



CASSELS BROCK
LAWYERS

RECEIVED

By Licence Administrator at 3:23 pm, May 31, 2011

May 20, 2011

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fax 416.640-3183

file # 37795-1

Nunavut Water Board
P.O. Box 119
Gjoa Haven, NU X0B 1J0

Attention: Richard Dwyer, Licensing Administrator

Re: Application for Assignment of Water License 2BM-ULU0914

We are writing to you on behalf of Elgin Mining Inc. ("**Elgin**") to commence the process for transferring water license 2BM-ULU0914 (the "**Water License**") issued to MMG Resources Inc. (successor of Wolfden Resources Inc.) ("**MMG**") to Bonito Capital Corp. ("**Bonito**"). We request that the transfer of the Water License be completed within 45 days, however, the transfer should not be completed prior to completion of the Acquisition (as defined below).

By way of background, Elgin has entered into a definitive agreement (the "**Acquisition Agreement**") with MMG and Bonito to indirectly acquire, among other things, the Ulu gold deposit (the "**Acquisition**"), located in Nunavut, to which the Water License relates. Pursuant to the terms of the Acquisition Agreement, immediately following Bonito becoming a wholly-owned subsidiary of Elgin through the acquisition by Elgin of all of the issued and outstanding shares of Bonito, Bonito has agreed to acquire the Ulu gold deposit and related properties and assets from MMG. As a condition of closing of the Acquisition, Bonito will also be required to replace the current MMG reclamation bond with the Government of Canada (estimated to be \$1.685 million) which posts security for the reclamation liability at the Ulu site. The Acquisition is expected to be completed on or before June 30, 2011 and is subject to, among other things, approval by the TSX Venture Exchange.

Pursuant to the Acquisition Agreement, Elgin has agreed to guarantee all of the obligations of Bonito under the Acquisition Agreement immediately prior to completing the Acquisition. Elgin is a publicly traded company continued under the *Business Corporations Act* (Ontario) with its common shares currently listed on the TSX Venture Exchange under the symbol "ELG".

The current directors and officers of Elgin and Bonito are set-out below:

Elgin

Name	Office(s) Held
Robert Buchan	Chairman, President and Chief Executive Director
Ravi Sood	Director
Murray Sinclair	Director
Robert Wardell	Director



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tel 416 869 5300 fax 416 360 8877 www.casselsbrock.com



Name	Office(s) Held
John Huxley	Director
Brian Morales	Chief Financial Officer

Bonito

Name	Office(s) Held
Michael Atkinson	President and Director
Brian Bayley	Director

In support of the transfer of the Water License, enclosed are the following documents for your consideration:

1. Application fee in the amount of \$30.00 payable to the Receiver General of Canada;
2. Application for Assignment and Declaration of Licensee dated May 20, 2011;
3. Copy of the Acquisition Agreement;
4. Audited financial statements of Elgin for the year ended December 31, 2010;
5. Articles of Continuance of Elgin; and
6. Articles of Incorporation of Bonito.

We are advised that neither the assignment or the operation of the appurtenant undertaking (operations on the Ulu gold deposit) will result in a contravention of any condition of the Water License or any provision of the *Nunavut Waters and Nunavut Surface Rights Tribunal Act* or the regulations.

All remaining applicable items required for the Application for Assignment will be provided as soon as possible.

Please note that the current address for MMG is 555-999 Canada Place, Vancouver, British Columbia, V6C 3E1.

Should you have any questions or require any additional information, please do not hesitate to contact the undersigned at your earliest opportunity.

Yours truly,

CASSELS BROCK & BLACKWELL LLP

Per:

Jay F. King

Cc Brian Morales, Elgin Mining Inc.

JFK/sc
Enclosures

CASSELS BROCK & BLACKWELL LLP

SCOTIA PLAZA, SUITE 2100, 40 KING STREET WEST,
TORONTO, CANADA M5H 3C2
Telephone (416) 869-5300

THE BANK OF NOVA SCOTIA
44 KING STREET WEST
TORONTO, ONTARIO M5H 1H1

386436

05-19-2011
MM-DD-YYYY

DATE

CDN FUNDS

\$30.00

THIRTY AND 00/100
DOLLARS

PAY TO THE ORDER OF
RECEIVER GENERAL FOR CANADA

[Signature]

⑈386436⑈ ⑆47696⑈002⑆ 00739⑈11⑈



P.O. Box 119
GJOA HAVEN, NU XOB 1J0
TEL: (867) 360-6338
FAX: (867) 360-6369

NUNAVUT WATER BOARD
NUNAVUT IMALIRIYIN
KATIMAYINGI OFFICE DES
EAUX DU NUNAVUT

APPLICATION FOR ASSIGNMENT AND DECLARATION OF LICENSEE (ASSIGNOR)

1. LICENCE NO: 2BM-ULU0914	2. WATER SOURCE: West Lake
3. LICENSEE INFORMATION: Name: <u>MMG Resources Inc.</u> Address: <u>Suite 200 – 1159 Alloy Drive Thunder Bay, Ontario, P7B 6M8</u> Phone: <u>(778) 373-5602</u> Fax: <u>(778) 373-5598</u> e-mail: <u>michael.mcconnell@mmg.com</u>	
4. Water use fees pertaining to this licence must be paid in full.	
5. DECLARATION OF LICENSEE: I, Martin McFarlane Representing <u>MMG Resources Inc.</u> hereby declare that the sale or other disposition undertaking will not result in any contravention of number <u>2BM-ULU0914</u> or of any provision of any right, title or interest in the appurtenant any provision of condition of water use licence of the Nunavut Waters and Nunavut Surface and hereby request the assignment of the water Rights Tribunal Act or the applicable Regulations, use licence to: Proposed Assignee: <u>Bonito Capital Corp.</u>	

Address: Bonito Capital Corp. c/o Quest Capital Management Corp., 550 Burrard St.
Suite 1028, Vancouver, BC V6C 2B5

Phone: (604) 488-8718

e-mail: matkinson@ionicemail.com

6. PROPOSED DATE OF ASSIGNMENT:

☒ 45 days after date of application

☐ Other: _____

7. APPLICATION FEE:

Application fee for assignment of water licence is \$30.00 CDN (payable to the Receiver General for Canada).

8. CHECKLIST:

The following documents **must** be included with the Application for Assignment where applicable:

☒ Completed Application for Assignment and Executed Declaration of Licensee (Assignor).

☐ Executed Undertaking of Proposed Assignee and Affidavit of Execution — Undertaking of Proposed Assignee.

☒ Copies of all documents pertaining to the lease, sale, rental or other disposition of the property or the licence from one party to another.

☒ Statement of financial responsibility of the assignee.

☐ For licences which require the provision of security, a letter to the NWB from the Manager of Water Resources, Indian and Northern Affairs Canada (I NAC).

☐ An updated financial security assessment.

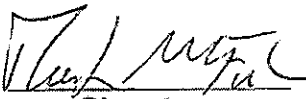
☐ A letter from each Designated Inuit Organization (DIO) and existing or other water users confirming that the proposed assignment does not negatively impact any existing water compensation agreement(s).

☐ Statement of assignee's capacity to implement the conditions of the water

licence and a schedule for the implementation of all plans, manuals and reports.

☒ \$30.00 CDN application fee payable to the Receiver General for Canada

9. SIGNATURE

MARTIN MCFARLANE	PRESIDENT		MAY 20, 2011
Name (Print)	Title (Print)	Signature	Date

PURCHASE AGREEMENT

Between

ELGIN MINING INC.

- and -

BONITO CAPITAL CORP.

- and -

MMG RESOURCES INC.

May 6, 2011

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PURCHASE AGREEMENT

THIS AGREEMENT made as of the 6th day of May, 2011.

B E T W E E N:

ELGIN MINING INC.,
a corporation existing under the laws of the
Province of Ontario,

(hereinafter referred to as "**Elgin**"),

- and -

BONITO CAPITAL CORP.,
a corporation existing under the laws of Alberta,

(hereinafter referred to as "**Bonito**"),

- and -

MMG RESOURCES INC.,
a corporation existing under the laws of the
Province of Ontario,

(hereinafter referred to as "**MMG**"),

WHEREAS Bonito wishes to purchase, and MMG wishes to sell all of its right, title and interest (of any nature or kind whatsoever) in respect of the Purchased Shares and the Purchased Assets (each as defined below);

AND WHEREAS Elgin and Bonito have entered into an agreement dated April 21, 2011 pursuant to which Elgin has agreed to acquire all of the outstanding shares of Bonito (the "**Elgin Purchase Agreement**");

NOW THEREFORE THIS AGREEMENT WITNESSES THAT in consideration of the respective covenants, agreements, representations and warranties and indemnities herein contained and for other good and valuable consideration (the receipt and sufficiency of which are acknowledged by each party), the parties hereto covenant and agree as follows:

ARTICLE 1 **INTERPRETATION**

1.1 Defined Terms

For purposes of this Agreement, unless the context otherwise requires, the following terms shall have the respective meanings set out below and grammatical variations of such terms shall have corresponding meanings:

"Affiliate" means, with respect to a Person, another Person which is controlled by, controls or is under common control with the first mentioned Person, and **"control"** for this purpose means: (a) the ownership of or control or direction over, directly or indirectly, more than 50% of the voting power attached to the outstanding voting securities of the relevant Person or of sufficient voting securities of such Person that the holder has the right to control the election or appointment of a majority of the directors or persons acting in a substantially similar capacity (if applicable) of such Person; and (b) the ability to control the management and affairs of the relevant Person;

"Agreement" means this agreement and all amendments and supplements hereto and **"hereof"**, **"hereto"** and **"hereunder"** and similar expressions mean and refer to this Agreement and not to any particular article, section, subsection or other part of this Agreement and **"Article"**, **"Section"**, **"paragraph"** or **"Schedule"** means and refers to the specified article, section, paragraph or schedule of this Agreement;

"Applicable Law" means, with respect to any Person, property, transaction, event or other matter (i) any law (including common law), statute, regulation, code, ordinance, rule, municipal by-law, order of a Governmental Authority or other requirement having the force of law, and (ii) any regulation or resolution of any Governmental Authority which, although not necessarily having the force of law, is regarded by such Governmental Authority as requiring compliance as if it had the force of law, in each case relating or applicable to such Person, property, transaction, event or other matter;

"Assumed Liabilities" means amounts accrued due and owing by MMG (whether known or unknown) relating to, or in connection with, or arising in respect of the Purchased Assets, including any operations or activities thereon or in respect thereof;

"Authority" means the Canadian Department of Indian Affairs and Northern Development;

"Books and Records" has the meaning given thereto in Section 4.2;

"Business Day" means any day other than a Saturday, Sunday or any statutory holiday in Vancouver, British Columbia;

"Cash Bond" means one or more cash bonds issued by a reputable financial institution or bonding company acceptable to the Authority, in the form and in the amount required by the Authority (to an aggregate maximum amount of \$4 million over the aggregate face value of the Letters of Credit), to be obtained by Bonito with funding provided by Elgin to replace the Letters of Credit;

"Cash Purchase Price" has the meaning given thereto in Section 2.5;

"Charter Documents" means articles, articles of incorporation, notice of articles, memoranda, by-laws or any similar constating document of a corporate entity;

"Claim" has the meaning given thereto in Section 7.3;

"Closing" has the meaning given thereto in Section 6.1;

"Closing Date" has the meaning given thereto in Section 6.1;

"Consideration Shares" means 1.8 million Elgin Shares;

"Contract" means any agreement, indenture, contract, lease, deed of trust, license, option, instrument or other commitment, whether written or oral;

"Deposit" means the amount of \$350,000 paid by Bonito to MMG on March 24, 2011 in consideration for the right to a 30-day exclusivity period with respect to the transactions contemplated by this Agreement;

"Direct Claim" has the meaning given thereto in Section 7.3;

"Elgin Purchase Agreement" has the meaning given thereto in the recitals to this Agreement;

"Elgin Shares" means the common shares in the capital of Elgin;

"Encumbrance" means any encumbrance, lien, charge, hypothec, pledge, mortgage, title retention agreement, royalty agreement, security interest of any nature, adverse claim, exception, reservation, easement, encroachment, servitude, restriction on use, right of occupation, any matter capable of registration against title, option, right of first offer or refusal or similar right, right of pre-emption or privilege or any Contract to create any of the foregoing;

"Environmental Law" means Applicable Law in effect from time to time relating to pollution, the protection of human health and safety (including at the workplace), natural resources, the environment or Hazardous Substances;

"GST" means all taxes payable under Part IX of the *Excise Tax Act* (Canada), including goods and services tax and harmonized sales tax and any similar tax imposed under the laws of a province or territory;

"Governmental Authority" means any federal, provincial, state, municipal, county or regional government or governmental or regulatory authority, domestic or foreign, including any political subdivision of any of the foregoing, any agency, department, commission, board, bureau, court, tribunal or other authority thereof, and including, without limitation, any stock exchange on which the securities of a Person may be listed or traded;

"Hazardous Substances" means any substance, material or waste defined, regulated, listed or prohibited by Environmental Laws including, without limitation, pollutants, contaminants, chemicals, deleterious substances, dangerous goods, hazardous, subject or toxic wastes or substances, radioactive materials, flammable substances, explosives, petroleum and petroleum products, polychlorinated biphenyls, chlorinated solvents and asbestos;

"Indemnified Party" has the meaning given thereto in Section 7.3;

"Indemnifying Party" has the meaning given thereto in Section 7.3;

"Kinross Royalty Agreement" means the agreement dated as of February 28, 2007 between LMI, Kinross Gold Corporation and MMG (as successor to Wolfden Resources Inc.) pursuant to which Kinross Gold Corporation was granted a net smelter returns royalty in respect of the Lupin Property;

"Leases" means the Lupin Leases and the Ulu Leases;

"Letters of Credit" means the letters of credit listed on Schedule 4.6;

"LMI" means Lupin Mines Incorporated, a corporation existing under the laws of the Province of Ontario;

"LMI Financial Statements" means the unaudited financial statements of LMI for the year ended December 31, 2010 which are attached as Schedule 3.1(a)(iii);

"Losses" means, in respect of any matter, all claims, cause of actions, demands, Proceedings, losses, damages, liabilities, deficiencies, fines, orders, costs and expenses (including, without limitation, all reasonable legal and other reasonable professional fees and disbursements, interest, penalties and amounts paid in settlement) and diminution in value arising directly or indirectly as a consequence of such matter;

"Lupin Leases" means all of the leases listed in respect of the Project Name "Lupin" on Schedule 1.1(a);

"Lupin Property" means the mine known as the "Lupin Mine" located in Nunavut, Canada, including the Lupin Leases, the immovable property, and all easements, servitudes, and rights of way related thereto and all plants, buildings, structures, improvements and fixtures (including fixed machinery and fixed equipment) located thereon and forming part thereof and all operations in respect thereof;

"Obligations" means obligations of MMG of any kind (whether known or unknown, liquidated, unliquidated, contingent, due or not yet due or otherwise but excluding Assumed Liabilities) relating to or in connection with or arising in respect of the Purchased Assets, including any operations or activities thereon or in respect thereof whether arising or occurring before, on or after the Closing Date;

"Outside Date" means July 30, 2011 or such other date as may be mutually agreed to in writing by the parties hereto;

"Permitted Encumbrances" means (i) the reservations in the original grant or grants from the Crown, statutory exceptions to title and liens for provincial, territorial or municipal taxes, charges, rates, assessments not yet due and payable or which are being contested in good faith by MMG or LMI, (ii) undetermined or inchoate liens and charges incidental to current construction or current operations which have not been filed or registered according to Applicable Law against MMG, LMI or the Subject Properties and which relate to obligations neither due nor delinquent, (iii) easements, rights of way and other similar rights so long as the existing use of the Subject Properties is not materially and adversely affected thereby, (iv) agreements with municipalities or public utility or hydro commissions including, without limitation, development agreements, site plan

agreements, subdivision agreements and other similar agreements which do not materially interfere with the existing use, operation or marketability of the Subject Properties, (v) any Encumbrances filed with Indian and Northern Affairs Canada with respect to surface leases 76E/14-1-9, 76E/14-2-10, 76E/14-10-3, 76E/11-3-4 and 76E/11-2-4 listed on Schedule 1.1(a) which do not materially interfere with the existing use of the Lupin Property or operations on the Lupin Property consistent with past practice, and (vi) any Encumbrances filed with the Nunavut Mining Recorder's Office with respect to mining leases 3563, 2428, 3275, 3276, 3277 and 3278 listed on Schedule 1.1(a) which do not materially interfere with the existing use of the applicable Subject Property or operations on the applicable Subject Property consistent with past practice;

"Person" includes an individual, firm, partnership, joint venture, syndicate, association, trust, trustee, executor, administrator, legal personal representative, government, governmental body or authority, corporation or other incorporated or unincorporated entity or organization;

"Proceeding" means any action, claim, demand, lawsuit, assessment, hearing, arbitration, judgment, award, decree, order, injunction, prosecution and investigation, or other similar proceeding;

"Purchased Assets" has the meaning given thereto in Section 2.1;

"Purchased Shares" means all of the issued and outstanding shares of LMI, which consists of 100 Class A Common Shares;

"Purchase Price" has the meaning given thereto in Section 2.4;

"Remedial Work" means any investigation, assessment, containment, clean-up, removal, disposal, restoration, rehabilitation, remediation, closure or other corrective action with respect to any Hazardous Substances, tailings, tailings management systems, waste stockpiles or mine hazards;

"Required Consents" means the consents listed on Schedule 1.1(b);

"Royalty Agreements" means the royalty agreements listed in Schedule 1.1(c);

"Subject Properties" means, collectively, the Lupin Property and the Ulu Property;

"Taxes" means all foreign, federal, national, provincial, state, city or municipal taxes, levies, duties, assessments, reassessments and other charges of any nature whatsoever, including, without limitation, income tax, profits tax, capital gains tax, gross receipts tax, corporation tax, mining tax, sales and use tax, wage tax, employer health tax, payroll tax, workers' compensation levy, capital tax, stamp duty, real and personal property tax, land transfer tax, customs or excise duty, excise tax, turnover or value added tax on goods sold or services rendered, goods and services tax, withholding tax, social security, government pension plan and employment insurance charges or retirement contributions;

"Technical Records" means any and all technical reports and results relating to mining, geology, electrical matters and mechanical matters relating exclusively to the Ulu

Property in the possession or control of MMG and its Affiliates including maps, surveys, drill logs, assay results, core samples and analyses, production reports and technical data;

"Third Party" has the meaning given thereto in Section 7.3;

"Third Party Claim" has the meaning given thereto in Section 7.3;

"TSXV" means the TSX Venture Exchange;

"Ulu Leases" means all of the leases listed in respect of the Project Name "Ulu" on Schedule 1.1(a);

"Ulu Mining Rights" means all of MMG's direct or indirect right, title and interest of any nature or type whatsoever in and to any mining leases, claims, patents, licences, permits, mining claim location certificates, located mining claims, freehold interests in mining property, mineral rights, mineral deposits, surface rights and subsurface rights constituting or relating in any way to the Ulu Property, and all rights appurtenant thereto; and

"Ulu Property" means the project known as the "Ulu Mine" located in Nunavut, Canada, including the Ulu Leases, the immovable property, and all easements, servitudes, and rights of way related thereto and all plants, buildings, structures, improvements and fixtures (including fixed machinery and fixed equipment) located thereon and forming part thereof and all operations in respect thereof.

1.2 Rules of Construction

Unless the context otherwise requires, in this Agreement the word "or" may be conjunctive or disjunctive, as the context may require.

1.3 Sections and Headings

The division of this Agreement into Articles, Sections, paragraphs and other divisions and the insertion of headings are for convenience of reference only and shall not affect the interpretation of this Agreement.

1.4 Number and Gender

In this Agreement, words importing the singular number only shall include the plural and vice versa, and words importing gender shall include all genders.

1.5 Currency

Unless otherwise indicated, all dollar amounts referred to in this Agreement are expressed in Canadian dollars.

1.6 Accounting Principles

Any reference in this Agreement to generally accepted accounting principles or GAAP refers to generally accepted accounting principles as approved from time to time by the

Canadian Institute of Chartered Accountants or any successor institute as at the date on which any calculation or determination is required to be made in accordance with generally accepted accounting principles, and where the Canadian Institute of Chartered Accountants includes a recommendation in its Handbook concerning the treatment of any accounting matter, such recommendation shall be regarded as the only generally accepted accounting principle applicable to the circumstances that it covers.

1.7 Knowledge

References in this Agreement to the knowledge of MMG, including the phrase "MMG is not aware" means the actual knowledge, after reasonable inquiry, of Ian Neill, Leigh Mollison and Martin McFarlane.

1.8 Entire Agreement

This Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior agreements, understandings, negotiations and discussions, whether written or oral.

1.9 Amendment and Waivers

No amendment or waiver of any provision of this Agreement shall be binding on any party unless consented to in writing by such party. No waiver of any provision of this Agreement shall constitute a waiver of any other provision, nor shall any waiver constitute a continuing waiver unless otherwise expressly provided.

1.10 Applicable Law

This Agreement shall be governed by and construed in accordance with the laws of the Province of British Columbia and the laws of Canada applicable therein and shall be treated in all respects as a British Columbia contract. The parties hereto submit to the jurisdiction of the courts of British Columbia with respect to any dispute, claim or other matter arising under this Agreement.

1.11 Severability

If any provision of this Agreement is determined by a court of competent jurisdiction to be invalid, illegal or unenforceable in any respect, such determination shall not impair or affect the validity, legality or enforceability of the remaining provisions hereof, and each provision is hereby declared to be separate, severable and distinct.

1.12 Schedules

The following schedules are attached to and form part of this Agreement:

- | | | |
|-----------------|---|------------------------------|
| Schedule 1.1(a) | - | Leases |
| Schedule 1.1(b) | - | Required Consents |
| Schedule 1.1(c) | - | Royalty Agreements |
| Schedule 2.1 | - | Assumed Contracts |
| Schedule 2.6 | - | Allocation of Purchase Price |

Schedule 3.1(a)(iii)	-	LMI Financial Statements
Schedule 3.1(a)(xviii)	-	Environmental Matters
Schedule 4.6	-	Letters of Credit
Schedule 5.3(e)	-	Regulatory Approvals
Schedule 6.3(c)	-	Form of Release and Assumption Agreement

ARTICLE 2

PURCHASE AND SALE OF PURCHASED ASSETS AND PURCHASED SHARES

2.1 Purchase and Sale of Purchased Assets

Subject to the terms and conditions hereof, MMG agrees to sell, assign and transfer to Bonito, and Bonito agrees to purchase and accept the transfer and assignment from MMG, on the Closing Date, of a 100% interest in the Ulu Property including (a) the Ulu Mining Rights, (b) all of MMG's direct and indirect right title and interest in and to (i) the Contracts listed on Schedule 2.1, (ii) any and all machinery, equipment, parts, furniture, furnishings and accessories, situated at the Ulu Property, and (iii) all permits, licences, approvals, registrations, consents, certificates and other similar authorizations relating to the Ulu Property, and (c) the Technical Records (collectively, including, for greater certainty, the Ulu Property, the "Purchased Assets"). For greater certainty, the Purchased Assets do not include any office equipment of MMG or any of its Affiliates which is not situated at the Ulu Property or the Lupin Property which relates to businesses and operations other than the Subject Properties and which may have from time to time been used in connection with MMG's ownership of the Purchased Assets.

2.2 Assumed Liabilities and Obligations

(a) Subject to the terms and conditions of this Agreement, Bonito agrees to assume, from and after the Closing Date, the Assumed Liabilities and to satisfy, pay and perform, from and after the Closing Date, the Obligations.

(b) The Assumed Liabilities and Obligations shall include, without limitation to the foregoing provisions of this Section 2.2 or the definitions of Assumed Liabilities or Obligations, all the liabilities and obligations of MMG with respect to the following:

- (i) the Purchased Assets;
- (ii) the Contracts listed on Schedule 2.1;
- (iii) the operations of or activities in connection with the Purchased Assets (including developmental, exploration and mining activities) and other operations on or in respect of the Ulu Property, whether arising or occurring before, on or after the Closing Date;
- (iv) environmental or reclamation liabilities and obligations, including, without limitation, the Remedial Work (including on land and property surrounding the Ulu Property) arising from the Ulu Property or the operations thereon or therefrom or otherwise existing in respect of the Ulu

Property, whether arising or occurring before, on or after the Closing Date; and

- (v) all claims, demands and out-of-pocket costs and expenses in respect of any of the foregoing.

For greater certainty, the Assumed Liabilities and the Obligations do not include any liabilities or obligations of MMG pursuant to this Agreement or any document delivered pursuant hereto, any obligations in respect of employees or any obligations for Taxes for any period ending on or prior to the Closing Date.

2.3 Purchase and Sale of Purchased Shares

Subject to the terms and conditions of this Agreement, MMG hereby covenants and agrees to sell, assign and transfer to Bonito, and Bonito covenants and agrees to purchase from MMG on the Closing Date, the Purchased Shares. In connection with the acquisition of the Purchased Shares by Bonito, Elgin agrees to assume, on the Closing Date, the obligations of MMG under the Kinross Royalty Agreement.

2.4 Purchase Price for Purchased Assets and Purchased Shares

The aggregate purchase price payable to MMG for the Purchased Assets and the Purchased Shares shall be: (a) \$7,815,000, plus (b) the amount of the Assumed Liabilities assumed by Bonito in accordance with Section 2.2 (collectively, the "**Purchase Price**"). In the event that Bonito has not obtained a GST registration number under the *Excise Tax Act* (Canada) prior to the Closing Date, Bonito shall also pay to MMG on the Closing Date, GST on that portion of the Purchase Price which is attributable to the Purchased Assets.

2.5 Payment of Purchase Price

The Purchase Price shall be satisfied on the Closing Date by (i) the application of the Deposit to the Purchase Price, (ii) the payment by Bonito to MMG of \$4,465,000 in cash in Canadian dollars (the "**Cash Purchase Price**"), by wire transfer to an account designated by MMG, such account designation to be in writing and delivered to Bonito no later than three Business Days prior to the Closing Date, (iii) the delivery by Bonito to MMG of the Consideration Shares registered in the name of MMG (or as MMG may otherwise direct in writing), and (iv) the assumption by Bonito of the Assumed Liabilities as provided in Section 2.4. Elgin hereby agrees to provide the Cash Purchase Price to Bonito on or before the Closing Date and agrees to issue and deliver to Bonito (registered in the name of MMG or as MMG may otherwise direct in writing), on or before the Closing Date, the Consideration Shares for delivery by Bonito to MMG on the Closing Date.

2.6 Allocation of the Purchase Price

The Purchase Price shall be allocated among the Purchased Assets and Purchased Shares as set forth in Schedule 2.6 attached hereto, to the extent set forth therein. Each of the parties hereto agrees to report an allocation of the Purchase Price among the Purchased Assets and Purchased Shares in a manner entirely consistent with such Schedule 2.6, and, subject to Applicable Law, to file their tax returns and tax filings on a basis that is consistent with such

allocation. The assumption of the Assumed Liabilities shall be in consideration of the purchase of the Purchased Assets.

2.7 ETA Election

Provided Bonito has become a registrant under the *Excise Tax Act* (Canada) prior to the Closing Date, Bonito and MMG shall, on the Closing Date, elect jointly under subsection 167(1) of the *Excise Tax Act* (Canada), and under any similar provision of any applicable provincial or territorial legislation, in the form prescribed for the purposes of that provision, in respect of the sale and transfer of the Purchased Assets hereunder, and Bonito shall file such election with Canada Revenue Agency, and provide MMG with proof of receipt by Canada Revenue Agency (and by the provincial taxing authority, where applicable) of the receipt of such election.

2.8 Transfer Taxes and Fees

Bonito shall be liable for and shall pay all federal, provincial and territorial transfer taxes (including, if applicable, GST, retail sales taxes and land transfer taxes) and all other taxes, duties, recordings and other fees, or other like charges of any jurisdiction properly payable in connection with the purchase of the Purchased Assets.

ARTICLE 3
REPRESENTATIONS AND WARRANTIES

3.1 Representations and Warranties of MMG

(a) MMG hereby represents and warrants to each of Bonito and Elgin as follows and acknowledges that Bonito and Elgin are relying on such representations and warranties in connection with entering into this Agreement and completing the transactions contemplated hereby:

- (i) Existence of MMG. MMG is a duly incorporated and validly existing corporation under the laws of the Province of Ontario, is in good standing thereunder and has full power and capacity to enter into, and perform all its obligations under, this Agreement.
- (ii) Existence of LMI. LMI is a duly incorporated and validly existing corporation under the laws of the Province of Ontario and is in good standing thereunder.
- (iii) LMI Financial Statements. Save and except as disclosed in Schedule 3.1(a)(iii), the LMI Financial Statements:
 - (A) have been prepared in accordance with GAAP, applied on a basis consistent with prior periods;
 - (B) are in accordance in all material respects with the books and accounts of LMI as at the dates thereof and for the periods covered thereby;

- (C) present fairly the assets, liabilities and the shareholders' equity of LMI as of the dates thereof and the results of operations of LMI for the periods covered thereby; and
 - (D) disclose all transactions between LMI and any of its Affiliates for the period covered thereby required to be disclosed in accordance with GAAP.
- (iv) No Unusual Transactions. Since December 31, 2010:
- (A) there has been no material change in the operations, business, properties, financial condition or prospects of LMI;
 - (B) LMI has not suffered any material extraordinary loss, or entered into any material commitment or transaction not in the ordinary course of business;
 - (C) LMI has not incurred or assumed any indebtedness for borrowed money other than in the ordinary course of business;
- (v) Corporate Guarantees. Except in relation to the Letters of Credit, LMI is not a party to, or bound by any agreement of guarantee, performance bond, indemnification, assumption or endorsement or any like commitment in respect of the obligations, liabilities or indebtedness, contingent or otherwise, of any other person.
- (vi) Material Documentation. MMG has made available to Bonito and Elgin all material documentation in its possession which relate to LMI, the Lupin Property and to the Ulu Property.
- (vii) Books and Records. The minute books of LMI are complete and accurate in all material respects.
- (viii) Litigation. MMG is not aware of any action, suit, investigation, inquiry, assessment, reassessment, litigation, determination or administrative or other proceeding or arbitration before or of any court, arbitrator or governmental authority that is in progress, pending or threatened, against or relating to LMI or the ULU Property.
- (ix) Taxes. MMG is not aware of any liabilities of MMG for Taxes in respect of the Subject Properties or of LMI for Taxes, in each case other than Taxes arising in the ordinary course of business which are not yet due and payable or, if due and payable, are being contested in good faith.
- (x) GST. MMG is a "registrant" under Part IX of the *Excise Tax Act* (Canada) whose GST registration number is 893235150.
- (xi) Due Authorization. The execution and delivery of this Agreement and all documents, instruments and agreements required to be executed and delivered by MMG pursuant to this Agreement, and the consummation of

the transactions contemplated by this Agreement, have been duly authorized by all necessary corporate action on the part of MMG.

- (xii) Non-Contravention. Neither the execution and delivery of this Agreement nor the completion and performance of the transactions contemplated hereunder will result in a breach of or default under, or be contrary to, any of the provisions of the Charter Documents of MMG or any Contract to which MMG is a party or by which MMG is bound which relates to the Subject Properties or give rise to any Encumbrance in favour of a third party on or in respect of the Purchased Assets or the Purchased Shares.
- (xiii) Enforceability. This Agreement has been, and each document, instrument and agreement to be delivered on Closing to which MMG is a party will on Closing be, duly executed and delivered by MMG, and this Agreement constitutes, and each such Closing document, instrument and agreement to which MMG is a party will on Closing constitute, a legal, valid and binding obligation of MMG enforceable against MMG in accordance with its terms subject to applicable limitations on enforcement imposed by bankruptcy, insolvency, reorganization or other laws affecting the enforcement of the rights of creditors and to the extent that equitable remedies such as specific performance and injunctions are only available in the discretion of the court from which they are sought.
- (xiv) Limited Representation as to Title – Ulu Property. To MMG's knowledge, the only Encumbrances on the Ulu Property are those that would be disclosed in a thorough search of the public records (including, without limitation, a search of the title to the real property comprising the Ulu Property), Permitted Encumbrances and the Royalty Agreements in respect of the Ulu Property.
- (xv) Limited Representation as to Title - LMI. To MMG's knowledge, the only Encumbrances on the Lupin Property are those that would be disclosed in a thorough search of the public records (including, without limitation, a search of the title to the real property comprising the Lupin Property), Permitted Encumbrances and the Royalty Agreements in respect of the Lupin Property.
- (xvi) Ownership of Purchased Shares. The authorized share capital of LMI consists of an unlimited number of voting Class A common shares, an unlimited number of voting Class B common shares, an unlimited number of voting Class C common shares, an unlimited number of voting Class D common shares, an unlimited number of voting Class E common shares, an unlimited number of voting Class A preference shares and an unlimited number of non-voting Class B preference shares of which the only shares outstanding are the Purchased Shares, all of which are fully paid and non-assessable. MMG is the legal, beneficial and registered owner of the Purchased Shares, with good and marketable title thereto, free and clear of all Encumbrances.

- (xvii) No Other Agreement to Purchase. No Person (other than Bonito pursuant hereto) has any written or oral agreement or option or any right or privilege (whether by law, pre-emptive or contractual) capable of becoming an agreement or option for the purchase or acquisition from MMG or any of its Affiliates of any of the Purchased Assets, any of the Purchased Shares or any right, title or interest in or to either of the Subject Properties.
- (xviii) Environmental Matters. To the knowledge of MMG, except as listed on Schedule 3.1(a)(xviii), (A) the Subject Properties are in material compliance with Environmental Laws, (B) MMG has not received any written order, notice or other communication from any Governmental Authority of any actual or threatened non-compliance with any Environmental Law, and (C) there are no pending or threatened claims, complaints or proceedings relating to the Subject Properties arising under any Environmental Law.
- (xix) Residency. MMG is not a non-resident of Canada for purposes of the *Income Tax Act* (Canada).
- (xx) Employees. LMI does not have any employees.
- (xxi) Cash Bond. In its communications with representatives of MMG concerning the proposed transactions contemplated by this Agreement, the Authority has not advised MMG of its intention to require that the amount of the Cash Bond be in an amount that is higher than the aggregate face value of the Letters of Credit.

(b) For greater certainty, MMG makes no representation or warranty herein as to the extent of its right, title and interest in and to the Purchased Assets, including in and to the Ulu Property and the Lupin Property;

(c) Notwithstanding anything contained in this Section 3.1 or any other provision of this Agreement, it is the explicit intent of each Party that MMG is not making any representation or warranty whatsoever, express or implied, at law or in equity, beyond those expressly given in this Agreement, including but not limited to, any implied warranty or representation as to the value, condition, merchantability or fitness for purpose of any of the assets owned or leased by MMG or LMI in respect of the Subject Properties and that Bonito takes the Purchased Assets, the Assumed Liabilities, the Obligations and the assets and liabilities of LMI "as is" and "where is" with all faults and defects as of the Closing Date with any and all defects and faults.

3.2 Representations and Warranties of Bonito

(a) Bonito hereby represents and warrants to MMG as follows and acknowledges that MMG is relying on such representations and warranties in connection with entering into this Agreement and completing the transactions contemplated hereby:

- (i) Existence. Bonito is a duly incorporated and validly existing corporation under the laws of the Province of Alberta, is in good standing thereunder

and has full power and capacity to enter into, and perform all its obligations under, this Agreement.

- (ii) Due Authorization. The execution and delivery of this Agreement and all documents, instruments and agreements required to be executed and delivered by Bonito pursuant to this Agreement, and the consummation of the transactions contemplated by this Agreement, have been duly authorized by all necessary corporate action on the part of Bonito.
 - (iii) Non-Contravention. Neither the execution and delivery of this Agreement nor the completion and performance of the transactions contemplated hereunder will result in a breach of or default under, or be contrary to, any of the provisions of the Charter Documents of Bonito or any Contract to which it is a party or by which it is bound.
 - (iv) Enforceability. This Agreement has been, and each document, instrument and agreement to be delivered on Closing to which Bonito is a party will on Closing be, duly executed and delivered by Bonito, and this Agreement constitutes, and each such Closing document, instrument and agreement to which Bonito is a party will on Closing constitute, a legal, valid and binding obligation of Bonito enforceable against Bonito in accordance with its terms subject to applicable limitations on enforcement imposed by bankruptcy, insolvency, reorganization or other laws affecting the enforcement of the rights of creditors and to the extent that equitable remedies such as specific performance and injunctions are only available in the discretion of the court from which they are sought.
 - (v) Residency. Bonito is not a non-resident of Canada for purposes of the *Income Tax Act* (Canada). Bonito is a Canadian within the meaning of the *Investment Canada Act* (Canada).
 - (vi) Independent Investigation. Bonito has conducted its own independent investigation, review and analysis of the Purchased Assets, Purchased Shares and Subject Properties, which investigation, review and analysis was done by Bonito and its Affiliates, advisors and representatives.
- (b) Bonito acknowledges that it and its Affiliates and representatives have been provided adequate access to the personnel, properties, premises and records of MMG and its Affiliates (including LMI) for the purpose of conducting an independent investigation, review and analysis of the Purchased Assets, Purchased Shares and Subject Properties. In entering into this Agreement, Bonito acknowledges that it has relied solely upon the aforementioned investigation, review and analysis and not on any forecasts or projections provided to Bonito by or on behalf of MMG or its Affiliates (including LMI) or on any factual representations or opinions of MMG or its Affiliates or their respective representatives (except the specific representations and warranties of MMG set forth in Section 3.1). Bonito acknowledges and agrees that (A) other than the representations and warranties made in Section 3.1, none of MMG, its Affiliates, or any of their respective officers, directors, employees or representatives make or

have made any representation or warranty, express or implied, at law or in equity, including, without limitation, as to the value, condition, merchantability or fitness for purpose of any assets owned or leased by MMG or its Affiliates (including LMI) relating to the Subject Properties for any particular use or purpose, and (B) other than the indemnification obligations of MMG set forth in Section 7.1, none of MMG, its Affiliates, or any of their respective officers, directors, employees or representatives will have or be subject to any liability or indemnification obligation to Bonito or to any other Person resulting from the distribution to Bonito, its Affiliates or representatives of, or Bonito's use of, any information relating to the Purchased Assets, the Purchased Shares or the Subject Properties, including any information, documents or material made available to Bonito, or its Affiliates and representatives, whether orally or in writing, in certain data rooms, management presentations, functional break-out discussions, responses to questions submitted on behalf of Bonito or in any other form in expectation of the transactions contemplated by this Agreement.

3.3 Representations and Warranties of Elgin

(a) Elgin hereby represents and warrants to MMG as follows and acknowledges that MMG is relying on such representations and warranties in connection with entering into this Agreement and completing the transactions contemplated hereby:

- (i) Existence. Elgin is a duly incorporated and validly existing corporation under the laws of the Province of Ontario, is in good standing thereunder and has full power and capacity to enter into, and perform all its obligations under, this Agreement.
- (ii) Due Authorization. The execution and delivery of this Agreement and all documents, instruments and agreements required to be executed and delivered by Elgin pursuant to this Agreement, and the consummation of the transactions contemplated by this Agreement, have been duly authorized by all necessary corporate action on the part of Elgin.
- (iii) Non-Contravention. Neither the execution and delivery of this Agreement nor the completion and performance of the transactions contemplated hereunder will result in a breach of or default under, or be contrary to, any of the provisions of the Charter Documents of Elgin or any Contract to which Elgin is a party or by which Elgin is bound.
- (iv) Enforceability. This Agreement has been, and each document, instrument and agreement to be delivered on Closing to which Elgin is a party will on Closing be, duly executed and delivered by Elgin, and this Agreement constitutes, and each such Closing document, instrument and agreement to which Elgin is a party will on Closing constitute, a legal, valid and binding obligation of Elgin enforceable against Elgin in accordance with its terms subject to applicable limitations on enforcement imposed by bankruptcy, insolvency, reorganization or other laws affecting the enforcement of the rights of creditors and to the extent that equitable remedies such as

specific performance and injunctions are only available in the discretion of the court from which they are sought.

- (v) Funding Arrangements. Elgin has cash on hand equal to the amount of the Cash Purchase Price, which may be used to fund Bonito so that it may make payment of such amount. Elgin also has cash on hand equal to the aggregate face amount of the Letters of Credit plus \$4 million, which may be used to support the Cash Bond.
- (vi) Residency. Elgin is not a non-resident of Canada for purposes of the *Income Tax Act* (Canada). Elgin is a Canadian within the meaning of the *Investment Canada Act* (Canada).
- (vii) Elgin Shares. The authorized capital of Elgin consists of an unlimited number of Elgin Shares of which 51,465,172 Elgin Shares are issued and outstanding as fully paid and non-assessable. The issuance of the Consideration Shares for delivery by Bonito to MMG has been authorized by all necessary corporate action on the part of Elgin and such Consideration Shares will, when issued in accordance with the terms of this Agreement, be validly issued as fully paid and non-assessable. None of the Canadian securities regulatory authorities or any similar authority or court of competent jurisdiction or any Governmental Authority has issued or threatened to issue any order preventing or suspending trading in any securities of Elgin which is currently in effect. The Elgin Shares are listed and posted for trading on the TSXV. Elgin is a "reporting issuer" in good standing under the securities laws of the Provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland and Labrador. Elgin is not subject to any cease trade order or other order of any applicable stock exchange or securities regulatory authority and Elgin has not received notice of any investigation or other proceedings involving Elgin which may operate to prevent or restrict trading in any securities of Elgin which are currently in progress or pending before any applicable stock exchange or securities regulatory authority.
- (viii) Elgin Public Disclosure. Elgin has filed with the Canadian securities regulatory authorities, stock exchanges and all applicable self-regulatory authorities a true and complete copy of all forms, reports, schedules, statements, certifications, material change reports and other documents required to be filed by it (such forms, reports, schedules, statements, certifications and other documents, including any financial statements or other documents, including any schedules included therein are referred to in this Section 3.1(a) as the "Elgin Public Documents"). The Elgin Public Documents, at the time filed or, if amended, as of the date of such amendment (i) did not contain any misrepresentation (as defined by the *Securities Act* (Ontario) or interpreted by applicable securities regulatory authorities) and did not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not

misleading, and (ii) complied in all material respects with the requirements of applicable securities legislation and the rules, policies and instruments of all securities regulatory authorities having jurisdiction over Elgin. Elgin has not filed any confidential material change report or other document with any securities regulatory authorities or stock exchange or self-regulatory authority which at the date hereof remains confidential.

- (ix) Elgin Financial Statements. The audited financial statements and unaudited interim financial statements of Elgin included in the Elgin Public Documents comply as to form in all material respects with applicable accounting requirements and the requirements, rules and regulations of the Canadian securities regulatory authorities with respect thereto, have been prepared in accordance with GAAP applied on a consistent basis throughout the periods covered thereby, and fairly present the consolidated financial condition, results of operations and cash flows of Elgin as of the respective dates thereof and for the periods referred to therein.
- (x) Independent Investigation. Elgin has conducted its own independent investigation, review and analysis of the Purchased Assets, Purchased Shares and Subject Properties, which investigation, review and analysis was done by Elgin and its Affiliates, advisors and representatives.
- (b) Elgin acknowledges that it and its Affiliates and representatives have been provided adequate access to the personnel, properties, premises and records of MMG and its Affiliates (including LMI) for the purpose of conducting an independent investigation, review and analysis of the Purchased Assets, Purchased Shares and Subject Properties. In entering into this Agreement, Elgin acknowledges that it has relied solely upon the aforementioned investigation, review and analysis and not on any forecasts or projections provided to Elgin by or on behalf of MMG or its Affiliates (including LMI) or on any factual representations or opinions of MMG or its Affiliates or their respective representatives (except the specific representations and warranties of MMG set forth in Section 3.1). Elgin acknowledges and agrees that (A) other than the representations and warranties made in Section 3.1, none of MMG, its Affiliates, or any of their respective officers, directors, employees or representatives make or have made any representation or warranty, express or implied, at law or in equity, including, without limitation, as to the value, condition, merchantability or fitness for purpose of any assets owned or leased by MMG or its Affiliates (including LMI) relating to the Subject Properties for any particular use or purpose, and (B) other than the indemnification obligations of MMG set forth in Section 7.1, none of MMG, its Affiliates, or any of their respective officers, directors, employees or representatives will have or be subject to any liability or indemnification obligation to Elgin or to any other Person resulting from the distribution to Elgin, its Affiliates or representatives of, or Elgin's use of, any information relating to the Purchased Assets, the Purchased Shares or the Subject Properties, including any information, documents or material made available to Elgin, or its Affiliates and representatives, whether orally or in writing, in certain data rooms,

management presentations, functional break-out discussions, responses to questions submitted on behalf of Elgin or in any other form in expectation of the transactions contemplated by this Agreement.

3.4 Survival of Representations and Warranties and Covenants

The representations and warranties contained in this Agreement and any agreement, instrument, certificate or other document executed or delivered pursuant hereto shall survive the Closing of the transactions contemplated hereby until the first anniversary of the Closing Date and, notwithstanding such closing or any investigation made by or on behalf of a party hereto, shall continue in full force and effect during such period. Except to the extent they have been fully performed at or prior to the Closing Date, the covenants of the parties contained in this Agreement and any agreement, instrument, certificate or other document executed or delivered pursuant hereto shall survive the Closing of the transactions contemplated hereby and shall continue in full force and effect indefinitely after the Closing.

ARTICLE 4 **COVENANTS**

4.1 Confidentiality

Except (a) to the extent required by Applicable Law, (b) as may be disclosed to Affiliates of the parties hereto, or (c) in connection with the preparation of a party's tax returns or financial statements, no party hereto shall (i) disclose or permit any of its Affiliates or agents or representatives to disclose any information regarding any possible business transaction between or involving the parties including, but not limited to, the parties entering into this Agreement and the subject matter of this Agreement, or (ii) issue any press release or public statement relating to this Agreement or any such possible business transaction between the parties mentioning the name of the other party or any Affiliate of the other party without the prior written consent of the other party in accordance with Section 8.7. Any party proposing to make any such disclosure shall first consult with the other party. Each party will be responsible for any breach of this Section 4.1 by any of its Affiliates or agents or representatives.

4.2 Books and Records

All minute books and corporate records in the possession or control of MMG or any of its Affiliates relating or pertaining to LMI or either or both of the Subject Properties (the "**Books and Records**") shall be delivered to Bonito on the Closing Date. Notwithstanding the foregoing, MMG shall be entitled to keep copies of (or originals of and supply copies to Bonito of) any such Books and Records required to be kept by MMG pursuant to Applicable Law or in order to comply with Applicable Law or file tax returns or make other governmental filings.

4.3 Access to the Properties and LMI

MMG shall make available to Bonito and Elgin and their respective authorized representatives all title documents, contracts, financial statements and other books and records relating to LMI and the Subject Properties in the possession and control of MMG or its Affiliates. MMG will, and will cause LMI to, afford Bonito and Elgin and their respective authorized representatives reasonable access during business hours, on reasonable notice, to LMI

and the Subject Properties for the purpose of procuring the technical reports necessary for Elgin to obtain the final acceptance of the TSXV in respect of the transactions contemplated hereby and in the Elgin Purchase Agreement (the "**Purpose**"), provided that neither Bonito nor Elgin shall be permitted to (i) drill on the Subject Properties, (ii) bring any equipment onto the Subject Properties, except as reasonably required in connection with the Purpose, or (iii) otherwise conduct any activities that would be considered exploration or mining activities on the Subject Properties without the prior written consent of MMG. Bonito and Elgin agree to jointly and severally indemnify and save harmless MMG from all losses, damages, costs and expenses arising directly out of Bonito's or Elgin's access to LMI and access and activities on the Subject Properties. In the event that Elgin is required to file a business acquisition report (a "**BAR**") under Part 8 of National Instrument 51-102 – *Continuous Disclosure Obligations* in respect of its acquisition of Bonito and/or the subsequent acquisition by Bonito of the Purchased Assets and Purchased Shares, MMG agrees to use commercially reasonable efforts following Closing to assist Elgin, at the cost of Elgin, in the preparation of such BAR, including by providing Elgin with copies of any financial statements, books and records relating to LMI and the Subject Prospectus in its possession as may be necessary to Elgin in the preparation of the BAR.

4.4 Conduct Prior to Closing

(a) Without in any way limiting any other obligations of MMG hereunder, during the period from the date hereof to the Closing Date, MMG shall:

- (i) promptly provide to Bonito copies of all notices, letters or other correspondence from any Person, received after the date hereof, relating in any way to the Subject Properties or LMI;
- (ii) not create, permit or suffer to exist any Encumbrance on the Purchased Assets or the Purchased Shares (other than the Royalty Agreements and the Permitted Encumbrances);
- (iii) not sell, assign, transfer or distribute, or agree to sell, assign, transfer or distribute any right, title or interest in or to any of the Purchased Assets or the Purchased Shares or the Subject Properties, other than pursuant hereto; and
- (iv) not enter into any transaction or take any action which, if effected before the date of this Agreement, would or may constitute a breach of any representation, warranty, covenant or other obligation contained herein.

(b) Bonito covenants and agrees to use commercially reasonable efforts to become a registrant under the *Excise Tax Act* (Canada) and to obtain a GST registration number thereunder prior to the Closing Date.

4.5 Bulk Sales Act

Each of Bonito and Elgin hereby waives compliance by MMG under any applicable bulk sales legislation in connection with the sale by MMG to Bonito of the Purchased Assets, and MMG hereby covenants and agrees to jointly and severally indemnify and save harmless each of Bonito and Elgin from and against any and all Losses suffered or incurred by

either of them as a result of or arising from the failure of MMG to comply with the requirements of any applicable bulk sales legislation in respect of the purchase and sale of the Purchased Assets.

4.6 Conditions, Required Consents and Cash Bond

(a) Each of MMG, Bonito and Elgin agrees to use commercially reasonable efforts to cause the conditions contained in Article 5 to be satisfied on or prior to the Closing Date. Elgin agrees, as soon as practicable after the Closing, to take such actions and file such documents as may be required to cause the Consideration Shares to be delivered by Bonito to MMG on the Closing Date as contemplated in Section 2.5 to be listed and posted for trading on the TSXV commencing on the Closing Date.

(b) Elgin covenants and agrees to maintain until the Closing Date sufficient cash on hand to fund the Cash Purchase Price and to provide Bonito with the funding to obtain the Cash Bond.

(c) MMG will use its commercially reasonable efforts to apply for and obtain the Required Consents as soon as possible after the date of execution of this Agreement. Each of Bonito and Elgin covenants and agrees to provide all information within its possession or control reasonably required by MMG or the parties from whom the Required Consents are sought and to otherwise cooperate with MMG in its efforts to obtain the Required Consents. Each of Bonito and Elgin covenants and agrees to use its commercially reasonable efforts to carry out such acts as are necessary or desirable in order to expedite the receipt of the Required Consents and to comply with any conditions imposed by the parties from whom the Required Consents are sought or Governmental Authorities, as applicable, with respect to the Required Consents.

(d) Each of Bonito and Elgin will take all such actions as may be necessary to cause the release and return to MMG of the Letters of Credit on the Closing Date, or immediately thereafter as may be required by the relevant Governmental Authority, including, if advisable, providing the Authority with a draft of the Cash Bond as soon as practicable after the date hereof and ensuring that the Cash Bond is in a form acceptable to the Authority. MMG covenants and agrees to use its commercially reasonable efforts to carry out such acts as are necessary or desirable in order to expedite the return of the Letters of Credit as contemplated in this Agreement. Elgin agrees to deposit with the applicable financial institution or bonding company the cash required to ensure that the Cash Bond is issued effective as of the Closing Date. For greater certainty, each of Bonito and Elgin acknowledges that the value of the Cash Bond may exceed the aggregate face value of the Letters of Credit and, subject to Section 5.3(d), Elgin agrees to provide Bonito with the funding to obtain, and Bonito agrees to obtain, the Cash Bond that is required to replace the Letters of Credit (in whatever amount required by the Authority). MMG, Bonito and Elgin shall make joint arrangements to deliver the Cash Bond to the applicable Authority in exchange for the release and return to MMG of the Letters of Credit on or immediately following the Closing Date.

4.7 Non-Assignable Rights

Nothing in this Agreement shall be construed as an assignment of, or an attempt to assign to Bonito, any Contract or governmental authorization to be assumed by Bonito pursuant to this Agreement which, as a matter of law or by its terms, is (i) not assignable, or (ii)

not assignable without the approval or consent of the issuer thereof or the other party or parties thereto, without first obtaining such approval or consent, or (iii) an assignment which would contravene any law (collectively, "**Non-Assignable Rights**"). In connection with such Non-Assignable Rights, following the Closing, MMG shall:

- (a) apply for and use all commercially reasonable efforts to obtain all consents or approvals required to assign or transfer such Non-Assignable Rights to Bonito;
- (b) until such time as such Non-Assignable Rights are assigned or transferred to Bonito, hold such Non-Assignable Rights in trust for Bonito;
- (c) co-operate with Bonito, at Bonito's expense, in any reasonable and lawful arrangements designed to provide the benefits of such Non-Assignable Rights to Bonito, such as, acting as agent for Bonito or sub-contracting, sub-licensing or sub-leasing such Non-Assignable Rights to Bonito at no cost to Bonito;
- (d) at the request of Bonito and at the expense and risk of Bonito, enforce any rights of MMG arising from such Non-Assignable Rights against the issuer thereof or the other party or parties thereto;
- (e) take all such actions and do, or cause to be done, all such things, at the expense of Bonito, as shall be reasonably necessary and proper in order that the value of any Non-Assignable Rights shall be preserved and shall enure to the benefit of Bonito; and
- (f) pay over to Bonito all monies collected by or paid to MMG in respect of such Non-Assignable Rights within ten Business Days following receipt thereof by MMG.

Except as set forth in paragraphs (a) to (f) above, MMG shall not have any obligation following the Closing to Bonito or Elgin for the failure to obtain any consent that may be required in connection with the transactions contemplated by this Agreement. Bonito and Elgin agree that no representation, warranty or covenant of MMG contained herein shall be deemed breached, and no condition to Bonito's or Elgin's obligations to close the transactions contemplated by this Agreement shall be deemed not satisfied, as a result of the failure to transfer any Non-Assignable Rights or obtain any such consent. Each of Bonito and Elgin agrees to indemnify MMG and its officers, directors, employees, representatives and Affiliates for any claim as a result of holding such Non-Assignable Rights in trust for Bonito pursuant to this Agreement or in accordance with the instructions or directions of Bonito and for any obligations in respect of such Non-Assignable Rights after Closing.

4.8 Fuel at Lupin Property

The parties acknowledge and agree that 500,000 litres of fuel stored on site at the Lupin Property is owned by MMG and not by LMI (the "**Retained Fuel**"). Each of Bonito and Elgin agrees that MMG may, from time to time during normal business hours, and on no less than 24 hours advance notice, from the Closing Date until December 31, 2011, access the Lupin Property for the purpose of removing, at the cost of MMG, all or a portion of the Retained Fuel. MMG agrees to indemnify and save harmless each of Bonito and Elgin from all losses, damages,

costs and expenses arising directly out of MMG's (i) access to the Lupin Property for purposes of removing the Retained Fuel or (ii) removal of the Retained Fuel. As of January 1, 2012, any of the Retained Fuel that remains on the Lupin Property will become the property of LMI for no additional consideration and MMG will no longer have any access to or ownership or other rights therein or indemnification obligation with respect thereto.

ARTICLE 5

CONDITIONS OF CLOSING

5.1 Mutual Conditions of Closing

The obligation of the parties hereto to complete the transactions contemplated hereby is subject to the following conditions for the mutual benefit of MMG, Bonito and Elgin, to be fulfilled or performed on or prior to the Closing Date, each of which may be waived only with the consent in writing of each of MMG, Bonito and Elgin:

- (a) No Orders or Proceedings. No injunction or restraining order or other decision, ruling or order of any Governmental Authority of competent jurisdiction shall be in effect which prohibits, restrains, materially limits or imposes material adverse conditions on, the transactions contemplated by this Agreement and no action or Proceeding shall have been instituted or remain pending or have been threatened and not resolved before any such Governmental Authority to restrain, prohibit, materially limit or impose material adverse conditions on such contemplated transactions; and
- (b) Required Consents. The Required Consents shall have been obtained.

In the event that any of the foregoing conditions is not performed, fulfilled or complied with at or before the Closing Date to the satisfaction of MMG, Bonito or Elgin, either MMG, Bonito or Elgin may, by written notice to the other, terminate this Agreement, in which event, subject to Section 8.1, this Agreement shall be terminated. The foregoing conditions are for the exclusive benefit of MMG, Bonito and Elgin and, accordingly, each of MMG, Bonito and Elgin will be entitled to waive compliance with any such conditions if they see fit to do so, without prejudice to any such party's rights and remedies at law and in equity, including any claims any such party may have for breach of covenant, representation or warranty by any party hereto, and also without prejudice to any of any such party's rights of termination in the event of non-performance of any other conditions in whole or in part.

5.2 Conditions of Closing in Favour of MMG

The obligation of MMG to complete the transactions contemplated hereby is subject to the following conditions for the exclusive benefit of MMG, to be fulfilled or performed on or prior to the Closing Date, each of which may be waived only with the consent in writing of MMG:

- (a) Representations and Warranties. The representations and warranties of each of Bonito and Elgin contained in this Agreement shall be true and correct on the Closing Date;

- (b) Covenants. All of the covenants and conditions in this Agreement to be complied with or performed by Bonito and Elgin on or before the Closing Date shall have been complied with or performed;
- (c) Certificate of Bonito. Bonito shall have delivered to MMG a certificate dated the Closing Date, executed by an authorized senior officer of Bonito, (i) certifying that the representations and warranties made by Bonito in this Agreement are true and correct as at the Closing Date and that all terms, covenants, obligations and conditions to be observed, performed or complied with by Bonito on or before the Closing Date pursuant to the terms of this Agreement have been duly observed, performed or complied with by Bonito, and (ii) attaching a certified copy of the Charter Documents of Bonito;
- (d) Certificate of Elgin. Elgin shall have delivered to MMG a certificate dated the Closing Date, executed by an authorized senior officer of Elgin, (i) certifying that the representations and warranties made by Elgin in this Agreement are true and correct as at the Closing Date and that all terms, covenants, obligations and conditions to be observed, performed or complied with by Elgin on or before the Closing Date pursuant to the terms of this Agreement have been duly observed, performed or complied with by Elgin, as applicable, and (ii) attaching a certified copy of the Charter Documents of Elgin;
- (e) Cash Bond. Elgin and/or Bonito shall have provided evidence satisfactory to MMG that the Cash Bond has been obtained;
- (f) Elgin Shares. The TSXV shall have approved the listing and posting for trading of the Consideration Shares to be delivered by Bonito to MMG on the Closing Date as contemplated in Section 2.5, subject to the satisfaction of customary conditions to such listing and without the requirement for shareholder approval to be obtained;
- (g) Kinross Royalty Agreement. The obligations of MMG under the Kinross Royalty Agreement shall have been assumed by Elgin pursuant to a release and assumption agreement in a form acceptable to each of MMG and Elgin, acting reasonably; and
- (h) Elgin Purchase Agreement. The Elgin Purchase Agreement shall not have been amended without the consent of MMG.

In the event that any of the foregoing conditions is not performed, fulfilled or complied with at or before the Closing Date to the satisfaction of MMG, MMG may, by written notice to Bonito and Elgin, terminate this Agreement, in which event, subject to Section 8.1, this Agreement shall be terminated. Notwithstanding such termination, MMG may bring an action against any party hereto for damages suffered by MMG where the non-performance, non-fulfillment or non-compliance of or with the relevant condition is a result of a breach of covenant, representation or warranty by Bonito or Elgin. The foregoing conditions are for the exclusive benefit of MMG and, accordingly, MMG will be entitled to waive compliance with any such conditions if they see fit to do so, without prejudice to any rights and remedies at law and in equity they may have, including any claims MMG may have for breach of covenant,

representation or warranty by any party hereto, and also without prejudice to MMG's rights of termination in the event of non-performance of any other conditions in whole or in part.

5.3 Conditions of Closing in Favour of Bonito and Elgin

The obligation of Bonito and Elgin to complete the transactions contemplated hereby is subject to the following conditions for the exclusive benefit of Bonito and Elgin, to be fulfilled or performed on or prior to the Closing Date, each of which may be waived only with the consent in writing of each of Bonito and Elgin:

- (a) Representations and Warranties. The representations and warranties of MMG contained in this Agreement shall be true and correct on the Closing Date (provided that each of Bonito and Elgin acknowledges that MMG may, prior to the Closing Date, be continued under the laws of the Province of British Columbia and such continuance, and reference to such continuance in the certificate provided pursuant to Section 5.3(c), shall not result in a failure of the conditions in Section 5.3(a) or 5.3(c) to be satisfied);
- (b) Covenants. All of the covenants and conditions in this Agreement to be complied with or performed by MMG on or before the Closing Date shall have been complied with or performed;
- (c) Certificate of MMG. MMG shall have delivered to Bonito and Elgin a certificate of MMG dated the Closing Date, executed by an authorized senior officer of MMG (i) certifying that the representations and warranties made by MMG in this Agreement are true and correct as at the Closing Date and that all terms, covenants, obligations and conditions to be observed, performed or complied with by MMG on or before the Closing Date pursuant to the terms of this Agreement have been duly observed, performed or complied with by MMG and (ii) attaching a certified copy of the Charter Documents of MMG;
- (d) Cash Bond. The aggregate amount of the Cash Bond required by the Authority to replace the Letters of Credit shall not exceed \$4 million over the aggregate face amount of the Letters of Credit; and
- (e) Regulatory Approval. Elgin shall have received the regulatory approvals listed on Schedule 5.3(e) with respect to the completion of the transactions contemplated hereby and in the Elgin Purchase Agreement.

In the event that any of the foregoing conditions is not performed, fulfilled or complied with at or before the Closing Date to the satisfaction of each of Bonito and Elgin, either Elgin or Bonito may, by written notice to MMG, terminate this Agreement, in which event, subject to Section 8.1, this Agreement shall be terminated. Notwithstanding such termination, either Bonito or Elgin may bring an action against any party hereto for damages suffered by either of them where the non-performance, non-fulfillment or non-compliance of or with the relevant condition is a result of a breach of covenant, representation or warranty by MMG. The foregoing conditions are for the exclusive benefit of Bonito and Elgin and, accordingly, each of Bonito and Elgin will be entitled to waive compliance with any such conditions if they see fit to do so, without prejudice to any rights and remedies at law and in equity they may have, including

any claims either of them may have for breach of covenant, representation or warranty by any party hereto, and also without prejudice to either of their rights of termination in the event of non-performance of any other conditions in whole or in part.

ARTICLE 6

CLOSING ARRANGEMENTS

6.1 Date and Place of Closing

Subject to Article 5, the closing of the transactions contemplated by this Agreement (the "**Closing**") shall occur on the fifth Business Day after the date on which the conditions in Sections 5.1(b), 5.2(e), 5.2(f), 5.2(g) and 5.3(e) have been either satisfied or waived in accordance herewith, or such other date as the parties may mutually agree in writing (the "**Closing Date**") provided that, as provided in Section 6.5, the Closing Date shall occur no later than the Outside Date. The Closing shall take place in the offices of Cassels Brock & Blackwell LLP, 40 King Street West, Suite 2100, Toronto, Ontario at 9:00 a.m. (Toronto time) or at such other location or time as may be agreed upon by the parties.

6.2 MMG Closing Deliveries

At the Closing, MMG shall deliver the following to Bonito and Elgin:

- (a) a certificate of status (or equivalent thereof) for each of MMG and LMI;
- (b) a certificate of MMG pursuant to and in accordance with Section 5.3(c);
- (c) a receipt of MMG acknowledging full payment of the Purchase Price, including the Consideration Shares;
- (d) transfer documents duly executed and delivered by MMG (or an Affiliate of MMG, as applicable) to transfer and convey to Bonito the Purchased Assets, in form and substance satisfactory to Bonito, acting reasonably;
- (e) the share certificates representing the Purchased Shares (together with such resolutions of directors consenting to the transfer), assignments or other instruments of transfer duly endorsed in blank, or share powers or other instruments of transfer duly executed in blank, and otherwise in form and substance reasonably acceptable to Bonito for transfer of the Purchased Shares to Bonito; and
- (f) all documents, transfers, certificates, assignments or other materials reasonably requested by Bonito or Elgin to evidence or effect the transactions contemplated hereunder including, for greater certainty, the sale, assignment and transfer of the Purchased Assets and the Purchased Shares by MMG free and clear of Encumbrances (other than the Royalty Agreements and Permitted Encumbrances).

6.3 Bonito and Elgin Closing Deliveries

At the Closing, Bonito and Elgin shall deliver the following to MMG:

- (a) a certificate of status (or equivalent thereof) for each of Bonito and Elgin;
- (b) a certificate of each of Bonito and Elgin pursuant to and in accordance with Section 5.2(c);
- (c) the original copy of the Cash Bond, together with confirmation from the applicable Authority that the Letters of Credit will be released and returned to MMG upon delivery of the Cash Bond to the applicable Authority;
- (d) a release and assumption agreement executed and delivered by Bonito in favour of MMG in respect of the assumption of the Assumed Liabilities and agreement to satisfy, pay and perform the Obligations, in the form attached hereto as Schedule 6.3(d);
- (e) a release and assumption agreement executed and delivered by Elgin in favour of MMG in respect of the assumption by Elgin of the obligations of MMG under the Kinross Royalty Agreement;
- (f) an acknowledgment and assumption agreement executed by Bonito in favour of International Royalty Corporation in respect of the Royalty Agreement in respect of the Ulu Property described on Schedule 1.1(c);
- (g) all documents, transfers, certificates, assignments or other materials reasonably requested by MMG to evidence or effect the transactions contemplated hereunder;
- (h) payment of the Cash Purchase Price pursuant to and in accordance with Section 2.5; and
- (i) delivery of the Consideration Shares pursuant to Section 2.5, with the certificates representing such Consideration Shares containing any restrictive legends required under applicable securities laws and the policies of the TSXV.

6.4 Further Assurances

Each party to this Agreement agrees that, from time to time prior to or subsequent to the Closing Date, such party will, at the request of any other party, execute and deliver, or cause to be executed and delivered (including by its Affiliates), all such documents, including, without limitation, all such additional conveyances, transfers, consents and other assurances, and do or cause to be done (including by its Affiliates) all such other acts and things as any other party, acting reasonably, may from time to time request be executed and delivered or done in order to better evidence or perfect or effectuate (a) any provision of this Agreement, (b) any agreement or other document executed pursuant to this Agreement, (c) any of the respective obligations intended to be created hereby or thereby or (d) the consummation of the transactions contemplated hereby.

6.5 Termination on Outside Date

In the event the Closing Date does not occur on or before the Outside Date, effective as of 12:01 a.m. (Toronto time) on the day immediately following the Outside Date, this Agreement shall automatically terminate without any requirement for any action to be taken by or on behalf of any party hereto including the delivery of any notice by any party hereto. In the event of such automatic termination pursuant to this Section 6.5, subject to Section 8.1, this Agreement shall be terminated and the parties hereto shall be released from all obligations under this Agreement unless any such party has breached this Agreement or is in default under this Agreement at the time of termination, in which case, such party shall not be relieved of any liability or responsibility for such breach or default.

**ARTICLE 7
INDEMNIFICATION**

7.1 Indemnification by MMG

MMG hereby agrees to indemnify and save harmless each of Bonito and Elgin and each of their respective officers, directors, employees and Affiliates from and against all Losses suffered or incurred by such Persons as a result of or arising directly or indirectly out of or in connection with:

- (a) any breach by MMG of this Agreement or any misrepresentation or inaccuracy of any representation or warranty of MMG contained in this Agreement or in any document, instrument or agreement delivered pursuant hereto; and
- (b) any breach or non-performance by MMG of any covenant or obligation to be performed by MMG which is contained in this Agreement or in any document, instrument or agreement delivered pursuant hereto.

7.2 Indemnification by Bonito and Elgin

- (a) Bonito hereby agrees to indemnify and save harmless MMG and each of MMG's officers, directors, employees and Affiliates from and against all Losses suffered or incurred by such Persons as a result of or arising directly or indirectly out of or in connection with:
 - (i) any breach by Bonito of this Agreement or any misrepresentation or inaccuracy of any representation or warranty of Bonito contained in this Agreement or in any document, instrument or agreement delivered pursuant hereto;
 - (ii) any breach or non-performance by Bonito of any covenant or obligation to be performed by it which is contained in this Agreement or in any document, instrument or agreement delivered pursuant hereto including, without limitation, its obligations in Section 2.2 hereof and in the release and assumption agreement referred to in Section 6.3(d);

- (iii) the generation, manufacture, use, treatment, storage, presence, Release or threatened Release of Hazardous Substances at, in, on, under, within or migrating from the Subject Properties, or any event or condition relating to the Subject Properties which now or hereafter constitutes a violation of, or gives rise to any liability under, Environmental Law, including, without limitation, any Proceeding relating to the generation, manufacture, use, treatment, storage, presence, Release or threatened Release of Hazardous Substances at, in, on, under, within or migrating from the Subject Properties, or any Proceeding by a Governmental Authority requiring Remedial Work relating to the Subject Properties, in each case relating to any period prior to, on, or after the Closing Date and whether known or unknown to the parties; provided that the indemnity provided in this Section 7.2(a)(iii)(iii) shall only be effective from and after the Closing Date; and
 - (iv) any breach of Bonito's obligation to file the election(s) described in Section 2.7 in the time prescribed by section 167 of the *Excise Tax Act (Canada)*, or any assessment or reassessment made by Canada Revenue Agency (or provincial tax authority, where applicable) in respect of such election(s).
- (b) Elgin hereby agrees to indemnify and save harmless MMG and each of MMG's officers, directors, employees and Affiliates from and against all Losses suffered or incurred by such Persons as a result of or arising directly or indirectly out of or in connection with:
 - (i) any breach by Elgin of this Agreement or any misrepresentation or inaccuracy of any representation or warranty of Elgin contained in this Agreement or in any document, instrument or agreement delivered pursuant hereto;
 - (ii) any breach or non-performance by Elgin of any covenant or obligation to be performed by it which is contained in this Agreement or in any document, instrument or agreement delivered pursuant hereto, including in the release and assumption agreement with respect to the Kinross Royalty Agreement referred to in Section 6.3(e); and
 - (iii) the generation, manufacture, use, treatment, storage, presence, Release or threatened Release of Hazardous Substances at, in, on, under, within or migrating from the Subject Properties, or any event or condition relating to the Subject Properties which now or hereafter constitutes a violation of, or gives rise to any liability under, Environmental Law, including, without limitation, any Proceeding relating to the generation, manufacture, use, treatment, storage, presence, Release or threatened Release of Hazardous Substances at, in, on, under, within or migrating from the Subject Properties, or any Proceeding by a Governmental Authority requiring Remedial Work relating to the Subject Properties, in each case relating to any period prior to, on, or after the Closing Date and whether known or

unknown to the parties; provided that the indemnity provided in this Section 7.2(b)(iii) shall only be effective from and after the Closing Date.

7.3 Notice of Claim

In the event that a party (the "**Indemnified Party**") shall become aware of any Proceeding or other matter (collectively, a "**Claim**") in respect of which the other party (the "**Indemnifying Party**") agreed to indemnify the Indemnified Party pursuant to this Agreement, the Indemnified Party shall promptly give written notice thereof to the Indemnifying Party. Such notice shall specify whether the Claim arises as a result of a claim by a third party Person (a "**Third Party**") against the Indemnified Party (a "**Third Party Claim**") or whether the Claim does not so arise (a "**Direct Claim**"), and shall also specify with reasonable particularity (to the extent that the information is available) the factual basis for the Claim and the amount of the Claim, if known. If, through the fault of the Indemnified Party, the Indemnifying Party does not receive notice of any Claim in time to contest effectively the determination of any liability susceptible of being contested, the Indemnifying Party shall be entitled to set off against the amount claimed by the Indemnified Party the amount of any Losses incurred by the Indemnifying Party resulting from the Indemnified Party's failure to give such notice on a timely basis.

7.4 Direct Claims

With respect to any Direct Claim, following receipt of notice from the Indemnified Party of the Claim, the Indemnifying Party shall have 60 days to make such investigation of the Claim as is considered necessary or desirable. For the purpose of such investigation, the Indemnified Party shall make available to the Indemnifying Party the information relied upon by the Indemnified Party to substantiate the Claim, together with all such other information in the possession or control of the Indemnified Party, as the Indemnifying Party may reasonably request. If both parties agree at or prior to the expiration of such 60-day period (or any mutually agreed upon extension thereof) to the validity and amount of such Claim, the Indemnifying Party shall immediately pay to the Indemnified Party the full agreed upon amount of the Claim.

7.5 Third Party Claims

With respect to any Third Party Claim in respect of which the Indemnifying Party is or may be obligated under or arising out of this Agreement to indemnify, pay damages to or otherwise compensate the Indemnified Party, the following provisions shall apply.

The Indemnified Party shall promptly give written notice to the Indemnifying Party of any Third Party Claim in respect of which the Indemnified Party intends to claim for indemnification against the Indemnifying Party. Such notice to the Indemnifying Party shall describe the Third Party Claim in reasonable detail and shall indicate, if reasonably practicable, the estimated amount of the damages that has been or may be sustained by the Indemnified Party. The Indemnifying Party shall, at its own expense, assume control of the negotiation, settlement and defence of such Third Party Claim. The Indemnified Party shall co-operate with the Indemnifying Party in respect of such Third Party Claim and the Indemnifying Party shall reimburse the Indemnified Party for all the Indemnified Party's reasonable out-of-pocket

expenses as a result of the Indemnifying Party's assumption of such Third Party Claim and arising from the Indemnified Party's co-operation.

The Indemnified Party shall have the right to participate in the negotiation, settlement and defence of such Third Party Claim at its own expense, provided that the fees and disbursements of the Indemnified Party's counsel shall be paid by the Indemnifying Party only if the named parties to any action or proceeding include both the Indemnifying Party and the Indemnified Party and the representation of both of them by the same counsel would be inappropriate due to the actual or potential differing interests between them (such as the availability of different defences), and the Indemnified Party will have the right to disagree on reasonable grounds with the selection and retention of counsel by the Indemnifying Party, in which case counsel satisfactory to the Indemnifying Party and the Indemnified Party shall be retained by the Indemnifying Party. If the Indemnified Party *bona fide* believes that the Indemnifying Party has failed to defend reasonably diligently any Third Party Claim within a reasonable time, the Indemnified Party shall be entitled to assume control of the Third Party Claim and the Indemnifying Party shall be liable for all reasonable costs and expenses paid or incurred in connection therewith and shall be bound by the results obtained by the Indemnified Party with respect to such Third Party Claim.

The following provisions shall also apply with respect to Third Party Claims:

- (a) In the event that any Third Party Claim is of a nature such that the Indemnified Party is legally bound or required by Applicable Law to make a payment to a Third Party with respect to such Third Party Claim before the completion of settlement negotiations or related legal proceedings, including the posting of any security to stay any process of execution or judgment, the Indemnifying Party shall be obligated to make such payment or post security therefor on behalf of the Indemnified Party. If the Indemnifying Party fails to do so, the Indemnified Party may make such payment or post security therefor and the Indemnifying Party shall, forthwith after demand by the Indemnified Party, reimburse the Indemnified Party for any such payment or cause the security to be replaced and released. If the amount of any liability of the Indemnified Party under the Third Party Claim in respect of which such a payment was made, as finally determined, is less than the amount which was paid by the Indemnifying Party, the Indemnified Party shall, forthwith after receipt of the difference from the Third Party, pay the amount of such difference to the Indemnifying Party.
- (b) Except in the circumstance contemplated by Section 7.5(a) above, and unless the Indemnifying Party fails to assume control of the negotiation, settlement and defence of any Third Party Claim, the Indemnified Party shall not negotiate, settle, compromise or pay any Third Party Claim except with the prior written consent of the Indemnifying Party (which consent shall not be unreasonably withheld).
- (c) The Indemnified Party shall not permit any right of appeal in respect of any Third Party Claim to terminate without giving the Indemnifying Party notice thereof and an opportunity to contest such Third Party Claim.

- (d) The Indemnified Party and the Indemnifying Party shall co-operate fully with each other with respect to Third Party Claims, shall keep each other fully advised with respect thereto (including supplying copies of all relevant documentation promptly as it becomes available) and shall each designate a senior officer who will keep himself or herself informed about and be prepared to discuss the Third Party Claim with his or her counterpart and with counsel at all reasonable times.
- (e) Notwithstanding the above provisions of this Section 7.5, the Indemnifying Party shall not settle any Third Party Claim or conduct any related legal or administrative proceeding in a manner which would, in the opinion of the Indemnified Party, acting reasonably, have an adverse impact on the Indemnified Party.
- (f) The provisions of this Section 7.5 are intended to set out the procedures to be followed with respect to a Third Party Claim and, provided the Indemnified Party follows such procedures in all material respects, nothing contained in this Section 7.5 shall derogate from the Indemnifying Party's obligations to indemnify the Indemnified Party.

7.6 Limitations and Qualifications on Indemnification

(a) In the case of any representation and warranty with a limited survival period prescribed in Section 3.3(b), no indemnification shall be payable by any party hereto with respect to any claim for the breach of any such representation or warranty made by any such party if the notice of such claim was delivered after the expiration of the survival period of such representation or warranty prescribed in Section 3.3(b).

(b) The amount which the Indemnifying Party is required to pay to, for, or on behalf of the Indemnified Party pursuant to this Article 7 shall be reduced by any foreign, federal, provincial, territorial or local Tax benefit to the Indemnified Party applicable to the indemnifiable Losses (calculated on a net present value basis by the Indemnified Party acting reasonably) and shall be grossed up to account for any foreign, federal, provincial or local Tax payable by the Indemnified Party on the amounts which the Indemnifying Party pays or is required to pay to, for, or on behalf of the Indemnified Party.

(c) The Indemnifying Party shall make any indemnification payments determined to be payable to the Indemnified Party hereunder without regard to any expectation that the Indemnified Party will recover insurance proceeds or other amounts (available to the Indemnified Party or its Affiliates under agreements or arrangements with other Persons or otherwise) as a result of the matter giving rise to the claim for which indemnification payments are to be made. The Indemnified Party shall have an obligation to use commercially reasonable efforts to promptly seek to recover or make a claim for insurance proceeds or other amounts (available to the Indemnified Party or its Affiliates under agreements or arrangements with other Persons or otherwise) available as a result of any matter giving rise to an indemnification claim of the Indemnified Party against the Indemnifying Party. If the Indemnified Party receives any insurance proceeds or other amounts (available to the Indemnified Party or its Affiliates under agreements or arrangements with other Persons or otherwise) as a result of the matter giving rise to any indemnification claim of the Indemnified Party prior to the date upon which the Indemnifying Party is given notice of the claim, the Indemnifying Party's indemnification

obligation with respect to such claim shall be reduced by the amount of any such insurance proceeds or other amount (available to the Indemnified Party or its Affiliates under agreements or arrangements with other Persons or otherwise) actually received by the Indemnified Party, less an amount (calculated on a net present value basis by the Indemnified Party, acting reasonably) in respect of the increase in insurance premiums of the Indemnified Party as a result of such claim. If the Indemnified Party receives any insurance proceeds or other amounts (available to the Indemnified Party or its Affiliates under agreements or arrangements with other Persons or otherwise) as a result of the matter giving rise to any indemnification claim of the Indemnified Party against the Indemnifying Party after the Indemnifying Party has paid such indemnification claim to the Indemnified Party, then the Indemnified Party shall promptly turn over any such insurance proceeds or other amounts received to the Indemnifying Party, less an amount (calculated on a net present value basis by the Indemnified Party, acting reasonably) in respect of the increase in insurance premiums of the Indemnified Party as a result of such claim; provided that the maximum amount so turned over to the Indemnifying Party will be the amount of the payments made by the Indemnifying Party to the Indemnified Party on the claim.

(d) The indemnification obligations of the Indemnifying Party pursuant to this Agreement with respect to a specific claim for which indemnification is provided under this Agreement shall extend beyond the time period for indemnification set forth herein with respect to such specific claim until it has been fully discharged or resolved or settled.

(e) An Indemnified Party shall take reasonable steps to mitigate any Losses and shall respond to a claim or liability that may provide a basis for indemnification in the same manner it would respond in the absence of the indemnification provided in this Agreement. In the event that the Indemnified Party fails to make reasonable efforts to mitigate any Losses, or resolve any claim or liability, the Indemnified Party shall not be indemnified to the extent that any Losses could reasonably be expected to have been avoided if the Indemnified Party had made such efforts.

7.7 Exclusivity

The provisions of this Article 7 shall apply to any Claim for breach of any covenant, representation, warranty or other provision of this Agreement or any agreement, certificate or other document delivered pursuant hereto (other than a claim for specific performance or injunctive relief) with the intent that all such Claims shall be subject to the limitations and other provisions contained in this Article 7, and the parties hereto agree that no party hereto shall seek any remedy (other than a claim for specific performance or injunctive relief) for breach of any covenant, representation, warranty or other provision of this Agreement or any agreement, certificate or other document delivered pursuant hereto other than indemnification pursuant to this Article 7.

ARTICLE 8 GENERAL

8.1 Surviving Provisions on Termination

(a) Notwithstanding any other provisions of this Agreement, if this Agreement is terminated (whether by a party or automatically or otherwise), the provisions of Section 4.1, Article 7, 8.2, 8.6, 8.7, 8.8 and 8.10 (subject to any time limitations referred to therein) shall

survive such termination and remain in full force and effect, along with any other provisions of this Agreement which expressly or by their nature survive the termination hereof.

8.2 Termination of Confidentiality Agreements

On the Closing Date the confidentiality agreement dated November 26, 2010 between MMG and Bonito and the confidentiality agreement dated April 14, 2011 between MMG and Elgin shall automatically terminate and be of no further force and effect; provided that no party shall, as a result of such termination, be relieved of any liability for a breach of any such confidentiality agreement that occurred prior to the Closing Date and provided further that any provisions of such confidentiality agreements that are expressly stated to survive termination shall survive the Closing Date in accordance with the terms thereof.

8.3 Guarantee of Obligations

(a) For valuable consideration, the receipt and sufficiency of which are acknowledged, Elgin irrevocably and unconditionally guarantees in favour of MMG the full payment and performance and observance of Bonito's obligations under this Agreement and all documents delivered hereunder (the "**Guaranteed Obligations**") with such guarantee to take effect immediately prior to the Closing. Without limiting the generality of the foregoing, the Guaranteed Obligations include (i) the obligation of Bonito to pay the Cash Purchase Price on the Closing Date, (ii) the obligation of Bonito to deliver the Consideration Shares to MMG on the Closing Date, (iii) the obligation of Bonito to assume the Assumed Liabilities and to satisfy, pay and perform the Obligations, (iv) the obligation of Bonito to provide the Cash Bond, and (v) the indemnification obligations of Bonito in Section 7.2(a). In the event that Bonito fails in any manner whatsoever to pay, perform or observe any Guaranteed Obligation to be paid, performed or observed when the same shall be required to be paid, performed or observed, Elgin shall cause Bonito to perform or observe its obligations or Elgin shall pay or perform such obligations itself. MMG may proceed to enforce the obligations of Elgin under the guarantee contained in this Section 8.3 without first pursuing or exhausting any right or remedy which MMG may have against Bonito, its successors or any other person. The obligation of Elgin to perform its obligations under this guarantee shall arise and Elgin shall perform such obligations, immediately after written demand for same is provided by MMG to Elgin. If any Guaranteed Obligation is not duly paid, performed or observed by Bonito and is not recoverable under the guarantee contained in this Section 8.3 for any reason, such Guaranteed Obligation will, as a separate and distinct obligation, be recoverable from Elgin as primary obligor. Elgin's obligations under this guarantee are continuing, unconditional and absolute and are not subject to any set-off.

(b) From and after the date that the acquisition of Bonito by Elgin pursuant to the Elgin Purchase Agreement is complete, Elgin covenants and agrees to cause Bonito to perform, satisfy and fulfill all of its covenants and obligations under this Agreement.

8.4 Post-Closing Covenants

(a) MMG agrees that, for a period of 12 months following the Closing Date, MMG will not offer, sell, transfer, assign or dispose of any of the Consideration Shares issuable to MMG pursuant to Section 2.5, without the prior written consent of Elgin, which consent may be withheld in the sole and absolute discretion of Elgin; provided that this Section 8.4(a) shall not

apply to any offer, sale, transfer, assignment or disposition of the Consideration Shares by MMG to an Affiliate of MMG provided such Affiliate agrees to be bound by the terms of this Section 8.4(a) as it relates to such Consideration Shares.

(b) Notwithstanding the foregoing, in the event that Elgin is the subject of a take-over bid or other amalgamation, merger, arrangement or other transaction pursuant to which at least 50% of the outstanding Elgin Shares will be purchased for cash or securities by a third party that is not an affiliate of Elgin (a "**Purchase Transaction**"), MMG may deposit any or all of the Consideration Shares to the Purchase Transaction, provided that the Consideration Shares so deposited may, under the terms of the Purchase Transaction or otherwise, only be taken up and paid for by the offeror in the event that the offeror together with all persons acting jointly or in concert with the offeror will, upon completion of the Purchase Transaction, hold 50% or greater of the aggregate number of outstanding Elgin Shares. Any Consideration Shares so tendered may be taken up and paid for by the offeror. Any Consideration Shares so deposited, taken up and paid for under such a Purchase Transaction, together with the proceeds derived from the sale of such Consideration Shares, shall be free from the terms of Section 8.4(a). Any Consideration Shares not deposited to or not taken up and paid for under a Purchase Transaction in accordance with this Section 8.4(b) shall remain subject to Section 8.4(a).

(c) In the event that Elgin completes an internal reorganization pursuant to which the outstanding Elgin Shares are exchanged for another security of Elgin or an Affiliate of Elgin ("**Replacement Securities**"), any Consideration Shares that are still subject to Section 8.4(a) will be treated in the same manner as all other outstanding Elgin Shares and any Replacement Securities issued to MMG will be subject to the terms of Section 8.4(a). Section 8.4(a) and 8.4(b) shall apply *mutatis mutandis* to the Replacement Securities. Notwithstanding the foregoing, in the event that Elgin's internal reorganization results in the Elgin Shares or Replacement Securities not being publicly listed and posted for trading, Section 8.4(a) shall terminate and be of no further force or effect.

(d) Following the date that is 12 months after the Closing Date, unless MMG determines in its reasonable discretion that it would not be in its best interest to do so, MMG will provide Elgin with two Business Days' notice in writing of its desire to sell any Consideration Shares over a 10-day period which represent more than 0.5% of the issued and outstanding Elgin Shares on the date such notice is provided. During such two Business Day period, Elgin may propose to MMG that such Consideration Shares be sold for cash to one or more investors suggested by Elgin, at a price suggested by Elgin (the "**Elgin Price**"), which investors must be prepared to complete such sale within one Business Day of acceptance by MMG. If Elgin makes such a proposal and unless MMG determines in its reasonable discretion that it would not be in its best interest to do so (in which case it may sell such Consideration Shares to one or more persons other than the investors suggested by Elgin on such terms as MMG considers advisable), MMG will sell such Consideration Shares to the investors suggested by Elgin at the Elgin Price.

8.5 Notices

(a) Any notice, request, demand or other communication required or permitted to be given by any party to another pursuant to this Agreement shall be in writing and shall be delivered in person, transmitted by facsimile or similar means of recorded electronic communication or sent by prepaid registered mail, addressed as follows:

- (i) if to MMG:

Suite 555 – 999 Canada Place
Vancouver, BC V6C 3E1

Attention: Martin McFarlane
Facsimile: 778-373-5598

- (ii) if to Bonito:

c/o Quest Capital Management Corp.
550 Burrard St.
Suite 1028
Vancouver, BC V6C 2B5

Attention: Michael Atkinson
Facsimile: (604) 681-4692

- (iii) if to Elgin:

83 Yonge Street
Suite 200
Toronto, ON M5C 1S8

Attention: Chief Financial Officer
Facsimile: (416) 640-1928

(b) Any such notice or other communication shall be deemed to have been given and received on the day on which it was personally delivered or transmitted (or, if such day is not a Business Day or if delivery or transmission is made on a Business Day after 5:00 p.m. at the place of receipt, then on the next following Business Day) or, if mailed, on the third Business Day following the date of mailing; provided, however, that if at the time of mailing or within three Business Days thereafter there is or occurs a labour dispute or other event which might reasonably be expected to disrupt the delivery of documents by mail, any notice or other communication hereunder shall be delivered or transmitted by means of recorded electronic communication as aforesaid.

Either party may at any time change its address for service from time to time by giving notice to the other party in accordance with this Section 8.2.

8.6 Expenses

Except as otherwise expressly provided herein, each party shall be responsible for all costs and expenses (including any Taxes imposed on such expenses) incurred by it in connection with the negotiation, preparation, execution, delivery and performance of this Agreement and the transactions contemplated by this Agreement (including the fees and disbursements of legal counsel, bankers, investment bankers, accountants, brokers and other advisers).

8.7 Public Disclosure

The content of any public disclosure or press release respecting this Agreement or the transactions contemplated hereby shall be approved by both parties hereto prior to the making of such public disclosure or press release, which approval shall not be unreasonably withheld by the party not subject to such disclosure requirements, provided that this Section 8.7 is subject always to all disclosure obligations of any party under Applicable Laws.

8.8 Enurement and Assignment

This Agreement shall enure to the benefit of and shall be binding on and enforceable by the parties and, where the context so permits, their respective successors and permitted assigns. Neither Party may assign or transfer any of its rights or obligations under this Agreement in whole or in part except with the prior written consent of the other Party.

8.9 No Third Party Rights

Nothing in this Agreement shall be construed as giving any Person other than the parties to this Agreement any legal or equitable right, remedy or claim under or in respect of this Agreement.

8.10 Counterparts

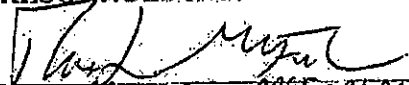
This Agreement may be executed in separate counterparts and by facsimile counterparts, each of which shall constitute an original and all of which, taken together shall constitute one and the same instrument.

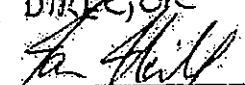
[Remainder of page intentionally left blank.]

IN WITNESS WHEREOF this agreement has been executed by the parties hereto
as of the date first written above.

MMG RESOURCES INC.

by


Name: MARTIN MCFARLANE
Title: DIRECTOR


Name: IAN NEILL
Title: DIRECTOR

BONITO CAPITAL CORP.

by

Name:
Title:

Name:
Title:

ELGIN MINING INC.

by

Name: Brian Morales
Title: Chief Financial Officer

IN WITNESS WHEREOF this agreement has been executed by the parties hereto
as of the date first written above.

MMG RESOURCES INC.

by _____

Name:

Title:

Name:

Title:

BONITO CAPITAL CORP.

by _____

Name: MICHAEL ATKINSON

Title: PRESIDENT, DIRECTOR.

Name:

Title: BRIAN BAYLEY
DIRECTOR

ELGIN MINING INC.

by _____

Name: Brian Morales

Title: Chief Financial Officer

IN WITNESS WHEREOF this agreement has been executed by the parties hereto
as of the date first written above.

MMG RESOURCES INC.

by _____
Name:
Title:

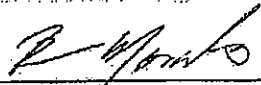
Name:
Title:

BONITO CAPITAL CORP.

by _____
Name:
Title:

Name:
Title:

ELGIN MINING INC.

by  _____
Name: Brian Morales
Title: Chief Financial Officer

SCHEDULE 1.1(a)

LEASES

Lease	Lease Name	Locality	Lease Status	Grant Date	Expiry Date	Project	Region	Party Name
SL_76E/11-2-4	Access Road and Quarry Pit	NUNAVUT	Granted	01/04/1997	31/03/2012	Lupin	76E/	Lupin Mines Incorporated
SL_76E/11-3-4	Waterlot	NUNAVUT	Granted	01/04/1997	31/03/2012	Lupin	76E/	Lupin Mines Incorporated
SL_76E/14-10-3	Navigational aid site	NUNAVUT	Granted	01/04/1997	31/03/2012	Lupin	76E/	Lupin Mines Incorporated
SL_76E/14-1-9	Mine Site	NUNAVUT	Granted	01/04/1997	31/03/2012	Lupin	76E/	Lupin Mines Incorporated
SL_76E/14-2-10	Airport	NUNAVUT	Granted	01/04/1997	31/03/2012	Lupin	76E/	Lupin Mines Incorporated
ML_3275	DER 1	NUNAVUT	Granted	27/09/1988	27/09/2009	Lupin	76E/11	Lupin Mines Incorporated
ML_3276	BRI 1	NUNAVUT	Granted	27/09/1988	27/09/2009	Lupin	76E/11	Lupin Mines Incorporated
ML_3277	PEN 1	NUNAVUT	Granted	27/09/1988	27/09/2009	Lupin	76E/11	Lupin Mines Incorporated
ML_3278	LORI 1	NUNAVUT	Granted	27/09/1988	27/09/2009	Lupin	76E/11	Lupin Mines Incorporated
ML_2428	Combined MC	NUNAVUT	Granted	12/07/1992	12/07/2013	Lupin	76E/14	Lupin Mines Incorporated
ML_3563	ULU (F16928)	NUNAVUT	Granted	18/11/1996	16/11/2017	Ulu	76/14, 15	MMG Resources Inc.

* Note that for those leases with an expiry date in 2009, the renewals are in process and LMI is awaiting the new expiration dates from the Mining Recorder in Nunavut.

SCHEDULE 1.1(b)

REQUIRED CONSENTS

1. Evidence satisfactory to MMG that the Authority is satisfied with the form and amount of the Cash Bond and that the Letters of Credit will be released and returned to MMG upon receipt by the Authority of the Cash Bond.
2. The consent of Minmetals Resources Limited, the listed holding company of MMG.
3. The consent of the Nunavut Water Board to the transfer of water license 2BM – ULU094 in respect of the Ulu Property, in accordance with the *Nunavut Waters and Nunavut Surface Rights Tribunal Act*.
4. The consent of Kinross Gold Corporation to the assumption of MMG's obligations under the Kinross Royalty Agreement by Elgin.

SCHEDULE 1.1(c)

ROYALTY AGREEMENTS

1. Royalty in respect of the Ulu Property granted to BHP Billiton Diamonds Inc. by way of an agreement dated November 17, 1995, as assigned by BHP to International Royalty Corporation by way of an agreement dated March 31, 2005.
2. The Kinross Royalty Agreement.

SCHEDULE 2.1

ASSUMED CONTRACTS

1. Inuit Impact Benefit Agreement dated September 17, 1996 with the Kitikmeot Inuit Association in respect of the Ulu Property.
2. Storage lease with Amalgamated Mining Inc. in the amount of \$1,250 per month, plus applicable taxes.
3. The royalty agreements listed on Schedule 1.1(c).

SCHEDULE 2.6

ALLOCATION OF PURCHASE PRICE

The Purchase Price will be allocated as to 70% to the Purchased Shares and as to 30% to the Purchased Assets.

SCHEDULE 3.1(a)(xviii)

ENVIRONMENTAL MATTERS

By letter dated November 2, 2010, the enforcement branch of Environment Canada advised that during an inspection of the Lupin Property on August 23, 2010 they had reasonable grounds to believe that violations of the *Storage Tank Systems for Petroleum Products and Allied Petroleum Products Regulations* under the *Canadian Environmental Protection Act* had occurred. The letter alleged violations in respect of aboveground storage tanks, including administrative issues relating to the registration of tanks and physical/mechanical deficiencies. By letter dated February 11, 2011, MMG acknowledged receipt of the above-noted letter and responded to the concerns raised in the letter. Copies of these two letters have been provided to Bonito and Elgin.

SCHEDULE 4.6

LETTERS OF CREDIT

1. Standby Letter of Credit No. LGS00326 in the amount of \$1,685,210 provided by the Bank of China (Canada) to MMG Resources Inc. for the benefit of The Minister of Indian Affairs and Northern Development.
2. Standby Letter of Credit No. LGS00327 in the amount of \$25,500,000 provided by the Bank of China (Canada) to MMG Resources Inc. for the benefit of The Minister of Indian Affairs and Northern Development.

SCHEDULE 5.3(e)

REGULATORY APPROVALS

1. Final acceptance of the TSXV approving the transactions contemplated herein and in the Elgin Purchase Agreement which, for certainty, shall include approval of the TSXV to the issuance of the Consideration Shares to be delivered by Bonito to MMG on the Closing Date as contemplated in Section 2.5, subject to the satisfaction of customary conditions to such issuance.

SCHEDULE 6.3(d)

FORM OF RELEASE AND ASSUMPTION AGREEMENT

RELEASE AND ASSUMPTION AGREEMENT

MEMORANDUM OF AGREEMENT made as of the day of ,
2011.

B E T W E E N:

MMG RESOURCES INC.,
a corporation existing under the laws of Ontario,

(hereinafter referred to as "MMG"),

- and -

BONITO CAPITAL CORP.,
a corporation existing under the laws of Alberta,

(hereinafter referred to as "**Bonito**").

WHEREAS MMG, Bonito and Elgin Mining Inc. have entered into a purchase agreement (the "**Purchase Agreement**") dated May 6, 2011 pursuant to which, among other things, MMG agreed to sell, assign and transfer to Bonito, and Bonito agreed to purchase, the Purchased Assets (as such term is defined in the Purchase Agreement) and the Purchased Shares (as such term is defined in the Purchase Agreement), all of which relate to the acquisition by Bonito of MMG's interest in the mines known as the Ulu Mine and the Lupin Mine, each located in Nunavut, Canada;

AND WHEREAS pursuant to and in accordance with the Purchase Agreement and in connection with Bonito acquiring the Purchased Assets and the Purchased Shares, Bonito and MMG agreed to execute and deliver this Agreement pursuant to which Bonito assumes the Assumed Liabilities on the date hereof and agrees to satisfy, pay and perform the Obligations (as such terms are defined in the Purchase Agreement);

NOW THEREFORE in consideration of the mutual covenants and agreements hereinafter contained and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby covenant and agree as follows:

2. **Definitions**

Unless otherwise defined herein, all capitalized terms used in this agreement (the "**Agreement**") shall have the respective meanings ascribed to them in the Purchase Agreement.

3. **Headings, Extended Meanings**

The headings in this Agreement are inserted for convenience of reference only and shall not constitute a part hereof and are not to be considered in the interpretation hereof. In

this Agreement, words importing the singular include the plural and *vice versa*; words importing the masculine gender include the feminine and *vice versa*; and words importing persons include firms or corporations and *vice versa*.

4. **Assumed Liabilities and Obligations**

Bonito hereby assumes the Assumed Liabilities and agrees to satisfy, pay and perform, from and after the date hereof, the Obligations.

5. **Indemnity**

Bonito hereby agrees to jointly and severally indemnify and save harmless MMG from and against all Losses suffered or incurred by MMG as a result of or arising directly or indirectly out of or in connection with a failure by Bonito to assume the Assumed Liabilities or to satisfy, pay or perform the Obligations as provided in Section 4 hereof.

6. **Value of Assumed Liabilities and Obligations**

The parties hereby agree that the fair market value of the Assumed Liabilities as of ●, 2011 is \$● for purposes of the purchase price allocation among the Purchased Assets and the Purchased Shares.

7. **Severability**

If any provision contained in this Agreement or its application to any person or circumstance shall, to any extent, be invalid or unenforceable, the remainder of this Agreement or the application of such provision to persons or circumstances other than those to which it is held invalid or unenforceable, shall not be affected, and each provision of this Agreement shall be separately valid and enforceable to the fullest extent permitted by law.

8. **Successors and Assigns**

This Agreement shall endure to the benefit of and shall be binding upon the parties hereto and their respective successors and assigns.

9. **Governing Law**

This Agreement shall be construed and enforced in accordance with the laws of the Province of British Columbia and the laws of Canada applicable therein and shall be treated in all respects as a British Columbia contract.

10. **Amendment and Waivers**

No amendment or waiver of any provision of this Agreement shall be binding on any party unless consented to in writing by such party. No waiver of any provision of this Agreement shall constitute a waiver of any other provision, nor shall any waiver constitute a continuing waiver unless otherwise expressly provided.

11. **Counterparts**

This Agreement may be executed in separate counterparts and by facsimile counterparts, each of which shall constitute an original and all of which, taken together shall constitute one and the same instrument.

IN WITNESS WHEREOF the parties hereto have executed this Agreement as of the date first written above.

MMG RESOURCES INC.

by _____
Name:
Title:

Name:
Title:

BONITO CAPITAL CORP.

by _____
Name:
Title:

Name:
Title:

Elgin Mining Inc.

Consolidated Financial Statements
December 31, 2010 and 2009

MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

All of the information in the management's discussion and analysis and accompanying consolidated financial statements of Elgin Mining Inc. is the responsibility of management. The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Where necessary, management has made judgments and estimates in preparing the consolidated financial statements, and such statements have been prepared within acceptable limits of materiality. The financial information contained elsewhere in the management's discussion and analysis has been reviewed to ensure that it is consistent with the consolidated financial statements.

Management maintains appropriate systems of internal control to give reasonable assurance that its assets are safeguarded, and the financial records are properly maintained.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and exercises this responsibility principally through the Audit Committee. The Audit Committee, which is comprised of independent, non-executive Directors, meets with management and the external auditors to review the auditors' report and the consolidated financial statements to satisfy itself that management is properly discharging its responsibilities to the Directors, who approve the consolidated financial statements.

A firm of independent Chartered Accountants, appointed by the shareholders, audits the consolidated financial statements in accordance with Canadian generally accepted auditing standards and provides an independent professional opinion thereon. The external auditors have free and full access to the Audit Committee with respect to their findings regarding the fairness of financial reporting and the adequacy of internal controls.

"Robert Buchan"

Robert Buchan
Chief Executive Officer
March 31, 2011

"Brian Morales"

Brian Morales
Chief Financial Officer
March 31, 2011

Independent Auditors' Report

To the Shareholders of **Elgin Mining Inc.**

We have audited the accompanying consolidated financial statements of Elgin Mining Inc., (formerly Phoenix Coal Inc.) which comprise the consolidated balance sheets as at December 31, 2010 and 2009 and the consolidated statements of operations and comprehensive income, shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Elgin Mining Inc. as at December 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada
March 31, 2011

("Signed") ERNST & YOUNG LLP
Chartered Accountants
Licensed Public Accountants

ELGIN MINING INC.
(FORMERLY PHOENIX COAL INC.)
CONSOLIDATED BALANCE SHEETS
(Expressed in U.S. Dollars)

As at December 31

ASSETS		2010	2009
Current assets			
Cash and cash equivalents.....	9	\$ 47,009,454	\$ 13,828,683
Marketable securities.....	9	1,182,350	-
Account receivable - other.....		61,096	47,369
Prepaid expenses and other current assets.....		61,205	286,272
Restricted cash and cash equivalents.....	2,5,9	1,100,000	6,788,467
Total current assets.....		49,414,105	20,950,791
Property plant and equipment, net.....	7	-	615,671
Restricted cash and cash equivalents.....	5,8,9,14	2,534,926	5,282,293
Mining rights, mine development costs, and mineral interests net of accumulated amortization of \$nil in 2010 and 2009.....	3,4,6	323,089	22,739,143
Equity-accounted investment.....	4	2,077,377	-
Other assets.....		8,000	624,744
		\$ 54,357,497	\$ 50,212,642
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Trade accounts payable and accrued liabilities.....	9	\$ 902,155	\$ 929,381
Income taxes payable.....		275,168	56,551
Current portion of asset retirement obligations.....	8	415,000	1,454,700
Total current liabilities.....		1,592,323	2,440,632
Asset retirement obligations.....	8	241,000	723,300
Other long-term liabilities.....		16,000	396,461
		1,849,323	3,560,393
Non-controlling interest.....	4	81,853	-
Shareholders' equity.....			
Share capital.....	1,10	33,125,676	171,817,981
Stock options and warrants.....	11	9,593,988	19,209,566
Contributed surplus.....	11	8,118,240	-
Retained earnings (deficit).....	1	1,542,523	(144,375,298)
Accumulated other comprehensive income.....		45,894	-
		52,426,321	46,652,249
		\$ 54,357,497	\$ 50,212,642
Commitments and contingencies.....	15		
Subsequent events.....	18		
<i>See accompanying notes to the consolidated financial statements</i>			

Signed on behalf of the Board of Directors:

Robert Buchan (signed), Director

Robert Wardell (signed), Director

ELGIN MINING INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Expressed in U.S. Dollars)

For the Years Ended December 31

	Note	2010	2009
Revenue		\$ 10,100	\$ 58,753,744
Costs and expenses			
Operating costs.....		263,756	55,388,311
Selling expenses.....		-	5,863,681
General and administrative expenses.....	17	6,093,362	9,774,162
Depreciation and amortization.....		16,686	3,752,955
Loss on sale of surface mining assets	1, 2	-	36,417,038
Asset impairment write down.....	3	-	21,900,000
Sales contract termination cost.....	16	-	3,000,000
		<u>6,373,804</u>	<u>136,096,147</u>
Loss from operations		(6,363,704)	(77,342,403)
Other income (expense)			
Gain on sale of coal assets and investments.....	3, 4	9,415,989	-
Interest expense.....		(15,517)	(1,344,438)
Interest income.....		207,802	134,139
Unrealized foreign exchange gain on cash held in Canadian dollars.....	9	1,314,599	-
Unrealized gain on on marketable securities.....		547,701	-
Other, net.....		168	(15,931)
		<u>11,470,742</u>	<u>(1,226,230)</u>
Income (loss) before income taxes		5,107,038	(78,568,633)
Income tax (recovery) expense		(1,261,465)	56,551
Non-controlling interest		18,440	-
Net income (loss)		\$ 6,350,063	\$ (78,625,184)
 Net income (loss) per share - basic ⁽¹⁾	13	 \$ 0.13	 \$ (1.57)
Net income (loss) per share - diluted ⁽¹⁾	13	\$ 0.12	\$ (1.57)
 Weighted average number of common shares outstanding - basic ⁽¹⁾	13	 50,718,887	 50,015,184
Weighted average number of common shares outstanding - diluted ⁽¹⁾	13	51,711,450	50,015,184

(1) Per share amounts have been restated to reflect the impact of the one-for-three consolidation of the issued and outstanding common shares of the Company that was approved by shareholders on April 28, 2010. See note 1.

See accompanying notes to the consolidated financial statements

ELGIN MINING INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Expressed in U.S. Dollars)

For the years ended December 31, 2010 and 2009

	Note	Common shares		Stock options and Warrants	Contributed Surplus	Retained earnings (deficit)	Accumulated other comprehensive income	Total
		Shares	Dollars					
December 31, 2008.....		50,015,184	\$ 171,817,981	\$ 16,625,724	\$ -	\$ (65,750,114)	\$ -	\$ 122,693,591
Share-based compensation expense.....	11	-	-	2,583,842	-	-	-	2,583,842
Net loss.....		-	-	-	-	(78,625,184)	-	(78,625,184)
December 31, 2009.....		50,015,184	171,817,981	19,209,566	-	(144,375,298)	-	46,652,249
Stock options exercised.....	11	1,349,988	875,453	-	-	-	-	875,453
Warrants and Brokers' Option expiration, net of income taxes.....	11,12	-	-	(9,646,231)	8,118,240	-	-	(1,527,991)
Reduction of accumulated deficit.....	1	-	(139,567,758)	-	-	139,567,758	-	-
Comprehensive income		-	-	-	-	-	45,894	45,894
Share-based compensation expense		-	-	30,653	-	-	-	30,653
Net income.....		-	-	-	-	6,350,063	-	6,350,063
December 31, 2010.....		51,365,172	\$ 33,125,676	\$ 9,593,988	\$ 8,118,240	\$ 1,542,523	\$ 45,894	\$ 52,426,321

(1) Share amounts have been restated to reflect the impact of the one-for-three consolidation of the issued and outstanding common shares of the Company that was approved by shareholders on April 28, 2010. See note 1.

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Expressed in U.S. Dollars)

For the years ended December 31, 2010 and 2009

	Note	2010	2009
Net income.....		\$ 6,350,063	\$ (78,625,184)
Currency translation adjustments on self-sustaining operations and investments.....	4	45,894	-
Comprehensive income.....		\$ 6,395,957	\$ (78,625,184)

See accompanying notes to the consolidated financial statements

ELGIN MINING INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in U.S. Dollars)

For the Years Ended December 31

		2010	2009
Cash flow from operating activities			
Net income (loss).....		6,350,063	(78,625,184)
Adjustments to reconcile net income (loss) to net cash used in operating activities.....			
Depreciation and amortization.....		16,686	3,752,955
Gain on sale of coal assets.....	4	(8,792,177)	-
(Gain) loss on disposal of property plant and equipment and other assets.....		(623,812)	11,579
Loss on sale of surface mining operations.....	2	-	36,417,038
Write down of assets held for sale.....	3	-	21,900,000
Future income tax recovery.....	12	(1,527,991)	-
Unrealized foreign exchange gain on cash held in Canadian dollars.....	9	(1,314,599)	-
Unrealized gain on marketable securities.....		(547,701)	-
Share-based compensation.....		30,653	2,583,842
Accretion expense.....		150,720	230,632
Adjustment to asset retirement obligations.....		616,392	106,313
Non-controlling interest.....		18,440	-
Changes in non-cash operating assets and liabilities			
Accounts receivable.....		(9,847)	2,795,765
Inventories.....		-	200,202
Prepaid expenses and other current assets.....		225,979	(150,249)
Asset retirement expenditures.....	8	(2,289,112)	(564,964)
Trade accounts payable and accrued liabilities.....		(130,432)	(5,427,659)
Net cash used in operating activities.....		(7,826,738)	(16,769,730)
Cash flow from investing activities			
Restricted cash and cash equivalents.....		8,935,834	2,368,161
Proceeds from sale of coal assets, net of selling expenses.....	2, 3, 4	32,187,707	-
Purchases of investments and marketable securities.....		(1,606,076)	(2,470,000)
Proceeds from sale of investments and marketable securities.....		1,629,733	2,570,707
Purchase of equity-accounted investment and other assets.....	4	(2,115,390)	-
Purchases of other assets, principally mine development and prepaid royalties.....	8	-	(2,979,545)
Proceeds from sale of surface mining operations, net of expenses of sale.....		-	4,632,361
Proceeds from sale of property and equipment.....		88,572	210,000
Asset acquisitions, net of cash acquired.....		64,283	-
Purchases of property and equipment.....		-	(1,367,393)
Acquisition of mining rights and mineral interests.....		(177,138)	(6,307,259)
Net cash provided by (used in) investing activities.....		39,007,525	(3,342,968)
Cash flow from financing activities			
Principal payments on debt.....		-	(209,025)
Payments on equipment financing.....		-	(6,288,921)
Decrease in other long-term liabilities.....		(205,461)	(86,282)
Proceeds from stock options exercised.....		875,453	-
Net cash provided by (used in) financing activities.....		669,992	(6,584,228)
Effect of exchange rate changes on cash held in Canadian dollars.....		1,329,992	-
Net increase (decrease) in Cash and Cash Equivalents.....		33,180,771	(26,696,926)
Cash and Cash Equivalents, beginning of year.....		13,828,683	40,525,609
Cash and Cash Equivalents, end of year.....		\$ 47,009,454	\$ 13,828,683
Supplemental disclosure:			
Interest paid.....		\$ 15,588	\$ 1,389,438
Non-cash investing and financing activities:			
Amount escrowed from sale of coal assets.....		\$ -	\$ 2,800,000
Vendor financing from equipment purchases.....		\$ -	\$ 6,629,614
Asset retirement obligations assumed by purchaser of surface mining operations.....		\$ -	\$ 2,764,276
Debt related to equipment assumed by purchaser of surface mining operations.....		\$ -	\$ 21,305,458

See accompanying notes to the consolidated financial statements

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NOTE 1 — NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Shareholders' resolutions: At the April 28, 2010 annual shareholders' meeting, the Company's shareholders approved several resolutions that included (1) A special resolution authorizing the Company to file articles of amendment to change the name of the Company from Phoenix Coal Inc. to Elgin Mining Inc.; (2) A resolution to eliminate the accumulated deficit as at March 31, 2010 by applying it to the Company's share capital balance; (3) A special resolution to consolidate all of the issued and outstanding common shares of the Company on the basis of one post-consolidation common share for each three pre-consolidation common shares; and (4) An amendment to the 2008 Stock Option Plan increasing the number of common shares issuable under the plan from 13,500,000 shares to 15,500,000 shares (4,500,000 shares to 5,166,666 shares, on a post-consolidation basis). All share and per share amounts have been restated to reflect the share consolidation.

Nature of Operations: On September 30, 2009, Elgin Mining Inc. (formerly Phoenix Coal, Inc.) (the "Company") sold substantially all of its surface mining operations (as described in note 2) and was thus engaged primarily in the development of its underground coal reserves in Western Kentucky, consisting of the "Gryphon Reserves" and the "Panama South Reserves", (together, the "Gryphon Mining Complex"). The Company sold its Panama South Reserves in February 2010 (as described in note 4), and its Gryphon Reserves in May 2010 (also described in note 4). The Company's ongoing operations consist primarily of reclamation work performed at depleted surface mining locations and undertakings related to the transition of the Company from coal mining to other natural resource sectors.

Principles of Consolidation: These consolidated financial statements for the years ended December 31, 2010 and 2009 reflect the assets, liabilities and results of operations of the Company and its subsidiaries. Investments over which the Company has significant influence are accounted for using the equity method.

Basis of Presentation: The consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). All monetary references expressed in these notes are references to United States dollars, except occasional references to Canadian dollar amounts, where the dollar amount is preceded by Cdn ("Cdn\$").

Use of Estimates: The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. The assets and liabilities which require management to make significant estimates and assumptions in determining carrying values include, but are not limited to, mining rights, mine development, mineral reserves, provision for income taxes, asset retirement obligations and share-based compensation.

Sale of Surface Mining Operations: As further described in note 2, on September 30, 2009, the Company sold substantially all of its surface mining operations. At June 30, 2009, pursuant to Canadian Institute of Chartered Accountants' ("CICA") Section 3475, Disposal of Long-Lived Assets and Discontinued Operations, and Emerging Issues Committee ("EIC") Abstract No. 161, Discontinued Operations, the Company had classified these surface mining assets and liabilities related to this sale, as assets and liabilities held for sale. Due to the classification of the property and equipment, mine development and mining rights as assets held for sale, no depreciation and amortization expense was recorded on these assets from July 1, 2009 to December 31, 2009. As the Company did not have substantial continuing operations after September 30, 2009, discontinued operations accounting has not been applied in these consolidated financial statements.

Financial Instruments: Financial instruments are classified into one of the following five categories: held for trading assets or liabilities, held to maturity investments, loans and receivables, available for sale financial assets or other financial liabilities. Held for trading financial instruments are measured at fair value and all gains and losses are included in net income in the period in which they arise. Available for sale financial instruments are measured at fair value with revaluation gains and losses included in accumulated other comprehensive income until the instruments are derecognized or impaired. Loans and receivables, investments held to maturity and other financial liabilities are measured at amortized cost using the effective interest method.

The Company's financial instruments consist of cash and cash equivalents (including restricted cash), marketable securities, accounts receivable, trade accounts payable and accrued liabilities, and other long-term liabilities. Cash and cash equivalents

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are classified as held for trading, and are measured at fair value at the balance sheet date. Marketable securities are classified as held for trading and are measured at fair value at the balance sheet date. Accounts receivable are designated as loans and receivables and accounted for at amortized cost. Trade accounts payable and accrued liabilities and other long-term liabilities are classified as other financial liabilities and accounted for at amortized cost. Transaction costs for financial instruments, other than held for trading, are included in the carrying value of the financial instrument. Income and expense related to financial instruments is included in the consolidated statement of operations and comprehensive income as interest income or interest expense.

Cash and Cash Equivalents: Cash and cash equivalents include demand deposits held with banks and highly liquid investments with remaining maturities of three months or less at acquisition date. For purposes of reporting cash flows, the Company considers all cash accounts that are not subject to withdrawal restrictions or penalties to be cash and cash equivalents.

Restricted Cash, Cash Equivalents, and Certificates of Deposit: Restricted cash balances include funds held in escrow from the sale of the surface mining operations, amounts used to collateralize letters of credit, or cash deposited with state agencies to secure reclamation bonds. At December 31, 2010, restricted cash of \$1,100,000 is scheduled to be released from the escrow account by March 31, 2011 and \$2,534,926 of the restricted cash relates to reclamation bonds and has been classified as a non-current asset.

Property, Plant and Equipment: Property, plant and equipment are stated at cost. The Company provides for depreciation on the straight-line basis with useful lives that range from 5 to 40 years, with mining equipment depreciated over a 10 year period. Depreciation expense for the years ended December 31, 2010 and 2009 was \$16,686 and \$3,752,955, respectively.

The cost of assets sold, retired, or otherwise disposed of and the related accumulated depreciation are eliminated from the accounts. Expenditures for maintenance and repairs are charged to expense as incurred.

Exploration costs are incurred in gathering the information necessary to determine whether a particular property can become a commercially viable operating mine and include costs to determine whether a property adjacent to a property with Proven and Probable Reserves has Proven and Probable Reserves, whether Inferred Resources can be classified as Measured and Indicated Resources, or whether Measured and Indicated Resources can be converted to Proven and Probable Reserves. These costs are expensed as incurred. When it has been determined that an exploration property can be economically developed as a result of establishing Proven and Probable Reserves, costs incurred prospectively to develop the property and place it into commercial production are classified as development costs and capitalized as they are incurred until the asset is ready for its intended use.

Costs to acquire mineral properties as part of an asset acquisition are capitalized and represent the property's fair value at the time it was acquired.

Interest cost is capitalized for qualifying assets during the period in which the asset is being installed and prepared for its intended use. Capitalized interest cost is amortized on the same basis as the related asset. No interest costs were capitalized for the years ended December 31, 2010 and 2009.

Consistent with CICA Section 3063, Impairment of Long-Lived Assets, the Company evaluates long-lived assets for impairment when events or changes in circumstances indicate that their carrying amount may not be recoverable. This impairment testing is based on estimated future undiscounted cash flows to be realized from the use of the long-lived asset. These future cash flows are developed using assumptions that reflect the long-term operating plans given management's best estimate of future economic conditions, such as revenues, production costs, and reserve estimates. A change in these factors could result in a modification of the impairment calculation. During the year ended December 31, 2009, and as detailed in note 3, the Company recorded an impairment charge against certain of its underground coal mining assets. No impairment charges were recorded in 2010.

Mine Development Costs: Mine development costs represent the costs incurred to prepare future mine sites for mining and are amortized on the units-of-production method. Surface mining development cost amortization totaled \$nil and \$126,439 for the years ended December 31, 2010 and 2009, respectively.

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Mining Rights: Mining rights, which are rights to mine coal properties acquired through coal leases, are recorded at cost and amortized on the units-of-production method. Surface mining rights amortization totaled \$nil and \$781,650 for the years ended December 31, 2010 and 2009, respectively.

Mineral Interests: Mineral interests, which the Company owns, are recorded at cost and are amortized as mining occurs and reserves are depleted on a units-of-production basis.

Equity-accounted investments: Long-term investments in equity securities over which the Company has significant influence are accounted for using the equity method with the initial investment accounted for at cost. When a decline in the fair value of an equity-accounted investment is considered other than temporary, the investment is written down to fair value.

Asset Retirement Obligations: CICA Handbook Section 3110, "Asset Retirement Obligations," addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The Company's asset retirement obligation ("ARO") liabilities primarily consist of spending estimates related to reclaiming surface land and support facilities in accordance with United States federal and state reclamation laws as defined by each mining permit.

Revenue Recognition: During 2009, the Company recognized revenue when all of the following criteria were met: (1) persuasive evidence of an arrangement existed, (2) delivery occurred or services have been rendered, (3) the seller's price to the buyer was fixed or determinable, and (4) collectability was reasonably assured. In the case of coal that is mined and sold, a specific sales contract is negotiated with each customer, which includes a fixed-price per ton, a delivery schedule, and terms of payment. There were no coal sales in 2010.

Royalty Expense: The majority of the coal that the Company mined was owned by other entities. The Company acquired the right to mine and sell the coal through various leases. These leases required the Company to pay a royalty to the owners of the land and the minerals being mined. Royalty expense for the years ended December 31, 2010 and 2009 was \$nil and \$2,688,647, respectively, and was included in selling expenses on the consolidated statement of operations and comprehensive income.

Income Taxes: Future income taxes are provided for temporary differences arising from differences between the financial statement and tax basis of assets and liabilities existing at each balance sheet date using substantively enacted tax rates expected to be in effect when the related taxes are expected to be paid or recovered.

Earnings (Loss) per Share: The Company uses the treasury stock method to compute the dilutive effect of options and warrants. Under this method the dilutive effect on earnings (loss) per share is recognized on the use of the proceeds that could be obtained upon exercise of options and warrants. It assumes that the proceeds would be used to purchase common shares at the average market price during the year. The Company also uses the "if converted" method to compute the dilutive effect of any convertible debt. For loss per share, the dilutive effect has not been presented, as it would prove to be anti-dilutive. Basic and diluted earnings (loss) per common share is calculated using the weighted-average number of common shares outstanding during the year.

Share-based Compensation: The Company uses the fair value method for options, warrants and restricted stock granted. The fair value of stock options and warrants is determined by the Black-Scholes option pricing model with assumptions for risk-free interest rates, dividend yields, volatility factors of the expected market price of the Company's common shares and an expected life of the options and warrants. The fair value of the restricted stock is determined to be the equivalent of the Company's common shares' trading price on the date of the grant. The fair value of the instruments granted is amortized over this vesting period.

Foreign Currency Translation:

Foreign Currency Balances and Transactions: The Company translates monetary assets and liabilities at the rate of exchange in effect at the balance sheet date and non monetary assets and liabilities at historical exchange rates. Revenues and expenses denominated in foreign currencies are translated at rates prevailing at the dates of the related transactions.

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Self-sustaining Foreign Operations: Self-sustaining foreign operations are translated using the exchange rate in effect at year-end for assets and liabilities. Expenses and cash flows are translated using the average exchange rate over the period in which the expenses were incurred and the cash flows were generated. For the year ended December 31, 2010, assets and liabilities were translated using a Canadian dollar to US dollar exchange rate of \$1.01 and expenses and cash flows were translated at an average Canadian dollar to US dollar exchange rate of \$0.99.

Reclassifications: Certain of the 2009 figures have been reclassified to conform to the 2010 financial statement presentation.

Future Accounting Changes:

Business Combinations, Consolidated Financial Statements and Non-controlling interests: CICA Section 1582 amends standards for the measurement, presentation and disclosure of a business combination, which is effective for a business combination on or after January 1, 2011. The standard requires the additional use of fair value measurements, recognition of additional assets and liabilities and increased disclosure. The impact of Section 1582 is expected to have a material impact on how prospective business combinations are accounted for.

Additionally, as part of the application of Section 1582, companies will be required to adopt CICA Handbook Section 1601 "Consolidated Financial Statements" and 1602 "Non-controlling interests". These sections will require that non-controlling interest be presented as part of shareholders' equity on the balance sheet and the controlling parent to present 100 percent of the subsidiary's results in the statement of operations with an allocation between controlling and non-controlling interest. The standards are effective as of January 1, 2011, with early adoption permitted. The Company has chosen not to early adopt these standards.

International financial reporting standards ("IFRS"): On January 1, 2011, the Company will begin reporting under IFRS, which will replace Canadian GAAP for publicly accountable enterprises. The Company will report under IFRS for interim and annual periods beginning on January 1, 2011, with comparative information for 2010 restated under IFRS. IFRS requires the Company to make certain accounting policy choices and could materially impact the Company's reported financial position and results of operations.

NOTE 2 — SALE OF SURFACE MINING OPERATIONS

On September 30, 2009, the Company sold substantially all of its operating assets and operations associated with its surface coal mining operations in Western Kentucky, including coal and supplies inventories, coal reserves and related prepaid royalties, mining property, plant and equipment, mining rights, coal purchase contracts and coal sales contracts. All of the Company's recurring revenues were derived from these operations.

The consideration received under the terms of the agreement ("Acquisition Agreement") for the surface mining operations included cash, assumption by the purchaser of all debt associated with the equipment being sold and the assumption of certain asset retirement obligations. Asset retirement obligations related to surface mining operations whose reserves had been depleted as at September 30, 2009 were not included in the sale. The Company was entitled to potentially receive an additional \$500,000 of cash consideration if, by June 30, 2010, it satisfied certain post-closing obligations ("2010 Fee"). These conditions were satisfied in January 2010 and the \$500,000 in cash consideration was placed in escrow and reported in the consolidated statement of operations as a gain on sale of coal assets.

In addition, upon completion of the regulatory transfer of the acquired mining permits, the purchaser was required to replace the Company's letters of credit for assumed reclamation obligations. By June 30, 2010, all acquired mining permits had been transferred to the purchaser and the Company's bonding had been returned.

With respect to the cash consideration, \$5.1 million was received by the Company in 2009, and \$2.8 million was placed in escrow. The 2010 Fee initially was not earned and placed in escrow until January 2010. Subject to the indemnification provisions of the Acquisition Agreement, the escrowed funds were released to the Company with one third of the escrowed balance released on March 31, 2010, one half of the remaining escrowed balance was released on October 1, 2010, and the balance of the escrowed funds of \$1.1 million will be released March 31, 2011.

Consideration received from the sale and the related loss on sale is as follows:

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Proceeds from sale:

Cash consideration received	\$ 5,123,096
Cash placed in escrow.....	2,800,000
Asset retirement obligations assumed by the purchaser	2,764,276
Debt related to equipment assumed by the purchaser	21,305,458
	<u>31,992,830</u>

Net book value of assets sold and expenses of sale:

Working capital components including coal and supplies inventories and prepaid royalties	718,641
Property and equipment	49,953,795
Mine development, mining rights and mineral reserves	17,246,697
Expenses of sale.....	490,735
	<u>68,409,868</u>
Loss on sale of surface mining operations	<u>\$ 36,417,038</u>

NOTE 3 — IMPAIRMENT OF GRYPHON MINING COMPLEX

As at December 31, 2009, the Company was evaluating strategic alternatives for its Gryphon Mining Complex, including a possible sale to a third party. During the review of these alternatives, market value evidence indicated that the carrying value of the Gryphon Reserves exceeded their fair value and thus an impairment of these assets was warranted. As a result, the Company recorded an impairment loss of \$21.9 million on the assets related to its Gryphon Reserves.

The assets deemed impaired and the related impairment charge recorded at December 31, 2009 were as follows:

	Original Carrying Value	Impairment Charge	Post Impairment Carrying Value
Land.....	\$ 874,920	\$ (399,000)	\$ 475,920
Mining rights and mine development Costs	43,595,143	(21,356,000)	22,239,143
Prepaid royalties	317,631	(145,000)	172,631
	<u>\$ 44,787,694</u>	<u>\$ (21,900,000)</u>	<u>\$ 22,887,694</u>

A similar impairment analysis was performed on the Company's Panama South Reserves. No impairment was indicated. As detailed in note 5, the Company sold its Panama South Reserves in February 2010, and in March 2010, entered into a definitive agreement to sell its Gryphon Reserves.

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NOTE 4 — OTHER ACQUISITIONS AND DISPOSITIONS

Sale of Panama South Reserves

In February 2010, the Company sold its Panama South Reserves to a major U.S. coal producer for \$10 million in cash.

Consideration received from the sale and the related gain is as follows:

Proceeds from sale:

Cash consideration received	\$ 10,000,000
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Net book value of assets sold and expenses of sale:

Mining rights	500,000
Prepaid royalties	433,342
Expenses of sale	246,293
	1,179,635
Gain on sale of coal assets	\$ 8,820,365

Sale of Gryphon Reserves

In May 2010, the Company sold its Gryphon Reserves to a major U.S. coal producer for \$23 million in cash.

Consideration received from the sale and the related loss is as follows:

Proceeds from sale:

Cash consideration received	\$ 23,000,000
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Net book value of assets sold and expenses of sale:

Mining rights	21,052,441
Mine development	1,190,653
Prepaid royalties	191,175
Land	527,919
Expenses of sale	566,000
	23,528,188
Loss on sale of coal assets	\$ (528,188)

In addition to the consideration paid, the purchaser was also contractually obligated to replace the Company's reclamation bonding associated with the Gryphon Reserves in the amount of \$572,600. Upon completion of the regulatory transfer of the acquired permits, the bonding was replaced, which released the restrictions on restricted cash.

Investment in Auracle Resources Ltd.

On November 25, 2010, the Company acquired 1.8 million common shares of Auracle Resources Ltd. ("Auracle") by way of a share purchase agreement with certain shareholders of Auracle at a price of \$0.02 per common share. The Company also acquired 10 million units ("Units") of Auracle by way of a private placement at a price of \$0.20 per Unit. Each Unit consists of one common share of Auracle and one share purchase warrants ("Warrants"). Each Warrant entitles the Company to acquire one common share until November 25, 2011 at an exercise price of \$0.30 per common share. Total consideration for the investments was approximately Cdn\$2.0 million.

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The Company owns approximately 37% of Auracle and the investment is considered an equity-accounted investment as the Company has significant influence based on its ownership percentage.

Acquisition of Silver Reef Resources Ltd.

On November 12, 2010, the Company acquired 89% of the issued and outstanding shares of Silver Reef Resources Ltd. ("Silver Reef"), by way of a private placement. The purchase price was approximately Cdn\$1.9 million. The acquisition was accounted for as an asset acquisition. In addition to the cash acquired, the acquisition resulted in an increase in mineral interests of \$145,300 and non-controlling interest of \$62,000 at the acquisition date. See note 6 for additional details.

Silver Reef is a private company with options to acquire a 100% interest in several properties located in Nevada, which Silver Reef is currently exploring for silver, gold, and base metal deposits. Silver Reef has commissioned National Instrument 43-101 compliant technical reports on four of the properties. To earn the 100% interest, Silver Reef must make payments of Cdn\$1,250,000, of which Cdn\$175,000 has been paid and incur exploration expenditures of Cdn\$7,500,000 by August 2013. It is anticipated that Silver Reef will raise the funds required through additional private placements.

The results of Silver Reef Resources Ltd. were consolidated from November 12, 2010. Subsequent to December 31, 2010, the Company's ownership interest was reduced to 68% as a result of additional shares issued by Silver Reef by way of private placements.

Pact Resources LLC and Petersburg Coal Sublease

In March 2009, the Company entered into a sublease agreement with Petersburg Coal, LLC ("Petersburg") to sublease mineral reserves which are contiguous to the Gryphon Reserves. Under the terms of the sublease, the Company paid \$6,000,000 to Petersburg and assumed \$192,178 in liabilities. The Company also incurred transaction costs related to the sublease of \$115,081, bringing the total cost of the sublease to \$6,307,259.

The costs of the sublease were allocated to the following identifiable assets:

Prepaid royalties	\$ 172,413
Mining rights	6,134,846
	<u>\$ 6,307,259</u>

As detailed above, the Company sold its Panama South Reserves in February 2010, and in May 2010, entered into a definitive agreement to sell its Gryphon Reserves.

NOTE 5—RESTRICTED CASH

	2010	2009
Balance at beginning of year.....	\$ 12,070,760	\$ 11,638,921
Amount released related to the sale of surface mining operations	(2,200,000)	—
Amount escrowed due to sale of surface mining operations	—	2,800,000
Amount released related to reduction of bonding requirements	(6,235,834)	(2,368,161)
Total asset retirement obligations	3,634,926	12,070,760
Less current portion	1,100,000	6,788,467
	<u>\$ 2,534,926</u>	<u>\$ 5,282,293</u>

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NOTE 6 — MINING RIGHTS, MINE DEVELOPMENT COSTS AND MINERAL RESERVES

Mining rights, mine development costs and mineral reserves for the Company's active and developmental mining locations consist of the following:

	December 31, 2010	December 31, 2009
Operations in development where the Company was not currently mining:		
Mining rights and mineral interests	\$ 323,089	\$ 21,552,440
Mine development costs related to underground coal reserves.....	—	1,186,703
	<u>\$ 323,089</u>	<u>\$ 22,739,143</u>

Mineral interests as at December 31, 2010 consist of mineral interests resulting from the acquisition of Silver Reef, which . See note 4 for additional details

NOTE 7 — PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment consists of the following at December 31:

2010			
	Cost	Accumulated Depreciation	Net Book Value
Land.....	\$ —	\$ —	\$ —
Office equipment	—	—	—
Vehicles	—	—	—
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

2009			
	Cost	Accumulated Depreciation	Net Book Value
Land.....	\$ 518,574	\$ —	\$ 518,574
Office equipment	133,565	56,905	76,660
Vehicles	20,783	346	20,437
	<u>\$ 672,922</u>	<u>\$ 57,251</u>	<u>\$ 615,671</u>

As described in note 2, the Company sold substantially all of its surface mining assets on September 30, 2009 and in 2010 disposed of the remaining office equipment and vehicles.

NOTE 8 — ASSET RETIREMENT OBLIGATIONS

The Company estimates its ARO liabilities for final reclamation and mine closure based upon detailed engineering calculations of the amount and timing of the future cash spending for a third party to perform the required work. Spending estimates are escalated for inflation and then discounted at the credit-adjusted risk-free rate, which ranged from 6.50% to 7.20% at December 31, 2010 and 6.62% to 8.71% at December 31, 2009. Total estimated undiscounted future cash spending related to the ARO liabilities totaled \$731,100 at December 31, 2010, with spending estimated to occur from 2011 to 2014. Total estimated undiscounted future cash spending related to the ARO liabilities totaled \$2,414,000 at December 31, 2009.

Prior to the sale of its surface mining operations, the Company recorded an ARO asset associated with the discounted liability for final reclamation and mine closure. The obligation and corresponding asset were recognized in the period in which the liability was incurred. The ARO asset was amortized on the units-of-production method over its expected life and the ARO liability is still accreted to the projected spending date. As changes in estimates occur (such as mine plan revisions, changes

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in estimated costs or changes in timing of the performance of reclamation activities), the revisions to the obligation and asset were recognized at the appropriate credit-adjusted risk-free rate. The Company also recognized an obligation for contemporaneous reclamation liabilities incurred as a result of its former surface mining activities. Contemporaneous reclamation consisted primarily of grading, topsoil replacement, and revegetation of backfilled pit areas. Following the sale of the surface mining operations, adjustments to the ARO obligations resulting from changes in estimates are expensed.

A progression of the reclamation liability recorded on the consolidated balance sheet is as follows:

	2010	2009
Balance at beginning of year.....	\$ 2,178,000	\$ 4,324,000
Liabilities incurred.....	616,392	964,608
Accretion.....	150,720	230,632
Liabilities assumed by purchaser of surface mining operations.....	—	(2,764,276)
Liabilities settled.....	(2,289,112)	(576,964)
Total asset retirement obligations	656,000	2,178,000
Less current portion	415,000	1,454,700
	<u>\$ 241,000</u>	<u>\$ 723,300</u>

NOTE 9 — FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS

The Company has exposure to credit risk, liquidity risk, interest rate risk, and foreign currency risk. The Company's risk management objective is to protect earnings and cash flow and, ultimately, shareholder value. Risk management strategies, as discussed below, are designed and implemented to ensure the Company's risks and the related exposure are consistent with the business objectives and risk tolerance.

Credit Risk: Credit risk is the risk of a financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligation.

The Company invests its cash and cash equivalents and short-term investments in U.S. and Canadian financial institutions, which at December 31, 2010, carried Standard and Poor's investment ratings on their short-term deposits of A-2 and AA-. The Company has not experienced any losses on its deposits with these financial institutions. At December 31, 2010, the Company invested approximately Cdn\$40.0 million (December 31, 2009 - \$nil) in Banker's Acceptances. Additionally, at December 31, 2010, \$1,182,350 had been invested in marketable securities (December 31, 2009 - \$nil).

At December 31, 2010, the total fair value of assets subject to credit risk, including cash and cash equivalents (including restricted cash and marketable securities) was \$51,887,826. At December 31, 2009, the total fair value of assets subject to credit risk was \$25,946,812.

Liquidity Risk: Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company manages its liquidity by ensuring that there is sufficient capital to meet short and long-term business requirements, after taking into account cash flows from operations and the Company's holdings of cash, cash equivalents, and short-term investments. The Company also strives to maintain sufficient financial liquidity at all times in order to participate in investment opportunities as they arise, as well as to withstand sudden adverse changes in economic circumstances.

Management forecasts cash flows for its current and subsequent fiscal years to predict future financing requirements. Future requirements are met through a combination of credit commitments and access to capital markets. At December 31, 2010, the Company had \$49,291,804 in cash, cash equivalents, marketable securities and short-term restricted cash. At December 31, 2009, the Company had approximately \$20.6 million of cash, cash equivalents, short-term investments, and short-term restricted cash.

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The following are the maturities, excluding interest payments, reflecting undiscounted future cash disbursements of the Company's financial liabilities based on years ending December 31:

	2011	2012 and later
Trade accounts payable and accrued liabilities	\$ 902,155	\$ —
Income taxes payable	275,168	—
Other long-term liabilities	—	16,000
	<u>\$ 1,177,323</u>	<u>\$ 16,000</u>

Interest Rate Risk: Interest rate risk is the risk borne by an interest-bearing asset or liability as a result of fluctuations in interest rates. Financial assets and financial liabilities with variable interest rates expose the Company to cash flow interest rate risk. The Company's most significant interest rate risk arises from its investments in marketable securities and cash equivalents. However, the maturity on these instruments is generally less than ninety days, thereby mitigating the exposure to the impact of changing interest rates. The Company's long-term debt consisted of only fixed rate notes and was assumed by the purchaser of its surface mining operations.

The following represents the hypothetical annual future interest income that would be earned on the Company's cash and cash equivalents (including restricted cash and investments) and short-term investments, and the effect of a 1% change in the interest rates on these investments. The calculation uses the weighted-average interest rates realized on these assets, which was 0.80% at December 31, 2010, and the balances of the investments at December 31, 2010.

Annualized Income Earned Using:

Interest rates in effect at December 31, 2010	\$ 392,713
Interest rates with a 1% decrease in rates	—
Interest rates with a 1% increase in rates	883,179

Currency Risk: As at December 31, 2010, the Company's functional currency was the U.S. dollar. As the Company operates in an international environment, some of the Company's financial instruments and transactions are denominated in currencies other than the U.S. dollar, particularly the Canadian dollar. The results of the Company's operations are subject to currency transaction risk. As at December 31, 2010, the Company had approximately \$44.4 million of cash, cash equivalents and short-term investments denominated in Canadian dollars (December 31, 2009 - \$nil), which translated into \$44.6 million (December 31, 2009 - \$nil). For the year ended December 31, 2010 an unrealized gain on foreign currency translation of approximately \$1.3 million recorded in the statement of operations. Had the Canadian dollar weakened by 10 per cent relative to the US dollar, the unrealized foreign currency translation on the statement of operations would have decreased by \$3.9 million.

Fair Values: The following are the fair values and the respective carrying values of the Company's financial instruments at December 31, 2010 and 2009:

	2010		2009	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Cash and cash equivalents	\$ 47,009,454	\$ 47,009,454	\$ 13,828,683	\$ 13,828,683
Marketable securities	1,182,350	1,182,350	—	—
Accounts receivable	61,096	61,096	47,369	47,369
Restricted cash	3,634,926	3,634,926	12,070,760	12,070,760
Trade accounts payable and accrued liabilities	902,155	845,693	929,381	929,381
Income taxes payable	275,168	275,168	56,551	56,551
Other long-term liabilities	16,000	16,000	396,461	396,461

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At December 31, 2010 and 2009, the fair values of cash and cash equivalents (including restricted cash and investments), short-term investments, marketable securities, accounts receivable, and trade accounts payable and accrued liabilities approximated their carrying values because of the short-term nature of these instruments. The fair value of other long-term liabilities also approximated its carrying value.

The fair value hierarchy for established by CICA Handbook Section 3862 – Financial Instruments – Disclosures (“Section 3862”) establishes three levels to classify the inputs to valuation techniques used to measure fair value. Level 1 inputs are quoted market prices in active markets for identical assets or liabilities. Level 2 inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborate by observable market data or other means. Level 3 inputs are unobservable. The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. The Company’s held for trading marketable securities were classified as Level 1 as the fair value of the securities was determined based on a market approach reflecting the closing price of the securities at the balance sheet date. The closing price is a quoted market price obtained from the exchange that is the principal active market for the particular security.

NOTE 10 — SHARE CAPITAL AND CAPITAL MANAGEMENT

Share capital

The Company is authorized to issue an unlimited number of common shares. The issued and outstanding common shares consist of the following:

	Common shares	
	Shares	Dollars
December 31, 2008	50,015,184	\$ 171,817,981
	-	-
December 31, 2009	50,015,184	171,817,981
Stock options exercised.....	1,349,988	875,453
Reduction of accumulated deficit.....	-	(139,567,758)
December 31, 2010	51,365,172	\$ 33,125,676

At the April 28, 2010 annual shareholders’ meeting, the Company’s shareholders approved several resolutions that included a resolution to eliminate the accumulated deficit as at March 31, 2010 by applying it to the Company’s share capital balance; and a special resolution to consolidate all of the issued and outstanding common shares of the Company on the basis of one post-consolidation common share for each three pre-consolidation common shares. This share consolidation is reflected in the shares noted in the table above.

Share capital

Due to the change in the Company’s operations, the Company’s capital currently consists of cash and cash equivalents, including restricted cash. The Company’s primary objectives when managing capital are to safeguard the Company’s ability to redeploy its cash into assets in the natural resource sector and ensure its future cash expenditures can be met.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size and stage of the Company is reasonable. The Company is not subject other externally imposed capital requirements with the exception of cash that has been restricted to cover the requirements of the asset retirement obligations.

NOTE 11 — STOCK INCENTIVE PLAN AND WARRANTS

2007 Stock Option Plan

An incentive stock option plan in was adopted in May 2007 (the “2007 Plan”) which provided that the board of directors of the Company may from time to time, in its discretion, and in accordance with TSX requirements, grant to directors, officers, employees and technical consultants to the Company, non-transferable options to purchase common shares, provided that the

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number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares. Such options will be exercisable for a period of up to 5 years from the date of grant. Vesting terms will be determined at the time of grant by the board of directors.

The 2007 Plan remains in force and options issued continue to be governed by the 2007 Plan; however due to the approval of the 2008 Plan (defined below), no further options will be issued pursuant to the 2007 Plan.

2008 Stock Option Plan of the Company

In 2008, the Company adopted a revised stock option plan (the "2008 Plan") on May 20, 2008.

The 2008 Plan is designed to advance the interests of the Company by encouraging employees, officers, directors and consultants to have equity participation in the Company through the acquisition of common shares. The current intention is to use the 2008 Plan for option grants to employees, officers, directors and consultants of the Company. Options granted under the 2008 Plan may be "incentive stock options" or "non-qualified stock options". The 2008 Plan was approved by the shareholders of the Company in June 2008 and 13,500,000 common shares are reserved for issuance under the 2008 Plan. The shares reserved for issuance under the 2008 Plan was increased to 15,000,000 in 2010.

The exercise price per common share is not to be less than the market price of the common shares at the time of the grant and is in accordance with TSX Venture requirements. The exercise period for each stock option is not to be more than ten years (five years in the case of an incentive stock option granted to a person who owns more than 10% of the issued and outstanding common shares). Options may be granted subject to vesting requirements.

Unless terminated earlier by the board of directors, the 2008 Plan will remain in effect until all options granted under the 2008 Plan have been exercised or forfeited, or have expired. However, no new options may be granted under the 2008 Plan more than 10 years from the date the Plan was originally adopted by the board of directors.

Information regarding stock option activity under the Plans follows:

2007 MCC Plan and 2008 Company Plan

	2010 Activity	
	Number of Options	Weighted Average Exercise Price
Options Denominated in Canadian Dollars		
Balance, December 31, 2009	3,118,942	Cdn\$0.82
Granted	150,000	Cdn 1.42
Exercised	(1,349,988)	Cdn 0.67
Forfeited.....	(27,682)	Cdn 0.90
Options outstanding as at December 31, 2010.....	<u>1,891,272</u>	<u>Cdn\$0.97</u>
Options exercisable as at December 31, 2010	<u>1,791,272</u>	<u>Cdn\$0.95</u>
 Options Denominated in U.S. Dollars (2004 Plan Options Replaced with 2008 Plan Options)	 Number of Options	 Weighted Average Exercise Price
Balance, December 31, 2009	461,667	\$0.93
Forfeited.....	(8,336)	0.75
Options outstanding as at December 31, 2010.....	<u>453,331</u>	<u>\$0.93</u>
Options exercisable as at December 31, 2010	<u>453,331</u>	<u>\$0.93</u>

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	2009 Activity	
	Number of Options	Weighted Average Exercise Price
Options Denominated in Canadian Dollars		
Balance, December 31, 2008	1,470,276	Cdn\$2.49
Granted	2,166,666	Cdn 0.90
Voluntarily surrendered and cancelled	(300,000)	Cdn 5.25
Cancelled	(8,333)	Cdn 5.25
Cancelled and replaced	(112,333)	Cdn 5.25
Replacement options, including 69,333 previously issued in U.S. dollars	181,666	Cdn 0.90
Forfeited.....	(279,000)	Cdn 3.69
Options outstanding as at December 31, 2009.....	3,118,942	Cdn\$0.82
Options exercisable as at December 31, 2009	3,118,942	Cdn\$0.82
Options Denominated in U.S. Dollars (2004 Plan Options Replaced with 2008 Plan Options)		
Balance, December 31, 2008	1,770,333	\$2.94
Voluntarily surrendered and cancelled	(1,100,000)	3.75
Cancelled and replaced (in Canadian dollars).....	(69,333)	3.75
Forfeited.....	(139,333)	2.91
Options outstanding as at December 31, 2009.....	461,667	\$0.93
Options exercisable as at December 31, 2009	461,667	\$0.93

Compensation cost of stock option grants is recognized straight-line over the options' vesting periods. Compensation expense related to stock options for the years ended December 31, 2010 and 2009 was \$30,653 and \$2,583,842, respectively. For the year ended December 31, 2009, under the terms of the 2008 Plan, and as approved by the board of directors, the sale of the surface mining assets and associated liabilities described in note 2 caused all options outstanding under the 2008 Plan to become fully vested and all unrecognized compensation expense was charged to the consolidated statement of operations and comprehensive loss. Had this accelerated vesting not occurred, the 2009 stock compensation expense would have decreased by approximately \$529,000.

In March 2009, certain officers of the Company voluntarily surrendered, and the board of directors concurrently cancelled, 4,200,000 options that had been previously issued to them, of which 2,075,849 were fully vested at the surrender date. The voluntary surrender was not accompanied by a concurrent grant of a replacement award or other consideration to these officers. This surrender caused an acceleration of the related compensation costs under CICA Handbook Section 3870 which totaled approximately \$1,441,000. Additionally, in March 2009, the board of directors cancelled and replaced 545,000 stock options that had been previously issued to various production and administrative personnel. These options had originally been granted in 2007 and 2008, with vesting periods ranging from 3 years to 5 years, and exercise prices ranging from \$1.25 to Cdn\$1.75. The replacement options have an exercise price of Cdn\$0.30.

The options' fair value was determined using the Black-Scholes option-pricing model. Expected volatilities are based on comparable company historical share price movement and other factors. The cost relating to the share-based compensation plans is included in general and administrative expenses in the accompanying consolidated statements of operations.

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	2010	2009
Weighted average fair value per share of options granted.....	\$0.55 per share	\$0.24 per share
Assumptions (weighted average):		
Risk-free interest rate	2.48%	2.73%
Expected dividend yield	0.00	0.00
Expected volatility.....	0.40	0.40
Expected option life (in years)	5.00	10.00

As at December 31, 2010, the following stock options were outstanding:

Number of Options	Exercise Price	Expiration Date
194,999	\$0.75	April 2015
146,666	\$0.75	December 2015
111,666	\$1.50	May 2016
21,276	Cdn \$1.77	August 2012
1,653,330	Cdn \$0.90	March 2019
66,666	Cdn \$0.90	May 2019
150,000	Cdn \$1.42	November 2014
<u>2,344,603</u>		

Of the Cdn\$1.42 grant, 50,000 options of the 150,000 are exercisable.

Phoenix Warrants and Company Warrants

As part of the fee structure related to Phoenix's preferred share offering in August 2007, the underwriter received warrants ("Phoenix Warrants") to purchase 1,780,000 shares of the preferred shares of Phoenix at \$1.25 per share. The warrants' total value of \$462,800 was determined using the Black-Scholes option pricing model and was charged to share capital. On June 27, 2008, under the terms of a broker agreement, the warrants were converted to warrants to purchase common shares of the Company at \$1.25 per common share and expired in June 2010.

Under the terms of the Offering, 31,428,580 warrants ("Company Warrants") were issued to the purchasers of the common shares offered. The warrants entitle the holder to purchase one common share for each warrant held at a price of Cdn\$2.25 per share. The warrants expired in June 2010. The warrants total value of \$8,077,145 was determined by the underwriter of the Offering. The value of the warrants was charged to share capital.

Information regarding the warrant activity follows:

	Number of Warrants	Weighted Average Exercise Price
Phoenix Warrants		
Balance, December 31, 2009	1,780,000	\$ 1.25
Expired.....	(1,780,000)	(1.25)
Warrants outstanding and exercisable as at December 31, 2010	<u>—</u>	<u>\$ —</u>

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Warrants Denominated in Canadian Dollars	Number of Warrants	Weighted Average Exercise Price
Company Warrants		
Balance, December 31, 2009	31,428,580	Cdn\$2.25
Warrants expired.....	(31,428,580)	Cdn 2.25
Warrants outstanding and exercisable as at December 31, 2010	—	\$ —

Total cash received from options and warrants exercised during the years ended December 31, 2010 and 2009 totaled \$875,453 and nil, respectively.

Upon expiry, the Company reclassified the value of the Phoenix Warrants, Company Warrants and Brokers' Options from "stock options and warrants" to "contributed surplus" in the shareholders' equity section of the balance sheet.

Broker Options

In 2008, Broker's options were issued entitling the agents to purchase in the aggregate 2,514,286 Brokers' Units. Each Broker Unit entitled the agent to purchase one common share for Cdn\$1.75 per share and one half warrant entitling the agent to purchase one additional common share for each full warrant at Cdn\$2.25 per share. The Brokers Options expired in June 2010.

As a result of the expiry of warrants and Broker options, the Company transferred \$8,118,240, net of income taxes of \$1,527,991 to contributed surplus.

NOTE 12 — INCOME TAXES

The components of income tax expense for the years ended December 31 are as follows:

	2010	2009
Current	\$266,526	\$ 56,551
Future.....	(1,527,991)	—
	<u>\$(1,261,465)</u>	<u>\$ 56,551</u>

The Company's income tax provision in 2010 consists of benefit of utilization of tax losses not previously recognized offset to some extent by state taxes in the United States. In 2009, the tax provision consists principally of state taxes.

A reconciliation of the differences between the statutory U.S. federal income tax expense (benefit) and the Company's effective tax expense at December 31 is as follows:

	2010		2009	
	Tax Amount	Effective Rate	Tax Amount	Effective Rate
Federal tax benefits at statutory rates.....	\$ 1,789,401	35.0%	\$ (27,518,814)	35.0%
State income tax benefits, net of federal benefit	450,579	8.8%	(2,773,956)	3.6%
Permanent items:				
Share-based compensation.....	11,832	0.2%	997,363	(7.3%)
Utilization of tax losses not previously recognized	(1,527,991)	(29.9)%	-	-
Other permanent items.....	84,296	1.6%	61,947	(0.1%)
Total current year permanent items	(1,431,863)	(28.1%)	1,059,310	(11.4%)
Change in valuation allowance attributable to				
current year activity	(2,069,582)	(40.5%)	29,290,011	(27.2%)
Income tax (recovery) expense	<u>\$ (1,261,465)</u>	<u>(24.7%)</u>	<u>\$ 56,551</u>	<u>0.0%</u>

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The (recovery) expense for income taxes includes federal and state income taxes currently payable or receivable and those deferred or prepaid because of temporary differences between the financial statement and the tax basis of assets and liabilities.

The future tax assets and liabilities recognized in the consolidated balance sheet are comprised of the following at December 31:

	<u>2010</u>	<u>2009</u>
Future tax assets:		
Net operating loss carry forwards	\$ 41,683,446	\$ 35,801,671
Share-based compensation	18,228	18,228
Asset retirement obligations	253,216	460,884
Mining rights	—	8,453,400
Compensation expense	—	36,786
Other	—	—
	<u>41,954,890</u>	<u>44,770,969</u>
Future tax liabilities:		
Mine development costs	—	(655,434)
Mining rights	—	—
Royalty expense	—	(210,457)
Tax over book depreciation	—	(47,630)
Unrealized gain on marketable securities	(718,848)	—
Other	(10,387)	(18,421)
	<u>(729,235)</u>	<u>(931,942)</u>
Total	41,255,655	43,839,027
Valuation allowance	(41,255,655)	(43,839,027)
Net future taxes	<u>\$ —</u>	<u>\$ —</u>

As a result of losses from operations, management has recorded a valuation allowance against the total net future tax asset as they do not believe it is more likely than not these assets will be realized. At December 31, 2010, the Company had available net operating loss (NOL) carry forwards, to reduce future taxable income of approximately \$107,988,000 expiring through 2031. The future benefit of these NOL carry forwards may be limited on an annual basis and in total under Section 382 of the United States Internal Revenue Code as a result of prior ownership changes and depending on the extent of future ownership changes contemplated by the Company. As a result of its valuation allowance, the Company has not currently recognized any benefit for these losses in its consolidated financial statements.

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Net Operating Loss Carryovers (20 year carryover):

	<u>Loss</u>	<u>Expiring In</u>	<u>Amount</u>
Expiring	2004	2025	\$ 305,000
	2005	2026	1,860,000
	2006	2027	6,094,000
	2007	2028	19,347,000
	2008	2029	35,107,000
	2009	2030	28,537,000
	2010	2031	16,738,000
			<u>\$ 107,988,000</u>

NOTE 13 — EARNINGS (LOSS) PER SHARE

The following table details the weighted average number of outstanding common shares for the purposes of computing basic and diluted earnings (loss) per common share for the year ended December 31:

	<u>2010</u>	<u>2009</u>
Weighted average shares outstanding - basic.....	50,718,887	50,015,184
Dilutive effect of share options.....	992,563	-
Weighted average shares outstanding - diluted.....	51,711,450	50,015,184
Net income (loss).....	\$ 6,350,063	\$ (78,625,184)
Net income (loss) per share - basic.....	\$ 0.13	\$ (1.57)
Net income (loss) per share - diluted.....	\$ 0.12	\$ (1.57)

Dilutive stock options were determined using an average share price of Cdn\$1.32 for the year ended December 31, 2010 and \$nil for the year ended December 31, 2009. A total of 282,942 options and 33,208,580 warrants were excluded as they were out-of-the-money. As a result of the loss in 2009, there is no dilutive effect of options and warrants in that year.

NOTE 14 — MAJOR CUSTOMERS

For the years ended December 31, 2010 and 2009, the Company's concentration of major customers was as follows:

	<u>2010</u>	<u>2009</u>
Number of primary customers	—	4
Percentage of coal sales	—	98%
Accounts receivable due at year end.....	—	—

The Company has never experienced non-payment from any of these customers.

NOTE 15 — COMMITMENTS AND CONTINGENT LIABILITIES

In the normal course of business, the Company makes various commitments and incurs certain contingent liabilities including liabilities related to asset retirement obligations and financial obligations in connection with mining permits that are not reflected in the accompanying consolidated balance sheet. The Company does not anticipate any material losses as a result of these transactions. In accordance with Kentucky state law, the Company is required to post reclamation bonds to assure that reclamation work is completed. Outstanding reclamation bonds related to Company owned reclamation operations totaled approximately \$3.8 million and \$6.3 million as at December 31, 2010 and 2009, respectively. These bonds are secured by letters of credit, cash, certificates of deposit or surety bonds. The surety bonds and letters of credit are collateralized by cash. The restricted cash and certificates of deposit collateralizing the reclamation bonds on the consolidated balance sheet totaled \$2,534,926 and \$9,270,700 as at December 31, 2010 and 2009, respectively.

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The Company had future commitments to purchase fuel, coal, and pay fees for the delivery of certain coal reserves to a third party. These commitments were assumed by the purchaser under the terms of the Acquisition Agreement.

The Gryphon Reserves are controlled through leasing arrangements and non-cancellable royalty lease agreements under which future minimum lease payments are due. As described in note 4, the Company sold the Gryphon Reserves to a major U.S. coal producer for \$23 million in cash and those lease agreements were no longer the obligation of the Company. However, the buyer of the Gryphon Reserves did not assume three consulting arrangements that provide for future payments to third parties based on the sale of coal from specific tracts within the Gryphon Reserves. If the coal that is subject to the consulting arrangements were mined and sold, two of the consulting agreements would require the Company to pay 2% of the gross sales price for coal sold from the tracts associated with those agreements and the other agreement would require the Company to pay \$0.05 per ton for coal sold from the tracts associated with that agreement. Because of the uncertainty regarding the timing, volume and dollar amount of future coal sales, it is not possible as of the balance sheet date to quantify the liability, if any, with any degree of accuracy. The Company does not believe that the present value of the future payments, if any, pursuant to these arrangements would be material.

NOTE 16 — SALES CONTRACT TERMINATION

On March 3, 2009, the Company entered into a mutual release and settlement agreement with one of its customers to terminate a coal supply agreement for delivery of coal in 2009 and 2010 (the "2009/2010 Supply Agreement"). In consideration for terminating the 2009/2010 Supply Agreement, the Company paid the customer \$3,000,000 in cash. The payment relieved the Company of the obligation to deliver approximately 970,000 tons of coal, 470,000 in 2009 and 500,000 in 2010. In addition, the Company agreed to make up in 2009 approximately 170,000 tons of shipments that were not delivered in 2008 under a separate coal supply agreement dated January 1, 2008 (the "2008 Supply Agreement"). In return for fulfilling the 2008 Supply Agreement, the customer agreed to change the guaranteed monthly average BTU specification from 11,500 to 11,200. The \$3,000,000 payment has been charged to the consolidated statement of operations and comprehensive income. Under the terms of the Acquisition Agreement described in note 2, this coal supply agreement was transferred to the purchaser.

NOTE 17 — EMPLOYEE BENEFITS, EMPLOYEE TERMINATION BENEFITS AND EXECUTIVE PAYMENTS

The Company had a retirement savings trust plan in effect for substantially all full-time employees. The Plan contained a deferred salary arrangement under IRC Section 401(k). Under the deferred salary arrangement, employees can contribute up to 100% of their earnings and the Company may match a portion of the employee contributions. As a result of the sale of the surface mining operations the majority of employees were terminated and during 2010, the assets under the plan were paid out. At December 31, 2010 the Plan had no assets. For the year ended December 31, 2009, the Company charged to operations approximately \$540,000 for plan contributions.

The Company incurred termination benefits for the retention of certain administrative personnel. These benefits totaled approximately \$150,000 for the year ended December 31, 2010 and are included in general and administrative expenses in the consolidated statement of operations and comprehensive income.

Upon closing of the sale of the Gryphon Reserves, the Company sold substantially all of its assets. Pursuant to employment agreements with the former CEO, the former COO and the CFO of the Company (the "Contracted Officers"), the sale of the Gryphon Reserves, the surface mining operations in September 2009 and the Panama South Reserves in February 2010 caused the Contracted Officers to be entitled to a total change of control payments of approximately \$3.1 million. The Board of Directors approved the payments to these officers in March 2010. The former CEO received his payment in March 2010 and the former COO and the CFO received their payments in April 2010. The change of control payments were included in general and administrative expenses in the consolidated statement of operations and comprehensive income for the year ended December 31, 2010.

NOTE 18 — SUBSEQUENT EVENTS

On March 31, 2011, the Company entered into an option agreement ("Agreement") with Lincoln Mining Corporation ("Lincoln"), granting it the exclusive right and option to acquire up to a 60% undivided interest in each of Lincoln's Oro Cruz

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and La Bufa properties (collectively the "Properties" and individually a "Property") by funding expenditures totaling Cdn\$10,000,000 over a maximum four-year period.

Pursuant to the Agreement, the Company shall as a binding commitment (the "Initial Exploration Commitment") fund an initial aggregate amount of Cdn\$4,000,000 in exploration expenditures on the Properties (Cdn\$3,000,000 on Oro Cruz and Cdn\$1,000,000 on La Bufa) over a period of up to two years from the date of the Agreement prior to earning any interest in the Properties. On the date that the Initial Exploration Commitment has been satisfied (the "Option Acquisition Date"), the Company will have acquired the exclusive right and option to earn up to a 60% interest in each Property on the basis of a 20% interest earned in a Property for each Cdn\$1,000,000 in additional expenditures funded on the Property over a two-year period following the Option Acquisition Date. If within two years of the Option Acquisition Date, the Company fails to fund at least Cdn\$1,000,000 in respect of a Property, the Company shall acquire no interest in that Property. The parties have agreed to negotiate and enter into a formal option and joint venture agreement, based on the terms of the Agreement, following the Option Acquisition Date. Lincoln will continue to be the operator of the Properties until such time as the Company has earned a greater than 50% interest in a Property, at which time the Company will be entitled to be the operator of such Property.

Lincoln acquired a 100% interest in the 20 lode claims that cover the Oro Cruz gold prospect located in Imperial County, California in February 2010. Since then Lincoln has staked an additional 131 claims for a total of 151 lode claims covering approximately 3,000 acres. Oro Cruz is a pre-development stage gold project located in the Tumco mining district in the Cargo Muchacho Mountains, Imperial County, CA.

The La Bufa property is a mid-stage, gold-silver exploration project within the Sierra Madre Occidental in southwestern Chihuahua State, Mexico. The property consists of four concessions (5,700 acres) covering a large part of the Guadalupe y Calvo mining district completely surrounding Gammon Gold's Guadalupe y Calvo project.

The Agreement is subject to acceptance by the TSX Venture Exchange.

6. Number of directors is/are:
Nombre d'administrateurs :

Fixed number
Nombre fixe

OR minimum and maximum
 OU minimum et maximum

3	11
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7. The director(s) is/are: / Administrateur(s)
 First name, middle names and
 surname
*Prénom, autres prénoms et nom de
 famille*

Address for service, giving Street & No. or R.R. No.,
 Municipality, Province, Country and Postal Code
*Domicile élu, y compris la rue et le numéro ou le numéro de la
 R.R., le nom de la municipalité, la province, le pays et le code
 postal*

Resident Canadian
 State 'Yes' or 'No'
*Résident canadien
 Oui/Non*

A. Murray Sinclair

40 King Street West, Suite 2100, Scotia Plaza,
 Toronto ON M5H 3C2

Yes

David Wiley

40 King Street West, Suite 2100, Scotia Plaza,
 Toronto ON M5H 3C2

No

Robert Buchan

40 King Street West, Suite 2100, Scotia Plaza,
 Toronto ON M5H 3C2

Yes

Ricky Kirk

40 King Street West, Suite 2100, Scotia Plaza,
 Toronto ON M5H 3C2

No

John McBride

40 King Street West, Suite 2100, Scotia Plaza,
 Toronto ON M5H 3C2

Yes

Robert Wardell

40 King Street West, Suite 2100, Scotia Plaza,
 Toronto ON M5H 3C2

Yes

John Huxley

40 King Street West, Suite 2100, Scotia Plaza,
 Toronto ON M5H 3C2

Yes

8. Restrictions, if any, on business the corporation may carry on or on powers the corporation may exercise.
Limites, s'il y a lieu, imposées aux activités commerciales ou aux pouvoirs de la société.

None.

9. The classes and any maximum number of shares that the corporation is authorized to issue:
Catégories et nombre maximal, s'il y a lieu, d'actions que la société est autorisée à émettre :

The Corporation is authorized to issue an unlimited number of preferred shares and an unlimited number of common shares.

10. Rights, privileges, restrictions and conditions (if any) attaching to each class of shares and directors authority with respect to any class of shares which may be issued in series:
Droits, privilèges, restrictions et conditions, s'il y a lieu, rattachés à chaque catégorie d'actions et pouvoirs des administrateurs relatifs à chaque catégorie d'actions qui peut être émise en série :

See Page 4(a) attached hereto.

PREFERRED SHARES

- 1 (a) the Preferred shares may from time to time be issued in one or more series, and the Directors may fix from time to time before such issue the number of Preferred shares which is to comprise each series and the designation, rights, privileges, restrictions and conditions attaching to each series of Preferred shares including, without limiting the generality of the foregoing, any voting rights, the rate or amount of dividends or the method of calculating dividends, the dates of payment thereof, the terms and conditions of redemption, purchase and conversion if any, and any sinking fund or other provisions;
- (b) the Preferred shares of each series shall, with respect to the payment of dividends and the distribution of assets or return of capital in the event of liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or any other return of capital or distribution of the assets of the Corporation amongst its shareholders for the purpose of winding up its affairs, be entitled to preference over the voting and non-voting Common shares and over any other shares of the Corporation ranking by their terms junior to the Preferred shares of that series. The Preferred shares of any series may also be given such other preferences, not inconsistent with these Articles, over the Common shares and any other such Preferred shares as may be fixed in accordance with clause 1(a); and
- (c) if any cumulative dividends or amounts payable on the return of capital in respect of a series of Preferred shares are not paid in full, all series of Preferred shares shall participate rateably in respect of accumulated dividends and return of capital.

COMMON SHARES

- 2 (a) to receive notice of and to attend and vote at all meetings of shareholders, except meetings at which only holders of a specified class of shares are entitled to vote;
- (b) to receive any dividend declared by the Corporation on this class of shares; provided that the Corporation shall be entitled to declare dividends on the Preferred shares, or on any of such classes of shares without being obliged to declare any dividends on the Common voting shares of the Corporation;
- (c) subject to the rights, privileges, restrictions and conditions attaching to any other class of shares of the Corporation, to receive the remaining property of the Corporation upon dissolution in equal rank with the holders of all other Common shares of the Corporation; and
- (d) to the rights, privileges and restrictions normally attached to common shares.

11. The issue, transfer or ownership of shares is/is not restricted and the restrictions (if any) are as follows:
L'émission, le transfert ou la propriété d'actions est/n'est pas restreint. Les restrictions, s'il y a lieu, sont les suivantes :

None.

12. Other provisions, (if any):

Autres dispositions s'il y a lieu :

Without in any way restricting the powers conferred upon the Corporation or its board of directors by the Business Corporations Act, as now enacted or as the same may from time to time be amended, re-enacted or replaced, the board of directors may from time to time, without authorization of the shareholders, in such amounts and on such terms as it deems expedient:

(a) borrow money upon the credit of the Corporation;

(b) issue, re-issue, sell or pledge debt obligations of the Corporation;

(c) subject to the provisions of the Business Corporations Act, as now enacted or as the same may from time to time be amended, re-enacted or replaced, give a guarantee on behalf of the Corporation to secure performance of an obligation of any person; and

(d) mortgage, hypothecate, pledge or otherwise create a security interest in all or any property of the Corporation owned or subsequently acquired, to secure any obligation of the Corporation.

The board of directors may from time to time delegate to a director, a committee of directors or an officer of the Corporation any or all of the powers conferred on the board as set out above, to such extent and in such manner as the board shall determine at the time of such delegation.

13. The corporation has complied with subsection 180(3) of the *Business Corporations Act*.
La société s'est conformée au paragraphe 180(3) de la Loi sur les sociétés par actions.
14. The continuation of the corporation under the laws of the Province of Ontario has been properly authorized under the laws of the jurisdiction in which the corporation was incorporated/amalgamated or previously continued on
Le maintien de la société en vertu des lois de la province de l'Ontario a été dûment autorisé en vertu des lois de l'autorité législative sous le régime de laquelle la société a été constituée ou fusionnée ou antérieurement maintenue la

2008/06/25

Year, Month, Day
 année, mois, jour

15. The corporation is to be continued under the *Business Corporations Act* to the same extent as if it had been incorporated thereunder.
Le maintien de la société en vertu de la Loi sur les sociétés par actions a le même effet que si la société avait été constituée en vertu de cette loi.

These articles are signed in duplicate.
 Les présents statuts sont signés en double exemplaire.

PHOENIX COAL INC.

Name of Corporation / Dénomination sociale de la société

By/Par

Signature / Signature

David Wiley

Print name of signatory / Nom du signataire en lettres moulées

President

Description of Office / Fonction

These articles must be signed by a director or officer of the corporation (e.g. president, secretary)
 Ces statuts doivent être signés par un administrateur ou un dirigeant de la société (p. ex. : président, secrétaire).



Ministry of
Government Services

Ministère des
Services gouvernementaux

Ontario Corporation Number
Numéro de la société en Ontario

1774002

Ontario
CERTIFICATE

CERTIFICATE
This is to certify that these articles
are effective on

CERTIFICAT

Ceci certifie que les présents statuts
entrent en vigueur le

MAY 05 MAI, 2010

K. - 2

Director / Directorate

Director / Directrice
Business Corporations Act / Loi sur les sociétés par actions

ARTICLES OF AMENDMENT
STATUTS DE MODIFICATION

Form 3
Business
Corporations
Act

Formule 3
Loi sur les
sociétés par
actions

1. The name of the corporation is: (Set out in BLOCK CAPITAL LETTERS).
Dénomination sociale actuelle de la société (écrire en LETTRES MAJUSCULES SEULEMENT) :

[illegible]

2. The name of the corporation is changed to (if applicable): (Set out in BLOCK CAPITAL LETTERS)
Nouvelle dénomination sociale de la société s'il y a lieu (écrire en LETTRES MAJUSCULES SEULEMENT):

[illegible]

3. Date of incorporation/amalgamation:
Date de la constitution ou de la fusion :

2007 / 02 / 08

(Year, Month, Day)
(année, mois, jour)

4. Complete only if there is a change in the number of directors or the minimum / maximum number of directors.
Il faut remplir cette partie seulement si le nombre d'administrateurs ou si le nombre minimal ou maximal d'administrateurs a changé.

Number of directors is/are:
Nombre d'administrateurs :

minimum and maximum number of directors is/are:
nombres minimum et maximum d'administrateurs :

Number
Nombre

minimum and maximum
minimum et maximum

OF
OU.

5. The articles of the corporation are amended as follows:
Les statuts de la société sont modifiés de la façon suivante :

See schedule A attached hereto.

Schedule A

Share Consolidation

- (a) the authorized share capital of the Corporation is altered by consolidating all of the issued and outstanding common shares of the Corporation on the basis of one (1) post-consolidation common share for each three (3) pre-consolidation common shares; and
- (b) any fractional common share arising on the consolidation of the common shares of the Corporation be deemed to have been tendered by its registered owner to the Corporation for cancellation and will be returned to the authorized but unissued share capital of the Corporation.

Name Change

- (a) to change its name from "Phoenix Coal Inc." to "Elgin Mining Inc."

6. The amendment has been duly authorized as required by sections 168 and 170 (as applicable) of the *Business Corporations Act*.
La modification a été dûment autorisée conformément aux articles 168 et 170 (selon le cas) de la *Loi sur les sociétés par actions*.
7. The resolution authorizing the amendment was approved by the shareholders/directors (as applicable) of the corporation on
Les actionnaires ou les administrateurs (selon le cas) de la société ont approuvé la résolution autorisant la modification le

2010 / 04 / 28

(Year, Month, Day)
(année, mois, jour)

These articles are signed in duplicate.
Les présents statuts sont signés en double exemplaire.

PHOENIX COAL INC.

(Print name of corporation from Article 1 on page 1)
(Veuillez écrire le nom de la société de l'article un à la page une).

By/
Par :

(Signature)
(Signature)

Robert M. Buchan

President

(Description of Office)
(Fonction)

**Articles of Incorporation
For
BONITO CAPITAL CORP.**

Share Structure: SEE SHARE STRUCTURE SCHEDULE ATTACHED

Share Transfers Restrictions: NO SECURITIES (OTHER THAN NON-CONVERTIBLE DEBT SECURITIES) OF THE CORPORATION SHALL BE TRANSFERRED WITHOUT THE APPROVAL OF THE BOARD OF DIRECTORS

Number of Directors:

Min Number of Directors: 1

Max Number of Directors: 11

Business Restricted To: NONE

Business Restricted From: NONE

Other Provisions: SEE OTHER PROVISIONS SCHEDULE ATTACHED

**Registration Authorized By: MELINDA PARK
SOLICITOR**

SHARE STRUCTURE SCHEDULE

**Attached to and forming part of the Articles of Incorporation
of**

BONITO CAPITAL CORP.

THE CLASSES OF SHARES AND ANY MAXIMUM NUMBER OF SHARES THAT THE CORPORATION IS AUTHORIZED TO ISSUE ARE:

- 1. An unlimited number of Common shares**, the holders of which are entitled:
 - (a) to receive notice of and to attend and vote at all meetings of shareholders, except meetings at which only holders of a specified class of shares are entitled to vote;
 - (b) to receive any dividend declared by the Corporation on this class of shares; provided that the Corporation shall be entitled to declare dividends on the Preferred shares, or on any other classes of shares without being obliged to declare any dividends on the Common shares of the Corporation;
 - (c) subject to the rights, privileges, restrictions and conditions attaching to any other class of shares of the Corporation, to receive the remaining property of the Corporation upon dissolution in equal rank with the holders of all other Common shares of the Corporation.
- 2. An unlimited number of Preferred shares**, which as a class, have attached thereto the following rights, privileges, restrictions and conditions:
 - (a) the Preferred shares may from time to time be issued in one or more series, and the Directors may fix from time to time before such issue the number of Preferred shares which is to comprise each series and the designation, rights, privileges, restrictions and conditions attaching to each series of Preferred shares including, without limiting the generality of the foregoing, any voting rights, the rate or amount of dividends or the method of calculating dividends, the dates of payment thereof, the terms and conditions of redemption, purchase and conversion if any, and any sinking fund or other provisions;
 - (b) the Preferred shares of each series shall, with respect to the payment of dividends and the distribution of assets or return of capital in the event of liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or any other return of capital or distribution of the assets of the Corporation amongst its shareholders for the purpose of winding up its affairs, be entitled to preference over the Common shares and over any other shares of the Corporation ranking by their terms junior to the Preferred shares of that series. The Preferred shares of any series may also be given such other preferences, not inconsistent with these Articles, over the Common shares and any other such Preferred shares as may be fixed in accordance with clause (2)(a); and
 - (c) if any cumulative dividends or amounts payable on the return of capital in respect of a series of Preferred shares are not paid in full, all series of Preferred shares shall participate rateably in respect of accumulated dividends and return of capital.

OTHER PROVISIONS SCHEDULE

**Attached to and forming part of the Articles of Incorporation
of**

BONITO CAPITAL CORP.

OTHER RULES OR PROVISIONS

1. The directors may, between annual meetings, appoint one or more additional directors of the Corporation to serve until the next annual meeting, but the number of additional directors shall not at any time exceed one-third (1/3) of the number of directors who held office at the expiration of the last annual meeting of the Corporation.
2. Meetings of the shareholders of the Corporation may be held outside Alberta

ALBERTA
REGISTRIES

ARTICLES OF INCORPORATION

1. NAME OF CORPORATION:

BONITO CAPITAL CORP.

2. THE CLASSES AND ANY MAXIMUM NUMBER OF SHARES THAT THE CORPORATION IS AUTHORIZED TO ISSUE:

See Share Structure Schedule attached

3. RESTRICTIONS, IF ANY, ON SHARE TRANSFERS:

No securities (other than non-convertible debt securities) of the Corporation shall be transferred without the approval of the Board of Directors.

4. NUMBER (OR MINIMUM AND MAXIMUM NUMBER) OF DIRECTORS:

Minimum of One (1); Maximum of Eleven (11)

5. RESTRICTIONS, IF ANY, ON BUSINESS THE CORPORATION MAY CARRY ON:

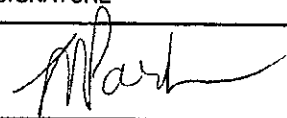
None

6. OTHER PROVISIONS, IF ANY:

See Other Provisions Schedule attached

7. INCORPORATOR

DATE: January 7, 2011

NAME	ADDRESS (INCLUDE POSTAL CODE)	SIGNATURE
Melinda Park	#1900, 520 – 3 rd Avenue S.W. Calgary, Alberta T2P 0R3	

FILED electronically

JAN 07 2011

Borden Ladner Gervais LLP
(Corporate Records Dept.)