



Nippon Dragon Resources Inc.

CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2017 AND 2016

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INDEPENDENT AUDITOR'S REPORT

CONSOLIDATED FINANCIAL STATEMENTS

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December 21, 2017

**Independent Auditor's Report
To the Shareholders of Nippon Dragon Resources Inc.**

We have audited the accompanying consolidated financial statements of Nippon Dragon Resources Inc., which comprise the consolidated statements of financial position as at September 30, 2017 and 2016, the consolidated statements of income (loss) and comprehensive income (loss), changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

*PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l.
1250 René-Lévesque Boulevard West, Suite 2500, Montréal, Quebec, Canada H3B 4Y1
T: 514 205 5000, F: 514 876 1502, www.pwc.com/ca*

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Nippon Dragon Resources Inc. as at September 30, 2017 and 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 2 in the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about Nippon Dragon Resources Inc.'s ability to continue as a going concern.

PricewaterhouseCoopers LLP¹

¹ CPA Auditor, CA, public accountancy permit No. 123642

Nippon Dragon Resources Inc.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(in Canadian dollars)

As at September 30

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash	\$ 5,600	\$ 833,678
Cash in escrow (note 6)	-	216,000
Accounts receivable and other receivables (Note 7)	91,139	73,786
Sales tax receivable	27,473	52,092
Prepaid expenses	12,981	49,371
Total current assets	137,193	1,224,927
NON-CURRENT ASSETS		
Property, plant and equipment (Note 8)	362,373	469,197
Exploration and evaluation assets (Note 9)	8,879,219	8,778,776
Total non-current assets	9,241,592	9,247,973
TOTAL ASSETS	\$ 9,378,785	\$ 10,472,900
LIABILITIES		
CURRENT		
Accounts payable (Note 10)	\$ 2,361,641	\$ 2,329,206
Loans	14,370	24,165
Prepaid gold sales (Note 11)	1,080,000	1,080,000
Indemnities payable to subscribers (Note 12)	501,876	720,080
Debts (Note 13)	1,440,541	1,471,807
Debentures (Note 14)	551,648	787,495
TOTAL CURRENT AND TOTAL LIABILITIES	5,950,076	6,412,753
SHAREHOLDERS' EQUITY		
Share capital (Note 15)	\$ 46,984,495	\$ 45,807,286
Shares to be issued	-	186,000
Contributed surplus	11,610,304	11,059,337
Warrants (Note 15)	859,655	1,021,960
Deficit	(56,025,745)	(54,014,436)
TOTAL SHAREHOLDERS' EQUITY	3,428,709	4,060,147
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 9,378,785	\$ 10,472,900
GOING CONCERN (Note 2)		
COMMITMENTS AND CONTINGENCIES (Note 20)		
SUBSEQUENT EVENTS (Note 23)		

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

Nippon Dragon Resources Inc.

CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

(in Canadian dollars)

Years ended September 30

	2017	2016
INCOME		
Thermal fragmentation technology distribution income	\$ 98,645	\$ 145,377
Other income	12,743	-
TOTAL INCOME	111,388	145,377
CONTRACT COSTS		
Contract cost from thermal fragmentation technology distribution	782,734	274,853
Salaries and fringe benefits	-	11,844
Royalties	25,980	22,573
Depreciation of property, plant and equipment	-	12,820
TOTAL CONTRACT COSTS	808,714	322,090
GROSS PROFIT (LOSS)	(697,326)	(176,713)
GENERAL AND ADMINISTRATIVE EXPENSES (Note 16)	1,380,970	1,492,354
OTHER EXPENSES (INCOME) (Note 16)	(66,987)	(3,247,181)
TOTAL NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	\$ (2,011,309)	\$ 1,578,114
NET INCOME (LOSS) PER SHARE		
Basic	\$ (0.0142)	\$ 0.0144
Diluted	\$ (0.0142)	\$ 0.0144
Weighted average number of shares outstanding	141,985,189	109,678,345

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

Nippon Dragon Resources Inc.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(in Canadian dollars, except for per share data)

Years ended September 30

	<u>Number of shares</u>	<u>Share capital</u>	<u>Shares to be issued</u>	<u>Contributed surplus</u>	<u>Warrants</u>	<u>Deficit</u>	<u>Total equity</u>
BALANCE AS AT OCTOBER 1, 2016	<u>128,510,079</u>	<u>\$ 45,807,286</u>	<u>\$ 186,000</u>	<u>\$ 11,059,337</u>	<u>\$ 1,021,960</u>	<u>\$ (54,014,436)</u>	<u>\$ 4,060,147</u>
Shares issued in private placements (Note 15)	16,200,184	723,278	(186,000)	-	402,862	-	940,140
Debts settlement and accrued interests (Note 14)	3,635,682	248,305	-	-	-	-	248,305
Interests payment (Note 15)	1,520,396	106,426	-	-	-	-	106,426
Warrants exercised (Note 15)	1,000,000	99,200	-	-	(14,200)	-	85,000
Warrants expired (Note 15)	-	-	-	550,967	(550,967)	-	-
Net income (loss) and comprehensive income (loss)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,011,309)</u>	<u>(2,011,309)</u>
BALANCE AS AT SEPTEMBER 30, 2017	<u>150,866,341</u>	<u>46,984,495</u>	<u>-</u>	<u>11,610,304</u>	<u>859,655</u>	<u>(56,025,745)</u>	<u>3,428,709</u>

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

Nippon Dragon Resources Inc.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (cont'd)

(in Canadian dollars, except for per share data)

Years ended September 30

	Number of shares	Share capital	Shares to be issued	Contributed surplus	Warrants	Equity component of convertible debentures	Deficit	Total equity
BALANCE AS AT OCTOBER 1, 2015	98,315,278	\$ 44,023,670	\$ -	\$ 10,293,200	\$ 540,112	\$ 703,087	\$ (55,571,521)	\$ (11,452)
Shares issued in private placements (Note 15)	18,322,293	912,306	-	-	529,603	-	-	1,441,909
Shares issued to settle indemnities payable to subscribers (Note 12)	11,356,008	795,000	-	-	-	-	-	795,000
Common share purchase options exercised (Note 15)	500,000	74,100	-	(27,100)	-	-	-	47,000
Debentures expiry (Note 14)	-	-	-	703,087	-	(703,087)	-	-
Stock-based compensation	-	-	-	42,708	-	-	-	42,708
Shares to be issued in private placement (Note 23)	-	-	186,000	-	-	-	-	186,000
Warrants exercised (Note 15)	16,500	2,210	-	-	(313)	-	-	1,897
Warrants expired (Note 15)	-	-	-	47,442	(47,442)	-	-	-
Issuance expenses	-	-	-	-	-	-	(21,029)	(21,029)
Net income (loss) and comprehensive income (loss)	-	-	-	-	-	-	1,578,114	1,578,114
BALANCE AS AT SEPTEMBER 30, 2016	128,510,079	45,807,286	186,000	11,059,337	1,021,960	-	(54,014,436)	4,060,147

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

Nippon Dragon Resources Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in Canadian dollars)

Years ended September 30, 2017

	2017	2016
OPERATING ACTIVITIES		
Net (loss) income	\$ (2,011,309)	\$ 1,578,114
Adjustments:		
Stock-based compensation	-	42,708
Amortization of discount on issuance of debentures	13,348	19,793
Depreciation of property, plant and equipment	106,736	93,560
De-recognition of debenture and its related interests	-	(2,709,634)
Gain on settlement of indemnities payable to subscribers (Note 12)	-	(331,201)
Interest paid	68,165	253,817
Prepaid gold sales	-	1,080,000
Write-off and revision of estimate of indemnities payable to subscribers (Note 12)	(218,205)	(681,417)
Gain on disposal of the treatment plant	(65,707)	-
Unrealized foreign exchange loss	(2,509)	4,952
Interests settled in shares	6,393	-
Other	(8,450)	3,416
	(2,111,538)	(645,892)
Changes in working capital items (Note 21)	896,592	213,050
Cash flows used in operating activities	(1,214,946)	(432,842)
INVESTING ACTIVITIES		
Tax credits collected	6,591	20,153
Property, plant and equipment additions	(697,549)	(179,838)
Property, plant and equipment disposals	313,692	-
Additions to exploration and evaluation assets	(37,034)	(31,480)
Cash flows used in investing activities	(414,300)	(191,165)
FINANCING ACTIVITIES		
Issuance of debenture (Note 14)	100,000	-
Exercise of common share purchase options	-	47,000
Warrants exercised	85,000	1,897
Interests paid	(68,165)	(253,817)
Debt repayment	(31,266)	(28,193)
Debentures repayment	(210,000)	-
Shares issuance cost paid	-	(21,029)
Shares to be issued	-	186,000
Issuance of shares and warrants	925,937	1,441,909
Loans repayment	(7,755)	-
Cash flow from financing activities	793,751	1,373,767
Effect of foreign exchange rate changes on cash	7,417	-
NET CHANGE IN CASH AND CASH EQUIVALENTS	(828,078)	749,760
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	833,678	83,918
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 5,600	\$ 833,678

Supplemental cash flow information (Note 21)

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

Nippon Dragon Resources Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in Canadian dollars)

September 30, 2017 and 2016

1. STATUTES OF INCORPORATION AND NATURE OF OPERATIONS

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

The consolidated financial statements for the years ended September 30, 2017 and 2016 were approved and authorized for issue by the Board of Directors on December 21, 2017.

2. GOING CONCERN

The accompanying consolidated financial statements have been prepared using International Financial Reporting Standards (“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 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 September 30, 2017, the Company has accumulated a deficit of \$56,025,745 and has a working capital deficiency of \$ 5,812,883.

Management considers that the cash balances 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 consolidated financial statements.

Nippon Dragon Resources Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in Canadian dollars)

September 30, 2017 and 2016

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

3.1 Statement of compliance

These consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB"). The Company has consistently applied the same accounting policies throughout the periods presented in the consolidated financial statements.

3.2 Basis of evaluation

These consolidated financial statements have been prepared on the historical cost basis.

3.3 Functional and presentation currency

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

4. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

IAS 7, Statement of Cash Flows ("IAS 7")

In January 2016, the IASB issued amendments to IAS 7. The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. They are effective for annual periods beginning on or after January 1, 2017, with earlier application being permitted. Management is currently reviewing the impact of adopting IAS 7 on its consolidated financial statements.

Nippon Dragon Resources Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in Canadian dollars)

September 30, 2017 and 2016

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

IFRS 2, Share based payments ("IFRS 2")

In June 2016, the IASB issued an amendment to IFRS 2 to clarify the measurement for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. The mandatory effective date of the amendment to IFRS 2 is for annual periods beginning on or after January 1, 2018. Management is currently reviewing the impact of adopting IFRS 2 on its consolidated financial statements.

IFRS 9, Financial Instruments ("IFRS 9")

In November 2009 and October 2010, the IASB issued the first phase of IFRS 9, *Financial Instruments*. In November 2013, the IASB issued a new general hedge accounting standard, which forms part of IFRS 9. The final version of IFRS 9 was issued in July 2014 and includes a third measurement category for financial assets (fair value through other comprehensive income) and a single, forward-looking 'expected loss' impairment model.

IFRS 9 replaces the current multiple classification and measurement models for financial assets and financial liabilities with a single model that has three classification categories: amortized cost, fair value through other comprehensive income and fair value through profit and loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset or financial liability. It also introduces limited changes relating to financial liabilities and aligns hedge accounting more closely with risk management. The new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. Management is currently reviewing the impact that this standard will have on its consolidated financial statements.

IFRS 15, Revenue from contracts concluded with customers ("IFRS 15")

The IASB has issued IFRS 15, *Revenue from Contracts with Customers*, which will replace IAS 11, *Construction Contracts*, and IAS 18, *Revenue*. The mandatory effective date of IFRS 15 is January 1, 2018 with early adoption permitted. IFRS 15 establishes a principle-based model to be applied to all contracts with customers in determining how and when revenue is recognized. IFRS 15 also requires entities to provide additional disclosures. Management is currently reviewing the impact of adopting IFRS 15 on its consolidated financial statements.

Nippon Dragon Resources Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in Canadian dollars)

September 30, 2017 and 2016

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

4.2 Principles of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiary: Rocmec Gold inc. (formerly Rocmec Technologies Inc.) During the current year, 100% of the mining property Rocmec 1 and 85% of the mining property Denain have been transferred into the subsidiary with all the related claims (Note 9).

4.3 Foreign currency translation

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

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

4.4 Financial instruments

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

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

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

Loans and receivables

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

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

Financial liabilities at amortized cost

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

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

Nippon Dragon Resources Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in Canadian dollars)

September 30, 2017 and 2016

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

4.4 Financial instruments (cont'd)

The Company has classified its financial instruments as follows:

<u>Categories</u>	<u>Financial instruments</u>
Loans and receivables	Cash Cash in escrow Accounts receivable and other receivables
Financial liabilities at amortized cost	Accounts payable Loans Indemnities payable to subscribers Debts Debentures

Convertible debentures

The component parts of convertible debentures issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument.

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

The value of the conversion option classified as equity is determined at the issuance date by deducting the fair value of the liability component from the amount of the compound instrument as a whole. This amount is recognized in equity, net of income tax effects, and is not subsequently remeasured. When and if the conversion option is exercised, the equity component of convertible debentures will be transferred to share capital. If the conversion option remains unexercised at the maturity date of the convertible debenture, the equity component of the convertible debentures will be transferred to contributed surplus. No gain or loss is recognized upon conversion or expiration of the conversion option. Transaction costs that relate to the issuance of convertible debentures are allocated to the liability and equity components in proportion to the initial carrying amounts. Transaction costs relating to the equity component are recognized directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortized over the lives of the convertible debentures using the effective interest method.

Nippon Dragon Resources Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in Canadian dollars)

September 30, 2017 and 2016

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

4.4 Financial instruments (cont'd)

Impairment of financial assets

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

Loans and receivables

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

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

4.5 Revenue recognition

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

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

Nippon Dragon Resources Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in Canadian dollars)

September 30, 2017 and 2016

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

4.6 Net income (loss) per share

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

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

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

4.7 Tax credits

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

Furthermore, the Company is entitled to refundable tax credits for resources for mining companies on qualified exploration expenditures incurred. The credits have been applied against the exploration costs incurred as stated in IAS 20, *Government Assistance*, when there is reasonable assurance that the credits will be recovered and granted and that the Company will respect the related conditions.

4.8 Exploration and evaluation expenditures and exploration and evaluation assets

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

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

Nippon Dragon Resources Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in Canadian dollars)

September 30, 2017 and 2016

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

4.8 Exploration and evaluation expenditures and exploration and evaluation assets (cont'd)

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

When technical feasibility and commercial viability of extracting a mineral resource are proven, exploration and evaluation assets related to the mining property are transferred to property and equipment in "Mining assets under construction". Before reclassification, exploration and evaluation assets are tested for impairment and any impairment loss is recognized in net income (loss). To date, neither the technical feasibility nor the commercial viability of the extraction of a mineral resource has been proven.

4.9 Property, plant and equipment

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

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

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

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

	<u>Useful life</u>
Equipment	5 and 7 years
Mill plant	10 years
Computer equipment	4 years
Automotive equipment	4 years
Telephone system	5 years

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

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

Nippon Dragon Resources Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

4.9 Property, plant and equipment (cont'd)

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

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

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

4.10 Impairment of non-financial assets

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

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

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

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

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

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

Nippon Dragon Resources Inc.

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4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

4.11 Provisions, contingent liabilities and contingent assets

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

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

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

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

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

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

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

4.12 Deferred income taxes

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

Nippon Dragon Resources Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

4.12 Deferred income taxes (cont'd)

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

Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income.

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

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

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

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

4.13 Equity

Share capital represents the amount received on the issuance of shares. Shares issued for consideration other than cash are recorded at their fair value according to the quoted price on the day of the conclusion of the agreement.

Unit placements

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

Nippon Dragon Resources Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

4.13 Equity (cont'd)

Issuance costs of shares

The issuance costs of shares, net of tax benefits, are included in the deficit in the period in which they occurred.

4.14 Equity-settled share-based payments

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

The Company's plan does not feature any options for a cash settlement.

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

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

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

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

4.15 Segment reporting

The Company presents and discloses segmental information based on information that is regularly reviewed by the chief operating decision-maker.

The chief decision maker have the joint responsibility of allocating resources to the Company's operating segments and assessing their performance.

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

Nippon Dragon Resources Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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5. CRITICAL ACCOUNTING ESTIMATES, JUDGEMENTS AND ASSUMPTIONS

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

Going concern

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

Exploration and evaluation assets

The Company's evaluation of the recoverable amount with respect to the non-financial assets is based on numerous assumptions and may differ significantly from actual values. The recoverable amounts are based, in part, on certain factors that may be partially or totally outside of the Company's control. This evaluation involves a comparison of the estimated recoverable amounts of non-financial assets to their carrying values. The Company's recoverable amount estimates are based on numerous assumptions. The recoverable amount estimates may differ from actual values and these differences may be significant and could have a material impact on the Company's financial position and result of operations.

Assets are reviewed for an indication of impairment at each consolidated statement of financial position date and when there are indicators of impairment. This determination requires significant judgment. Factors which could trigger an impairment review include, but are not limited to: the right to explore in the specific area will expire during the period or in the near future and is not expected to be renewed; substantive exploration and evaluation expenditures in a specific area are neither budgeted nor planned; exploration and evaluation of mineral resources in a specific area have not led to the discovery of commercially viable quantities of mineral resources and the Company has decided to discontinue such activities in the specific area; sufficient data exists to indicate that, although a development in a specific area is likely to proceed, the carrying amount of the assets is unlikely to be recovered in full from successful development or by sale; significant negative industry or economic trends; and a significant drop in ore prices.

Other provisions and contingent liabilities

Judgments are made as to whether a past event has led to a liability that should be recognized in the consolidated financial statements or disclosed as a contingent liability. Quantifying any such liability often involves judgments and estimations. These judgments are based on a number of factors including the nature of the claims or dispute, the legal process and potential amount payable, legal advice received, previous experience and the probability of a loss being realized. Several of these factors are sources of estimation uncertainty. Other provisions and contingent liabilities include indemnities payable to subscribers and taxes on section XII.6 and III.14 payable.

Nippon Dragon Resources Inc.

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6. CASH IN ESCROW

Cash in escrow is composed of cash collected by the Company with the prepaid gold sales. As at September 30, 2017, cash in escrow was released in accordance with the agreements, compared to September 30, 2016 where 20% of the prepaid gold sales proceeds were escrowed.

7. ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES

	2017	2016
Clients	\$ 85,737	\$ 69,920
Other receivables	<u>5,402</u>	<u>3,866</u>
	<u>\$ 91,139</u>	<u>\$ 73,786</u>

Nippon Dragon Resources Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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8. PROPERTY, PLANT AND EQUIPMENT

Year ended September 30, 2017

	<u>Equipment</u>	<u>Treatment plant</u>	<u>Computer equipment</u>	<u>Automotive equipment</u>	<u>Telephone system</u>	<u>Total</u>
COST						
Balance as at October 1, 2016	\$ 992,725	\$1,819,093	\$ 26,754	\$ 37,703	\$ 4,201	\$ 2,880,476
Additions	76,384	621,165	-	-	-	697,549
Disposal	<u>(88,000)</u>	<u>(2,440,258)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,528,258)</u>
Balance as at September 30, 2017	<u>981,109</u>	<u>-</u>	<u>26,754</u>	<u>37,703</u>	<u>4,201</u>	<u>1,049,767</u>
ACCUMULATED DEPRECIATION						
Balance as at October 1, 2016	525,386	1,819,093	24,896	37,703	4,201	2,411,279
Depreciation	106,117	-	619	-	-	106,736
Disposal	<u>(11,528)</u>	<u>(1,819,093)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,830,621)</u>
Balance as at September 30, 2017	<u>619,975</u>	<u>-</u>	<u>25,515</u>	<u>37,703</u>	<u>4,201</u>	<u>687,394</u>
CARRYING AMOUNT AS AT SEPTEMBER 30, 2017	<u>\$ 361,134</u>	<u>-</u>	<u>\$ 1,239</u>	<u>-</u>	<u>-</u>	<u>\$ 362,373</u>

On April 7, 2017, the Company sold all rights and title to its treatment plant to AU Consolidated ("AU") for USD \$1,006,268. The amount corresponds to the treatment plant installation costs paid by AU and due by the Company, extinguishment of payables from the Company to AU for operating costs and a cash payment. This disposal resulted in a gain on disposal of \$65,707.

Treatment plant installation costs by AU	USD \$	535,850
Extinguishment of payables		290,418
Cash payment		<u>180,000</u>
	USD \$	<u>1,006,268</u>

Nippon Dragon Resources Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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September 30, 2017 and 2016

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

Year ended September 30, 2016

	Equipment	Treatment plant	Computer equipment	Automotive equipment	Telephone system	Total
COST						
Balance as at October 1, 2015	\$ 815,365	\$ 1,819,093	\$ 25,575	\$ 37,703	\$ 4,201	\$ 2,701,937
Additions	177,360	-	2,478	-	-	179,838
Disposal	-	-	(1,299)	-	-	(1,299)
Balance as at September 30, 2016	992,725	1,819,093	26,754	37,703	4,201	2,880,476
ACCUMULATED DEPRECIATION						
Balance as at October 1, 2015	432,446	1,819,093	25,575	37,703	4,201	2,319,018
Depreciation	92,940	-	620	-	-	93,560
Disposal	-	-	(1,299)	-	-	(1,299)
Balance as at September 30, 2016	525,386	1,819,093	24,896	37,703	4,201	2,411,279
CARRYING AMOUNT AS AT SEPTEMBER 30, 2016	<u>\$ 467,339</u>	<u>-</u>	<u>\$ 1,858</u>	<u>-</u>	<u>-</u>	<u>\$ 469,197</u>

Nippon Dragon Resources Inc.

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9. EXPLORATION AND EVALUATION ASSETS

	Balance as at October 1, 2016	Additions	Tax credits and duties refundable	Impairment	Balance as at September 30, 2017
Rocmec 1					
Mining rights	2,603,982	-	-	-	2,603,982
Exploration and evaluation	6,174,794	107,034	(6,591)	-	6,275,237
	<u>\$ 8,778,776</u>	<u>\$ 107,034</u>	<u>\$ (6,591)</u>	<u>\$ -</u>	<u>\$ 8,879,219</u>
	Balance as at October 1, 2015	Additions	Tax credits and duties refundable	Impairment	Balance as at September 30, 2016
Rocmec 1					
Mining rights	2,603,982	-	-	-	2,603,982
Exploration and evaluation	6,145,704	31,480	(2,390)	-	6,174,794
	<u>\$ 8,749,686</u>	<u>\$ 31,480</u>	<u>\$ (2,390)</u>	<u>\$ -</u>	<u>\$ 8,778,776</u>

Rocmec 1 project – Dasserat township, Quebec

100% interest in mining rights including 19 mining claims of which 11 mining claims are subject to a 5% Net Metal Royalty on the first 25,000 ounces of gold and 3% on additional ounces of gold.

On August 1, 2017, the Company entered into a joint-venture agreement with Val d'Or Resources Corporation ("VRC"). The joint venture will take effect once VRC secures funding in the amount of \$16,200,000 (not effective September 30, 2017 and refer to note 23 for additional details) that will be dedicated to the Rocmec 1 and Denain properties. As a result of the joint-venture, VRC will hold 49% of the Company's subsidiary Rocmec Gold inc. while the Company will continue to hold the 51% left. As at September 30, 2017, the funds were not secured by VRC and as such, the Company still owned 100% of its subsidiary.

Respectively on September 22 and 27, 2017, the following claims and mining properties were transferred from the Company into Rocmec Gold inc. as requested by the joint-venture agreement:

100% of Rocmec 1 and its related claims
85 % of Denain and its related claims

Further details about the joint-venture are presented under note 23 of these consolidated financial statements.

Nippon Dragon Resources Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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10. ACCOUNTS PAYABLE

	2017	2016
Trade accounts payable	\$ 568,751	\$ 469,042
Accrued interest payable	115,113	142,536
Taxes on Section XII.6 and III.14 payable	822,262	822,262
Salaries and fringe benefits payable	811,297	849,629
Other liabilities	<u>44,218</u>	<u>45,737</u>
	<u>\$ 2,361,641</u>	<u>\$ 2,329,206</u>

During the year, the Company settled accrued interest totaling \$149,257 by issuing 2,132,243 common shares at \$0.07 per share.

During the year ended September 30, 2016, the Company de-recognized a debenture of \$ 1,500,000 and its related accrued interests of \$ 1,138,860.

11. PREPAID GOLD SALES

In 2016, the Company entered into a gold production agreement with AU. The Company will conduct thermal fragmentation operations to extract 2,000 ounces of gold that will be shared based on an 80/20 ratio. The Company will be entitled to 80% of the gold ounces while AU will be entitled to 20% of the ounces of gold produced. In connection with this agreement, the Company entered into prepaid gold sales totalling \$1,080,000 for the delivery of approximately 1,200 units, each unit consisting of one (1) ounce of gold at a price of \$900 per unit. The prepaid gold sales, in the form of metal sales forward contracts, allow the Company to deliver pre-determined volumes of gold on agreed future delivery dates in exchange for an upfront cash pre-payment.

On November 17th, 2017 an addendum to the initial agreement was signed to modify or add the following terms and conditions:

- The gold ounces to be delivered can be extracted from AU's property or from the Company's property Rocmec 1;
- The Company will determine the frequency of ore shipments, however the delivery shall be completed no later than 12 months from the signature of the addendum with the first delivery scheduled in June or July 2018;
- The Company will increase the number of gold ounces by an additional 5% of the number of gold ounces initially subscribed by the participants.

As at September 30, 2017, no gold delivery has been made and the gold forward contracts were outstanding. These contracts are excluded from the scope of IAS 39 and accounted for as executory contracts because they were entered into and continue to be held for the purpose of delivery in accordance with the Company's expected production schedule.

Nippon Dragon Resources Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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12. INDEMNITIES PAYABLE TO SUBSCRIBERS

	Flow-through placements 2011	Flow-through placements 2010	Flow-through placements 2009	Total
Balance as at September 30, 2015	261,959	\$ 179,427	\$ 2,086,312	\$ 2,527,698
Decrease	-	-	(1,126,201)	(1,126,201)
Write-off	(11,959)	72,449	(741,907)	(681,417)
Balance as at September 30, 2016	\$ 250,000	251,876	218,204	720,080
Write-off	-	-	(218,204)	(218,204)
Balance as at September 30, 2017	250,000	251,876	-	501,876

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 could be 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 the related interest 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.

Regarding flow-through financing of 2009, a group of investors had filed a lawsuit with the Superior Court of Quebec for an amount of \$1,126,201. On April 6, 2016, the Company and the plaintiffs proposed to settle the proceedings instituted by the plaintiffs, without any admission of liability whatsoever, for an aggregate settlement amount of \$795,000 payable by issuing common shares of the share capital of the Company at a price of \$0.07 per share. On May 27, 2016, the shares were issued and therefore the case is now considered closed resulting in a gain on settlement on indemnities payable to subscribers of \$ 331,201 in the year ended September 30, 2016.

In light of the above-mentioned settlement, the Company reviewed its provisions for indemnities payables for the remaining subscribers which have not contacted the Company for damages or filed lawsuits whatsoever and adjusted the provision in the fourth quarter of 2016 based on management's best estimate, including all available information and recent developments resulting in a reversal of provision of \$ 681,417.

The indemnities payables to subscribers from remaining flow-through placements of 2009 were written off during the year 2017 as the legal delay for recourse against the Company is now expired. As such, a provision of \$218,204 was reversed.

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

Nippon Dragon Resources Inc.

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13. DEBTS

	2017	2016
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, payable monthly, either in cash or in common shares at the Company's option, which originally matured in May 2015 but has yet to be repaid.	\$ 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, which originally matured in May 2015 but has yet to be repaid.	305,635	336,901
	<hr/>	<hr/>
Current debts	\$ <u>1,440,541</u>	\$ <u>1,471,807</u>

The outstanding and repayable balance as at September 30, 2017 is \$1,440,541 since the debts expired in May 2015 and have yet to be repaid.

In 2016, the Company and the lender agreed that 10% of the Company's proceeds from all of its operations, as well as private placements, will be used to pay the accrued interest and principal of the debts.

Nippon Dragon Resources Inc.

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September 30, 2017 and 2016

14. DEBENTURES

	September 30, 2017	September 30, 2016
<p>Debtenture with a nominal value of \$249,995, bearing interest at 13.5% payable monthly. This debtenture has been repaid in full on December 14, 2016, in the following manner: a cash payment of \$125,000 and the balance of \$124,995 repaid in common shares of the Company at a price of \$0.07 per share.</p>	\$ -	\$ 249,995
<p>Debtentures 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 half (1/2) 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%, payable quarterly in cash or common shares, at the Company's option. These debtentures expired on December 31, 2014 and were not repaid.</p>	537,500	537,500
<p>Debtenture with a nominal value of \$100,000, bearing interest at 10% payable on the date of execution of the contract, maturing in January 2018 and 1,000,000 warrants were granted to the lender; each whole warrant entitles the holder to purchase one (1) common share of the Company at an exercise price of \$0.085 over a period of one year following the date of execution of the contract. On March 13, 2017, the Company repaid \$85,000 of the principal amount of the debtenture.</p>	14,148	-
Current Debtentures	<u>\$ 551,648</u>	<u>\$ 787,495</u>

The outstanding and repayable balance as at September 30, 2017 of the debtentures is \$ 551,648 since the debtentures have expired or mature within one year and have yet to be repaid.

Nippon Dragon Resources Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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:

Year ended September 30, 2017

On October 4, 2016, the Company completed a non-brokered private placement of 3,476,250 units of the Company at a price of \$0.08 per unit, for aggregate gross proceeds of \$278,100. Each unit consists of one (1) common share in the share capital of the Company and one (1) warrant. 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 \$97,715 was allocated to the warrants issued.

On November 22, 2016, the Company completed a non-brokered private placement of 3,333,334 units of the Company at a price of \$0.075 per unit, for aggregate gross proceeds of \$250,000. Each unit consists of one (1) common share in the share capital of the Company and one (1) warrant. 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 \$88,215 was allocated to the warrants issued.

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.

On December 23, 2016, the Company completed a non-brokered private placement of 4,572,400 units of the Company at a price of \$0.075 per unit, for aggregate gross proceeds of \$342,930. Each unit consists of one (1) common share in the share capital of the Company and one (1) warrant. 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 \$112,334 was allocated to the warrants issued.

On January 17, 2017, the Company entered into an agreement with Diagnos Inc. to generate mining targets on the Rocmec 1 and Denain properties. The agreement totals \$70,000 plus the related sale taxes. The Company has paid the full amount on August 25, 2017 by issuing 1,238,192 common shares at a price of \$0.065 per common share for a total of \$80,481 representing the value of the services received.

Nippon Dragon Resources Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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September 30, 2017 and 2016

15. EQUITY (cont'd)

Year ended September 30, 2017 (cont'd)

On March 14, 2017, 1,000,000 common shares were issued following the exercise of warrants at a price of \$0.085 per common share.

On June 14, 2017, the Company issued 1,520,396 common shares at a price of \$0.07 per common share as interest payments on outstanding debentures. The amount of interests totals \$106,426 and represents accumulated interests at March 31, 2017.

On August 11, 2017, the Company completed a non-brokered private placement of 4,818,200 units of the Company at a price of \$0.05 per unit, for aggregate gross proceeds of \$240,910. Each unit consists of one (1) common share in the share capital of the Company and one (1) warrant. Each warrant entitles the holder thereof to purchase one (1) additional common share in the share capital of the Company at a price of \$0.075 per common share for a period of 24 months following the closing of the private placement. An amount of \$90,398 was allocated to the warrants issued.

No issuance costs were incurred for private placements closed in the year ended September 30, 2017.

Year ended September 30, 2016

Between October 28, 2015 and June 3, 2016, 516,500 shares were issued following the exercise of common share purchase options and warrants at prices between \$0.085 and \$0.115 per share. The stock price at the time of the exercise was between \$0.08 and \$0.115 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 \$103,412 was allocated to the warrants issued.

In February and March 2016, the Company completed a non-brokered private placement for \$240,850 by issuing 2,676,111 units at a price of \$0.09 per unit, each unit consisting of one (1) common share in the share capital of the Company and one (1) warrant. Each warrant entitles its holder to purchase one (1) additional common share of the capital of Company at a price of \$0.135 per common share for a period of 24 months following the closing of the private placement. An amount of \$89,638 was allocated to the warrants issued.

On May 19, 2016, the Company completed a non-brokered private placement for \$78,992 by issuing 987,400 units at a price of \$0.08 per unit. Each unit consists of one (1) common share in the share capital of the Company and one (1) warrant. 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 \$27,082 was allocated to the warrants issued.

On May 27, 2016, the Company issued 11,356,008 common shares as part of the lawsuit settlement in connection with certain indemnities that were payable to certain subscribers (Note 12) 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 share.

On June 29, 2016, the Company completed a non-brokered private placement for \$354,465 by issuing 5,063,782 units at a price of \$0.07 per unit. Each unit consists of one (1) common share in the share capital of the Company and one (1) warrant. 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 \$127,776 was allocated to the warrants issued.

Nippon Dragon Resources Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in Canadian dollars)

September 30, 2017 and 2016

15. EQUITY (cont'd)

Year ended September 30, 2016 (cont'd)

On August 3, 2016, the Company completed a non-brokered private placement for \$500,000 by issuing 6,250,000 units at a price of \$0.08 per unit. Each unit consists of one (1) common share in the share capital of the Company and one (1) warrant. 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 \$181,695 was allocated to the warrants issued.

Issuance costs of \$21,029 were incurred for private placements closed in the year ended September 30, 2016.

Common share purchase options

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

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

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

A summary of changes in the Company's share purchase options is as follows:

	2017		2016	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of year	6,765,000	0.124	10,030,000	\$ 0.134
Exercised	-	-	(500,000)	(0.094)
Expired	(2,435,000)	(0.145)	(2,765,000)	(0.166)
Balance, end of year	<u>4,330,000</u>	<u>0.112</u>	<u>6,765,000</u>	<u>0.124</u>
Options exercisable at the end	<u>4,330,000</u>	<u>0.112</u>	<u>6,765,000</u>	<u>0.124</u>

During the year and the prior year, the Company did not grant any share purchase options for common shares to directors, administrators, employees and consultants.

Nippon Dragon Resources Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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September 30, 2017 and 2016

15. EQUITY (cont'd)

Common share purchase options (cont'd)

Granted and exercisable options as at September 30, 2017:

Granted options	Exercisable options	Exercise price	Expiration date
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>4,330,000</u>	<u>4,330,000</u>		

Warrants

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

	2017		
	Number of warrants	Weighted average exercise price	Fair value allocated
Balance at beginning of year	49,384,589	\$ 0.119	\$ 1,021,960
Granted	17,200,184	0.105	402,862
Exercised	(1,000,000)	(0.085)	(14,200)
Expired	(31,062,296)	(0.117)	(550,967)
Balance as at September 30, 2017	<u>34,522,477</u>	0.115	<u>869,655</u>
	2016		
	Number of warrants	Weighted average exercise price	Fair value allocated
Balance at beginning of year	32,992,239	\$ 0.119	\$ 540,112
Granted	18,322,293	0.122	529,603
Exercised	(16,500)	(0.115)	(313)
Expired	(1,913,443)	(0.156)	(47,442)
Balance as at September 30, 2016	<u>49,384,589</u>	0.119	<u>1,021,960</u>

Nippon Dragon Resources Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in Canadian dollars)

September 30, 2017 and 2016

15. EQUITY (cont'd)

Warrants (cont'd)

Warrants outstanding as at September 30, 2017 are as follows:

Number of warrants	Exercise price	Expiration date
3,345,000	\$ 0.120	Nov. 2017
2,676,111	\$ 0.135	Feb. - March 2018
23,683,166	\$ 0.120	May- Dec. 2018
4,818,200	\$ 0.075	Aug. 2019
<u>34,522,477</u>		

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

	2017	2016
Average share price at grant date	\$0.06	\$0.10
Risk-free interest rate	0.83%	0.54%
Expected volatility	124.58%	126.18%
Expected life (in years)	1.75	2.00
Expected dividend	0.00%	0.00%
Average exercise price at grant date	\$0.11	\$0.12

Nippon Dragon Resources Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in Canadian dollars)

September 30, 2017 and 2016

16. NATURE OF LOSS (INCOME) AND COMPREHENSIVE LOSS (INCOME)

	2017	2016
GENERAL AND ADMINISTRATIVE EXPENSES		
Salaries and fringe benefits	\$ 621,332	\$ 494,853
Insurance	25,955	34,360
Trustee fees and registration	50,472	84,243
Professional fees	233,021	421,814
Maintenance and repairs	35,887	5,229
Stationary and office expenses	42,927	57,417
Travelling and promotion	264,640	313,698
Depreciation of property, plant and equipment	106,736	80,740
	<u>\$ 1,380,970</u>	<u>\$ 1,492,354</u>
	2017	2016
OTHER EXPENSES (INCOME)		
Interests on debentures and debts	\$ 188,999	\$ 454,825
Financing charges and other interests	27,926	20,247
De-recognition of a debenture and its related accrued interests (Note 14)	-	(2,709,635)
Gain on settlement of indemnities payable to subscribers (Note 12)	(218,205)	(331,201)
Gain on disposal of the treatment plant (Note 8)	(65,707)	-
Revision of estimate of indemnities payable to subscribers (Note 12)	-	(681,417)
	<u>\$ (66,987)</u>	<u>\$ (3,247,181)</u>

17. CAPITAL MANAGEMENT

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

The Company includes loans, prepaid sales, debts, debentures, share capital, contributed surplus and warrants in the definition of capital for a total amount of \$62,541,013 as at September 30, 2017.

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

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

There were no significant changes in the Company's approach to capital management during the year ended September 30, 2017.

Nippon Dragon Resources Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in Canadian dollars)

September 30, 2017 and 2016

18. FINANCIAL INSTRUMENTS

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

Credit risk

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 amount presented in the consolidated statement of financial position as accounts receivable and other receivables is net of an allowance for doubtful accounts of nil (nil in 2016). 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 aims to ensure that it has sufficient working capital available to meet its day-to-day commitments. As at September 30, 2017 the Company had cash of \$5,600 (\$833,678 as at September 30, 2016) to settle current liabilities of \$5,950,076 (\$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). 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 consolidated financial statements.

As at September 30, 2017 and 2016, all of the Company's 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, 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 on an annual basis.

Nippon Dragon Resources Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in Canadian dollars)

September 30, 2017 and 2016

18. FINANCIAL INSTRUMENTS (cont'd)

Fair value

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

	2017		2016	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets (loans and receivables)				
Cash	\$ 5,600	\$ 5,600	\$ 833,678	\$ 833,678
Cash in escrow	-	-	216,000	216,000
Accounts receivable and other receivables	91,139	91,139	73,786	73,786
	<u>\$ 96,739</u>	<u>\$ 96,739</u>	<u>\$ 1,123,464</u>	<u>\$ 1,123,464</u>
Financial liabilities				
<i>Financial liabilities at amortized cost</i>				
Accounts payable	\$ 2,361,641	\$ 2,361,641	\$ 2,329,206	\$ 2,329,206
Loans	14,370	14,370	24,165	24,165
Indemnities payable to subscribers	501,876	501,876	720,080	720,080
Debts	1,440,541	1,440,541	1,471,807	1,471,807
Debentures	551,648	551,648	787,495	787,495
	<u>4,870,076</u>	<u>4,870,076</u>	<u>5,332,753</u>	<u>5,332,753</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; and
- Third level includes data that are not based on observable market data.

The carrying value of cash, cash in escrow, accounts receivable and other receivables, accounts payable, loans and indemnities payable to subscribers 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 as they are all past their maturity date. (Level 2)

Nippon Dragon Resources Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in Canadian dollars)

September 30, 2017 and 2016

18. FINANCIAL INSTRUMENTS (cont'd)

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 United States dollars. Consequently, certain financial assets and liabilities 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 and liabilities denominated in South African rand and in United States dollars translated into Canadian dollars at the closing rate, which expose the Company to currency risk are:

	2017	2016
Accounts receivable and other receivables	\$ 85,737	\$ 58,763
Accounts payable	<u>252,103</u>	<u>218,418</u>
Net exposure	\$ <u>166,366</u>	\$ <u>159,655</u>

A 10% change in the exchange rate would not have a significant impact.

19. RELATED PARTIES

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

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

The key management compensation includes:

	2017	2016
Salaries and fringe benefits	\$ 188,887	\$ 188,887
Capitalized to exploration and evaluation assets	<u>(8,240)</u>	<u>(16,480)</u>
	180,647	172,407
Stock-based compensation	-	19,069
Professional fees	<u>74,835</u>	<u>81,750</u>
Total	\$ <u>255,482</u>	\$ <u>273,226</u>

As at September 30, 2017, accounts payable include an amount of \$275,623 (\$305,948 in 2016) owed to related parties.

Nippon Dragon Resources Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in Canadian dollars)

September 30, 2017 and 2016

20. COMMITMENTS AND CONTINGENCIES

- i) The Company's operations are regulated by governmental laws and regulations regarding environmental protection. The environmental consequences are hardly identifiable. At the present time and to the best knowledge of its management, the Company is in compliance with the laws and regulations. As at September 30, 2017, a provision of \$2,060 (\$2,060 in 2016) for restoration of the premises at the Rocmec 1 property is included in accounts payable.
- ii) As part of its flow-through share financing carried out during the years 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 September 30, 2017 and 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 subject to tax assessments relatively to these flow-through share financing agreements.

21. SUPPLEMENTAL CASH FLOW INFORMATION

	2017	2016
Supplemental cash flow information:		
Net changes in working capital items:		
Cash in escrow	\$ 216,000	\$ (216,000)
Accounts receivable and other receivables	(25,972)	(8,624)
Sales tax receivable	35,101	(31,550)
Prepaid expenses	36,390	112,083
Accounts payable	635,073	357,141
	<u>\$ 896,592</u>	<u>\$ 213,050</u>
	2017	2016
Non-cash investing and financing activities:		
Share issuance in settlement of an expired debenture and its accrued interests	\$ 167,824	\$ -
Exploration and evaluation assets paid in common shares	80,482	-
Share issuance in settlement of accrued interest on debentures	106,428	-
Share issuance in settlement of indemnities payable to subscribers	-	795,000
Stock options exercised	-	27,100
Warrants exercised	14,200	313
Equity component of convertible debentures	-	703,087
Warrants expired	550,967	47,442

Nippon Dragon Resources Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in Canadian dollars)

September 30, 2017 and 2016

22. INCOME TAXES

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

	2017	2016
Net income (loss) before income taxes	\$ (2 011 309)	\$ 1,578,114
Income taxes at the statutory income tax rates 26.8% (26.9% in 2016)	(539 031)	424,513
Adjustment for the following items:		
Unrecognized variation of temporary differences	(62 186)	(140,289)
Stock-based compensation	-	11,488
Non-deductible expenses and others	3 158	54,061
Non-deductible loss and losses carryforward	598 059	(349,773)
	539 031	(424,513)
	<u>\$ Nil</u>	<u>\$ Nil</u>

	2017	2016
Components of deferred tax expense in the consolidated statement of (loss) income and comprehensive (loss) income		
Origination and reversal of temporary differences	\$ 62 186	\$ 140,289
Unrecognized variation of temporary difference	(62 186)	(140,289)
	<u>\$ Nil</u>	<u>\$ Nil</u>

	Balance at September 30, 2016	Recognized in profit or loss	Balance at September 30, 2017
Deferred income tax variations in 2017			
Exploration and evaluation assets	\$ (448,134)	\$ (1,255)	\$ (449,389)
Non-capital loss	520,710	(71,321)	449,389
Convertible debentures	(72,576)	72,576	-
	<u>\$ Nil</u>	<u>\$ Nil</u>	<u>\$ Nil</u>

Nippon Dragon Resources Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in Canadian dollars)

September 30, 2017 and 2016

22. INCOME TAXES (cont'd)

As at September 30, 2017 available temporary differences for which no deferred tax assets were recorded are as follows:

	Federal	Provincial
Property, plant and equipment	\$ 905,027	\$ 903,192
Share issuance expenses	56,191	56,191
Non-capital losses	25,491,856	25,198,561
Capital losses	3,420	3,420
Deferred income taxes	\$ 25,456,494	\$ 26,161,364

As at September 2017, the Company has non-capital losses for which no deferred tax asset was recorded and that can be carried over the following years:

	Federal	Provincial
2027	\$ 1,073,813	914,736
2028	2,371,329	2,366,634
2029	2,850,650	2,838,206
2030	3,538,018	3,511,711
2031	2,787,717	2,786,161
2032	2,862,569	2,788,668
2033	2,676,343	2,672,322
2034	2,902,136	2,899,843
2035	2,472,382	2,470,776
2036	1,409,363	1,408,239
2037	2,220,830	2,214,558
	\$ 27,165,150	\$ 26,871,854
Balance at September 30, 2015	Recognized in profit or loss	Balance at September 30, 2016

Deferred income tax variations in 2016

Exploration and evaluation assets	\$ (448,134)	\$ -	\$ (448,134)
Non-capital loss	520,710	-	520,710
Convertible debentures	(72,576)	-	(72,576)
	\$ Nil	\$ Nil	\$ Nil

Nippon Dragon Resources Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in Canadian dollars)

September 30, 2017 and 2016

22. INCOME TAXES (cont'd)

As at September 30, 2016 available temporary differences for which no deferred tax asset were recorded are as follows:

	Federal	Provincial
Property, plant and equipment	\$ 1,010,874	\$ 1,008,252
Share issuance expenses	89,122	89,122
Non-capital losses	24,017,972	23,355,901
Intangible assets	755,219	(2,241)
Capital losses	3,420	3,420
	<u>25,876,607</u>	<u>23,357,080</u>
Deferred income taxes	\$ 25,876,607	\$ 23,357,080

23. SUBSEQUENT EVENTS

On November 22nd 2017, the Company completed a non-brokered private placement for \$585,004 by issuing 11,700,072 units at a price of \$0.05 per unit. Each unit consists of one (1) common share in the share capital of the Company and one (1) warrant. Each warrant entitles the holder thereof to purchase one (1) additional common share in the share capital of the Company at a price of \$0.075 per common share for a period of 24 months following the closing of the private placement. Each warrant entitles the holder to purchase one (1) common share in the share capital of the Company at a price of \$0.075 per common share for a period of 24 months following the closing of the private placement.

The Company has paid \$58,500 on November 29, 2017 to one creditor whom has created a first mortgage on the Rocmec 1 property for settlement of accrued interest.