

BONITO CAPITAL CORP.

June 9, 2017

Nunavut Water Board
P.O. Box 119
Gjoa Haven, NU, X0A 1J0

Attention: Robin Ikkutisluk, Licence Administrator

Dear Ms. Ikkutisluk:

Re: Bonito Capital Corporation (“Bonito”) Application for Assignment of Licence No. 2BM-ULU1520 (the “Licence”) to Lupin Mines Incorporated (“LMI”)

Please accept this letter and enclosure as Bonito’s response to the letters filed by the Kitikmeot Inuit Association (“KIA”) and Indigenous and Northern Affairs Canada (“INAC”) with the Nunavut Water Board regarding Bonito’s application to assign the Licence to Lupin Mines Incorporated. Both Bonito and LMI are wholly owned subsidiaries of Mandalay Resources Corporation and this application forms part of a larger corporate reorganization.

In overall response to the concerns raised by the KIA and INAC, Bonito respectfully submits that none of the concerns, even if valid, would be likely to result in a contravention of any condition of the Licence or any provision of Part 1 of the *Nunavut Waters and Nunavut Surface Rights Tribunal Act*, SC 2002, c. 10 (the “Act”) or its regulations. In particular, whether or not the security that has been ordered by the Board and posted by the company is sufficient is not a ground on which the Board can refuse to assign the Licence. Therefore, pursuant to s. 44(2) of the Act, the Board should authorize the assignment of the Licence and allow the other issues to be pursued in separate proceedings, if necessary.

The assignment of the Licence is a routine aspect of a corporate reorganization. Bonito has already assigned its Mining Lease #3563 to LMI, and, in support of this application, LMI has already provided sworn evidence that it will assume the obligations of Bonito with respect to the Licence. As such, there is no indication whatsoever that the assignment of the Licence will result in a change in the status quo at Ulu. The concerns raised by both the KIA and INAC with respect to the potential acquisition of the shares of LMI by WPC Resources Inc. are premature as there has not been a change of control of LMI. It would be unfair, and inconsistent with s. 44(2) of the Act to refuse the assignment of a licence due to a potential change in control of an assignee when a change in control is not a trigger for the exercise of the Board’s jurisdiction.

The issue of the sufficiency of security for the Licence has been an ongoing issue, but it is not an issue that can, or should, prevent the assignment of the Licence. As the Board is likely aware, Bonito, as a term of its land use licence with the KIA, funded the completion of a reclamation assessment by a third party engineering firm. Bonito and LMI remain willing to meet with the KIA to further discuss its concerns regarding security. To date, the KIA have not responded to Bonito’s requests for a meeting, and Bonito submits that it would be beneficial to all

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stakeholders if the parties were permitted the opportunity to attempt to resolve the security concerns prior to proceeding before the Board on an application for an increase of security.

Further, with respect to the compliance concerns raised by INAC, the company was only permitted entry onto the land for three weeks in September 2016 by the KIA and due to snowfall at time of the year the company was unable to address the concerns raised by INAC's inspector. The company has engaged contractors to complete work that would address INAC's concerns this season (as submitted in a compliance plan to INAC on March 31, 2017 and revised May 18, 2017), and will continue to seek permission to enter onto the land from the KIA for this season. If the company is unable to obtain permission from the KIA, Bonito will apply for an entry order from the Nunavut Surface Rights Tribunal to allow this work to proceed, but would prefer to reach an amicable agreement with the KIA.

In sum, there is no evidence that the assignment of the Licence as part of a corporate reorganization would likely result in a contravention of any condition of the Licence or any provision of the Act. Bonito respectfully submits that it would be contrary to fairness for a routine application to be consumed by issues that are unrelated to the question before the Board.

Yours truly,

“Karyn Lewis”

Karyn Lewis
Bonito Capital Corp.