



Nippon Dragon Resources Inc.
(Exploration Stage Company)

CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2014 AND 2013

INDEPENDENT AUDITOR'S REPORT

CONSOLIDATED FINANCIAL STATEMENTS

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Independent Auditor's Report

To the shareholders of
Nippon Dragon Resources Inc.:

We have audited the accompanying consolidated financial statements of **Nippon Dragon Resources Inc.**, which comprise the consolidated financial position as at September 30, 2014 and 2013 and the consolidated statements of earnings and comprehensive loss, deficit and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the International Financial Reporting Standards as issued by the International Accounting Standards Board and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Independent Auditor's Report (cont'd)

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Nippon Dragon Resources Inc.** as at September 30, 2014 and 2013, and its financial performance and its cash flows for the years then ended in accordance with the International Financial Reporting Standards as issued by the International Accounting Standards Board.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 to in the consolidated financial statements, which describes facts and circumstances indicating the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.



Montréal, Québec
January 27, 2015

Limited Liability Partnership
Chartered Professional Accountants

¹ CPA Auditor, CA, Public Accountancy permit No. A121724

Nippon Dragon Resources Inc.

(Exploration Stage Company)

CONSOLIDATED FINANCIAL POSITION

(in Canadian dollars)

Year ended September 30, 2014

	2014	2013 Restated
ASSETS		
CURRENT ASSETS		
Cash	\$ 56,348	\$ 51,293
Accounts receivable and other receivables (Note 7)	16,160	1,000
Sales taxes receivable	18,322	19,372
Tax credits and redeemable rights receivable	42,622	14,702
Total current assets	133,452	86,367
NON CURRENT ASSETS		
Property, plant and equipment (Note 8)	283,593	355,209
Investment in a joint venture (Note 9)	801,003	750,231
Exploration and evaluation assets (Note 10)	8,719,802	8,650,140
Security deposits	948	948
Total non current assets	9,805,346	9,756,528
TOTAL OF ASSETS	\$ 9,938,798	\$ 9,842,895
LIABILITIES		
CURRENT		
Accounts payable (Note 11)	\$ 3,256,976	\$ 2,833,576
Deposit (Note 9)	90,000	38,513
Loans (Note 12)	20,261	19,934
Subscription received in advance	85,623	-
Indemnities payable to subscribers (Note 13)	6,289,782	6,187,352
Due to a shareholder without interest and specific repayment terms	396,785	-
Current portion of long term debts (Note 14)	1,509,969	1,199,720
Current portion of debentures (Note 15)	2,211,431	1,900,000
Total current liabilities	13,860,827	12,179,095
NON CURRENT		
Long term debts (note 14)	-	13,832
Debentures (note 15)	140,256	529,773
Total of non current liabilities	140,256	543,605
TOTAL OF LIABILITIES	\$ 14,001,083	\$ 12,722,700

Nippon Dragon Resources Inc.

(Exploration Stage Company)

CONSOLIDATED FINANCIAL POSITION (cont'd)

(in Canadian dollars)

Year ended September 30, 2014

	2014	2013 Restated
SHAREHOLDER'S DEFICIENCY		
Share capital (Note 16)	\$ 41,717,173	\$ 40,873,171
Contributed surplus	9,927,144	9,150,019
Warrants (Note 16)	141,858	522,639
Equity component of convertible debentures	776,915	879,824
Deficit	<u>(56,625,375)</u>	<u>(54,305,458)</u>
TOTAL SHAREHOLDER'S DEFICIENCY	<u>(4,062,285)</u>	<u>(2,879,805)</u>
TOTAL LIABILITIES AND SHAREHOLDER'S DEFICIENCY	<u>\$ 9,938,798</u>	<u>\$ 9,842,895</u>

COMMITMENTS AND CONTIGENCIES (Note 20)

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

ON BEHALF OF THE BOARD OF DIRECTORS

(s) Paul A. Girard _____, Director

(s) Émile P. Molgat _____, Director

Nippon Dragon Resources Inc.

(Exploration Stage Company)

CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE LOSS

(in Canadian dollars)

Year ended September 30, 2014

	2014	2013 Restated
INCOME		
Contracts income from a joint operation (Note 6)	\$ 72,481	\$ -
CONTRACTS COST		
Contract cost from a joint operation (Note 6)	57,321	-
Mobilization cost	31,912	-
Maintenance and repairs of equipment	10,261	-
Other expenses	1,270	-
	<u>100,764</u>	<u>-</u>
ADMINISTRATIVE AND GENERAL OPERATING EXPENSES		
Salaries and fringe benefits	465,103	361,409
Stock-based compensation	299,507	179,298
Insurances	36,738	42,484
Bank charges	2,351	2,662
Trustee fees and registration	53,071	61,678
Management fees	1,150	-
Professional fees	203,499	545,744
Rent	41,000	21,546
Maintenance and repairs	762	1,653
Stationary and office expenses	14,774	25,131
Telecommunications	3,775	6,020
Travelling and promotion	105,042	42,878
Amortization of property, plant and equipment	71,616	249,814
Gain on disposal of property, plant and equipment	(4,817)	-
Loss (gain) on evaluation of precious metal	327	(6,633)
Write-off of a tax credit receivable	-	88,727
Bad debts	-	38,960
Loss on debt settlement	-	(7,410)
Indemnities to subscribers (Note 13)	107,217	99,194
	<u>1,401,115</u>	<u>1,753,155</u>
OTHERS FINANCIALS ELEMENTS		
Interests on debentures and debts	848,586	658,501
Financing charges and other interests	40,459	68,058
Rent income	(2,843)	-
Write-off of advances to the joint venture	209,250	-
Share of results in the joint-venture (Note 9)	(218,535)	42,253
	<u>876,917</u>	<u>768,812</u>
LOSS BEFORE INCOME TAX	<u>(2,306,315)</u>	<u>(2,521,967)</u>
INCOME TAXES (Note 22)		
Deferred income taxes	-	43,365
TOTAL NET LOSS AND COMPREHENSIVE LOSS	<u>\$ (2,306,315)</u>	<u>\$ (2,478,602)</u>
NET LOSS PER SHARE		
Basic	\$ (0.0395)	\$ (0.0502)
Diluted	\$ (0.0395)	\$ (0.0502)
Weighted average number of shares outstanding	58,354,707	49,418,936

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

Nippon Dragon Resources Inc.

(Exploration Stage Company)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in Canadian dollars)

Year ended September 30, 2014

	Number of shares	Share capital	Contributed surplus	Warrants	Equity component of convertible debentures	Deficit	Total equity
BALANCE AS AT OCTOBER 1 ST , 2013							
(amount previously reported)	53,740,633	\$ 40,873,171	\$ 9,150,019	\$ 522,639	\$ 879,824	\$ (54,223,719)	\$ (2,798,066)
Restatement (note 3)	-	-	-	-	-	(81,739)	(81,739)
BALANCE AS AT OCTOBER 1 ST , 2013							
(amount restated)	53,740,633	40,873,171	9,150,019	522,639	879,824	(54,305,458)	(2,879,805)
Shares issued by private investment	1,991,538	134,880	-	47,442	-	-	182,322
Shares issued to settle interests on debentures	419,922	50,391	-	-	-	-	50,391
Convertibles debentures redemption	-	-	49,395	-	(49,395)	-	-
Debentures conversion	7,319,233	658,731	-	-	(53,514)	-	605,217
Options granted – Stock-based compensation	-	-	299,507	-	-	-	299,507
Other issuance expenses	-	-	-	-	-	(13,602)	(13,602)
Warrants expired	-	-	428,223	(428,223)	-	-	-
Net loss and comprehensive loss	-	-	-	-	-	(2,306,315)	(2,306,315)
BALANCE AS AT SEPTEMBER 30, 2014	63,471,326	\$ 41,717,173	\$ 9,927,144	\$ 141,858	\$ 776,915	\$ (56,625,375)	\$ (4,062,285)

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

Nippon Dragon Resources Inc.

(Exploration Stage Company)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (cont'd)

(in Canadian dollars)

Year ended September 30, 2013

	Number of shares	Share capital	Contributed surplus	Warrants	Equity component of convertible debentures	Deficit	Total equity
BALANCE AS AT OCTOBER 1 ST , 2012							
(amount previously reported)	44,961,479	\$ 40,426,344	\$ 7,677,646	\$ 1,643,233	\$ 826,574	\$ (51,768,056)	\$ (1,194,259)
Restatement (note 3)	-	-	-	-	-	(44,681)	(44,681)
BALANCE AS AT OCTOBER 1 ST , 2012							
(amount restated)	44,961,479	40,426,344	7,677,646	1,643,233	826,574	(51,812,737)	(1,238,940)
Shares issued by private investment	7,566,024	512,499	-	-	-	-	512,499
Shares issued by flow-through private investment	655,768	44,135	-	-	-	-	44,135
Shares and bonds issued to settle debentures and debts	557,362	62,674	-	-	-	-	62,674
Issuance of convertible debenture	-	-	-	-	53,250	-	53,250
Value attributed to warrants on investment	-	(172,481)	-	172,481	-	-	-
Options granted – Stock-based compensation	-	-	179,298	-	-	-	179,298
Warrants expired	-	-	1,293,075	(1,293,075)	-	-	-
Other issuance expenses	-	-	-	-	-	(14,119)	(14,119)
Net loss and comprehensive loss	-	-	-	-	-	(2,478,602)	(2,478,602)
BALANCE AS AT SEPTEMBER 30, 2014	53,740,633	\$ 40,873,171	\$ 9,150,019	\$ 522,639	\$ 879,824	\$ (54,305,458)	\$ (2,879,805)

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

Nippon Dragon Resources Inc.

(Exploration Stage Company)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in Canadian dollars)

Year ended September 30, 2014

	2014	2013 Restated
OPERATING ACTIVITIES		
Net loss and comprehensive loss	\$ (2,306,315)	\$ (2,478,602)
Adjustments:		
Write-off of an advance to the joint venture	209,250	-
Share of results in the joint venture	(218,535)	42,253
Stock-based compensation	299,507	179,298
Interests capitalized on convertible debentures	50,391	62,674
Amortization of discount on issuance of debentures	384,231	184,415
Amortization of financing cost	17,526	18,974
Amortization of property, plant and equipment	71,616	249,814
Gain on disposal of property, plant and equipment	(4,817)	-
Loss (gain) on valuation of precious metal	327	(6,633)
Write-off of a tax credit receivable	-	88,727
Gain on settlement of debts	-	(7,410)
Indemnities to subscribers	107,217	99,194
Deferred income tax	-	(43,365)
	(1,389,602)	(1,610,661)
Changes in working capital items (Note 21)	546,400	831,257
Cash flows from operating activities	(843,202)	(779,404)
INVESTING ACTIVITIES		
Tax credits collected	14,702	(39,558)
Disposal of property, plant and equipment	4,817	-
Addition to exploration and evaluation assets	(112,284)	(163,843)
Cash flows from investing activities	(92,765)	(203,401)
FINANCING ACTIVITIES		
Advance to a partner in a joint venture company	(41,487)	-
Issuance of loans, debts and debentures	547,441	529,369
Repayment of indemnities payable to subscribers	(4,787)	-
Advance to a shareholder	396,785	-
Long-term debts repayment	(25,648)	(27,247)
Debentures repayment	(100,002)	-
Shares issuance cost	(13,602)	(14,119)
Debts and debentures issuance cost	-	(36,500)
Issuance of shares and warrants	182,322	556,634
Cash flows from financing activities	941,022	1,008,137
NET CHANGE IN CASH AND CASH EQUIVALENTS	5,055	25,332
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	51,293	25,961
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 56,348	\$ 51,293

Supplemental cash flows information (Note 21)

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

Nippon Dragon Resources Inc.

(Exploration Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in Canadian dollars)

September 30, 2014 and 2013

1. STATUTES OF INCORPORATION AND NATURE OF OPERATIONS

Nippon Dragon Resources Inc. (Formerly Rocmec Mining Inc., hereafter the “Company”) specializes in the exploration of metal in mining sites located in Quebec.

The Company is incorporated under the part 1A of the *Quebec Companies Corporation Act* and continued under the *Quebec Business Corporations Act*. The address of the Company's registered office and its principal place of business is 500-7055, boulevard Taschereau, Brossard (Quebec) J4Z 1A7. The Company's shares are listed on the TSX Venture Exchange under the symbol “NIP”.

The consolidated financial statements for the year ended September 30, 2014 (including comparatives statements) were approved and authorized for issue by the Board of Directors on January 27, 2015.

2. GOING CONCERN

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and on the basis of the going concern assumption, meaning the Company will be able to realize its assets and discharge its liabilities in the normal course of operations.

Given that the Company has not yet found a mineral property containing mineral deposits that are economically recoverable, the Company has not yet generated any income or cash flows from its mining exploration operations. As at September 30, 2014, the Company has cumulated deficit of \$56,625,375 (\$54,305,458 as at September 30, 2013). As at September, 2014, the Company has a working capital deficiency. The Company's current liquidity position is not sufficient to fund next year's administrative and exploration's expenses. These conditions raise significant doubt regarding the Company's ability to continue as a going concern and the use of the going concern assumption.

The Company's ability to continue as a going concern is dependent upon its ability to raise additional financing to further explore its mineral properties and to the current and non-current debt repayments and, even if the Company has been successful in the past in doing so, there is no assurance that it will manage to obtain additional financing in the future. Management is assessing its alternatives in terms of financing options including the renegotiation of the debts' terms and its strategic alternatives that include the disposal of its rights in the Rocmec 1 property and the reduction of its discretionary expenses.

The carrying amounts of assets, liabilities, revenues and expenses presented in the consolidated financial statements and the consolidated statement of financial position classification have not been adjusted as would be required if the going concern assumption were not appropriate.

Nippon Dragon Resources Inc.

(Exploration Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in Canadian dollars)

September 30, 2014 and 2013

3. CORRECTIONS OF PRIOR PERIOD ERRORS

The Company has restated the 2013 financial statements as follows:

Accrued interests on debentures

The Company found an error in the calculation of accrued interests on its debentures. Therefore, accrued interest liabilities on debentures as at September 30, 2013 were understated by \$81,739 of which \$37,058 is related to the results of the year ended September 30, 2013 (\$ 44,681 for prior years).

4. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS AND COMPLIANCE TO IFRS

4.1 Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These consolidated financial statements have been prepared using the accounting policies as set out in the previous audited annual financial statements.

4.2 Basis of evaluation

These consolidated financial statements have been prepared on the historical cost basis, except for available-for-sale financial instruments which are measured at fair value.

4.3 Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Company's and its subsidiary's functional currency.

5. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been applied in the preparation of these consolidated financial statements are summarized below.

5.1 Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company

At the date of authorization of these consolidated financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been early adopted by the Company.

Management anticipates that all of the pronouncements will be adopted in the Company's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Company's consolidated financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Company's consolidated financial statements.

Nippon Dragon Resources Inc.

(Exploration Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in Canadian dollars)

September 30, 2014 and 2013

5. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

5.1 Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company (cont'd)

IFRS 9 Financial Instruments (effective October 1st, 2015)

IASB intends to entirely replace IAS 39, financial instruments: recognition and measurement. The replacement standard (IFRS 9) is being issued in phases. To date, the sections dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. These sections will be effective for annual periods beginning on or after January 1st, 2015. Further sections dealing with impairment methodology and hedge accounting are still being developed. Management has yet to assess the impact of this new standard on the consolidated financial statements. However, they do not expect to implement IFRS 9 until all of its sections have been published and they can comprehensively assess the impact of all changes.

IAS 32 Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)

The Amendments to IAS 32 add application guidance to address inconsistencies in applying IAS 32's criteria for offsetting financial assets and financial liabilities in the following two areas:

- The meaning of "currently has a legally enforceable right of set-off"
- Can some gross settlement systems may be considered equivalent to a net basis settlement?

The Amendments are effective for annual periods beginning on or after October 1st, 2014 and are required to be applied retrospectively. Management does not anticipate a material impact on the Company's consolidated financial statements from these Amendments.

5.2 Reporting standards, amendments and interpretations of standards published and adopted by the Company

IFRS 13, Fair value measurement

The Company adopted IFRS 13, Fair Value Measurement on establishing fair values and introduces consistent disclosure requirements. Additional information on fair value measurement is disclosed in note 18 on financial instruments.

IFRS 7, Disclosures – Offsetting Financial Assets and Financial Liabilities

The Company adopted IFRS 7, Disclosures – Offsetting Financial Assets and Financial Liabilities relating to gross and net amounts of recognized financial instruments. Additional information on financial assets and financial liabilities is disclosed in Note 7 on accounts receivables and other receivables.

Nippon Dragon Resources Inc.

(Exploration Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in Canadian dollars)

September 30, 2014 and 2013

5. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

5.3 Principles of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiary; Rocmec Technologies Inc. The subsidiary is currently inactive.

5.4 Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. A financial liability is derecognized when it is extinguished, discharged, cancelled or when it expires.

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans and receivables are recognized initially at fair value net of transaction costs. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment. Discounting is omitted where the effect of discounting is immaterial.

Available for sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories.

Available-for-sale financial assets are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive income. Interest on available-for-sale investments, calculated using the effective interest method, are recognized in the consolidated statement of comprehensive loss as part of finance income, if need be. When an available for-sale asset is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income to the consolidated statement of comprehensive loss and are included in other gains or losses.

Nippon Dragon Resources Inc.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in Canadian dollars)

September 30, 2014 and 2013

5. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

5.4 Financial instruments (cont'd)

Financial liabilities

Financial liabilities are initially measured at fair value plus transaction costs. The financial liabilities are then measured at amortized cost using the effective interest method, unless they accompanied by an embedded derivative. In such cases, the Company designates the entire hybrid instrument as at fair value through profit or loss.

The financial liabilities are classified as current contract if the payment is redeemable within 12 months. If not, they are considered as non-current liabilities.

The Company has classified its financial instruments as follows:

<u>Categories</u>	<u>Financial instruments</u>
Loans and receivables	Accounts receivable and other receivables Advances to the joint venture Cerro Dorado
Financial liabilities at amortized cost	Liabilities Loans Indemnities payable to subscribers Due to a shareholder Long term debts Convertible debentures
Financial liabilities at fair value through profit or loss	Loans with nominal value of \$1,134,906 and \$365,094 Others debentures

Convertible debentures

The component parts of convertible debentures issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument. The conversion option that will be settled by the exchange of a fixed amount of cash for a fixed number of the Company's own equity instruments is classified as an equity instrument.

At the date of issuance, the liability component is recognized at fair value, which is estimated using the prevailing market interest rate for similar non-convertible instruments. Subsequently, the liability component is measured at amortized cost using the effective interest method until extinguished upon conversion or at maturity.

The value of the conversion option classified as equity is determined at the issuance date by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This amount is recognized in equity, net of income tax effects, and is not subsequently remeasured. When and if the conversion option is exercised, the equity component of convertible debentures will be transferred to share capital. If the conversion option remains unexercised at the maturity date of the convertible debenture, the equity component of the convertible debentures will be transferred to contributed surplus. No gain or loss is recognized upon conversion or expiration of the conversion option.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in Canadian dollars)

September 30, 2014 and 2013

5. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

5.4 Financial instruments (cont'd)

Convertible debentures (cont'd)

Transaction costs that relate to the issuance of convertible debentures are allocated to the liability and equity components in proportion to the initial carrying amounts. Transaction costs relating to the equity component are recognized directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortized over the lives of the convertible debentures using the effective interest method.

Impairment of financial assets

At each reporting date of the consolidated statement of financial position, the Company assesses whether there is objective evidence that a financial asset, except for those at fair value through profit or loss, is impaired. A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after initial recognition (a "loss event") and that loss event has an impact on the estimated cash flows of the financial assets that can be reliably estimated. If such evidence exists, the Company recognizes an impairment loss, as follow:

Loans and receivables

Impairment loss is the difference between the amortized cost of the loan or receivable and the present value of discounted future cash flows estimated at the original instrument's effective interest rate. The carrying amount of the financial asset is reduced by this amount either directly or through the use of a reserve account.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the impairment loss decreases and it can be related objectively to an event occurring after the impairment devaluation.

5.5 Net loss per share

The calculation of the net loss per share is based on the weighted average number of shares outstanding for each year. The basic net loss per share is calculated by dividing the loss attributable to the equity owners of the Company by the weighted average number of common shares outstanding during the year.

Diluted earnings per share is calculated by adjusting earnings attributable to common shares of the Company, and the weighted average number of shares outstanding, for the effects of all dilutive potential ordinary shares which include options, warrants and convertible debentures. Dilutive potential common shares shall be deemed to have been converted into common shares at the beginning of the period or, if later, the date of issuance of the potential common shares.

For the purpose of calculating diluted earnings per share, the Company assumes the exercise of all dilutive options, warrants and conversion of debentures of the Company. The assumed proceeds from these instruments shall be regarded as having been received from the issue of ordinary shares at the average market price of ordinary shares during the year. The convertible debenture is antidilutive whenever its interest (net of tax and other changes in income or expenses) per ordinary share obtainable on conversion exceeds basic earnings per share. At the end of the reporting year, the diluted earnings per share is equal to the basic earnings per share as a result of the anti-dilutive effect of the outstanding options, warrants and convertible debentures, their conversion would impact in a reduction of the loss per share.

Nippon Dragon Resources Inc.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in Canadian dollars)

September 30, 2014 and 2013

5. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

5.6 Cash and cash equivalents

Cash and cash equivalents comprise cash.

5.7 Tax credits and redeemable rights receivable

The Company is entitled to refundable credits on duties for losses under the *Mining Tax Act*. Those refundable credits on duties for losses are applicable on exploration costs incurred in the Province of Quebec.

Furthermore, the Company is entitled to refundable tax credits for resources for mining companies on qualified exploration expenditures incurred. The credits on duties and the exploration tax credit have been applied against the exploration costs incurred as stated in IAS 20.

5.8 Exploration and evaluation expenses and exploration and evaluation assets

Exploration and evaluation expenditures are costs incurred in the course of initial search for mineral deposits with economic potential. Costs incurred before the legal right to undertake exploration and evaluation activities are recognized in profit or loss when they are incurred.

Once the legal rights to undertake exploration and evaluation activities has been obtained, the costs of acquiring mineral rights, expenses related to the exploration and evaluation of mining properties reduced by refundable tax credits and credits on duties related to these expenses are charged to the cost of exploration and evaluation assets to the extent where management considers it is probable that the costs will be recovered through future development or the sale of the property. Expenses related to exploration and evaluation include salaries related to geological studies and planning of surface exploration programs, topographical, geological, geochemical and geophysical studies, exploration drilling, trenching, sampling and other costs related to the evaluation of the technical feasibility and commercial viability of extracting a mineral resource. The various costs are capitalized on a property-by-property basis pending determination of the technical feasibility and commercial viability of extracting a mineral resource. These assets are recognized as intangible assets and are carried at cost less any accumulated impairment losses. No depreciation expense is recognized for these assets during the exploration and evaluation phase.

Whenever a mining property is considered no longer viable, or is abandoned, the capitalized amounts are written down to their recoverable amounts (Note 5.9); the difference is then immediately recognized in profit or loss.

When technical feasibility and commercial viability of extracting a mineral resource are proven, exploration and evaluation assets related to the mining property are transferred to property and equipment in "Mining assets under construction". Before reclassification, exploration and evaluation assets are tested for impairment (Note 5.9) and any impairment loss is recognized in profit or loss.

To date, neither the technical feasibility nor the commercial viability of the extraction of a mineral resource has been proven.

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5. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

5.8 Exploration and evaluation expenses and exploration and evaluation assets (cont'd)

Although the Company has taken steps to verify titles to the mining properties in which it holds an interest, in accordance with industry practices for the current stage of exploration and development of such properties, these procedures do not guarantee the validity of the titles. Property titles may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

5.9 Property, plant and equipment

Property, plant and equipment are recognized at cost less accumulated depreciation and impairment losses.

Cost includes all costs incurred initially to acquire an item of property, plant and equipment, costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and costs incurred subsequently to add to or replace part of it. Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the asset is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Day-to-day maintenance costs of property, plant and equipment are recognized in profit or loss when incurred. Day-to-day maintenance costs primarily include labour and consumables, and may also include the cost of small parts.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. Depreciation is recognized on a straight-line basis to write down the cost to its estimated residual value, with a constant charge over the useful life of the asset. Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. The periods applicable are as follows:

	<u>Useful life</u>
Equipment	5 and 7 years
Mill plant	10 years
Computer equipment	4 years
Automotive equipment	4 years
Leasehold improvements	Term of lease – 3 years
Telephone system	5 years

The Company owns an exclusive licence of a thermal fragmentation patented method. This licence is an intangible asset acquired separately which was entirely impaired in 2010.

In the case of leasehold property, expected useful lives are determined by reference to comparable owned assets or over the term of the lease, if shorter.

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5. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

5.9 Property, plant and equipment (cont'd)

Depreciation ceases when an asset is classified as held for sale (or included in a group that is classified as held for sale) or when the asset is derecognized. Therefore, depreciation does not cease when the asset becomes idle or retired from active use, unless the asset is fully depreciated.

The depreciation cost for each period is recognized in net income, except for some property, plant and equipment related to exploration and evaluation activities from which the amortization is included in the exploration and evaluation asset carrying value when applied to specific exploration and evaluation projects.

The residual value, depreciation method and the useful life of each assets are reviewed at least at each financial year-end.

The carrying amount of an item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of an item of property and equipment is included in profit or loss when the item is derecognized.

5.10 Depreciation of property, plant and equipment and of exploration and evaluation assets

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash generating units). As a result, some assets are tested individually for impairment and some are tested at a cash-generating unit level.

Whenever events or changes in circumstances indicate that their carrying amount may not be recoverable, an asset or a cash-generating unit are reviewed for impairment. In addition, when technical feasibility and commercial viability of extracting a mineral resource are proven, the exploration and evaluation assets of the related mining property are tested for impairment before these items are transferred to property, plant and equipment.

Impairment reviews for exploration and evaluation assets are carried out on a project by project basis, with each project representing a potential single cash generating unit. An impairment review is undertaken when indicators of impairment arise, but typically when one of the following circumstances applies:

- the right to explore the areas has expired or will expire in the near future with no expectation of renewal;
- no further exploration or evaluation expenditures in the area are planned or budgeted;
- no commercially viable deposits have been discovered, and the decision has been made to discontinue exploration in the area;
- sufficient work has been performed to indicate that the carrying amount of the expenditure carried as an asset will not be fully recovered.

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5. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

5.10 Depreciation of property, plant and equipment and of exploration and evaluation assets (cont'd)

An impairment loss is recognized in profit or loss for the amount by which the asset or cash generating unit's carrying amount exceeds its recoverable amount. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value-in-use.

The impairment loss reduces the asset or is allocated pro-rata on the basis of the carrying amount of each asset in the cash-generating unit. All the assets are assessed whether there is any indication that an impairment loss recognized in prior periods may no longer exist. An impairment charge is reversed if the asset or cash generating unit's recoverable amount exceeds its carrying amount.

5.11 Capital assets under lease

Lease contracts under which the Company assumes substantially all risks and rewards of ownership are classified as finance leases. Other lease contracts are classified as operations leases and therefore are not recognized in the Company's consolidated statements of financial position.

Payments made under operation leases are recognized in net earnings using straight-line basis over term of the lease.

5.12 Joint Arrangements

Joint venture

The joint venture is accounted for using the equity method, which reflects the proportionate interest in the joint venture's net assets (note 9). The functional currency of the joint venture is the U.S. dollar. According to the equity method, the investment in the joint venture is initially recognized at cost. Subsequently, the carrying value is increased or decreased to recognize the Company's share of the profit or loss of the joint venture and the exchange differences accounted for in other comprehensive income of the joint venture.

Joint operation

Joint operation means a partnership in which the parties have joint control over the company and share rights to its assets and obligations. Joint control is considered to exist when all parties are required to reach unanimous consent over decisions about relevant joint operation business activities. This usually results from direct participation rather than creating a separate entity.

The functional currency of the company is the Rand (South Africa). The Company accounts its proportionate share of the joint operation assets, liabilities, revenues and expenses in accordance with IFRS specific to assets, liabilities, revenues and expenses.

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5. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

5.13 Provisions, contingent liabilities and contingent assets

Provisions are recognized when present obligations as a result of a past event will probably lead to an outflow of economic resources by the Company and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, for example, legal disputes, decommissioning, restoration and similar liabilities, or onerous contracts.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Provisions are discounted when the time value of money is significant.

Any reimbursement that the Company can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset. However, this asset may not exceed the amount of the related provision.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimates.

In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognized, unless it was assumed in the course of a business combination.

Possible inflows of economic benefits to the Company that do not yet meet the recognition criteria of an asset are considered contingent assets. Contingent assets usually arise from unplanned or other unexpected events that give rise to the possibility of an inflow of economic benefits to the entity. Contingent assets are not recognized in the consolidated financial statements since this may result in the recognition of income that may never be realized.

The Company's operations are regulated by government environmental protection legislation. Environmental consequences are difficult to identify in terms of amounts, timetable and impact. The Company's operations are in compliance with current laws and regulations. Site restoration costs currently incurred are negligible and are capitalized to the cost of exploration and evaluation assets as they incurred. When the technical feasibility and commercial viability of extracting a mineral resource will be proven, a restoration provision will be recognized in the cost of the mining property when there will be constructive commitment that will have resulted from past events, it will be probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be measured with sufficient reliability.

5.14 Deferred income taxes

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not recorded on the initial recognition of goodwill or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with shares in subsidiaries and joint ventures is not provided if reversal of these temporary differences can be controlled by the Company and it is probable that reversal will not occur in the foreseeable future.

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5. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

5.14 Deferred income taxes (cont'd)

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply on their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income. Note 6 deals with the evaluation of management regarding the probability of future taxable income that will offset the deferred tax assets.

Deferred tax assets and liabilities are offset only when the Company has the right and intention to set off current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognized as deferred income tax in profit or loss, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

The Company recognizes a deferred tax liability for the flow-through shares for the taxable temporary difference that arises from difference between the carrying amount of the eligible expenditures capitalized in the statement of financial position and its tax basis and a deferred tax charge at the time when the eligible expenses are incurred and the Company has renounced to the right to tax deductions.

5.15 Equity

Share capital represents the amount received on the issuance of shares and any income tax benefit on the underlying profit to these issuance costs are presented in deficit. Shares issued for consideration other than cash are recorded at their fair value according to the quoted price on the day of the conclusion of the agreement.

Unit placements

Proceeds from unit placements are allocated between shares and warrants issued using their relative fair value determined using the Black-Scholes pricing model, in order to calculate the fair value of the warrants.

Flow-through placements

Issuance of flow-through shares represents in substance an issue of ordinary shares, warrants and the sale of the right to tax deductions to the investors. When the flow-through shares are issued, the sale of the right to tax deductions is deferred and presented as flow-through shares obligation in the statement of financial position. The proceeds received from flow-through placements are allocated between shares, warrants and the flow-through shares obligation using the residual method. Proceeds are first allocated to shares according to the quoted price of existing shares at the time of issuance, then to warrants according to their fair value at the date of issuance and the residual proceeds are allocated to the flow-through shares obligation.

Warrants

These amounts represent the allocation to warrants of the proceeds from unit placements. Charges related to warrants are transferred to share capital upon exercise. The expired warrants are transferred to contributed surplus.

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5. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

5.15 Equity (cont'd)

Contributed surplus

Contributed surplus includes charges related to share options and brokers' options until such equity instruments are exercised, in which case the amounts are transferred to share capital. The contributed surplus also includes the warrants which expired and have not been exercised.

Deficit

The deficit includes all current and prior period profits or losses not distributed.

Issuance cost of shares

The issuance cost of shares is included to deficit in the period in which they occurred.

5.16 Equity-settled share-based payments

The Company operates equity-settled share-based remuneration plans (share options plans) for its directors, officers and employees who are eligible and other stock-based payments offered to consultants.

None of the Company's plans feature any options for a cash settlement.

All goods and services received in exchange for the grant of any share-based payments are measured at their fair value. Where an employee or other providing similar services is rewarded using share-based payments, the fair value of the services rendered by the employee is determined indirectly by reference to the fair value of the equity instruments granted. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions.

All equity-settled share-based payments (except brokers' options) are ultimately recorded as an expense in profit or loss or capitalized as an exploration and evaluation asset with a corresponding credit to contributed surplus in equity. Options issued to brokers are accounted for as share issue expenses of equity instruments, with a corresponding credit to contributed surplus in equity.

If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognized in the current period. No adjustment is made to any expense recognized in prior period if the number of share options ultimately exercised is different than the number estimated.

Upon exercise of share options, the proceeds received are recorded as share capital. The accumulated charges related to the share options and brokers' options recorded in contributed surplus are then transferred to share capital.

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5. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

5.17 Segment reporting

The Company presents and discloses segmental information based on information that is regularly reviewed by the chief operating decision-maker, i.e. the Chairman and the Board of Directors.

The Chairman and the Board of Directors have the joint responsibility of allocating resources to the Company's operating segments and assessing their performance.

Management considers that the Company operates in a single sector, which is exploration and evaluation.

6. CRITICAL ACCOUNTING ESTIMATES, JUDGEMENTS AND ASSUMPTIONS

When preparing the consolidated financial statements, management undertakes a number of judgements, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. The actual results are likely to differ from the judgments, estimates and assumptions made by management, and will seldom equal the estimated results. Information about the significant judgments, estimates and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses are presented below.

Going concern

The assessment of the Company's ability to execute its strategy by funding future working capital requirements involves judgments. Further information regarding going concern is outlined in Note 2.

Share-based payments and equity component of convertible debentures

The estimations of share-based payment and equity component of convertible debentures costs require the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. The Company has made estimates as to the volatility of its own shares, the probable life of share options and warrants granted and the time of exercise of those share options and warrants. The model used by the Company is the Black-Scholes valuation model.

Useful life and estimated residual value of property, plant and equipment and amortization costs

Management reviews its estimate of the useful life of property, plant and equipment at each statement of financial position date according to the period during which assets should be available for use. The amount and the length of time over which the amortization of property, plant and equipment is recognized are influenced by these estimates. The estimates are updated if expectations change due to physical wear and tear, technical obsolescence, commercial or legal restrictions or other.

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6. CRITICAL ACCOUNTING ESTIMATES, JUDGEMENTS AND ASSUMPTIONS (cont'd)

Exploration and evaluation assets

Probability of costs recovery at initial recognition

According to the accounting policies of the Company, once the legal rights that exploration and evaluation assets are obtained, the costs associated with the acquisition of mineral rights, expenses on exploration and evaluation of mineral properties and that tax credits and credits on duties associated with such costs are charged to cost of exploration and evaluation assets if management considers probable that the costs will be recovered through future development or sale of the property. Assessing the probability of recovery of capitalized costs related to exploration and evaluation assets requires the exercise of judgment in determining if the future economic benefits are probable, which may be based on assumptions and estimates made by management regarding future events. Assumptions and estimates may change if new information proves to be available.

If after capitalizing exploration and evaluation expenses, information becomes available that give rise to uncertainty of the recovery of capitalized costs, the amounts capitalized will be written down to their recoverable amounts in the period when this information becomes available (see the paragraph below concerning critical accounting estimates, judgments and assumptions for impairment of property and equipment, intangible assets and exploration and evaluation assets).

Impairment of property, plant and equipment and exploration and evaluation assets

Determining if there are any facts and circumstances indicating impairment loss or reversal of impairment losses is a subjective process involving judgment and a number of estimates and interpretations in many cases.

When an indication of impairment loss or a reversal of an impairment loss exists, the recoverable amount of the individual asset or the cash-generating units must be estimated. No impairment losses have been recognized for the reporting periods.

Other provisions and contingent liabilities

Judgments are made as to whether a past event has led to a liability that should be recognized in the consolidated financial statements or disclosed as a contingent liability. Quantifying any such liability often involves judgments and estimations. These judgments are based on a number of factors including the nature of the claims or dispute, the legal process and potential amount payable, legal advice received, previous experience and the probability of a loss being realized. Several of these factors are source of estimation uncertainty. Other provisions and contingent liabilities include indemnities payable to subscribers.

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6. CRITICAL ACCOUNTING ESTIMATES, JUDGEMENTS AND ASSUMPTIONS (cont'd)

Recognition of deferred income tax assets and measurement of income tax expense

Management continually evaluates the likelihood that its deferred tax assets could not be realized. This requires management to assess whether it is probable that sufficient taxable income will exist in the future to utilize these losses within the carry-forward period. By its nature, this assessment requires significant judgment. To date, management has not recognized any deferred tax assets in excess of existing taxable temporary differences expected to reverse within the carry-forward period.

Classification of joint arrangements

Cerro Dorado

The Company holds 50% of the voting rights of its joint arrangement Rey Salomon Concession (OFIR Mine) through the company Cerro Dorado. The Company has joint control over these arrangements as under the contractual agreements, unanimous consent is required from all parties to the agreements for all relevant activities.

The contractual agreement provides the equal rights to the net assets of the joint venture. Therefore the Company classified this arrangement as a joint venture.

Maxem Equipment

The Company concluded an exclusive distribution agreement with Maxem Equipment in South Africa for the distribution and the use of its patented thermal fragmentation mining method. No legal entity has been created for the purposes of the agreement, and each company is entitled to 50% of the profits and losses generated by the partnership.

Since no legal entity has been created and the respective companies only have an interest in the profits and losses generated by the agreement, the Company classified this partnership as a joint operation.

7. ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES

	2014	2013
Receivable from a partner in a joint operation	\$ 15,160	\$ -
Receivable from a non-related company	39,960	39,960
Provision	(38,960)	(38,960)
	1,000	1,000
	\$ 16,160	\$ 1,000

Receivable from a partner in a joint operation includes a receivable amount of \$72,481 and a payable amount of \$57,321.

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9. INVESTMENTS IN A JOINT VENTURE

During the previous year, the Company has optioned a gold property, concession Rey Salomon (OFIR mine) located in Peru. It jointly controls the property with another company through their subsidiary Cerro Dorado S.A.C., which is incorporated in Peru. The Company has not disbursed any sum to acquire this exploration and evaluation asset in joint venture. The contribution of the Company to the joint venture includes the use of its patented thermal fragmentation mining method and the equipment for its application. Also, the Company will act as the exploration operator. The joint venture agreement stipulates that for an initial five year term, the split of net revenues generated from the exploitation of this mining property will be 50-50. In subsequent years, the Company will be entitled to 75% of the net revenues generated from the exploitation of the property.

In the partnership agreement that was established in Vaudreuil-Dorion (Quebec), the Company contributes its technology and expertise in mining and development production to OFIR mine; the company partner, Chazel Capital Inc. ("Chazel"), committed itself to bring \$1.2 million (US) required for mine production. "Chazel's" president, André Savard, is also the president of Nippon Dragon Resources Inc. Thus, the parties have agreed to hold 50% each of voting shares in the joint venture.

On August 26, 2012, the company partner had reached the amount of \$1.2 million (US) of expenditures required for the project OFIR. From this date on, the joint venture supported the expenses incurred by the Company.

	2014	2013
50% interest in the net assets of Cerro Dorado	\$ 801,003	\$ 582,468
Advances to Cerro Dorado, without interest	-	167,763
	<u>\$ 801,003</u>	<u>\$ 750,231</u>

The carrying amount of assets and liabilities in the joint venture is as follows:

	2014	2013
CURRENT ASSETS		
Cash and cash equivalents	\$ 71,940	\$ 17,499
Accounts receivable and other receivables	70,466	137,630
Prepaid expenses	189,170	241,901
	<u>331,576</u>	<u>397,030</u>
NON CURRENT ASSETS		
Property, plant and equipment	160,276	152,220
Exploration and evaluation assets	2,143,962	707,594
	<u>2,304,238</u>	<u>859,814</u>
TOTAL ASSETS	<u>\$ 2,635,814</u>	<u>\$ 1,256,844</u>
CURRENT LIABILITIES		
Accounts payable	\$ 48,364	\$ 60,508
Balance of purchase price - exploration and evaluation assets	985,444	-
Advance from a shareholder, without interest	-	31,400
	<u>-</u>	<u>31,400</u>
TOTAL LIABILITIES	<u>\$ 1,033,808</u>	<u>\$ 91,908</u>

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9. INVESTMENTS IN A JOINT VENTURE (cont'd)

On October 18, 2012, the Company and Chazel entered into an addendum (the « Addendum ») to the joint-venture agreement. The Addendum provides for, among other things, the following terms and conditions:

- (i) For an initial period of 7 years, the Company will be entitled to 35% of the profits generated from the Rey Salomon property while Chazel and its financial partners will be entitled to 65% of the profits and ;
- (ii) At the end of the 7-year period, the Company will be entitled to 60% of the profits whereas Chazel will be entitled to 40% of the profits.

The initial period of 7 years will commence once the production at the Rey Salomon property has reached 400 gold ounces per month. Until the commencement of such initial 7-year period, the allocation of the profits generated from the Rey Salomon property will increase gradually from 50% to 65% in the case of Chazel and decrease gradually from 50% to 35% in the case of the Company pursuant to a schedule provided for in the Addendum that is based on the aggregate amount raised by Chazel as part of the total investment of \$671,750.

Thus, Chazel has agreed to raise \$671,750 and, with the exception of an amount of \$90,000 to be disbursed directly to the Company, to invest such amount in the Rey Salomon property in exchange for an additional 15% interest in the project. As at September 30, 2014, Chazel had already disbursed an amount of \$90,000 (\$38,513 as at September 30, 2013) in regards to this agreement.

The Company will remain the mine operator and will have the option to buy the 15% interest on or before July 31, 2013, at a price equal to the addition of the two following amounts: (i) \$300,000 being an amount that has already been expended by Chazel and that will be credited from the total amount of \$671,750, and (ii) the portion of the total amount of \$671,750 exceeding \$300,000 that will have been raised by Chazel as of the date on which Nippon Dragon Resources Inc. exercises its option to purchase, carrying a 35% premium. This option has now expired.

Completion of the transaction is subject to the approval of the TSX Venture Exchange. Therefore, the amount of \$90,000 disbursed by Chazel was not accounted for as a sale of interest in the joint-venture as the transaction is not yet approved.

10. EXPLORATION AND EVALUATION ASSETS

	Balance as at October 1st, 2013	Additions	Tax credits and duties refundable	Impairment	Balance as at September 30, 2014
Denain (a)	\$ -	\$ -	\$ -	\$ -	\$ -
Courville Maruska (b)	-	-	-	-	-
Rocmec 1 (c)					
Mining rights	2,603,982	-	-	-	2,603,982
Exploration and evaluation	6,046,158	112,284	(42,622)	-	6,115,820
	<u>\$ 8,650,140</u>	<u>\$ 112,284</u>	<u>\$ (42,622)</u>	<u>\$ Nil</u>	<u>\$ 8,719,802</u>

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10. EXPLORATION AND EVALUATION ASSETS (cont'd)

	Balance as at October 1st, 2012	Additions	Tax credits and duties refundable	Impairment	Balance as at September 30, 2013
Denain (a)	\$ -	\$ -	\$ -	\$ -	\$ -
Courville Maruska (b)	-	-	-	-	-
Rocmec 1 (c)					
Mining rights	2,603,982	-	-	-	2,603,982
Exploration and evaluation	5,897,017	163,843	(14,702)	-	6,046,158
	<u>\$ 8,500,999</u>	<u>\$ 163,843</u>	<u>\$ (14,702)</u>	<u>\$ Nil</u>	<u>\$ 8,650,140</u>

a) Denain projet – Denain township, Quebec

85% interest in 24 mining claims, subject to 3.5% royalty

b) Courville-Maruska project – Courville township, Quebec

100% interest in 15 mining claims.

c) Rocmec 1 project – Dasserat township, Quebec

100% interest in mining rights including 76 mining claims which 11 mining claims subject to a 5% Net Metal Royalty on the first 25,000 ounces and 3% on additional ounces.

The exploration and evaluation assets capitalized are as follow:

	2014	2013
Supervision	\$ 70,809	\$ 117,493
Technical services	-	-
Other exploration expenses	41,475	46,350
Equipment rental	-	-
Amortization of property, plant and equipment	-	-
	<u>\$ 112,284</u>	<u>\$ 163,843</u>

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11. ACCOUNTS PAYABLE

	2014	2013 Restated
Trade accounts payable	\$ 494,193	\$ 677,417
Accrued interest payable	1,013,632	702,745
Taxes on Section XII.6 and III.14 payable	822,262	831,089
Salaries and fringe benefits payable	738,015	490,546
Other liabilities	188,874	131,779
	<u>\$ 3,256,976</u>	<u>\$ 2,833,576</u>

During the period, the Company settled accrued interest totaling \$50,391 by issuing 419,922 common shares at \$0.12 per share. This transaction did not result in a gain or loss on settlement of debt.

During the previous period, the Company settled accrued interest totaling \$62,674 by issuing 284,687 common shares at \$0.11 per share and 272,675 common shares at \$0.12 per share. This transaction did not result in a gain or loss on settlement of debt.

12. LOANS

	2014	2013
Loans reimbursable in gold, payable on demand	<u>\$ 20,261</u>	<u>\$ 19,934</u>

13. INDEMNITIES PAYABLE TO SUBSCRIBERS

	Flow-through placements 2011 a)	Flow-through placements 2010 b)	Flow-through placements 2009 c)	Total
Balance as at October 1 st , 2011	\$ -	\$ 1,204,500	\$ 4,318,449	\$ 5,522,949
Additions	540,809	42,400	-	583,209
Payment	-	-	(18,000)	(18,000)
Balance as at September 30, 2012	540,809	1,246,900	4,300,449	6,088,158
Addition	28,600	70,594	-	99,194
Decrease	-	-	-	-
Balance as at September 30, 2013	569,409	1,317,494	4,300,449	6,187,352
Addition	32,590	74,627	-	107,217
Decrease	-	-	(4,787)	(4,787)
Balance as at September 30, 2014	<u>\$ 601,999</u>	<u>\$ 1,392,121</u>	<u>\$ 4,295,662</u>	<u>\$ 6,289,782</u>

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13. INDEMNITIES PAYABLE TO SUBSCRIBERS (cont'd)

- a) Following flow-through financing agreements entered into with subscribers in 2011, the Company committed to incur \$839,950 in Canadian Exploration Expenses ("CEE") before December 31, 2012. At this date, the Company incurred an amount of \$120,670. Consequently, an approximated balance of \$719,300 in explorations expenses renounced to investors had not been incurred in CEE as of December 31, 2012. Amended renunciation forms have been filed with tax authorities and will consequently mean that new notice of assessment will be sent to subscribers for taxation year 2011. In this respect, the Company recorded on September 30, 2012 a \$540,809 provision as indemnities payable and interest and an expense for the same amount was recorded in earnings. At the same date, the Company recorded a \$84,427 provision in the statement of comprehensive loss as Parts XII.6 and III.14 in income taxes payable relating to the exploration expenses renounced and not incurred as at December 31, 2012. As at September 30, 2014, the Company also recorded a provision of \$32,590 (\$28,600 in 2013) for interest payable which was recorded in earnings as indemnities to subscribers.
- b) Following flow-through financing agreements entered into with subscribers in 2010, the Company committed to incur \$1,899,704 in Canadian Exploration Expenses before December 31, 2011. At this date, the Company incurred an amount of \$62,135 in exploration expenses. Consequently, an approximate balance of \$1,838,000 in explorations expenses renounced to investors had not been incurred in CEE as at December 31, 2011. Amended renunciation forms were filed with tax authorities and will consequently mean that new notice of assessment will be sent to subscribers for taxation year 2010. In this respect, the Company recorded as at September 30, 2011, a \$1,204,500 provision as indemnity payable and interest and an expense for the same amount was recorded in earnings. The Company also recorded at the same date a \$202,000 provision for Income taxes Part XII.6 and XII.14 payable relating to exploration expense renounced but not incurred as at December 31, 2011. For the year ended in September 30, 2014, the Company recorded a provision of \$74,627 (\$70,594 in 2013) for interest payable which was recorded in earnings as indemnities to subscribers.
- c) During the year ended September 30, 2010, Canada Revenue Agency ("CRA") audited flow-through expenses incurred by the Company from 2007 to 2009. All of the flow-through expenses renounced to the subscribers were accepted. However, CRA denied the eligibility to the federal tax credit ("FITC") and also had renounced to subscribers regarding underground exploration work. The amount of FITC denied by CRA totals \$2,343,650. The denial of this amount has no impact on the fiscal account balance of the Company but means that subscribers will receive notice of new reassessment for the tax years in question, representing 15% of their subscription less the federal income tax paid on the taxation of the FITC during the next year. The Company has estimated the loss suffered by investors in the amount of \$1,775,782 and an allowance of this amount for an indemnity has been expensed to earnings. The Company has offered a settlement in common shares at an issue price of \$0.05 per share to subscribers affected by this measure. The terms of this settlement were conditionally approved by the TSX Venture. As at September 30, 2011, the Company issued 19,426,675 common shares at a price of \$0.05 per share totaling \$971,333 in relation to this indemnity payable (971,333 common shares after consolidation) to the subscribers who accepted the proposed settlement. Therefore, the indemnity balance of the other subscribers is \$804,449.

Following flow-through financing agreements entered into with subscribers in 2009, the Company committed to incur \$5,888,560 in Canadian Exploration Expenses ("CEE") before December 31, 2010. At that date, the Company incurred an amount of \$1,139,591 in exploration expenses. Consequently, an approximate balance of \$4,749,000 in explorations expenses renounced to investors had not been incurred in CEE as at December 31, 2010. Amended renunciation forms were filed with tax authorities and will consequently mean that new notice of assessment will be sent to subscribers for taxation year 2009. In this respect, the Company accounted as at September 30, 2010, a \$3,142,000 provision for an indemnity payable and an expense for the same amount was recorded in earnings. In addition, the Company also recorded at the same date a \$579,000 provision for Income taxes Part XII.6 and XII.14 payable relating to exploration expenses renounced but not incurred as at December 31, 2010. As at September 30, 2011, the Company provided a \$372,000 for interest payable which was recorded in earnings as indemnities to subscribers.

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13. INDEMNITIES PAYABLE TO SUBSCRIBERS (cont'd)

c) cont'd

Regarding flow-through financing of 2009, a group of investors has filed a lawsuit with the Superior Court of Quebec for an approximate amount of \$1,726,000. The amount is currently being debated in Court and management deems that the amount recognized as an indemnity payable to subscribers is adequate.

The amounts of indemnity payable to subscribers provided by the Company represent management's best estimate of the potential liability in this regard and the actual amount may differ from management's current estimate. The amounts of indemnity payable to subscribers and the interests were calculated according to the tax laws and tax rates enacted for the concerned subscribers and the prescribed interest rates. The Company has always voluntarily fulfilled its responsibilities in accordance with the relevant authorities in the flow-through financing case and in relation with all the uncommitted balances in exploration work.

14. LONG-TERM DEBTS

	2014	2013
Obligations under capital leases secured by equipment having a net book value of \$9,215, payable by monthly instalments of \$948, including interest calculated at a 9% rate, maturing in July 2015	\$ 9,969	\$ 19,949
Loan of nominal value of \$1,134,906, secured by a first rank mortgage on Rocmec 1 property for an amount of \$1,134,906, repayable at maturity at 7.5% interest (effective rate of 40%), payable monthly, either in cash or in common shares at the Company's option, which 50% of the capital balance is redeemable before maturity, redeemable by the Company in cash or in units (each unit is comprised of one (1) common share of the Company and one (1) half warrant; each whole warrant entitles the holder to purchase one (1) common share of the Company at a price equal to the reference price plus 50%), maturing in May 2015	1,134,906	894,952
Loan of nominal value of \$365,094, secured by a first rank mortgage on Romec 1 property for an amount of \$365,094, repayable at maturity at 13.5% interest, payable monthly in cash, redeemable by the Company before maturity in cash, maturing in May, 2015	365,094	282,983
Loan payable by monthly instalments of \$1,605, including principal and interest calculated at 0% and 5.49% and repaid in totality during exercise before maturity	-	15,668
	1,509,969	1,213,552
Current portion	1,509,969	1,199,720
	<u>\$ Nil</u>	<u>\$ 13,832</u>

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14. LONG-TERM DEBTS (cont'd)

Long-term debts principal repayments to be made during the following years are as follows:

	Long-term debts	Capital lease
2015	\$ 1,500,000	\$ 10,425
Amount included in minimum lease payments – Interest expenses	-	(456)
	<u>\$ 1,500,000</u>	<u>\$ 9,969</u>

15. DEBENTURES

2014 2013

Liability component of convertible debentures

Five \$100,000 debentures, bearing interest at 13.5% (effective rate of 40%), repayable semi-annually in five equal and consecutive payments of \$100,000 starting from December 31, 2012. These debentures are convertible at the holder's option, into common shares at conversion prices of \$0.13. Interest is payable monthly since July 2012.

\$ 353,814 \$ 500,000

During the year 2014, the repayment terms stated above have been modified so that the capital will now be refundable after January 1st, 2014, repayable monthly in thirty payments of \$16,667, deferring the deadline to June 2016. No payment has been done between July 2014 and September 2014. Those missing payments will be repaid in November 2014

Debenture totalling \$1,500,000 secured by equipment and the thermal fragmentation exclusive licence (written-off in the year 2010), bearing interest at 9% (effective rate of 49%) payable quarterly, an amount equal to \$1,380,000 is convertible, at the price of \$2 per unit, at any time at the holder's option into units consisting of one (1) common share and one (1) common share purchase warrant, each warrant entitling the holder to purchase one (1) common share at the price of \$0.10 per common share for a 2 years period, expired in May 2012

1,500,000 1,500,000

Debenture issued in 2010 with a \$120,000 discount. The holder conversion right was valued at \$579,600 and was accounted as equity component of the convertible debentures. The fair value was estimate using the Black-Scholes options pricing model from the following assumptions: risk-free rate of 1.53 %, expected volatility of 106 %, no average dividend per share and expected life of two years.

Debenture totalling \$111,025 with a related party, bearing interest at 5% annually, expiring October 1st, 2018. This debenture is convertible in common shares, at the holder's option, at market price. Interest are payable on debenture maturity. The debenture has been converted during the exercise at a price of \$0.09.

-	57,775
<u>1,853,814</u>	<u>2,057,775</u>

Balance to carry forward

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15. DEBENTURES (cont'd)

	2014	2013
Balance carried forward	\$ 1,853,814	\$ 2,057,775

Others debentures

Debentures of a nominal value of \$537,500 redeemable by the Company at any time in cash or in units (each unit is comprised of one (1) common share of the Company and one (1) half warrant; each whole warrant entitles the holder to purchase one (1) common share of the Company at a price equal to the reference price plus 50%), bearing annual interest at 7.5% (effective rate of 40%), payable quarterly in cash or common shares, at the Company's option, payable at maturity on December 31, 2014.

	497,873	371,998
	2,351,687	2,429,773
Current portion	<u>2,211,431</u>	<u>1,900,000</u>
	<u>\$ 140,256</u>	<u>\$ 529,773</u>

Long-term debenture principal repayments to be made during the following years are:

2015	\$ 2,287,505
2016	<u>149,993</u>
	<u>\$ 2,437,498</u>

16. EQUITY

Share capital

The share capital of the Company consists only of fully paid common shares.

Authorized

Unlimited number of common shares without par value, voting, participating, dividend as declared by the Board of Directors. Shares are entitled, each in the same way, to payment of dividends and to capital reimbursement and give the right to one vote at the shareholders' meeting.

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16. EQUITY (cont'd)

Issued

The variations in share capital of the Company are detailed as follows:

	2014		2013	
	Quantity	Amount	Quantity	Amount
Shares issued				
Balance at beginning of year	53,740,633	\$ 40,873,171	44,961,479	\$ 40,426,344
Paid in cash	1,991,538	182,322	7,566,024	512,499
Debentures conversion	7,319,233	658,731	-	-
Flow-through financing	-	-	655,768	44,135
Issued warrant's value	-	(47,442)	-	(172,481)
Debts settlement	419,922	50,391	557,362	62,674
Balance at end of year	<u>63,471,326</u>	<u>\$ 41,717,173</u>	<u>53,740,633</u>	<u>\$ 40,873,171</u>

On February 25, 2014, the Company issued 78,095 common shares by private placement for a gross proceed of \$8,591. There was no issuance cost.

On March 31, 2014, convertible debentures with a principal value of \$658,731 have been converted at a price of \$0.09 per shares for a total issuance of 7,319,233 shares.

On April 3, 2014, the Company issued by private placement 1,208,936 units at a price of \$0.10 per unit for a gross proceeds of \$120,893 ; each unit being comprised of one (1) common share and one (1) common share purchase warrant of the Company. Each common share purchase warrant entitles its holder thereof to purchase one (1) additional common share of the Company at a price of \$0.18 per common share for a period of 24 months following the date of issuance. An amount of \$33,455 related to the warrants issued has been recognized. There was no issuance cost.

On April 23, 2014, the Company settled the accrued interest totaling \$50,391 issued by 419,922 common shares at \$0.12 per share. This transaction did not result in a gain or loss on settlement of debt.

On July 31, 2014, the Company completed a \$52,838 private placement by issuing 704,507 units of the Company at a price of \$0.075 per unit, each unit is comprised of one (1) common shares of the Company and one (1) warrant. Each common share purchase warrant entitles its holder thereof to purchase one (1) common share of the Company at a price of \$0.115 per common share for a period of 24 months following the date of issuance. An amount of \$13,987 related to the warrants issued has been recognized. There was no issuance cost.

2013

On October 11, 2012, the Company completed a \$45,000 private placement by issuing 9 units of the Company at a price of \$5,000 per unit. Each unit is comprised of 13,636 common shares at a price of \$0.11 per share, 25,000 flow-through shares at a price of \$0.14 per share and 19,318 warrants of the Company. Each full warrant entitles the holder to purchase one (1) common share at a price of \$0.15 for a period of eighteen months following the issuance date. An amount of \$10,104 related to issued warrants was recorded. There was no issuance cost.

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16. EQUITY (cont'd)

2013 (cont'd)

On October 11, 2012, the Company issued 208,333 units at a price of \$0.12 per unit. Each unit is comprised of one common share and 208,333 warrants of the Company. Each full warrant entitles the holder to purchase one common share at a price of \$0.18 for a period of eighteen months following the issuance date. An amount of \$8,804 related to issued warrants was recorded. There was no issuance cost.

On October 24, 2012, the Company issued 227,275 units at a price of \$0.11 per unit. Each unit is comprised of one (1) common share and one (1) warrant of the Company. Each full warrant entitles the holder to purchase one (1) common share at a price of \$0.15 for a period of eighteen months following the issuance date. An amount of \$9,348 related to issued warrants was recorded. There was no issuance cost. All placement securities are subject to a four-month resale restriction following the issuance date, expiring on February 25, 2013.

On October 25, 2012, the Company settled \$31,358 of accrued interest on a debt by issuing 272,675 common shares.

On November 12, 2012, the Company completed a \$135,000 private placement by issuing 900,000 units of the Company at a price of \$0.15 per unit. Each unit is comprised of one (1) common share and one (1) half warrant of the Company. Each full warrant entitles the holder to purchase one (1) common share at a price of \$0.20 for a period of eighteen months following the issuance date, expiring on May 2, 2014. An amount of \$30,619 related to issued warrants was recorded. There was no issuance cost.

On January 7, 2013, the Company completed a \$70,000 private placement by issuing 5,384 units of the Company at a price of \$13,000 per unit. Each unit is comprised of 20,000 common shares, at a price of \$0.13 per share, 80,000 flow-through shares at a price of \$0.13 per share and 100,000 warrants of the Company. Each full warrant entitles the holder to purchase one (1) common share for a period of twenty-four months following the issuance date at a price of \$0.20 during the first twelve months and at a price of \$0.25 thereafter. An amount of \$24,874 related to issued warrants was recorded. There was no issuance cost.

On January 24, 2013, the Company settled \$31,316 of accrued interest on a debt by issuing 284,687 common shares.

On May 27, 2013, the Company completed a \$300,000 private placement by issuing 6,000,000 units of the Company at a price of \$0.05 per unit. Each unit is comprised of one (1) common share and one (1) warrant of the Company. Each full warrant entitles the holder to purchase one (1) common share at a price of \$0.10 for a period of twenty-four months following the issuance date. An amount of \$88,732 related to issued warrants was recorded. There was no issuance cost.

Common share purchase options

The Company adopted a stock option plan (the "Plan") wherein the Board of Directors may from time to time grant options to its directors, administrators, employees and consultants to acquire common shares. The conditions and the exercise price of each option are determined by the Board of Directors.

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16. EQUITY (cont'd)

Common share purchase options (cont'd)

The Plan states that the maximum number of common shares in the capital of the Company which may be reserved for issuance under the Plan is 10,748,106 common shares of the Company and the maximum number of common shares reserved for the granting of options to a single owner may not exceed 5% of the common shares outstanding at the date of the grant. Common shares reserved for consultants or eligible person responsible of investors relations may not exceed 2% of the common shares outstanding at the date of the grant. Options must be exercised no later than five years after the grant date. The granted options are subject to a gradual vesting period of a sixth per quarter except for those granted to consultants providing services for investors relations who have a vesting period of twelve months.

The exercise price of each option is determined by the Board of Directors and cannot be lower than the market value of the common shares on the grant date.

A summary of changes in the Company's common shares purchase options is as follows

	2014		2013	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of year	3,565,000	\$0.213	3,868,000	\$0.242
Granted	3,355,000	0.120	100,000	0.100
Expired	-	-	(63,000)	(2.200)
Cancelled	(20,000)	(1.950)	(340,000)	(0.145)
Balance, end of year	<u>6,900,000</u>	<u>\$0.163</u>	<u>3,565,000</u>	<u>\$0.213</u>
Options exercisable at the end	<u>5,781,667</u>	<u>\$0.169</u>	<u>3,505,000</u>	<u>\$0.212</u>

During the exercise, the Company granted a total of 3,355,000 purchase options for common shares to directors, administrators, employees and consultant. These options have an exercise price of \$0.12 per common share and an exercise period of 5 years.

During the prior period, the Company granted a total of 100,000 options to purchase common shares to an arm's length service provider mandated to provide expertise in technology development and strategic market positioning. These options have an exercise price of \$0.10 per common share and an exercise period of 5 years. The share purchase options have been measured at the fair market value of the services received, which is \$5,000.

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16. EQUITY (cont'd)

Common share purchase options (cont'd)

Granted options and Exercisable options as at September 30, 2014

	Granted options	Exercisable options	Exercise price	Expiration date
	45,000	45,000	\$1.90	November 2014
(a)	65,000	65,000	\$2.00	December 2015
	3,335,000	3,335,000	\$0.14	June 2017
	100,000	100,000	\$0.10	April 2018
	<u>3,355,000</u>	<u>2,236,667</u>	\$0.12	December 2018
	<u>6,900,000</u>	<u>5,781,667</u>		

- a) Options for common shares granted at an exercise price of \$0.10 (before regrouping) while the market value was \$0.035.

Accounting for compensation plans

The average fair value of warrants was estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	2014	2013
Average share price at grant date	\$0.10	\$0.15
Risk-free interest rate	1.55 %	1.24 %
Expected volatility	127.00 %	247.24 %
Expected life	60 months	60 months
Expected dividend	0.00 %	0.00 %
Average exercise price at grant date	\$0.12	\$1.14
Fair value of options granted at market value	\$0.097	\$0.10

Stock-based compensation cost recognized in earnings amounts to \$299,507 (\$179,298 in 2013).

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16. EQUITY (cont'd)

Warrants

Outstanding common share purchase warrants, entitling their holders to subscribe to an equivalent number of common shares, were as follows:

	2014		
	Number of warrants	Weighted average exercise price	Fair value allocated
Balance at beginning of year	10,608,695	\$0.152	\$ 522,639
Granted	1,913,443	0.156	47,942
Expired	(4,070,235)	(0.216)	(428,223)
Balance as at September 30, 2014	<u>8,451,903</u>	\$0.122	\$ <u>141,858</u>
	2013		
	Number of warrants	Weighted average exercise price	Fair value allocated
Balance at beginning of year	18,222,113	\$0.319	\$ 1,643,233
Granted	7,597,930	0.121	172,481
Expired	(15,211,348)	(0.336)	(1,293,075)
Balance as at September 30, 2013	<u>10,608,695</u>	\$0.152	\$ <u>522,639</u>

Warrants outstanding as at September 30, 2014 are as follows:

Number of warrants	Exercise price	Expiration date
538,460	\$0.245	January 2015
6,000,000	\$0.100	May 2015
1,208,936	\$0.180	April 2016
704,507	\$0.115	July 2016
<u>8,451,903</u>		

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16. EQUITY (cont'd)

Warrants (cont'd)

The average fair value of warrants was estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	2014	2013
Average share price at grant date	\$0.10	\$0,06
Risk-free interest rate	1.08 %	1,10 %
Expected volatility	90.79 %	117,43 %
Expected life	24 months	23.2 months
Expected dividend	0,00 %	0,00 %
Average exercise price at grant date	\$0,16	\$0,12

Broker's units options

A summary of changes in the Company's issued broker's units options is as follows:

	2014		
	Number of warrants	Weighted average exercise price	Fair value allocated
Balance at beginning of year	-	\$ -	\$ -
Expired	-	\$ -	-
Balance as at September 30, 2014	Nil		\$ Nil

	2013		
	Number of warrants	Weighted average exercise price	Fair value allocated
Balance at beginning of year	377,000	\$0,558	\$ 112,970
Expired	(377,000)	\$(0,558)	\$ (112,970)
Balance as at September 30, 2013	Nil		Nil

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17. CAPITAL MANAGEMENT

In terms of capital management, the objectives of the Company are to preserve its ability to continue its mining exploration and development of its thermal fragmentation mining method as well as its exploration program. If necessary, the Company raises funds by private placement of common shares, loans and debentures in order to sustain its development activities. The Company does not intend to pay dividend in the foreseeable future.

The Company's capital includes loans, due to a shareholder, long-term debts, debentures, share capital, contributed surplus, warrants and equity component of convertible debentures in the definition of capital for a total amount of \$56,445,007 (\$55,088,912 as at September 30, 2013).

The main property in which the Company has an interest is in the exploration stage and the use of the thermal fragmentation mining method by other mining companies is also in the development stage; as such, the Company is dependent on external financing to fund its activities.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no significant changes in the Company's approach to capital management during the period ended September 30, 2014. The Company does not have any externally imposed capital requirements neither regulatory nor contractual requirements to which it is subject, other than those related to its flow-through financing agreements and who have not yet been complied by the Company as at September 30, 2014 (see Note 13).

18. FINANCIAL INSTRUMENTS

The Company is exposed to various financial risks that result from both its operations and its investment activities. Financial risk management is carried out by the Company's management.

Credit risk

The credit risk is the risk associated with non-payment of financial obligations by the customers of the Company. The credit risks that faced the Company are principally attributable to collection of its accounts receivable. The collection is held by a Canadian bank in which the direction think the loss risk is considered negligible, but it is subject to credit risk concentration. The maximum credit risk is equivalent to the book value.

Liquidity risk

The liquidity risk is the risk that the Company experiences difficulty honouring commitments related to financial liabilities. The management approach concerning cash management is to ensure, as much as possible, that the Company has the necessary funds to meet its financial obligations at maturity. If considered necessary, management renegotiates extensions to maturity dates to balance the needs in cash and financings.

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18. FINANCIAL INSTRUMENTS (cont'd)

Liquidity risk (cont'd)

The Company intends to take measures in order to satisfy obligations under accounts payable and other liabilities, interest payment on convertible debentures and borrowings and repayment of the short-term part of long-term debts and convertible debentures. Management intends to continue, as was done in the past, to finance its activities by raising funds by private equity investments, loans or debentures. Even if it succeeded in financing its activities in the past, management can't pronounce on the success of its fundraising in the future and management estimate that the liquidity risk is high.

During the period of October 1st 2013 to September 30, 2014, the Company concluded financing for a total amount of \$182,322, issued share capital to settle debentures (Note 16) and accrued interests (Note 11) and has renegotiated the terms of certain debentures in order to maintain its level of liquidity (Note 15). However, more financing will be necessary to enable the Company to finance next year's operation expenditures (Note 23).

The following table summarizes the Company's financial liabilities as at September 30, 2014:

	Less than a year	Between 1 year and 2 years	More than 2 years
Accounts payable	\$ 3,256,976	\$ -	\$ -
Loans	20,261	-	-
Indemnity payable to subscribers	6,289,782	-	-
Long-term debts	1,509,969	-	-
Debentures	2,211,431	140,256	-
	<u>\$ 13,288,419</u>	<u>\$ 140,256</u>	<u>\$ Nil</u>

Interest rate risk

The interest rate risk is the risk that fair value future cash flows of a financial instrument fluctuate because of the variations in the market interest rates. The loans, funded debt and debentures issued by the Company bear fixed-rate interest and expose it to the risk of fair value variation resulting from fluctuation of rate interest.

Sensitivity analysis of interest rate

A 1% change in the interest rate would not have a significant impact on the results and on the Company's cash flow.

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18. FINANCIAL INSTRUMENTS (cont'd)

Fair value

The carrying value and fair value of financial instruments presented in the consolidated statement of financial position are as follows:

	2014		2013	
	Carrying value	Fair value	Carrying value Restated	Fair value Restated
Financial assets (loans and receivables)				
Cash	\$ 56,348	\$ 56,348	\$ 51,293	\$ 51,293
Accounts receivables and other receivables	16,160	16,160	1,000	1,000
Advances to the joint venture Cerro Dorado	-	-	167,763	167,763
	<u>\$ 72,508</u>	<u>\$ 72,508</u>	<u>\$ 220,056</u>	<u>\$ 220,056</u>

	2014		2013	
	Carrying value	Fair value	Carrying value Restated	Fair value Restated
Financial liabilities				
<i>Financial liabilities at amortized cost</i>				
Accounts payable	\$ 3,256,976	\$ 3,256,976	\$ 2,833,576	\$ 2,833,576
Loans	20,261	20,261	19,934	19,934
Indemnities payable to subscribers	6,289,782	6,289,782	6,187,352	6,187,352
Due to a shareholder	396,785	396,785	-	-
Long term debts	9,969	9,969	35,617	35,617
Convertible debentures	1,853,814	1,853,814	2,057,775	2,057,775
	<u>11,827,587</u>	<u>11,827,587</u>	<u>11,134,254</u>	<u>11,134,254</u>

Financial liabilities at fair value through profit or loss

Debts- Loans with nominal value of \$1,134,906 and \$365,094	1,500,000	1,500,000	1,177,935	1,177,935
Other debentures	497,873	497,873	371,998	371,998
	<u>1,997,873</u>	<u>1,997,873</u>	<u>1,549,933</u>	<u>1,549,933</u>
	<u>\$ 13,825,460</u>	<u>\$ 13,825,460</u>	<u>\$ 12,684,187</u>	<u>\$ 12,684,187</u>

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18. FINANCIAL INSTRUMENTS (cont'd)

Fair value (cont'd)

In determining fair value, the Company uses observable data based on different levels which are defined as follows:

- First level includes quoted prices (unadjusted) in an active market of identical assets or liabilities.
- Second level includes data that are not based on observable inputs other than quoted prices included in the first level
- The third level includes data that are not based on observable market data.

The carrying value of cash, accounts receivable and other receivables, advance to the joint venture Cerro Dorado, accounts payable, loans, indemnities payable to subscribers and due to a shareholder are considered to be a reasonable approximation of fair value because of the short-term maturity of these instruments. (Level 1)

The carrying value of debts and debentures is considered to be a reasonable approximation of fair value. The fair value is evaluated using analysis of discounted cash flows based on current borrowings rates which apply to similar borrowings. (Level 2)

The carrying value of loans with nominal value of \$1,134,906 and \$365,094, and other debentures is evaluated using the net present value of future cash flows based on market rates for similar securities (Level 2)

19. RELATED PARTIES

The related parties include key management, key management's companies, the joint venture and the joint operation described below.

During the year 2014, there has been no transaction between related parties. Key management includes directors and members of top management.

The key management compensation includes:

	2014	2013
Salaries and fringe benefits	\$ 339,924	\$ 324,269
Capitalized to exploration and evaluation assets	<u>(70,809)</u>	<u>(117,493)</u>
	269,115	206,776
Stock-based compensation	<u>190,647</u>	<u>158,189</u>
Total	<u>\$ 459,762</u>	<u>\$ 362,965</u>

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20. COMMITMENTS AND CONTINGENCIES

- i) The Company's operations are regulated by governmental laws and regulations regarding environmental protection. The environmental consequences are hardly identifiable, whether it is the result level, the impact or its deadline. At the present time and to the best knowledge of its management, the Company is in conformity with the laws and regulations. In 2014, a provision of \$2,060 (\$2,060 in 2013) for restoration of the premises is included in the accounts payable and other liabilities. The actual amount might differ from this estimate.
- ii) The Company is partly financed by issuance of flow-through common shares for which the Company commits itself to incur admissible Canadian exploration expenses. However, there are no guarantees that the funds spent by the Company will qualify as Canadian explorations expenses, even if the Company has taken all the necessary measures to meet its commitment. The refusal of some expenses by the tax authorities would have a negative fiscal impact on investors and the Company and these consequences will only be determinable when such expenses will be denied by tax authorities.

21. CASH FLOWS

	2014	2013 Restated
Supplemental cash flows information:		
Net changes in working capital items:		
Accounts receivable and other receivables	\$ (15,160)	\$ 38,960
Sales tax receivable	1,050	(13,643)
Prepaid expenses and deposits	-	2,089
Security deposits	-	6,440
Liabilities	423,400	715,533
Subscription received in advance	85,623	-
Deposit	51,487	38,513
Flow-through shares obligation	-	43,365
	<u>\$ 546,400</u>	<u>\$ 831,257</u>
	2014	2013
Non-cash investing and financing activities:		
Increase in tax credits receivables	\$ 42,622	\$ 14,702
Share issuance in settlement of accrued interests on debentures	\$ 50,391	\$ 62,674
Share issuance for convertible debentures	\$ 658,731	\$ -
Equity component of convertible debentures	\$ 53,514	\$ -
Amortization of the obligation on flow-through shares	\$ -	\$ 43,365

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22. INCOME TAXES

The reconciliation of the income tax provision, calculated using the combined federal and province of Quebec statutory tax rate with the provision of income taxes per the consolidated financial statements is as follows:

	2014	2013
Loss before income taxes	\$ (2,306,315)	\$ (2,484,909)
Income taxes at the statutory income tax rates 26.9% (27.28% en 2013)	(620,399)	(677,883)
Adjustment for the following items:		
Difference between statutory and deferred tax rates	-	6,931
Unrecognized variation of temporary differences	569,675	480,609
Tax effect of the issuance of flow-through shares	-	43,365
Unrecognized income taxes on the investment recorded in accordance with the equity method	(58,786)	24,482
Stock-based compensation	80,567	48,912
Indemnity to subscribers	28,841	27,060
Non-deductible expenses and others	102	3,159
	<u>620,399</u>	<u>634,518</u>
	\$ <u>Nil</u>	\$ (43,365)

	2014	2013
Components of deferred tax expense in the consolidated statement of earnings and comprehensive loss		
Origination and reversal of temporary differences	\$ (510,889)	\$ (598,752)
Tax effect related to the issuance of flow-through shares	-	43,365
Unrecognized income taxes on the investment recorded in accordance with the equity method	(58,786)	24,482
Difference between statutory and deferred tax rate	-	6,931
Unrecognized variation of temporary difference	<u>569,675</u>	<u>480,609</u>
	\$ <u>Nil</u>	\$ (43,365)

	Balance at September 30, 2013	Recognized in profit or loss	Balance at September 30, 2014
Deferred income tax variations in 2014			
Exploration and evaluation assets	\$ (202,474)	\$ (120,425)	\$ (322,899)
Non-capital loss	348,866	24,017	372,883
Convertible debentures	(146,392)	96,408	(49,984)
	\$ <u>Nil</u>	\$ <u>Nil</u>	\$ <u>Nil</u>

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22. INCOME TAXES (cont'd)

As at September 30, 2014 available temporary differences for which no deferred tax asset were recorded are as follows:

	Federal	Provincial
Property, plant and equipment	\$ 1,376,017	\$ 1,370,666
Share issuance expenses	310,891	310,891
Non-capital losses	24,539,793	24,167,939
Intangible assets	873,186	873,186
Capital losses	3,420	3,420
Deferred income taxes	<u>\$ 27,103,307</u>	<u>\$ 26,726,102</u>

As at September 2014, the Company has non-capital losses for which no deferred tax asset was recorded and that can be carried over the following years:

	Federal	Provincial
2025	\$ 958,813	\$ 840,539
2026	1,297,730	1,175,777
2027	2,485,717	2,448,593
2028	2,371,329	2,366,634
2029	2,839,400	2,826,956
2030	3,507,331	3,481,023
2031	2,812,749	2,811,193
2032	3,017,015	2,969,243
2033	2,928,208	2,924,187
2034	2,321,501	2,323,794
	<u>\$ 24,539,793</u>	<u>\$ 24,167,939</u>

	Balance at September 30, 2012	Recognized in profit or loss	Balance at September 30, 2013
Deferred income tax variations in 2013			
Exploration and evaluation assets	\$ (112,904)	\$ (89,570)	\$ (202 474)
Non-capital loss	303,143	45,723	348 866
Convertible debentures	(190,239)	43,847	(146 392)
	<u>\$ Nil</u>	<u>\$ Nil</u>	<u>\$ Nil</u>

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22. INCOME TAXES (cont'd)

As at September 30, 2013 available temporary differences for which no deferred tax asset were recorded are as follows:

	Federal	Provincial
Exploration and evaluation assets	\$ -	\$ 5 720 688
Property, plant and equipment	1,879,674	1 872 529
Shares issuance expenses	248 795	248 795
Non-capital losses	20,708,710	21 550 446
Intangible assets	938 910	938 910
Capital losses	3 420	3 420
	<u>23,779,509</u>	<u>30,334,788</u>
Deferred income taxes	\$	\$

The Company has tax credits for investments of \$145,762 (\$145,762 in 2013) that are not accounted for. These credits will expire by 2027 and can be used to reduce federal income tax.

23. SUBSEQUENT EVENTS

On October 3, 2014, the Company realized private placement of \$ 48,814,664 by issuing 190 units at a price of \$0.075 per unit each unit being comprised of one (1) common share and one (1) common share purchase warrant of the Company. Each common share purchase warrant entitles its holder thereof to purchase one (1) common share of the Company at a price of \$0.115 per common share for a period of 24 months following the date of issuance. An amount of \$14,498 related to the warrants issued has been recognized. There was no issuance cost.

On October 16, 2014, the Company completed the first tranche of a private placement for \$ 660,735 by issuing 8,809,805 units at a price of \$0.075 per unit, each unit comprised of one (1) common share and one (1) common share purchase warrant of the Company. Each common share purchase warrant entitles its holder to purchase one (1) additional common share of the Company at a price of \$0.115 per common share for a period of 24 months following the date of issuance. An amount of \$188,782 related to the warrants issued has been recognized. There was no issuance cost.

On November 13, 2014, the Company completed the second tranche of a private placement for \$ 620,046 by issuing 8,267,282 units at a price of \$ 0.075 per unit, each unit comprised of one (1) common share and one (1) common share purchase warrant of the Company. Each common share purchase warrant entitles its holder to purchase one (1) additional common share of the Company at a price of \$ 0.115 per common share for a period of 24 months following the date of issuance. An amount of \$156,460 related to the warrants issued has been recognized. There was no issuance cost.

On December 2, 2014, the Company concluded an exclusive distribution agreement with NDR Japan Co. of Japan for the distribution and the use of its patented thermal fragmentation mining method. No legal entity has been created for the purposes of the agreement, and each company is entitled to 50% of the profits and losses generated by the partnership.

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23. SUBSEQUENT EVENTS (cont'd)

On December 17, 2014, the Company completed the second tranche of a private placement for \$293,688 by issuing 3,915,833 units at a price of \$0.075 per unit, each unit comprised of one (1) common share and one (1) common share purchase warrant of the Company. Each common share purchase warrant entitles its holder to purchase one (1) additional common share of the Company at a price of \$0.115 per common share for a period of 24 months following the date of issuance. An amount of \$71,571 related to the warrants issued has been recognized. There was no issuance cost.

24. COMPARATIVE FIGURES

Certain figures have been reclassified to conform to the presentation of financial statements for the year.