consisting essentially of alkali feldspar and quartz, plus micas and accessory minerals.
Graphite	A soft black form of native carbon.
Grid	A network composed of two sets of uniformly spaced parallel lines, usually intersecting at right angles and forming squares, superimposed on a map, chart, or aerial photograph, to permit identification of ground locations by means of a system of coordinates and to facilitate computation of direction and distance and size of geologic, geochemical or geophysical features.
Hanging wall	
and footwall	Terms used in reference to faults when mining along a fault, your feet would be in the footwall side of the fault and the other side would be “hanging” over your head. The rock mass above a fault plane, vein, lode, ore body, or other structure, the underside of the country rock overlying a vein or bed of ore.
Heavy mineral	
concentrate sample	A sample of heavy minerals collected from stream gravels and concentrated by panning.
Hectare	A square of 100 metres on each side; 10,000 square metres or 2.471 acres.
Host rock	The rock within which the ore deposit occurs.
Igneous	Rock formed by the cooling of molten silicate mineral.

Induced polarization

(I.P.) method A geophysical method used to measure various electrical responses to the passage of alternating currents of different frequencies through near-surface rocks or to the passage of pulses of electricity.

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Intermediate Intrusion Intrusive rock	An igneous rock made up of both felsic and mafic minerals (diorite). General term for a body of igneous rock formed below the earth's surface. Any igneous rock solidified from magma beneath the earth's surface.
Joint venture	
agreement developed, and mined.	An agreement where the parties agree to the terms on which a property will be explored,
	Lode
	See vein.
Mafic	A term used to describe ferromagnesian minerals. Rocks composed mainly of ferromagnesian minerals are correctly termed melanocratic.
Magma	Naturally occurring molten rock material, generated within the earth and capable of intrusion and extrusion, from which igneous rocks have been derived through solidification and related processes. It may or may not contain suspended solids (such as crystals and rock fragments) and/or gas phases.
Massive	Implies large mass. Applied in the context of hand specimens of, for example, sulphide ores; it usually means the specimen is composed essentially of sulphides with few, if any, other constituents.
Melange	A body of rock characterized by a lack of internal continuity of contacts or strata and by the inclusion of fragments and blocks of all sized and sometimes various types, embedded in a fine-grained matrix.
Metamorphosed or	
metamorphic	A rock that has been altered within the earth's crust by physical and chemical processes including heat, pressure and fluids.
Meta-sediment	A sediment or sedimentary rock that shows evidence of metamorphosis.
Metavolcanic	An informal term for volcanic rock that shows evidence of metamorphosis.
Mesozoic	An era of geologic time, from the end of the Paleozoic era to the start of the Cenozoic, or from about 225 to about 50 million years ago.
Mineral	A naturally occurring, inorganic, solid element or compound that possesses an orderly internal arrangement of atoms and a unique set of physical and chemical properties.
Mineral claim	A legal entitlement to minerals in a certain defined area of ground.
Mineral deposit or	
mineralized material	A mineralized underground body which has been intersected by sufficient closely spaced drill holes and / or underground sampling to support sufficient tonnage and average grade of metal(s) to warrant further exploration-development work. This deposit does not qualify as a commercially mineable ore body (reserves), as prescribed under Commission standards, until a final and comprehensive economic, technical, and legal feasibility study based upon the test results is concluded.
Mineralization	The concentration of metals and their chemical compounds within a body of rock.
Mining lease	A claim or number of claims to which the right to mine is assigned.
Net smelter returns	
royalty	Means the amount actually paid to the mine or mill owner from the sale of ore, minerals and other materials or concentrates mined and removed from mineral properties. A royalty based on net smelter returns provides cash flow that is free of any operating or capital costs and environmental liabilities.

Option agreement An agreement where the optionee can exercise certain options to increase contracted interest in a property by making periodic payments to the optionor or by exploring, developing or producing from the optionor's property.

Ore A natural aggregate of one or more minerals which may be mined and sold at a profit, or from which some part may be profitably separated.

Ore body A solid and fairly continuous mass or ore.

Ore reserve	The measured quantity and grade of all or part of a mineralized body in a mine or undeveloped mineral deposit for which the mineralization is sufficiently defined and measured on three sides to form the basis of at least a preliminary mine production plan for economically viable mining.				
	<table border="0"> <tr> <td>Outcrop</td> <td>An in-situ exposure of bedrock.</td> </tr> </table>	Outcrop	An in-situ exposure of bedrock.		
Outcrop	An in-situ exposure of bedrock.				
Paleozoic	An era of geologic time, from the end of the Precambrian to the beginning of the Mesozoic, or from about 570 to about 225 million years ago.				
	<table border="0"> <tr> <td>Pluton</td> <td>Term for an igneous intrusion, usually formed from magma.</td> </tr> <tr> <td>Pyrite</td> <td>Iron sulphide (FeS₂)</td> </tr> </table>	Pluton	Term for an igneous intrusion, usually formed from magma.	Pyrite	Iron sulphide (FeS ₂)
Pluton	Term for an igneous intrusion, usually formed from magma.				
Pyrite	Iron sulphide (FeS ₂)				
Qualified person	In accordance with NI 43-101, a “qualified person” means an individual with at least five years of experience in mineral exploration, mine development or operation or mineral project assessment, or any combination of these. This person must also have experience relevant to the subject matter of the mineral project, and must be member in good standing of a professional association.				
	<table border="0"> <tr> <td>Quartz</td> <td>A mineral composed of silicon dioxide.</td> </tr> </table>	Quartz	A mineral composed of silicon dioxide.		
Quartz	A mineral composed of silicon dioxide.				
Reclamation bond	Usually required when mechanized work is contemplated. Used to reclaim any workings or put right any damage, if your reclamation does not satisfy the requirements of the regulations.				
Reconnaissance	A general examination or survey of a region with reference to its main features, usually as a preliminary step to a more detailed survey.				
Replacement					
mineralization	Mineral deposit formed by replacement of previous rock.				
Reverse circulation					
drill through the drill pipe.	A rotary percussion drill in which the drilling mud and cuttings return to the surface				
Rock chip sample	A rock sample consisting of chips collected continuously over a specified width.				
Rotary drilling	A drilling method where a hard-toothed bit rotates at the bottom of a drill pipe, grinding a hole into the rock. Lubrication is provided by continuously circulating drilling fluid, which brings the rock cuttings to the surface.				
Royalty interest	A royalty interest is tied to a unit of production, such as tonne of concentrate or ounce of gold or silver produced. A common form of royalty interest is the net smelter return.				
Sample	Small amount of material that is supposed to be absolutely typical or representative of the object being sampled.				
Schist	A strongly foliated crystalline rock, formed by dynamic metamorphism, that has well-developed parallelism of more than 50% of the minerals present, particularly those of lamellar or elongate prismatic habit, e.g. mica and hornblende.				
	<table border="0"> <tr> <td>Sedimentary</td> <td>A rock formed from cemented or compacted sediments.</td> </tr> </table>	Sedimentary	A rock formed from cemented or compacted sediments.		
Sedimentary	A rock formed from cemented or compacted sediments.				
Sediments	Are composed of the debris resulting from the weathering and break-up of other rocks that have been deposited by or carried to the oceans by rivers, or left over from glacial erosion or sometimes from wind action.				
Sericite	A fine-grained variety of mica occurring in small scales, especially in schists.				
	<table border="0"> <tr> <td>Shaft</td> <td>Vertical opening downwards.</td> </tr> </table>	Shaft	Vertical opening downwards.		
Shaft	Vertical opening downwards.				
Showing	A rock outcrop revealing the presence of a certain mineral.				

Silicate Most rocks are made up of a small number of silicate minerals ranging from quartz (SiO_2) to more complex minerals such as orthoclase feldspar (KAlSi_3O_8) or hornblende ($\text{Ca}_2\text{Na}(\text{Mg,Fe})_4(\text{Al,Fe,Ti})\text{Si}_8\text{O}_{22}(\text{OH})_2$).

Soil sampling Systematic collection of soil samples at a series of different locations in order to study the distribution of soil geochemical values.

Sphalerite A zinc sulphide, ZnS , which may contain some iron and cadmium; the principal ore of zinc and cadmium.

Stock An igneous intrusive body of unknown depth with a surface exposure of less than 104 square kilometres. The sides, or contacts, of a stock, like those of a batholith, are usually steep and broaden with depth.

Stock work A mineral deposit consisting of a three-dimensional network of closely spaced planar or irregular veinlets.

Stope An excavation in a mine from which ore is, or has been, extracted.

Strike The bearing, or magnetic compass direction, of an imaginary line formed by the intersection of a horizontal plane with any planar surface, most commonly with bedding planes or foliation planes in rocks.

Tailings Material rejected from a mill after recoverable valuable minerals have been extracted.

Tailings pond A pond where tailings are disposed.

Trenching The act of blasting or digging through overburden or outcrop to attend fresh bedrock for mapping and sampling.

Veins The mineral deposits that are found filling openings in rocks created by faults or replacing rocks on either side of faults.

Waste Rock which is not ore. Usually referred to that rock which has to be removed during the normal course of mining in order to get at the ore.

Workings A part of a mine, quarry, etc., where work is or has been done.

SIGNATURES

Emgold Mining Corporation hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

EMGOLD MINING CORPORATION

Per:

/s/ David G. Watkinson

David G. Watkinson, Chief Executive Officer

/s/ Grant T. Smith

Grant T. Smith, Chief Financial Officer

DATED: May 2, 2016

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(2,066)

22,447

Inventories

33,921

326

34,247

Prepaid expenses and other current assets

6,170

(659)

5,511

Property and equipment, net

8,120

—

8,120

Goodwill

8,536

—

8,536

Intangible assets, net

89,162

—

89,162

Other assets

1,914

(1,430)

484

Total assets

\$

176,667

\$

(3,829)

\$

172,838

Accounts payable and accrued expenses

\$

24,939

\$

(2,747)

\$

22,192

Short-term convertible note

—

—

—

Current portion of long-term debt

2,813

—

2,813

Line of credit

22,915

—

22,915

Convertible notes

14,189

—

14,189

Long-term debt, net of current portion

44,035

—

44,035

Deferred income taxes, net

7,308

—

7,308

Other liabilities

3,924

(363)

3,561

Total liabilities

120,123

(3,110)

117,013

Series A convertible preferred stock

5

—

5

Series A-1 convertible preferred stock

459

—

459

Common stock

1,360

—

1,360

Additional paid-in capital

75,192

—

75,192

Accumulated other comprehensive income (loss)

1,034

—

1,034

Accumulated deficit

(21,506)

(719)

(22,225)

Total equity

56,544

(719)

55,825

Total liabilities and equity

\$

176,667

\$

(3,829)

\$

172,838

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Condensed Consolidated Statement of Cash Flows	Impact of changes in accounting policies		Balances without adoption of ASC 606
	As reported	Adjustments	
for the three months ended March 31, 2018			
Net loss	\$ (4,085)	\$ 56	\$ (4,029)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	1,463	—	1,463
Amortization of deferred financing costs	110	—	110
Amortization of convertible notes discount	179	—	179
Paid-in-kind interest	437	—	437
Stock-based compensation	637	—	637
Provision for bad debts	94	—	94
Loss on disposal of assets	4	—	4
Deferred taxes	523	—	523
Changes in operating assets and liabilities:			
Accounts receivable	(145)	46	(99)
Inventories	(2,365)	123	(2,242)
Prepaid expenses and other assets	(628)	86	(542)
Accounts payable and accrued expenses	(416)	—	(416)
Other liabilities	317	(311)	6
Net cash used in operating activities	(3,875)	—	(3,875)
Net cash used in investing activities	(439)	—	(439)
Net cash provided by financing activities	388	—	388
Effect of exchange rate changes on cash and cash equivalents	7	—	7
Net change in cash and cash equivalents	(3,919)	—	(3,919)
Cash and cash equivalents, at beginning of period	8,250	—	8,250
Cash and cash equivalents, at end of period	\$ 4,331	\$ —	\$ 4,331
Financial Accounting Standards Recently Adopted			

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers, ASC 606. This amendment prescribes that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The amendment supersedes the revenue recognition requirements in ASC Topic 605, Revenue Recognition, and most industry-specific guidance throughout the Industry Topics of the Codification. For the Company’s annual and interim reporting periods the mandatory adoption date of ASC 606 is January 1, 2018, and two methods of adoption are allowed, either a full retrospective adoption or a modified retrospective adoption. In August 2015, the FASB issued ASU No. 2015-14,

which deferred the effective date of ASU No. 2014-09 to the first quarter of 2018. In March 2016, April 2016, May 2016, December 2016 and May 2017, the FASB issued ASU No. 2016-08, ASU No. 2016-10, ASU No. 2016-12, ASU No. 2016-20, and ASU No. 2017-10, respectively, as clarifications to ASU No. 2014-09. ASU No. 2016-08 clarifies how to identify the unit of accounting for the principal versus agent evaluation, how to apply the control principle to certain types of arrangements, such as service transactions, and reframed the indicators in the guidance to focus on evidence that an entity is acting as a principal rather than as an agent. ASU No. 2016-10 clarifies the existing guidance on identifying performance obligations and licensing implementation. ASU No. 2016-12 adds practical expedients related to the transition for contract modifications and further defines a completed contract, clarifies the objective of the collectability assessment and how revenue is recognized if collectability is not probable, and when non-cash considerations should be measured. ASU No. 2016-20 corrects or improves guidance in 13 narrow focus aspects of the guidance. ASU No. 2017-10 clarifies that the grantor in a service concession arrangement is the operating entity's customer for purposes of

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revenue recognition. The effective dates for these ASUs are the same as the effective date for ASU No. 2014-09, for the Company's annual and interim periods beginning January 1, 2018. These ASUs also require enhanced disclosures regarding the nature, amount, timing, and uncertainty of revenue and cash flows. The Company adopted the new revenue standards in the first quarter of 2018 using the modified retrospective approach. Please see above for a description of the changes.

In August 2016, the FASB issued ASU No. 2016-15, Classification of Certain Cash Receipts and Cash Payments. ASU No. 2016-15 amends the guidance in ASC 230 on the classification of certain cash receipts and payments in the statement of cash flows. The primary purpose of ASU No. 2016-15 is to reduce the diversity in practice that has resulted from the lack of consistent principles on this topic. ASU No. 2016-15 is effective for annual and interim periods beginning after December 15, 2017, and early adoption is permitted for all entities. Entities must apply the guidance retrospectively to all periods presented but may apply it prospectively from the earliest date practicable if retrospective application would be impracticable. The Company adopted ASU No. 2016-15 in the first quarter of 2018 and there was no impact on the condensed consolidated financial statements.

Recently Issued Financial Accounting Standards

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which affects the accounting for leases. The guidance requires lessees to recognize assets and liabilities on the balance sheet for the rights and obligations created by all leases with terms of more than 12 months. The amendment also will require qualitative and quantitative disclosures designed to give financial statement users information on the amount, timing, and uncertainty of cash flows arising from leases. This ASU is effective for fiscal years beginning after December 15, 2018 and interim periods within that reporting period. Early application is permitted. The Company is currently assessing the impact of the new standard on its condensed consolidated financial statements, but anticipates an increase in assets and liabilities due to the recognition of the required right-of-use asset and corresponding liability for all lease obligations that are currently classified as operating leases, such as real estate leases for corporate headquarters, administrative offices, retail stores, and showrooms as well as additional disclosure on all its lease obligations. The income statement recognition of lease expense is not expected to significantly change from the current methodology.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments — Credit Losses — Measurement of Credit Losses on Financial Instruments, an accounting standards update that introduces a new model for recognizing credit losses on financial instruments based on an estimate of current expected credit losses. This includes accounts receivable, trade receivables, loans, held-to-maturity debt securities, net investments in leases and certain off-balance sheet credit exposures. The guidance also modifies the impairment model for available-for-sale debt securities. The update is effective for fiscal years beginning after December 15, 2019 and interim periods within that reporting period. The Company is currently assessing the potential effects this update may have on its condensed consolidated financial statements and related disclosures.

In February 2018, the FASB issued ASU No. 2018-02, Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. ASU No. 2018-02 permits entities to reclassify tax effects stranded in accumulated other comprehensive income as a result of tax reform to retained earnings. This ASU gives entities the option to reclassify these amounts and requires new disclosures, regardless of whether they elect to do so. The guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption in any period is permitted. The Company is currently evaluating the impact the adoption of ASU No. 2018-02 will have on its condensed consolidated financial statements.

3. Factored Accounts and Receivables

A&R Factoring Agreement

In January 2016, in connection with the RG Merger, the Company entered into the A&R Factoring Agreement with CIT, through its subsidiaries, Robert Graham and Hudson. Following the SWIMS acquisition, SWIMS became a party to the A&R Factoring Agreement pursuant to a joinder agreement dated November 16, 2018. The A&R Factoring Agreement provides that the Company sell and assign to CIT certain domestic accounts receivable, including accounts

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arising from or related to sales of inventory and the rendition of services. Under the A&R Factoring Agreement, the Company pays various factoring rates depending on the credit risk associated with the nature of the account. The A&R Factoring Agreement may be terminated by CIT upon 60 days' written notice or immediately upon the occurrence of an event of default as defined in the agreement. The A&R Factoring Agreement may be terminated by the Company upon 60 days' written notice prior to December 31, 2020 or annually with 60 days' written notice prior to December 31 of each year thereafter.

SWIMS Factoring Agreement

In connection with the acquisition of SWIMS, SWIMS has maintained a preexisting Credit Assurance and Factoring Agreement between SWIMS and DNB Bank ASA ("DNB"), dated August 26, 2013 (the "SWIMS Factoring Agreement"). The SWIMS Factoring Agreement is a combined credit assurance and factoring agreement, pursuant to which SWIMS is granted financing of up to 80% of its preapproved outstanding invoiced international receivables. DNB receives an annual commission based on invoiced revenues and a quarterly commission of the maximum financing amount plus other administrative costs. The SWIMS Factoring Agreement is secured with (a) first-priority lien on SWIMS's (i) machinery and plant (up to NOK 10.0 million) and (ii) inventory (up to NOK 10.0 million) and (b) additional liens on SWIMS's factoring in the amount of NOK 1.0 million (first lien), NOK 4.0 million (second lien), NOK 7.0 million (third lien) and NOK 2.5 million (fourth lien). The SWIMS Factoring Agreement may be terminated by SWIMS upon 14 days' prior written notice for any reason and by DNB upon 14 days' prior written notice for just cause. DNB may also terminate the SWIMS Factoring Agreement without any prior written notice in the event of a material breach by SWIMS. As of March 31, 2018, SWIMS had outstanding financing commitments on NOK 20.6 million (approximately \$2.7 million as of March 31, 2018) of its preapproved outstanding invoiced receivables pursuant to the SWIMS Factoring Agreement.

Accounts receivable consists of the following (in thousands):

	March 31, 2018	December 31, 2017	March 31, 2017
Non-recourse receivables assigned to factor	\$ 17,902	\$ 19,566	\$ 20,504
Client recourse receivables	3,253	1,473	3,103
Total receivables assigned to factor	21,155	21,039	23,607
Allowance for customer credits	(1,162)	(3,597)	(4,424)
Total factored accounts receivable, net	\$ 19,993	\$ 17,442	\$ 19,183
Non-factored accounts receivable	\$ 5,271	\$ 5,974	\$ 4,783
Allowance for customer credits	(448)	(863)	(1,041)
Allowance for doubtful accounts	(303)	(307)	(202)
Total non-factored accounts receivable, net	\$ 4,520	\$ 4,804	\$ 3,540
Total accounts receivable, net	\$ 24,513	\$ 22,246	\$ 22,723

Of the total amount of receivables sold by the Company as of March 31, 2018, December 31, 2017 and March 31, 2017, the Company holds the risk of payment of approximately \$3.3 million, \$1.5 million and \$3.1 million, respectively, in the event of non-payment by the customers.

4. Inventories

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Inventories are valued at net realizable value with cost determined by the first-in, first-out method. Inventories consisted of the following (in thousands):

	March 31, 2018	December 31, 2017	March 31, 2017
Finished goods	\$ 32,038	\$ 29,721	\$ 26,426
Finished goods consigned to others	1,388	1,524	1,439
Work in progress	227	218	389
Raw materials	268	270	236
Total inventories	\$ 33,921	\$ 31,733	\$ 28,490

5. Impairment of Long-Lived Assets

When the Company determines that the carrying value of long lived assets, such as property and equipment, may not be recoverable based upon the existence of one or more factors, and the carrying value exceeds the estimated undiscounted cash flows expected to be generated by the asset, impairment is measured based on a projected discounted cash flow method using a discount rate determined by management. These cash flows are calculated by netting future estimated sales against associated merchandise costs and other related expenses such as payroll, occupancy and marketing. The impairment loss calculations require management to apply judgment in estimating future cash flows and the discount rates that reflect the risk inherent in future cash flows.

Future expected cash flows for retail store assets are based on management's estimates of future cash flows over the remaining lease period or expected life, if shorter. The Company considers historical trends, expected future business trends and other factors when estimating each store's future cash flow. The Company also considers factors such as: the local environment for each store location, including mall traffic and competition; the ability to successfully implement strategic initiatives; and the ability to control variable costs such as cost of goods sold and payroll, and in some cases, renegotiate lease costs. If actual results are not consistent with the assumptions and judgments used in estimating future cash flows and asset fair values, there may be additional exposure to future impairment losses that could be material to the results of operations. There was no impairment charge recorded related to the retail stores during both the three months ended March 31, 2018 and 2017.

6. Intangible Assets and Goodwill

Intangible assets are recorded at cost, less accumulated amortization. Amortization of intangible assets with finite lives is provided for over their estimated useful lives on a straight-line basis. The life of the trade names are indefinite. Intangible assets as of March 31, 2018 consisted of the following (in thousands):

Amortization Period	Gross Amount	Accumulated Amortization	Net Amount
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Trade names	Indefinite	\$ 66,286	\$ —	\$ 66,286
Customer relationships	7 to 15 Years	35,200	12,385	22,815
Non-compete agreements	3 Years	142	81	61
Total		\$ 101,628	\$ 12,466	\$ 89,162

Intangible assets as of December 31, 2017 consisted of the following (in thousands):

	Amortization Period	Gross Amount	Accumulated Amortization	Net Amount
Trade names	Indefinite	\$ 65,812	\$ —	\$ 65,812
Customer relationships	7 to 15 Years	35,081	11,629	23,452
Non-compete agreements	3 Years	133	65	68
Total		\$ 101,026	\$ 11,694	\$ 89,332

Intangible assets as of March 31, 2017 consisted of the following (in thousands):

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	Amortization Period	Gross Amount	Accumulated Amortization	Net Amount
Trade names	Indefinite	\$ 65,519	\$ —	\$ 65,519
Customer relationships	7 to 15 Years	35,007	9,424	25,583
Non-compete agreements	3 Years	128	31	97
Total		\$ 100,654	\$ 9,455	\$ 91,199

Amortization expense related to the intangible assets amounted to approximately \$0.8 million and \$0.7 million for the three months ended March 31, 2018 and 2017, respectively.

As of March 31, 2018, the future amortization expense related to the finite-lived intangible assets is as follows (in thousands):

2018	Remainder of the year	\$ 2,251
2019		2,971
2020		2,950
2021		2,946
2022		2,946
Thereafter		8,812
		\$ 22,876

Goodwill consisted of the following as of March 31, 2018, December 31, 2017 and March 31, 2017 (in thousands):

	March 31, 2018	December 31, 2017	March 31, 2017
Beginning balance	\$ 8,380	\$ 8,271	\$ 8,271
Foreign currency adjustments	156	109	13
Ending balance	\$ 8,536	\$ 8,380	\$ 8,284

There was no impairment charge recorded related to intangible assets or goodwill during the three months ended March 31, 2018 and 2017.

7. Contracts with Customers

The Company had contract assets and contract liabilities from customers of \$1.4 million and \$0.4 million, respectively, as of March 31, 2018. Upon adoption of ASC 606 as of January 1, 2018, the Company recorded contract assets and contract liabilities of \$1.3 million and \$0.1 million, respectively (see Note 2 – “Summary of Significant Accounting Policies” above for a further discussion on the adoption of ASC 606). Receivables from contracts with customers included in accounts receivable, net within the accompanying condensed consolidated balance sheet were

\$0.6 million and \$0.3 million as of March 31, 2018 and January 1, 2018, respectively.

The contract assets relate to the Company's right to consideration in exchange for the Company's completed performance under the contract and granting the right to use the intellectual property, but not billed as of the reporting date. The contract assets are transferred to accounts receivable when the rights become unconditional. Receipt of payments from customers are based on minimum guarantee schedules as established in the contracts plus royalties earned on sales exceeding the minimum guarantee. The contract liabilities relate to the advance consideration received from customers for upfront license fees for which revenue is recognized on a straight-line basis over the term of the contract.

Significant changes in the contract assets and the contract liability balances during the three months ended March 31, 2018 are as follows (in thousands):

	Contract Assets	Contract Liabilities
Beginning balance at January 1, 2018	\$ 1,344	\$ 52

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Revenue recognized from performance obligations satisfied in the current period	453	(3)
Transferred to accounts receivables from contract assets recognized at the beginning of the period	(380)	—
Contract liabilities recognized related to upfront license fees	—	300
Other	13	14
Ending balance at March 31, 2018	\$ 1,430	\$ 363

The Company evaluates contract assets and receivables from contracts with customers for impairment each period. There was no impairment of contract assets or receivables from contracts with customers during the three months ended March 31, 2018.

The following table includes estimated revenue expected to be recognized in the future related to performance obligations that are unsatisfied (or partially unsatisfied) as of March 31, 2018 (in thousands). Revenue expected to be recognized related to variable consideration for sales-based royalty promised in exchange for a license of intellectual property is not included in the table below. License arrangements in which royalty revenue is recognized based on actual sales end December 2023. Revenue recognized for variable consideration under license arrangements for the three months ended March 31, 2018 was \$0.3 million.

	Remainder of 2018	2019	2020	2021	2022	Total
Royalty license contracts with customers	\$ 1,571	1,767	1,729	1,034	283	\$ 6,384

8. Debt

The payment schedule of the Company's line of credit, long-term debt and convertible notes, as of March 31, 2018 is as follows (in thousands):

	Payments Due by Period					Deferred Financing Costs, Net	Original Issue Discount, Net	Original Carrying Value
	2018	2019	2020	2021	Total			
Line of credit	\$ 782	\$ —	\$ 22,483	\$ —	\$ 23,265	\$ 350	\$ —	\$ 22,915
Long-term debt	1,875	3,750	5,000	37,000	47,625	777	—	46,848

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Convertible notes	—	—	—	17,543	17,543	—	3,354	14,189
Total	\$ 2,657	\$ 3,750	\$ 27,483	\$ 54,543	\$ 88,433	\$ 1,127	\$ 3,354	\$ 83,952

Line of Credit and Long-Term Debt – ABL Credit Agreement and Term Credit Agreement

On January 28, 2016, the Company and certain of its subsidiaries entered into (i) the ABL Credit Agreement; (ii) the Term Credit Agreement; and (iii) the A&R Factoring Agreement. See “Note 3 – Factored Accounts and Receivables” for a discussion of the A&R Factoring Agreement.

The ABL Credit Agreement provides for a senior secured asset-based revolving credit facility (the “Revolving Facility”) with commitments in an aggregate principal amount of \$40.0 million. The Term Credit Agreement provides for a senior secured term loan credit facility (the “Term Facility”) in an aggregate principal amount of \$50 million. The Revolving Facility matures on October 30, 2020. The Term Facility matures on January 28, 2021. The amount available to be drawn under the Revolving Facility is based on the borrowing base values attributed to eligible accounts receivable and eligible inventory. The availability under the Revolving Facility as of March 31, 2018 was \$8.6 million. Borrowings under the Revolving Facility and the Term Facility totaled \$22.5 million and \$47.6 million as of March 31, 2018, respectively.

Certain of the Company’s subsidiaries are co-borrowers under the ABL Credit Agreement and the Term Credit Agreement. The obligations under the ABL Credit Agreement and the Term Credit Agreement are guaranteed by all of

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the Company's domestic subsidiaries and are secured by substantially all of the Company's assets, including the assets of its domestic subsidiaries.

The ABL Credit Agreement provides that, subject to customary conditions, the Company, and certain of its subsidiaries that are borrowers, may seek to obtain incremental commitments under the Revolving Facility in an aggregate amount not to exceed \$10.0 million. The Term Credit Agreement provides that, subject to customary conditions, the Company, and certain of its subsidiaries that are borrowers, may seek to obtain incremental term loans under the Term Facility in an aggregate amount not to exceed \$50.0 million. The Company does not currently have any commitments for such incremental loans under either facility.

There are no scheduled payments under the Revolving Facility. The Revolving Facility is required to be prepaid to the extent extensions of credit thereunder exceed the applicable borrowing base. Outstanding loans under the Revolving Facility may be prepaid at any time at the Company's option without premium or penalty, other than customary "breakage" costs with respect to LIBOR loans.

The Term Facility is subject to quarterly payments of principal as follows: (i) 0.25% for each of the first four fiscal quarters for the fiscal year beginning after January 1, 2016; (ii) 0.625% for each of the four fiscal quarters thereafter; (iii) 1.25% for each of the next following four fiscal quarters; (iv) 1.875% for each of the next following four fiscal quarters; and (v) 2.50% for each fiscal quarter thereafter, with the balance payable at maturity. The Term Facility includes mandatory prepayments customary for credit facilities of its nature, including, subject to certain exceptions: (i) 100% of the net cash proceeds from issuances of debt that is not permitted and certain equity issuances; (ii) 100% of the net cash proceeds from certain non-ordinary course asset sales, subject to customary exceptions and reinvestment rights; (iii) 100% of certain insurance proceeds and condemnation recoveries, subject to customary exceptions and reinvestment rights; (iv) 100% of the net cash proceeds from certain extraordinary receipts; and (v) a variable percentage of excess cash flow, ranging from 50% to 0% depending on our senior leverage ratio. Outstanding loans under the Term Facility may be prepaid at any time at the Company's option subject to customary "breakage" costs with respect to LIBOR loans. Subject to certain exceptions, prepayments of loans under the Term Facility are subject to a prepayment premium of 1.00% during the second year after the closing date of the Term Credit Agreement.

Borrowings under the ABL Credit Agreement and Term Credit Agreement bear interest at a rate equal to either, at the Company's option, an adjusted base rate or the LIBOR (subject to a 0.50% floor for borrowings under the Term Facility), in each case plus an applicable margin. The applicable margins for borrowing under the Term Facility (which varies based on our senior leverage ratio) range from 9.75% to 6.00% for base rate loans and 10.75% to 7.00% for LIBOR loans. The applicable margin for borrowings under the Revolving Facility is 0.50% for base rate loans and 1.75% for LIBOR loans. An unused commitment fee equal to 0.25% per annum of the average daily amount by which the total commitments under the Revolving Facility exceeds the outstanding usage under the Revolving Facility is payable monthly in arrears.

The ABL Credit Agreement and Term Credit Agreement contain customary representations and warranties, events of default and covenants, including, among other things and subject to certain exceptions, covenants that restrict the ability of the Company and its subsidiaries, to incur additional indebtedness, create or permit liens on assets, engage in mergers or consolidations, dispose of assets, make prepayments of certain indebtedness, pay certain dividends and other restricted payments, make investments, and engage in transactions with affiliates. The Term Credit Agreement

requires the Company to comply with various financial covenants to be tested. If an event of default under a credit agreement occurs and continues, the commitments may be terminated and the principal amount outstanding, together with all accrued and unpaid interest and other amounts owed may be declared immediately due and payable.

To permit the acquisition of SWIMS, on July 18, 2016, the Company entered into amendments to the ABL Credit Agreement and the Term Credit Agreement. Additionally, on March 27, 2017 and March 27, 2018, the Company entered into further amendments to these agreements to modify certain defined terms, add a liquidity covenant, revise certain other covenants and modify the applicable base and LIBOR rates. As of March 31, 2018, the Company was in compliance with the financial and non-financial covenants included in the ABL Credit Agreement and the Term Credit Agreement.

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Modified Convertible Notes

On September 8, 2015, the Company entered into the rollover agreement with the holders of convertible notes originally issued in connection with the acquisition of the Hudson business (“the Rollover Agreement”), pursuant to which, on January 28, 2016, the holders of the notes contributed the notes to the Company in exchange for 1,167,317 shares of common stock; a cash payment of approximately \$8.6 million, before expenses; and an aggregate principal amount of approximately \$16.5 million of modified convertible notes (the “Modified Convertible Notes”).

The Modified Convertible Notes are structurally and contractually subordinated to our senior debt and will mature on July 28, 2021. The Modified Convertible Notes accrue interest quarterly on the outstanding principal amount at a rate of 6.5% per annum (which increased to 7% as of October 1, 2016 with respect to the Modified Convertible Notes issued to Fireman Capital CPF Hudson Co-Invest LP (“Fireman”)), which is payable 50% in cash and 50% in additional paid-in-kind notes; provided, however, that the Company may, in its sole discretion, elect to pay 100% of such interest in cash. Beginning on January 28, 2016, the Modified Convertible Notes are convertible by each of the holders into shares of our common stock, cash, or a combination of cash and common stock, at the Company’s election.

If the Company elects to issue only shares of common stock upon conversion of the Modified Convertible Notes, each of the Modified Convertible Notes would be convertible, in whole but not in part, into a number of shares of the Company’s common stock equal to the “conversion amount” divided by the “market price.” The “conversion amount” is (a) the product of (i) the “market price”, multiplied by (ii) the quotient of (A) the principal amount, divided by (B) the conversion price, minus (b) the aggregate optional prepayment amounts paid to the holder. The “market price” is the average of the closing prices for our common stock over the 20-trading-day period immediately preceding the notice of conversion. If the Company elects to pay cash with respect to a conversion of the Modified Convertible Notes, the amount of cash to be paid per share will be equal to the conversion amount. The Company will have the right to prepay all or any portion of the principal amount of the Modified Convertible Notes at any time so long as the Company makes a pro rata prepayment on all of the Modified Convertible Notes.

The following table is a summary of the recorded value of the Modified Convertible Notes as of March 31, 2018 (in thousands). The value of the convertible notes reflects the present value of the contractual cash flows from the Modified Convertible Notes and resulted in an original issue discount of \$4.7 million that was recorded on January 28, 2016, the issuance date.

	March 31, 2018
Modified Convertible Notes - face value	\$ 16,473
Less: original issue discount	(4,673)
Modified Convertible Notes recorded value on issue date	11,800
PIK interest issued	1,069
Accumulated accretion of original issue debt discount	1,320

Modified Convertible Notes value

\$ 14,189

Short-Term Convertible Note

In connection with the acquisition of SWIMS® in July 2016, the Company entered into certain financing arrangements with Tengram Capital Fund II, L.P. (“Tengram II”), an entity affiliated with the holder of the Company’s Series A Preferred Stock, TCP Denim, LLC, including a convertible note issued to Tengram II on July 18, 2016 (the “SWIMS Convertible Note”). The SWIMS Convertible Note accrued interest at a rate of 3.75% per annum, compounding on the first day of each month starting August 1, 2016, and was convertible, at Tengram II’s option or on the revised maturity date of January 18, 2018, which had an original maturity date of January 18, 2017, if not already repaid in cash on or prior to that date, into newly issued shares of our Series A-1 preferred stock, par value \$0.10 per share (the “Series A-1 Preferred Stock”), at a conversion price of \$3.00 per share.

On January 18, 2018, the SWIMS Convertible Note matured and automatically converted into newly issued shares of the Company’s Series A-1 Preferred Stock, at a conversion price of \$3.00 per share. The outstanding balance of the Convertible Note, together with any accrued and unpaid interest thereon, converted into 4,587,964 shares of Series

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A-1 Preferred Stock. Upon the issuance of such shares of Series A-1 Preferred Stock by the Company to Tengram II, the Convertible Note was settled in its entirety. The Series A-1 Preferred Stock is convertible into shares of our common stock, par value \$0.10 per share (the “Common Stock”), at an initial price of \$3.00 per share (subject to adjustment), is entitled to dividends at a rate of 10% per annum payable quarterly in arrears, is senior to the common stock upon liquidation and has voting rights on an as-converted basis alongside its common stock.

SWIMS Overdraft Agreement

In connection with the acquisition of SWIMS, SWIMS has maintained a preexisting Overdraft Facility Agreement between SWIMS and DNB, dated January 27, 2016 (the “SWIMS Overdraft Agreement”). The SWIMS Overdraft Agreement is an overdraft facility that provides SWIMS with access to up to NOK 6.0 million (approximately \$0.7 million as of March 31, 2018) in total, divided between (a) an ordinary credit of NOK 3.5 million at an interest rate of 7.4% plus an additional quarterly fee of 0.4% on the outstanding principal in frame commissions and (b) an additional credit of NOK 2.5 million at an interest rate of 4.9% plus an additional quarterly fee of 0.5% on the outstanding principal in frame commissions. The SWIMS Overdraft Agreement is secured with (a) first-priority liens on SWIMS’s (i) machinery and plant (up to NOK 10.0 million) and (ii) inventory (up to NOK 10.0 million) and (b) additional liens on SWIMS’s factoring in the amount of NOK 1.0 million (first lien), NOK 4.0 million (second lien), NOK 7.0 million (third lien) and NOK 2.5 million (fourth lien). For more information on the SWIMS Factoring Agreement, see “Note 3 – Factored Accounts and Receivables.” The SWIMS Overdraft Agreement may be terminated by SWIMS upon 14 days’ prior written notice for any reason and by DNB upon 14 days’ prior written notice for just cause. DNB may also terminate the SWIMS Overdraft Agreement without any prior written notice in the event of a material breach by SWIMS. As of March 31, 2018, the outstanding balance on the facility governed by the SWIMS Overdraft Agreement was NOK 6.1 million (approximately \$0.8 million).

Total Interest Expense

The following table is a summary of total interest expense as follows (in thousands):

	Three months ended March 31,	
	2018	2017
Contractual coupon interest	\$ 1,926	\$ 1,750
Amortization of discounts and deferred financing costs	289	297
Total interest expense	\$ 2,215	\$ 2,047

9. Fair Value Measurement of Financial Instruments

The fair value of financial instruments held (which consist of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses) do not differ materially from their recorded amounts because of the relatively short period of time between origination of the instruments and their expected realization. The carrying amounts of the line of credit and long-term debt approximate fair value because of the variable interest rates. The fair value of the

convertible notes is based on the amount of future cash flows associated with the instrument discounted using the incremental borrowing rate, which are considered Level 3 liabilities.

Under ASC 820, Fair Value Measurements and Disclosures, fair value is defined as the exit price, or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. ASC 820 also establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs market participants would use in valuing the asset or liability and are developed based on market data obtained from sources independent of us. Unobservable inputs are inputs that reflect our assumptions about the factors market participants would use in valuing the asset or liability. The guidance establishes three levels of inputs that may be used to measure fair value:

Level 1—Quoted prices in active markets for identical assets or liabilities

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Level 2—Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurements. The Company reviews the fair value hierarchy classification on a quarterly basis. Changes in the observability of valuation inputs may result in a reclassification of levels for certain securities within the fair value hierarchy.

The following table presents the fair value hierarchy for liabilities measured at fair value on a non-recurring basis as of March 31, 2018, December 31, 2017 and March 31, 2017 (in thousands):

Financial Instrument	Level	Carrying Value			Fair Value		
		March 31, 2018	December 31, 2017	March 31, 2017	March 31, 2018	December 31, 2017	March 31, 2017
Convertible notes - short-term	3	\$ —	\$ 13,694	\$ 13,308	\$ —	\$ 13,694	\$ 13,308
Convertible notes - long-term	3	14,189	13,866	12,947	11,700	11,700	11,250
		\$ 14,189	\$ 27,560	\$ 26,255	\$ 11,700	\$ 25,394	\$ 24,558

The key assumptions for determining the fair value at March 31, 2018 included the remaining time to maturity of 3.33 years, volatility of 60%, and the risk-free interest rate of 2.04%.

10. Equity

Stock Incentive Plans

Amended and Restated 2004 Stock Incentive Plan

In 2004, the Board of Directors adopted, and the Company's shareholders approved the 2004 Stock Incentive Plan. In September 2011, the Board of Directors adopted, and in October 2011, the Company's shareholders approved, the

Amended and Restated 2004 Stock Incentive Plan (the “Amended and Restated Plan”) to update the 2004 Stock Incentive Plan with respect to certain provisions and changes in the Internal Revenue Code of 1986 since its original adoption.

2016 Stock Incentive Plan

On October 5, 2016, the Board of Directors adopted the Differential Brands Group Inc. 2016 Stock Incentive Compensation Plan (the “2016 Stock Incentive Plan”) which was approved by the Company’s shareholders on November 7, 2016. Under the 2016 Stock Incentive Plan, 3,529,109 shares of common stock have been reserved for issuance in connection with grants of nonqualified stock options, incentive stock options, stock appreciation rights (“SARs”), restricted stock, restricted stock units (“RSUs”), performance-based compensation awards, other stock-based awards, dividend equivalents and cash-based awards. The Company has granted RSUs, stock options and performance share units (“PSUs”) to its officers, non-employee directors, employees and consultants pursuant to the 2016 Plan.

As of March 31, 2018, shares reserved for future issuance under the incentive plans include: (i) 444 shares of common stock issuable upon the exercise of stock options granted under the Amended and Restated Plan; and (ii) 1,691,279 shares of common stock issuable under the 2016 Stock Incentive Plan. As of March 31, 2018, no shares remained available for grant under the Amended and Restated Plan.

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Stock Options

The following table summarizes stock option activity by incentive plan for the three months ended March 31, 2018 (in actual amounts):

	Amended and Restated Plan	2016 Stock Incentive Plan	Total Number of Shares
Outstanding at January 1, 2018	444	70,277	70,721
Granted	—	—	—
Exercised	—	—	—
Forfeited / Expired	—	—	—
Outstanding at March 31, 2018	444	70,277	70,721

The following table summarizes stock option activity for all incentive plans for the three months ended March 31, 2018 (in actual amounts):

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2018	70,721	\$ 4.07		
Granted	—	—		
Exercised	—	—		
Expired	—	—		
Forfeited	—	—		
Outstanding at March 31, 2018	70,721	\$ 4.07	4.30	\$ —
Exercisable at March 31, 2018	70,721	\$ 4.07	4.30	\$ —

For all stock compensation awards that contain graded vesting with time based service conditions, the Company has elected to apply a straight line recognition method to account for these awards. A total of \$0 and \$7 thousand stock-based compensation expense related to stock options was recognized during the three months ended March 31, 2018 and 2017, respectively. As of March 31, 2018, there was no unrecognized compensation cost related to unvested stock options.

The stock option awards are measured at fair value on the grant date using the Black-Scholes option valuation model. Stock options granted to non-employees are re-valued at each reporting period. Key input assumptions used to estimate the fair value of stock options include the exercise price of the award, the expected option term, expected volatility over the option's expected term, the risk-free interest rate over the option's expected term and the expected annual dividend yield, if any. The Company accounts for forfeitures as they occur. Shares of common stock will be issued when the options are exercised.

Restricted Stock Units

The following table summarizes RSU activity for the three months ended March 31, 2018 (in actual amounts):

	Restricted Stock Units	
	Number Of Units	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2018	745,702	\$ 3.68
Granted	264,639	0.98
Vested	160,882	3.26
Forfeited	—	—
Outstanding at March 31, 2018	849,459	\$ 2.92

A total of \$0.6 million and \$0.4 million of stock-based compensation expense was recognized related to RSUs during the three months ended March 31, 2018 and 2017, respectively. As of March 31, 2018, there was \$1.9 million of total unrecognized compensation cost related to unvested Restricted Stock Units. The unrecognized compensation cost is

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expected to be recognized over a weighted average of 1.5 years.

Performance Share Units

The Company granted 513,678 performance share units during 2016, which vest over three years if the performance targets set by the Compensation Committee are met. If less than 80 percent of the performance targets are reached, zero percent of the performance share units will vest. Unvested performance share units in any completed year will be eligible for vesting in subsequent years if the subsequent year performance target is exceeded and the excess is sufficient to make up for the prior year shortfall. As of March 31, 2018, since it is not deemed probable that the performance targets will be met, none of the shares have vested, and no expense has been recognized.

Series A Preferred Stock

In connection with the RG Merger, the Company entered into the RG Stock Purchase Agreement with TCP Denim, LLC pursuant to which the Company issued and sold to TCP Denim, LLC an aggregate of 50,000 shares of the Series A Preferred Stock, for an aggregate purchase price of \$50.0 million in cash. The proceeds from the sale of Series A Preferred Stock were used to consummate the RG Merger. Under the form of certificate of designation for the Series A Preferred Stock, each share of Series A Preferred Stock entitles the holder to receive cumulative dividends when, as and if declared by the Board of Directors or a duly authorized committee thereof, payable quarterly, at an annual rate of 10%, plus accumulated and accrued dividends thereon through such date. To date, the Board of Directors or a duly authorized committee thereof has not declared any dividends on the Series A Preferred Stock. Additionally, if the Board of Directors declares or pays a dividend on the common stock, then each holder of the Series A Preferred Stock will be entitled to receive a cash dividend on an as-converted basis. Each holder of the Series A Preferred Stock is entitled to vote on an as-converted basis and together with the holders of common stock as a single class, subject to certain limitations.

For so long as a to-be-determined percentage of the shares of the Series A Preferred Stock remains outstanding, the holders of the Series A Preferred Stock, exclusively and as a separate class, will be entitled to elect three members of the Board of Directors, each of whom may only be removed without cause by the affirmative vote of the holders of a majority of the shares of Series A Preferred Stock. The holders of the Series A Preferred Stock have separate class voting rights with respects to certain matters affecting their rights. Upon any liquidation event, holders of the Series A Preferred Stock are entitled to receive the greater of the liquidation preference on the date of determination and the amount that would be payable to the holders of the Series A Preferred Stock had such holders converted their shares of Series A Preferred Stock into shares of common stock immediately prior to such liquidation event. Each share of the Series A Preferred Stock is convertible, at the option of the holder thereof, at any time and without the payment of additional consideration by the holder, at an initial conversion price of \$11.16.

Series A-1 Preferred Stock

On January 18, 2018, the SWIMS Convertible Note originally issued on July 18, 2016 to Tengram II, as amended, with a principal amount of \$13.0 million, matured and automatically converted into newly issued shares of the

Company's Series A-1 Preferred Stock, at a conversion price of \$3.00 per share. The outstanding balance of the SWIMS Convertible Note, together with any accrued and unpaid interest thereon, converted into 4,587,964 shares of Series A-1 Preferred Stock. The Series A-1 Preferred Stock is currently convertible on a one-to-one basis into shares of Common Stock. Under the form of certificate of designation for the Series A-1 Preferred Stock, each share of Series A-1 Preferred Stock entitles the holder to receive cumulative dividends when, as and if declared by the Board of Directors or a duly authorized committee thereof, payable quarterly, at an annual rate of 10%, plus accumulated and accrued dividends thereon through such date. To date, the Board of Directors or a duly authorized committee thereof has not declared any dividends on the Series A-1 Preferred Stock. Additionally, if the Board of Directors declares or pays a dividend on the common stock, then each holder of the Series A Preferred Stock will be entitled to receive a cash dividend on an as-converted basis. Each holder of the Series A Preferred Stock is entitled to vote on an as-converted basis and together with the holders of common stock as a single class, subject to certain limitations. The Series A-1 Preferred Stock is senior to the Common Stock upon a liquidation and have as-converted voting rights alongside the Common Stock.

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Warrants

The Company issued warrants in conjunction with the acquisition and financing of SWIMS that are currently exercisable and have been classified as equity.

In connection with the SWIMS acquisition, the Company issued to Tengram II a warrant for the purchase of 500,000 shares of common stock at an exercise price of \$3.00 per share (the “SWIMS Warrant”) and has an estimated fair value of \$465 thousand. The Company determined the fair value of the warrant at the date of grant using the Black-Scholes option pricing model based on the market value of the underlying common stock, an exercise price of \$3.00 per share, an expected life (term) of 5 years, a volatility rate of 50%, based upon the expected volatility in market traded stock over the same period as the remaining term of the warrants, zero dividends, and a risk free interest rate of 1.14%. In addition, a 20% discount for lack of marketability was applied based upon the Rule 144 six-month restriction period.

Also in connection with the SWIMS acquisition, the Company issued to the shareholders of SWIMS (the “SWIMS Sellers”) warrants for the purchase of 150,000 shares of common stock with an exercise price of \$5.47 per share that have an estimated fair value of \$45 thousand. The Company determined the fair value of the warrants at the date of grant using the Black-Scholes option pricing model based on the market value of the underlying common stock, an exercise price of \$5.47 per share, an expected life (term) of 3 years, a volatility rate of 45%, based upon the expected volatility in market traded stock over the same period as the remaining term of the warrants, zero dividends, and a risk free interest rate of 0.85%. In addition, a 10% discount for lack of marketability was applied based upon the Rule 144 six-month restriction period.

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11. Loss per Share

Loss per share is computed using weighted average common shares and dilutive common equivalent shares outstanding. Potentially dilutive shares consist of outstanding stock options, unvested RSUs, unvested PSUs, warrants, convertible Series A Preferred Stock, convertible Series A-1 Preferred Stock and shares issuable upon the assumed conversion of the Modified Convertible Notes and the SWIMS Convertible Note. Loss per share for the three months ended March 31, 2017 has been corrected to include the effect of the preferred dividends, see “Note 2 – Summary of Significant Accounting Policies” for additional information. A reconciliation of the numerator and denominator of basic and diluted loss per share is as follows (in thousands, except per share data):

	Three months ended March 31,	
	2018	2017
Basic loss per share computation		
Numerator:		
Net loss	\$ (4,085)	\$ (2,350)
Less: preferred dividends	(1,762)	(1,351)
Net loss attributable to common stockholders	\$ (5,847)	\$ (3,701)
Denominator:		
Weighted average common shares outstanding	13,550	13,287
Loss per common share - basic	\$ (0.43)	\$ (0.28)
Diluted loss per share computation		
Numerator:		
Net loss	\$ (4,085)	\$ (2,350)
Less: preferred dividends	(1,762)	(1,351)
Net loss attributable to common stockholders	\$ (5,847)	\$ (3,701)
Denominator:		
Weighted average common shares outstanding	13,550	13,287
Effect of dilutive securities:		
Options, RSUs, PSUs, warrants, Series A, Series A-1, convertible notes	—	—
Dilutive common shares	13,550	13,287
Loss per common share - diluted	\$ (0.43)	\$ (0.28)

The following potential shares of common stock were excluded from diluted EPS as the Company had a net loss for the period (in thousands):

Three months ended March 31,	
2018	2017

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Outstanding stock options	71	150
Unvested RSUs	849	980
Unvested PSUs	403	458
Outstanding warrants	650	650
Convertible Series A Preferred Stock	4,480	4,480
Convertible Series A-1 Preferred Stock	4,588	—
Modified Convertible Notes	1,258	1,217
SWIMS Convertible Note	—	4,436

Loss per Share under Two-Class Method

The Series A and Series A-1 Preferred Stock have the non-forfeitable right to participate on an as converted basis at the conversion rate then in effect in any common stock dividends declared and as such, are considered participating securities. Both the Series A and Series A-1 Preferred Stock are included in the computation of basic and

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diluted loss per share pursuant to the two-class method. Holders of the Series A and Series A-1 Preferred Stock do not participate in undistributed net losses because they are not contractually obligated to do so.

The computation of diluted loss per share attributable to common stockholders reflects the potential dilution that could occur if securities or other contracts to issue shares of common stock that are dilutive were exercised or converted into shares of common stock (or resulted in the issuance of shares of common stock) and would then share in the Company's earnings. During the periods in which the Company record a loss from continuing operations attributable to common stockholders, securities would not be dilutive to net loss per share and conversion into shares of common stock is assumed not to occur.

The following table provides a reconciliation of net loss to preferred stockholders and common stockholders for purposes of computing net loss per share for the three months ended March 31, 2018 and 2017 (in thousands, except per share amounts):

	Three months ended March 31,	
	2018	2017
Net loss	\$ (4,085)	\$ (2,350)
Less: preferred dividends	(1,762)	(1,351)
Net loss attributable to stockholders	(5,847)	(3,701)
Participating securities - Series A and Series A-1 Preferred Stock	—	—
Net loss attributable to common stockholders	\$ (5,847)	\$ (3,701)
Denominator:		
Weighted average common shares outstanding	13,550	13,287
Loss per common share - basic and diluted under two-class method	\$ (0.43)	\$ (0.28)

12. Income Taxes

The Company accounts for income taxes under the asset and liability method; under this method, deferred assets and liabilities are determined based on differences between financial reporting and tax reporting bases of assets and liabilities and are measured using enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act establishes new tax laws that may affect the Company's financial

results, including, but not limited to: (1) a reduction of the U.S. federal corporate tax rate from 34% to 21%; (2) limitation of the deduction for interest expense; (3) a general elimination of U.S. federal income taxes on dividends from foreign subsidiaries; (4) a new provision designed to tax global intangible low-taxed income (“GILTI”); (5) limitations on the deductibility of certain executive compensation; and (6) limitations on the use of Federal Tax Credit to reduce the U.S. income tax liability.

The SEC staff issued Staff Accounting Bulletin 118, (“SAB 118”) and the FASB issued ASU No. 2018-05, Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118, which provide guidance on accounting for the tax effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting under ASC 740. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Act for which the accounting under ASC 740 is complete. To the extent that a company’s accounting for certain income tax effects of the Tax Act is incomplete but it is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements. If a company cannot determine a provisional estimate to be included in the financial statements, it should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the Tax Act.

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Effective January 1, 2018, the Tax Act creates a new requirement to include in U.S. income global intangible low-taxed income (GILTI). The FASB Staff Q&A, Topic 740, No. 5, Accounting for GILTI, states that an entity can make an accounting policy election to either (1) treat taxes due on future U.S. inclusions related to GILTI as a current-period expense when incurred (the “period cost method”) or (2) factor such amounts into a company’s measurement of its deferred taxes (the “deferred method”). The Company selected the period cost method to record the tax effects of GILTI in its financial statements. For the three months ended March 31, 2018, GILTI related to current-year operations only is included in the estimated annual effective tax rate.

The effective tax rate from operations was 47% for the three months ended March 31, 2018 compared to a benefit of 1% for the three months ended March 31, 2017. The difference in the effective tax rate for the three months ended March 31, 2018, as compared to the three months ended March 31, 2017, was primarily due to a change in the ratio of year-to-date losses to forecasted losses. The projected tax expense for the year predominately consists of current state and foreign tax expenses and deferred taxes associated with the Company’s foreign subsidiary and the Company’s deferred tax liability for indefinite lived intangible assets.

A valuation allowance is required if, based on the weight of available evidence, it is more likely than not that all or a portion of a deferred tax asset will not be realized. Quarterly, management reassesses the need for a valuation allowance. Realization of deferred income tax assets is dependent upon taxable income in prior carryback years, estimates of future taxable income, tax planning strategies and reversals of existing taxable temporary differences. Because of our lack of U.S. earnings history, the net U.S. deferred tax assets have been fully offset by a valuation allowance, excluding deferred tax liabilities for long-lived intangibles, unless they can be scheduled to reverse against deferred tax assets with unlimited carryforward periods. The Company has not provided for U.S. taxes on unremitted earnings of its foreign subsidiary, as the Company does not expect to remit earnings and profits for such subsidiary to the U.S. As a result, deferred taxes were not provided related to the cumulative translation adjustments.

Utilization of some of the federal and state net operating loss and credit carryforwards are subject to annual limitations due to the “change in ownership” provisions of the Internal Revenue Code of 1986 and similar state provisions. The annual limitations may result in the expiration of net operating losses and credits before utilization. The net operating losses are presented net of any expirations associated with such limitations.

At March 31, 2018, December 31, 2017 and March 31, 2017, the Company had \$0.1 million of certain unrecognized tax benefits, included as a component of accounts payable and accrued expenses within the accompanying condensed consolidated balance sheets. Interest and penalties related to uncertain tax positions, if any, are recorded in income tax expense. With few exceptions, the Company is no longer subject to U.S. federal, state or local income tax examination by taxing authorities for years prior to 2013. The Company is currently under examination by the Internal Revenue Service for the pre-acquisition years ended November 30, 2015 and December 31, 2015. The Company believes that any adjustments expected to result from this examination have been adequately reserved for.

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13. Segment Reporting

The following table contains summarized financial information by reportable segment (in thousands):

	Three months ended March 31,		
	2018	2017	
Net sales:			
Wholesale	\$ 28,670	\$	31,144
Consumer Direct	9,364		8,346
Corporate and other	784		613
	\$ 38,818	\$	40,103
Gross profit:			
Wholesale	\$ 9,659	\$	12,818
Consumer Direct	5,812		5,173
Corporate and other	784		613
	\$ 16,255	\$	18,604
Operating expenses:			
Wholesale	\$ 3,503	\$	4,461
Consumer Direct	5,955		6,386
Corporate and other	7,353		8,062
	\$ 16,811	\$	18,909
Operating income (loss):			
Wholesale	\$ 6,156	\$	8,357
Consumer Direct	(143)		(1,213)
Corporate and other	(6,569)		(7,449)
	\$ (556)	\$	(305)
Capital expenditures:			
Wholesale	\$ 119	\$	10
Consumer Direct	94		159
Corporate and other	177		87
	\$ 390	\$	256
	March 31, 2018	December 31, 2017	March 31, 2017
Total assets:			
Wholesale	\$ 58,802	\$ 53,958	\$ 50,778
Consumer Direct	7,532	7,633	9,148
Corporate and other	110,333	112,083	109,153
	\$ 176,667	\$ 173,674	\$ 169,079

14. Commitments and Contingencies

Litigation

The Company is party to legal proceedings and claims in the ordinary course of business, including proceedings to protect its intellectual property rights. As part of the Company's monitoring program for its intellectual property rights, from time to time, the Company files lawsuits in the United States and abroad for acts of trademark counterfeiting, trademark infringement, trademark dilution, patent infringement or breach of other state or foreign laws. These actions often result in seizure of counterfeit merchandise and negotiated settlements with defendants. Defendants sometimes raise the invalidity or unenforceability of the Company's proprietary rights as affirmative defenses or counterclaims.

In the opinion of management, based upon advice of legal counsel, the likelihood is remote that the impact of any pending proceedings and claims, either individually or in the aggregate, would have a material adverse effect on the

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consolidated financial condition, results of operations or cash flows. However, because the ultimate outcome of legal proceedings and claims involves judgments, estimates and inherent uncertainties, actual outcomes of these proceedings and claims may materially differ from current estimates. It is possible that resolution of one or more of the proceedings currently pending or threatened could result in losses material to the consolidated results of operations, liquidity or financial condition.

On a quarterly basis, the Company reviews its legal proceedings and claims to determine if an unfavorable outcome is considered “remote,” “reasonably possible” or “probable” as defined by U.S. GAAP. If it is determined that an unfavorable outcome is probable and is reasonably estimable, potential litigation losses are accrued for. The liability the Company may ultimately incur with respect to such litigation matters, in the event of a negative outcome, may be in excess of amounts accrued for, if at all. If it is determined an unfavorable outcome is not probable or reasonably estimable, no accrual is made.

15. Related Party Transactions

Peter Kim

The Company entered into several agreements, including a stock purchase agreement, a convertible note, a registration rights agreement, an employment agreement and a non-competition agreement with Peter Kim, the Founder and Vice Chairman of Hudson, in connection with the acquisition of Hudson. Additionally, in connection with the RG Merger, the Company entered into a Rollover Agreement pursuant to which the convertible notes were exchanged for a combination of cash, stock and Modified Convertible Notes, and a new employment and non-competition agreement with Mr. Kim. Mr. Kim’s employment agreement was amended on June 16, 2017. Mr. Kim also has rights under the Registration Rights Agreement described below with respect to shares of common stock issuable upon conversion of his Modified Convertible Notes. See “Note 8 – Debt.” As of March 31, 2018, the amount outstanding under the convertible note payable to Mr. Kim was \$9.0 million with accrued interest of \$144 thousand.

Under the non-competition agreement with Differential and Hudson, which became effective as of the closing date of the RG Merger, Mr. Kim has agreed not to engage in, compete with or permit his name to be used by or in connection with any premium denim apparel business outside his role with Hudson that is competitive to Differential, Hudson or the Company’s respective subsidiaries for a period of up to three years from, as a result of the amendment to his employment agreement, June 16, 2017. The amendment to Mr. Kim’s employment agreement also involved (i) a change to his annual bonus opportunity, (ii) a modification of his severance arrangement, and (iii) a change to the definition of “Restricted Business” as set forth in the employment agreement.

Registration Rights Agreement

On the closing date of the RG Merger, the Company entered into a registration rights agreement (the “Registration Rights Agreement”) with TCP Denim, LLC and certain of its affiliates, who are one of the major stockholders of the

Company, the noteholders party to the Rollover Agreement (including Mr. Kim and Fireman) and Michael Buckley, our Chief Executive Officer. Pursuant to the Registration Rights Agreement, and subject to certain limitations described therein, the Company is required to provide certain demand and piggyback registration rights to the parties to the Registration Rights Agreement. In particular, the Company is required to prepare and file a registration statement on Form S-1 or S-3 (or any similar form or successor thereto) for the registration under the Securities Act of shares of our common stock (i) issued to the parties to the Registration Rights Agreement in connection with the RG Merger Agreement and the Rollover Agreement and (ii) issuable upon conversion of the Series A Preferred Stock and the Modified Convertible Notes. Prior to the closing date of the RG Merger, the Company had a substantially similar registration rights agreement with the holders of the original convertible notes, which included Fireman and Mr. Kim.

Employment Agreements with Officers

The Company entered into employment agreements with Mr. Buckley, Mr. Kim and Mr. Ross, our Chief Financial Officer. The agreements have varying initial terms, but Mr. Buckley's and Mr. Ross's contain automatic one-year renewals, unless terminated by either party, and provide for minimum base salaries adjusted for annual increases,

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incentive bonuses based upon the attainment of specified goals, and severance payments in the event of termination of employment, as defined in the employment contracts.

Payments to Tengram Capital Partners, LP

From time to time, we expect to reimburse Tengram Capital Partners, LP, an entity that is affiliated with our largest stockholders, for certain travel and other related expenses of its employees related to services performed on the Company's behalf and at the Company's request. For the three months ended March 31, 2018 and 2017, we incurred expenses of \$0 and \$24 thousand related to reimbursement of expenses, respectively.

SWIMS® Transaction

In connection with the acquisition of SWIMS in July 2016, the Company entered into certain financing arrangements with Tengram II, an entity affiliated with the holder of the Series A Preferred Stock, TCP Denim, LLC. On January 18, 2018, the SWIMS Convertible Note matured and automatically converted into newly issued shares of the Company's Series A-1 Preferred Stock, at a conversion price of \$3.00 per share. The outstanding balance of the SWIMS Convertible Note, together with any accrued and unpaid interest thereon, converted into 4,587,964 shares of Series A-1 Preferred Stock. Upon the issuance of such shares of Series A-1 Preferred Stock by the Company to Tengram II, the SWIMS Convertible Note was settled in its entirety.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

This Quarterly Report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of Exchange Act, which represent our management's beliefs and assumptions concerning future events based on information currently available to us. When used in this Quarterly Report, the words and phrases "may," "will," "expect," "anticipate," "intend," "estimate," "continue," "believe," "plan," "project," "will be," "will continue," "will likely result," "indicates," "forecast," "guidance," "ou" and similar expressions and the negatives of such words and phrases are intended to identify forward-looking statements. Similarly, statements that describe our future expectations, objectives and goals or contain projections of our future results of operations or financial condition are also forward-looking statements.

These statements are not guarantees of future performance and are subject to certain risks and uncertainties, which are difficult to predict and which could cause actual results to differ materially, including, without limitation: the risk of intense competition in the denim and premium lifestyle apparel industries; the risk that we incurred substantial indebtedness in connection with the acquisition of RG, and, to a lesser extent, SWIMS, which we may need to refinance or may not generate sufficient cash flow from operations to enable us to pay our indebtedness or to fund our liquidity needs; risks associated with our foreign sourcing of our products and the implementation of foreign production for Hudson's products, including in light of potential changes in international trade relations brought on by the new U.S. presidential administration; the effects of the RG Merger and acquisition of SWIMS on our financial results, business performance and product offerings and risks associated with successfully integrating these businesses to achieve cost savings and synergies; risks associated with our third-party distribution system; the risk that we will be unsuccessful in gauging fashion trends and changing customer preferences; the risk that changes in general economic conditions, consumer confidence or consumer spending patterns, including consumer demand for denim and premium lifestyle apparel, will have a negative impact on our financial performance or strategies and our ability to generate cash flows from our operations to service our indebtedness; the risk that the credit ratings of the Company or its subsidiaries, including the Hudson, RG and SWIMS businesses, may be different from what we expect; risks related to our ability to respond to the business environment and fashion trends; risks related to continued acceptance of our brands in the marketplace; risks related to our reliance on a small number of large customers; risks related to our ability to implement successfully any growth or strategic plans; risks related to our ability to manage our inventory effectively; the risk of cyber-attacks and other system risks; risks related to our ability to continue to have access on favorable terms to sufficient sources of liquidity necessary to fund ongoing cash requirements of our operations, including debt service or new acquisitions; risks related to our ability to continue to have access on favorable terms to sufficient sources of liquidity necessary to fund ongoing cash requirements of our operations, including debt service or new acquisitions; risks related to our pledge of all our tangible and intangible assets as collateral under our financing agreements; risks related to our ability to generate positive cash flow from operations; risks related to a possible oversupply of denim in the marketplace; and the other risk factors contained in our reports filed with the SEC pursuant to the Exchange Act, including our annual report on Form 10-K for the fiscal year ended December 31, 2017 (the "2017 Form 10-K").

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Since we operate in a rapidly changing environment, new risk factors can arise and it is not possible for our management to predict all such risk factors, nor can our management assess the impact of all such risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Our future results, performance or achievements could differ materially from those expressed or implied in these forward-looking statements. We do not undertake any obligation to publicly revise these forward-looking statements to reflect events or circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events, except as may be required by law.

Introduction

This management's discussion and analysis summarizes the significant factors affecting our results of operations and financial condition during the three months ended March 31, 2018 and 2017. This discussion should be

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read in conjunction with our condensed consolidated financial statements and notes thereto and information contained in this Quarterly Report.

Executive Overview

Our principal business activity is the design, development and worldwide marketing of products that bear the brand names, Hudson®, Robert Graham® and SWIMS®. Hudson®, established in 2002, is a designer and marketer of women's and men's premium, branded denim and apparel. Robert Graham®, established in 2001, is a sophisticated, eclectic apparel and accessories brand seeking to inspire a global fashion movement. SWIMS®, established in 2006, is a Scandinavian lifestyle brand best known for its range of fashion-forward, water-friendly footwear, apparel and accessories. Because we focus on design, development and marketing, we rely on third parties to directly manufacture our apparel products. We sell our products through our own retail stores, our websites and to numerous retailers, which include major department stores, specialty stores, and ecommerce stores in the U.S., Canada and Europe.

Our Hudson® product line includes women's, men's and children's denim jeans, bottoms, tops, jackets and other related apparel and accessories, and we continue to evaluate offering a range of new products under the Hudson® brand name. We plan to launch our new Hudson® sportswear line in Fall 2018. Our Robert Graham® product line includes premium priced men's sport shirts, polos, denim jeans, bottoms, shorts, sweaters, knits, t shirts, sport coats, outerwear and swimwear. RG also offers a line of women's apparel, mainly in its own retail stores. Additionally, men's shoes, belts, small leather goods, dress shirts, neckwear, tailored clothing, headwear, eyewear, hosiery, underwear, loungewear and fragrances are produced by third parties under various license agreements and RG receives royalty payments based upon net sales from licensees. Our SWIMS® product line includes men's and women's footwear, outerwear and accessories.

We operate retail stores for our Robert Graham® and SWIMS® brands. As of May 15, 2018, we operated 30 Robert Graham® brand stores, which consisted of 18 full price stores and 12 outlet stores, and 2 SWIMS® brand outlet stores. We will open a company operated full price SWIMS® store later this year. We also license the SWIMS® brand name and products for sale in 8 SWIMS® branded retail stores internationally.

As part of our business strategy, we are seeking to create a platform that focuses on branded operating companies in the premium apparel, footwear and accessories sectors. Our focus is on organically growing our brands through a global, omni-channel distribution strategy, while seeking opportunities to acquire accretive complementary brands.

For the remainder of 2018, we believe that our growth drivers will be dependent upon improving the profitability of our established brands, Hudson® and Robert Graham®, by adjusting our costs to improve our return on investment and shifting a portion of our production from Mexico to manufacturers in Asia to improve our margins. Hudson® is also working on the launch of our new sportswear line for Fall 2018, which will increase our product assortment and is expected to grow our customer reach. We also expect to continue to grow our SWIMS® business in the North American and international markets. Overall, we see opportunities for continued margin enhancement if we are successful in growing our Wholesale and Consumer Direct segments, and leveraging our Corporate and other segment, improving product sourcing through growing economies of scale and increasing the proportion of our business derived from our Consumer Direct segment.

Our business is seasonal. The majority of the marketing and sales orders take place from late fall to late spring. The greatest volume of shipments and actual sales are generally made from summer through early fall, which coincides with our third and fourth fiscal quarters and, accordingly, our cash flow is strongest in those quarters. Due to the seasonality of our business, as well as the evolution and changes in our business and product mix, our quarterly or yearly results are not necessarily indicative of future results.

Correction of an Immaterial Error

During the 2017 year end close, we determined that basic and diluted EPS had been incorrectly stated in the prior period financial statements. Historically, cumulative preferred dividends for the period were not included in the

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Company's calculation of EPS. However, in accordance with ASC 260, Earnings per Share, income available to common stockholders shall be computed by deducting the dividends accumulated for the period on cumulative preferred stock. Our Series A Preferred Stock entitles the holder to receive cumulative dividends when, as and if declared by the Board of Directors, payable at an annual rate of 10% through the date on which the liquidation preference is paid to the holder in connection with the liquidation of the Company or the date on which such Series A Preferred Stock is otherwise reacquired by the Company. The amount of the cumulative dividend on the Series A Preferred Stock has been disclosed previously in the Company's filings. We have corrected the calculation of basic and diluted EPS to include the cumulative preferred dividends for the period. Management evaluated the materiality of the error from a quantitative and qualitative perspective and concluded that this adjustment was not material to the presentation and disclosures, and has no impact on our financial position, results of operations and cash flows. Accordingly, no amendments to previously filed reports were required. However, we elected to revise the historical condensed consolidated financial information presented herein to reflect the correction of this error for the prior period presented and to conform to the current period presentation. As a result of this correction, for the quarter ended March 31, 2017, basic and diluted loss per common share was corrected from a loss of \$0.18 per share to a loss of \$0.28 per share.

Reportable Segments

Our reportable business segments are Wholesale, Consumer Direct and Corporate and other. We manage, evaluate and aggregate our operating segments for segment reporting purposes primarily on the basis of business activity and operation. Our Wholesale segment is comprised of sales of products to better nationwide department stores, boutiques, specialty retailers, and select off-price and international customers, and includes expenses from sales and customer service departments, trade shows, warehouse distribution, design and production, and product samples. Our Consumer Direct segment is comprised of sales to consumers through our Robert Graham® brand full-price retail stores and outlet stores, through our SWIMS® brand outlet stores and through our ecommerce sites at www.hudsonjeans.com, www.robertgraham.us and www.swims.com. The information contained on, or that can be accessed through, these websites is not a part of this Quarterly Report and is not incorporated by reference herein. The Corporate and other segment is comprised of revenue from trademark licensing agreements and overhead from corporate operations, which include the executive, finance, legal, information technology, and human resources departments.

Wholesale

Our Wholesale segment is comprised of sales of Robert Graham®, Hudson® and SWIMS® products to premium nationwide department stores, specialty retailers, ecommerce stores, boutiques, select off-price retailers and international customers. In addition, SWIMS® products are sold to international licensed store operators. Our Wholesale segment includes expenses from our sales and customer service departments, trade shows, warehouse distribution, design and production, and product samples associated with our Robert Graham®, Hudson® and SWIMS® product lines for the respective periods described above. Domestically, we sell our Robert Graham®, Hudson® and SWIMS® products through our own showrooms, as well as, in the case of our Robert Graham® products, with independent sales representatives who may have their own showrooms. At the showrooms, retailers review the latest collections offered and place orders. The showroom representatives provide us with purchase orders from the retailers and other specialty store buyers. Internationally, we sell our products to customers in various countries.

We measure performance of our Wholesale segment primarily based on the diversity of product classifications and number of retail “doors” that sell our products within existing accounts as well as our ability to selectively expand into new accounts having retail customers carrying similar premium-priced products. While our Wholesale segment has slightly declined we have focused on growing our higher margin Consumer Direct segment. Our go-forward strategy includes driving sales by improving productivity in existing accounts/doors, selectively expanding into new accounts and continued installation of shop-in-shops. International expansion, largely through wholesale distributors and licensees, is also a strategy that we are pursuing.

Consumer Direct

Our Consumer Direct segment is comprised of sales of our Robert Graham® products directly to consumers in the United States through full-price retail stores, outlet stores, our ecommerce site, www.robertgraham.us and through the circulation of over 700,000 catalogs distributed seasonally throughout the United States. As this segment generates

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higher gross margin rates and provides us greater control of our brand product mix and distribution, we have grown from one Robert Graham® brand retail store in 2011 to 30 retail stores as of May 15, 2018, including 18 full price stores and 12 outlet stores. We have expanded the ecommerce part of the Consumer Direct segment through direct digital, creating a larger customer database and generating repeat customer sales through our Collector's Club Loyalty Program. Additionally, our Consumer Direct segment is comprised of sales of our Hudson® products to consumers through our ecommerce site at www.hudsonjeans.com, and sales of our SWIMS® products to consumers through our ecommerce site at www.swims.com and our two Company operated outlet stores.

We measure performance of our Consumer Direct segment primarily based on the profitability of our stores and websites, as well as our ability to acquire and retain customers in our ecommerce business and the site traffic and conversion rates on our websites.

Corporate and other

Our Corporate and other segment is comprised of licenses to third parties for the right to use our various trademarks in connection with the manufacture and sale of designated Robert Graham® products in specified geographical areas for specified periods. Our licensing revenues for our Robert Graham® products stem primarily from the following product categories and geographical areas: men's shoes, belts, small leather goods, dress shirts, neckwear, tailored clothing, headwear, eyewear, jewelry, hosiery, underwear, loungewear and fragrances, and distribution in Canada. Our Corporate and other segment also included licensing revenue from the sale by our licensee of our Hudson® children's product line and men's and women's apparel in Europe. Our Corporate and other segment also encompassed our corporate operations, including the general brand marketing and advertising, information technology, finance, executive, legal, and human resources departments associated with our Robert Graham®, Hudson® and SWIMS® product lines for the respective periods described above. Similar to our Wholesale segment, we measure performance of our Corporate and other segment primarily based on our licensees' ability to profitably sell our products in multiple categories to their existing wholesale customers and to add new licensees in brand relevant categories. Goodwill and intangible assets are included within the Corporate and other segment.

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Results of Operations

The following tables set forth, for the periods indicated, selected information from our statements of operations and statements of operations by our reportable segments. These tables should be read in conjunction with the discussion that follows:

	Three months ended March 31,			
	2018	2017	\$ Change	% Change
	(unaudited, in thousands)			
Net sales	\$ 38,818	\$ 40,103	\$ (1,285)	(3) %
Cost of goods sold	22,563	21,499	1,064	5
Gross profit	16,255	18,604	(2,349)	(13)
Gross margin	42 %	46 %		
Operating expenses				
Selling, general and administrative	15,348	17,411	(2,063)	(12)
Depreciation and amortization	1,463	1,498	(35)	(2)
Total operating expenses	16,811	18,909	(2,098)	(11)
Operating loss	(556)	(305)	(251)	82
Interest expense	2,215	2,047	168	8
Other (income) expense, net	(1)	24	(25)	(104)
Loss before income taxes	(2,770)	(2,376)	(394)	17
Income tax provision (benefit)	1,315	(26)	1,341	(5,158)
Net loss	\$ (4,085)	\$ (2,350)	\$ (1,735)	74 %

	Three months ended March 31,			
	2018	2017	\$ Change	% Change
	(unaudited, in thousands)			
Net sales:				
Wholesale	\$ 28,670	\$ 31,144	\$ (2,474)	(8) %
Consumer Direct	9,364	8,346	1,018	12
Corporate and other	784	613	171	28
	\$ 38,818	\$ 40,103	\$ (1,285)	(3) %
Gross profit:				
Wholesale	\$ 9,659	\$ 12,818	\$ (3,159)	(25) %
Consumer Direct	5,812	5,173	639	12
Corporate and other	784	613	171	28
	\$ 16,255	\$ 18,604	\$ (2,349)	(13) %
Operating expenses:				
Wholesale	\$ 3,503	\$ 4,461	\$ (958)	(21) %
Consumer Direct	5,955	6,386	(431)	(7)

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Corporate and other	7,353	8,062	(709)	(9)	
	\$ 16,811	\$ 18,909	\$ (2,098)	(11)	%
Operating income (loss):					
Wholesale	\$ 6,156	\$ 8,357	\$ (2,201)	(26)	%
Consumer Direct	(143)	(1,213)	1,070	(88)	
Corporate and other	(6,569)	(7,449)	880	(12)	
	\$ (556)	\$ (305)	\$ (251)	82	%

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Three Months Ended March 31, 2018 Compared to Three Months Ended March 31, 2017

Net Sales

Net sales decreased by 3% to \$38.8 million for the three months ended March 31, 2018 from \$40.1 million for the same period last year. The \$1.3 million net sales decrease was split between a \$2.5 million combined decline of Hudson Wholesale revenue at certain major department stores coupled with the timing of SWIMS revenue recognition due to the delay of customer shipments into the second quarter 2018. The delay was caused by later than expected new inventory arrivals. This decrease more than offset a 12% or \$1.0 million net sales increase in the Consumer Direct segment attributable to a comparable stores net sales increase of 16% across Robert Graham and SWIMS full price and outlet stores.

Wholesale segment net sales declined by 8% to \$28.7 million for the three months ended March 31, 2018 from \$31.1 million for the same period in the prior year. This \$2.5 million decrease related to the combination of less revenue at the Hudson brand as sales to major department stores dropped due to a shift in business from brick-and-mortar to online channels. Navigation of this shift is on-going for Hudson as it is selling into less department store 'doors' but increasing volume to their on-line channels. As well, a portion of SWIMS revenue occurred later in 2018, moving from late first quarter to early second quarter 2018 due to inventory receipts that were delivered slightly later to SWIMS distribution facility. Robert Graham wholesale net sales increased \$0.3 million primarily due to selling more unit volume into off-price channels than in the same quarter last year.

Consumer Direct net sales increased by 12% to \$9.4 million for the three months ended March 31, 2018 from \$8.3 million for the same quarter in the prior year. The increase was driven by 16% comparable store net sales at Robert Graham retail stores with both full price and outlet stores performing approximately even during the quarter. Comparable store increases at Robert Graham were driven by improvements in conversion rates, transaction values and foot traffic in stores. In addition, during the first quarter of 2018, SWIMS retail store sales increased 85% with its comparable store sales improving 14%. SWIMS store increases were driven by improvements in conversion rates, transaction value and foot traffic. Ecommerce net sales were flat during the quarter. Robert Graham and SWIMS ecommerce net sales increases of 19% and 61%, respectively, offset Hudson ecommerce declines of 39%. Robert Graham ecommerce improvements were driven by improved traffic to its website and a higher average order value. SWIMS improvements were attributable to an increase in site traffic, transactions and conversion rates. Hudson declines were primarily driven by less site traffic.

Corporate and other net sales increased by 28% for the three months ended March 31, 2018 to \$0.8 million from \$0.6 million in the same quarter last year. Corporate and other net sales consists of licensing revenue.

Gross Profit

Gross profit declined by \$2.3 million, or 13%, to \$16.3 million for the three months ended March 31, 2018 from \$18.6 million for the three months ended March 31, 2017. The decrease in gross profit was attributable to a 3% decline in net sales during the quarter and the impact of a one-time benefit of \$1.4 million recorded in the comparable quarter last year. The one-time benefit in last year's quarter related to a change in inventory valuation. Gross profit margin was 41.9% for the three months ended March 31, 2018 versus 46.4% for same quarter in the prior year. Removing the one-time benefit, comparable gross margins were 41.9% versus 42.9% last year. Declines in gross profit margin were attributable to the change in mix of net sales into distribution channels versus the same quarter last year. In the first quarter of 2018, wholesale selling increased into off price channels, and the associated margin reductions more than offset margin increases from additional sales into consumer direct channels.

Corporate and other gross profit increased by 28% to \$0.8 million for the first quarter of fiscal 2018, compared to \$0.6 million in the same quarter for the prior year, due to an increase in licensing revenue.

Operating Expenses

Operating expenses include (i) selling, general and administrative expenses related to employee and employee

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benefits, sales commissions, advertising, professional fees, stock-based compensation and factor and bank fees and (ii) depreciation and amortization.

Operating expenses decreased by 11% to \$16.8 million for the three months ended March 31, 2018 from \$18.9 million for the three months ended March 31, 2017. The \$2.1 million decrease in operating expenses was mainly attributable to significant cost savings including a \$0.9 million decrease in selling expenses and a \$0.3 million decrease in administrative expenses. The decrease in operating expenses is also attributable to \$0.8 million of restructuring costs incurred in the first quarter of fiscal 2017.

Selling, general and administrative expenses were approximately 39.5% and 43.4% of net sales for the first quarter of fiscal 2018 and 2017, respectively. Depreciation and amortization expense, as a percent of net sales, was 3.8% from 3.7% for the first quarter of fiscal 2018 compared to the first quarter of fiscal 2017.

Interest Expense

Interest expense increased to \$2.2 million for the three months ended March 31, 2018 from \$2.0 million for the three months ended March 31, 2017, due to higher interest rates related to our credit facilities and the amortization of debt discounts and deferred financing costs related to those facilities and the convertible notes.

Income Tax Provision (Benefit)

Our effective tax rate from operations was 47% for the three months ended March 31, 2018 compared to a benefit of 1% for the three months ended March 31, 2017. The difference in the effective tax rate for the three months ended March 31, 2018 compared to the three months ended March 31, 2017, was primarily due to a change in the ratio of year-to-date losses to forecasted loss.

Net Loss

We generated a net loss of \$4.1 million for the three months ended March 31, 2018, compared to a net loss of \$2.4 million for the three months ended March 31, 2017.

Liquidity and Capital Resources

Sources of Liquidity and Outlook

Our primary sources of liquidity are: (i) cash proceeds from Wholesale operations sold on account, both managed and insured through factors and internal credit management resources; (ii) cash proceeds from sales through our Consumer Direct segment tendered in cash, credit card, debit card or gift card; (iii) cash proceeds from licenses collected from licensees via check or wire transfer; and (iv) the cash proceeds from borrowing under various credit facilities described below. Cash is used to make payments of debt and interest and for payroll and operating disbursements including inventories, operating expenses and capitalized property, software and equipment.

Our primary capital needs are for: (i) working capital; (ii) debt principal and interest; and (iii) trade credit to our customers. We anticipate funding our operations through working capital by generating cash flows from operations and utilization of available lines of credit under our existing credit facilities.

At March 31, 2018, December 31, 2017 and March 31, 2017, our cash and cash equivalent balances were \$4.3 million, \$8.3 million and \$4.0 million, respectively. In addition to cash, the Company had \$8.6 million of availability to borrow under its line of credit. Based on our cash on hand, the expected borrowing availability under our existing credit facilities and other financing arrangements, \$17.9 million of non-recourse short term receivables, and sales forecasts, we believe that we have the working capital resources necessary to meet our projected operational needs beyond the next 12 months from the date of this Quarterly Report. However, if we require more capital for growth and integration or if we experience a decline in sales and/or operating losses, we believe that it will be necessary to obtain additional working capital through additional credit arrangements, debt and/or equity issuances and/or other strategic transactions.

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Cash Flows for the Three Months Ended March 31, 2018 and March 31, 2017

For the three months ended March 31, 2018, we used \$3.9 million of cash flows in operating activities to buy inventory, including that for future sale in 2018 and to fund our working capital. Cash flows used in investing activities during the three months ended March 31, 2018 totaled \$0.4 million for the purchase of property and equipment. Cash flows from financing activities during the three months ended March 31, 2018 totaled \$0.4 million. These cash flows from financing activities primarily consisted of a \$1.4 million drawn down on our line of credit under the ABL Credit Agreement offset by repayment of principal payments under our Term Credit Agreement of \$0.9 million and taxes paid in lieu of shares issued for stock-based compensation of \$0.1 million.

For the three months ended March 31, 2017, we used \$3.4 million of cash flows in operating activities to fund our working capital. Cash flows used in investing activities during the three months ended March 31, 2017 totaled \$0.3 million for the purchase of property and equipment. Cash flows from financing activities during the three months ended March 31, 2017 totaled \$1.3 million. These cash flows from financing activities primarily consisted of a \$3.4 million drawn down on our line of credit under the ABL Credit Agreement offset by repayment of customer cash advances in the amount of \$1.7 million.

Credit Agreements and Other Financing Arrangements

ABL Credit Agreement and Term Credit Agreement

On January 28, 2016, we and certain of our subsidiaries entered into (i) the ABL Credit Agreement and accompanying security agreement with Wells Fargo Bank, National Association, as lender, and (ii) the Term Credit Agreement and accompanying security agreement with TCW Asset Management Company, as agent, and the lenders party thereto.

The ABL Credit Agreement provides for the Revolving Facility, an asset-based revolving facility with commitments in an aggregate principal amount of \$40.0 million. The Term Credit Agreement provides for the Term Facility, a senior secured term loan facility with commitments in an aggregate principal amount of \$50.0 million. The Revolving Facility matures on October 30, 2020. The Term Facility matures on January 28, 2021. The amount available to be drawn under the Revolving Facility is based on the borrowing base values attributed to eligible accounts receivable and eligible inventory. Our availability under the Revolving Facility as of March 31, 2018 was \$8.6 million.

Certain domestic subsidiaries of the Company are co-borrowers under the ABL Credit Agreement and the Term Credit Agreement. The obligations under the ABL Credit Agreement and Term Credit Agreement are guaranteed by all of our domestic subsidiaries and are secured by substantially all of our assets, including the assets of our domestic

subsidiaries.

To permit the acquisition of SWIMS, on July 18, 2016, the Company entered into amendments to the ABL Credit Agreement and the Term Credit Agreement. Additionally, on March 27, 2017 and March 27, 2018, the Company entered into amendments to these agreements to modify certain defined terms, add a liquidity covenant, revise certain other covenants and modify the applicable base and LIBOR rates. As of March 31, 2018, the Company was in compliance with the financial and non-financial covenants included in the ABL Credit Agreement and the Term Credit Agreement.

A&R Factoring Agreement

In January 2016, we entered into our A&R Factoring Agreement pursuant to which we sell or assign to CIT certain of our accounts receivable, including accounts arising from or related to sales of inventory and the rendering of services. Under the A&R Factoring Agreement, we pay factoring rates based on service type and credit profile of our customers. The A&R Factoring Agreement may be terminated by either party upon 60 days' written notice or immediately upon the occurrence of an event of default as defined in the agreement. For additional information on the A&R Factoring Agreement, see "Note 3 – Factor Accounts and Receivables" to our unaudited condensed financial statements.

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SWIMS Factoring Agreement

In connection with the acquisition of SWIMS, SWIMS has maintained its preexisting Factoring Agreement between SWIMS and DNB, dated August 26, 2013 (the “SWIMS Factoring Agreement”). The SWIMS Factoring Agreement is a combined credit assurance and factoring agreement, pursuant to which SWIMS is granted financing of up to 80% of its preapproved outstanding invoiced receivables. DNB receives an annual commission based on invoiced revenues and a quarterly commission of the maximum financing amount plus other administrative costs. The SWIMS Factoring Agreement may be terminated by SWIMS upon 14 days’ prior written notice for any reason and by DNB upon 14 days’ prior written notice for just cause. DNB may also terminate the SWIMS Factoring Agreement without any prior written notice in the event of a material breach by SWIMS. For additional information on the SWIMS Factoring Agreement, see “Note 3 – Factored Accounts and Receivables” to our unaudited condensed financial statements.

Modified Convertible Notes and Rollover Agreement

The Company issued convertible notes in connection with the acquisition of Hudson with different interest rates and conversion features for Hudson’s management stockholders, including Peter Kim and Fireman Capital CPF Hudson Co-Invest LP. On September 8, 2015, the Company entered into the Rollover Agreement with the holders of those convertible notes, pursuant to which, on January 28, 2016, the holders of the notes contributed their notes to the Company in exchange for 1.2 million shares of common stock; a cash payment of approximately \$8.6 million, before expenses; and an aggregate principal amount of approximately \$16.5 million of Modified Convertible Notes.

The Modified Convertible Notes are structurally and contractually subordinated to our senior debt and will mature on July 28, 2021. The Modified Convertible Notes accrue interest quarterly on the outstanding principal amount at a rate of 6.5% per annum (which increased to 7% as of October 1, 2016 with respect to the Modified Convertible Notes issued to Fireman Capital CPF Hudson Co-Invest LP), which is payable 50% in cash and 50% in additional paid-in-kind notes; provided, however, that the Company may, in its sole discretion, elect to pay 100% of such interest in cash. Beginning on January 28, 2016, the Modified Convertible Notes are convertible by each of the holders into shares of our common stock, cash, or a combination of cash and common stock, at our election.

If we elect to issue only shares of common stock upon conversion of the Modified Convertible Notes, each of the Modified Convertible Notes would be convertible, in whole but not in part, into a number of shares equal to the “conversion amount” divided by the “market price”. The “conversion amount” is (a) the product of (i) the “market price”, multiplied by (ii) the quotient of (A) the principal amount, divided by (B) the conversion price, minus (b) the aggregate optional prepayment amounts paid to the holder. The market price is the average of the closing prices for our common stock over the 20-trading-day period immediately preceding the notice of conversion. If we elect to pay cash with respect to a conversion of the Modified Convertible Notes, the amount of cash to be paid per share will be equal to the “conversion amount”. We will have the right to prepay all or any portion of the principal amount of the Modified Convertible Notes at any time so long as we make a pro rata prepayment on all of the Modified Convertible Notes.

Short-Term Convertible Note

On July 18, 2016, we issued a convertible promissory note to Tengram II, with principal of \$13.0 million in connection with the acquisition of SWIMS, referred to as the SWIMS Convertible Note. As discussed further below, the SWIMS Convertible Note was fully converted into shares of Series A-1 Preferred Stock in January 2018. The SWIMS Convertible Note accrued interest at a rate of 3.75% per annum, compounding on the first day of each month starting August 1, 2016, and was convertible, at Tengram II's option or on the extended maturity date of January 18, 2018 (which had an original maturity date of January 18, 2017) if not already repaid in cash on or prior to that date, into newly issued shares of our Series A-1 Preferred Stock at a conversion price of \$3.00 per share. Additionally, the Series A-1 Preferred Stock will itself be convertible into shares of our common stock at an initial price of \$3.00 per share (subject to adjustment), will be entitled to dividends at a rate of 10% per annum payable quarterly in arrears, will be senior to the common stock upon liquidation and will have voting rights on an as-converted basis alongside our common stock.

On January 18, 2018, the SWIMS Convertible Note matured and automatically converted into newly issued shares of the Company's Series A-1 Preferred Stock, at a conversion price of \$3.00 per share. The outstanding balance of the SWIMS Convertible Note, together with any accrued and unpaid interest thereon, converted into 4,587,964 shares of

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Series A-1 Preferred Stock. Upon the issuance of such shares of Series A-1 Preferred Stock by the Company to Tengram II, the Convertible Note was settled in its entirety.

SWIMS Overdraft Agreement

In connection with the acquisition of SWIMS, SWIMS has maintained a preexisting Overdraft Facility Agreement between SWIMS and DNB, dated January 27, 2016 (the “SWIMS Overdraft Agreement”). The SWIMS Overdraft Agreement is an overdraft facility that provides SWIMS with access to up to NOK 6.0 million (approximately \$0.7 million as of March 31, 2018) in total, divided between (a) an ordinary credit of NOK 3.5 million at an interest rate of 7.4% plus an additional quarterly fee of 0.4% on the outstanding principal in frame commissions and (b) an additional credit of NOK 2.5 million at an interest rate of 4.9% plus an additional quarterly fee of 0.5% on the outstanding principal in frame commissions. For additional information on the SWIMS Overdraft Agreement, see “Note 8 – Debt” to our unaudited condensed financial statements.

Off Balance Sheet Arrangements

We do not have any off balance sheet arrangements.

Contractual Obligations

Not applicable. The registrant is relying on smaller reporting company disclosure requirements.

Critical Accounting Policies and Use of Estimates

Management’s Discussion and Analysis of Financial Condition and Results of Operations is based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”). The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, sales and expenses, and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. There have been no material changes to our critical accounting policies and estimates from the information provided in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Management’s Discussion of Critical Accounting Policies” included in our 2017 Form 10-K, except as provided in “Note 2 – Summary of Significant

Accounting Policies” to our condensed consolidated financial statements above.

Recent Accounting Pronouncements

See “Note 2 – Summary of Significant Accounting Policies” to our unaudited condensed consolidated financial statements above regarding new accounting pronouncements.

The Company adopted ASC 606, Revenue from Contracts with Customers, with a date of initial application of January 1, 2018. As a result, the Company has changed its accounting policy for revenue recognition, see Note 2 – “Summary of Significant Accounting Policies” above for a discussion on the adoption of ASC 606.

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Where You Can Find Other Information

Our corporate website is www.differentialbrandsgroup.com. The information contained on, or that can be accessed through, our website is not a part of this Quarterly Report and is not incorporated by reference herein. We make available on or through our website, without charge, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed with or furnished to the SEC pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after such reports are electronically submitted to the SEC. Our SEC filings, including exhibits filed or furnished therewith, are also available for at the SEC's website at www.sec.gov. In addition, any materials filed with, or furnished to, the SEC may be read and copied at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549 or viewed online at www.sec.gov. Information regarding the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. You may request copies of these documents, upon payment of a duplicating fee, by writing to the SEC at its principal office at 100 F Street, NE, Room 1580, Washington, D.C. 20549.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable. The registrant is relying on smaller reporting company disclosure requirements.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

We maintain disclosure controls and procedures as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Exchange Act. Disclosure controls and procedures are those controls and procedures designed to ensure that information required to be disclosed in our reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. In addition, disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that the information required to be disclosed by us in our reports under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

As of the end of the period covered by this Quarterly Report, our management carried out an evaluation, with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. In designing and evaluating the disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management necessarily

was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2018.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during the quarter ended March 31, 2018 that materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

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PART II — OTHER INFORMATION

Item 1. Legal Proceedings

We are a party to lawsuits and other contingencies in the ordinary course of our business. We do not believe that we are currently a party to any material pending legal proceedings. Additionally, in the opinion of management, based upon advice of legal counsel, the likelihood is remote that the impact of any pending legal proceedings and claims, either individually or in the aggregate, would have a material adverse effect on our condensed consolidated financial condition, results of operations or cash flows. For more information, see “Note 14 – Commitments and Contingencies” to our unaudited condensed consolidated financial statements in “Part I, Item 1” of this Quarterly Report.

Item 1A. Risk Factors

Not applicable. The registrant is relying on smaller reporting company disclosure requirements.

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Item 6. Exhibits.

Exhibit No.	Description	Document if Incorporated by Reference
3.1	<u>Certificate of Designation of 10.0% Series A-1 Convertible Preferred Stock of Differential Brands Group Inc.</u>	Exhibit 3.1 to Current Report on Form 8-K filed on January 19, 2018
31.1	<u>Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>	
31.2	<u>Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>	
32.1*	<u>Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>	
101.INS	XBRL Instance Document	
101.SCH	XBRL Taxonomy Extension Schema Document	
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	

* Furnished herewith.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DIFFERENTIAL BRANDS GROUP INC.

May 15, 2018 /s/ Michael Buckley
Michael Buckley
Chief Executive Officer
(Principal Executive Officer)

May 15, 2018 /s/ Bob Ross
Bob Ross
Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)