BONTERRA RESOURCES INC.

BTR :TSX-V | BONXF :OTCBB | 9BR :FSE

REPORT FOR THE THREE MONTHS ENDED
AUGUST 31, 2015
MANAGEMENT DISCUSSION AND ANALYSIS

## Forward-Looking Information and Material Assumptions

This report on results for the three months ended August 31, 2015 contains forward-looking information including forward-looking information about Bonterra Resources Inc. (the "Company" or "Bonterra")'s operations, estimates, and exploration and acquisition spending.

Forward-looking information is generally signified by words such as "forecast", "projected", "expect", "anticipate", believe", "will", "should" and similar expressions. This forward-looking information is based on assumptions that the Company believes were reasonable at the time such information was prepared, but assurance cannot be given that these assumptions will prove to be correct, and the forward-looking information in this report should not be unduly relied upon. The forward-looking information and the Company's assumptions are subject to uncertainties and risks and are based on a number of assumptions made by the Company, any of which may prove to be incorrect.

## GENERAL

This Management's Discussion and Analysis (MD&A) of the financial condition, results of operations and cash flows of the Company for the three months ended August 31, 2015 should be read in conjunction with the condensed consolidated interim financial statements as at August 31, 2015. This MD&A is effective October 30, 2015. Additional information relating to the Company is available on SEDAR at www.sedar.com.

The Company has prepared its condensed consolidated interim financial statements for the three months ended August 31, 2015 in Canadian dollars and in accordance with International Financial Reporting Standards ("IFRS") and International Accounting Standard 34 ("IAS 34"), as issued by the International Accounting Standards Board ("IASB").

## DESCRIPTION OF BUSINESS

The Company was incorporated under the laws of the Province of British Columbia on May 1, 2007. The Company is a junior mineral exploration company engaged in the business of acquiring, exploring and evaluating natural resource properties. The Company is currently focusing its financial resources on conducting exploration programs. The Company has not yet determined whether its properties contain reserves that are economically recoverable. The recoverability of amounts shown for resource property and related deferred exploration expenditures are dependent upon the discovery of economically recoverable reserves, confirmation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain necessary financing to complete the development of the resource property and upon future profitable production or proceeds from the disposition thereof.

On September 2, 2014, the Company consolidated its common shares on a one new share for twenty old shares basis. All share and per share amounts have been revised to reflect the consolidation.

The Board of Directors consists of: Nav Dhaliwal, Robert Gagnon, Robert Bryce, Joseph Meagher, Dale Ginn and Jose Vizquerra.

Nav Dhaliwal
Position: President & Chairman of the Board of Directors

Mr. Dhaliwal is a mining executive with several years experience at nurturing early stage companies through their critical phases of evolution, having founded a number of companies over his career. Mr. Dhaliwal is also experienced in corporate development, corporate communications and investor relations, bringing valuable business relationships with international analysts, brokers and investment bankers from Canada, the United States and Asia.

Robert Gagnon
Position: Director

Mr. Gagnon earned a Mining Techniques Diploma from the Collège de la région de l'Amiante in 1995 and a Bachelor of Geology from the University of Quebec in Chicoutimi in 1999. He has been a member in good standing of the Ordre des géologues du Québec since 2002, a member of the Board of Directors of the Quebec Mineral Exploration Association since 2009, and President of the Association des prospecteurs du Nord du Québec since 2012.

Robert Bryce, P. Eng., MBA
Position: Director

Mr. Bryce has in excess of 40 years of practical and executive mining experience at all levels. From 1975 to 1990 he led the Selbaie project from an advanced exploration project through feasibility into a 7500 tpd producing mine. From 1990 to 1994 Mr. Bryce was VP Mining for Aur Resources where he led the $280M construction and development of the 400 tpd Louvicourt Cu-Zn-Au mine near Val d'Or, Quebec. Mr. Bryce founded Abitex Resources in 1996, presided over the company until 2007, and continues to serve as a director of the company. He serves on the boards of directors and advisory boards of several listed junior resource companies, including Metanor Resources and Eagle Hill Resources, both of which are active in the Barry - Windfall area where Bonterra is presently concentrating its efforts.

P. Joseph Meagher, CA
Position: Chief Financial Officer and Director

Mr. Meagher is a director at Triumvirate Consulting Corp., a financial consulting firm. He specializes in financial management, accounting and financial reporting under both IFRS and ASPE. Prior to joining Triumvirate, Mr. Meagher worked at Smythe Ratcliffe LLP as a manager focusing on publicly listed and private company audits as well as staff training and development. He was a member of Smythe Ratcliffe's IFRS conversion team as well as a technical reviewer for complex accounting topics. Mr. Meagher holds a CA designation and a Bachelor of Commerce.

R. Dale Ginn
Position: Director

Mr. Ginn is an experienced mining executive and geologist of nearly 30 years. He is the founder of two exploration and mining companies and has led and participated in numerous gold and base metal discoveries, many of which are in production today. While specializing in complex, structurally-controlled deposits, he also has extensive mine-operations, development and startup experience. Mr. Ginn is recognized as an advocate of First Nations and local community participation in mining and exploration. Mr. Ginn is a registered professional geologist in Manitoba and Ontario and is a graduate of the University of Manitoba.

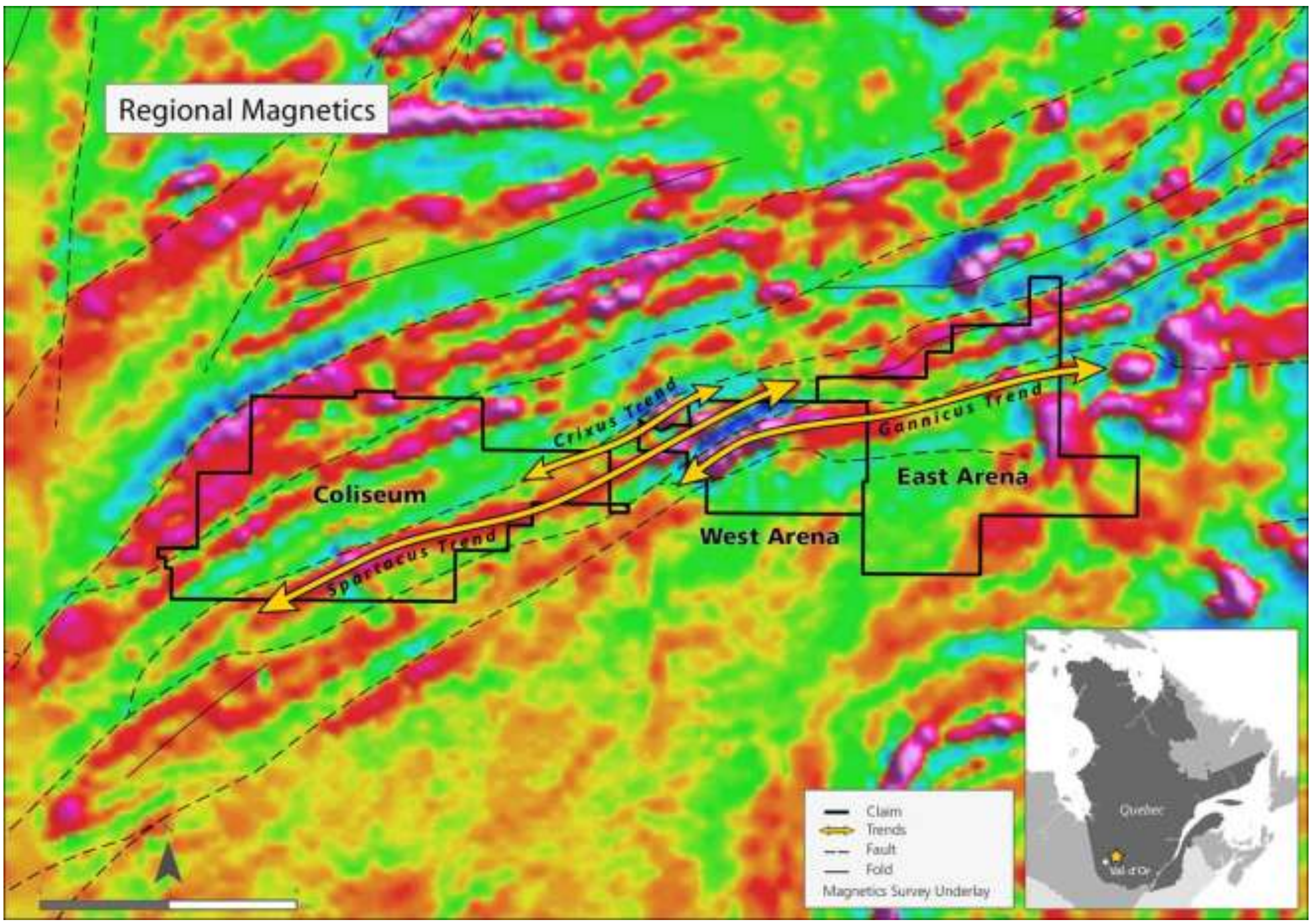
Jose Vizquerra
Position: Director

Mr. Vizquerra has been for over 4 years the President & CEO of Oban Mining Corporation (TSX:OBM). Mr. Vizquerra previously worked as Head of Business Development for Compania de Minas Buenaventura (BVN: NYSE), prior to which he worked as production and exploration geologist at the Red Lake gold mine. He is currently a board member of Timmins Gold. Mr Vizquerra holds a M.Sc. from Queens University in MINEX, and is a QP (AIPG-11679).

On October 14, 2015, Mr. Jose Vizquerra was appointed as a Director of the Company.

## EXPLORATION PROJECT – GLADIATOR PROJECT

The Company is focused on continuing to expand the drill defined gold zones on its Gladiator Project, part of the world famous Abitibi Greenstone Belt in mining friendly Quebec. Bonterra has a total of three gold properties in the Urban-Barry belt, the Coliseum, West Arena and East Arena properties which are located approximately 170 km NE of Val-d'Or and 125 km SW of Chibougamau in the Urban, Barry and Bailly townships in Québec.




### (i) COLISEUM PROPERTY (formerly Urban Barry)

The Company acquired a 100% interest in 95 claim blocks in Quebec near Windfall Lake at a cost of $20,000 (paid), the issuance of 50,000 common shares to the vendors and 5,440 common shares to a finder (issued) and incurring $140,000 of exploration expenditures (incurred). The shares were valued at $155,232 based on the market value of the shares on share issue date. The property is subject to a 2% net smelter returns royalty of which 0.5% can be purchased by the Company for $1,000,000. Bonterra has filed assessment work and the claims are now all good until 2016.

In addition the Company purchased a 100% interest in 27 mineral claims located in the James Bay area in Quebec. The aggregate consideration is $3,900 (paid) and 100,000 common shares (issued). The fair value of the shares was $360,000 based on the market value of the shares on the share issue date. During the year ended May 31, 2013, the James Bay area claims were not renewed.

The Abitibi Greenstone Belt hosts significant gold mineralization in several parallel NE to SW trending zones. Gold in the Urban-Barry Township is primarily associated with quartz-carbonate veins mineralized with sulphides. The Coliseum property is situated between Metanor Resources' Barry Mine and Bonterra's flagship property, the West Arena. Bonterra has drilled three holes, conducted ground and airborne magnetic surveys as well as a prospecting program on the Coliseum property. Bonterra Resources plans on conducting an IP survey on the western portions of the property.

### (ii) WEST ARENA PROPERTY (formerly Eastern Extension)

The Company entered into an option agreement on September 15, 2010, as amended on February 8, 2011 and March 19, 2012 to acquire 100% interest in 23 additional mineral claims adjacent to the Coliseum claims in Quebec for aggregate consideration of $10,000 cash (paid), 87,500 common shares (issued) and $750,000 in exploration expenditures (incurred). The Company has completed the acquisition and owns 100% subject to the NSR below.

The agreement is subject to a 2% NSR of which 1% can be purchased for $500,000. A finder's fee of 2,845 shares was paid in connection with this acquisition.

On October 25, 2013 the Company entered into an agreement to sell a 1% net smelter return interest in the West Arena property to Gold Royalties Corporation (TSX-V: GRO). The Company received 1,000,000 common shares of GRO on November 7, 2013. 500,000 of the common shares were held in trust until September 8, 2014. The Company recorded share consideration of $325,000 based on the trading price of the GRO shares on November 7, 2013 against the carrying amount of the exploration and evaluation assets.

### Geological Characteristics of the Gold Bearing Veins on the West Arena Property

On July 27, 2012 the Company filed a technical report pursuant to National Instrument 43-101 ("NI 43-101") entitled "*Bonterra Resources Inc.: Eastern Extension Property Project No. V1216 NI43-101 Technical Report*" dated July 26, 2012 (the "Report") prepared by Abolfazl Ghayemghamian, MSc, P.Geo., APEGBC, Senior Consultant and Walter A. Dzick, B.Sc. (Geology), M.B.A, CPG #11458, MAusIMM, MAIPG, Principal Consultant with Snowden Mining Industry Consultants Inc. ("Snowden"). Both authors of the Report are independent of Bonterra and are Qualified Persons as defined by NI 43-101.

The purpose of the Report was to provide a resource estimate for the West Arena Property (the "Property") which is located approximately 170 kilometers northeast of Val d'Or, Quebec in the Urban-Barry belt, and to support Bonterra's news release dated June 13, 2012 which disclosed that, using a 1.0 g/t cut-off grade, the Property contains an inferred gold resource of 4,337,000 tonnes, grading 3.53 g/t for 492,000 ounces.

The Report includes all work Bonterra has completed on the Property up until the end of 2011. Of a total of 21,559.50 metres of drilling completed by Bonterra to date, only 15,642.60 metres of this is included in the resource estimate. This 15,642.60 metres was drilled on the Property in 2010 and 2011 in 49 drill holes which averaged 319 metres in length. In addition to this 15,642.60 metres of drilling, historical drilling by Xemac resources was also used. Xemac drilled 59 holes totaling 8,727 metres in 1997, 1998, 2000 and 2001. After hitting significant gold at depths of approximately 600 metres**,** management believes there is significant down-dip potential. This assertion is further strengthened by the fact that the veins are vertical to sub-vertically dipping.

In addition to Bonterra's inferred resource estimate on the Property, Eagle Hill Exploration Corporation ("Eagle Hill") has defined inferred mineral resources and indicated mineral resources on its Windfall Lake

Property which is also in the Urban-Barry belt and is located approximately 8 kilometers north of the Property. Eagle Hill disclosed in its news release dated July 25, 2012 that, using a 3.0 g/t of gold cut-off grade, the Windfall Lake Property contains an indicated gold resource of 538,000 ounces (1,665,000 tonnes @ 10.05 g/t of gold) and an inferred resource of 822,000 ounces (2,906,000 tonnes @ 8.76 g/t). Eagle Hill's disclosure in its July 25, 2012 news release updates the disclosure in its November 2011 technical report which is referenced in the Report. Results obtained on the Windfall Lake Property are not necessarily indicative of results on the Property. Based on, among other things, the Report and the results reported in Eagle Hill's public disclosure, management believes that the Urban-Barry gold camp is an area of merit.

The inferred mineral resource at the Property that is disclosed in the Report was prepared using the following steps: compilation and verification of drillhole data, including independent data verification, and database verification (data validation was undertaken by Snowden); analysis of drillhole sample QAQC data; verification of Bonterra geology and mineralization models against drillhole information; coding of drillhole data within mineralized estimation domains; sample length compositing; analysis of extreme data values and application of top cuts, where necessary; exploratory analysis of gold grades within mineralized estimation domains; variogram analysis; creation of block models and application of density values; estimation of gold grades into blocks using ordinary kriging; validation of estimated block grades against input sample composite grades; confidence classification of estimates with respect to CIM guidelines; and resource tabulation and reporting.

A Vulcan block model with cell dimensions of 2 metres (X), 2 metres (Y), 2 metres (Z) was coded to reflect surface topography, syenite porphyry dykes, and the quartz vein domain solids.

Gold grades were estimated from 1 metre length weighted composites into the interpreted mineralized blocks by ordinary kriging using parameters established from analysis of the variography within each domain. Based on the variographic analysis, search ellipses were created to enable a three pass approach, to interpolate gold grades into the blocks. The minimum and maximum numbers of composites were set to 2 and 12 per block, respectively. A top cut of 58 g/t Au was applied. Discretization was set to 2 x 2 x 1. A density of 2.78 g/cc was assigned to the mineralized veins based on 10 measurements of specific gravity performed by Bonterra.

Visible gold in the drill core from the West Arena property.


Snowden has applied an inferred classification to all blocks in the mineral resource. Snowden has not classified any measured blocks after considering the relatively short ranges of gold grade continuity, the current drill hole spacing, the relatively high nugget environment, and use of assigned densities.

Mineral resources are not mineral reserves and do not have demonstrated economic viability. There is no certainty that all or any part of the mineral resource will be converted into mineral reserves. Estimates are rounded since the figures are not precise calculations. Mineral resource estimates are reported for the Property above a range of Au cut-off grades (see Table 1-1 of the Report). To date, no analysis has been made to determine the economic cut-off grade that will ultimately be applied to any mineral resources. As stated in the Report, management is not aware of any legal, political, environmental, or other risks that could materially affect the potential development of the inferred mineral resource.

On September 27, 2012 the Company announced receiving gold assays for two holes, BA-12-12 ("Hole 12") and BA-12-14 ("Hole 14"), from the Rivage Zone on its West Arena property. Hole 12 was the highlight as this drill hole hit the target Rivage Vein as well as four additional veins. The best drill core sample of the Rivage Vein assayed 23.30 g/t over 1.0 metre. Bonterra discovered the Rivage in 2011. The Rivage is characterized by a series of parallel veins mineralized with sulphides and often visible gold.

Highlights of assay results for the Rivage Vein include 23.3 g/t over 1.0 metre at 50 metres vertical depth in Hole 12 as disclosed in this news release, 204.0 g/t in a surface chip sample taken from the discovery outcrop as previously disclosed in the Company's news release dated October 4th, 2011 and 220.0 g/t over 1.0 metre at 200 metres in vertical depth in BA-12-10 ("Hole 10") as previously disclosed in the Company's news release dated May 10th, 2012. When reviewing results for Hole 10 and Hole 12, gold grades seem to increase with depth. Bonterra intercepted the high grade Rivage Vein and four other parallel veins in Hole 12 which is encouraging for the Company. Significant drill results from Hole 12 are shown in Table 1 with the collar details shown in Table 2.

**Table 1: Significant drill results (down hole depths)**

| Drill Hole Number | From (metres) | To (metres) | Length (metres) | Gold Grade (g/t) |
|---|---|---|---|---|
| BA-12-12 | 54.00 | 55.00 | 1.00 | 23.30 |
| BA-12-12 | 176.00 | 177.00 | 1.00 | 2.42 |
| BA-12-12 | 202.00 | 203.00 | 1.00 | 3.74 |
| BA-12-12 | 277.00 | 278.00 | 1.00 | 2.16 |
| BA-12-12 | 300.00 | 301.00 | 1.00 | 2.74 |
| BA-12-14 | No Significant Values | | | |

On June 12, 2013 the Company announced it had submitted samples from three drill holes to ALS Laboratories ("ALS") in Val d'Or, Quebec from the Company's flagship West Arena Property (the "Property"). Two of these three holes were drilled into the Peninsula Zone to test continuity of veins hosting high grade nearby while the final hole was drilled at the Rivage Zone.

On February 9, 2015, the Company announced results from one of the three holes, BA12-07. Results for holes BA12-09 and BA12-11 are still pending as reassaying of its existing core is needed to comply with QA/QC protocols. The Company expects to receive the results soon and will issue a press release once it does. One of the key targets for both holes BA12-07 and BA12-09 is a high-grade quartz vein/structure. BA12-07 returned values of 3.07 g/t Au over 5.0 m (101.0 to 106.0 m), which included 10.75 g/t Au over 1.0 m. The hole intersected the main NE-SW gold bearing structure identified by Bonterra during previous drilling campaigns, as expected. This hole is 120.0 meters along strike from BA11-23 (42.60 g/t over 1.30 metres) and BA11-26 (10.19 g/t over 2.60 metres), which returned similar values. This intercept is associated with a sheared felsic intrusives with numerous quartz-pyrite-tourmaline veinlets.

The sample results disclosed above are taken from mineralized intervals of the drill holes. Depths and lengths are core lengths and are not true widths and possibly down dip at times or otherwise non perpendicular. Samples of these mineralized intervals were clearly marked, normally one metre in length. Assay samples are taken from drill core, sawed in half along the core axis. One half is sent to ALS and the other half retained by the Company for future reference. BonTerra retains coarse rejects and pulps in a secure facility. The Company applies a full quality assurance and quality control program (QAQC) system for every batch of samples submitted to the lab (gold standard, field sample duplicate and blank). Samples were sawed in the field at the Bonterra exploration camp, labeled and put in clearly marked sample bags. Once this was complete the samples were submitted to ALS for crushing, and pulverizing. ALS is independent of the Company and is certified by the Standards Council of Canada. The samples crushed to 70% passing 2 mm and split to 1 kg. The crushed sample is then pulverized to 85% passing 75 mm. Fifty gram samples are fire assayed with an AAS finish. All samples assaying greater than 10 g/t gold are then reassayed with a gravimetric finish and by metallic screen with a fire assay finish.

### (iii) EAST ARENA PROPERTY (formerly Lavoie)

On December 30, 2010, the Company closed and received approval from the TSX Venture Exchange for a property purchase agreement entered into on December 10, 2010 to acquire 100% interest in 57 mineral claims east of the Urban-Barry Township in Quebec. Consideration paid was 100,000 common shares valued at $860,000 based on the market price of the shares on the share issue date, and cash payments of $35,000. The agreement is subject to a 2% NSR of which 1% may be purchased for $1,000,000.

The East Arena Property is contiguous and along strike with the West Arena property. This property was drilled in the past where gold bearing veins were intercepted. The Company has conducted the first phase of exploration on the property, a ground magnetic survey. An anomaly of interest runs NE-SW and warrants further investigation. Due to this fact, Bonterra conducted a large ground based magnetic survey on the East Arena property in March of 2011. It appears targets from the West Arena continue onto the East Arena property. This survey reinforced the historical data. The next step is to conduct a prospecting program followed up by localized IP surveys to further define drill targets on the property.

### 2015 Exploration Program

On October 28, 2015, the Company announced that drilling has commenced at the Company's Gladiator gold project located in the Abitbi Subprovince, north of Val d'Or, Quebec.

Phase 1 drilling is targeting plunge and strike extensions the Company's newly-discovered Gladiator Zone located on the Spartacus Trend within the West Arena Property. The first hole targeting the zone at approximately 200 meters below surface has been completed and logged, with samples prioritized and sent for assay at the ALS (Chemex) laboratory in Val d'Or.

The Spartacus Trend has been identified by the Company's geologists as a northeast trending shear zone primarily within mafic volcanic units that host local intrusions of syenite and gabbro. Gold mineralization is predominantly contained within quartz-carbonate veining and associated alteration related to shearing, faults, folds and other typical structural controls. To date, the deposit has been drilled over a 500-meter strike length from surface and consists of a number of parallel, anastomosing and intersecting steeply dipping shear zones. Two additional parallel trends have been identified by geophysical signature and limited drilling, namely the Crixus to the north and the Gannicus to the south, each trend is separated by approximately 500 meters. The Coliseum Property is situated immediately to the west along strike from the Spartacus and Crixus trends. The Barry Deposit and open pit are located along strike immediately to the west of the Coliseum Property.

Bonterra's exploration program will consist of drilling targets as described above, as well as expanding on its geophysical information and mapping. A limited program of sampling and re-logging previously drilled holes will also be undertaken in order to determine potential broader values between individual zones.

## SELECTED ANNUAL INFORMATION

| | May 31, 2015 | May 31, 2014 | May 31, 2013 |
|---|---|---|---|
| Revenue | $NIL | $NIL | $NIL |
| Net loss | (3,561,308) | (537,538) | (6,771,966) |
| Comprehensive loss | (3,534,063) | (564,783) | (6,771,966) |
| Basic and diluted loss per share | (0.35) | (0.11) | (1.54) |
| Total assets | 6,281,971 | 6,083,013 | 6,540,853 |
| Total current liabilities | 625,923 | 1,094,846 | 1,192,688 |

## SELECTED QUARTERLY INFORMATION

Results for the eight most recently completed quarters are summarized as follows:

| For the Quarter Periods Ending on | August 31, 2015 | May 31, 2015 | February 28, 2015 | November 30, 2014 |
|---|---|---|---|---|
| Administration expense | $654,431 | $406,602 | $405,494 | $323,648 |
| Other (income) loss | (42,731) | 132,163 | 2,053,201 | 99,662 |
| Net loss before tax for the period | 611,700 | 538,765 | 2,458,695 | 423,310 |
| Net loss per share | 0.02 | 0.03 | 0.35 | 0.09 |
| Total assets | 8,340,344 | 6,281,971 | 6,149,804 | 6,108,999 |
| Total current liabilities | 675,392 | 625,923 | 354,877 | 1,282,606 |

| For the Quarter Periods Ending on | August 31, 2014 | May 31, 2014 | February 28, 2014 | November 30, 2013 |
|---|---|---|---|---|
| Administration expense | $130,419 | $50,686 | $174,858 | $100,545 |
| Other (income) loss | 10,119 | 98,836 | - | - |
| Net loss before tax for the period | 140,538 | 149,522 | 174,858 | 100,545 |
| Net loss per share | 0.02 | 0.03 | 0.04 | 0.02 |
| Total assets | 6,096,696 | 6,083,013 | 6,244,903 | 6,288,915 |
| Total current liabilities | 1,199,322 | 1,094,846 | 1,094,904 | 964,058 |

## OPERATIONS

During the three months ended August 31, 2015 the Company reported a net loss of $611,700 compared to a net loss for the three months ended August 31, 2014 of $140,538. Variations in expenses from the three months ended August 31, 2015 to the three months ended August 31, 2014 are as follows:

- Consulting fees of $288,175 (2014 - $27,000) increased as additional consultants were retained to assist the Company with financing;
- Management fees of $45,000 (2014 - $63,000) were higher in 2014 as the Company had both a President and a CEO in 2014, whereas there was just one position in 2015;
- Office and general increased from $513 in 2014 to $24,404, and travel increased from $nil in 2014 to $5,197 as a result of the Company being much more active in 2015;
- Pre-exploration costs in 2014 of $3,500 were the result of writing off the reclamation deposit;
- Professional fees increased to $6,128 from $5,000 due to CFO fees for the full quarter;
- Rent deceased from $9,180 in 2014 to $7,212 as a result of moving offices;
- Share-based payments of $176,451 (2014 - $nil) reflect options granted in 2015, whereas none were granted in 2014;
- The Company incurred costs of $98,739 in shareholder communications and investor relations as compared to $18,075 in 2014. Activity has increased, and the Company has engaged consultants for shareholder communications;
- Transfer agent and filing fees of $2,404 (2014- $3,177) were consistent with the prior period;
- Other income of $42,731 (2014 - $nil) related to the reduction of the other liability created by the issuance of flow-through shares at a premium. The reduction was the result of qualified expenditures made by the Company during 2015; and
- Realized loss on marketable securities of $10,119 in 2014 was the result of selling GRO shares below the market price at the date the agreement with GRO was signed for the NSR sale.

## LIQUIDITY AND CAPITAL RESOUCES

The Company's cash at August 31, 2015 was $1,596,475 compared to $98,606 at May 31, 2015. The working capital was $1,223,614 at August 31, 2015 compared to a deficiency of $425,630 at May 31, 2015.

### For the three months ended August 31, 2015 and to the reporting date

On July 6, 2015, the Company completed a non-brokered private placement for gross proceeds of $2,536,004 (of which $1,936,004 is for flow-through expenditures). The Company issued 6,527,274 flow-through shares at a price of $0.22 per share, 2,083,350 flow-through units at a price of $0.24 per unit and 3,000,000 non-flow-through units at a price of $0.20 per unit. Each flow-through unit consisted of one flow-through common share of the Company and one non-flow-through share purchase warrant. Each warrant entitles the holder to acquire one additional common share of the Company at an exercise price of $0.35 per share for a period of two years. These warrants had a value of $241,634 using the pro rata method. Each non-flow-through unit consisted of one common share of the Company and one share purchase warrant. Each warrant entitles the holder to acquire one additional common share of the Company at an exercise price of $0.30 per share for a period of three years. These warrants had a value of $162,282 using the pro rata method.

The Company paid finder's fees of $158,020 and issued 25,000 finder's warrants valued at $3,371 with the same terms as the warrants in the non-flow-through units and 715,242 finder's warrants valued at $78,411 with the same terms as the warrants in the flow-through units. Other share issue costs of $15,059 were incurred.

During the three months ended August 31, 2015, the Company issued 1,408,000 common shares for proceeds of $253,440 on the exercise of 1,408,000 stock options.

Subsequent to August 31, 2015, the Company received proceeds of $93,960 on the exercise of 522,000 stock options and $73,600 on the exercise of 368,000 warrants.

At August 31, 2015, the Company had a remaining commitment to incur exploration expenditures in relation to its July 2015 flow-through share financing of $1,455,620.

In order to fund operations for the 2016 fiscal year and continue work on the Gladiator Project, the Company will need additional financing. The Company continues to actively evaluate sources of financing, including additional private placements, but there is no guarantee that financings will be available.

### For the year ended May 31, 2015

During the year ended May 31, 2015, the Company sold 587,000 common shares of GRO for proceeds of $119,813. The Company recorded a realized loss on sale of $35,857. The sale of GRO shares helped the Company maintain its day-to-day operations for the period.

During the year ended May 31, 2015, the Company did not meet the flow-through expenditure requirements. Included in accounts payable and accrued liabilities at May 31, 2015 is a provision for tax liabilities as a result of not meeting the flow-through expenditure requirements of $245,000 and a provision for Part XII.6 tax and penalties of $90,000. Of the $90,000, $39,577 was accrued in 2014.

On December 22, 2014, the Company completed a non-brokered private placement for gross proceeds of $617,500. The Company issued 6,175,000 units at a price of $0.10 per unit. Each unit consisted of one common share of the Company and one share purchase warrant. Each warrant entitles the holder to acquire one additional common share of the Company at an exercise price of $0.20 per share on or before December 22, 2016. These warrants had a value of $228,356 using the pro rata method. The Company paid finder's fees and other costs in relation to the private placement of $8,687 and issued 25,000 agent's warrants with a value of $1,639 (note (13(c)). Each agent's warrant entitles the holder to acquire one common share of the Company at an exercise price of $0.20 per share on or before December 22, 2016.

On February 18, 2015, the Company issued 7,607,668 common shares with a value of $2,814,837 as part of a payables settlement agreement with a group of creditors. The amount of indebtedness that was settled with the transaction was $761,636.

During the year ended May 31, 2015, the Company issued 2,534,000 common shares for proceeds of $478,425 on the exercise of 2,534,000 stock options. The fair-value of the stock options of $213,489 was transferred to share capital from share-based payments reserve upon exercise (note 13(d)).

## OFF-BALANCE SHEET ARRANGEMENTS

The Company has not entered into any off-balance sheet arrangements.

## TRANSACTIONS WITH RELATED PARTIES

The following expenses were incurred with directors and officers of the Company:

| | Three Months Ended August 31, 2015 | Three Months Ended August 31, 2014 |
|---|---|---|
| Short-term compensation | $ 71,000 | $ 63,000 |

During the three months ended August 31, 2015, short-term compensation to related parties consisted of $45,000 in management fees (2014 - $63,000), $20,000 in deferred exploration costs (2014 - $nil) and $6,000 in professional fees (2014 - $nil).

Short-term compensation was paid as follows:

- $45,000 to a private company controlled by the President & CEO (2014 - $30,000);
- $6,000 to a private company in which the CFO is a director (2014 - $nil);
- $20,000 to a director (2014 - $nil); and
- $nil to the former CFO (2014 - $33,000).

During the three months ended August 31, 2015, the Company paid $nil for rent expense to a company related by a common director (2014 - $9,180).

As at August 31, 2015, the Company had outstanding amounts payable to an officer and a director of the Company of $4,200 (May 31, 2015 - $7,350) for outstanding fees and expenses. The amounts payable are non-interest-bearing, uncollateralized and are repayable on demand.

At August 31, 2015, included in prepaid expenses was a $nil (May 31, 2015 - $100,000) retainer for exploration expenses paid to a company of which the principal was a significant shareholder of the Company and $15,750 (May 31, 2015 - $5,250) in prepaid management fees to a related party.

## EVENTS OCCURRING AFTER THE REPORTING DATE

On October 14, 2015, the Company granted 1,800,000 stock options to officers and directors with an exercise price of $0.22 per share and an expiry date of October 13, 2020.

Subsequent to August 31, 2015, share subscriptions receivable of $45,000 were collected.

Subsequent to August 31, 2015, the Company received proceeds of $93,960 on the exercise of 522,000 stock options and $73,600 on the exercise of 368,000 warrants.

Subsequent to August 31, 2015, the Company, 306,000 stock options expired unexercised following the termination of services from consultants.

## RISKS AND UNCERTAINTIES

The Company is engaged primarily in mineral exploration and manages related industry risk issues directly. The Company may be at risk for environmental issues and fluctuations in commodity pricing. Management is not aware of and does not anticipate any significant environmental remediation costs or liabilities in respect of its current operations; however it is not possible to be certain that all aspects of environmental issues affecting the Company, if any, have been fully determined or resolved.

## CAPITAL DISCLOSURES

The Company's objectives when managing capital are to identify, pursue and complete the exploration and development of mineral properties, to maintain financial strength, to protect its ability to meet its on-going liabilities, to continue as a going concern, to maintain creditworthiness and to maximize returns for shareholders over the long term. The Company does not have any externally imposed capital requirements to which it is subject. Capital of the Company comprises shareholders' equity.

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. The Company's investment policy is to invest its cash in financial instruments at high credit quality financial institutions with terms to maturity selected with regards to the expected timing of expenditures from continuing operations.

The Company's overall strategy remains unchanged from the prior year.

## FINANCIAL INSTRUMENTS AND RISKS

As at August 31, 2015, the Company's financial instruments consist of cash, receivables, accounts payable and accrued liabilities, and due to related parties. The carrying values of these financial instruments approximate their fair values.

### Fair Value

The Company classifies its fair value measurements in accordance with an established hierarchy that prioritizes the inputs in valuation techniques used to measure fair value as follows:

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

The following table sets for the Company's financial assets measured at fair value by level within the fair value hierarchy:

| August 31, 2015 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Cash | $ 1,596,475 | $ - | $ - | $ 1,596,475 |

| May 31, 2015 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Cash | $ 98,606 | $ - | $ - | $ 98,606 |

### Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company manages credit risk, in respect of cash, by placing at major Canadian financial institutions. The Company has minimal credit risk.

### Market Risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, investment fluctuations, and commodity and equity prices. Market conditions will cause fluctuations in the fair values of financial assets classified as held-for-trading, available-for-sale and cause fluctuations in the fair value of future cash flows for assets or liabilities classified as held-to-maturity, loans or receivables and other financial liabilities. The Company is not exposed to significant market risk. The Company's ability to raise capital to fund mineral resource exploration is subject to risks associated with fluctuations in mineral resource prices. Management closely monitors commodity prices, individual equity movements and the stock market to determine the appropriate course of action to be taken by the Company.

### Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquid funds to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The contractual financial liabilities of the Company as of August 31, 2015 equal $675,392 (May 31, 2015 - $625,923). All of the liabilities presented as accounts payable are due within 30 days of the reporting date.

The Company intends to address its working capital deficiency through a combination of debt settlement agreements and private placement financings.

## CRITICAL ACCOUNTING ESTIMATES

### Impairment of exploration and evaluation assets

The application of the Company's accounting policy for exploration and evaluation expenditure and impairment of the capitalized expenditures requires judgment in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after expenditure is capitalized, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is written off in the profit or loss in the year the new information becomes available.

### Title to mineral property interests

Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

### Income taxes

Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities and contingencies for anticipated tax audit issues based on the Company's current understanding of the tax law. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

In addition, the Company recognizes deferred tax assets relating to tax losses carried forward to the extent that it is probable that taxable profit will be available against which a deductible temporary difference can be utilized. This is deemed to be the case when there are sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity which are expected to reverse in the same year as the expected reversal of the deductible temporary difference, or in years into which a tax loss arising from the deferred tax asset can be carried back or forward. However, utilization of the tax losses also depends on the ability of the taxable entity to satisfy certain tests at the time the losses are recouped.

### Going concern risk assessment

The Company's ability to continue its operations and to realize assets at their carrying values is dependent upon its ability to fund its existing acquisition and exploration commitments on its exploration and evaluation assets when they come due, which would cease to exist if the Company decides to terminate its commitments, and to cover its operating costs. The Company may be able to generate working capital to fund its operations by the sale of its exploration and evaluation assets or raising additional capital through equity markets. However, there is no assurance it will be able to raise funds in the future. These consolidated financial statements do not give effect to any adjustments required to realize it assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying consolidated financial statements.

## NEW ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

### IFRS 9 Financial Instruments (2009)

IFRS 9 introduces new requirements for classifying and measuring financial assets, as follows:

- Debt instruments meeting both a "business model" test and a "cash flow characteristics" test are measured at amortized cost (the use of fair value is optional in some limited circumstances)
- Investments in equity instruments can be designated as "fair value through other comprehensive income" with only dividends being recognized in profit or loss
- All other instruments (including all derivatives) are measured at fair value with changes recognized in profit or loss

- The concept of "embedded derivatives" does not apply to financial assets within the scope of the standard and the entire instrument must be classified and measured in accordance with the above guidelines.

This standard is effective for annual periods beginning on or after January 1, 2018.

### IFRS 9 Financial Instruments (2010)

This is a revised version incorporating revised requirements for the classification and measurement of financial liabilities, and carrying over the existing de-recognition requirements from IAS 39 Financial Instruments: Recognition and Measurement.

The revised financial liability provisions maintain the existing amortized cost measurement basis for most liabilities. New requirements apply where an entity chooses to measure a liability at fair value through profit or loss – in these cases, the portion of the change in fair value related to changes in the entity's own credit risk is presented in other comprehensive income rather than within profit or loss.

This standard is effective for annual periods beginning on or after January 1, 2018.

## OTHER INFORMATION

As at October 30, 2015 the Company had the following securities issued and outstanding:

| | October 30, 2015 | August 31, 2015 | May 31, 2015 |
|---|---|---|---|
| Common Shares | 35,098,691 | 34,208,691 | 21,190,067 |
| Warrants | 11,655,592 | 12,023,592 | 6,200,000 |
| Stock Options | 2,381,000 | 1,409,000 | 556,000 |
| Fully Diluted Shares | 49,135,283 | 47,641,283 | 27,946,067 |