

**MDN INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**– QUARTERLY HIGHLIGHTS**  
**FOR THE 2<sup>ND</sup> QUARTER ENDED JUNE 30, 2016**

The following interim management's discussion and analysis – quarterly highlights (“**Interim MD&A**”) of MDN Inc. (“**MDN**” or the “**Company**”) for the three months ended June 30, 2016 provides material information about the Company's business activities during the interim period and updates disclosure previously provided in the Company's management's discussion and analysis for the year ended December 31, 2015 (“**Annual MD&A**”).

This Interim MD&A should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements and related notes for the three and six months ended June 30, 2016 (the “**Interim Financial Statements**”), the Company's audited consolidated financial statements for the years ended December 31, 2015 and 2014 (the “**Annual Financial Statements**”), and the Company's Annual MD&A, including the section describing risks and uncertainties.

The effective date of this Interim MD&A is August 25, 2016.

All financial results presented in this Interim MD&A are expressed in Canadian dollars unless otherwise indicated.

**NATURE OF OPERATIONS**

MDN is a mineral resource company. The business of the Company consists of acquiring, exploring and evaluating mining properties. MDN has not yet determined whether its properties contain economically viable mineral deposits.

The Company' efforts are focused on critical metals, with a specific interest for properties containing niobium. In June 2016, the Company completed the acquisition of a 100% interest in the James Bay niobium property (formerly known as the Argor property), located in northern Ontario. The Company also holds interests in properties located in Quebec (niobium and tantalum) and in Tanzania (gold). The Company's common shares trade on the TSX Venture Exchange (“TSXV”) under the symbol MDN.

**HIGHLIGHTS FOR THE PERIOD**

- On August 4, 2016, the Company completed a non-brokered private placement (the “Private Placement”) for an amount of \$1,795,000. An aggregate of 35,900,000 common shares at a price of \$0.05 per share were issued for gross proceeds of \$1,795,000. All of the securities issued in the Private Placement are subject to a statutory hold period expiring on December 5, 2016. As part of the Private Placement, the Company granted 2,500,000 compensation warrants exercisable into 2,500,000 common shares at an exercise price of \$0.06 per share expiring on July 5, 2019.
- On July 29, 2016, the Company announced the convening of a special shareholder meeting

to be held on September 1, 2016. During the meeting, the Company will solicit the adoption by its shareholders of special resolutions to a) authorize the consolidation of its common shares on the basis of a 1 to 5 ratio; b) modify the name of the Company to “Les métaux Niobay inc. / Niobay Metals Inc.”; and c) authorize the Company’s directors to name one or more directors between annual meetings of shareholders.

- On June 17, 2016, the Company announced the appointment of Mr. Jean Rainville as a Director of the Company following the resignation of Mr. Claude Boulay as a Director of the Company. Mr. Rainville has over 35 years of experience in the mining industry and financial markets. He is one of the founding members of BlackRock Metals Inc. where he holds the position of President and Chief Executive Officer since 2008. Mr. Rainville holds a Bachelor of Mining Engineering and Metallurgy as well as a Bachelor of Administration from McGill University. Mr. Rainville was granted 200,000 stock options at the date of his appointment in accordance with the Company’s stock options plan. The price of the options was fixed at \$0.07 per share and the expiry date of these options has been established at June 16, 2021.
- On June 14, 2016, the Company granted 1,750,000 incentive stock options to directors, officers and consultants, pursuant to the Company’s stock option plan and compensation policy. The options are exercisable at a price of \$0.07 per share and expire on June 14, 2021.
- On June 7, 2016 the Company announced the signing of a definitive agreement and on June 22, 2016, the Company completed the acquisition of the James Bay niobium property from Barrick Gold Inc., James Bay Columbian Ltd. and Goldcorp Inc. (the “Sellers”).
- On May 26, 2016, the Company announced that Mr. Alain Krushnisky, CPA, CA has replaced Mr. Yves Therrien as Chief Financial Officer, following his retirement. Mr. Krushnisky has 25 years of experience in the mining sector including ten years with a mid-tier producer in various capacities, including Vice-President and Controller. Mr. Krushnisky is also Chief Financial Officer of other mineral exploration companies listed on the TSXV.
- On May 4, the Company announced the termination of the Heads of Agreement (“HOA”) with Sichuan Xinye Investment Corporation of Mining and Exploration (“XINYE”), relating to the Company’s assets in Tanzania, as the parties were not able to conclude a definitive agreement under the terms of the HOA. The Company is evaluating other opportunities concerning these assets.
- The Company incurred a net loss of \$7,531,278 (\$0.07 per share) for the 2<sup>nd</sup> quarter ended June 30, 2016 compared to a net loss of \$2,118,461 (\$0.02 per share) during the comparative period in 2015. During the 2<sup>nd</sup> quarter ended June 30, 2016, the Company recorded a write-down of the Crevier property in Quebec and the assets in Tanzania for a total amount of \$7,538,194, taking into account that all of the Company’s resources will be dedicated to the James Bay property in the foreseeable future.

## **JAMES BAY NIOBIUM PROPERTY (Ontario)**

On June 22, 2016, the Company completed the acquisition of the James Bay niobium property. In exchange for a 100% interest in the property, the Company issued to the Sellers a total of 5,000,000 common shares and paid a cash consideration of \$25,000. The Sellers retain a 2% net smelter returns royalty ("Royalty") over all metals produced from the property. The Company has the right to buy-back 1% of the Royalty for an amount of \$2,000,000 (in constant 2016 dollars, subject to a cap of \$3,000,000) at any time. Moreover, the Sellers have the right to re-acquire a 51% interest in the property (the "Back-in Right"), in case of the establishment on the property of one or more deposits containing no less than 2 million gold ounces and/or gold equivalent ounces of resources in aggregate, upon payment by the Sellers to the Company of 2.5 times Company's expenditures incurred on the property. The Back-In Right does not apply to the niobium content. The James Bay property is located in the James Bay Lowlands in northern Ontario.

The acquisition of the James Bay property marks a significant milestone for the Company. The extensive knowledge of the Company's management team in the niobium field led MDN to conclude that the James Bay property would be a strategic asset to ensure the long term growth of the Company and to become a major player in this critical metal production.

The James Bay deposit was discovered in 1966 by James Bay Columbian Ltd. Historical estimates were established by exploratory and detailed drilling totalling over 14,000 meters in 85 holes, outlining the deposit to a maximum depth of 275 meters. The deposit has been drilled off in sections of 61 meters intervals along a strike of 730 meters. An historical estimate of 62 million tonnes at 0.52% Nb<sub>2</sub>O<sub>5</sub> was established in 1967 by Dr. P. Price of Bechtel and Company. An exploration shaft was sunk to investigate soil conditions and to provide a 250 tonnes bulk sample. Subsequent pilot plant operations demonstrate a good quality pyrochlore concentrate and a recovery rate of 78% was achieved. Historical estimates and historical pilot plant results led to the realization in 1969, by Bechtel Canada, of a feasibility study on the project.

*The historical estimates, the historical feasibility and the historical metallurgical testing are based on data obtained by previous operators in the 1960s. MDN has not yet undertaken the work necessary to verify or classify those historical results. Economic studies completed in the 1960s do not mean the James Bay deposit would be found to be economic today. MDN is not treating the historical estimates as having been verified by a qualified person. The Company will have to perform studies to validate the historical estimates.*

Following the acquisition of the James Bay property and the completion of the August 4, 2016 capital raising, the Company has prepared the following work program related to the development of the project.

- Engaging with the local stakeholders;
- Collecting and reviewing the historical data, including geological (geophysics, geochemistry and drill logs ) and metallurgical information;
- Organizing the core shack containing 14,000 meters of drill core;
- Re-logging and analysis of selected historical drill cores; and
- Conducting site work preparation for a contemplated winter drilling campaign.

## **OTHER PROPERTIES**

Following the acquisition of the James Bay property, the Company has established that all of its focus will be on the development of this niobium project. Consequently, the Company proceeded with the write-down to nil of its investment in the Crevier property (Quebec) and the Ikungu and Ikungu East properties (Tanzania), resulting in a total impairment charge of \$7,538,194 during the three months ended June 30, 2016.

### *Crevier (Quebec)*

No work has been done on the Crevier property during the current period.

### *Ikungu and Ikungu East properties (Tanzania)*

MDN Tanzania, the Company's wholly-owned subsidiary, applied for the extension of prospecting licences on two of its permits, in April 2015 and in June 2016. The extension applications have not yet been approved. Although the Company believes that the extensions will be obtained, there is no assurance that such extensions will be granted to MDN Tanzania.

MDN Tanzania received notices of assessment during the 2<sup>nd</sup> quarter ended June 30, 2016 in respect of withholding taxes, claiming an amount of approximately \$300,000 plus accrued interest of approximately \$600,000. Management of the Company believes that it has always paid its withholding taxes in accordance with local requirements and that the amounts claimed are unfounded. MDN Tanzania intends to vigorously defend its position with the Tanzanian tax authorities.

## **SPECIAL SHAREHOLDER MEETING**

On July 29, 2016, the Company announced the convening of a special shareholder meeting which will be held on September 1<sup>st</sup>, 2016 in Montreal. During the meeting, the Company will solicit the adoption by its shareholders of special resolutions authorizing the amendment of its articles (the "Articles") to:

- consolidate its common shares on the basis of a 1 to 5 ratio,
- modify the name of the Company to "Les métaux Niobay inc. / Niobay Metals Inc.", and
- authorize the Company's directors to name one or more directors between annual meetings of shareholders, provided that the total number of directors so appointed may not exceed one third of the number of directors elected at the annual shareholder meeting preceding their appointment.

In addition to the approval of these special resolutions by the Company's shareholders, these resolutions are also subject to the receipt of all required regulatory approvals, including those of the TSXV. In addition, notwithstanding whether these resolutions are passed by shareholders at the Meeting, the board of directors of the Corporation may choose not to implement the proposed amendments to the Articles at any time prior to the issuance of a Certificate of Amendment giving effect to the amendment of the Corporation's Articles of Incorporation, without further notice to or approval of the shareholders. An information circular describing each of these special resolutions has been mailed to all shareholders of the Company.

## **TECHNICAL DISCLOSURE**

The disclosure in this MD&A of all Technical Information has been approved by Claude Dufresne, engineer, President & CEO of the Company, Qualified Person under NI 43-101.

## **SUMMARY OF OPERATING RESULTS**

The Company incurred a net loss of \$7,531,278 during the three months ended June 30, 2016 compared to a net loss of \$2,118,461 in 2015. The higher loss in 2016 is due to the net impairment charge of \$7,343,006 relating to the Crevier and the Ikungu and Ikungu East properties, taking into account the impact of the reversal of the deferred tax liability of \$195,188 with a corresponding deferred income tax recovery. The loss in 2015 included an impairment charge of \$1,956,500 related to the Nikonga property in Tanzania.

Administrative expenses totalled \$189,216 for the three months ended June 30, 2016 compared to \$187,301 in 2015. Higher share-based remuneration in 2016 was partially offset by a net amount of \$96,878 (US\$75,000) received from XINYE as reimbursement of legal and other expenses.

## **LIQUIDITY AND FINANCIAL POSITION**

At June 30, 2016, the Company's cash position amounted to \$235,226 compared to \$319,343 at December 31, 2015. On August 4, 2016, the Company completed a non-brokered private placement for a total amount of \$1,795,000. Proceeds from the private placement will be used to initiate a work program on the James Bay property, as described in the *James Bay Niobium Property (Ontario)* section, and for working capital purposes. However, management estimates that it will require additional funds to meet all of its exploration and development activities related to the James Bay project and to provide for management and administration expenses for at least the next 12 months. Such funding requirements may be met in the future in a number of ways, including the issuance of additional securities or other arrangements.

While management has been successful in securing financing in the past, there can be no guarantee that it will be able to do so in the future or that these sources of funding or initiatives will be available to the Company or that they will be available on terms which are acceptable to the Company. If management is unable to obtain new funding, the Company may be required to reduce the scope of, or eliminate future exploration and development activities, any of which could have a negative impact on the business, financial condition and results of operation of the Company.

### **Operating activities**

For the six months ended June 30, 2016, cash flows related to operating activities amounted to \$22,137 compared to \$176,677 in 2015. This decrease is mainly due to the change in non-cash working capital items of \$250,864 compared to \$506,952 in 2015. In 2015, the Company had received an amount of approximately \$511,000 from the Tanzania Revenue Agency for the refund of sales taxes paid by the Company in prior years. In 2016, the Company received from XINYE a net amount of \$96,878 (US\$75,000) as a reimbursement of legal and other expenses related to the HOA on the assets in Tanzania.

## **Financing activities**

There was no financing activity during the six months ended June 30, 2016 and 2015. On August 4, 2016, the Company completed a non-brokered private placement through the issuance of 35,900,000 common shares at a price of \$0.05 per share for proceeds of \$1,795,000.

## **Investing activities**

For the six months ended June 30, 2016, the cash inflows related to investing activities amounted to \$139,917 compared to cash outflows of \$91,812 in 2015. In 2016, the company disposed of an investment of \$250,000 compared to \$350,000 in 2015. Additions to exploration and evaluation assets of \$110,083 in 2016 included cash expenses of \$49,521 related to the acquisition of the James Bay property, \$28,350 related to maintaining the assets in Tanzania in good standing and the application of an extension to the prospecting licences of one of the permits held and \$32,212 in claims-related expenses of the Prairie Lake and Crevier properties. Additions to exploration and evaluation assets of \$441,812 in 2015 related principally to the Samaqua project in Quebec.

## **RELATED PARTY TRANSACTIONS**

The remuneration awarded to key management personnel, including directors, the Chief Executive Officer and the Chief Financial Officer, during the three and six months ended June 30, 2016 totaled \$139,272 and \$178,842, respectively (\$81,970 and \$135,566, respectively during the comparative periods in 2015). Amounts in 2016 included \$76,522 related to share-based remuneration (\$28,000 in 2015).

A company controlled by the CEO of the Company invoiced \$9,587 and \$17,425, respectively during the three and six months ended June 30, 2016 for the services of a financial analyst (\$8,705 and \$13,587 in 2015), and invoiced \$8,250 and \$16,500, respectively during the three and six months ended June 30, 2016 for the rental of office space (\$8,250 and \$16,500 in 2015).

## **RISKS AND UNCERTAINTIES**

Reference is made to the description of risks and uncertainties included in the MD&A for the year ended December 31, 2015.

## **CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

This MD&A contains certain “forward-looking statements”, including, but not limited to, the statements regarding the Company’s strategic plans, future financial results, future financings, timetables, capital expenditures, work programs, exploration programs, objectives and budgets, and the Company’s eventual success to execute its strategy to focus on building its portfolio of properties. Forward looking statements express, at this date, the Company’s plans, estimates, forecasts, projections, expectations or beliefs as to future events and results. Forward-looking statements involve a number of risks and uncertainties, and there can be no assurance that such statements will prove to be accurate. Therefore, actual results and future events could differ materially from those anticipated in such statements. Risks and uncertainties that could cause results or future events to differ materially from current expectations expressed or implied by the

forward-looking statements include, but are not limited to, factors associated with fluctuations in the market price of metals, mining industry risks, exploration risks, environmental risks and hazards, requirement of additional financing or additional permits, authorizations or licenses and other risks referred to in this MD&A.

#### **ADDITIONAL INFORMATION AND CONTINUOUS DISCLOSURE**

The Company regularly discloses additional information through press releases and financial statements available on the Company's website at [www.mdn-mines.com](http://www.mdn-mines.com) and on SEDAR at [www.sedar.com](http://www.sedar.com).

**MDN Inc.**

**CONDENSED INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS**

**For the three and six months ended June 30, 2016**

In Canadian Dollars

**Unaudited**

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**NOTICE TO READER**

The accompanying unaudited condensed interim consolidated financial statements of MDN Inc. have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these unaudited condensed interim consolidated financial statements.



# MDN Inc.

## Consolidated Statements of Financial Position

<i>(unaudited, in Canadian dollars)</i>	June 30, 2016	December 31, 2015
	\$	\$
<b>ASSETS</b>		
Current		
Cash	235,226	69,343
Temporary investments	-	250,000
Accounts receivable	27,238	39,371
Tax credits related to resources and mining taxes receivable	181,305	181,305
Prepaid expenses	1,790	11,123
	<b>445,559</b>	<b>551,142</b>
Non-current		
Accounts receivable	90,511	101,633
Property and equipment	48,717	56,021
Exploration and evaluation assets (Note 3)	399,522	7,638,134
<b>TOTAL ASSETS</b>	<b>984,309</b>	<b>8,346,930</b>
<b>LIABILITIES</b>		
Current		
Accounts payable and accrued liabilities (Note 4)	463,261	236,894
	<b>463,261</b>	<b>236,894</b>
Non-current		
Deferred income tax liability (Note 3)	-	195,188
<b>TOTAL LIABILITIES</b>	<b>463,261</b>	<b>432,082</b>
<b>EQUITY</b>		
Share capital (Note 5)	64,880,913	64,530,913
Contributed surplus	6,738,632	6,653,091
Deficit	(73,939,216)	(67,188,424)
Cumulative translation adjustment	2,618,676	2,786,446
Equity attributable to shareholders of the Company	299,005	6,782,026
Non-controlling interests	222,043	1,132,822
<b>TOTAL EQUITY</b>	<b>521,048</b>	<b>7,914,848</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>984,309</b>	<b>8,346,930</b>

Going concern (Note 1), Contingencies (Note 9), Events after the reporting date (Note 10).

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

# MDN Inc.

## Consolidated Statements of Comprehensive Loss

<i>(unaudited, in Canadian dollars)</i>	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
	\$	\$	\$	\$
<b>Expenses and other items</b>				
Management and administration (Note 7)	189,216	183,229	320,732	371,342
Write-down of exploration and evaluation assets (Note 3)	7,538,194	1,956,500	7,538,194	1,956,500
Income related to flow-through shares	-	-	-	(47,771)
Finance income	(128)	(1,769)	(511)	(3,022)
Loss (gain) on foreign exchange	(816)	(19,499)	(1,656)	52,319
<b>Loss before income taxes</b>	<b>(7,726,466)</b>	<b>(2,118,461)</b>	<b>(7,856,759)</b>	<b>(2,329,368)</b>
Deferred income tax recovery (Note 3)	(195,188)	-	(195,188)	-
<b>Net loss for the period</b>	<b>(7,531,278)</b>	<b>(2,118,461)</b>	<b>(7,661,571)</b>	<b>(2,329,368)</b>
Other comprehensive income (loss)				
Foreign currency translation differences for foreign operations	95,940	(197,932)	(167,770)	744,413
<b>Total comprehensive loss for the period</b>	<b>(7,435,338)</b>	<b>(2,316,393)</b>	<b>(7,829,341)</b>	<b>(1,584,955)</b>
Net loss attributable to:				
Shareholders of the Company	(6,624,133)	(2,111,380)	(6,750,792)	(2,315,650)
Non-controlling interests	(907,145)	(7,081)	(910,779)	(13,718)
Total comprehensive loss attributable to:				
Shareholders of the Company	(6,528,193)	(2,309,312)	(6,918,562)	(1,571,237)
Non-controlling interests	(907,145)	(7,081)	(910,779)	(13,718)
Basic and diluted loss per common share	(0.07)	(0.02)	(0.07)	(0.02)
Weighted average number of common shares - basic and diluted	115,092,321	114,437,097	114,891,456	114,657,539

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

# MDN Inc.

## Consolidated Statements of Shareholders' Equity

<i>(unaudited, in Canadian dollars)</i>	Number of issued and outstanding common shares	Share	Contributed		Cumulative	Equity	Non-	Total
		capital	surplus	Deficit	translation adjustment	attributable to shareholders of the company	controlling interests	shareholders' equity
		\$	\$	\$	\$	\$	\$	\$
Balance at December 31, 2015	114,657,538	64,530,913	6,653,091	(67,188,424)	2,786,446	6,782,026	1,132,822	7,914,848
Shares issued on acquisition of the James Bay project	<b>5,000,000</b>	<b>350,000</b>	-	-	-	<b>350,000</b>	-	<b>350,000</b>
Share-based remuneration	-	-	85,541	-	-	85,541	-	85,541
Net loss for the period	-	-	-	(6,750,792)	-	(6,750,792)	(910,779)	(7,661,571)
Other comprehensive income								
Foreign currency translation differences	-	-	-	-	(167,770)	(167,770)	-	(167,770)
<b>Balance at June 30, 2016</b>	<b>119,657,538</b>	<b>64,880,913</b>	<b>6,738,632</b>	<b>(73,939,216)</b>	<b>2,618,676</b>	<b>299,005</b>	<b>222,043</b>	<b>521,048</b>
Balance at December 31, 2014	113,957,538	64,481,913	6,622,308	(49,908,226)	1,279,016	22,475,011	1,797,715	24,272,726
Shares issued to acquire the Prairie Lake project	700,000	49,000	-	-	-	49,000	-	49,000
Share-based remuneration	-	-	29,329	-	-	29,329	-	29,329
Net loss for the period	-	-	-	(2,315,650)	-	(2,315,650)	(13,718)	(2,329,368)
Other comprehensive income								
Foreign currency translation differences	-	-	-	-	744,413	744,413	-	744,413
<b>Balance at June 30, 2015</b>	<b>114,657,538</b>	<b>64,530,913</b>	<b>6,651,637</b>	<b>(52,223,876)</b>	<b>2,023,429</b>	<b>20,982,103</b>	<b>1,783,997</b>	<b>22,766,100</b>

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

# MDN Inc.

## Consolidated Statements of Cash Flows

<i>(unaudited, in Canadian dollars)</i>	Six months ended June 30,	
	2016	2015
	\$	\$
<b>Operating activities</b>		
Net loss for the period	(7,661,571)	(2,329,368)
Adjustments		
Share-based remuneration	85,541	29,329
Amortization of property and equipment	5,207	3,292
Write-down of exploration and evaluation assets	7,538,194	1,956,500
Deferred income tax recovery	(195,188)	-
Finance income accrued	(511)	(3,022)
Finance income received	1,257	(6,505)
Foreign exchange loss (gain)	(1,656)	19,499
Changes in working capital items	250,864	506,952
	<b>22,137</b>	<b>176,677</b>
<b>Investing activities</b>		
Disposal of investments	250,000	350,000
Additions to exploration and evaluation assets	(110,083)	(441,812)
	<b>139,917</b>	<b>(91,812)</b>
Effect of exchange rate changes on cash held in foreign currency	3,829	(16,051)
Net change in cash	165,883	68,814
Cash, beginning of period	69,343	264,796
Cash, end of period	<b>235,226</b>	<b>333,610</b>
<b>Supplemental cash flow information</b>		
Change in tax credits related to resources capitalized to exploration and evaluation assets	-	40,146
Change in accounts payable and accrued liabilities related to exploration and evaluation assets	30,130	57,203
Value of shares issued on acquisition of exploration and evaluation assets	350,000	49,000

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

# MDN Inc.

Notes to Condensed Interim Consolidated Financial Statements

June 30, 2016 (unaudited - in Canadian dollars)

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## 1. GENERAL INFORMATION AND GOING CONCERN

MDN Inc. ("MDN" or the "Company") is primarily engaged in the acquisition and exploration of mineral properties. In June 2016, the Company completed the acquisition of the James Bay niobium project, located in northern Ontario, Canada. The Company also holds interests in other exploration properties located in Quebec, Canada and Tanzania through its subsidiaries Crevier Minerals Inc. ("CMI", 72.5% interest) and MDN Tanzania Ltd. ("MDN Tanzania", 100% interest). All amounts in these condensed interim financial statements are expressed in Canadian dollars unless otherwise indicated. MDN's common shares are listed on the TSX Venture Exchange ("TSXV").

The Board of Directors approved and authorized for issuance these unaudited condensed interim financial statements on August 25, 2016.

### *Going concern*

These unaudited condensed interim consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assume that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. Management is aware, in making its assessment, of material uncertainties related to events and conditions that may cast a significant doubt about the Company's ability to continue as a going concern as described in the following paragraph, and accordingly, the appropriateness of the use of accounting principles applicable to a going concern. These unaudited condensed interim consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities, expenses and financial position classification that would be necessary if the going concern assumption was not appropriate. These adjustments could be material.

At June 30, 2016, the Company had a working capital deficit of \$17,702, had an accumulated deficit of \$73,939,216 and incurred a loss of \$7,661,571 for the six months ended June 30, 2016. Working capital included cash of \$235,226. Management estimates that these funds will not be sufficient to meet the Company's obligations and budgeted expenditures for the next 12 months. On August 4, 2016, the Company completed a non-brokered private placement for gross proceeds of \$1,795,000 (Note 10). However, the Company will require additional funds to meet its exploration and development objectives, to provide for management and administration expenses for at least the next 12 months and to settle all current obligations. Such funding requirements may be met in the future in a number of ways, including the issuance of securities or other arrangements. If the Company is not successful in raising additional funds, it may be required to reduce the scope of, or eliminate its future exploration and development activities, any of which could have a negative impact on the business, financial condition and results of operation of the Company.

# **MDN Inc.**

Notes to Condensed Interim Consolidated Financial Statements

**June 30, 2016** (unaudited - in Canadian dollars)

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## **2. STATEMENT OF COMPLIANCE AND BASIS OF PRESENTATION**

These unaudited condensed interim consolidated financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting* and follow the same accounting policies as the Company's most recent annual consolidated financial statements. They do not contain all of the information and disclosures required for annual financial statements, and should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 2015 and 2014 which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

# MDN Inc.

Notes to Condensed Interim Consolidated Financial Statements  
June 30, 2016 (unaudited - in Canadian dollars)

## 3. EVALUATION AND EXPLORATION ASSETS

Evaluation and exploration assets by properties are detailed as follows:

	January 1, 2016	Additions	Write-down	Effect of foreign exchange	June 30, 2016
	\$	\$	\$	\$	\$
<b>Mineral properties</b>					
Canada					
James Bay (Nb) - 100%	-	399,522	-	-	399,522
	-	399,522	-	-	399,522
<b>Exploration and evaluation expenditures</b>					
Canada					
Crevier (Nb) - 72.5%	3,486,133	5,211	(3,491,344)	-	-
Prairie Lake (Nb)	-	27,000	(27,000)	-	-
Tanzania					
Ikungu (Au) - 84%	3,825,363	16,495	(3,688,222)	(153,636)	-
Ikungu East (Au) - 100%	326,638	11,855	(331,628)	(6,865)	-
	7,638,134	60,561	(7,538,194)	(160,500)	-
	7,638,134	460,083	(7,538,194)	(160,500)	399,522

### James Bay

On June 22, 2016, the Company completed the acquisition of the James Bay niobium property, located in northern Ontario, from Barrick Gold Inc., James Bay Columbian Ltd. and Goldcorp Inc. (the "Sellers"). In exchange for a 100% interest in the property, the Company issued to the Sellers a total of 5,000,000 common shares and paid a cash consideration of \$25,000. The Sellers retain a 2% net smelter returns royalty ("Royalty") over all metals produced from the property. The Company has the right to buy-back 1% of the Royalty for an amount of \$2,000,000 (in constant 2016 dollars, subject to a cap of \$3,000,000) at any time. Moreover, the Sellers have the right to re-acquire a 51% interest in the property (the "Back-in Right"), in case of the establishment on the property of one or more deposits containing no less than 2 million gold ounces and/or gold equivalent ounces of resources in aggregate, upon payment by the Sellers to the Company of 2.5 times Company's expenditures incurred on the property. The Back-In Right does not apply to the niobium content.

The acquisition cost of the James Bay property includes an amount of \$350,000 representing the value of the shares issued, using the closing price of the shares on the day immediately prior to the closing date, the cash consideration of \$25,000 and legal and regulatory fees of \$24,522.

## **MDN Inc.**

Notes to Condensed Interim Consolidated Financial Statements

**June 30, 2016** (unaudited - in Canadian dollars)

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### **3. EVALUATION AND EXPLORATION ASSETS** (continued)

#### *Crevier*

Following the acquisition of the James Bay property, the Company has established that its focus will be the development of the James Bay property in Northern Ontario. The Company does not anticipate conducting any exploration and / or development work on the Crevier property in 2016 or in the foreseeable future. Given the above described factors and the significant amount of investments required to potentially establish economic resources at Crevier, the Company proceeded with writing-down to nil its investments in the project. The write-down resulted in the reversal of the deferred income tax liability and a corresponding deferred income tax recovery for the three and six months ended June 30, 2016.

The Company has a non-expiring right to acquire an additional interest of 15% in CMI by paying in cash or in shares, at the option of the Company, \$750,000 to the non-controlling shareholder.

#### *Prairie Lake*

The Company incurred claims-related expenses of \$27,000 during the six-months ended June 30, 2016. In February 2016, the Company terminated its option on the property with the claim owners and has therefore written-down to nil its costs incurred during the current period.

#### *Ikungu and Ikungu East*

MDN Tanzania applied for the extension of prospecting licences on two of its permits, in April 2015 and in June 2016. The extension applications have not yet been approved. Although the Company believes that the extensions will be obtained, there is no assurance that such extensions will be granted to MDN Tanzania.

On May 10, 2016, the Company advised Sichuan Xinye Investment Corporation of Mining and Exploration ("XINYE") that it was terminating the Heads of Agreement ("HOA") entered into in September 2015, as the parties did not succeed in concluding a definitive agreement under the terms of the HOA. Given the termination of the HOA and that the Company does not anticipate conducting any exploration work on these properties in the foreseeable future, the Company proceeded with writing-down to nil its investments in the Tanzanian properties.

Following the completion of the due diligence period and in accordance with the HOA, XINYE paid to MDN in January 2016 an amount of US\$200,000. Following the termination of the HOA, MDN agreed to return an amount of US\$125,000 to XINYE, which amount is included in accounts payable and accrued liabilities at June 30, 2016 (Note 4). This amount was paid to XINYE on August 10, 2016. The difference of \$96,878 (US\$75,000) was presented as a reduction of management and administration expenses in Note 7.



## **MDN Inc.**

Notes to Condensed Interim Consolidated Financial Statements

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### **4. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

At June 30, 2016, accounts payable and accrued liabilities include a provision of \$144,000 related to the April 2015 notice of assessment issued by Revenu Québec (Note 9), an amount payable of \$161,462 (US\$125,000) to XINYE (Note 3), and various payables and accruals in Tanzania (\$23,292) and in Canada (\$134,507).

### **5. SHARE CAPITAL AND WARRANTS**

#### *Issued and fully paid*

At June 30, 2016, the Company had 119,657,538 issued and outstanding common shares (114,657,538 at December 31, 2015) (Note 10).

#### *Issuance of shares*

On June 22, 2016, the Company issued 5,000,000 of its common shares as consideration for the acquisition of the James Bay niobium property (Note 3). These shares were valued at an amount of \$350,000 using the June 21, 2016 closing price of the Company's shares.

#### *Share purchase warrants*

At June 30, 2016, the Company had 3,681,747 issued and outstanding share purchase warrants (3,681,747 at December 31, 2015). These share purchase warrants, exercisable at a price of \$0.11 per unit until July 14, 2016 expired unexercised.

## MDN Inc.

Notes to Condensed Interim Consolidated Financial Statements  
June 30, 2016 (unaudited - in Canadian dollars)

### 6. STOCK OPTIONS

The following table sets out the activity in stock options:

	Three months ended June 30, 2016		Six months ended June 30, 2016	
	Number	Weighted average exercise price (\$)	Number	Weighted average exercise price (\$)
Options, beginning of period	3,780,000	0.48	3,630,000	0.08
Granted	1,950,000	0.07	2,100,000	0.07
Expired	(170,000)	(0.20)	(170,000)	(0.20)
Options, end of period	5,560,000	0.07	5,560,000	0.07

In June 2016, the Company granted a total of 1,950,000 stock options to its directors, officers and consultants. A total of 1,075,000 stock options vested on the grant date and 875,000 stock options will vest over 2 years. The options have a five year term and are exercisable at a price of \$0.07 per share. On the grant date, the market price of the Company's shares was \$0.07. The fair value of the stock options was estimated at \$0.06 per option by applying the Black-Scholes option pricing model, using an expected time-period of 5 years, a semi-annual weighted-average risk-free interest rate of 0.6%, a volatility rate of 136% and a 0% dividend factor. The underlying expected volatility was determined by reference to historical data of MDN's share price over the expected stock option life. No special features inherent to the stock options granted were incorporated into the measurement of fair value.

In March 2016, the Company granted a total of 150,000 stock options to a consultant. These will vest over 2 years. The options have a five year term and are exercisable at a price of \$0.055 per share. On the grant date, the market price of the Company's shares was \$0.055. The fair value of the stock options was estimated at \$0.04 per option by applying the Black-Scholes option pricing model, using an expected time-period of 5 years, a semi-annual weighted-average risk-free interest rate of 0.7%, a volatility rate of 132% and a 0% dividend factor. The underlying expected volatility was determined by reference to historical data of MDN's share price over the expected stock option life. No special features inherent to the stock options granted were incorporated into the measurement of fair value.

The following table reflects the stock options issued and outstanding at June 30, 2016:

Range of exercise prices	Number of outstanding options	Remaining contractual life (years)
\$0.05 - \$0.19	5,280,000	4.04
\$0.20 - \$0.44	200,000	3.16
\$0.45 - \$0.51	80,000	4.15
	5,560,000	4.01

# MDN Inc.

Notes to Condensed Interim Consolidated Financial Statements  
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## 7. MANAGEMENT AND ADMINISTRATION EXPENSES

The Company incurred the following management and administration expenses:

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
	\$	\$	\$	\$
Wages and consulting	134,007	74,105	161,577	138,466
Legal, audit and tax	(12,904)	44,442	40,246	106,904
Office	19,277	15,401	39,371	37,291
Investor relations and travel	10,232	7,475	33,577	35,840
Reporting issuer costs	43,823	11,558	45,595	19,297
Recovery of expenses (Note 3)	(96,878)	-	(96,878)	-
Mining titles management	2,600	-	6,496	923
	100,157	152,981	229,984	338,721
Share-based remuneration	85,125	28,602	85,541	29,329
Amortization of property and equipment	3,934	1,646	5,207	3,292
	189,216	183,229	320,732	371,342

## 8. SEGMENTED INFORMATION

The Company has one reportable operating segment being the acquisition and exploration of mineral properties. Non-current assets are located as follows:

	June 30, 2016		
	Canada	Tanzania	Total
	\$	\$	\$
Accounts receivable	-	90,511	90,511
Property and equipment	20,871	27,846	48,717
Exploration and evaluation assets	399,522	-	399,522
	420,393	118,357	538,750

  

	December 31, 2015		
	Canada	Tanzania	Total
	\$	\$	\$
Accounts receivable	-	101,633	101,633
Property and equipment	23,417	32,604	56,021
Exploration and evaluation assets	3,486,134	4,152,000	7,638,134
	3,509,551	4,286,237	7,795,788

## **MDN Inc.**

Notes to Condensed Interim Consolidated Financial Statements

**June 30, 2016** (unaudited - in Canadian dollars)

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### **9. CONTINGENCIES**

#### **Tanzania Revenue Authority (“TRA”)**

MDN Tanzania received notices of assessment during the 2<sup>nd</sup> quarter ended June 30, 2016 in respect of withholding taxes, claiming an amount of approximately \$300,000 plus accrued interest of approximately \$600,000. No provision has been recorded in these condensed interim consolidated financial statements as management believes that it has always paid its withholding taxes in accordance with local requirements and that the amounts claimed are unfounded. MDN Tanzania intends to vigorously defend its position with the Tanzanian tax authorities.

#### **Revenu Québec**

Following an audit of the tax credits relating to resources claimed by and paid to Crevier Minerals Inc. for the years 2010, 2011 and 2012, Revenu Québec issued in April 2015 a notice of assessment for an amount of \$370,517, stipulating that certain expenses were not eligible for such tax credits relating to resources.

Despite its disagreement with the notice of assessment, the Company recorded a specific provision of \$144,000 presented as accounts payable and accrued liabilities at June 30, 2016 and December 31, 2015.

#### **Other**

In May 2016, the Company agreed to pay to the Company's former CFO a retirement allowance of \$50,000 upon the Company raising a minimum of \$500,000, of which an amount of \$25,000 would become payable following the successful financing and the remaining amount of \$25,000 to be paid on the anniversary date of his retirement. Following the completion of the private placement described in Note 10, the Company paid its former CFO the initial amount of \$25,000.

## **MDN Inc.**

Notes to Condensed Interim Consolidated Financial Statements

**June 30, 2016** (unaudited - in Canadian dollars)

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### **10. EVENTS AFTER THE REPORTING DATE**

#### *Special meeting of shareholders*

On July 29, 2016, the Company announced the convening of a special meeting of the Company's shareholders (the "Meeting") to be held on September 1, 2016. During the Meeting, the Company will solicit the adoption by its shareholders of special resolutions to a) authorize the consolidation of its common shares on the basis of a 1 to 5 ratio; b) modify the name of the Company to "Les métaux Niobay inc. / Niobay Metals Inc."; and c) authorize the Company's directors to name one or more directors between annual meetings of shareholders, provided that the total number of directors so appointed may not exceed one third of the number of directors elected at the annual shareholder meeting preceding their appointment. In addition to the approval of these special resolutions by the Company's shareholders, these resolutions are also subject to the receipt of all required regulatory approvals, including those of the TSXV. An information circular describing each of these special resolutions has been mailed to all shareholders of the Company.

#### *Non-brokered private placement*

On August 4, 2016, the Company announced that it had completed a non-brokered private placement (the "Private Placement") for a total amount of \$1,795,000. An aggregate of 35,900,000 shares at a price of \$0.05 per share were issued for gross proceeds of \$1,795,000. All of the securities issued in the Private Placement are subject to a statutory hold period expiring on December 5, 2016. Proceeds of the Private Placement will be used to initiate a work program at the James Bay niobium project and for general working capital. As part of the Private Placement, the Company granted 2,500,000 compensation warrants exercisable into 2,500,000 common shares at an exercise price of \$0.06 per share expiring on July 5, 2019.