2017 Ulu Project Geotechnical Inspection

Submitted to:

Bonito Capital Inc.

Project Number: 948-2

Date:

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Norwest Corporation

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1 INTRODUCTION

The Ulu Gold Project (Ulu) is an advanced exploration project that is currently in care and maintenance status, covered under Nunavut Water License 2BM-ULU1520 issued to Bonito Capital Corporation (Bonito), a wholly owned subsidiary of Mandalay Resources Corporation. The project is situated in Kitikmeot tundra region of Nunavut about 150 km north of the Lupin Mine. The project site is an underground exploration site with an airstrip, camp and supporting facilities. The surrounding landscape is dominated by treeless arctic tundra with exposed weathered bedrock and glacial features. Figure 1 shows the general location of Ulu Gold Project.

1.1 Scope of Work

Bonito has retained Norwest Corporation (Norwest) to conduct the 2017 geotechnical site inspection in fulfillment of the water license requirements, where Part D.10 specifies:

> *"An inspection of the earthworks, geological regime, and the hydrological regime of the Project is to be carried out by a Geotechnical Engineer prior to the recommencement of on-site activities and annually thereafter. The Geotechnical Engineer's report shall be submitted to the Board within sixty (60) days of the inspection, with a covering letter from the Licensee outlining an implementation plan to respond to the Engineer's recommendations."*

The scope of work was to carry out geotechnical inspections of the following structures:

- Ulu Gold Project Main Tank Farm containment berm;
- Day fuel tank containment berm;
- Camp 3 fuel tank farm containment berm;
- Mine sump;
- Waste rock storage pad; and,
- Portal Laydown pad.

This report summarizes Norwest's observations made during the 2017 site inspection and provides recommendations for remediation as necessary. The report does not include any commentary on fuel storage, waste or water management practices.

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2 SITE CONDITIONS

2.1 Site History

Echo Bay Mines Ltd. (EBM) purchased the Ulu Gold Project site lease from BHP Minerals in 1995. Underground development was started in 1996 with the exploration mining work suspended in 1997. Kinross Gold Corporation acquired EBM through a merger in January 2003, followed up by Wolfden Resources Inc. purchasing the site in December 2003. Wolfden reopened the underground exploration work in 2005 but it was suspended due to safety concerns. The mine returned to care and maintenance in 2006.

Zinifex Canada Inc. purchased Wolfden in October 2007 and took over Ulu amongst other assets. Zinifex merged with Oxiana Ltd. to form OZ minerals in June 2008, which was purchased by China Minmetals to become MMG Resources Inc. In July 2011 Bonito, a wholly owned indirect subsidiary of Elgin Mining Inc., purchased the site from MMG. Mandalay Resources Corporation purchased Elgin Mining Inc. in 2014. Annual geotechnical inspections were completed by BGC Engineering between 2007 and 2010, by TBT Engineering in 2011, and by SRK Consulting between 2012 and 2015.

2.2 Site Infrastructures

Year-round access to the site is by aircraft only. The Ulu Gold Project has three major areas: Ulu Camp, airstrip, and Camp 3 (see Figure 2):

- The Camp facilities at the Ulu Camp consist of a 60-person camp, a vehicle repair shop, powerhouse, warehouse, cold storage, and office. This site also houses a fuel tank farm, day use tank, fresh water and sewage systems, garbage incinerator, laydown pad, waste rock storage pad, mine portal, and explosive magazines. The fuel tank farm consists of five 53 thousand litre tanks containing fuel and an 8 thousand litre day use tank that currently stands empty. The ore was intended to be transported via an ice road during the winter months to the Lupin Mine for processing. No processing facility was constructed at Ulu.
- The airstrip is a 1.5 km compacted gravel strip with capability to land a Dash-7 type aircraft. The site does not have a full-time weather station for monitoring and recording.
- The Camp 3 area has a fuel tank farm and a vehicle repair shop. The fuel tank farm consists of two 1.3 million litre tanks and six 53 thousand litre tanks, which are not in use and stand empty. Historically, the fuel tanks were used to store P40 and P50 grade fuels. To minimize risks, all the fuels were consolidated in according to their grading within the Ulu Camp tank farm.

2.3 Climate

There is no weather station on site to actively record data. The nearest recording station is at Lupin Mine site about 150 km south. Generally, the area is characterized by high arctic climate with severe winter and cool summers. The extreme temperatures range from approximately -50°C in winter to 25°C in summer. Permafrost is found in and around the site and typically extends to a depth of several hundred metres (NWB 2009). The annual mean precipitation is assumed to be between 300-350mm, based on the information available at the Lupin Mine.

2.4 Site Geology

The SRK Consulting 2015 Annual Inspection Report (SRK 2015) provided a summary of geology on the Ulu Gold Project as follows:

> *"The Ulu claims are located within the High Lakes Volcanic Belt of the Archean Slave Structural province. This geological province consists of basement gneisses overlaid by greywacke turbidite and basalt in thick sequences. The High Lake Volcanic Belt is part of such sequence and consist of a north-south trending volcanic and sedimentary sequence, enclosed by later Archean granitoid rocks.*
>
> *The geology of the Ulu property consists of a sequence of folded mafic volcanic, mafic intrusive and sedimentary rocks, metamorphosed to upper greenshist/lower amphibolite phases. These rocks are intruded by later felsic intrusive rocks and diabase dykes. At least three phases of deformation are noted with the rocks at Ulu. The volcanic, intrusive, and sedimentary rocks are folded into a north trending anticline that plunges deeply to the north in the area of the Flood Zone. Gold occurs in laminated calc-silicate veins and in quartz veins. The high concentrations of gold grains are found in quartz veins containing fine-grained arsenopyrite. Gold mineralization occurs primarily in the basalt and to some degree in the sediments. Very little gold mineralization occurs in the gabbroic rocks."*

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3 GEOTECHNICAL INSPECTIONS

3.1 General

Mr. Alvin Tong, P.Eng., a senior geotechnical engineer with Norwest, conducted the geotechnical inspection on 30th of August, 2017. A general aerial survey was done during air transit and a detailed visual inspection was completed on foot. Discovery Mining Services (DMS) personnel, representing Bonito were present during the visit for communication and correspondence.

Weather conditions during the inspection were overcast with sunny periods and high gusts of wind. A detailed photographic log of the inspection is included in Appendix A.

3.2 Ulu Camp

The Ulu camp area (Figure 3) consists of the following inspected facilities:

- Mine sump (Photo 7);
- Main Tank Farm Containment Berm;
- Day Fuel Tank Containment Berm;
- Waste Rock Storage Pad; and
- Portal Laydown Pad.

All the facilities are generally in good condition with regard to stability. Of notable concern is minor damage within the geosynthetics and sand over-liner observed in the sump.

The edges and the slopes of the geosynthetics liner at the mine sump were exposed, where the protective over-liner had sloughed off (Photo 7 and 8). Minor deformations were also found on the exposed liner. These deformations should be repaired and tested as necessary, and the over-liner replaced for protection prior to utilization of the sump.

The previously noted exposed liner in the main tank farm and day use fuel containment is now covered with sandy material (Photo 12 to 17). It is not known if the damaged liner noted from previous year was repaired prior to cover placement. The animal burrow noted from the previous year was not observed. The waste rock storage pad (Photos 18 and 19) and portal laydown pad (Photos 9 to 11) were found to be in similar satisfactory geotechnical condition. No large deformations such as cracks, sloughs, settlements or erosion were found.

Although it is not a facility that is part of the official geotechnical inspection, there some maintenance and mitigative works being carried out on the fuel transfer area, downstream of the tank farm. Previous inspections noted a minor hydrocarbon spill. To alleviate the impact of the spill, all hydrocarbon containers were being relocated to the main tank farm for storage and

mitigative work is done to build a large berm to contain any residual hydrocarbon (Photo 21). Preliminary soil sampling is being done to evaluate extent of the spill to guide future delineation studies and remediation efforts.

3.3 Camp 3

The Camp 3 area consists of the following facilities:

- Camp 3 Fuel Tank Farm (Photo 1); and,
- Vehicle repair shop.

Erosion of the liner cover and liner damage were found in the Ulu main tank farm containment, where liners are exposed with minor damage near upper slope and the crest. The damaged liner should be patched and tested, and the over-liner should be replaced prior to refueling the tanks (Photos 4 and 5). In addition, the wooden cribbing underneath three of the fuel tanks is broken and causing the tanks to lean (Photos 2 and 3). It is recommended that the cribbing be replaced and the tanks levelled. Alternatively, the tanks could be decommissioned and removed from the containment to eliminate the risk of falling over and damaging other parts of the facility.

The vehicle repair shop building was observed to have some structural damage but the foundation pad is in stable geotechnical condition (Photo 6). A structural engineer should inspect the building as necessary prior to operation of the shop.

As a follow-up observation from the previous year, the road connecting Camp 3 to the airstrip had been repaired. The erosion gullies were repaired to allow regular vehicle access.

4 RECOMMENDATIONS

Overall, the facilities at the Ulu Gold Project are in good condition. However, Norwest recommends the following maintenance is carried out to minimize risks prior to commencement of exploration operations.

- Repair and test all the damaged liner, including the areas that were covered during maintenance work;
- Cover all exposed liner and any exposed edges with protective over-liner (sandy material);
- Replace the broken wooden cribbing in the Camp 3 fuel tank farm and re-level the tanks or decommission and remove the tanks from the containment; and,
- Document the as-built and mitigation work done at the fuel transfer area.

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5 CLOSURE

This report has been prepared by Norwest for Bonito Capital Corporation. The text contained herein presents documentation of the 2017 inspection carried out by Norwest with respect to the safe operation of the Ulu Gold Project, located in Nunavut, Canada. This report represents the opinion of Norwest based on information provided by Bonito and observations made during limited site visits.

All the information contained herein has been interpreted by Alvin Tong, P.Eng., and has been reviewed by Tim Peterson, P.Eng.

"original signed and sealed by author"

Prepared by:

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Reviewed by:

For:
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Senior Vice President

DATE: 9/29/2017 TIME: 16:23:00 PLOT SCALE: 1:3,872

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IMAGE FILE(S): Overall Terrain Site Location-N Site Location-S

SCALES INDICATED BASED ON AN 8.5"x11" PLOT CONFIGURATION

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REV.	DATE	DESCRIPTION	DWN	DSG	CHK	APR

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ULU PROJECT - 2017 INSPECTION

SCALE:	AS SHOWN
DATE:	2016-10-21
CO-ORD. SYS.:	UTM-NAD83-12
DRW'N BY:	KM
DSG'N BY:	--
REV'D BY:	AT
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SITE LOCATION

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PROJECT NO.:	FIG. NO.:	REV.:
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NOTE:

1. DRAWING SCALE AND LOCATIONS ARE APPROXIMATE BASED VISUALLY.

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SCALE 1:40,000

SCALES INDICATED BASED ON AN 8.5"x11" PLOT CONFIGURATION

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REV.	DATE	DESCRIPTION	DWN	DSG	CHK	APR

BONITO CAPITAL CORP.

ULU PROJECT - 2017 INSPECTION

SCALE:	AS SHOWN
DATE:	2016-10-21
CO-ORD. SYS.:	UTM-NAD83-12
DRW'N BY:	KM
DSG'N BY:	--
REV'D BY:	AT
APP'D BY:	SE

ULU FACILITY AREA PLAN

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PROJECT NO.:	FIG. NO.:	REV.:
948-2	2	A

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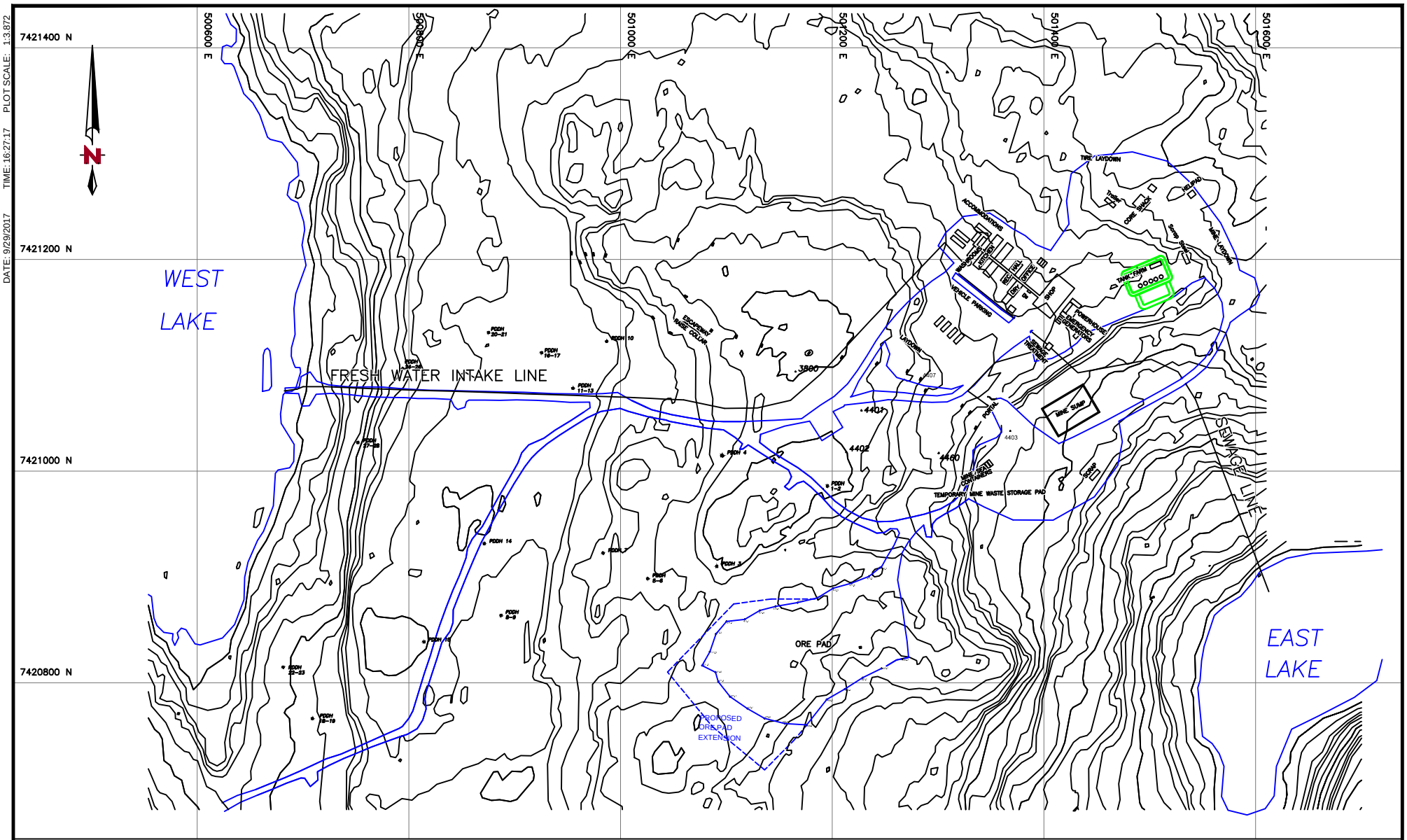
IMAGE FILE(S): Camp 3 & Reno Lake Ulu Campsite



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BONITO CAPITAL CORP.

ULU PROJECT - 2017 INSPECTION

SCALE:	AS SHOWN
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ULU SITE PLAN

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PROJECT NO.:	FIG. NO.:	REV.:
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Appendix A
Photographic Logs

Photo 1: Looking southeast at the Camp 3 fuel tank farm.

Photo 2: Looking southeast at one of the leaning 53 thousand litres tank.

Photo 3: At the broken wooden cribbing at the base of the leaning tank.

Photo 4: Looking at the exposed and damaged liner at the northeast corner of the tank farm.

Photo 5: Looking at the exposed and damaged liner between the tanks.

Photo 6: Looking west at the vehicle shop at Camp 3 area.

Bonito	Bonito Capital Corp.			
	2017 Geotechnical Inspection			
Site Inspection Photograph Log at the Camp 3 area				
NORWEST	PN: 948-2	**FIGURE 1**		REV. A

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Photo 7: Looking southwest at the exposed liner in the mine sump

Photo 8: Looking at the northern edge of the exposed liner in the mine sump.

Photo 9: Looking southwest at the leading edge of the portal laydown area.

Photo 10: Looking northeast at the leading edge of the portal laydown area.

Photo 11: Looking south at the at the leading edge of the laydown area with East Lake in the background.

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	2017 Geotechnical Inspection			
Site Inspection Photograph Log at the Ulu Camp				
NORWEST	PN: 948-2	**FIGURE 2**	REV. A	

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Photo 12: Looking northwest at the east side of the Ulu Main Tank Farm containment beerm.

Photo 13: Looking at the south side of the containment berm. Note the high water mark.

Photo 14: Looking at the west side of the containment berm with the exposed liner.

Photo 15: Looking south into the main tank form from the access ramp.

Photo 16: Looking northwest at the Ulu day use tank containment berm.

Photo 17: Looking at the covered liner at the south side of the day use tank containment berm.

Bonito	Bonito Capital Corp.			
	2017 Geotechnical Inspection			
Site Inspection Photograph Log at the Ulu Camp				
NORWEST	PN: 948-2	FIGURE 3	REV. A	

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Photo 18: Looking southwest at the top of the waste rock storage pad.

Photo 19: Looking at the southeast corner of the waste rock storage pad.

Photo 20: Looking at the submerged bulkhead of the mine portal.

Photo 21: Panoramic south looking view at the fuel transfer area mitigative work, including exposing the edge of the underlaying liner and start of berm construction.

Bonito	Bonito Capital Corp.			
	2017 Geotechnical Inspection			
Site Inspection Photograph Log at the Ulu Camp and Access Road				
NORWEST	PN: 948-2	FIGURE 4	REV. A	

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