



## Condensed Interim Consolidated Financial Statements

**For the Three and Six Months Ended  
June 30, 2016 and 2015 (unaudited)**



MBAC FERTILIZER CORP.

## Condensed Interim Consolidated Balance Sheets

As at June 30, 2016 and December 31, 2015 (Unaudited and in thousands of United States dollars)

	June 30, 2016	December 31, 2015
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 68	\$ 25
Restricted cash (Note 4)	–	146
Accounts receivable	58	3
Inventories (Note 5)	1,620	1,320
Other current assets (Note 6)	1,724	1,742
	3,470	3,236
<b>Non-Current</b>		
Other long-term assets (Note 6)	18,534	15,558
Property, plant and equipment (Note 7)	295,041	246,714
Mineral properties (Note 8)	54,076	42,921
<b>Total Assets</b>	<b>\$ 371,121</b>	<b>\$ 308,429</b>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 38,535	\$ 32,397
Debt (Note 9)	305,202	232,995
	343,737	265,392
<b>Non-Current</b>		
Other long-term liabilities	7,393	5,561
<b>Total Liabilities</b>	<b>351,130</b>	<b>270,953</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 10)	279,004	262,235
Contributed surplus	16,078	15,315
Warrant reserve	9,173	8,621
Cumulative translation adjustment reserve	(12,725)	9,332
Deficit	(271,539)	(258,027)
	19,991	37,476
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 371,121</b>	<b>\$ 308,429</b>

General Information and Going Concern (Note 1)

Commitments and Contingencies (Note 13)

ON BEHALF OF THE BOARD:

Signed: "Cristiano Melcher"  
Cristiano Melcher  
Director

Signed: "Anthony Cina"  
Anthony Cina  
Director

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.



MBAC FERTILIZER CORP.

## Condensed Interim Consolidated Statements of Operations

For the periods ended (Unaudited and in thousands of United States dollars except for per share amounts)

	Three months ended		Six months ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Operating expenses				
Selling, general and administrative expenses	\$ 1,360	\$ 1,383	\$ 2,117	\$ 2,344
Operations care and maintenance expenses (Note 7)	3,540	5,365	8,798	12,834
Operating loss	(4,900)	(6,748)	(10,915)	(15,178)
Unrealized foreign exchange gain (loss) (Note 11)	14,028	1,789	24,275	(17,648)
Realized foreign exchange loss	—	(126)	—	(120)
Other expense	(330)	(469)	(329)	(2,911)
Finance expense (Note 12)	(17,918)	(6,892)	(26,014)	(19,452)
Loss before income taxes	(9,120)	(12,446)	(12,983)	(55,309)
Current income tax expense	—	—	—	—
Deferred income tax expense	278	318	529	658
	278	318	529	658
Net loss	\$ (9,398)	\$ (12,764)	\$ (13,512)	\$ (55,967)
Basic and diluted net loss per share (Note 10(b))	\$ (0.05)	\$ (0.07)	\$ (0.07)	\$ (0.31)

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.



MBAC FERTILIZER CORP.

## Condensed Interim Consolidated Statements of Comprehensive Income (Loss)

For the periods ended (Unaudited and in thousands of United States dollars)

	Three months ended		Six months ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Net loss	\$ (9,398)	\$ (12,764)	\$ (13,512)	\$ (55,967)
Other comprehensive income				
Items that may be reclassified subsequently to profit and loss: Cumulative translation adjustment	(4,617)	2,217	(3,761)	(18,353)
Comprehensive loss	\$(14,015)	\$ (10,547)	\$ (17,273)	\$ (74,320)

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.



MBAC FERTILIZER CORP.

## Condensed Interim Consolidated Statements of Changes in Equity

For the three months ended June 30, 2016 and 2015

(Unaudited and in thousands of United States dollars except for number of shares)

	Share capital		Contributed surplus	Warrant reserve	Cumulative translation adjustment reserve	Deficit	Total equity
	Number of shares	Amount					
Balance, January 1, 2016	181,607,492	\$ 262,235	\$ 15,315	\$ 8,621	\$ 9,332	\$ (258,027)	\$ 37,476
Net loss for the period	-	-	-	-	-	(13,512)	(13,512)
Other comprehensive income (net of tax):							
Cumulative translation adjustment	-	-	-	-	(3,761)	-	(3,761)
Comprehensive loss for the period	-	-	-	-	(3,761)	(13,512)	(17,273)
Share-based payment recovery	-	-	(212)	-	-	-	(212)
Exchange differences	-	16,769	975	552	(18,296)	-	-
Balance, June 30, 2016	181,607,492	\$ 279,004	\$ 16,078	\$ 9,173	\$ (12,725)	\$ (271,539)	\$ 19,991
Balance, January 1, 2015	181,607,492	\$ 312,868	\$ 17,879	\$ 10,286	\$ (17,032)	\$ (140,410)	\$ 183,591
Net loss for the period	-	-	-	-	-	(55,967)	(55,967)
Other comprehensive income (net of tax):							
Cumulative translation adjustment	-	-	-	-	(18,353)	-	(18,353)
Comprehensive income for the period	-	-	-	-	(18,353)	(55,967)	(74,320)
Share-based payment expense	-	-	183	-	-	-	183
Exchange differences	-	(22,286)	(1,277)	(733)	24,296	-	-
Balance, June 30, 2015	181,607,492	\$ 290,582	\$ 16,785	\$ 9,553	\$ (11,089)	\$ (196,377)	\$ 109,454

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.



MBAC FERTILIZER CORP.

## Condensed Interim Consolidated Statements of Cash Flows

For the six months ended June 30, 2016 and 2015 (Unaudited and in thousands of United States dollars)

	June 30, 2016	June 30, 2015
<b>Cash provided by (used in):</b>		
<b>Operating activities</b>		
Net loss	\$ (13,512)	\$ (55,967)
Adjusting items:		
Depreciation and depletion	8,468	10,319
Share-based payment (recovery) expense	(212)	183
Deferred income tax expense	529	658
Loss on disposition of PP&E and other fees	299	313
Unrealized foreign exchange (gain) loss <i>(Note 11)</i>	(24,275)	17,648
Provisions and write-offs	—	875
Other financial expense <i>(Note 12)</i>	26,014	19,538
	(2,689)	(6,433)
Net change in non-cash working capital <i>(Note 16)</i>	63	1,465
	(2,626)	(4,968)
<b>Investing activities</b>		
Proceeds on disposition of property, plant and equipment	—	115
Acquisition of mineral properties	(300)	(194)
	(300)	(79)
<b>Financing activities</b>		
Proceeds from debt financing <i>(Note 9)</i>	2,851	15,397
Repayment of debt	—	(2,938)
Interest and fees paid on debt	—	(6,840)
Change in restricted cash	163	967
	3,014	6,586
Foreign currency effect on cash	(45)	96
Increase in cash	43	1,635
Cash, beginning of period	25	(1,619)
Cash, end of period	\$ 68	\$ 16

*The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.*



MBAC FERTILIZER CORP.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended June 30, 2016 and 2015

*(Unaudited and in thousands of United States dollars unless otherwise noted)*

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### 1. GENERAL INFORMATION AND GOING CONCERN

MBAC Fertilizer Corp. (“MBAC” or the “Company”) is a Canadian-based company engaged in the mining, production and exploration of phosphate fertilizers in the Brazilian market. The Company is focused on becoming a significant integrated producer of phosphate fertilizer and related products in the Brazilian market. The Company operates the Itafós Arraias Single Super Phosphate (“SSP”) Operations which is wholly owned by the Company’s subsidiary, Itafós Mineração Ltda. (“Itafós”). The production facility comprises a beneficiation plant, a sulphuric acid plant, an SSP acidulation plant and a granulation plant (the “Itafós Arraias SSP Operations”).

These consolidated financial statements have been prepared on a basis which assumes that the Company will be able to continue its operation as a going concern for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. As of the date of the financial statements, the Company’s current liabilities exceeded its current assets. The Company had no sources of operating cash flow and does not have sufficient cash on-hand to fund overhead administration expenditures or future operations. Additionally, the Company is not in compliance with certain debt covenants associated with its Project Financing Loans, resulting in all debt being classified current due to the ability of the lender to request repayment of the debt on demand. In April 2016, Zaff LLC (“Zaff”), an investment fund active in the fertilizer industry purchased substantially all of the outstanding debt of the Company. All financial terms of the debt remain unchanged.

Primarily in response to market conditions and as a means to preserve working capital during the strategic review process described below, the Company’s Itafós Arraias SSP Operation was put into care and maintenance mode in the beginning of 2015. The Company continued through the first half of 2015 to conduct a strategic review process to help find a definitive solution to the Company’s working capital constraints and liquidity requirements. Options that were considered in the course of the strategic review process included, but were not limited to, securing a strategic partner, the sale of the Company or its assets as well as other potential value-maximizing transactions. In July 2015, the Company entered into a non-binding offer with Zaff. While the transaction contemplated by the non-binding offer was not completed, Zaff extended to the Company a senior secured bridge loan. The Company has drawn down on the bridge loan during 2015/2016 for working capital needs as it has limited other financial resources. Although MBAC believes that a long-term solution will be achieved in due course, the Company’s ability to continue as a going concern is dependent on obtaining additional working capital funding in the immediate term and restructuring the company’s debt and other liabilities pursuant to the terms of the support agreement entered into with Zaff (the “Support Agreement”). The Company has initiated a recapitalization and restructuring process in accordance with the provisions of the Companies’ Creditors Arrangement Act (CCAA) in Canada and a restructuring transaction to be implemented under an Extrajudicial Restructuring Proceeding in Brazil, pursuant to the terms of the Support Agreement. Reference to this process is made in note 18. On completion of this process, there would be significant dilution to the holdings of existing shareholders. The success of the recapitalization and restructuring process is conditional upon, among other things, creditor and court approval. These circumstances indicate material uncertainty that may cast significant doubt as to the ability of the Company to meet its obligations as they come due and, accordingly, the ultimate appropriateness of the use of accounting principles applicable to a going concern.

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) applicable to a going concern, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. The consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities, the reported expenses and balance sheet classifications that would be necessary if the going concern assumption was inappropriate. These adjustments could be material.

On April 14, 2016, the Toronto Stock Exchange (the “TSX”) announced that the Company’s common shares and share purchase warrants would be delisted from the TSX effective May 13, 2016. Subsequently, TSX announced that the scheduled delisting of the common share and warrants of the Company would be extended to July 11, 2016 in order to allow the Company time to pursue the transition of the listing of its securities to the TSX Venture Exchange (“TSXV”). On July 11, 2016, the securities were delisted from the TSX and were listed on the TSXV as of July 12, 2016 under the symbol “MBC”. Trading in the Company’s securities has been suspended since April 5, 2016, on which date the Company announced the proposed recapitalization and restructuring transaction and will remain suspended until the Company satisfies certain conditions of the TSXV, including implementation of the proposed recapitalization and restructuring transaction.

MBAC’s registered office is at 1 Dundas Street West, Suite 2500, Toronto, Ontario, M5G 1Z3, Canada.

## 2. BASIS OF CONSOLIDATION AND PRESENTATION

These unaudited condensed interim consolidated financial statements have been prepared in accordance with IAS 34 – *Interim Financial Reporting* as issued by the International Accounting Standards Board (“IASB”). Accordingly, certain disclosures included in annual financial statements prepared in accordance with IFRS as issued by the IASB have been condensed or omitted and these unaudited condensed interim consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2015.

The unaudited condensed interim consolidated financial statements are presented in United States Dollars (“USD”). References herein to C\$ and CAD are to the Canadian Dollar and R\$ and BRL are to the Brazilian Real.

The preparation of these unaudited condensed interim consolidated financial statements requires the use of certain significant accounting estimates and judgements by management in applying the Company’s accounting policies. The areas involving significant judgements and estimates have been set out in Note 4 of the Company’s audited consolidated financial statements for the year ended December 31, 2015. There have been no material revisions to the nature of judgements and amount of changes in estimates of amounts reported in the Company’s audited consolidated financial statements for the year ended December 31, 2015.

The policies applied in these unaudited condensed interim consolidated financial statements are based on IFRS issued and outstanding as of August 8, 2016, the date the board of directors of the Company approved the financial statements.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of these unaudited condensed interim consolidated financial statements are consistent with those followed in the preparation of the Company’s audited consolidated financial statements for the year ended December 31, 2015. There was no significant impact on the Company’s unaudited condensed interim consolidated financial statements as a result of new standards that became effective during 2016.

## 4. RESTRICTED CASH

The Company had restricted cash of \$Nil (December 31, 2015 – \$146) comprised of debt service reserve accounts.

## 5. INVENTORIES

	June 30, 2016	December 31, 2015
Raw materials	\$ 790	\$ 648
Work in process	47	49
Spare parts and supplies	1,080	863
	<u>1,917</u>	<u>1,560</u>
Inventory Allowance	(297)	(240)
	<u>\$ 1,620</u>	<u>\$ 1,320</u>

## 6. OTHER LONG-TERM ASSETS

	June 30, 2016	December 31, 2015
Tax credits	\$ 18,529	\$ 15,556
Finance lease receivable	555	506
Other	1,174	1,238
	<u>20,258</u>	<u>17,300</u>
Less: Current portion	1,724	1,742
	<u>\$ 18,534</u>	<u>\$ 15,558</u>

### Tax credits

Tax credits consist of Brazilian state and federal taxes accumulated primarily on purchases of property, plant and equipment and can be applied to offset and potentially reimburse certain value added taxes and other taxes payable in future periods. As at June 30, 2016, the Company had tax credits of \$18,529 (December 31, 2015 – \$15,556) of which \$401 (December 31, 2015 – \$325) was included in “Other current assets”.

## 7. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings and Plant	Machinery, equipment and other	Total
<b>Cost</b>				
Balance as at December 31, 2015	\$ 2,689	\$ 105,218	\$ 174,313	\$ 282,220
Exchange differences	663	25,960	39,485	66,108
<b>Balance as at June 30, 2016</b>	<b>\$ 3,352</b>	<b>\$ 131,178</b>	<b>\$ 213,798</b>	<b>\$ 348,328</b>
<b>Accumulated Depreciation</b>				
Balance as at December 31, 2015	\$ –	\$ 14,121	\$ 21,385	\$ 35,506
Depreciation for the period	–	3,399	5,069	8,468
Exchange differences	–	4,040	5,273	9,313
<b>Balance as at June 30, 2016</b>	<b>\$ –</b>	<b>\$ 21,560</b>	<b>\$ 31,727</b>	<b>\$ 53,287</b>
<b>Net Book Value</b>				
As at December 31, 2015	\$ 2,689	\$ 91,097	\$ 152,928	\$ 246,714
<b>As at June 30, 2016</b>	<b>\$ 3,352</b>	<b>\$ 109,618</b>	<b>\$ 182,071</b>	<b>\$ 295,041</b>

Prior to January 7, 2015, the Company capitalized pre-commercial production costs relating to the Itafós Arraias SSP Operations as property, plant and equipment, as these costs were incurred in the development of the Itafós



Arraias SSP Operations towards commercial production. Effective January 7, 2015, the Itafós Operations was placed under care and maintenance. The Company determined that expenditures incurred at Itafós Arraias SSP operations during the care and maintenance phase no longer satisfy the requirement to be capitalized as an asset, and accordingly are recorded as “Idle production costs” included in Operations care and Maintenance expenses in the consolidated statement of operations.

The Operations care and maintenance expenses of \$8,798 for the period of six months ended June 30, 2016 (June 30, 2015 – \$12,834) was primarily comprised of depreciation expense and salaries & wages.

## 8. MINERAL PROPERTIES

	Development costs	Exploration and evaluation costs	Accumulated Depletion	Net book value
Balance as at December 31, 2015	\$ 32,590	\$ 11,759	\$ (1,428)	\$ 42,921
Additions	697	–	–	697
Exchange differences	7,908	2,902	(352)	10,458
<b>Balance as at June 30, 2016</b>	<b>\$ 41,195</b>	<b>\$ 14,661</b>	<b>\$ (1,780)</b>	<b>\$ 54,076</b>

## 9. DEBT

	June 30, 2016	December 31, 2015
Loans:		
FINAME Loans	\$ –	\$ 2,299
Itaú Loans	–	62,037
Mizuho Loan	–	15,578
Votorantim Loans	–	12,913
Itaú Mezzanine Loans	\$6,520	36,660
IFC Loan (Zaff LLC)	46,040	44,606
Working Capital Loans	12,779	58,902
Convertible Debentures	239,863	–
	<b>\$ 305,202<sup>1</sup></b>	<b>\$ 232,995<sup>1</sup></b>

<sup>1</sup> Balances include interest accruals and are net of unamortized borrowing costs, which are included as deferred transaction costs in the carrying value of the debt, and amortized using the effective interest method.

The IFC loan was purchased by Zaff LLC during Q4 2015. During Q2 2016, the FINAME loan, Itaú loan, Mizuho loan, Votorantim loan, Itaú Mezzanine working capital loan, Votorantim working capital loan, and the Santana BNDES working capital loans were purchased by Zaff LLC. No significant financial terms were amended as part of these assignments.

### *Convertible Debentures*

As part of the Company’s Brazilian loans mentioned above being purchased by Zaff during Q2 2016, the Brazilian companies issued convertible debentures in favor of Zaff LLC as follows: Itafos Mineracao S.A. of \$190,346, MBAC Fertilizantes S.A. of \$3,077, and MBAC Desenvolvimento Mineral S.A. of \$44,041 for a total of \$237,464 (together the “Convertible Debentures”). These convertible debentures carry substantially the same interest rates as the legacy loans that the Brazilian companies had with the previous lenders. The convertible debentures have a maturity of 10 years, and are convertible at the option of creditor at any point starting 2 years after issuance into shares at a price of R\$1.00 per share. Certain events of default outlined in the convertible debentures agreement can trigger a potential early conversion as well. The interest is payable on a monthly basis, but comes with a grace period of 10 months of non-payment for both principal and interest. The conversion features of the debentures allow for conversion into equity instruments based on the principal loan value. The company remains in default of applicable debt covenants, and therefore the convertible debentures are callable on demand.

### *Modal Working Capital Loan*

During 2015, the Company settled its two existing Modal working capital loans and entered into a new working capital loan with Modal for \$6.1 million (R\$16.2 million). This loan had an interest rate of 0.75% per month + DI and was scheduled to mature on March 2, 2015. Principal was due at maturity and interest was payable monthly

beginning in May 2014. The Company extended the maturity date of the loan to August 10, 2015, and the interest was capitalized.

### Zaff LLC (formerly Alpha Infrastructure LLC) Working Capital Loan

During 2016, the Company, through its wholly owned subsidiary MBAC Opportunities and Financing, Inc., received senior secured loans amounting to \$2.8 million from Zaff LLC (formerly known as Alpha Infrastructure LLC). The loans carry an interest rate of 15% per annum. Similar to 2015, the proceeds of the funds were used to prepare the plant for the potential resumption of operations and to fund general/administrative expenses related to the potential reorganization. As of June 30, 2016 the total amount outstanding with Zaff LLC is \$6.0 million.

## 10. SHARE CAPITAL

### (a) Authorized capital

Share capital as at June 30, 2016 was \$279,004 (December 31, 2015 – \$262,235). The Company is authorized to issue an unlimited number of common shares without par value and an unlimited number of preferred shares issuable in series. There are no preference shares issued or outstanding. As at June 30, 2016, MBAC had 181,607,492 common shares (December 31, 2015 – 181,607,492) issued and outstanding.

### (b) Weighted-average number of common shares and dilutive common share equivalents

	Three months ended	
	June 30, 2016	June 30, 2015
Weighted average number of common shares	181,607,492	181,607,492
Weighted average number of dilutive share purchase options	–	–
Diluted weighted average number of common shares	181,607,492	181,607,492

## 11. UNREALIZED FOREIGN EXCHANGE GAIN (LOSS)

The functional currency of the Brazilian subsidiaries of the Company is BRL. The functional currency of all other entities is CAD and the Company's presentation currency is USD. The unrealized exchange gain of \$24,275 for six months ended June 30, 2016 (June 30, 2015 – loss of \$17,648) was primarily comprised of the unrealized gain resulting from revaluation of long-term debt denominated in foreign currency and inter-company loans between the Company's subsidiaries. The unrealized losses on the intercompany loans are recorded for accounting purposes and do not create an economic impact for the consolidated Company.

## 12. FINANCE EXPENSE

	Three months ended		Six months ended	
	June 30, 2016	June 30, 2015	June 30, 2015	June 30, 2015
Interest expense and amortization of deferred transaction costs	\$ (17,534)	\$ (6,837)	\$ (25,583)	\$ (19,366)
Other financial expense	(384)	(59)	(434)	(99)
Interest income	–	4	3	13
Finance expense	\$ (17,918)	\$ (6,892)	\$ (26,014)	\$ (19,452)

Interest expense and amortization for the six months ended June 30, 2016 of \$25,583 (June 30, 2015 – \$19,366) was primarily related to interest incurred on debt, trade payables and bank indebtedness. Other financial expense, net of interest income for the six months ended June 30, 2016 was \$148 (June 30, 2015 – \$99) was primarily related to financial taxes and fees paid on amendments to loan agreements and financial expenses incurred.

### 13. COMMITMENTS AND CONTINGENCIES

The Company may be involved in legal proceedings from time to time, arising in the ordinary course of its business. The amount of any ultimate liabilities, including interest and penalties, with respect to these actions is not expected to, in the opinion of management, materially affect MBAC's financial position, results of operations or cash flows. Based on the Company's knowledge and assessment of events as at June 30, 2016, the Company does not believe that the outcome of any of the matters not recorded in the financial statements, individually or in aggregate, would have a material adverse effect.

The Company has accruals in relation to labour and other claims that have been made. The ultimate outcome of these claims is uncertain at the current time and management is defending its position in relation to each case.

### 14. SEGMENT REPORTING

#### Operating segments

Operating segments were identified on the basis of internal information reviewed by the chief operating decision maker. Three segments were identified based on the geographical areas and the reporting structure. The Corporate segment is comprised of activities related to administrative offices in Canada, Brazil, Barbados and the Netherlands, the Operations segment is comprised of activities at the Itafós Arraias SSP Operations and the Development and Exploration segment is comprised of activities related to the Santana Phosphate Project and the Araxá Project. The accounting policies of the reportable segments are the same as the Company's accounting policies

Substantially all of the Company's non-current assets are in Brazil.

For the six months ended June 30, 2016:

	Operations	Development & Exploration	Corporate	Total
<b>Operating earnings</b>				
Operating expenses				
Selling, general and administrative expenses	\$ 1,371	\$ 62	\$ 684	\$ 2,117
Operations care and maintenance expenses	8,798	—	—	8,798
Operating loss	(10,169)	(62)	(684)	(10,915)
Unrealized and realized foreign exchange gain	14,074	17	10,184	24,275
Other expense	(184)	(145)	—	(329)
Finance income (expense)	(24,024)	(4,282)	2,292	(26,014)
Income (loss) before income taxes	(20,303)	(4,472)	11,792	(12,983)
Income tax expense	—	—	529	529
Net income (loss)	\$ (20,303)	\$ (4,472)	\$ 11,263	\$ (13,512)

For the six months ended June 30, 2015:

	Operations	Development & Exploration	Corporate	Total
<b>Operating earnings</b>				
Operating expenses				
Selling, general and administrative expenses	\$ 1,399	\$ 33	\$ 912	\$ 2,344
Operations care and maintenance expenses	12,834	–	–	12,834
Operating loss	(14,233)	(33)	(912)	(15,178)
Unrealized and realized foreign exchange loss	(11,010)	(51)	(6,707)	(17,768)
Other expense	1,661	(180)	(4,392)	(2,911)
Finance expense	(21,959)	(926)	3,433	(19,452)
Income (loss) before income taxes	(45,541)	(1,190)	(8,578)	(55,309)
Income tax expense	–	–	658	658
Net income (loss)	\$ (45,541)	\$ (1,190)	\$ (9,236)	\$ (55,967)

For the three months ended June 30, 2016:

	Operations	Development & Exploration	Corporate	Total
<b>Operating earnings</b>				
Operating expenses				
Selling, general and administrative expenses	\$ 925	\$ 37	\$ 398	\$ 1,360
Operations care and maintenance expenses	3,540	–	–	3,540
Operating loss	(4,465)	(37)	(398)	(4,900)
Unrealized and realized foreign exchange gain	7,651	8	6,370	14,029
Other expense	(188)	(143)	–	(331)
Finance income (expense)	(15,147)	(3,996)	1,225	(17,918)
Income (loss) before income taxes	(12,149)	(4,168)	7,197	(9,120)
Income tax expense	–	–	278	278
Net income (loss)	\$ (12,149)	\$ (4,168)	\$ 6,919	\$ (9,398)

For the three months ended June 30, 2015:

	Operations	Development & Exploration	Corporate	Total
<b>Operating earnings</b>				
Operating expenses				
Selling, general and administrative expenses	\$ 993	\$ 11	\$ 380	\$ 1,384
Operations care and maintenance expenses	5,365	–	–	5,365
Operating loss	(6,358)	(11)	(380)	(6,749)
Unrealized and realized foreign exchange loss	1,192	(51)	523	1,664
Other expense	4,096	(177)	(4,389)	(470)
Finance expense	(8,212)	(326)	1,648	(6,890)
Income (loss) before income taxes	(9,282)	(565)	(2,598)	(12,445)
Income tax expense	–	–	318	318
Net income (loss)	\$ (9,282)	\$ (565)	\$ (2,916)	\$ (12,763)

## 15. FAIR VALUE MEASUREMENT AND RISK FACTORS

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk, interest rate risk, foreign currency risk, and commodity price risk. These unaudited condensed interim consolidated financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2015.

### Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value, by reference to the reliability of the inputs used to estimate the fair values.

- Level 1: Valuations based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Valuations based on directly or indirectly observable inputs in active markets for similar assets or liabilities, other than Level 1 prices such as quoted interest or currency exchange rates; and
- Level 3: Valuations based on significant inputs that are not derived from observable market data, such as discounted cash flow methodologies based on internal cash flow forecasts.

The Company's financial instruments consist of cash and cash equivalents, current and long-term receivables, accounts payable and accrued liabilities and debt. The fair values of cash and cash equivalents, current and long-term receivables, debt, and accounts payable and accrued liabilities approximates their carrying values.

The Company recognizes transfers between the levels of the fair value hierarchy at the date of the event or change in circumstances that caused the transfer. There were no such transfers during the six months ended June 30, 2016.

## 16. NET CHANGE IN NON-CASH WORKING CAPITAL

Net change in non-cash working capital items:

	June 30, 2016	June 30, 2015
Accounts receivable	\$ (49)	\$ (66)
Other assets	389	1,962
Accounts payable and accrued liabilities	(143)	3,932
Deferred revenue	—	(1,259)
Other liabilities	(134)	(3,104)
	\$ 63	\$ 1,465

## 17. RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties:

### Key management compensation

Key management includes directors and officers of the Company. The compensation paid or payable to key management for employee services is shown below:

	June 30, 2016	June 30, 2015
Management compensation and directors fees	\$ 538	\$ 397
Termination benefits related to restructuring	313	381
Other benefits	62	60
	\$ 913	\$ 838

During 2015, the Company received senior secured loans amounting to \$2.8 million from Zaff LLC, which may be converted into common shares in the Company. As of June 30, 2016 the total amount outstanding with Zaff LLC is \$6.0 million. In addition, Zaff has placed one of its personnel as the Interim Chief Financial Officer of the Company.

## 18. SUBSEQUENT EVENTS

On August 4, 2016, the Company filed a plan of compromise and arrangement under the Companies' Creditors Arrangement Act (Canada). Under the Canadian restructuring unsecured creditors of the Company will receive either (i) a combination of restructured debt of MBAC and common shares of MBAC, or (ii) a percentage of their claim in cash. Creditors may also elect to receive the lesser of the full value of their claim against the Company or CDN\$10,000 in full satisfaction of such claims against the company.

Subsequent to Q2 2016, the Company continued to receive additional senior secured loans amounting to \$0.5 million from Zaff LLC under the terms of the Support Agreement dated April 2016. The total balance owed under that arrangement is \$6.6 million. Additionally, the Company has arranged for Debtor-in-Possession (DIP) financing up to \$4 million on substantially similar terms.

On April 14, 2016, the Toronto Stock Exchange (the "TSX") announced that the Company's common shares and share purchase warrants would be delisted from the TSX effective May 13, 2016. Subsequently, TSX announced that the scheduled delisting of the common share and warrants of the Company would be extended to July 11, 2016 in order to allow the Company time to pursue the transition of the listing of its securities to the TSX Venture Exchange ("TSXV"). On July 11, 2016, the securities were delisted from the TSX and were listed on the TSXV as of July 12, 2016 under the symbol "MBC". Trading in the Company's securities has been suspended since April 5, 2016, on which date the Company announced the proposed recapitalization and restructuring transaction and will remain suspended until the Company satisfies certain conditions of the TSXV, including implementation of the proposed recapitalization and restructuring transaction.