



## **Nippon Dragon Resources Inc.**

(Exploration Stage Company)

### **CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE 6 MONTH PERIOD ENDED MARCH 31, 2016

(Unaudited and not reviewed by the Company's independent auditors)

#### **CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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# Nippon Dragon Resources Inc.

(Exploration Stage Company)

## INTERIM CONSOLIDATED FINANCIAL POSITION

(in Canadian dollars)

(Unaudited and not reviewed by the Company's independent auditors)

	March 31, 2016	September 30, 2015
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 72,878	\$ 83,918
Accounts receivable and other receivables (note 7)	76,961	79,699
Sales taxes receivable	21,403	20,542
Prepaid expenses	109,895	161,454
Tax credits and redeemable rights receivable	14,095	17,763
<b>TOTAL CURRENT ASSETS</b>	<b>295,232</b>	<b>363,376</b>
<b>NON CURRENT ASSETS</b>		
Property plant and equipment (note 8)	344,952	382,919
Exploration and evaluation assets (note 9)	8,770,536	8,749,686
<b>TOTAL NON CURRENT ASSETS</b>	<b>9,115,488</b>	<b>9,132,605</b>
<b>TOTAL OF ASSETS</b>	<b>\$ 9,410,720</b>	<b>\$ 9,495,981</b>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable (note 10)	\$ 3,320,382	\$ 3,191,200
Loans (note 11)	22,323	20,833
Shares to be issued to subscribers (note 12)	795,000	-
Indemnities payable to subscribers (note 12)	1,401,497	2,527,698
Current portion of long term debts (note 13)	1,500,000	1,500,000
Current portion of debentures (note 14)	2,273,357	2,267,702
<b>TOTAL CURRENT LIABILITIES</b>	<b>9,312,559</b>	<b>9,507,433</b>
<b>TOTAL OF LIABILITIES</b>	<b>\$ 9,312,559</b>	<b>\$ 9,507,433</b>

# Nippon Dragon Resources Inc.

(Exploration Stage Company)

## INTERIM CONSOLIDATED FINANCIAL POSITION (cont'd)

(In Canadian dollars)

(Unaudited and not reviewed by the Company's independent auditors)

	March 31, 2016	September 30, 2015
SHAREHOLDER'S EQUITY (DEFICIENCY)		
Share capital (Note 15)	\$ 44,468,662	\$ 44,023,670
Contributed surplus	10,315,624	10,293,200
Warrants (Note 15)	662,067	540,112
Equity component of convertible debentures	703,087	703,087
Deficit	<u>( 56,051,279 )</u>	<u>( 55,571,521 )</u>
TOTAL SHAREHOLDER'S EQUITY (DEFICIENCY)	<u>98,161</u>	<u>( 11,452 )</u>
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY (DEFICIENCY)	<u>\$ 9,410,720</u>	<u>\$ 9,495,981</u>

GOING CONCERN (Note 2)

COMMITMENTS AND CONTIGENCIES (Note 19)

The accompanying notes form an integral part of these condensed interim 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)

## INTERIM CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE (LOSS) INCOME

(in Canadian dollars)

(Unaudited and not reviewed by the Company's independent auditors)

	3 month period ended March 31, 2016	3 month period ended March 31, 2015	6 month period ended March 31, 2016	6 month period ended March 31, 2015
<b>INCOME</b>				
Contracts from a joint operation	65,490 \$	11,700 \$	136,445 \$	51,400 \$
Thermal fragmentation technology distribution income	-	18,558	-	18,558
Other income	-	-	4,062	4,251
	<u>65,490 \$</u>	<u>30,258 \$</u>	<u>140,507 \$</u>	<u>74,209 \$</u>
<b>CONTRACTS COST</b>				
Contract cost from a joint operation	57,217 \$	2,991 \$	112,054 \$	28,618 \$
Royalties	6,860	-	9,635	4,584
Mobilization cost	-	7,896	-	7,896
Salaries and fringe benefits	-	3,817	-	7,634
Container	-	2,000	-	4,000
Amortization of property, plant and equipment	6,410	1,755	12,820	3,510
	<u>70,487</u>	<u>18,459</u>	<u>134,509</u>	<u>56,242</u>
<b>ADMINISTRATIVE AND GENERAL OPERATING EXPENSES</b>				
Salaries and fringe benefits	110,658	132,781	221,251	271,883
Stock-based compensation	12,490	92,493	42,024	112,381
Insurances	6,918	31,804	14,004	40,485
Bank charges	628	918	1,101	1,443
Trustee fees and registration	22,231	38,656	41,981	56,636
Management fees	-	3,011	-	3,011
Professional fees	38,832	58,314	90,342	116,467
Rent	946	-	1,245	3,423
Maintenance and repairs	-	17,591	3,607	27,015
Stationary and office expenses	6,423	9,972	8,238	22,186
Subscription fees	-	14,494	-	14,494
Telecommunications	820	1,246	2,320	3,415
Mining titles	4,611	5,225	6,196	5,472
Travelling and promotion	55,487	35,587	97,862	180,811
Amortization of property, plant and equipment	13,968	15,155	27,626	30,310
Loss on write-off of the interest in a joint venture	-	711,003	-	711,003
Loss on evaluation of precious metal	1,766	1,975	1,490	2,298
Gain on debt settlement (note 12)	( 331,201 )	-	( 331,201 )	( 3,525,355 )
	<u>( 55,423 )</u>	<u>1,170,225</u>	<u>228,086</u>	<u>( 1,922,622 )</u>
<b>OTHERS FINANCIALS ELEMENTS</b>				
Interests on debentures and debts	120,732	111,577	237,870	216,638
Financing charges and other interests	3,671	( 1,575 )	9,305	1,968
Rent income	-	-	-	( 1,895 )
Gain on write-off of a due to a shareholder	-	( 29,703 )	-	( 50,209 )
Share of results in the joint-venture	-	( 71,504 )	-	-
	<u>124,403</u>	<u>8,795</u>	<u>247,175</u>	<u>166,502</u>
<b>(NET LOSS) INCOME AND COMPREHENSIVE (LOSS) INCOME</b>	<u>( 73,977 )\$</u>	<u>( 1,167,221 )\$</u>	<u>( 469,263 )\$</u>	<u>1,774,087 \$</u>
<b>NET (LOSS) INCOME PER SHARE</b>				
Basic	( 0.0007 )\$	( 0.0137 )\$	( 0.0046 )\$	0.0219 \$
Diluted	( 0.0007 )\$	( 0.0137 )\$	( 0.0046 )\$	0.0219 \$
Weighted average number of shares outstanding	101,442,598	85,502,689	103,133,982	80,851,172

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

# Nippon Dragon Resources Inc.

(Exploration Stage Company)

## INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(In Canadian dollars)

(Unaudited and not reviewed by the Company's independent auditors)

	Number of shares	Share capital	Contributed surplus	Warrants	Equity component of convertible debentures	Deficit	Total Equity
BALANCE AS AT OCTOBER 1 <sup>ST</sup> , 2015	98,315,278	\$ 44,023,670	\$ 10,293,200	\$ 540,112	\$ 703,087	\$ ( 55,571,521 )	\$ ( 11,452 )
Shares issued by private investment	6,021,111	386,182	-	122,268	-	-	508,450
Options granted – Stock-based Compensation	-	-	42,024	-	-	-	42,024
Warrants exercised	16,500	2,210	-	( 313 )	-	-	1,897
Stock-based compensation	400,000	56,600	( 19,600 )	-	-	-	37,000
Other issuance expenses	-	-	-	-	-	( 10,495 )	( 10,495 )
Transactions with owners	6,437,611	444,992	22,424	121,955	-	( 10,495 )	578,876
Net loss and comprehensive loss	-	-	-	-	-	( 469,263 )	( 469,263 )
<b>BALANCE AS AT MARCH 31<sup>ST</sup>, 2016</b>	<b>104,752,889</b>	<b>\$ 44,468,662</b>	<b>\$ 10,315,624</b>	<b>\$ 662,067</b>	<b>\$ 703,087</b>	<b>\$ (56,051,279 )</b>	<b>\$ 98,161</b>

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

# Nippon Dragon Resources Inc.

(Exploration Stage Company)

## INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (cont'd)

(In Canadian dollars)

(Unaudited and not reviewed by the Company's independent auditors)

	Number of shares	Share capital	Contributed surplus	Warrants	Equity component of convertible debentures	Deficit	Total Equity
BALANCE AS AT OCTOBER 1 <sup>ST</sup> , 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	21,657,110	1,192,973	-	431,311	-	-	1,624,284
Options granted – Stock-based Compensation	-	-	112,381	-	-	-	112,381
Shares issued to settle interests on debentures	235,156	23,516	-	-	-	-	23,516
Exercise of common share purchase options	300,000	65,100	( 29,100 )	-	-	-	36,000
Warrants expired	-	-	26,713	( 26,713 )	-	-	-
Other issuance expenses	-	-	-	-	-	( 7,679 )	( 7,679 )
Transactions with owners	22,192,266	1,281,589	109,994	404,598	-	( 7,679 )	1,788,502
Net income and comprehensive income	-	-	-	-	-	1,774,087	1,774,087
<b>BALANCE AS AT MARCH 31<sup>ST</sup>, 2015</b>	<b>85,663,592</b>	<b>\$ 42,998,762</b>	<b>\$ 10,037,138</b>	<b>\$ 546,456</b>	<b>\$ 776,915</b>	<b>\$ (54,858,967 )</b>	<b>\$ ( 499,696 )</b>

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

# Nippon Dragon Resources Inc.

(Exploration Stage Company)

## INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(in Canadian dollars)

(Unaudited and not reviewed by the Company's independent auditors)

	3 month period ended March 31, 2016	3 month period ended March 31, 2015	6 month period ended March 31, 2016	6 month period ended March 31, 2015
OPERATING ACTIVITIES				
(Net loss) Net income and comprehensive income (loss)	\$( 73,977 )	\$(1,167,221 )	\$( 469,263 )	\$ 1,774,087
Adjustments:				
Share of results in the joint venture	-	( 71,504 )	-	-
Stock-based compensation	12,490	92,493	42,024	112,381
Interests capitalized on convertible debentures	-	23,516	-	23,516
Amortization of discount on issuance of debentures	2,828	6,597	5,655	52,822
Interest paid	20,158	29,519	20,158	263,153
Amortization of property, plant and equipment	20,378	16,910	40,446	33,820
Loss on valuation of precious metal	1,766	1,975	1,490	2,298
Unrealized foreign exchange gain	( 239 )	-	( 239 )	-
Gain on write-off of a due to a shareholder	-	( 29,703 )	-	( 50,209 )
Gain on debt settlement	( 331,201 )	-	( 331,201 )	( 3,525,355 )
Loss on write off of investment in a joint venture	-	711,003	-	711,003
	( 347,797 )	( 386,415 )	( 690,930 )	( 602,484 )
Changes in working capital items (note 20)	96,481	209,090	182,857	( 630,680 )
Cash flows from operating activities	( 251,316 )	( 177,325 )	( 508,073 )	( 1,233,164 )
INVESTING ACTIVITIES				
Addition to property plant and equipment	( 2,479 )	-	( 2,479 )	-
Mining tax credit	6,058	-	6,058	-
Addition to exploration and evaluation assets	( 4,120 )	( 13,240 )	( 23,240 )	( 28,905 )
Cash flows from investing activities	( 541 )	( 13,240 )	( 19,661 )	( 28,905 )
FINANCING ACTIVITIES				
Repayment of indemnities payable to subscribers	-	-	-	( 4,000 )
Long-term debts repayment	-	-	-	( 9,969 )
Common share purchase options exercised	20,000	36,000	37,000	36,000
Interest paid	( 20,158 )	( 29,519 )	( 20,158 )	( 263,153 )
Debentures repayment	-	( 33,334 )	-	( 133,336 )
Shares issuance cost	-	-	( 10,495 )	( 7,679 )
Warrants exercised	-	-	1,897	-
Issuance of shares and warrants	240,850	-	508,450	1,624,284
Cash flows from financing activities	240,692	( 26,853 )	516,694	1,242,147
NET CHANGE IN CASH AND CASH EQUIVALENTS	( 11,165 )	( 217,418 )	( 11,040 )	( 19,922 )
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	84,043	253,844	83,918	56,348
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 72,878	\$ 36,426	\$ 72,878	\$ 36,426

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

# Nippon Dragon Resources Inc.

(Exploration Stage Company)

## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(in Canadian dollars)

(Unaudited and not reviewed by the Company's independent auditors)

**March 31, 2016**

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### 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. Additionally, the Company has also given itself the mission of introducing its thermal fragmentation mining method within the mining industry in order for it to be recognised and commercialized worldwide.

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

The condensed interim consolidated financial statements for the period ended March 31, 2016 (including comparatives statements) were approved and authorized for issue by the Board of Directors on May 27, 2016.

### 2. GOING CONCERN

The condensed interim 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 March 31, 2016, the Company has cumulated deficit of \$56,051,279 (\$55,571,521 as at September 30, 2015) and 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 is currently in default with several creditors whom have created a first mortgage on the Rocmec 1 property in the amount of \$ 1,500,000. Although discussions have been ongoing over the past couple months to find a solution for payment, the Company does risk losing control on the property given as collateral. The Company is also in default on a debenture payment that is guaranteed by equipment and the exclusive license for thermal fragmentation. If the creditor decides to use his guarantee, the Company will need to halt all operations with its partners. Management has intention to renegotiate the issued debt and debenture over a longer period, although no certainty of success; the Company does risk losing control of both its Rocmec 1 property and its equipment and thermal fragmentation license.

The Company's ability to continue as a going concern is dependent upon its ability to settle its current liabilities and 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.

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



# Nippon Dragon Resources Inc.

(Exploration Stage Company)

## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(in Canadian dollars)

(Unaudited and not reviewed by the Company's independent auditors)

**March 31, 2016**

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### 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.

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 of \$0.0301 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 unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting* and are in accordance with International Financial Reporting Standards ("IFRS") as issued by the *International Accounting Standards Board* ("IASB"). These financial statements should be read in conjunction with the audited financial statements for the year ended September 30, 2015. These unaudited condensed interim consolidated financial statements have been prepared using the accounting policies as set out in the audited annual financial statements for the year ended September 30, 2015.

### 5. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been applied in the preparation of these condensed interim 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 condensed interim 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 condensed interim 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 condensed interim consolidated financial statements.

# Nippon Dragon Resources Inc.

(Exploration Stage Company)

## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(in Canadian dollars)

(Unaudited and not reviewed by the Company's independent auditors)

**March 31, 2016**

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### 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 Consolidated Financial Statements ("IAS 1")***

In December 2014, IASB published modifications to IAS 1. The modifications brought more precision on the use of professional judgement when determining the structure and detail of information to present in the consolidated statements (includes the importance of proper grouping, presentation of sub totals and information about the accounting methods chosen). Early adoption of the norm is accepted since January 2016<sup>th</sup>. As the norm is only for presentation, they have no effect on the financial situation of the consolidated results.

##### ***IFRS 9 Financial Instruments (effective October 1<sup>st</sup>, 2015)***

IASB intends to entirely replace IAS 39, financial instruments: recognition and measurement. The replacement standard (IFRS 9) is being issued in phases. To date, the sections dealing with recognition, classification, measurement and de-recognition of financial assets and liabilities have been issued. These sections will be effective for annual periods beginning on or after January 1<sup>st</sup>, 2018. Further sections dealing with impairment methodology and hedge accounting are still being developed. Management has yet to assess the impact of this new standard on the consolidated financial statements. However, they do not expect to implement IFRS 9 until all of its sections have been published and they can comprehensively assess the impact of all changes.

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

##### ***IFRS 15 Revenue from Contracts with Customers***

In May 2014, IASB published IFRS 15 with specifies the method and timing for accounting revenue from ordinary activities as well as the presentation and related detailed information. IFRS 15 replaces IAS 18 Revenue & IAS 11 Construction Contracts in addition to any other sections/interpretations related to revenue from regular activities. In September 2015, IASB altered the date of mandatory reporting to January 1, 2018 for companies to retrospectively apply this section. At this time, the organization is assessing the impact of the norm changes and the impacts of this reporting norm to the condensed interim consolidated financial statements.

# Nippon Dragon Resources Inc.

(Exploration Stage Company)

## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(in Canadian dollars)

(Unaudited and not reviewed by the Company's independent auditors)

**March 31, 2016**

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### 6. CRITICAL ACCOUNTING ESTIMATES, JUDGEMENTS AND ASSUMPTIONS

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

#### Don Bourgeois et Fils Inc., CANADA

The Company concluded an exclusive agreement with Don Bourgeois et Fils Inc in Canada for the distribution and the use of its patented thermal fragmentation mining method. No legal entity was created for the purposes of the agreement, and each company is entitled to 50 % of the profits and the losses generated by the partnership.

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

### 7. ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES

	<b>March 31, 2016</b>	September 30, 2015
Receivable from a partner in a joint operation	\$ <u>71,639</u>	\$ <u>65,477</u>
Receivable from a non-related company	44,282	53,182
Provision	<u>( 38,960 )</u>	<u>( 38,960 )</u>
	<u>5,322</u>	<u>14,222</u>
	<u>\$ 76,961</u>	<u>\$ 79,699</u>

Receivable from a partner in a joint operation includes a receivable amount of \$115,727 (\$ 83,010 as at September 30th 2015) less a payable of \$44,088 (\$ 17,533 as at September 30th 2015).

# Nippon Dragon Resources Inc.

(Exploration Stage Company)

## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(in Canadian dollars)

**March 31, 2016**

### 8. PROPERTY, PLANT AND EQUIPMENT

	Equipment	Mill Plant	Computer equipment	Automotive equipment	Telephone system	Total
GROSS CARRYING AMOUNT						
Balance as at October 1st, 2015	\$ 815,365	\$ 1,819,093	\$ 25,575	\$ 37,703	\$ 4,201	\$ 2,701,937
Additions	-	-	2,479	-	-	\$ 2,479
Disposal	-	-	( 1,299)	-	-	( 1,299)
Balance as at March 31, 2016	815,365	1,819,093	26,755	37,703	4,201	2,703,117
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
Balance as at October 1st, 2015	\$ 432,446	\$ 1,819,093	\$ 25,575	\$ 37,703	\$ 4,201	\$ 2,319,018
Disposal	-	-	( 1,299)	-	-	\$( 1,299)
Depreciation	40,135	-	311	-	-	40,446
Balance as at March 31, 2016	472,581	1,819,093	24,587	37,703	4,201	2,358,165
CARRYING AMOUNT AS AT MARCH 31, 2016	\$ 342,784	\$ -	\$ 2,168	\$ -	\$ -	\$ 344,952

	Equipment	Mill plant	Computer equipment	Automotive equipment	Telephone system	Equipment under finance lease	Total
GROSS CARRYING AMOUNT							
Balance as at October 1 <sup>st</sup> , 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	-	2,701,937
ACCUMULATED DEPRECIATION AND IMPAIRMENT							
Balance as at October 1 <sup>st</sup> , 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	-	2,319,018
CARRYING AMOUNT AS AT SEPTEMBER 30, 2015	\$ 382,919	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 382,919

# Nippon Dragon Resources Inc.

(Exploration Stage Company)

## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(in Canadian dollars)

**March 31, 2016**

### 9. EXPLORATION AND EVALUATION ASSETS

	Balance as at October 1st, 2015	Additions	Tax credits and duties refundable	Impairment	Balance as at March 31, 2016
Denain (a)	\$ -	\$ -	\$ -	\$ -	\$ -
Courville Maruska (b)	-	-	-	-	-
Rocmec 1 (c)					
Mining rights	2,603,982	-	-	-	2,603,982
Exploration and evaluation	6,145,704	23,240	( 2,390 )	-	6,166,554
	<u>\$ 8,749,686</u>	<u>\$ 23,240</u>	<u>\$ ( 2,390 )</u>	<u>\$ -</u>	<u>\$ 8,770,536</u>

	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
	<u>\$ 8,719,802</u>	<u>\$ 41,505</u>	<u>\$ ( 11,621 )</u>	<u>\$ -</u>	<u>\$ 8,749,686</u>

a) Denain projet – Denain township, Quebec

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

b) Courville-Maruska project – Courville township, Quebec

100% interest in 15 mining claims.

c) Rocmec 1 project – Dasserat Township, Quebec

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

# Nippon Dragon Resources Inc.

(Exploration Stage Company)

## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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### 9. EXPLORATION AND EVALUATION ASSETS (cont'd)

The exploration and evaluation assets capitalized are as follow:

	<b>March 31, 2016</b>	September 30, 2015
Supervision	\$ 8,240	\$ 30,900
Other exploration expenses	<u>15,000</u>	<u>10,605</u>
	<u>\$ 23,240</u>	<u>\$ 41,505</u>

### 10. ACCOUNTS PAYABLE

	<b>March 31, 2016</b>	September 30, 2015
Trade accounts payable*	\$ 266,250	\$ 358,615
Accrued interest payable	1,388,739	1,176,682
Taxes on Section XII.6 and III.14 payable	822,262	822,262
Salaries and fringe benefits payable	787,500	729,662
Other liabilities	<u>55,631</u>	<u>103,979</u>
	<u>\$ 3,320,382</u>	<u>\$ 3,191,200</u>

\* Include an amount of \$ 13,840 (\$ 35,490 as at September 30th 2015) payable to related parties.

During the previous 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.

### 11. LOANS

	<b>March 31, 2016</b>	September 30, 2015
Loans reimbursable in gold, payable on demand	<u>\$ 22,323</u>	<u>\$ 20,833</u>

# Nippon Dragon Resources Inc.

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### 12. 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
Additions	540,809	42,400	-	583,209
Decrease	-	-	( 18,000 )	( 18,000 )
Balance as at September 30, 2012	540,809	1,246,900	4,300,449	6,088,158
Additions	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
Decrease	-	-	1,126,201	1,126,201
<b>Balance as at March 31<sup>st</sup>, 2016</b>	<b>\$ 261,959</b>	<b>\$ 179,427</b>	<b>\$ 960,111</b>	<b>\$ 1,401,497</b>

- 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.



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### 12. INDEMNITIES PAYABLE TO SUBSCRIBERS (cont'd)

- 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.
- 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. 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.

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### 12. INDEMNITIES PAYABLE TO SUBSCRIBERS (cont'd)

Regarding flow-through financing of 2009, a group of investors had filed a lawsuit with the Superior Court of Quebec for an approximate amount of \$1,126,201. The amount has been debated in Court for a long time and management deemed that the amount recognized as an indemnity payable to subscribers as stated in the consolidated statement of financial position was adequate. On March 17, 2016, the Company and the plaintiffs have proposed to settle the proceedings instituted by the plaintiffs, without any admission of liability whatsoever, for an aggregate settlement amount of \$ 795,000 by issuing common shares of the share capital of the Company at a price of \$ 0.07 per debt share. As at March 31, 2016, the debt shares had not been issued because of administrative delays so that an amount of \$ 795,000 was recorded as shares to be issued to subscribers in the interim consolidated financial position of the Company.

### 13. LONG-TERM DEBTS

	<b>March 31, 2016</b>	September 30, 2015
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
	<hr/>	<hr/>
	1,500,000	1,500,000
Current portion	<hr/>	<hr/>
	1,500,000	1,500,000
	<hr/>	<hr/>
	\$ -	\$ -

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

# Nippon Dragon Resources Inc.

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### 14. DEBENTURES

#### *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 1<sup>st</sup>, 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 between August 2015 and March 2016.

	March 31, 2016	September 30, 2015
	\$ 235,857	\$ 230,202

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
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*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 31<sup>st</sup>, 2014.

537,500	537,500
2,273,357	2,267,702
2,273,357	2,267,702
\$ -	\$ -

Current portion

Long-term debenture principal repayments to be made during the following year amount to \$ 2,273,357.

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### 15. 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:

	<b>March 31, 2016</b>		<b>September 30, 2015</b>	
	<u>Quantity</u>	<u>Amount</u>	<u>Quantity</u>	<u>Amount</u>
Shares issued				
Balance at beginning of period	98,315,278	\$ 44,023,670	\$ 63,471,326	\$ 41,717,173
Paid in cash	6,021,111	508,450	31,078,796	2,378,018
Issued warrant's value	-	( 122,268 )	-	( 550,967 )
Common share purchase options exercised	400,000	56,600	300,000	65,100
Warrant exercised	16,500	2,210	3,230,000	390,830
Debts settlement	-	-	235,156	23,516
Balance at end of period	<u>104,752,889</u>	<u>\$ 44,468,662</u>	<u>\$ 98,315,278</u>	<u>\$ 44,023,670</u>

#### ***Six-month period ended March 31, 2016***

On October 28, 2015, 200,000 shares were issued following the exercise of stock options at an exercise price of \$ 0.085 per common share.

On November 25, 2015, the Company completed a private placement for \$ 267,600 by issuing 3,345,000 units at a price of \$ 0.08 per unit, each unit comprised of one (1) common share and one (1) common share purchase warrant of the Company. Each common share purchase warrant entitles its holder to purchase one (1) additional common share of the Company at a price of \$ 0.12 per common share for a period of 24 months following the date of issuance. An amount of \$ 77,637 related to the warrants issued has been recognized. Issuance costs of \$ 10,495 were incurred.

On November 26, 2015, 16,500 shares were issued following the exercise warrants at an exercise price of \$ 0.115 per common share.

On February 10, 2016, the Company completed a first tranche of a non-brokered private placement for \$ 150,850 by issuing 1,676,111 units at a price of \$ 0.09 per unit, each unit comprised of one (1) common share and one (1) common share purchase warrant of the Company. Each common share purchase warrant entitles its holder to purchase one (1) additional common share of the Company at a price of \$ 0.135 per common share for a period of 24 months following the date of issuance. An amount of \$ 29,631 related to the warrants issued has been recognized.

# Nippon Dragon Resources Inc.

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## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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### 15. EQUITY (cont'd)

#### *Six-month period ended March 31, 2016 (cont'd)*

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 March 9, 2016, the Company completed the closing of a second and final tranche of a non-brokered private placement for \$ 90,000 by issuing 1,000,000 units at a price of \$ 0.09 per unit, each unit comprised of one (1) common share and one (1) common share purchase warrant of the Company. Each common share purchase warrant entitles its holder to purchase one (1) additional common share of the Company at a price of \$ 0.135 per common share for a period of 24 months following the date of issuance. An amount of \$ 15,000 related to the warrants issued has been recognized.

#### *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.

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 the first tranche of a private placement for \$ 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.

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### 15. EQUITY (cont'd)

#### *Year ended September 30, 2015 (cont'd)*

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. The remaining debt balance of \$ 73,785 was accounted for as a gain on extinguishment of debt to shareholder

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.

#### 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 over a period of 12 months may not exceed 5% of the common shares outstanding at the date of the grant. Common shares reserved for consultants or eligible person responsible for investor 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 number of shares reserved for potential option exercising must not exceed 10% of issued common shares. In addition, the granting of options in a 12 month period should not exceed 10% of the total common shares issued. 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 or a maximum of ¼ 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:

	<b>March 31, 2016</b>		<b>September 30, 2015</b>	
	<u>Number of options</u>	<u>Weighted average exercise price</u>	<u>Number of options</u>	<u>Weighted average exercise price</u>
Balance, beginning of period	10,030,000	\$ 0.134	6,900,000	\$ 0.163
Granted	-	-	3,475,000	0.099
Exercised	( 400,000 )	( 0.093 )	( 300,000 )	( 0.120 )
Expired	( 65,000 )	( 2.000 )	( 45,000 )	( 1.900 )
Cancelled	( 2,700,000 )	( 0.153 )	-	-
Balance, end of period	<u>6,865,000</u>	<u>0.111</u>	<u>10,030,000</u>	<u>0.134</u>
Options exercisable at the end	<u>6,560,833</u>	<u>\$ 0.123</u>	<u>8,430,000</u>	<u>\$ 0.144</u>

# Nippon Dragon Resources Inc.

(Exploration Stage Company)

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### 15. EQUITY (cont'd)

#### Common share purchase options (cont'd)

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

Granted options and exercisable options as at March 31, 2016:

<u>Granted options</u>	<u>Exercisable options</u>	<u>Exercise price</u>	<u>Expiration date</u>
2,435,000	2,435,000	0.14	\$ June 2017
100,000	100,000	0.10	\$ April 2018
2,155,000	2,155,000	0.12	\$ December 2018
<u>2,175,000</u>	<u>1,870,833</u>	0.10	\$ January 2020
<u>6,865,000</u>	<u>6,560,833</u>		

#### 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:

	<b>March 31, 2016</b>	September 30, 2015
Average share price at grant date	- \$	0.10
Risk-free interest rate	- %	0.73
Expected volatility	- %	110.84
Expected life	-	4.85 years
Expected dividend	- %	0.00
Average exercise price at grant date	- \$	0.10
Fair value of options granted at market value	- \$	0.119

Stock-based compensation cost recognized in earnings for the period amounts to \$ 42,024 (\$ 112,381 in March 2015).

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(Exploration Stage Company)

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### 15. EQUITY (cont'd)

#### Warrants

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

	<b>March 31, 2016</b>		
	Number of warrants	Weighted average exercise price	Fair value allocated
Balance as at October 1 <sup>st</sup> , 2015	32,992,239	\$ 0.119	\$ 540,112
Granted	6,021,111	0.127	122,268
Exercised	( 16,500 )	( 0.115 )	( 313 )
Balance as at March 31, 2016	<u>38,996,850</u>	\$ 0.017	\$ <u>662,067</u>

  

	<b>September 30, 2015</b>		
	Number of warrants	Weighted average exercise price	Fair value allocated
Balance as at October 1 <sup>st</sup> , 2014	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	<u>32,992,239</u>	\$ 0.119	\$ <u>540,112</u>

Warrants outstanding as at March 31, 2016 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
8,250,782	\$ 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
3,345,000	\$ 0.120	November 2017
1,676,111	\$ 0.135	February 2018
1,000,000	\$ 0.135	March 2018
<u>38,996,850</u>		



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### 15. 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:

	<b>March 31, 2016</b>	September 30, 2015
Average share price at grant date	\$ 0.102	\$ 0.08
Risk-free interest rate	0.53 %	% 0.87
Expected volatility	72.22 %	% 75.47
Expected life	24 months	24 months
Expected dividend	0.00 %	% 0.00
Average exercise price at grant date	\$ 0.127	\$ 0.12

### 16. 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, 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 \$ 59,945,120 (\$59,348,604 as at September 30, 2015).

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

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

There were no significant changes in the Company's approach to capital management during the period ended March 31, 2016.

# Nippon Dragon Resources Inc.

(Exploration Stage Company)

## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(in Canadian dollars)

March 31, 2016

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### 17. FINANCIAL INSTRUMENTS

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

#### Credit risk

The credit risk is the risk associated with non-payment of financial obligations by the customers of the Company. The credit risks that faced the Company are principally attributable to collection of its accounts receivable. All accounts receivables from customer accounts and other accounts are shown net of a deduction for doubtful collections of \$ 38,960 (\$ 38,960 as at September 30, 2015). The collection is held by a Canadian bank in which the direction think the loss risk is considered negligible, but it is subject to credit risk concentration. The maximum credit risk is equivalent to the book value.

#### Liquidity risk

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

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

During the 6-month period ended on March 31<sup>st</sup> 2016, the Company concluded financing for a total amount of \$508,450. However, more financing will be necessary to enable the Company to finance next year's operation expenditures.

The following table summarizes the Company's financial liabilities as at March 31<sup>st</sup> 2016:

	Less than a year	Between 1 year and 2 years	More than 2 years
Accounts payable	\$ 3,320,382	\$ -	\$ -
Loans	22,323	-	-
Indemnities payable to subscribers	1,401,497	-	-
Shares to be issued to subscribers	795,000	-	-
Long-term debts	1,500,000	-	-
Debentures	2,273,357	-	-
	<u>\$ 9,312,559</u>	<u>\$ -</u>	<u>\$ -</u>

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(in Canadian dollars)

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### 17. FINANCIAL INSTRUMENTS (cont'd)

#### Interest rate risk

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

#### Sensitivity analysis of interest rate

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

#### 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:

	<b>March 31, 2016</b>	September 30, 2015
Accounts receivable and other receivables	\$ 71,639	\$ 65,477
Total exposition	<u>\$ 71,639</u>	<u>\$ 65,477</u>

#### Fair value

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

	<b>March 31, 2016</b>		<b>September 30, 2015</b>	
	Carrying value	Fair value	Carrying value	Fair value
<b>Financial assets (loans and receivables)</b>				
Cash & cash equivalents	\$ 72,878	\$ 72,878	\$ 83,918	\$ 83,918
Accounts receivable and other receivables	76,961	76,961	79,699	79,699
	<u>\$ 149,839</u>	<u>\$ 149,839</u>	<u>\$ 163,617</u>	<u>\$ 163,617</u>

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(in Canadian dollars)

March 31, 2016

### 17. FINANCIAL INSTRUMENTS (cont'd)

	March 31, 2016		September 30, 2015	
	Carrying value	Fair value	Carrying value	Fair value
<b>Financial liabilities</b>				
<i><b>Financial liabilities at amortized cost</b></i>				
Accounts payable	\$ 3,320,382	\$ 3,320,382	\$ 2,461,538	\$ 2,461,538
Loans	22,323	22,323	20,833	20,833
Indemnities payable to subscribers	1,401,497	1,401,497	2,527,698	2,527,698
Convertible debentures	1,735,857	1,735,857	1,730,202	1,730,202
	<u>\$ 6,480,059</u>	<u>\$ 6,480,059</u>	<u>\$ 6,740,271</u>	<u>\$ 6,740,271</u>
<i><b>Financial liabilities at fair value through profit or loss</b></i>				
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	537,500	537,500
	<u>2,037,500</u>	<u>2,037,500</u>	<u>2,037,500</u>	<u>2,037,500</u>
	<u>\$ 8,517,559</u>	<u>\$ 8,517,559</u>	<u>\$ 8,777,771</u>	<u>\$ 8,777,771</u>

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, loans, indemnities payable to subscribers and due to a shareholder are considered to be a reasonable approximation of fair value because of the short-term maturity of these instruments (Level 1).

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

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

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## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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### 18. RELATED PARTIES

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

During the 6-month period ended on March 31<sup>st</sup> 2016, the Company and one of its joint operations have completed a contract in which the Company has drawn 25% of the profits. The profits from this agreement for the quarter amounted to \$ 24,391. In addition, the Company has sold equipment to the same joint operation in the amount of \$ 4,062. The balance receivable to the joint operation as at March 31, 2016 is \$ 71,639.

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

The key management compensation includes:

	<b>3 month period ended March 31, 2016</b>	<b>3 months period ended March 31, 2015</b>	<b>6 months period ended March 31, 2016</b>	<b>6 months period ended March 31, 2015</b>
Salaries and fringe benefits	\$ 47,222	\$ 81,068	\$ 94,444	\$ 162,135
Capitalized to exploration and evaluation assets	( 4,120 )	( 8,240 )	( 8,240 )	( 18,540 )
	43,102	72,828	86,204	143,595
Stock-based compensation	6,968	49,729	23,445	62,504
Professional fees	18,000	18,000	36,000	36,000
Total	<u>\$ 68,070</u>	<u>\$ 140,557</u>	<u>\$ 145,649</u>	<u>\$ 242,099</u>

An amount of \$ 299,195 (\$ 230,071 in 2015) due to the Company's management is included within the accounts payables.

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### 19. 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. As at March 31, 2016, a provision of \$ 2,060 (\$2,060 as at September 30, 2015) 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.
- 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 12). Only provisions for the indemnities related to subscriptions containing a specific compensation clause were maintained as at March 31, 2016. 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.

### 20. CASH FLOWS

	<b>3 month period ended March 31, 2016</b>	<b>3 months period ended March 31, 2015</b>	<b>6 months period ended March 31, 2016</b>	<b>6 months period ended March 31, 2015</b>
<b>Supplemental cash flows information:</b>				
Net changes in working capital items:				
Accounts receivable and other receivables	\$ 22,820	\$( 21,459 )	\$ 2,977	\$( 31,350 )
Sales tax receivable	( 8,319 )	21,629	( 861 )	8,299
Prepaid expenses	33,689	7,500	51,559	( 20,000 )
Security deposits	-	-	-	948
Accounts payable	48,291	187,970	129,182	( 516,404 )
Subscription received in advance	-	-	-	( 85,623 )
Deferred revenues	-	13,450	-	13,450
	<u>\$ 96,481</u>	<u>\$ 209,090</u>	<u>\$ 182,857</u>	<u>\$( 630,680 )</u>

# Nippon Dragon Resources Inc.

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## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(in Canadian dollars)

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### 20. CASH FLOWS (cont'd)

	<b>3 month period ended March 31, 2016</b>	<b>3 months period ended March 31, 2015</b>	<b>6 months period ended March 31, 2016</b>	<b>6 months period ended March 31, 2015</b>
<b>Non-cash investing and financing activities:</b>				
Share issuance in settlement of indemnities payable to subscribers	795,000 \$	- \$	795,000 \$	- \$
Reduction of the deposit	-	90,000	-	90,000
Stock options exercised	15,000	29,100	19,600	29,100
Share issuance in settlement of accrued interests on debentures	-	23,516	-	23,516
Warrants exercised	-	-	313	-
Increase in tax credit receivable	2,390	-	2,390	-

### 21. SUBSEQUENT EVENTS

On May 19, 2016, the Company completed a private placement of \$ 78,992 by issuing 987,400 units at a price of \$ 0.08 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 \$ 0.12 per common share for a period of 24 months following the issue date of the voucher.