



**Nippon Dragon Resources Inc.**  
(Exploration Stage Company)

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
FOR THE 9 MONTH PERIOD ENDED JUNE 30, 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)

	<u>June 30, 2016</u>	<u>September 30, 2015</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 32,814	\$ 83,918
Accounts receivable and other receivables (note 6)	87,812	79,699
Sales taxes receivable	22,416	20,542
Prepaid expenses	76,206	161,454
Tax credits and redeemable rights receivable	<u>2,474</u>	<u>17,763</u>
TOTAL CURRENT ASSETS	<u>221,722</u>	<u>363,376</u>
NON CURRENT ASSETS		
Property, plant and equipment	324,729	382,919
Exploration and evaluation assets (note 7)	<u>8,774,656</u>	<u>8,749,686</u>
TOTAL NON CURRENT ASSETS	<u>9,099,385</u>	<u>9,132,605</u>
TOTAL OF ASSETS	<u>\$ 9,321,107</u>	<u>\$ 9,495,981</u>
LIABILITIES		
CURRENT		
Accounts payable (note 8)	\$ 3,221,815	\$ 3,191,200
Loans	24,234	20,833
Indemnities payable to subscribers (note 9)	1,401,497	2,527,698
Current portion of long term debts (note 10)	1,500,000	1,500,000
Current portion of debentures (note 11)	<u>2,276,185</u>	<u>2,267,702</u>
TOTAL CURRENT LIABILITIES	<u>8,423,731</u>	<u>9,507,433</u>
TOTAL OF LIABILITIES	<u>\$ 8,423,731</u>	<u>\$ 9,507,433</u>

**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)

	<u>June 30,</u> <u>2016</u>	<u>September 30,</u> <u>2015</u>
SHAREHOLDERS' EQUITY (DEFICIENCY)		
Share capital (Note 12)	\$ 45,604,833	\$ 44,023,670
Contributed surplus	10,347,255	10,293,200
Warrants (Note 12)	738,399	540,112
Equity component of convertible debentures	703,087	703,087
Deficit	<u>( 56,496,198 )</u>	<u>( 55,571,521 )</u>
TOTAL SHAREHOLDERS' EQUITY (DEFICIENCY)	<u>897,376</u>	<u>( 11,452 )</u>
TOTAL LIABILITIES AND SHAREHOLDER'S DEFICIENCY	<u>\$ 9,321,107</u>	<u>\$ 9,495,981</u>

## GOING CONCERN (Note 2)

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)

	<b>3 month period ended June 30, 2016</b>	3 month period ended June 30, 2015	<b>9 month period ended June 30, 2016</b>	9 month period ended June 30, 2015
<b>INCOME</b>				
Contracts income from a joint operation	\$ 73,826	\$ 12,420	\$ 210,271	\$ 63,820
Thermal fragmentation technology distribution income	-	53,450	-	72,008
Other income	21,351	1,020	25,413	5,271
	<u>95,177</u>	<u>66,890</u>	<u>235,684</u>	<u>141,099</u>
<b>CONTRACTS COST</b>				
Contract cost from a joint operation	60,770	2,991	172,824	31,609
Royalties	6,546	-	16,181	4,584
Mobilization cost	-	-	-	7,896
Salaries and fringe benefits	-	3,817	-	11,451
Container	-	2,000	-	6,000
Amortization of property, plant and equipment	-	1,755	12,820	5,265
	<u>67,316</u>	<u>10,563</u>	<u>201,825</u>	<u>66,805</u>
<b>ADMINISTRATIVE AND GENERAL OPERATING EXPENSES</b>				
Salaries and fringe benefits	109,462	131,325	330,713	403,208
Stock-based compensation	5,676	70,875	47,700	183,256
Insurances	6,243	1,944	20,247	42,429
Bank charges	640	636	1,741	2,079
Trustee fees and registration	33,134	4,978	75,115	61,614
Management fees	-	-	-	3,011
Professional fees	187,297	57,732	277,639	174,199
Rent	1,447	-	2,692	3,423
Maintenance and repairs	1,522	6,450	5,129	33,465
Stationary and office expenses	1,897	5,562	10,135	27,748
Subscription fees	470	-	470	14,494
Telecommunications	1,630	2,380	3,950	5,795
Mining titles	185	1,397	6,381	6,869
Travelling and promotion	73,656	50,369	171,518	231,180
Amortization of property, plant and equipment	20,223	15,155	47,849	45,465
Loss on write off of investment in a joint venture	-	-	-	711,003
Loss (gain) on evaluation of precious metal	1,911	( 2,030 )	3,401	268
Gain on debt settlement	( 66,998 )	-	( 398,199 )	( 3,525,355 )
	<u>378,395</u>	<u>346,773</u>	<u>606,481</u>	<u>( 1,575,849 )</u>
<b>OTHERS FINANCIAL ELEMENTS</b>				
Interests on debentures and debts	85,241	113,189	323,111	329,827
Financing charges and other interests	( 1,390 )	( 48 )	7,915	1,920
Rent income	-	-	-	( 1,895 )
Gain on write-off of a due to a shareholder	-	( 23,577 )	-	( 73,786 )
	<u>83,851</u>	<u>89,564</u>	<u>331,026</u>	<u>256,066</u>
<b>(NET LOSS) NET INCOME AND COMPREHENSIVE (LOSS) INCOME</b>	<u><u>\$ ( 434,385 )</u></u>	<u><u>\$ ( 380,010 )</u></u>	<u><u>\$ ( 903,648 )</u></u>	<u><u>\$ 1,394,077</u></u>
<b>NET (LOSS) INCOME PER SHARE</b>				
Basic	\$( 0.0040 )	\$( 0.0042 )	\$ 0.0084	\$ 0.0165
Diluted	\$( 0.0040 )	\$( 0.0042 )	\$ 0.0084	\$ 0.0165
Weighted average number of shares outstanding	109,536,832	91,422,419	107,022,715	84,390,898

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)

**June 30, 2016**

	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	12,072,293	709,853	-	232,055	-	-	941,908
Options granted – Stock-based compensation	-	-	47,700	-	-	-	47,700
Shares issued to settle a debt	11,356,008	795,000	-	-	-	-	795,000
Warrants exercised	16,500	2,210	-	( 313 )	-	-	1,897
Exercise of common share purchase options	500,000	74,100	( 27,100 )	-	-	-	47,000
Warrants expired	-	-	33,455	( 33,455 )	-	-	-
Other issuance expenses	-	-	-	-	-	( 21,029 )	( 21,029 )
Transactions with owners	23,944,801	1,581,163	54,055	198,287	-	( 21,029 )	1,812,476
Net income and comprehensive income	-	-	-	-	-	( 903,648 )	( 903,648 )
<b>BALANCE AS AT JUNE 30, 2016</b>	<b>122,260,079</b>	<b>\$ 45,604,833</b>	<b>\$10,347,255</b>	<b>\$ 738,399</b>	<b>\$ 703,087</b>	<b>\$(56,496,198)</b>	<b>\$ 897,376</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)

**June 30, 2016**

	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 placement	28,547,546	1,642,960	-	532,558	-	-	2,175,518
Options granted – Stock-based compensation	-	-	183,256	-	-	-	183,256
Shares issued to settle interests on debentures	235,156	23,516	-	-	-	-	23,516
Shares issued to settle a debt	3,230,000	323,000	-	-	-	-	323,000
Exercise of common share purchase options	300,000	65,100	( 29,100 )	-	-	-	36,000
Warrants expired	-	-	152,713	( 152,713 )	-	-	-
Other issuance costs	-	-	-	-	-	( 17,612 )	( 17,612 )
Transactions with owners	32,312,702	2,054,576	306,869	379,845	-	( 17,612 )	2,723,678
Net income and comprehensive income	-	-	-	-	-	1,394,077	1,394,077
BALANCE AS AT JUNE 30, 2015	95,784,028	\$ 43,771,749	\$10,234,013	\$ 521,703	\$ 776,915	\$(55,248,910)	\$ 55,470

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)

	9 month period ended June 30, 2016	9 month period ended June 30, 2015
<b>OPERATING ACTIVITIES</b>		
(Net loss) Net income and comprehensive (loss) income	\$( 903,648 )	\$ 1,394,077
Adjustments:		
Stock-based compensation	47,700	183,256
Interests capitalized on convertible debentures	-	23,516
Amortization of discount on issuance of debentures	8,483	59,420
Interest paid	278,483	324,494
Amortization of property, plant and equipment	60,669	51,908
Unrealized foreign exchange gain	( 380 )	-
Loss on valuation of precious metal	3,401	268
Gain on debt settlement	( 398,199 )	( 3,525,355 )
Loss on write off of investment in a joint venture	-	711,003
	( 903,491 )	( 777,413 )
Changes in working capital items (note 14)	173,254	( 582,600 )
Cash flows from operating activities	( 730,237 )	( 1,360,013 )
<b>INVESTING ACTIVITIES</b>		
Addition to exploration and evaluation assets	( 27,360 )	( 37,276 )
Property, plant and equipment additions	( 2,479 )	( 83,604 )
Tax credits received	17,679	36,480
Cash flows from investing activities	( 12,160 )	( 84,400 )
<b>FINANCING ACTIVITIES</b>		
Repayment of indemnities payable to subscribers	-	( 4,000 )
Due to a shareholder	-	( 396,785 )
Long-term debts repayment	-	( 9,969 )
Exercise of common share purchase options	47,000	36,000
Interest paid	( 278,483 )	( 324,494 )
Debentures repayment	-	( 134,801 )
Shares issuance cost	( 21,029 )	( 17,612 )
Exercise of warrants	1,897	-
Shares issued to settle a debt	-	323,000
Issuance of shares and warrants	941,908	2,175,518
Cash flows from financing activities	691,293	1,646,857
NET CHANGE IN CASH AND CASH EQUIVALENTS	( 51,104 )	202,444
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	83,918	56,348
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 32,814	\$ 258,792

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)

**June 30, 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.

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 June 30, 2016 (including comparatives statements) were approved and authorized for issue by the Board of Directors on August 25, 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 June 30, 2016, the Company has cumulated deficit of \$56,496,198 (\$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 including a major creditor that has a first mortgage of \$ 1,500,000 on the Property Rocmec 1. Discussions were held with this important creditor and an agreement was signed to demonstrate good faith of the Company. The interest due were paid and the agreement stipulates that 10 % of all revenues of the Company will be used to pay interest or principal until the Company will be able to pay its debt fully. Despite this agreement, the risk of losing control of Rocmec 1 property is still actual and important. The Company is currently 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 debenture over a longer period, although no certainty of success; the Company does risk losing control of both its equipment and thermal fragmentation license.

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.

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)

**June 30, 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 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").

#### 4.2 Presentation method

These financial statements should be read in conjunction with the audited financial statements for the year ended September 30, 2015 which have been prepared in accordance with IFRS as issued by the IASB. 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.

## 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)

**June 30, 2016**

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#### 5. 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.

##### Classification of joint arrangements

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

The Company concluded an exclusive agreement with Don Bourgeois et Fils Inc., 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, the Company classified this partnership as a joint operation.

#### 6. ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES

	<b>June 30, 2016</b>	September 30, 2015
Receivable from a partner in a joint operation	\$ 62,399	\$ 65,477
Receivables from financial authorities	15,975	-
Receivable from a non-related company	48,398	53,182
Provision	( 38,960 )	( 38,960 )
	<u>25,413</u>	<u>14,222</u>
	<u>\$ 87,812</u>	<u>\$ 79,699</u>

The receivable from a partner in a joint operation consists of a receivable of \$ 95,082 (\$ 83,010 at September 2015) less a payable of \$ 32,683 (\$ 17,533 at September 2015).

## 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)

**June 30, 2016**

#### 7. EXPLORATION AND EVALUATION ASSETS

	Balance as at October 1 <sup>st</sup> , 2015	Additions	Tax credits and duties refundable	Impairment	Balance as at June 30, 2016
Denain (a)	\$ -	\$ -	\$ -	\$ -	\$ -
Courville Maruska (b)	-	-	-	-	-
Rocmec 1 (c)					
Mining rights	2,603,982	-	-	-	2,603,982
Exploration and evaluation	6,145,704	27,360	( 2,390 )	-	6,170,674
	<u>\$ 8,749,686</u>	<u>\$ 27,360</u>	<u>\$ ( 2,390 )</u>	<u>\$ -</u>	<u>\$ 8,774,656</u>
	Balance as at October 1 <sup>st</sup> , 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

(in Canadian dollars)

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

**June 30, 2016**

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

The exploration and evaluation assets capitalized are as follow:

	<b>June 30, 2016</b>	September 30, 2015
Supervision	\$ 12,360	\$ 30,900
Other exploration expenses	<u>15,000</u>	<u>10,605</u>
	<u><u>\$ 27,360</u></u>	<u><u>\$ 41,505</u></u>

#### 8. ACCOUNTS PAYABLE

	<b>June 30, 2016</b>	September 30, 2015
Trade accounts payable*	\$ 303,187	\$ 358,615
Accrued interest payable	1,212,826	1 176,682
Taxes on Section XII.6 and III.14 payable	822,262	822,262
Salaries and fringe benefits payable	821,054	729,662
Other liabilities	<u>62,486</u>	<u>103,979</u>
	<u><u>\$ 3,221,815</u></u>	<u><u>\$ 3,191,200</u></u>

\*Includes \$25,008 (\$ 35,490 at September 30, 2015) due to related parties

During the period, 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.

## 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)

**June 30, 2016**

#### 9. INDEMNITIES PAYABLE TO SUBSCRIBERS

	Flow-through placements 2011 a)	Flow-through placements 2010 b)	Flow-through placements 2009 c)	Total
Balance as at September 30, 2011	-	1,204,500	4,318,449	5,522,949
Additions	540,809	42,400	-	583,209
Payment	-	-	( 18,000 )	( 18,000 )
Balance as at September 30, 2012	540,809	1,246,900	4,300,449	6,088,158
Addition	28,600	70,594	-	99,194
Balance as at September 30, 2013	569,409	1,317,494	4,300,449	6,187,352
Addition	32,590	74,627	-	107,217
Payment	-	-	( 4,787 )	( 4,787 )
Balance as at September 30, 2014	601,999	\$ 1,392,121	\$ 4,295,662	\$ 6,289,782
Payment	-	-	( 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
Payment	-	-	( 1,126,201 )	( 1,126,201 )
<b>Balance as at June 30, 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 explorations expenses renounced to investors had not been incurred in CEE as of December 31, 2012. Amended renunciation forms have been filed with tax authorities and will consequently mean that new notice of assessment will be sent to subscribers for taxation year 2011. In this respect, the Company recorded on September 30, 2012 a \$540,809 provision as indemnities payable and interest and an expense for the same amount was recorded in earnings. At the same date, the Company recorded a \$84,427 provision in the statement of comprehensive loss as Parts XII.6 and III.14 in income taxes payable relating to the exploration expenses renounced and not incurred as at December 31, 2012. On September 30, 2014, the Company recorded a \$ 32,590 provision (\$ 28,600 in 2013) as payable interest and an expense for the same amount was recorded in earnings as compensation to policyholders. It was determined by the Company that under no legal obligation to pay damages, only subscriptions with a specific compensation clause would be maintained in the books resulting in an amount \$ 261,959 representing a sum of \$ 340,040 written off.

## 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)

**June 30, 2016**

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#### 9. 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. For the year ended on September 30, 2014, the Company recorded a provision of \$74,627 (\$70,594 in 2013) for interest payable which was recorded in earnings as indemnities to subscribers. During the period ended on December 31 2014, a legal opinion was obtained concerning the Company's obligation to pay interest on the indemnities to subscribers. It was determined by the Company that under no legal obligation to pay damages, only subscriptions with a specific compensation clause would be maintained in the books resulting in an amount \$ 179,427 representing a sum of \$ 1,212,694 written off.
- c) 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. It was determined by the Company that under no legal obligation to pay damages, only subscriptions with a specific compensation clause would be maintained in the books resulting in an amount \$ 2,086,312 representing a sum of \$ 2,205,350 written off.

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 \$1,126,201. The amount is currently being debated in Court and management deems that the amount recognized as an indemnity payable to subscribers is adequate. On April 6, 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. On May 27, 2016, the shares were issued and therefore the case is now considered closed.

## Nippon Dragon Resources Inc.

(Exploration Stage Company)

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

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#### 10. LONG-TERM DEBTS

	<b>June 30, 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) 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 Romec 1 property for an amount of \$365,094, repayable at maturity at 13.5% interest, payable monthly in cash, redeemable by the Company before maturity in cash, matured in May, 2015.	365,094	365,094
	<hr/> 1,500,000	<hr/> 1,500,000
Current portion	<hr/> 1,500,000	<hr/> 1,500,000
	<hr/> <u>\$ -</u>	<hr/> <u>\$ -</u>

# Nippon Dragon Resources Inc.

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### 11. 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 June 2016.

	June 30, 2016	September 30, 2015
	\$ 238,685	\$ 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 years 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 estimated 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 matured on December 31, 2014.

537,500	537,500
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2,276,185	2,267,702
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Current portion

2,276,185	2,267,702
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\$ -	\$ -
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## 12. 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:

	<u>June 30, 2016</u>		<u>September 30, 2015</u>	
	<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	12,072,293	941,908	31,078,796	2,378,018
Issued warrants' value	-	( 232,055 )	-	( 550 967 )
Exercise of common share purchase options	500,000	74,100	300,000	65,100
Exercise warrants	16,500	2,210	3,230,000	390,830
Debts settlement	11,356,008	795,000	235,156	23,516
Balance at end of period	<u>122,260,079</u>	<u>\$ 45,604,833</u>	<u>\$ 98,315,278</u>	<u>\$ 44,023,670</u>

### **Nine month period ended June 30, 2016**

On October 28, 2015, 200,000 shares were issued following the exercise of common share purchase options at \$ 0.085 per 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 of warrant subscriptions at \$ 0.115 per share.

On February 10, 2016, the Company announced the completion of the first tranche of a private placement without any intermediary. This first tranche totals 1,676,111 Nippon units at a price of \$ 0.09 for total gross proceeds of \$ 150,850. 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. Issuance costs of \$525 were incurred.

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(Exploration Stage Company)

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#### 12. EQUITY (cont'd)

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

On March 9, 2016, the Company announced the completion of the second tranche of a private placement without any intermediary. This last tranche totals 1,000,000 Nippon units at a price of \$ 0.09 for total gross proceeds of \$ 90,000. 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. Issuance costs of \$6,300 were incurred.

On May 19, 2016, the Company announced the closing of a non-brokered private placement. The placement is for 987,400 units of the Company at a price of \$0.08 per unit, for aggregate gross proceeds of \$78,992. Each unit consists of one (1) common share in the share capital of the Company and one (1) warrant of the Company. Each warrant entitles the holder thereof to purchase one (1) additional common share in the share capital 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 \$ 18,539 related to the warrants issued has been recognized. Issuance costs totaling \$ 3,709 were incurred.

On May 27, 2016, the Company issued 11,356,008 common shares as part of the lawsuit settlement that was underway in connection with certain indemnities that were payable to certain subscribers. The Company and the plaintiffs offered 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.

On June 3, 2016, 100,000 shares were issued following the exercise of common share purchase options at \$0.10 per share.

On June 29, 2016, the Company announced the closing of a non-brokered private placement. The placement is for 5,063,782 units of the Company at a price of \$0.07 per unit, for aggregate gross proceeds of \$ 354,464.78. Each unit consists of one (1) common share in the share capital of the Company and one (1) warrant of the Company. Each warrant entitles the holder thereof to purchase one (1) additional common share in the share capital 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 \$ 91,248 related to the warrants issued has been recognized.

#### 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 (1/6) 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 quarter (1/4) each 3 month period.

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## 12. EQUITY (cont'd)

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

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:

	<u>June 30, 2016</u>		<u>September 30, 2015</u>	
	<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 year	10,030,000	\$ 0.134	6,900,000	\$ 0.163
Granted	-	-	3,475,000	0.099
Exercised	( 500,000 )	( 0.094 )	( 300,000 )	( 0.120 )
Expired	( 65,000 )	( 2.000 )	( 45,000 )	( 1.900 )
Cancelled	( 2,700,000 )	( 0.153 )	-	-
Balance, end of year	<u>6,765,000</u>	<u>\$ 0.121</u>	<u>10,030,000</u>	<u>0.134</u>
Options exercisable at the end	<u>6,765,000</u>	<u>\$ 0.121</u>	<u>8,430,000</u>	<u>\$ 0.144</u>

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

Granted options and exercisable options as at June 30, 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
2,075,000	2,075,000	\$ 0.10	January 2020
<u>6,765,000</u>	<u>6,765,000</u>		

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## 12. EQUITY (cont'd)

### 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:

	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

### Warrants

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

	<b>June 30, 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	12,072,293	0.123	232,055
Exercised	( 16,500 )	( 0.019 )	( 313 )
Expired	( 1,208,936 )	( 0.180 )	( 33,455 )
<b>Balance as at June 30, 2016</b>	<b>43,839,096</b>	<b>\$ 0.118</b>	<b>\$ 738,399</b>
	<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	32,992,239	\$ 0.119	\$ 540,112

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## 12. EQUITY (cont'd)

### Warrants (cont'd)

Warrants outstanding as at June 30, 2016 are as follows:

Number of warrants	Exercise price	Expiration date
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
987,400	\$ 0.12	May 2018
5,063,782	\$ 0.12	June 2018
<u>43,839,096</u>		

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

	<b>June 30, 2016</b>	September 30, 2015
Average share price at grant date	\$0.09	\$0.08
Risk-free interest rate	0.55 %	0.87 %
Expected volatility	64.75 %	75.47 %
Expected life	24 months	24 months
Expected dividend	0.00 %	0.00 %
Average exercise price at grant date	\$0.10	\$0.12

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### 13. FINANCIAL INSTRUMENTS

#### Fair value

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

	June 30, 2016		September 30, 2015	
	Carrying value	Fair value	Carrying value	Fair value
<b>Financial assets (loans and receivables)</b>				
Cash	\$ 32,814	\$ 32,814	\$ 83,918	\$ 83,918
Accounts receivable and other receivables	71,837	71,837	79,699	79,699
	<u>\$ 104,651</u>	<u>\$ 104,651</u>	<u>\$ 163,617</u>	<u>\$ 163,617</u>
<b>Financial liabilities</b>				
<i>Financial liabilities at amortized cost</i>				
Accounts payable	\$ 3,221,815	\$ 3,221,815	\$ 2,461,538	\$ 2,461,538
Loans	24,234	24,234	20,833	20,833
Indemnities payable to subscribers	1,401,497	1,401,497	2,527,698	2,527,698
Convertible debentures	1,738,685	1,738,685	1,730,202	1,730,202
	<u>6,386,231</u>	<u>6,386,231</u>	<u>6,740,271</u>	<u>6,740,271</u>
<i>Financial liabilities at fair value through profit or loss</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>\$ 8,423,731</u>	<u>\$ 8,423,731</u>	<u>\$ 8,777,771</u>	<u>\$ 8,777,771</u>

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

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

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

#### 14. CASH FLOWS

<b>9 months period ended June 30, 2016</b>	<b>9 months period ended June 30, 2015</b>
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##### Supplemental cash flows information:

Net changes in working capital items:

Accounts receivable and other receivables	\$ ( 17,234 )	\$ ( 35,980 )
Sales tax receivable	( 1,874 )	1,429
Prepaid expenses	85,248	( 98,000 )
Security deposits	-	948
Liabilities	107,114	( 365,374 )
Subscription received in advance	-	( 85,623 )
	<hr/>	<hr/>
	\$ 173,254	\$ ( 582,600 )

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

	<b>9 months period ended June 30, 2016</b>	<b>9 months period ended June 30, 2015</b>
<b>Investment and financing activities not affecting cash</b>		
Issued shares for compensation payable to underwriters	\$ 795,000	\$ -
Issued shares in payment of accrued interest	-	23,516
Exercised common share purchase option	27,100	29,100
Expired warrants	33,455	152,713
Exercised warrants	313	323,000
Increase in tax credits receivables	2,390	-

#### 15. SUBSEQUENT EVENTS

On August 3, 2016, the Company announced the closing of a non-brokered private placement. The placement is for 6,250,000 units of the Company at a price of \$0.08 per unit, for aggregate gross proceeds of \$ 500,000. Each unit consists of one (1) common share in the share capital of the Company and one (1) warrant of the Company. Each warrant entitles the holder thereof to purchase one (1) additional common share in the share capital 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.