# INTERNATIONAL BETHLEHEM MINING CORP.

## Management's Interim Discussion and Analysis

## For the six months ended June 30, 2016

**Contact Information:**

**International Bethlehem Mining Corp.**
**2489 Bellevue Avenue**
**West Vancouver, BC**
**V7V 1E1**
**Phone: (604) 922-2030**
**Fax: (604) 922-2037**
**Website: www.bethlehemmining.com**
**Contact Person: Mr. Clive Shallow**

## DESCRIPTION OF BUSINESS AND OVERVIEW OF OPERATIONS AND FINANCIAL CONDITION

The following is management's discussion and analysis ("MD&A"), prepared as of August 9, 2016. This MD&A should be read in conjunction with the unaudited Interim Consolidated Financial Statements for the six month period ended June 30, 2016, the Company's audited Consolidated Financial Statements and the accompanying notes for the year ended December 31, 2015, and the MD&A included in the Company's Annual Report, all as prepared in accordance with International Financial Reporting Standards ("IFRS"). All amounts are stated in Canadian dollars unless otherwise indicated.

This report includes certain statements that may be deemed "forward-looking statements" within the meaning of applicable securities legislation. All statements, other than statements of historical facts that address such matters as future events or developments that the Company expects, are forward looking statements and, as such, are subject to risks, uncertainties, assumptions and other factors of which are beyond the reasonable control of the Company. You can identify these statements by forward-looking words such as "expects", "does not expect", "plans", "anticipates", "does not anticipate", "believes", "intends", "estimated", "projects", "potential", "scheduled", forecast", "budget", and similar expressions, or that events or conditions "will", "would", "may", "could", "should" or "might" occur and similar words. Such statements give the Company's current expectations or forecasts of future events and are not guarantees of future performance and actual results or developments may differ materially from those expressed in, or implied by, this forward looking information. With respect to forward-looking statements and information contained herein, we have made numerous assumptions including among other things anticipated costs and expenditures and the Company's ability to achieve its goals. Although management believes that the assumptions made and the expectations represented by such statements or information are reasonable, there can be no assurance that a forward-looking statement or information herein will prove to be accurate. Forward-looking statements and information by their nature are based on assumptions and involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements or information. Factors that could cause actual results to differ materially from those in forward-looking statements include, for example, such matters as continued availability of capital and financing and general economic, market or business conditions. Although we have attempted to identify factors that would cause actual actions, events or results to differ materially from those disclosed in the forward-looking statements or information, there may be other factors that cause actual results, performances, achievements or events not to be anticipated, estimated or intended. Accordingly, readers should not place undue reliance on forward-looking statements or information. Any forward-looking statements are expressly qualified in their entirety by this cautionary statement. The information contained herein is stated as of the current date and subject to change after that date and the Company does not undertake any obligation to update publicly or to revise any of the forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

Additional information related to the Company is available for view on SEDAR at www.sedar.com, and on the Company's website www.bethlehemmining.com.

### Description of Business

The Company is engaged in the exploration of mineral resource properties. Since incorporation on April 5, 1995, the Company has evaluated numerous properties of potential merit and has acquired several properties, by purchase agreement or by staking, for further evaluation and development. Costs directly related to the identification, exploration and development of mineral properties are capitalized and are either amortized over the life of the property's production or written off when the property is sold, abandoned or released. All of the Company's property interests are located in Canada.

The Company trades on the TSX Venture Exchange under the symbol IBC.

## EXPLORATION AND EVALUATION ASSETS

### Title to mineral properties

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral properties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties are in good standing. However, such properties may be subject to prior agreements or transfer and title may be affected by undetected defects.

The Company has entered into agreements to acquire, explore and develop certain mineral properties located in various regions of Canada. Numerous aboriginal groups are claiming unextinguishable aboriginal title to the lands and resources in these regions, which may include one or more of the mineral claims beneficially owned by the Company. The extent to which any successful aboriginal claim would materially affect the ability of the Company to exploit its mineral properties is not determinable at this time.

All costs related to the acquisition, exploration and development of mineral properties are capitalized by property. If economically recoverable ore reserves are developed, capitalized costs of the related property are reclassified as mining assets and amortized using the unit of production method. When a property is abandoned, all related costs are written off to operations. If, after management review, it is determined that the carrying amount of a mineral property is impaired, that property is written down to its estimated net realizable value. A mineral property is reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.
The amounts shown for mineral properties do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

### Realization of assets

The investment in and expenditures on mineral properties comprise a significant portion of the Company's assets. Realization of the Company's investment in these assets is dependent upon the confirmation of legal ownership, the attainment of successful production from the properties or from the proceeds of their disposal.

Resource exploration and development is highly speculative and involves inherent risks. While the rewards if an ore body is discovered can be substantial, few properties that are explored are ultimately developed into producing mines. There can be no assurance that current exploration programs will result in the discovery of economically viable quantities of ore.

### Environmental

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and properties in which it has previously had an interest. To the best of its knowledge, the Company conducts its mineral exploration activities in compliance with applicable environmental protection legislation.

The Company is not aware of any existing environmental problems related to any of its current or former properties that may result in material liability to the Company. Environmental legislation is becoming increasingly stringent and costs and expenses of regulatory compliance are increasing. The impact of new and future environmental legislation on the Company's operations may cause additional expenses and restrictions. If the restrictions adversely affect the scope of the exploration and the development of a mineral property, the potential for production on the property may be diminished or negated.

### Exploration Programs

A summary of the Company's current exploration programs is set out below, however, for additional information and details regarding such matters, reference is made to the Company's news releases and related filings that can be viewed on www.sedar.com and the Company's website www.bethlehemmining.com.

The technical information regarding the Company's currently active projects referred to herein has been reviewed and approved by Gordon Gibson, P. Geo., who was acting as the Company's Qualified Person, in accordance with regulations under NI 43-101. With respect to the technical information disclosed prior to Gordon Gibson becoming the Company's Qualified Persons, such technical information was reviewed and approved by other Qualified Persons as noted under each project listed.

The Company's expenditures on mineral properties are as follows:

| | Goldstream Property | LH and Willa Properties | Ground Hog Basin | Eva Kitto Property | **Total** |
|---|---|---|---|---|---|
| **Balance, December 31, 2014** | **$ 12,964** | **$ -** | **$ 58,309** | **$ 263,938** | **$ 335,211** |
| Expenditures for the year: | | | | | |
| Staking and lease costs | - | 1,030 | - | - | 1,030 |
| Option proceeds | - | (50,000) | - | - | (50,000) |
| Impairment of exploration and evaluation assets | - | - | - | (263,938) | (263,938) |
| Excess option proceeds over expenditures | - | 48,970 | - | - | 48,970 |
| **Balance, December 31, 2015 and June 30, 2016** | **$ 12,964** | **$ -** | **$ 58,309** | **$ -** | **$ 71,273** |

### Goldstream Property

The Goldstream Property is located in the Revelstoke Mining Division, British Columbia.

On November 16, 2010, the Company completed the sale of its subsidiary, Bethlehem Resources (1996) Corporation ("BRC"), including its Goldstream mill facility, tailings pond, and related mineral leases and claims, to Barkerville Gold Mines Ltd. ("Barkerville"). In connection with this transaction, some of the Goldstream Property claims were divested, while certain other claims were retained (see the "Ground Hog Basin Property" section herein).

The Company incurred exploration and acquisition costs as follows:
- for the year ended December 31, 2015 $nil;
- for the period ended June 30, 2016 $nil; and
- as at June 30, 2016, the Company capitalized a total of $12,964 in exploration and acquisition costs.

### LH and Willa Properties

The Company acquired 19 Crown-granted mineral claims near Silverton in the Slocan Mining Division, British Columbia (the "LH Property"). The vendors retained a 1% net smelter return ("NSR") royalty. Once royalties of $350,000 have been paid, the NSR royalty will reduce to 0.5%. The Company had the option to purchase the entire NSR royalty at any time up until December 31, 2015 from the vendors for $1,200,000, which option was not exercised by the Company. The Company also acquired 4 mineral claims near Silverton in the Slocan Mining Division, British Columbia (the "Willa Property"). The vendors retained a 1% net smelter return royalty. Once royalties of $500,000 have been paid, the NSR royalty will reduce to 0.5%. The Company had the option to purchase the entire NSR royalty at any time up until July 15, 2015 from the vendors for $3,000,000, which option was not exercised by the Company. The LH Property and the Willa Property are adjacent properties, and subsequent to the above acquisitions, the Company also staked an additional 3 mineral claims adjacent thereto.

The Company entered into an option agreement, dated September 6, 2012 (the "Option Agreement") with Magnum Goldcorp Inc., formerly Magnum Capital Corp. ("Magnum"), pursuant to which the Company granted Magnum an option to acquire a 51% interest in the Company's "LH" and "Willa" gold exploration properties (collectively, the "Property"). The Company agreed to grant Magnum an option to acquire a 51% interest in the Property, and in return, Magnum agreed to pay the Company $100,000 (paid) following the date on which the TSX Venture Exchange accepted the Option Agreement, which occurred on November 12, 2013 (the "Effective Date"). Additionally, Magnum was required to incur expenditures on the Property totalling $500,000 ($250,000 by the first anniversary of the Effective Date (completed) and an additional $250,000 by the second anniversary of the Effective Date (completed)). As well, Magnum was required to issue 3,000,000 shares to the Company (1,000,000 shares by the first anniversary of the Effective Date (received); an additional 1,000,000 shares by the second anniversary of the Effective Date (received); and an additional 1,000,000 shares upon the Property receiving a bankable feasibility report on or before 10 years after the Option has been earned in). As a condition to Magnum performing its obligations under the Option Agreement, the Company agreed to incur between $100,000 to $150,000 in exploration expenditures on the Property (completed).

On March 5, 2015, Magnum announced that it has entered into a purchase agreement (the "Purchase Agreement") dated for reference February 24, 2015, with the Company and Cobra Venture Corporation ("Cobra"), pursuant to which Magnum has agreed to sell and Cobra has agreed to purchase one half (25.5%) of Magnum's 51% option interest in the Property. Pursuant to the terms of the Purchase Agreement, Cobra has purchased a 25.5% interest in the Property for $300,000, and in connection therewith, Magnum was required to spend $200,000 on exploration expenditures on the Property (completed). As of November 13, 2015, Magnum provided the Company and Cobra with documentation confirming that Magnum had completed its exploration expenditure obligations. Accordingly at that time, Cobra acquired a 25.5% interest in the Property and a joint venture was formed with the following interests: the Company (49%); Magnum (25.5%); and Cobra (25.5%).

On March 10, 2016, the Company, Magnum Goldcorp Inc. ("Magnum") and Cobra Venture Corporation ("Cobra") (collectively, the "Parties") announced that they had entered into an asset purchase agreement dated March 1, 2016 (the "LH Property Agreement"), with respect to the acquisitions by Magnum of all of the interest of each of the Company and Cobra in the LH Property (the "LH Property Transaction"). Under the LH Property Agreement, Magnum will issue 17,120,000 common shares in its capital to Cobra and 32,897,255 common shares in its capital to the Company (collectively, the "Magnum Shares") at closing as consideration for their respective interests in the LH Property. The LH Property Transaction is considered to be a reviewable transaction with respect to each of Magnum and the Company for the purposes of the policies of the TSX Venture Exchange (the "Exchange"), and accordingly, is subject to approval by the shareholders of each of Magnum and the Company (which shareholder approvals were received on April 7, 2016) and approval by the Exchange. Magnum has certain directors in common with each of Cobra and the Company, which directors are considered to be non-arm's length parties within the policies of the Exchange for the purposes of the LH Property Transaction, and accordingly, those directors have abstained from voting on board resolutions passed by the respective Parties approving the LH Property Transaction. The Company intends to distribute 17,026,427 of the Magnum Shares it receives under the terms of the LH Property Agreement to its shareholders on a pro rata basis, which will result in Company shareholders receiving approximately 1.5 Magnum Shares for each share of Company held. The Company intends to retain the remaining 15,870,828 Magnum Shares to assist the Company in meeting its ongoing commitments and obligations and to enable the Company to participate, as a shareholder of Magnum, in the potential future value of the LH Property project. The return of capital of the Company is subject to approval by its shareholders (which shareholder approval was received on April 7, 2016). The Company and Magnum have certain directors in common.

On April 27, 2016, the Company, Magnum Goldcorp Inc. ("Magnum") and Cobra Venture Corporation ("Cobra") (collectively the "Parties") announced that all conditions to closing of the acquisition by Magnum of all of the interest of each of the Company and Cobra in the LH Property (the "LH Property Transaction") were met and that the Parties closed the LH Property Transaction on April 26, 2016 (the "Closing Date"). Magnum now owns 100% of the LH Property. On the Closing Date, Magnum issued 32,897,255 common shares in its capital to the Company (valued at $1,480,376) (the "Magnum Shares") as consideration for its interest in the LH Property. A portion of the Magnum Shares received by the Company was distributed to its shareholders on a pro rata basis as a return of capital (the "Return of Capital") on the IBC Distribution Date (defined below) pursuant to the TSX Venture Exchange's due bill trading policy (the "Due Bill Policy").

Pursuant to the Due Bill Policy, the Company announced that:

- the record date (the "IBC Record Date") to determine shareholders of the Company entitled to receive Magnum Shares was May 4, 2016;
- the due bill trading date was May 2, 2016 (two days prior to the IBC Record Date);
- the payment or distribution date (the "IBC Distribution Date") was May 10, 2016;
- the ex-distribution date was May 11, 2016 (the trading day immediately following the IBC Distribution Date); and
- the due bill redemption date was May 13, 2016 (the second trading day following the ex-distribution date)

Current status:

By news release dated July 7, 2015, the Company announced that Magnum had reported that it had completed Phase 1 of its helicopter-supported drill program on the LH Property. On July 6, 2015, Magnum announced that as part of its 2015 exploration program, it had completed 11 drill holes at one setup location for a total of approximately 675 metres of BTW core. According to Magnum, core from drill hole LH-15-30 was split in its entirely, with sampling in subsequent holes limited to mineralized intervals having approximately 2% pyrrhotite over greater than 1 metre. Magnum indicated that sampling of the remainder of the holes had been postponed to a later date. Drill core was split at approximately 1 metre intervals and samples were submitted to AGAT Laboratories in Burnaby, BC for analysis.

By news release dated August 18, 2015, the Company announced that Magnum had reported impressive analytical results from its very successful helicopter-supported drill program recently completed on the jointly owned gold exploration property (the LH Property). According to Magnum, as part of its 2015 exploration program, it initiated a helicopter-supported drill program to target high-grade gold mineralization previously identified in the LH underground workings. As reported by Magnum, a total of 11 drill holes were completed from a single pad for a total of 693 metres. As reported by Magnum, the objective of the Phase I program was to confirm high grade gold mineralization reported from both previous drilling and underground chip sampling by previous operators. Previous work was interpreted to suggest gold-bearing mineralized zones are associated with intervals having elevated sulphide content. Magnum has indicated that at least two mineralized intervals are interpreted to be present which are moderately north dipping. Several of the holes intersected the underground workings and were terminated at depths less than the target depth. Despite this fact, Magnum reported that all the holes (except LH15-33) intersected anomalous, high grade gold mineralization, with the holes intersecting underground workings documenting shortened mineralized intervals. Furthermore, Magnum indicated that with an interpreted moderate dip to the north, many of the holes were drilled at a shallow angle to the mineralized zone(s), resulting in thickened mineralized intervals (for example greater than the true width). The true widths of the mineralized zones are not known at this time, however, are interpreted to be approximately six to eight metres in thickness. Further work is proposed by Magnum to ascertain probable true width(s). See the Company's news release dated August 18, 2015 for additional information and details regarding the analytical results.

By news release dated December 21, 2015, the Company, Magnum Goldcorp Inc. ("Magnum") and Cobra Venture Corporation ("Cobra", and collectively, the "Parties") announced they have entered into a non-binding letter of intent (the "LOI") pursuant to which Magnum has indicated its intention to acquire (the "Proposed Acquisition") all of the interest of each of Cobra and the Company in the LH Property. Upon closing of the Proposed Acquisition, Magnum will own 100% of the LH Property. The LH Property is currently jointly owned by the Parties, with the Company owning 49% and Magnum and Cobra each owning 25.5%. Magnum operates the LH Property under the terms of a joint venture arrangement amongst the Parties. The Parties anticipate that the consolidation of interest in the LH Property by Magnum will enhance Magnum's ability to secure financing to further develop the LH Property, while allowing Cobra and the

Company to focus on their other respective assets. The Parties intend to move expeditiously to enter into a definitive purchase and sale agreement for the Proposed Acquisition. It is expected that Magnum will issue the same number of shares as its outstanding share capital to Cobra and approximately double its outstanding share capital to the Company as consideration for their respective interests in the LH Property. Subject to review of certain tax related consideration, each of Cobra and the Company intend to distribute all, or a portion of, the shares of Magnum it receives to its shareholders by way of a return of capital. Upon completion of the return of capital, which is subject to shareholder approval, the shareholders of Cobra and the Company respectively will become shareholders of Magnum.

On March 10, 2016, the Company, Magnum Goldcorp Inc. ("Magnum") and Cobra Venture Corporation ("Cobra") (collectively, the "Parties") announced that they have entered into a definitive asset purchase agreement dated March 1, 2016 (the "LH Property Agreement"), with respect to the acquisitions by Magnum of all of the interest of each Company and Cobra in the LH Property (the "LH Property Transaction"). Under the LH Property Agreement, Magnum will issue 17,120,000 common shares in its capital to the Cobra and 32,897,255 common shares in its capital to the Company (collectively, the "Magnum Shares") at closing as consideration for their respective interests in the LH Property. The LH Property Transaction is considered to be a reviewable transaction with respect to each of Magnum and the Company for the purposes of the policies of the TSX Venture Exchange (the "Exchange"), and accordingly, is subject to approval by the shareholders of each of Magnum and the Company (which shareholder approvals were received on April 7, 2016) and approval by the Exchange. Magnum has certain directors in common with each of Cobra and the Company, which directors are considered to be non-arm's length parties within the policies of the Exchange for the purposes of the LH Property Transaction, and accordingly, those directors have abstained from voting on board resolutions passed by the respective Parties approving the LH Property Transaction. The Company intends to distribute 17,026,427 of the Magnum Shares it receives under the terms of the LH Property Agreement to its shareholders on a pro rata basis, which will result in Company shareholders receiving approximately 1.5 Magnum Shares for each share of Company held. The Company intends to retain the remaining 15,870,828 Magnum Shares to assist the Company in meeting its ongoing commitments and obligations and to enable the Company to participate, as a shareholder of Magnum, in the potential future value of the LH Property project. The return of capital of the Company was subject to approval by its shareholders (which shareholder approval was received on April 7, 2016).

On April 27, 2016, the Company, Magnum Goldcorp Inc. ("Magnum") and Cobra Venture Corporation ("Cobra") (collectively the "Parties") announced that all conditions to closing of the acquisition by Magnum of all of the interest of each of the Company and Cobra in the LH Property (the "LH Property Transaction") were met and that the Parties closed the LH Property Transaction on April 26, 2016 (the "Closing Date"). Magnum now owns 100% of the LH Property. On the Closing Date, Magnum issued 32,897,255 common shares in its capital to the Company (valued at $1,480,376) (the "Magnum Shares") as consideration for its interest in the LH Property. A portion of the Magnum Shares received by the Company was distributed to its shareholders on a pro rata basis as a return of capital (the "Return of Capital") on the IBC Distribution Date (defined below) pursuant to the TSX Venture Exchange's due bill trading policy (the "Due Bill Policy").

Pursuant to the Due Bill Policy, the Company announced that:

- the record date (the "IBC Record Date") to determine shareholders of the Company entitled to receive Magnum Shares was May 4, 2016;
- the due bill trading date was May 2, 2016 (two days prior to the IBC Record Date);
- the payment or distribution date (the "IBC Distribution Date") was May 10, 2016;
- the ex-distribution date was May 11, 2016 (the trading day immediately following the IBC Distribution Date); and
- the due bill redemption date was May 13, 2016 (the second trading day following the ex-distribution date)

The Company distributed 17,026,427 of the Magnum Shares it received (valued at $1,106,718) to its shareholders of record as of the IBC Record Date such that for each common share of the Company held, a shareholder of the Company received approximately 1.5 Magnum Shares. No fractional Magnum Shares were issued, and accordingly, Magnum Shares issued to the Company's shareholders were rounded down to the nearest whole number. The Magnum Shares are subject to a statutory hold period expiring September 10, 2016.

**Ground Hog Basin Property**

The Company previously acquired certain mineral claims located in the Revelstoke Mining Division, British Columbia (referred to as the "Ground Hog Basin Property"). During the year ended December 31, 2009, the Ground Hog Basin property was considered to be part of the Goldstream Property. During the year ended December 31, 2010, the Company segregated mineral claims associated with the Ground Hog Basin Property from the Goldstream Property prior to the disposal of its subsidiary, BRC to Barkerville (see the "Goldstream Property" section herein). As at December 31, 2010, the value that has been assessed for the Ground Hog Basin property is the amount that was spent to date by the Company on the Ground Hog Basin Property.

The Company incurred exploration and acquisition costs as follows:
- for the year ended December 31, 2015 $nil;
- for the period ended June 30, 2016 $nil; and
- as at June 30, 2016, the Company capitalized a total of $58,309 in exploration and acquisition costs.

**Eva Kitto Property**

The Company entered into an option agreement dated November 3, 2008, as amended ("Option Agreement") with Rainy Mountain Royalty Corp. ("Rainy Mountain") whereby the Company was granted an option to earn an initial 30% interest in the "Eva Kitto" Property, located in the Thunder Bay Mining Division of Ontario, by paying Rainy Mountain $20,000 (paid) and spending an aggregate of $500,000 in exploration expenditures ($100,000 by December 31, 2008 (completed); $90,000 by June 30, 2010 (completed); and $310,000 by June 30, 2011 (not completed). Under the Option Agreement, the Company could increase its interest in the property up to 51%, 60% and 75% by incurring exploration expenditures of an additional $1,000,000 by November 3, 2011, $1,000,000 by November 3, 2012, and by bringing the property into commercial production, respectively. The property is subject to an aggregate NSR royalty of 3.5%, of which 2% can be purchased at any time for $2,000,000. By Amending Agreement, dated November 15, 2010, the Company and Rainy Mountain acknowledged and agreed that, as a result of exploration expenditures completed, the Company had earned a 15% interest in the Eva Kitto Property and that Rainy Mountain retained an 85% interest in the property.

By Amending Agreement dated April 2, 2012, the Company and Rainy Mountain further revised the Option Agreement to allow the Company to resume its earlier option and to increase its interest in the Eva Kitto property. As a result, the Company contributed the sum of $75,000 towards the exploration program completed on the property by Rainy Mountain in 2012, and in so doing, the Company has earned a 50% interest in the property and a 50/50 joint venture has been formed between the parties.

During the year ended December 31, 2015, the Company recorded an impairment charge of $263,938 related to the Eva Kitto Property due to inactivity. Rainy Mountain and the Company have certain directors in common.

The Company incurred exploration and acquisition costs as follows:
- for the year ended December 31, 2015 wrote down $263,938 in capitalized exploration and acquisition costs due to inactivity;
- for the period ended June 30, 2016 $nil; and
- as at June 30, 2016, the Company capitalized a total of $nil in exploration and acquisition costs.

Current status:
On July 10, 2012, the Company announced that its joint venture partner, Rainy Mountain Royalty Corp. ("Rainy Mountain" – TSX-V: RMO) had reported the results from its recently completed exploration and core drilling program on the Eva Kitto Property. The Eva Kitto Property is a "PGE" (Platinum Group Elements) exploration project and is located near the town of Beardmore, Ontario and approximately 190 kilometres northeast of Thunder Bay, Ontario. The Property is jointly owned (50/50) by Rainy Mountain and the Company. As reported by Rainy Mountain, the recent exploration was a follow up core drill program based on the exploration and drilling previously completed on the Property by the Company in 2008 and 2010. Accordingly, Rainy Mountain's Drill Hole EK-12-01 was drilled to explore for the first time a negative magnetic anomaly for potential Ni-Cu-PGE (nickel, copper, platinum group elements) "Noril'sk-type" mineralization, as previously observed by the Company. As indicated by Rainy Mountain, this large negative magnetic anomaly lies at the centre of a northern inward dipping ring dike phase of the gabbroic-ultramafic

layered "Kitto Intrusion". Rainy Mountain believes that the magnetic anomaly potentially represents Noril'sk-type basal massive mineralization, or possibly a feeder (bottom of the funnel) to the northern ring dike portion of the intrusion. Rainy Mountain has also indicated that Drill Hole EK-12-01 was the first drill hole to explore the northernmost (and thickest) portion of the intrusion. The hole was drilled to a depth of 405 metres (intersecting 377 metres of the Kitto Intrusion below 28 metres of cover rocks), and according to Rainy Mountain, did not reach the basement contact or basal target. As a result, the magnetic anomaly remains unexplained and Rainy Mountain believes that further exploration and drilling is merited. Typically, the Noril'sk-type genetic model requires a sulphur source and Rainy Mountain indicated in its news release that Drill Hole EK-12-01 was successful in intercepting veiny, serpentinized, magnetite and pyrrhotite ingestions possibly remobilized from an iron formation contaminant. Additionally, nearby (on surface) there is coincidental evidence of magnetite and pyrite suggestive of iron formation. As reported by Rainy Mountain, in view of the significant thickness of the intrusion encountered and the limited initial budget for the drilling program, Drill Hole EK-12-01 was discontinued at a depth of 405 metres. Rainy Mountain and the Company intend to follow up on further drilling to extend Drill Hole EK-12-01 to the basement in order to obtain a more complete understanding of the magnetic anomaly.

## PERFORMANCE SUMMARY

The following is a summary of the significant events and transactions that occurred during the period ended June 30, 2016 and for the subsequent period to the report date hereof:

a) On June 30, 2016, the Company announced the resignation of Bruce Morley as a director of the Company, effective June 1, 2016. Mr. Morley will still continue to provide the Company with legal services through his law corporation.

b) On April 27, 2016, The Company, Magnum Goldcorp Inc. ("Magnum" - TSX-V: MGI) and Cobra Venture Corporation ("Cobra" - TSX-V: CBV) (the Company, and together with Magnum and Cobra, the "Parties") announced that all conditions to closing of the acquisition by Magnum of all of the interest of each of Cobra and IBC in the LH Property (the "LH Property Transaction") were met and that the Parties closed the LH Property Transaction on April 26, 2016 (the "Closing Date"). Magnum now owns 100% of the LH Property.

   <u>Distribution of Magnum Shares</u>
   On the Closing Date, Magnum issued 17,120,000 common shares in its capital to Cobra and 32,897,255 common shares in its capital to the Company (collectively, the "Magnum Shares") as consideration for their respective interests in the LH Property. A portion of the Magnum Shares received by the Company and all of the Magnum Shares received by Cobra will be distributed to their respective shareholders on a pro rata basis as a return of capital (together, the "Return of Capital") on the Company Distribution Date (defined below) and the Cobra Distribution Date (defined below) pursuant to the TSX Venture Exchange's due bill trading policy (the "Due Bill Policy").

   Pursuant to the Due Bill Policy, the Company announced that:
   - the record date (the "IBC Record Date") to determine shareholders of the Company entitled to receive Magnum Shares was May 4, 2016;
   - the due bill trading date was May 2, 2016 (two days prior to the IBC Record Date);
   - the payment or distribution date (the "Company Distribution Date") was May 10, 2016;
   - the ex-distribution date was May 11, 2016 (the trading day immediately following the IBC Distribution Date); and
   - the due bill redemption date was May 13, 2016 (the second trading day following the ex-distribution date)

   Pursuant to the Due Bill Policy, Cobra announced that:
   - the record date (the "Cobra Record Date") to determine shareholders of Cobra entitled to receive Magnum Shares was May 4, 2016;
   - the due bill trading date was May 2, 2016 (two days prior to the Cobra Record Date);
   - the payment or distribution date (the "Cobra Distribution Date") was May 10, 2016;

- the ex-distribution date was May 11, 2016 (the trading day immediately following the Cobra Distribution Date); and
- the due bill redemption date was May 13, 2016 (the second trading day following the ex-distribution date)

"Due bills" will represent the Magnum Shares that the Company and Cobra shareholders will be entitled to receive pursuant to the applicable Return of Capital. The due bills will be deemed to attach to the Company and Cobra's common shares two trading days prior to the IBC Record Date or the Cobra Record Date, as applicable, and will continue to attach to the common shares of the Company or Cobra, as applicable, until the end of the IBC Distribution Date or the Cobra Distribution Date, as applicable. Accordingly, the Company's shares and Cobra shares will trade on a "due bill" basis from May 2, 2016 until close of trading on May 10, 2016 (the "Due Bill Period"). This means that persons who sell their shares in the Company or their Cobra shares, as applicable, during the Due Bill Period shall also sell their entitlement to the distribution of the Magnum Shares to the purchasers of such shares. Shares of the Company and Cobra will each begin trading on an ex-distribution basis (i.e. without an attached "due bill" entitlement to the distribution of the Magnum Shares) from the opening of trading on May 11, 2016 (i.e. the next trading day after the IBC Distribution Date or after the Cobra Distribution Date, as applicable). The due bills will be redeemed on May 13, 2016 once all trades with attached due bills entered during the Due Bill Period have settled.
The Company is expected to have 11,350,948 common shares outstanding as of the IBC Record Date and will distribute 17,026,427 of the Magnum Shares it receives to its shareholders of record as of the IBC Record Date such that for each common share of the Company held, a shareholder of the Company can expect to receive approximately 1.5 Magnum Shares. Cobra is expected to have 15,903,748 common shares outstanding as of the Cobra Record Date and will distribute all of the 17,120,000 Magnum Shares it receives to its shareholders of record as of the Cobra Record Date such that for each common share of Cobra held, a shareholder of Cobra can expect to receive approximately 1.0765 Magnum Shares. No fractional Magnum Shares will be issued, and accordingly, Magnum Shares issued to the Company and Cobra shareholders will be rounded down to the nearest whole number. Notwithstanding each Return of Capital, the Magnum Shares will remain subject to a statutory hold period expiring September 10, 2016.

c) On March 10, 2016, the Company, Magnum Goldcorp Inc. ("Magnum") and Cobra Venture Corporation ("Cobra") (collectively, the "Parties") announced that they had entered into an asset purchase agreement dated March 1, 2016 (the "LH Property Agreement"), with respect to the acquisitions by Magnum of all of the interest of each of the Company and Cobra in the LH Property (the "LH Property Transaction"). Under the LH Property Agreement, Magnum will issue 17,120,000 common shares in its capital to Cobra and 32,897,255 common shares in its capital to the Company (collectively, the "Magnum Shares") at closing as consideration for their respective interests in the LH Property. The LH Property Transaction is considered to be a reviewable transaction with respect to each of Magnum and the Company for the purposes of the policies of the TSX Venture Exchange (the "Exchange"), and accordingly, is subject to approval by the shareholders of each of Magnum and the Company (which shareholder approvals were received on April 7, 2016) and approval by the Exchange. Magnum has certain directors in common with each of Cobra and the Company, which directors are considered to be non-arm's length parties within the policies of the Exchange for the purposes of the LH Property Transaction, and accordingly, those directors have abstained from voting on board resolutions passed by the respective Parties approving the LH Property Transaction. The Company intends to distribute 17,026,427 of the Magnum Shares it receives under the terms of the LH Property Agreement to its shareholders on a pro rata basis, which will result in Company shareholders receiving approximately 1.5 Magnum Shares for each share of Company held. The Company intends to retain the remaining 15,870,828 Magnum Shares to assist the Company in meeting its ongoing commitments and obligations and to enable the Company to participate, as a shareholder of Magnum, in the potential future value of the LH Property project. The return of capital of the Company is subject to approval by its shareholders (which shareholder approval was received on April 7, 2016).

d) On December 21, 2015, the Company, Magnum Goldcorp Inc. ("Magnum") and Cobra Venture Corporation ("Cobra", and collectively, the "Parties") announced they had entered into a non-binding letter of intent (the "LOI") pursuant to which Magnum has indicated its intention to acquire (the "Proposed Acquisition") all of the interest of each of Cobra and the Company in the LH Property. Upon closing of the Proposed Acquisition, Magnum will own 100% of the LH Property. The LH Property is currently jointly owned by the Parties, with the Company owning 49% and Magnum and Cobra each owning 25.5%. Magnum operates the LH Property under the terms of a joint venture arrangement amongst the Parties. The Parties anticipate that the consolidation of interest in the LH Property by Magnum will enhance Magnum's ability to secure financing to further develop the LH Property, while allowing Cobra and the Company to focus on their other respective assets. The Parties intend to move expeditiously to enter into a definitive purchase and sale agreement for the Proposed Acquisition. It is expected that Magnum will issue the same number of shares as its outstanding share capital to Cobra and approximately double its outstanding share capital to the Company as consideration for their respective interests in the LH Property. Subject to review of certain tax related consideration, each of Cobra and the Company intend to distribute all, or a portion of, the shares of Magnum it receives to its shareholders by way of a return of capital. Upon completion of the return of capital, which is subject to shareholder approval, the shareholders of Cobra and the Company respectively will become shareholders of Magnum.

e) On November 9, 2015, the Company announced that effective November 10, 2015, the Company consolidated its share capital on a 4 old common shares for 1 new common share basis (the "Consolidation"). Management believes that the Consolidation is in the best interest of the Company and will allow the Company greater possibilities with respect to needed future financing. The Consolidation was accepted by the TSX Venture Exchange (the "Exchange") by Bulletin dated November 9, 2015. Prior to the Consolidation, the Company had 45,403,790 common shares issued and outstanding and following the Consolidation, 11,350,947 common shares were issued and outstanding.

**Results of Operations**

The following discussion addresses the operating results and financial condition of the Company for the three and six month period ended June 30, 2016 compared with the three and six month period ended June 30, 2016. The Management's Discussion and Analysis should be read in conjunction with the Company's unaudited interim consolidated financial statements and the accompanying notes for the six month period ended June 30, 2016.

**For the three month period ended June 30, 2016:**

***Net loss for the period***

The Company had a net income for the three month period ended June 30, 2016 of $1,914,750 (2015 - loss of $53,394). The change of $1,968,144 in the net loss for the three month period ended June 30, 2016 compared to the three month period ended June 30, 2015 was primarily due to a change in other items of $2,005,861 offset by an increase in general and administrative expenses of $37,717 as detailed below.

***Other items***

During the three month period ended June 30, 2016, the Company reported an income of $2,001,750 compared to a loss of $4,111 in the three month period ended June 30, 2015 from other sources of income and other expenses. Items that caused the $2,005,861 net change in other items are noted in the following:

- Interest income of $59 (2015 - $136) remained fairly consistent when compared to the prior period.
- Recovery on sale of exploration and evaluation assets of $1,480,376 (2015 - $nil) changed by $1,480,376 due to the sale of LH Property in the current period.
- Change in fair value of marketable securities, a gain of $521,315 (2015 - loss of $4,247) changed by $525,562 due to the market values of marketable securities held. During the current period, this included the fair market value changes of the Magnum shares received on the LH transaction.

***Operating Expenses***

General and administrative expenses of $87,000 (2015 - $49,283) are primarily comprised of consulting, legal and audit, rent, transfer agent and regulatory fees, and general office expenses. The net increase was $37,717 compared to the three month period ended June 30, 2015. Items that caused the net increase are noted in the following:

In comparison to the three month period ended June 30, 2015:

- Bank charges and interest of $1,639 (2015- $572) increased by $1,067 mainly due to the interest paid or accrued to increased loans provided for working capital at an interest rate of 1% per month (12% per annum) in the current period.
- Consulting fees of $17,500 (2015 - $16,250) remained fairly consistent when compared to the same prior period in the prior year.
- Insurance of $1,799 (2015 - $3,226) decreased by $1,427 due to the reduced insurance coverage for the current period compared to the same period in the prior year.
- Legal and audit of $42,502 (2015 - $10,650) increased by $31,852 mainly due to legal services required for the LH Property Transaction in the current period.
- Office and miscellaneous of $2,286 (2015 - $3,179) remained fairly consistent.
- Rent of $5,706 (2015 - $6,166) remained fairly consistent when compared to the same prior period in the prior year.
- Transfer agent and regulatory fees of $10,517 (2015 - $2,278) increased by $8,239 mainly due to the service required with respect to the LH Property Transaction in the current period.
- Wages and benefits of $5,051 (2015 - $6,962) decreased by $1,911 due to the reduction in benefits paid under the Company's health and welfare benefits plan in the current period when compared to the same period in the prior year.

**For the six month period ended June 30, 2016:**

***Net loss for the period***

The Company had a net income for the six month period ended June 30, 2016 of $1,864,767 (2015 - loss of $126,889). The change of $1,991,656 in the net loss for the six month period ended June 30, 2016 compared to the six month period ended June 30, 2015 was primarily due to a change in other items of $2,016,013 offset by an increase in general and administrative expenses of $24,357 as detailed below.

***Other items***

During the six month period ended June 30, 2016, the Company reported an income of $2,001,653 compared to a loss of $14,360 in the six month period ended June 30, 2015 from other sources of income and other expenses. Items that caused the $2,016,013 net change in other items are noted in the following:

- Interest income of $113 (2015 - $207) remained fairly consistent when compared to the prior period.
- Recovery on sale of exploration and evaluation assets of $1,480,376 (2015 - $nil) changed by $1,480,376 due to the sale of LH Property in the current period.
- Change in fair value of marketable securities, a gain of $521,164 (2015 - loss of $14,567) changed by $535,731 due to the market values of marketable securities held. During the current period, this included the fair market value changes of the Magnum shares received on the LH transaction.

***Operating Expenses***

General and administrative expenses of $136,886 (2015 - $112,529) are primarily comprised of consulting, legal and audit, rent, transfer agent and regulatory fees, and general office expenses. The net increase was $24,357 compared to the six month period ended June 30, 2015. Items that caused the net increase are noted in the following:

In comparison to the six month period ended June 30, 2015:

- Bank charges and interest of $2,393 (2015 - $1,093) increased by $1,300 mainly due to the interest paid or accrued to increased loans provided for working capital at an interest rate of 1% per month (12% per annum) in the current period.
- Consulting fees of $35,000 (2015 - $32,500) remained fairly consistent when compared to the same period in the prior year.
- Insurance of $3,743 (2015 - $7,313) decreased by $3,570 due to the reduced insurance coverage for the current period compared to the same period in the prior year.

- Investor relation of $1,155 (2015 - $nil) increased by $1,155 due to the timing of AGM materials distributed and meetings held.
- Legal and audit of $54,725 (2015 - $29,836) increased by $24,889 mainly due to legal services required for the LH Property Transaction in the current period.
- Office and miscellaneous of $5,379 (2015 - $6,576) remained fairly consistent when compared to the prior period.
- Rent of $11,474 (2015 - $14,706) decreased by $3,232 due to the decreased monthly rent charges in the current period.
- Transfer agent and regulatory fees of $11,522 (2015 - $6,616) increased by $4,906 mainly due to the service required with respect to the LH Property Transaction in the current period.
- Wages and benefits of $11,495 (2015 - $13,889) decreased by $2,394 due to the reduction in benefits paid under the Company's health and welfare benefits plan in the current period.

## LIQUIDITY AND CAPITAL RESOURCES

The Company's mineral exploration activities have been funded to date primarily through the issuance of common shares, and the Company expects that it will continue to be able to utilize this source of financing until it develops cash flow from its mining operations. Other than as discussed herein, the Company is not aware of any trends, demands, commitments, events or uncertainties that may result in its liquidity either materially increasing or decreasing at present or in the foreseeable future.

Material increases or decreases in the Company's liquidity will be substantially determined by the success or failure of its exploration programs on its properties, as well as its continued ability to raise capital.

The Company is currently reviewing its capital resource requirements for exploration as it will require funding for exploration in addition to covering its administrative expenses. The Company's overhead expenses which currently amount to approximately $17,500 per month which includes; 1) consulting agreements totalling $7,500 per month and 2) a lease of office space commitment with a basic monthly rent commitment of $1,202 and shared operating costs of $700.

The Company assesses its financing requirements and its ability to access equity or debt markets on an ongoing basis. The assessment considers: the stage and success of the Company's evaluation activities to date; the continued participation of the Company's investors in evaluation activities; and financial market conditions. The Company has marketable securities with a value of $911,396, which it could convert to cash. The marketable securities include Magnum Goldcorp Inc. shares the Company recently received, of which the Company distributed 17,026,427 of these shares to its shareholders. The remaining 15,870,828 Magnum Goldcorp Inc. shares (valued at $1,031,600 on distribution) are held in marketable securities for the Company to meet its ongoing commitments and obligations. Further financing may be required to cover the Company's future cash requirements. It is possible that future economic events and global conditions may result in further volatility in the financial markets which could negatively impact the Company's ability to access equity or debt markets in the future.

As at June 30, 2016, the Company had $7,499 in cash and cash equivalents compared to $10,584 as at December 31, 2015, with a June 30, 2016 working capital of $604,672 compared to working capital deficit of $153,377 as at December 31, 2015. The Company has no off-balance sheet financing.

Net cash used in operating activities for the period ended June 30, 2016 was $61,761 compared to $53,149 net cash used in the same period in 2015.

Net cash provided by investing activities for the period ended June 30, 2016 was $27,176 (2015 - $51,961), including proceeds on sale of marketable securities of $27,176 (2015 - $52,783) offset by investment in exploration and evaluation assets of $nil (2015 - $822).

Net cash provided by financing activities for the period ended June 30, 2016 was $31,500 (2015 - $nil) from loan proceeds.

At present, the Company's operations generate little cash flow and its financial success is dependent on management's ability to discover economically viable mineral deposits. The mineral exploration process can take many years and is subject to factors that are beyond the Company's control. The Company currently has a loan facility and marketable securities to meet its administrative overhead expenses for the next several months; however, the Company will require additional financial resources to undertake its planned exploration activities.

In order to finance the Company's exploration programs and to cover administrative and overhead expenses, the Company raises money through equity sales and from the exercise of convertible securities. Many factors influence the Company's ability to raise funds, including the health of the resource market, the climate for mineral exploration investment, the Company's track record, and the experience and caliber of its management. Actual funding requirements may vary from those planned due to a number of factors, including the progress of exploration activities. Management believes that it will be able to raise equity capital as required in the long term, but recognizes there will be risks involved that may be beyond their control.

## SUMMARY OF QUARTERLY RESULTS

| | June 30, 2016 | March 31, 2016 | December 31, 2015 | September 30, 2015 |
|---|---|---|---|---|
| Total Assets | $ 1,320,440 | $ 447,275 | $ 452,348 | $ 715,857 |
| Exploration and evaluation assets | 71,273 | 71,273 | 71,273 | 336,241 |
| Working Capital (deficit) | 604,672 | (203,360) | (153,377) | (106,107) |
| Shareholders' Equity (Deficit) | 720,945 | (87,087) | (37,104) | 275,134 |
| Total Revenues | 59 | 54 | 55 | 59 |
| Operating expenses | 87,000 | 49,886 | 78,125 | 60,443 |
| Property Recovery (Write-offs) | 1,480,376 | - | (263,938) | - |
| Net Income (Loss) | 1,914,750 | (49,983) | (312,238) | (27,474) |
| Net Income (Loss) per share | 0.17 | (0.00) | (0.03) | (0.00) |

| | June 30, 2015 | March 31, 2015 | December 31, 2014 | September 30, 2014 |
|---|---|---|---|---|
| Total Assets | $ 693,669 | $ 728,644 | $ 761,042 | $ 755,859 |
| Exploration and evaluation assets | 336,033 | 335,211 | 335,211 | 373,892 |
| Working Capital | (78,425) | (24,209) | 49,286 | 87,624 |
| Shareholders' Equity | 302,608 | 356,002 | 429,497 | 506,516 |
| Total Revenues | 136 | 71 | 120 | 119 |
| Operating expenses | 49,283 | 63,246 | 84,183 | 88,266 |
| Property Recovery (Write-offs) | - | - | - | - |
| Net Income (Loss) | (53,394) | (73,495) | (77,019) | (108,522) |
| Net Income (Loss) per share | (0.00) | (0.01) | (0.01) | (0.01) |

## SELECTED ANNUAL INFORMATION

| | Year Ended December 31, 2015 | Year Ended December 31, 2014 | Year Ended December 31, 2013 |
|---|---|---|---|
| Revenues | $ 321 | $ 514 | $ 19,221 |
| Operating loss | 251,097 | 344,596 | 571,698 |
| Net loss | 466,601 | 349,858 | 1,570,531 |
| Write off of exploration and evaluation assets | - | - | 660,655 |
| Basic and diluted loss per share | (0.04) | (0.03) | (0.14) |
| Total assets | 452,348 | 761,042 | 950,332 |

## RELATED PARTY TRANSACTIONS

(a) During the period ended June 30, 2016, the Company paid or accrued the following amounts to directors, companies and/or limited partnerships controlled by directors and/or companies with certain directors in common:

| Name of Company/Director | Director/Officer | | June 30, 2016 | | June 30, 2015 |
|---|---|---|---|---|---|
| ***Expenses:*** | | | | | |
| Beachfront Enterprises Limited Partnership (rent) | a limited partnership, the majority of which is owned by a director, namely, Douglas L. Mason | $ | 11,474 | $ | 14,706 |
| Bruce E. Morley Law Corp. (legal services) | a company controlled by a former director, namely, Bruce E. Morley | | 15,000 | | 15,000 |
| Criterion Capital Corporation (consulting fees) | a company controlled by a director, namely, Douglas L. Mason | | 15,000 | | 15,000 |
| (interest) | | | 1,491 | | 298 |
| Sead Hamzagic, Inc. (financial consulting fees) | a company controlled by a director, namely, Sead Hamzagic | | 15,000 | | 15,000 |
| Andrzej Kowalski (director's fee) | a director, namely, Andrzej Kowalski | | 1,000 | | 1,000 |
| Mehrun Payravi (director's fee) | a director, namely, Mehrun Payravi | | 1,000 | | - |

(b) The Company reimbursed Waterfront Communications Inc. (a company with certain directors in common) on a cost basis, to cover shared administrative and geological payroll costs in the amount of $11,201 (2015 - $13,889) and shared expenses in the amount of $6,770 (2015 - $7,847).

(c) Included in prepaid expenses at June 30, 2016 is $12,300 (December 31, 2015 - $12,300) as a security deposit paid to Waterfront Communications Inc. (a company with certain directors in common), to cover shared payroll and expense recoveries.

(d) As at June 30, 2016, accounts payable and accrued liabilities of $501,982 (December 31, 2015 - $429,246) owing to directors/officers or companies controlled by certain directors and companies with certain directors in common (see following table):

| Name of Company | Directors/Officers | June 30, 2016 | December 31, 2015 |
|---|---|---|---|
| Beachfront Enterprises Limited Partnership (rent) | a limited partnership, the majority of which is owned by a director, namely, Douglas L. Mason | $ 46,925 | $ 34,877 |
| Bruce E. Morley Law Corp. (legal services) | a company controlled by a former director, namely, Bruce E. Morley | 136,080 | 119,280 |
| Criterion Capital Corporation (consulting fees) | a company controlled by a director, namely, Douglas L. Mason | 127,575 | 111,825 |
| (interest) | | 2,165 | 674 |
| Sead Hamzagic, Inc. (financial consulting fees) | a company controlled by a director, namely, Sead Hamzagic | 127,575 | 111,825 |
| Andrzej Kowalski (director's fees) | a director, namely, Andrzej Kowalski | 4,000 | 3,150 |
| Mehrun Payravi (director's fees) | a director, namely, Mehrun Payravi | 1,500 | 525 |
| Magnum Goldcorp Inc. | a company with certain directors in common, namely, Douglas L. Mason and Sead Hamzagic | 10,572 | - |
| Waterfront Communications Inc. | a company with certain directors in common, namely, Douglas L. Mason and Sead Hamzagic | 45,590 | 47,090 |
| | | $ 501,982 | $ 429,246 |

(e) The Company entered into a loan agreement, dated April 25, 2014, pursuant to which the lender agreed to loan the Company up to $75,000 for working capital purposes. The loan agreement was provided by a company, Criterion Capital Corporation, a company controlled by a director, namely Douglas L. Mason, and each loan advance is for a term of one year with interest at a rate of 1% per month (12% per annum). Under the loan, there has been 3 loan advances; 1) $5,000 in June 2014 (the due date on this advance was extended to November 2016); 2) $25,000 in February 2016 and 3) $6,500 in April 2016. No loan bonus shares were issued in connection with these loans.

## COMMITMENTS AND CONTINGENCIES

The Company entered into 3 five-year term renewable agreements as amended, with companies controlled by two directors and one former director of the Company for the provision of consulting and/or legal services at a cost of $2,500 per month under each of the three agreements with an aggregate cost of $7,500 per month ($90,000 per annum). If any of such agreements are terminated without cause or if there is a change in control of the Company, the Company was required to pay $150,000 to such contracted party so affected.

The Company entered into two agreements with certain directors/officers for services rendered in such capacities. Effective If such agreements are terminated without consent of the director/officer or the director/officer resigns within 120 days following a change in control, the Company must pay $50,000 to such director/officer and allow any unvested stock options to vest.

The Company was reassessed for certain prior years' taxation filings (principally from 2003 and 2004) by the Canada Revenue Agency ("CRA") pertaining to the renunciation of its flow-through expenditures. Also, individual investors in certain flow-through shares may be impacted by the reassessments. The Company has been assessed taxes of $339,195 and interest and penalties of approximately $242,000 as of December 31, 2015, and CRA is currently withholding approximately $280,000 (December 31, 2015 - $269,000) of the Company's GST and METC refunds (included in receivables) as an offset against the balance. On April 15, 2015, the Company received a Notice of Confirmation from CRA which indicated that CRA had disallowed the Notices of Objection previously filed by the Company. The Company does not believe that the issues raised by the Company in its Notices of Objection were properly addressed by CRA and the Company filed an Appeal to the Tax Court of Canada, consequently no accrual has been made.

## CAPITAL MANAGEMENT

The Company's shareholders' equity comprises its capital under management. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its mineral properties and to maintain a flexible capital structure, which optimizes the costs of capital at an acceptable risk.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets.

In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

In order to maximize ongoing development efforts, the Company does not pay out dividends. The Company's investment policy is to invest its short-term excess cash in highly liquid short-term interest-bearing investments with maturities of 365 days or less from the original date of acquisition, selected with regard to the expected timing of expenditures from continuing operations.

To fund future operations and exploration activities the Company will need to raise funds through future share issuances, issue new debt or dispose of assets.

There have been no changes to the Company's approach to capital management during the period ended June 30, 2016. The Company is not subject to externally imposed capital requirements.

## FINANCIAL INSTRUMENTS

### Fair value

The Company classifies its cash and cash equivalents and marketable securities as fair value through profit or loss; receivables, as loans and receivables; and accounts payable and accrued liabilities and loans payable, as other financial liabilities.

The carrying values of accounts receivable, accounts payable and accrued liabilities, and loans payable approximate their fair values due to the short-term maturity of these financial instruments.

The Company's measurement of fair value of financial instruments as at June 30, 2016 and December 31, 2015 in accordance with the fair value hierarchy is as follows:

| | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| June 30, 2016 | | | | |
| Cash and cash equivalents | $ 7,499 | $ 7,499 | $ - | $ - |
| Marketable securities | $ 911,396 | $ 911,396 | $ - | $ - |
| December 31, 2015 | | | | |
| Cash and cash equivalents | $ 10,584 | $ 10,584 | $ - | $ - |
| Marketable securities | $ 43,750 | $ 43,750 | $ - | $ - |

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

**Credit risk**

Credit risk is the risk of financial loss to the Company if a counter party to a financial instrument fails to meet its payment obligations. The Company is exposed to credit risk with respect to its cash and cash equivalents and receivables.

The Company's credit risk is primarily attributable to cash and cash equivalents. Management believes that the credit risk concentration with respect to cash and marketable securities is remote as it maintains accounts with highly-rated financial institutions. Accounts receivable are due primarily from CRA.

Credit risk with respect to accounts receivable has been assessed as low from management, as the Company believes that if successful in its appeal of the reassessments received from the CRA the amounts held by CRA will be refunded.

Included in cash equivalents at December 31, 2015 and 2014 are cashable guaranteed investment certificates earning interest at prime minus 1.95% to 2.10%. The credit risk associated with cash and cash equivalents is minimized substantially by ensuring that these financial assets are placed with a major financial institution with strong investment-grade ratings by a primary ratings agency.

The Company's concentration of credit risk and maximum exposure thereto is as follows:

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| Guaranteed investment certificates | $ 5,750 | $ 5,750 |
| Bank accounts | 1,749 | 4,834 |
| Marketable securities | 911,396 | 43,750 |
| | $ 918,895 | $ 54,334 |

**Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in satisfying financial obligations as they become due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. At June 30, 2016, the Company had accounts payable and accrued liabilities of $562,995 (December 31, 2015 - $484,452) and a loan in the amount of $36,500 (December 31, 2015 - $5,000). Based on the current funds held as at June 30, 2016, the Company has sufficient working capital for the short term, but will need to rely upon financing from shareholders and/or debt holders to obtain sufficient working capital in the long term.  There is no assurance that such financing will be available on terms and conditions acceptable to the Company.

The amounts listed below are the remaining contractual maturities for financial liabilities held by the Company:

| | June 30, 2016 | | |
|---|---|---|---|
| Due Date | Accounts Payable and Accrued Liabilities | Due to Related Parties | Total |
| 0 – 90 days | $ 61,013 | $ 501,982 | $ 562,995 |

| | December 31, 2015 | | |
|---|---|---|---|
| Due Date | Accounts Payable and Accrued Liabilities | Due to Related Parties | Total |
| 0 – 90 days | $ 55,206 | $ 429,246 | $ 484,452 |

**Market risk**

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

(i) Interest rate risk

Interest rate risk consists of two components:

(a) To the extent that payments made or received on the Company's monetary assets and liabilities are affected by changes in the prevailing market interest rates, the Company is exposed to interest rate cash flow risk.

(b) To the extent that changes in prevailing market rates differ from the interest rate in the Company's monetary assets and liabilities, the Company is exposed to interest rate price risk.

The Company's cash and cash equivalents consist of cash held in bank accounts and a guaranteed investment certificate that earns interest at the prime lending rate minus 1.95%. Due to the short-term nature of the Company's financial instruments, fluctuations in market rates do not have a significant impact on estimated fair values.

Future cash flows from interest income on cash and cash equivalents will be affected by interest rate fluctuations. Given the balance of the guaranteed investment certificate, any fluctuations in the interest rate would lead to an immaterial change in the consolidated statements of comprehensive loss.

(ii) Foreign currency risk

The Company is not exposed to significant foreign currency risk.

(iii) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices, other than those arising from interest rate risk or foreign currency risk. The Company is exposed to other price risk with respect to its investments, as they are carried at fair values based on quoted market prices.

**OFF BALANCE SHEET ARRANGEMENTS**

The Company is not a party to any off-balance sheet arrangements or transactions.

## PROPOSED TRANSACTIONS

As referred to herein, the Company has recently closed on the sale of its 49% interest in the LH Property to Magnum Goldcorp Inc. It does not have any other current proposed asset or business acquisition of dispositions; however, the Company continues to seek new business opportunities to raise capital.

## CRITICAL ACCOUNTING ESTIMATES

The preparation of the consolidated financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

The most significant accounts that require estimates as the basis for determining the stated amounts include the depreciation of equipment, impairment of assets, valuation of share-based payments and recognition of deferred tax amounts.

Critical accounting estimates:

a) **Recoverability of asset carrying values**
The Company assesses its exploration and evaluation assets for possible impairment if there are events or changes in circumstances that indicate that carrying values of the assets may not be recoverable, at each reporting period. The assessment of any impairment of property and equipment and exploration and evaluation assets is dependent upon estimates of recoverable amounts that take into account factors such as reserves, economic and market conditions, timing of cash flows, the useful lives of assets and their related salvage values.

b) **Share-based payments**
The fair value of share options granted is measured using the Black-Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the option, expected volatility, expected life of the options, expected dividends and the risk-free rate. These estimates will impact the amount of share-based payments recognized.

c) **Income taxes**
Related assets and liabilities are recognized for the estimated tax consequences between amounts included in the financial statements and their tax base using substantively enacted future income tax rates. Timing of future revenue streams and future capital spending changes can affect the timing of any temporary differences and, accordingly, affect the amount of the deferred tax asset or liability calculated at a point in time.

## CHANGES IN ACCOUNTING POLICIES

There were no changes in accounting policies during the period ended June 30, 2016.

### Management's Responsibility for Financial Statements

The information provided in this report, including the financial statements, is the responsibility of management. In the preparation of these statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgements and have been properly reflected in the financial statements.

**OUTSTANDING SHARE DATA as at August 9, 2016:**

Effective November 10, 2015, the Company has consolidated its share capital on a 4 old common shares for 1 new common share basis. Accordingly, the share information below is stated on a post consolidated basis:

a) Authorized Share Capital: Unlimited number of common shares without par value

b) Issued and Outstanding Shares: 11,350,951 common shares with a stated value of $12,712,813.

c) Outstanding Stock Options: 150,000

| Expiry Date | Exercise Price | Number of Options |
|---|---|---|
| September 8, 2016 | $ 0.40 | 131,250 |
| July 24, 2017 | $ 0.40 | 18,750 |
| **Outstanding and exercisable** | | **150,000** |

d) Outstanding share purchase warrants: nil

**DIRECTORS AND OFFICERS**

Douglas L. Mason, President, CEO and Director (Chairman)
Sead Hamzagic, CFO and Director
Andrzej Kowalski, Director
Mehrun Payravi, Director