NIPPON DRAGON RESOURCES INC.

Management's Discussion and Analysis 2016

FOR THE 3 MONTHS ENDED DECEMBER 31, 2016

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Nippon Dragon Resources Inc.

Management's Discussion and Analysis
For the three-month period ended December 31, 2016

This report provides an analysis of our results from operations and financial situation which will help the reader to assess material changes in results from our operations and financial situation for the three-month period ended December 31, 2016 in comparison to the previous period. The information contained in this document is dated as February 24, 2017. This Management Discussion and Analysis Report ("MD&A") complies with Rule 51-102A of the Canadian Securities Administrators on continuous disclosure, is intended to supplement our condensed interim consolidated financial statements. It presents management's point of view on Nippon Dragon Resources Inc.'s (the "Company") ongoing activities and its current and past financial results, it gives an indication of its present and future orientations, while elaborating on its financial results and other risks that could have an impact on the Company's business. This report should be read in conjunction with the interim and annual consolidated audited financial statements. This present MD&A report was submitted to the audit committee that recommended its approval by the Board of directors on February 24, 2017.

The condensed interim consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS). All dollar amounts are expressed in the functional and presentation currency of the Company, which is the Canadian dollar, unless otherwise specified. Further information about the Company, its properties, projects, annual and quarterly reports are available for consultation on the web site of the Company or SEDAR at the following addresses: www.nippondragon.com and www.sedar.com.

GOING CONCERN

The accompanying condensed interim consolidated financial statements have been prepared using IFRS applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due.

In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. Management is aware in making its assessment of material uncertainties related to events and conditions that lend a significant doubt upon the Company's ability to continue as a going concern and accordingly, the appropriateness of the use of IFRS applicable to a going concern, as described in the following paragraph. These condensed interim consolidated financial statements do not reflect the adjustment to the carrying values of assets and liabilities, expenses and financial position classifications that would be necessary were the going concern assumption not appropriate. These adjustments could be material.

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 properties. The Company generates revenues from its thermal fragmentation technology distribution, but these are not sufficient to ensure the sustainability of the Company. As at December 31, 2016, the Company has accumulated a deficit of $54,628,147 and has a working capital deficiency of $5,266,668.

Management considers that these funds are insufficient for the Company to continue operating. Any future funding shortfall may be met in a number of ways, including the issuance of new equity instruments, cost reductions and other measures such as the renegotiation of its debts and debentures or the disposal of mining properties. While management has been successful in securing financing in the past, there can be no assurance it will be able to do so in the future, that such sources of funding or initiatives will be available to the Company or that they will be available on terms acceptable to the Company. If management is unable to obtain new funding, the Company may be unable to continue its operations, and amounts realized for assets might be less than amounts reflected in these condensed interim consolidated financial statements.

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For the three-month period ended December 31, 2016

CORPORATE INFORMATION AND NATURE OF ITS ACTIVITIES

Nippon Dragon Resources Inc. was incorporated under the Québec *Business Corporations Act* on July 18, 2002. Its head office is located 500-7055 Taschereau boulevard, Brossard (Quebec) J4Z 1A7, phone: 450-510-4442, email: info@nippondragon.com. The Company is a public Company, listed in the Tier 2 on the TSX Venture Exchange and its shares also trade on the Frankfurt Stock Exchange. At February 24, 2017, 142,289,553 common shares were outstanding.

The Company specializes in the exploration of metal in mining sites located in Quebec. In addition, the Company's mission is to introduce thermal fragmentation technology in the mining industry to enable the commercialization of this technology. The extraction process allows thermal fragmentation with an accuracy of 2 cm to quickly extract any type of hard rock up to 110 cm wide. With such precision, high grade precious and base metal veins can now be extracted without dilution. The Company has agreements with entities in South Africa, Canada and Japan, and an exclusive distribution agreement in Australia to showcase its technology.

One of its properties, Rocmec 1, contains mineral resources. When further exploration will be incurred on Rocmec 1, Denain and Courville properties, the Company will then determine if these properties contain economically profitable ore resources. Further details related to each property's advancement is presented in section Mining properties and future exploration work.

GLOBAL PERFORMANCE

Financing for the period

The financing activities undertaken during the first trimester allowed the Company to generate positive cash flows. The table below presents a summary of financings that were concluded between October 1, 2016 and February 24, 2017.

Financing Date	Common Shares Issued	Total Financing Value ($)
October 4, 2016	3,476,250	278,100
November 22, 2016	3,333,334	250,000
December 23, 2016	4,572,400	342,930
TOTAL February 24, 2017:	**11 381 984**	**$871 030**

In addition, on December 14, 2016, the Company has reached a settlement with Desjardins-Innovatech for the repayment of an outstanding debenture totalling $249,995 plus accrued interest of $42,829 as at November 30, 2016. The settlement includes a cash payment of $125,000 and the remaining balance of $124,995 plus accrued interest of $42,829 through the issuance of 2,397,490 common shares of the Company at a price of $0.07 per share.

Highlights on agreements

Au Consolidated Inc. ("AU"), Arizona

On October 26, 2016, the Company mobilized its 75 t/d flotation plant on AU's property. As such, an investment of $308,944 has been made during the quarter for the installation and mobilization of the plant. With the addition of the Company's treatment plant, the original agreement between the parties was modified to add an additional 1,000 ounces to 2,000 ounces previously planned. The additional 1,000 ounces of gold recovered will be shared based on a 60/40 ratio. The Company will be entitled to 60% of the gold ounces while AU will be entitled to 40% of the ounces of gold produced. Once the gold production as stipulated in the agreement is reached, a long-term agreement or sale of the Company's thermal fragmentation unit(s) and the Company's treatment plan may be negotiated between the parties.

Thermal fragmentation operations have begun and continue on a daily basis. The Company has trainers on-site who teaches the basics of thermal fragmentation to its client's employees. The mild temperature and the multiple pilot holes already drilled help greatly the operations. A little more than 350 tons of ore are stored at the work site waiting to be processed, which should be completed before the end of the second quarter. Subsequently, this asset will be used to generate income that will benefit the Company and will also allow its client to reduce their exploration expenses.

MaXem Holdings, South Africa

The Company pursued over the quarter, its exclusive distribution agreement with MaXem in South Africa for the distribution and the use of its patented thermal fragmentation mining method. MaXem has been working with a mining company for more than 18 months. Their agreement with the mining company has ended on December 31, 2016. However, a new agreement is now under negotiation with the same company and is expected to be completed in the second quarter. A new, more accessible mining site would be available soon and a second thermal equipment should be built in order to accompany the equipment used in the former agreement.

Mining properties and future exploration work

Rocmec 1

Infrastructures: The property includes a 100m deep two-compartment shaft, an 844 metres decline allowing access to four levels (50, 90, 110 and 130 metres). On these levels a total of 2,000 metres (drifts and cross-cut drift) were driven. The Rocmec 1 ore body is well defined by diamond drill holes, certain areas were sampled and mined (McDowell vein).

Geology: The gold veins on the Rocmec 1 property are quartz-carbonated narrow veins included in an intrusive rock with included quartz or granophyric textures. The narrow veins can be confined in a more competent ground. The high-grade iron ore is most favourable for gold precipitation. These quartz-carbonated narrow veins are normally created in a table and lense shaped structure and are present in the central portion of the sheared zone with a fragile-ductile rocky behaviour parallel to the host structure and slightly oblique.

Mineralization: The gold mineralization at the Rocmec 1 Property is linked to east-northeast, centimetric and metric-wide quartz veins, dipping moderately to steeply to the south, within a kilometre in length by 600 meters wide gabbro to granodiorite intrusive host. There are at least six major vein systems identified on the property; however recent underground work by the Company has confirmed that several veins are likely part of the same system, simply offset by north trending faults. The veins are part of diverging / converging or anastomosing fracture system than includes shearing, alteration (silica, chlorite, sericite, epidote and carbonate) and 2 to 10% disseminated and vein-type pyrite that can attain overall widths in excess of 30 meters.

The best known vein system is named the McDowell Zone that may include three different vein sets, and has been recognized over a 1,660 meter long strike length, to a 317 meter depth, carrying an average of 6.07 g/t gold capped at 45 g/t over a 0.82 meter horizontal width.

Table of Resources

Vein/Structure	Classification	Tonnage	Au	Oz	Average	Volume	Surface
			(g r/t)	(31.103 g)	Thickness (m)	(m ³)	(m2)
McDowell	Measured*(M)	73,100	7.33	17,200	0.83	27,100	32,600
	Indicated (I)	159,900	5.99	30,800	0.66	59,200	90,000
	Total (M E I)	233,000	6.41	48,000	0.70	86,300	122,600
	Inferred	394,200	4.50	57,000	0.74	146,000	197,400
* Historical 2008/2009 mining and bulk sampling removed from these numbers.							
Shaft	Measured*(M)	20,700	6.68	4,400	0.52	7,700	14,700
	Indicated (I)	116,200	5.79	21,600	0.56	43,000	77,100
	Total (M E I)	136,900	5.92	26,100	0.55	50,700	91,800
	Inferred	253,500	8.24	67,200	0.59	93,900	159,600
Talus	Measured*(M)	31,100	6.24	6,200	0.88	11,500	13,100
	Indicated (I)	79,100	6.50	16,500	0.70	29,300	41,900
	Total (M E F)	110,200	6.43	22,800	0.74	40,800	55,000
	Inferred	215,700	7.57	52,500	0.62	79,900	129,800
Boucher	Indicated	58,700	5.46	10,300	0.86	21,700	25,400
	Inferred	348,100	9.94	111,200	0.91	128,900	141,600
Boucher 2	Indicated	31,500	12.20	12,400	0.57	11,700	20,600
	Inferred	272,900	7.20	63,100	0.92	101,100	110,300
Talus 2	Inferred	18,000	5.28	3,100	1.25	6,700	5,300
Front West	Inferred	8,500	18.41	5,000	0.65	3,100	4,300
T 1 (Extruded Block)	Inferred	600	10.58	200	0.,3,9	200	600
T2	Inferred	500	18.42	300	0.,3,3	200	600
T3	Inferred	500	4.36	100	0.35	200	600

Total	Measured (M)	124,800	6.95	27,900	0.77	46,200	60,300
	Indicated (I)	445,400	6.40	91,600	0.65	165,000	255,000
	Total (M E I)	570,300	6.52	119,500	0.67	211,200	315,300
	Inferred	1,512,400	7.40	359,600	0.75	560,100	749,900

* Calculations are in metric units with results rounded to reflect their true estimated nature. Mineral Resources are not Mineral Reserves, since Mineral Reserves have a demonstrable economic viability. Système Géostat International Inc. has verified and is not aware of any environmental, permitting, legal, claim title, taxation, socio-political, marketing or other constraints that could affect the resource estimate.

The resources were estimated with a minimum horizontal with of 0.3 m based on the hypothesis of thermal fragmentation mining. This method of mining is designed for narrow vein type mining.

SGS Canada inc. ("SGS") verified and reviewed most of historical analytical data during its first resource estimation of 2010. The same database was used and updated with the recent underground and surfaces drill-hole data. SGS considers the historical data as adequate.

The project needs more definition diamond drilling especially over the (Boucher and Boucher 2 structures) before being ready for mining; this can be realized from surface drilling or by underground by existing rehabilitated drifts.

The Company`s management focused a large part recently towards the mobilization of the flotation plant in Arizona and towards the promotion of its thermal fragmentation mining method technology around the world, which explains why the investments in exploration and evaluation expenses have been very low since the past few years.

Over the upcoming steps, an exploration plan will validate our understanding of the mineral deposits. The Company would strongly like to proceed with this step but it requires an investment of at least $ 500,000. At the end of the previous year, the Company obtained a quote to update their 43-101 report. As soon as the funds will be secured, the Company will proceed with the update. The funds will be concentrated around the 2 Boucher structures at depth and east-west extensions. The goal is to update the actual resources and possibly increase the total gold resources in general. The Company signed an initial contract with a consultant specialized in geological signature analysis. The consultant will be able to help the Company locate the first targets to be drilled on the Rocmec 1 property.

Denain

The property which is located in Louvicourt, in close proximity to Val-d'Or, is one of the sites on which the Company undertook development work in order to evaluate its future potential. The principal vein, referred to as the South vein, has been intercepted on close to 400 metres in length, and identified to a depth of 100 metres. The technical report prepared by a consulting geologist reports measured and indicated resources of 9,570 ounces and inferred resources of 31,185 ounces. Furthermore, another mineralized structure, referred to as the north vein, has been identified but as of yet no resource calculation has been made. The company, Texas T. Minerals Inc. holds a 15% interest in the property.

The location of the project (near Val d'Or) and the ease of access are two significant advantages. The Company envisions two drilling programs in 2 phases of $250,000 each in an effort to verify the gold vein extensions. The Company would also like to move forward with this project but is also dependant on obtaining the required financing, which they are actively seeking.

Courville Maruska

For the moment this property is at the exploration stage. Very little work is planned for this property during the coming year because management has decided to focus their attention on exploration of Rocmec 1.

Exploration and Evaluation Assets

For the quarter ended December 31, 2016, the Company was only able to execute $4,120 worth of exploration and evaluation work relative to Rocmec 1. The majority of the funds raised during the period were employed to install and mobilize the flotation plant in Arizona. No work was done on the Denain and Courville Maruska properties.

Capitalized exploration and evaluation assets during the period are as follows:

		December 31, 2016		September 30, 2016
Supervision	$	**4,120**	$	16,480
Other exploration expenses		**-**		15,000
	$	**4,120**	$	31,480

RECENT HIGHLIGHTS

On January 24, 2017, the Company announced that it has signed an agreement with Diagnos Inc., a leader in applying Artificial Intelligence in data mining technical services, for use of its CARDS software (Computer Aided Resource Detection Software) to generate mining targets on Nippon's Rocmec 1 and Denain properties. This powerful exploration tool will make it possible to compile all the data with those of neighboring regions to produce precise exploration targets. The agreement totals $70,000 and will serve as a guide for its future drilling programmes.

On February 13, 2017, the Company announced that it has entered into a loan agreement for a short term financing of $100,000 with 9071-8776 Quebec Inc. The loan is in the form of a one-year unsecured and non-convertible loan, bearing interest at 10 % per year. Interest totalling $10,000 is payable in advance upon signing the loan agreement. At any time during the term and at its sole option, the Company may proceed with early repayment of the principal and/or interest on the loan upon a 10-day minimum notice to the lender. As a loan bonus, the Company is granting 9071-8776 Quebec Inc., 1,000,000 non-transferable common share purchase warrants, each warrant grants to its holder the right to purchase one (1) common share of the Company at a price of $0.085 per share for a period of 12 months from the date of signing the loan agreement.

SELECTED INFORMATION

	December 31, 2016	September 30, 2016	September 30, 2015
Exploration and Evaluation assets	$ 8,771,691	$ 8,778,776	$ 8,749,686
Total assets	10,084,890	10,472,900	9,495,981
Current liabilities	5,785,602	6,412,753	9,507,433
Non-current liabilities	**-**	-	-

	Quarters ended December 31		
	2016	2015	2014
Revenue from Joint Operation Contracts	**-**	70,955	39,700
Revenue from distribution of Thermal Fragmentation Technology	**47,133**	-	-
Total Revenue	**50,943**	75,017	43,951
Contract Costs	**254,158**	64,022	37,783
Net income (loss)	**(613,711)**	(395,286)	2,941,308
Net income (loss) per share, basic and diluted	**(0.0046)**	(0.0040)	0.0383

Since its incorporation, the Company has never paid cash dividends on its outstanding common shares. Cash dividend is unlikely to be paid in the near future.

All liabilities of the Company are current. They are comprised of prepaid gold sales of $1,080,000 ($1,080,000 as at September 30, 2016) and of indemnities payable to subscribers of $720,080 ($720,080 as at September 30, 2016), which are discussed in detail in the Contingencies section of this report. The balance of the current liabilities includes debts and debentures that have all matured, but have not been repaid, and therefore are presented in the current section. The risks associated with the Company defaulting payments is discussed in the Cash flows section in this report.

OPERATING RESULTS

For the period ended December 31, 2016, the Company realized a loss of $613,711 (loss of $395,286 in 2015). The difference in the results between the two periods can be explained with the following factors:

- The gross margin decreased from $10,995 as at December 31, 2015 to $(203,215) as at December 31 2016. The decreased margin can be explained by the work performed in connection with the gold production agreement with AU. The revenues from said agreement will be recognized once the gold ounces are produced and delivered. However, a significant portion of the costs relating to the installation, commissioning and start-up of the plant on the mining site were incurred in the present quarter, which contributes to the decrease of the gross margin of the Company;

- As the mining property of AU is located in Arizona, the Company increased its travelling expenses of $44,841 in the quarter ended December 31, 2016 compared to December 31, 2015. As mentioned above, the installation of the flotation plant required frequent travelling from employees of the Company in the United States;

- The amount of expenses in interests on debentures and in debts has decreased of $66,412 between the present quarter and the comparative one as the Company has de-recognized the $1.5 million debenture at the end of the year ended September 30, 2016. As such, the Company has stopped accruing interests relating to the debenture. Furthermore, the Company has settled during the quarter its debenture with Desjardins-Innovatech which resulted in a decrease of the expense of interests.

QUARTERLY DATA

The financial information chosen for the last eight quarters is as follows:

	31/12/16	30/09/16	30/06/16	31/03/16	31/12/15	30/09/15	30/06/15	31/03/15
	$	$	$	$	$	$	$	$
Income	50,943	82,517	34,407	8,273	20,180	58,160	66,890	30,259
Net income (loss)	(613,711)	2,481,762	(434,385)	(73,977)	(395,286)	(280,611)	(380,010)	(1,167,221)
Net income (loss) per share, basic and diluted	(0.0046)	0.0197	(0.0040)	(0.0007)	(0.0040)	(0.0032)	(0.0042)	(0.0137)

The main changes in quarterly results compared to the previous year quarters are explained as follows:

30/06/15 – Substantial income generated by the signing of an exclusive agreement for the use of the Company's patented mining method for thermal fragmentation extraction with Safescape in Australia;

30/09/15 – Loss decreased compared to the other quarters in connection with a non-recurring gain of $232,729 related to the write-off of indemnities due to subscribers for flow-through financing between 2009 and 2011;

31/12/15 – Revenue higher for this quarter because the Company was able to have a constant revenue stream from South Africa for all 3 months which wasn't the case for the previous quarters;

31/03/16 – Loss was reduced by a non-recurring gain of $331,201 related to the write-off of indemnities payable to subscribers for flow-through financing between 2009 and 2011;

30/06/16 – Loss was increased compared to the other quarters in connection with important professional fees incurred relating to the signature of various agreements;

30/09/16 – An important income was recorded in connection with a non-recurring gain of $2,638,860 related to the de-recognition of a debenture and its related accrued interests and in connection with a non-recurring gain of $681,417 related to the write-off of indemnities due to subscribers for flow-through financing between 2009 and 2011 following the revision of the Company's estimate. If it was not for these non-recurring gains, the Company would have incurred a loss of $838,515 for this quarter. This variation is mainly explained by the important costs incurred for the installation and the mobilization on site in Arizona;

31/12/16 – Loss was increased during the first quarter of 2017 compared to the other quarters mostly due to the important costs incurred for the installation and the mobilization of the flotation plant in Arizona. However, compared to the last quarter of 2016, loss decreased due to the fact that the Company is in the final stages and is about to complete the installation in Arizona.

CASH FLOWS AND FINANCING SOURCES

	Quarters ended		
	December 31, 2016	December 31, 2015	December 31, 2014
Cash flows used in operating activities	**$ (672,173)**	$ (256,757)	$ (1,055,839)
Cash flows used in investing activities	**$ (356,054)**	$ (19,120)	$ (15,665)
Cash flows from (used in) financing activities	**$ 498,351**	$ 276,002	$ 1,269,000
Net change in cash and cash equivalents	**$ (529,876)**	$ 125	$ 197,496
Cash and cash equivalents at beginning of period	**$ 833,678**	$ 83,918	$ 56,348
Cash and cash equivalents at end of period	**$ 303,802**	$ 84,043	$ 253,844

For the period ended December 31, 2016, the **operating activities** used $(672,173) of cash compared to $(256,757) used in the prior year. This variation can be explained by the following elements:

- Important costs of $231,467 incurred for the installation and the mobilization on site in Arizona for the thermal fragmentation operations. Since no gold has been produced yet, no income has been generated.

- The net change in working capital decreased from $86,376 as at December 31, 2015 to $(127,318) as at December 31, 2016. This significant change comes largely from the change in accounts payable. The gold production agreement with AU generated high expenses between October 1, 2016 and December 31, 2016, expenses which increased accounts payable significantly as at December 31, 2016.

Investing activities used $356,054 in cash as at December 31, 2016 compared to $19,120 as at December 31, 2015. The activities consisted mainly in the construction of the flotation plant in Arizona in order to be able to start the agreement of production of gold ounces.

For the period ended December 31, 2016, **the financing activities** have generated cash flows of $498,351 compared to $276,002 during the same period in 2015. This variation is explained by an increase of shares and warrants issued, which generated $685,029 in 2016 compared to $267,600 in 2015. Also during this period, the Company was able to repay some of its debt, debenture and loan along with the interests, for a total amount of $186,677.

At December 31, 2016, the Company had $303,802 in cash, accounts receivables and other receivables of $100,855, sales tax receivable of $82,952, tax credits receivable of $11,205 and prepaid expenses of $20,120. Overall, the Company's working capital remains largely negative and in consequence will not be sufficient to respond to projected liabilities and expenses up to September 30, 2017. The Company will need to obtain supplementary funds in a timely manner to continue exploration and evaluation of the Rocmec 1 property and pay its general administration expenses.

The Company aims to overcome and meet its financial obligations with certain tools at its disposal such as equity financing depending on needs and availability.

The Company will continue to use maximum efforts to obtain financing on the open market to improve its cash position.

However, it is important to mention that the Company is in default with one creditor whom have created a first mortgage on the Rocmec 1 property in the amount of $1,458,612 as at December 31, 2016 ($1,471,807 as at September 30, 2016). Although discussions have been ongoing over the past several months to find a solution for payment, the Company does risk losing control on the property given as collateral. During the previous year, the Company renegotiated with the lender and both parties agreed that 10% of the Company' proceeds from all of its operations, as well as private placements, would be used to pay the accrued interest and principal of the debt. Even with this renegotiation in an effort to take advantage of the extra time to find a suitable partner to develop a portion of the property, there still is no guarantee of success and a risk does exist that the control of Rocmec 1 property could be lost.

OFF-BALANCE SHEET ARRANGEMENTS, OBLIGATIONS AND COMMITMENTS

The Company has no off-balance sheet arrangements, nor obligations other than those declared or concluded in the normal course of the Company's business.

The Company is considered as an exploration company. Many external factors influence and should have significant impact on the results of the Company and on its financing and capital needs. The Company plans to take measures to meet its obligations in terms of payments of accounts payable and accrued liabilities, interests on the convertible debentures, loans, prepaid gold sales, debts and convertible debentures. Management intent to continue as they previously did to finance these activities by the issuance of private placements in shares and debentures. Even if the Management has been successful in the past in doing so, Management can't predict if they're going to be successful in the future to raise money and Management believes that the liquidity risk is high.

RELATED PARTY TRANSACTIONS

The related parties include key management personnel and key management's companies.

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

The key management compensation includes:

	For the 3-month period ended December 31,		
	2016	2015	2014
Salaries and fringe benefits	**$ 47,222**	$ 47,222	$ 81,067
Capitalized to exploration and evaluation assets	**(4,120)**	(4,120)	(10,300)
	43,102	43,102	70,767
Stock-based compensation	**-**	16,477	12,775
Professional fees - Guimond Lavallée inc.[1]	**18,000**	18,000	18,000
Total	**$ 61,102**	$ 77,579	$ 101,542

[1] Guimond Lavallée is considered as a related party as Vanessa Guimond which is partner at the firm, is also acting as the CFO of the Company.

SHARES AND EQUITY INSTRUMENTS OUTSTANDING

There has been no change in shares, warrants and options outstanding of the Company since December 31, 2016 up until February 24, 2017.

CONTINGENCIES

The Company's operations are regulated by governmental laws and regulations regarding environmental protection. The environmental consequences are hardly identifiable. At the present time and to the best knowledge of its management, the Company is in conformity with the laws and regulations. As at December 31, 2016, a provision of $2,060 ($2,060 as at September 30, 2016) for restoration of the premises is included in the accounts payable. The actual amount might differ from this estimate.

Following flow-through financing agreements entered into with subscribers between 2009 and 2011, the Company committed to incur Canadian Exploration Expenses ("CEE") before specific deadlines which the Company did not respect. Consequently, exploration expenses renounced to investors had not been incurred in CEE. Amended renunciation forms have been filed with tax authorities and will consequently mean that new notices of assessment were or could have been sent to subscribers for taxation years 2009 to 2011. In this respect, the Company recorded between September 2010 and 2012 indemnities payable to subscribers and its related interests payable. In the year ended September 30, 2015, 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 and as such, $3,758,084 of provision was written off. In May 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 proceedings were settled for an aggregate settlement amount of $795,000. The Company could be subject to claims by other subscribers. Management is unable to determine the amount since it is impossible to determine the number of subscribers who have been subject to tax assessments on these flow-through financings.

PRINCIPAL ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

The preparation of consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the amounts recorded in the consolidated financial statements and notes to consolidated financial statements. Significant estimates listed in Note 5 of the annual consolidated financial statements include the going concern, the exploration and evaluation assets, the other provisions and contingent liabilities and the classification of joint arrangements. While management believes that these estimates and assumptions are reasonable, actual results could vary significantly.

Furthermore, a full description of the accounting methods used by the Company are listed in the consolidated annual financial statements of September 30, 2016 in Note 4. It is noted that there was no accounting method change by the Company since the publication of the annual consolidated financial statements of September 30, 2016.

FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

The Company is exposed to various financial risks resulting from both its operations and its investments activities. The Company's management manages financial risks. The Company does not enter into financial instrument agreements including derivative financial instruments for speculative purposes. The exposure of the Company towards financial risk and its policies towards managing them are described in the consolidated annual financial statements of September 30, 2016 in Note 18.

The Company's main financial risk exposure and its financial risk management policies are as follows:

Credit risk

Credit risk is the risk associated with non-payment of financial obligations by the customers of the Company. The credit risks that face the Company are principally attributable to collection of its accounts receivable. The cash balances are held by a Canadian chartered bank about which management believes the risk of loss is considered minimal, but it is subject to credit risk concentration. The maximum credit risk is equivalent to the book value.

Liquidity risk

Liquidity risk is the risk that the Company experiences difficulty honouring commitments related to financial liabilities. The Company manages its liquidity risk by using budgets that enable it to determine the amounts required to fund its operations and administrative expenses. The Company also ensures that it has sufficient working capital available to meet its day-to-day commitments. As at December 31, 2016 the Company had cash of $303,802 ($833,678 as at September 30, 2016) to settle current liabilities of $5,785,602 ($6,412,753 as at September 30, 2016). Management estimates that such funds will not be sufficient for the Company to continue as a going concern (Note 2 of the condensed interim consolidated financial statements). Any funding shortfall may be met in the future in a number of ways including but not limited to, the issuance of new equity instruments, further expenditure reductions or other measures. While management has been successful in securing financing in the past, there can be no assurance it will be able to do so in the future or that these sources of funding or initiatives will be available for the Company or that they will be available on terms which are acceptable to the Company. If management is unable to obtain new funding, the Company may be unable to continue its operations, and amounts realized for assets might be less than amounts reflected in these condensed interim consolidated financial statements.

As at December 31, 2016, all of the Company' liabilities including debts and debentures had maturities of less than one year.

Interest rate risk

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

A 1% change in the interest rate would have an impact of approximately $20,000 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 and liabilities is denominated in South African rand and in US dollar. 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:

	December 31, 2016	September 30, 2016
Accounts receivable and other receivables	**$ 66,531**	$ 58,763
Accounts payable	**1,918**	218,418
Net exposure	**$ 64,613**	$ 159,655

RISKS AND UNCERTAINTIES

There have been no important changes in relation to risks and uncertainties since the management's annual report dated September 30, 2016.

FORWARD-LOOKING STATEMENTS – CAUTION

Our report contains "forward-looking statements", which are not based on historical facts. Forward-looking statements reflect, as at the date of this Management Discussion and Analysis Report, our estimates, forecasts, projections, expectations and beliefs as to future events or results. Forward-looking statements are reasonable estimates, but involve a number of risks and uncertainties, and there can be no assurance that such statements will prove to be accurate. Therefore, actual results and future events could differ materially from those anticipated in such statements. Factors that could cause results or events to differ materially from current expectations expressed or implied by the forward-looking statements include, but are not limited to factors associated with fluctuations in the market price of gold and precious metals, mining industry risks, unexpected geological situations, uncertainty as to calculation of mineral reserves, changes in laws or governmental policies, inability to obtain permits and approval from governmental bodies and requirements of additional financing and the capacity of the Company to obtain financing and any other risk associated mining and development.

The Company believes that the assumptions inherent in the forward-looking statements are reasonable, undue reliance should not be placed on these statements, which only apply as of the date of this document.

This management's discussion and analysis contains forward-looking statements reflecting the Company's objectives, estimates and expectations. These statements are identified by the use of verbs such as "believe", "anticipate", "estimate" and "expect" as well as the use of the future or conditional tense. By their very nature, these types of statements involve risk and uncertainty. Consequently, results could differ materially from the Company's projections or expectations.

(S) Donald Brisebois

Donald Brisebois
President and CEO

February 24, 2017