

Nippon Dragon Resources Inc.

(Exploration Stage Company)

CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2015 AND 2014

INDEPENDENT AUDITOR'S REPORT

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated financial position	1.
Consolidated statements of earnings and comprehensive loss	3.
Consolidated statements of changes in equity	4.
Consolidated statements of cash flows	6.
Notes to consolidated financial statements	7.

PETRIE RAYMOND
CHARTERED PROFESSIONAL ACCOUNTANTS - L.L.P.

255 CRÉMAZIE BLVD. EAST, SUITE 1000
MONTRÉAL (QUÉBEC) H2M 1M2
TEL. : (514) 342-4740
FAX : (514) 737-4049

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, 2015 and 2014 and the consolidated statements of earnings and comprehensive loss, changes in equity 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, 2015 and 2014, 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

Going concern

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

Amended Financial Statements

Without modifying our opinion, we draw attention to Note 3 of the financial statements, which explains that the financial statements for the year ended September 30, 2015 have been amended from those on which we originally reported on January 28, 2016.



Montréal, Québec
February 29, 2016

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)

As at September 30

	2015	2014
ASSETS		
CURRENT ASSETS		
Cash	$ 83,918	$ 56,348
Accounts receivable and other receivables (Note 7)	79,699	16,160
Sales tax receivable	20,542	18,322
Prepaid expenses	161,454	-
Tax credits and redeemable rights receivable	17,763	42,622
Total current assets	363,376	133,452
NON CURRENT ASSETS		
Property, plant and equipment (Note 8)	382,919	283,593
Investment in a joint venture (Note 9)	-	801,003
Exploration and evaluation assets (Note 10)	8,749,686	8,719,802
Security deposits	-	948
Total non current assets	9,132,605	9,805,346
TOTAL OF ASSETS	$ 9,495,981	$ 9,938,798
LIABILITIES		
CURRENT		
Accounts payable (Note 11)	$ 3,191,200	$ 3,256,976
Deposit (Note 9)	-	90,000
Loans (Note 12)	20,833	20,261
Subscription received in advance	-	85,623
Indemnities payable to subscribers (Note 13)	2,527,698	6,289,782
Due to a shareholder without interest nor specific repayment terms	-	396,785
Current portion of long-term debt (Note 14)	1,500,000	1,509,969
Current portion of debentures (Note 15)	2,267,702	2,211,431
Total current liabilities	9,507,433	13,860,827
NON CURRENT		
Debentures (Note 15)	-	140,256
Total of non current liabilities	-	140,256
TOTAL OF LIABILITIES	9,507,433	14,001,083

Nippon Dragon Resources Inc.
(Exploration Stage Company)

CONSOLIDATED FINANCIAL POSITION (cont'd)
(in Canadian dollars)

As at September 30

	2015	2014
SHAREHOLDERS' DEFICIENCY		
Share capital (Note 16)	$ 44,023,670	$ 41,717,173
Contributed surplus	10,293,200	9,927,144
Warrants (Note 16)	540,112	141,858
Equity component of convertible debentures	703,087	776,915
Deficit	(55,571,521)	(56,625,375)
TOTAL SHAREHOLDERS' DEFICIENCY	(11,452)	(4,062,285)
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIENCY	$ 9,495,981	$ 9,938,798

COMMITMENTS AND CONTINGENCIES (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)

Years ended September 30

	2015	2014
INCOME		
Contracts income from a joint operation	$ 88,531	$ 72,481
Thermal fragmentation technology distribution income	96,509	-
Other income	14,220	-
	199,260	72,481
CONTRACTS COST		
Contract cost from a joint operation	52,134	57,321
Mobilization cost	7,896	31,912
Salaries and fringe benefits	15,269	-
Container	9,768	5,000
Maintenance and repairs of equipment	1,755	10,261
Other expenses	-	1,270
Amortization of property, plant and equipment	7021	-
	93,843	105,764
ADMINISTRATIVE AND GENERAL OPERATING EXPENSES		
Salaries and fringe benefits	542,903	465,103
Stock-based compensation	236,445	299,507
Insurances	36,691	36,738
Bank charges	3,161	2,351
Trustee fees and registration	66,546	53,071
Management fees	3,011	1,150
Professional fees	280,594	196,989
Rent	5,597	41,000
Maintenance and repairs	52,905	1,865
Stationary and office expenses	40,075	4,846
Subscription fees	17,119	3,825
Telecommunications	5,978	3,775
Mining titles	7,206	6,510
Travelling and promotion	291,541	105,042
Amortization of property, plant and equipment	66,452	71,616
Gain on disposal of property, plant and equipment	-	(4,817)
Gain on accounts payable write-off	(70,932)	-
Loss on evaluation of precious metal	2,037	327
Indemnities to subscribers (Note 13)	-	107,217
	1,587,329	1,396,115
OTHERS FINANCIALS ELEMENTS		
Interests on debentures and debts	518,497	848,586
Financing charges and other interests	8,886	40,459
Rent income	(1,895)	(2,843)
Write-off of advances to the joint venture	-	209,250
Share of results in the joint-venture (Note 9)	-	(218,535)
Write-off of a due to a shareholder (Note 16)	(73,785)	-
Loss on write-off of the interest in a joint venture (Note 9)	711,003	-
Write-off of indemnities payable to subscribers (Note 13)	(3,758,084)	-
	(2,595,378)	876,917
TOTAL NET INCOME AND COMPREHENSIVE INCOME	$ 1,113,466	$ (2,306,315)
NET INCOME (LOSS) PER SHARE		
Basic	$ 0.0127	$ (0.0395)
Diluted	$ 0.0127	$ (0.0395)
Weighted average number of shares outstanding	87,796,580	58,354,707

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

Nippon Dragon Resources Inc.
(Exploration Stage Company)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(in Canadian dollars)

Years ended September 30

	Number of shares	Share capital	Contributed surplus	Warrants	Equity component of convertible debentures	Deficit	Total equity
BALANCE AS AT OCTOBER 1ST, 2014	63,471,326	$ 41,717,173	$ 9,927,144	$ 141,858	$ 776,915	$ (56,625,375)	$ (4,062,285)
Shares issued by private investment	31,078,796	1,827,051	-	550,967	-	-	2,378,018
Shares and warrants issued to settle interests on debentures	235,156	23,516	-	-	-	-	23,516
Repaid convertible debentures	-	-	73,828	-	(73,828)	-	-
Common share purchase options exercised	300,000	65,100	(29,100)	-	-	-	36,000
Stock-based compensation	-	-	236,445	-	-	-	236,445
Warrants exercised	3,230,000	390,830	-	(67,830)	-	-	323,000
Warrants expired	-	-	84,883	(84,883)	-	-	-
Other issuance expenses	-	-	-	-	-	(59,612)	(59,612)
Transactions with owners	34,843,952	2,306,497	366,056	398,254	(73,828)	(59,612)	2,937,367
Net income and comprehensive income	-	-	-	-	-	1 113 466	1,113,466
BALANCE AS AT SEPTEMBER 30, 2015	98,315,278	$ 44,023,670	$ 10,293,200	$ 540,112	$ 703,087	$ (55,571,521)	$ (11,452)

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)

Years ended September 30

	Number of shares	Share capital	Contributed surplus	Warrants	Equity component of convertible debentures	Deficit	Total equity
BALANCE AS AT OCTOBER 1ST, 2013 (amount previously reported)	53,740,633	$ 40,873,171	$ 9,150,019	$ 522,639	$ 879,824	$ (54,223,719)	$ (2,798,066)
Restatement	-	-	-	-	-	(81,739)	(81,739)
BALANCE AS AT OCTOBER 1ST, 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 investments	1,991,538	134,880	-	47,442	-	-	182,322
Shares issued to settle interests on debentures	419,922	50,391	-	-	-	-	50,391
Repaid convertible debentures	-	-	49,395	-	(49,395)	-	-
Converted debentures	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)	-	-	-
Transactions with owners	9,730,693	844,002	777,125	(380,781)	(102,909)	(13,602)	1,123,835
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 STATEMENTS OF CASH FLOWS
(in Canadian dollars)

Years ended September 30, 2015

	2015	2014
OPERATING ACTIVITIES		
Net income and comprehensive income	$ 1,113,466	$ (2,306,315)
Adjustments:		
Write-off of advance to the joint venture	-	209,250
Share of results in the joint venture	-	(218,535)
Stock-based compensation	236,445	299,507
Interests capitalized on convertible debentures	-	50,391
Amortization of discount on issuance of debentures	66,018	384,231
Amortization of financing cost	-	17,526
Amortization of property, plant and equipment	73,473	71,616
Gain on disposal of property, plant and equipment	-	(4,817)
Loss on valuation of precious metal	2,037	327
Write-off of indemnities payable to subscribers	(3,758,084)	-
Loss on write-off of the interest in a joint venture	711,003	-
Write-off of accounts payable	(70,932)	-
Indemnities to subscribers	-	107,217
Write-off of a due to a shareholder	(73,785)	-
	(1,700,359)	(1,389,602)
Changes in working capital items (Note 21)	(85,216)	546,400
Cash flows from operating activities	(1,785,575)	(843,202)
INVESTING ACTIVITIES		
Tax credits collected	36,480	14,702
Property, plant and equipment addition	(172,799)	-
Disposal of property, plant and equipment	-	4,817
Addition to exploration and evaluation assets	(41,505)	(112,284)
Cash flows from investing activities	(177,824)	(92,765)
FINANCING ACTIVITIES		
Advance to a partner in a joint venture	-	(41,487)
Issuance of loans, debts and debentures	-	547,441
Repayment of indemnities payable to subscribers	(4,000)	(4,787)
Exercise of common share purchase options	36,000	-
Due to a shareholder	-	396,785
Long-term debt repayment	(9,969)	(25,648)
Debentures repayment	(150,003)	(100,002)
Shares issuance cost paid	(59,612)	(13,602)
Issuance of shares and warrants	2,180,018	182,322
Loans repayment	(1,465)	-
Cash flows from financing activities	1,990,969	(941,022)
NET CHANGE IN CASH AND CASH EQUIVALENTS	27,570	5,055
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	56,348	51,293
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 83,918	$ 56,348

Supplemental cash flows information (Note 21)

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

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 *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, 2015 (including comparatives statements) were approved and authorized for issue by the Board of Directors on February 29, 2016.

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, 2015, the Company has cumulated a deficit of $55,571,521 ($56,625,375 as at September 30, 2014). As at September 30, 2015, 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.

3. RESTATED FINANCIAL STATEMENTS

The consolidated financial statements of the Company for the year ended September 30, 2015 have been restated as to the indemnities payable to subscribers. Based on an official legal opinion received in February 2016, the Company is of the opinion that it has no indemnity obligation towards subscribers in flow-through financing entered into during the years 2009, 2010 and 2011 others than those included in specific contracts containing an indemnity clause. Only the indemnities related to official claims or to an indemnity clause included in the contracts have been accrued for, other amounts that had been previously accrued have been written off.

3. RESTATED FINANCIAL STATEMENTS (cont'd)

The restatement had the following effects on the consolidated financial position as at September 30, 2015, a reduction of the indemnities payable to subscribers of $3,758,084, current liabilities, total liabilities, deficit and shareholders' deficiency have been reduced of the same amount.

In the consolidated statement of earnings for the year ended September 30 2015, the restatement resulted in the write-off of indemnities payable to subscribers of an amount of $3,758,084 and in the transformation of the net loss and comprehensive loss of $2,644,618 into a net income and comprehensive income of $1,113,466. The basic and diluted net loss per share changed to a basic and diluted net income per share of $0.0127.

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.

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)

IAS 1, Presentation of Financial Statements ("IAS 1")
IASB issued, in December 2014, amendments to IAS 1, Presentation of Financial Statements. These changes provide information on how to exercise professional judgment when determining the level and the structure of disclosures in the financial statements (the materiality and groupings, the presentation of subtotals, the structure of financial statements and disclosures on accounting policies). Early application is permitted. The amendments to this standard, applicable to fiscal years beginning on or after January 1st, 2016, will have no impact on the results and financial position of the Company as it is a presentation standard.

IFRS 9 Financial Instruments (Effective October 1st, 2015)
In July 2014, the IASB amended IFRS 9, Financial Instruments, to consolidate all three phases of its project to replace IAS 39 Financial Instruments: Recognition and Measurement. The phases are the following: classification and evaluation, impairment and hedge accounting. This standard supersedes all previous versions of IFRS 9 and will come into effect on January 1st, 2018. Early application is permitted. The Company is evaluating the impact of this standard on its consolidated financial statements.

IFRS 15, Revenue from contracts concluded with customers
In May 2014, the IASB issued IFRS 15, Revenue from contracts with customers, which specifies the method and timing of recognition of revenue, and requires a more detailed and relevant information disclosure. IFRS 15 supersedes IAS 18 Revenue, IAS 11 Construction Contracts, and other interpretations related to revenue. In September 2015, the IASB issued an amendment to IFRS 15 to suspend for one year the effective date, i.e. as of January 1st, 2018. The standard must be applied retrospectively. Early application is still permitted. The Company evaluates, at present, the impact of this standard on its consolidated financial statements.

5.2 Principles of consolidation

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

5.3 Foreign currency translation

The consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

The transactions in foreign currency are translated into the functional currency of the Company at the exchange rate in effect at the date of the transactions. The profits and loss resulting from currency translation differences arising from the settlement of such transactions and from the revaluation of monetary items at the exchange rate in effect at the end of the period are recognized in net income.

Non-monetary items measured at historical cost are translated at the exchange rate in effect at the transaction date. Non-monetary items measured at fair value are translated at the exchange rate at the date when the fair value was determined.

5. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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. Interests 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.

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 are 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.

5. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

5.4 Financial instruments (cont'd)

Financial liabilities (cont'd)

The Company has classified its financial instruments as follows:

Categories	Financial instruments
Loans and receivables	Cash Accounts receivable and other receivables
Financial liabilities at amortized cost	Accounts payable Loans Indemnities payable to subscribers Due to a shareholder Long-term debt 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 fair value of the liability component from the amount 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. 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.

5. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

5.4 Financial instruments (cont'd)

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 Revenue recognition

The income of the company includes the distribution of its thermal fragmentation mining technology, including the rental of the necessary equipment, the necessary training to operate the equipment, and the distribution and promotion of the patented method owned by the company.

The revenue of the company is recognized when the amount can be reliably measured, it is probable that the economic benefits associated with the transaction will flow to the entity, the stage of completion of the transaction at the end of the period for submission of financial information can be reliably measured and the costs incurred for the transaction and the costs to complete the transaction can be measured reliably. Thus, revenues are recognized based on contracted service agreements with partners, as and when the services are rendered.

5.6 Net income per share

The calculation of the net income per share is based on the weighted average number of shares outstanding for each year. The basic net income 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.

5. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

5.6 Net income per share (cont'd)

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 an increase (a reduction) of net income (loss) per share.

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. The Company accounting for tax credits when there is reasonable assurance that the credits will be recovered and granted and that the Company will respect the related conditions.

5.8 Exploration and evaluation expenditures

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 5.10); 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 5.10) and any impairment loss is recognized in profit or loss.

5. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

5.8 Exploration and evaluation expenditures (cont'd)

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

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 of 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:

	Useful life
Equipment	5 and 7 years
Mill plant	10 years
Computer equipment	4 years
Automotive equipment	4 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.

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 asset 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.

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 acquisition 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
A joint venture is a joint arrangement whereby the parties that joint control of the arrangement have rights to the net assets of the arrangement.

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.

On February 17, 2015, the Company decided to withdraw from the joint venture with Chazel Capital for the development of the Rey Solomon mining project in Peru. Participation in the joint venture in the balance sheet was removed and all components connected to it.

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 resulting from the partnership with Maxem Equipment is the Rand (South Africa). The functional currency of the Company resulting from the partnership with NDR Japan Co. is the Yen (Japan). 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.

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.

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.

5. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

5.14 Deferred income taxes (cont'd)

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.

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.

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. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

5.16 Equity-settled share-based payments

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

The Company's plan does not 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 in the deficit, 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.

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 judgments, 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.

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).

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

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.

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

The contractual agreement provided the equal rights to the net assets of the joint venture.

Therefore the Company had 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 revenues and expenses generated by the partnership. Exceptionally, the participation of the Company has been limited to 25% for the contract carried out by the joint operation during fiscal year 2015.

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

Classification of joint arrangements (cont'd)

Maxem Equipment (cont'd)

Since no legal entity has been created and both companies only have an interest in income and expenses generated by the agreement and only have rights to the assets they brought to the venture, the Company has classified this partnership as a joint operation.

NDR Japan Co.

The Company has entered into an exclusive distribution agreement with NDR Japan Co. of Japan for the distribution and use of its patented extraction method thermal fragmentation. No legal entity was created for the purposes of the agreement, and each company is entitled to 50% of profits and losses generated by the partnership.

Since no legal entity has been created and both companies only have an interest in income and expenses generated by the agreement and only have rights to the assets they brought to the venture, the Company has classified this partnership as a joint operation.

7. ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES

	2015	2014
Receivable from a partner in a joint operation	$ 65,477	$ 15,160
Receivable from a non-related company	53,182	39,960
Provision	(38,960)	(38,960)
	14,222	1,000
	$ 79,699	$ 16,160

The receivable from the partner in the joint operation consists of a receivable of $83,010 ($72,481 in 2014) less a payable of $17,533 ($57,321 in 2014).

8. PROPERTY, PLANT AND EQUIPMENT

Year ended September 30, 2015

	Equipment	Mill plant	Computer equipment	Automotive equipment	Telephone system	Equipment under finance lease	Total
GROSS CARRYING AMOUNT							
Balance as at October 1st, 2014	$ 596,576	$ 1,819,093	$ 25,575	$ 37,703	$ 4,201	$ 45,990	$ 2,529,138
Additions	172,799	-	-	-	-	-	172,799
Transfer	45,990	-	-	-	-	(45,990)	-
Balance as at September 30, 2015	815,365	1,819,093	25,575	37,703	4,201	Nil	2,701,937
ACCUMULATED DEPRECIATION AND IMPAIRMENT							
Balance as at October 1st, 2014	322,198	1,819,093	25,575	37,703	4,201	36,775	2,245,545
Depreciation	64,258	-	-	-	-	9,215	73,473
Transfer	45,990	-	-	-	-	(45,990)	-
Balance as at September 30, 2015	432,446	1,819,093	25,575	37,703	4,201	Nil	2,319,018
CARRYING AMOUNT AS AT SEPTEMBER 30, 2015	$ 382,919	$ Nil	$ Nil	$ Nil	$ Nil	$ Nil	$ 382,919

8. PROPERTY, PLANT AND EQUIPMENT (cont'd)

Year ended September 30, 2014

	Equipment	Mill plant	Computer equipment	Automotive equipment	Leasehold improvements	Telephone system	Equipment under finance lease	Total
GROSS CARRYING AMOUNT								
Balance as at October 1st 2013	$ 596,576	$ 1,819,093	$ 25,575	$ 88,852	$ 58,009	$ 4,201	$ 45,990	$ 2,638,296
Disposal	-	-	-	(51,149)	(58,009)	-	-	(109,158)
Balance as at September 30, 2014	596,576	1,819,093	25,575	37,703	Nil	4,201	45,990	2,529,138
ACCUMULATED DEPRECIATION AND IMPAIRMENT								
Balance as at October 1st, 2013	263,467	1,819,093	25,506	85,655	58,009	3,781	27,576	2,283,087
Depreciation	58,731	-	69	3,197	-	420	9,199	71,616
Disposal	-	-	-	(51,149)	(58,009)	-	-	(109,158)
Balance as at September 30, 2014	322,198	1,819,093	25,575	37,703	Nil	4,201	36,775	2,245,545
CARRYING AMOUNT AS AT SEPTEMBER 30, 2014	$ 274,378	$ Nil	$ Nil	$ Nil	$ Nil	$ Nil	$ 9,215	$ 283,593

9. INVESTMENT IN A JOINT VENTURE

During the 2012 fiscal year, the Company has optioned a gold property, concession Rey Salomon (OFIR mine) located in Peru. It jointly controlled the property with another company through their subsidiary Cerro Dorado S.A.C., which was incorporated in Peru. The Company had not disbursed any sum to acquire this exploration and evaluation asset in joint venture. The contribution of the Company to the joint venture included the use of its patented thermal fragmentation mining method and the equipment for its application. Also, it was agreed that the Company would act as the exploration operator. The joint venture agreement stipulated 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 would have been entitled to 75% of the net revenues generated from the exploitation of the property.
7
In the partnership agreement that was established in Vaudreuil-Dorion (Quebec), the Company contributed its technology and expertise in mining and development production to OFIR mine; the company partner, Chazel Capital Inc. ("Chazel") chaired by André Savard, which was also at that time the president of Nippon Dragon Resources Inc., committed itself to bring $1.2 million (US) required for mine production. Thus, the parties had 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.

On February 17, 2015, the Company decided to withdraw from the joint venture with Chazel Capital for the development of the Rey Solomon mining project in Peru to focus on canvassing the implementation of the thermal fragmentation in the region. Following this decision, the company is released from any financial responsibilities, legal and environmental past, present and future of the venture Cerro Dorado SAC. Participation in the joint venture in the consolidated financial position was removed and all components connected to it.

	2015	2014
50% interest in the net assets of Cerro Dorado	$ Nil	$ 801,003

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

	2015	2014
CURRENT ASSETS		
Cash and cash equivalents	$ -	$ 71,940
Accounts receivable and other receivables	-	70,466
Prepaid expenses	-	189,170
	-	331,576
NON CURRENT ASSETS		
Property, plant and equipment	-	160,276
Exploration and evaluation assets	-	2,143,962
	-	2,304,238
TOTAL ASSETS	$ Nil	$ 2,635,814
Accounts payable	$ -	$ 48,364
Balance of purchase price - exploration and evaluation assets	-	985,444
TOTAL LIABILITIES	$ Nil	$ 1,033,808

9. INVESTMENT 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 provided for, among other things, the following terms and conditions:

(i) For an initial period of 7 years, the Company would have been entitled to 35% of the profits generated from the Rey Salomon property while Chazel and its financial partners would have been entitled to 65% of the profits and ;

(ii) At the end of the 7-year period, the Company would have been entitled to 60% of the profits whereas Chazel would have been entitled to 40% of the profits.

The initial period of 7 years was to begin once the production at the Rey Salomon property had 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 would 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 was based on the aggregate amount raised by Chazel as part of the total investment of $671,750.

Thus, Chazel had 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.

The Company had 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 had already been expended by Chazel and that would be credited from the total amount of $671,750, and (ii) the portion of the total amount of $671,750 exceeding $300,000 that would have been raised by Chazel as of the date on which Nippon Dragon Resources Inc. exercised its option to purchase, carrying a 35% premium. This option has now expired.

Completion of the transaction was 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 had not yet been approved and was presented in the current liabilities. In 2015, the Company decided to withdraw from the joint venture with Chazel Capital, and in this context, was released from repaying the deposit.

10. EXPLORATION AND EVALUATION ASSETS

	Balance as at October 1st, 2014	Additions	Tax credits and duties refundable	Impairment	Balance as at September 30, 2015
Denain (a)	$ -	$ -	$ -	$ -	$ -
Courville Maruska (b)	-	-	-	-	-
Rocmec 1 (c)					
Mining rights	2,603,982	-	-	-	2,603,982
Exploration and evaluation	6,115,820	41,505	(11,621)	-	6,145,704
	$ 8,719,802	$ 41,505	$ (11,621)	$ Nil	$ 8,749,686

	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
	$ 8,650,140	$ 112,284	$ (42,622)	$ Nil	$ 8,719,802

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.

10. EXPLORATION AND EVALUATION ASSETS (cont'd)

The exploration and evaluation assets capitalized during the year are as follow:

	2015	2014
Supervision	$ 30,900	$ 70,809
Other exploration expenses	10,605	41,475
	$ 41,505	$ 112,284

11. ACCOUNTS PAYABLE

	2015	2014
Trade accounts payable*	$ 358,615	$ 494,193
Accrued interest payable	1,176,682	1,013,632
Taxes on Section XII.6 and III.14 payable	822,262	822,262
Salaries and fringe benefits payable	729,662	738,015
Other liabilities	103,979	188,874
	$ 3,191,200	$ 3,256,976

* Include an amount of $35,490 payable to related parties.

During the year, the Company settled accrued interest totaling $23,516 by issuing 235,156 common shares at $0.10 per share. This transaction did not result in a gain or loss on settlement of debt.

During the previous year, 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.

12. LOANS

	2015	2014
Loans reimbursable in gold, payable on demand	$ 20,833	$ 20,261

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 1st, 2011	$ -	$ 1,204,500	$ 4,318,449	$ 5,522,949
Addition	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
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	601,999	1,392,121	4,295,662	6,289,782
Decrease	-	-	(4,000)	(4,000)
Write-off	(340,040)	(1,212,694)	(2,205,350)	(3,758,084)
Balance as at September 30, 2015	$ 261,959	$ 179,427	$ 2,086,312	$ 2,527,698

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 exploration 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 recorded a $32,590 ($28,600 in 2013) provision related to interests payable and the charge was booked in earnings as indemnities to subscribers. By virtue of the absence of valid indemnification provisions in the subscription agreements, it was determined by the Company that only the indemnities related to subscriptions containing a specific compensation clause would be retained in the books, which amounts to $261,959, representing a write-off of $340,040.

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. As at September 30, 2014, the Company recorded a $74,627 ($70,954 in 2013) provision related to interests payable and the charge was booked in earnings as indemnities to subscribers. By virtue of the absence of valid indemnification provisions in the subscription agreements, it was determined by the Company that only the indemnities related to subscriptions containing a specific compensation clause would be retained in the books, which amounts to $179,427, representing a write-off of $1,212,694.

13. INDEMNITIES PAYABLE TO SUBSCRIBERS (cont'd)

c) During the period ended September 30, 2010, the Canada Revenue Agency (the Agency) has verified the flow expenditure by the Company from 2007 to 2009. All flow-through expenses renounced by the subscribers were accepted. However, the Agency refused eligibility for investment tax credits (ITC) that were also renounced to the subscribers concerned with respect to underground exploration work. The amount of ITC refused by the Agency amounted to $2,343,650. The refusal of this amount has no impact on the Company's tax balances but will result in the affected subscribers will receive new notice of assessment for the tax years in issue, representing 15% of their subscription minus federal tax paid on the ITC during the following year. The Company has estimated the loss suffered by investors in the amount of $1,775,782 and an indemnity of this amount was booked in earnings. The Company offered a settlement in common shares at the issue price of $0.05 per share to policyholders affected by this. The terms of this Regulation have been conditionally approved by the TSX Venture Exchange. As at September 30, 2011, the Company issued 19,426,675 common shares at a price of $0.05 per share in respect of such compensation to pay $971,333 (971,333 shares after reunification) for the subscribers who have accepted the proposed settlement, leaving a balance of $804,449 for other subscribers.

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.

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 $1,126,200. The amount is currently being debated in Court and management deems that the amount recognized as an indemnity payable to subscribers as stated in the consolidated statement of financial position is adequate. By virtue of the absence of valid indemnification provisions in the subscription agreements, it was determined by the Company that only the indemnities related to subscriptions containing a specific compensation clause would be retained in the books, which amounts to $2,086,312, representing a write-off of $2,205,350.

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 voluntary 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

	2015	2014
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 (1/2) 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%), matured in May 2015	$ 1,134,906	$ 1,134,906
Loan of nominal value of $365,094, secured by a first rank mortgage on Rocmec 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	365,094
Obligations under capital leases secured by equipment having a net book value of $Nil ($9,215 in 2014), payable by monthly instalments of $948, including interest calculated at a 9% rate. The company redeemed the entire lease in November 2014.	-	9,969
	1,500,000	1,509,969
Current portion	1,500,000	1,509,969
	$ Nil	$ Nil

Long-term debts principal repayments to be made during the following year amount to $1,500,000.

15. DEBENTURES

	2015	2014
Liability component of convertible debentures		
Debentures totalling $500,000 at emission with a nominal value of $250,000 as at September 30, 2015 ($400,000 in 2014), bearing interest at 13.5% (effective rate of 40%) payable monthly, repayable from January 1st, 2014 through thirty monthly payments of $16,667, deferring the deadline to June 2016. These debentures are convertible into common shares at the holder's option at conversion prices of $0.26 and $0.29. No repayment has been made between March and June 2015 nor in August and September 2015. These payments will be repaid during the following year.	$ 230,202	$ 353,814
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 year 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.		
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. These debentures are expired since December 31st, 2014.	537,500	497,873
	2,267,702	2,351,687
Current portion	2,267,702	2,211,431
	$ Nil	$ 140,256

Long-term debenture principal repayments to be made during the following year amount to $2,267,702.

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.

Issued

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

	2015		2014	
	Quantity	Amount	Quantity	Amount
Shares issued				
Balance at beginning of year	63,471,326	$ 41,717,173	53,740,633	$ 40,873,171
Paid in cash	31,078,796	2,378,018	1,991,538	182,322
Debentures conversion	-	-	7,319,233	658,731
Issued warrants' value	-	(550,967)	-	(47,442)
Common share purchase options exercised	300,000	65,100	-	-
Warrant exercised	3,230,000	390,830	-	-
Debts settlement	235,156	23,516	419,922	50,391
Balance at end of year	98,315,278	$ 44,023,670	63,471,326	$ 41,717,173

Year ended September 30, 2015

On October 3, 2014, the Company completed a private placement of $49,814 by issuing 664,190 units at a price of $0.075 per unit, each unit consisting of one (1) common share of the Company and one (1) warrant. Each warrant entitles the holder to acquire 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 issue date of the voucher. An amount of $14,498 related to the warrants issued was recorded. 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 consisting of one (1) common share the Company and one (1) warrant. Each warrant entitles the holder to acquire 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 issue date of the voucher. An amount of $188,782 related to the warrants issued was recorded. Issuance costs totaling $6,285 were incurred.

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 consisting of one (1) common share the Company and one (1) warrant. Each warrant entitles the holder to acquire 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 issue date of the voucher. An amount of $156,460 related to the warrants issued was recorded. Issuance costs totaling $43,643 were incurred.

16. EQUITY (cont'd)

Year ended September 30, 2015 (cont'd)

On December 17, 2014, the Company completed the final tranche of a private placement for $293,688 by issuing 3,915,833 units at a price of $0.075 per unit, each unit consisting of one (1) common share the Company and one (1) warrant. Each warrant entitles the holder to acquire 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 issue date of the voucher. An amount of $71,571 related to the warrants issued was recorded. Issuance costs totaling $1,432 were incurred.

On January 8, 2015, the Company paid accrued interest totaling $23,516 through the issuance of 235,156 common shares at $0.10 per share. No gain or loss on debt settlement has been generated following this transaction

On February 11, 2015, 300,000 shares were issued following the exercise of stock options at an exercise price of $0.12 per common share.

On May 4 2015, the Company completed a private placement of $551,235 by issuing 6,890,436 units at a price of $0.08 per unit, each unit consisting of one (1) share ordinary of the Company and one (1) warrant. Each warrant entitles the holder to acquire one (1) additional common share of the Company at a price of $0.12 per common share for a period of 24 months following closing of the private placement. An amount of $101,247 related to the warrants issued was recorded. Issuance costs of $7,176 were incurred.

On May 19, 2015, the Company settled an amount due to a shareholder without interest or repayment terms by the issuance of 3,230,000 common shares at an exercise price of $0.10 per common share in exchange for $323,000 of due to a shareholder. The balance of the due was written off in the earnings as a gain on the write-off of a due to a shareholder of $73,785.

On July 15, 2015, the Company completed the first tranche of a private placement totaling $202,500 by issuing 2,531,250 units at a price of $0.08, each unit consisting of one (1) common share the Company and one (1) warrant. Each warrant entitles the holder to acquire one (1) additional common share of the Company at a price of $0.12 per common share for a period of 24 months following the issue date of the voucher. An amount of $18,409 related to the warrants issued was recorded. Issuance costs of $1,076 were incurred.

Year ended September 30, 2014

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.

16. EQUITY (cont'd)

Year ended September 30, 2014 (cont'd)

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 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.

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.

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 for a maximum of a fourth per quarter.

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:

	2015		2014	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of year	6,900,000	$ 0.163	3,565,000	$ 0.213
Granted	3,475,000	0.099	3,355,000	0.120
Exercised	(300,000)	(0.120)	-	-
Expired	(45,000)	(1.900)	-	-
Cancelled	-	-	(20,000)	(1.950)
Balance, end of year	10,030,000	$ 0.134	6,900,000	$ 0.163
Options exercisable at the end	8,430,000	$ 0.144	5,781,667	$ 0.169

16. EQUITY (cont'd)

Common share purchase options (cont'd)

During the year, the Company granted a total of 3,475,000 purchase options for common shares to directors, administrators, employees and consultants. Of these, 3,275,000 options have an exercise price of $0.10 per common share and an exercise period of 5 years, and 200,000 options have an exercise price of $0.085 per common share and an exercise period of 2 years.

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

Granted options and Exercisable options as at September 30, 2015

	Granted options	Exercisable options	Exercise price	Expiration date
(a)	65,000	65,000	$ 2.00	December 2015
	200,000	100,000	$ 0.085	April 2017
	3,335,000	3,335,000	$ 0.14	June 2017
	100,000	100,000	$ 0.10	April 2018
	3,055,000	3,055,000	$ 0.12	December 2018
	3,275,000	1,775,000	$ 0.10	January 2020
	10,030,000	8,430,000		

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:

	2015	2014
Average share price at grant date	$0.10	$0.10
Risk-free interest rate	0.73%	1.55%
Expected volatility	110.84%	127.00%
Expected life	4.85 years	5 years
Expected dividend	0.00%	0.00%
Average exercise price at grant date	$0.10	$0.12
Fair value of options granted at market value	$0.119	$0.097

Stock-based compensation cost recognized in earnings amounts to $236,445 ($299,507 in 2014).

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:

	2015		
	Number of warrants	Weighted average exercise price	Fair value allocated
Balance at beginning of year	8,451,903	$ 0.122	$ 141,858
Granted	31,078,796	0.117	550,967
Exercised	(3,230,000)	(0.100)	(67,830)
Expired	(3,308,460)	(0.124)	(84,883)
Balance as at September 30, 2015	32,992,239	$ 0.119	$ 540,112

	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	47,442
Expired	(4,070,235)	(0.216)	(428,223)
Balance as at September 30, 2014	8,451,903	$ 0.122	$ 141,858

Warrants outstanding as at September 30, 2015 are as follows:

Number of warrants	Exercise price	Expiration date
1,208,936	$ 0.180	April 2016
704,507	$ 0.115	July 2016
664,190	$ 0.115	October 2016
8,809,805	$ 0.115	October 2016
8,267,282	$ 0.115	November 2016
3,915,833	$ 0.115	December 2016
6,890,436	$ 0.120	May 2017
2,531,250	$ 0.120	July 2017
32,992,239		

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:

	2015	2014
Average share price at grant date	$0.08	$0.10
Risk-free interest rate	0.87%	1.08%
Expected volatility	75.47%	90.79%
Expected life	24 months	24 months
Expected dividend	0.00%	0.00%
Average exercise price at grant date	$0.12	$0.16

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 $59,348,604 ($56,445,007 as at September 30, 2014).

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 year ended September 30, 2015.

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.

18. FINANCIAL INSTRUMENTS (cont'd)

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 amount presented in the financial position as accounts receivable and other receivables is net of an allowance for doubtful accounts of $38,960 ($38,960 in 2014). The collection is held by a Canadian chartered bank in which the management believes the risk of loss is considered minimal, 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.

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. Although the Company succeeded in financing its activities in the past, the management cannot comment on the success of its fundraising in the future and considers that the liquidity risk is high.

From October 1st, 2014 to September 30, 2015, the Company concluded financing for a total amount of $2,378,018 and issued share capital to settle accrued interests (Note 11). 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, 2015:

	Less than a year	Between 1 year and 2 years	More than 2 years
Accounts payable	$ 2,461,538	$ -	$ -
Loans	20,833	-	-
Indemnities payable to subscribers	2,527,698	-	-
Long-term debts	1,500,000	-	-
Debentures	2,267,702		-
	$ 8,777,771	$ Nil	$ Nil

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	$ 2,518,961	$ -	$ -
Loans	20,261	-	-
Indemnities payable to subscribers	6,289,782	-	-
Long-term debts	1,509,969	-	-
Debentures	2,211,431	-	-
	$ 12,550,404	$ Nil	$ Nil

18. FINANCIAL INSTRUMENTS (cont'd)

Interest rate risk
The interest rate risk is the risk that fair value future cash flows of a financial instrument fluctuates because of the variations in the market interest rates. The loans, funded debts 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.

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

	2015		2014	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets (loans and receivables)				
Cash	$ 83,918	$ 83,918	$ 56,348	$ 56,348
Accounts receivable and other receivables	79,699	79,699	16,160	16,160
	$ 163,617	$ 163,617	$ 72,508	$ 72,508

	2015		2014	
	Carrying value	Fair value	Carrying value	Fair value
Financial liabilities				
Financial liabilities at amortized cost				
Accounts payable	$ 2,461,538	$ 2,461,538	$ 2,518,961	$ 2,518,961
Loans	20,833	20,833	20,261	20,261
Indemnities payable to subscribers	2,527,698	2,527,698	6,289,782	6,289,782
Due to a shareholder	-	-	396,785	396,785
Long-term debt	-	-	9,969	9,969
Convertible debentures	1,730,202	1,730,202	1,853,814	1,853,814
	6,740,271	6,740,271	11,089,572	11,089,572
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	1,500,000	1,500,000
Other debentures	537,500	537,500	497,873	497,873
	2,037,500	2,037,500	1,997,873	1,997,873
	$ 8,777,771	$ 8,777,771	$ 13,087,445	$ 13,087,445

18. FINANCIAL INSTRUMENTS (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, accounts payable, 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 convertible 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 borrowing rates which apply to similar loans. (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).

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. A portion of the Company's financial assets is denominated in South African rand. Consequently, certain financial assets are exposed to currency fluctuations. Most of the Company's operations are conducted in Canadian dollars. The Company does not use derivative instruments to reduce its exposure to foreign currency risk. The financial assets denominated in South African rand, translated into Canadian dollars at the closing rate, which expose the Company to currency risk are:

	2015	2014
Accounts receivable and other receivables	$ 65,477	$ 15,160
Total exposition	$ 65,477	$ 15,160

19. RELATED PARTIES

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

During the year ended on September 30, 2015, two of the principal directors subscribed for a total of 950,000 units of the Company at a price of $0.08 for total gross proceeds of $76,000 under the first tranche of the private placement conducted April 15, 2015.

Key management personnel includes the directors and officers of the Company.

The key management compensation includes:

	2015	2014
Salaries and fringe benefits	$ 480,048	$ 482,489
Capitalized to exploration and evaluation assets	(30,900)	(70,809)
	449,148	411,680
Stock-based compensation	182,033	234,643
Total	$ 631,181	$ 646,323

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 2015, a provision of $2,060 ($2,060 in 2014) 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 and when the subscribers of the said shares sue the Company. As of September 30, 2015, other than the lawsuit mentioned at Note 13 c), the Company has no knowledge of lawsuits in progress.

iii) As part of its flow through share financing carried out during the years 2009, 2010 and 2011, the Company committed itself to incur admissible Canadian exploration expenses. The Company did not incur all the admissible Canadian exploration expenses relatively to its flow through share financing (see Note 13). Only provisions for the indemnities related to subscriptions containing a specific compensation clause were maintained as at September 30, 2015. The Company could be subject to claims from the other subscribers. Management is not able to determine the amount because they are unable to determine the number of subscribers who have been the subject to tax assessments relatively to these flow through share financing.

21. CASH FLOWS

	2015	2014
Supplemental cash flows information:		
Net changes in working capital items:		
Accounts receivable and other receivables	$ (63,539)	$ (15,160)
Sales tax receivable	(2,220)	1,050
Prepaid expenses and deposits	36,546	-
Security deposits	948	-
Liabilities	28,672	423,400
Subscription received in advance	(85,623)	85,623
Deposit	-	51,487
	$ (85,216)	$ 546,400

	2015	2014
Non-cash investing and financing activities:		
Reduction of the deposit	$ 90,000	$ -
Increase in tax credits receivable	$ 11,621	$ 42,622
Share issuance in settlement of accrued interests on debentures	$ 23,516	$ 50,391
Share issuance in return of prepaid expenses	$ 198,000	$ -
Stock options exercised	$ 29,100	$ -
Warrants exercised in return of the due to a shareholder	$ 323,000	$ -
Component of capital outstanding debentures	$ 73,828	$ -
Share issuance for convertible debentures	$ -	$ 658,731
Equity component of convertible debentures	$ -	$ 53,514
Interest paid, classified in operating activities	$ 312,945	$ 103,077

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:

	2015	2014
Net loss before income taxes	$ 1,113,466	$ (2,306,315)
Income taxes at the statutory income tax rates 26.9% (26.9% in 2014)	299,522	(620,399)
Adjustment for the following items:		
Unrecognized variation of temporary differences	(346,044)	569,675
Unrecognized income taxes on the investment recorded in accordance with the equity method	-	(58,786)
Stock-based compensation	63,604	80,567
Indemnity to subscribers	-	28,841
Non-deductible expenses and others	(189,041)	102
Non-deductible loss	171,959	-
	(299,522)	620,399
	$ Nil	$ Nil

22. INCOME TAXES (cont'd)

	2015	2014
Components of deferred tax expense in the consolidated statement of earnings and comprehensive loss		
Origination and reversal of temporary differences	$ 346,044	$ (510,889)
Unrecognized income taxes on the investment recorded in accordance with the equity method	-	(58,786)
Unrecognized variation of temporary difference	(346,044)	569,675
	$ Nil	$ Nil

	Balance at September 30, 2014	Recognized in profit or loss	Balance at September 30, 2015
Deferred income tax variations in 2015			
Exploration and evaluation assets	$ (322,899)	$ (125,235)	$ (448,134)
Non-capital loss	372,883	147,827	520,710
Convertible debentures	(49,984)	(22 592)	(72,576)
	$ Nil	$ Nil	$ Nil

As at September 30, 2015 available temporary differences for which no deferred tax asset were recorded are as follows:

	Federal	Provincial
Property, plant and equipment	$ 1,383,287	$ 1,379,542
Share issuance expenses	160,350	160,350
Non-capital losses	26,244,591	25,958,691
Intangible assets	812,063	812,063
Capital losses	3,420	3,420
Deferred income taxes	$ 28,603,711	$ 28,314,066

22. INCOME TAXES (cont'd)

As at September 2015, 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
2026	$ 1,297,730	$ 1,175,777
2027	2,485,717	2,448,593
2028	2,371,329	2,366,634
2029	2,850,650	2,838,206
2030	3,538,018	3,511,711
2031	2,787,717	2,786,161
2032	2,862,569	2,788,668
2033	2,676,343	2,672,322
2034	2,902,136	2,899,843
2035	2,472,382	2,470,776
	$ 26,244,591	$ 25,958,691

	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)
	$ Nil	$ Nil	$ Nil

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	$ 27,103,307	$ 26,726,102

In 2015, the Company has tax credits for investments of $145,762 ($145,762 in 2014) 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 6, 2015, the Company announced that Mr. André Savard has resigned as President and CEO of Nippon Dragon Resources Inc. In addition, Mr. Gerald Desourdy resigned as director of the Board of Directors of the Company. Mr. Donald Brisebois has been appointed by the Board to assume the duties and act as President and CEO.

On October 28, 2015, the Company issued 200,000 shares following the exercise of stock options at an exercise price of $0,085 per common share.

On November 25, 2015, the Company announced the ratification of the exclusivity agreement with the mining contractor, Don Bourgeois and Sons Inc. for the use and distribution of Nippon's patented and exclusive thermal fragmentation process. The agreement was ratified in order to include all of Canada. Each party will have similar responsibilities with regard to the promotion, demonstration and implementation of the technology. Don Bourgeois and Sons Inc. will maintain separate accounting books for the use of the thermal fragmentation included in its contracts, equipment leases and / or other types of contracts. Net profits will be shared equally between the parties. In addition, Don Bourgeois and Sons Inc. will be responsible for providing all the necessary equipment for the contracts.

On November 25, 2015, the Company also announced the completion of the first tranche of a private placement without any intermediary. This first tranche totals 3,345,000 Nippon units at a price of $0.08 per unit for total gross proceeds of $267,600. Each unit consists of one (1) common share of the Company and one (1) warrant. Each warrant entitles the holder to acquire one (1) additional common share of the Company at a price of $0.12 per common share for a period of 24 months following the closing of the private placement. An amount of $77,637 related to the warrants issued was recorded.

On November 26, 2015, 16,500 shares were issued following the exercise of stock options at an exercise price of $0.12 per common share.

On February 10, 2016, The Company also announced the completion of the fist tranche of private placement without any intermediary. This first tranche totals 1,676,111 Nippon units at $0.09 per unit for a total gross proceeds of $150,850. Each unit consists of one (1) common share of the Company and one (1) warrant. Each warrant entitles the holder to acquire one (1) additional common share of the Company at $0.135 per common share for a period of 24 months following the closing of the private placement. An amount of $29,631 related to the warrants issued was recorded.

On February 17, 2016, 200,000 shares were issued following the exercise of stock options at an exercise price of $0.10 per common share.

On February 19, 2016, the Company announced that the Board of Directors approved a project of settlement of debt in shares (the "settlement of debt in shares") with certain subscribers of flow-through shares (the "applicants") who concluded flow-through subscription agreements with the Company within a private placement of flow-through shares of the Company realized in 2009.

The settlement of debt in shares takes place following legal proceedings (the "proceedings") which were filed by the applicants in the Superior Court of Québec of the Montreal district against the Company and its directors (collectively, the "directors") on or around February 13, 2012, for an amount of $1,300,103.42 on top of applicable interest and the additional indemnity intended by law. The Company and its directors have contested the allegations included in the lawsuit. On or around May 6, 2015, the applicants and the directors settled the applicants' claim towards them.

23. SUBSEQUENT EVENTS (cont'd)

The Company and the applicants proposed to settle the lawsuit for a global amount of $795,000 (the "settlement amount"), with no admission of responsibility for the only purpose of buying peace and avoid legal fees, by issuing a number of common shares from the Company's equity (the "shares issued for debt settlement").

Subject to approval of the disinterested shareholders (a vote is scheduled during the annual shareholders meeting on March 17, 2016) and the final approval of the TSX Venture Exchange (the "TSXV"), the shares issued to settle the debt will be issued at a price per share (the "price of the shares issued to settle the debt") that is the higher of: (i) the last closing price of the Company's registered shares (the "common shares") on February 19, 2016, net of the maximum discount of 25% (the "discounted price") allowed by the TSXV's policies, a price of $0.06 per share issued to settle the debt, and (ii) the closing price of the common shares at the meeting's date (March 17, 2016) net of the discounted price. The price of the shares issued for the debt settlement will allow the determination of the number of shares issued to settle the debt at the closing date.

24. COMPARATIVE FIGURES

Certain figures from the prior year have been reclassified for presentation adjustments in accordance with the consolidated financial statements for the year.