# NIPPON DRAGON RESOURCES INC.

Management's Discussion and Analysis 2018

FOR THE 9 MONTHS ENDED JUNE 30, 2018

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# Nippon Dragon Resources Inc.

## Management's Discussion and Analysis
**For the nine-month period ended June 30, 2018**

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 nine-month period ended June 30, 2018 in comparison to the previous period. The information contained in this document is dated as August 23, 2018. 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 was approved by the Board of directors on August 23, 2018.

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 June 30, 2018, the Company has accumulated a deficit of $56,777,426 ($56,025,745 as at September 30, 2017) and has a working capital deficiency of $5,794,158 ($5,812,883 as at September 30, 2017).

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 and that such sources of funding or initiatives will be available with terms that the Company can accept. If management is unable to obtain new funding, the Company may be unable to continue its operations, and realizable amounts for assets might be less than amounts reflected in these condensed interim consolidated financial statements.

## CORPORATE INFORMATION AND NATURE OF ITS ACTIVITIES

Nippon Dragon Resources Inc. was incorporated under the Québec *Business Corporations Act* on July 18, 2000. 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 Tier 2 publicly listed Company, its shares trade on the TSX Venture Exchange under the symbol NIP and also on the OTCQB exchange under the symbol RCCMF.

The Company's mission is to introduce and commercialize the thermal fragmentation process within the mining industry. As such, the extraction process allows to quickly extract any type of hard rock up to 100 cm wide with an accuracy of 2 cm. With such precision, high grade precious and base metal veins can now be extracted with minimal dilution. The Company has a exclusive distribution agreements in Australia, Canada and South Africa.

In addition, the Company specializes in the exploration of precious metals in mining sites located in Quebec. One of its properties, Rocmec 1, contains mineral resources. When further exploration will be conducted on Rocmec 1, Denain and Courville properties, the Company will then determine if these properties contain economically profitable ore resources. Additional details pertaining to the properties are presented in the section titled Mining properties and future exploration work.

## GLOBAL PERFORMANCE

### Financing for the period

The financing activities undertaken during the three first quarters allowed the Company to generate positive cash flows. The table below presents a summary of financings that were concluded between October 1, 2017 and August 23, 2018.

| Financing Date | Common Shares Issued | Warrants Issued | Total Financing Value ($) |
|---|---|---|---|
| November 22, 2017 | 11,700,072 | 12,168,072 | 585,005 |
| January 8, 2018 | 1,000,000 | 1,000,000 | 50,000 |
| **TOTAL August 23, 2018:** | **12,700,072** | **13,168,072** | **$635,005** |

### Highlights on agreements

#### *Au Consolidated Inc. ("AU"), Arizona*

All on-site activities are postponed until the joint venture between Val d'Or Resources Corporation ("VRC") and the financing group is signed. The disbursement is still not completed and it is possible that the deal could not go ahead. The creation of this new entity named Rocmec Gold Inc. was expected to significantly expand the Company's reach within Canada and other key markets. Per the joint venture agreement, the Company had to contribute certain assets and resources, while VRC had to contribute 16 million CDN dollars in cash based on a predetermined schedule which at term would have allowed VRC to acquire a 49% interest in the joint venture.

The Company's management must evaluate the impact of not having the deal completed within a short time frame. Other possible financing is also being evaluated at the moment.

***MaXem Holdings, South Africa***

Income from the third quarter includes a monthly royalty fee plus a monthly lease for the lance. The political situation in South Africa is creating some disturbance within MaXem's business. Many mines have closed including the mine where the thermal was in operation. MaXem must find another work place to pursue its work with the thermal fragmentation technology.

***Material Japan Co. Ltd., Japan***

Japan remains a strategic location for the Company especially with regards to the construction industry. Discussions continue to take place. Possible financing for our Denain project is in progress at this time.

## 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 of drifts and cross-cut drifts were made. The Rocmec 1 ore body was defined by diamond drilling, sampled and certain areas were mined (McDowell vein).

**Geology:** The gold veins on the Rocmec 1 property are quartz-carbonated narrow veins encased in intrusive rocks that hold quartz or have granophyric textures. The narrow veins can be confined to such situations in a because of the more competent nature of these rocks and the high-grade iron ore content is most favourable for gold precipitation. These quartz-carbonated narrow veins are normally formed in a tabular lens-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 located east-to-northeast with centri-metric and metric-wide quartz veins, dipping moderately to steeply to the south. They are a kilometre in length by 600 meters wide gabbro contained in intrusive granodiorite. 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 identified over a 1,660 meter long strike length, up 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 | Thickness | Volume | Area |
|---|---|---|---|---|---|---|---|
| | | | (g r/t) | (31.103 g) | Average (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 + 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 + 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 + I) | 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 + 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 width 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 requires definition diamond drilling, specifically for the Boucher and Boucher 2 structures, before they are ready to be mined. This can be done from the surface or underground drilling from rehabilitated drifts.

As previously mentioned, on August 1, 2017, the Company entered into a joint-venture agreement with VRC. Respectively on September 22 and 27, 2017, the following claims and mining properties were transferred from the Company into Rocmec Gold inc. as per the joint-venture agreement:

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

The delays in this agreement require management to evaluate the impact of not having the deal completed within a short time frame.

### 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 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 the drive an exploration ramp and a bulk sampling to evaluate the potential of the property. The possible joint-venture agreement would allow the Company to push forward with this project.

### 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 and Denain.

### Exploration and Evaluation Assets

Very few work was performed during this nine-month period ended June 30, 2018 on exploration and evaluation assets as the Company concentrated its efforts in building the equipment sold to its client in Serbia. The lack of financing in the past nine months also explains why the Company was not able to allocate any funds to exploration expenses on its properties.

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

| | June 30, 2018 | September 30, 2017 |
|---|---|---|
| Supervision | $ - | $ 8,240 |
| Other exploration expenses | 6,884 | 98,794 |
| | $ 6,884 | $ 107,034 |

## RECENT HIGHLIGHTS

### Sale of a mini-dragon

On April 9, 2018, the Company has shipped to the private company Metalfer in Serbia, a mini-dragon internally built. The sale of this equipment allowed the Company to recognize revenues and includes the following:

- One thermal fragmentation unit including one lance-burner head and its accessories;
- A four week orientation session, a complete on-site training session and practical training session explaining the best-use practices as well as maintenance of the unit;
- 0ne used long hole drill mounted on bogey.

Now that the sale is completed, Metalfer is now subject to a monthly licensing and royalty fees.

Metalfer intends to use the surface equipment to extract vein deposits in the Balkan region. The training is done in 2 phases, phase 1 is completed and was related to installing and verifying the equipment and the second phase to on-site training of the employees. We believe a third phase will be needed mainly because of the inexperience in drilling by the employees of Metalfer.

### Sale of mining claims

During the quarter, the Company received an offer from an exploration company who holds 80% of 40 mining claims surrendering the Denain Extension property owned at 20% by the Company. After having evaluated the potential of its percentage of 20%, the Company has decided to go ahead with the sale. A minimal amount of exploration work had been done in the past on this property and an important financial commitment would be needed to pursue. The consideration for this sale included $9,000 paid in cash and 40,000 common shares of the mining company who bought the mining claims.

## SELECTED INFORMATION

| | June 30, 2018 | September 30, 2017 | September 30, 2016 |
|---|---|---|---|
| Exploration and Evaluation assets | $ 8,852,750 | $ 8,879,219 | $ 8,778,776 |
| Total assets | 9,251,723 | 9,378,785 | 10,472,900 |
| Current liabilities | 5,904,590 | 5,950,076 | 6,412,753 |

| | Quarters ended June 30 | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Revenue from Joint Operation Contracts | - | - | 73,826 |
| Revenue from distribution of Thermal Fragmentation Technology | 362,634 | - | - |
| Total Revenue | 391,461 | - | 95,177 |
| Contract Costs | 247,520 | 172,707 | 67,316 |
| General and administrative expenses | 252,339 | 306,741 | 442,842 |
| Net income (loss) | (153,711) | (457,561) | 434,385 |
| Net income (loss) per share, basic and diluted | (0.0009) | (0.0032) | (0.0040) |

Since its incorporation, the Company has never paid cash dividends on its outstanding common shares. A 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, 2017) and of indemnities payable to subscribers of $501,876 ($501,876 as at September 30, 2017), 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 3-month period ended June 30, 2018, the Company realized a loss of $153,711 (loss of $457,561 in 2017). The difference in the results between the two periods can be explained with the following factors:

- The gross margin increased from a loss of $172,707 as at June 30, 2017 to a positive gross margin of $143,941 as at June 30, 2018. The improvement of the margin is mainly due to the sale of a mini-dragon internally built by the Company which generated a positive gross margin for the current period. Furthermore, the Company generated a positive margin from its operations with MaXem during this quarter compared to the comparative one where there had been no such activities.

- As the mining property of AU is located in Arizona, during the comparative period, the Company incurred much higher travel expenses to go several times to the United States, among other things, to proceed with the installation of the treatment plant. These expenses totaled $41,167 while in the three months ended June 30, 2018, travel expenses were only $7,574.

- Salaries have decreased by $34,491, as there was one more employee in the comparative period;

- During the period ended June 30, 2017, the Company sold a treatment plant, which resulted in a gain on disposition of $78,658;

- In the current period, the Company has sold its 20% of the mining claims on the property Denain Extension which resulted in a gain of $10,800.

## QUARTERLY DATA

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

| | 30/06/18 | 31/03/18 | 31/12/17 | 30/09/17 | 30/06/17 | 31/03/17 | 31/12/16 | 30/09/16 |
|---|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ | $ |
| Income | 391,461 | 28,249 | 28,294 | 55,641 | - | 4,804 | 50,943 | 82,517 |
| Net income (loss) | (153,711) | (294,880) | (231,864) | (287,944) | (457,561) | (652,093) | (613,711) | 2,481,762 |
| Net income (loss) per share, basic and diluted | (0.0009) | (0.0018) | (0.0015) | (0.0019) | (0.0032) | (0.0046) | (0.0046) | 0.0197 |

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

30/09/16 – An important revenue amount 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 guarantees payable to shareholders 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 significant costs incurred for the installation and on-site mobilization 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 drilling of pilot holes and for thermal fragmentation operational costs in Arizona. The revenues have not started for this project, but the costs are significant;

31/03/17 - The contract with the South African partner ended in the second quarter of 2017 and a new contract was under negotiations. As a result, distribution revenues from thermal fragmentation technology have decreased compared to previous quarters since the operations were put on hold while the negotiations were on-going. In addition, the extraction of ounces of gold for the project in Arizona has not yet begun, but costs continue to be incurred, resulting in an increase in net loss;

30/06/17 – Losses decreased during the quarter ended June 30, 2017 due to the fact that most costs related to drilling of the pilot holes and thermal fragmentation operations in Arizona have been incurred during the previous quarters. The Company also sold the treatment plant to their partner located in Arizona during this quarter, which generated a gain on disposal;

30/09/17 - A non-recurring gain of $ 218,205 was recorded and reduced the size of the loss for this quarter. It is linked to the cancellation of the guarantees payable to shareholders for the accrediting financing of the 2009 financial year, since the statute of limitations against the Company has now expired.

31/12/2017 and 31/03/2018 - The temporary shutdown of operations in Arizona contributed to the drastically reduced level of expenses incurred for these quarters and, in turn, reduced overall loss incurred for these periods.

30/06/2018 – The Company completed its sale of a mini-dragon which increased the level of operations during this quarter and allowed the Company to show a positive margin. The Company had also operations with its South African partner during this quarter which also generated revenues.

## CASH FLOWS AND FINANCING SOURCES

| | Nine-month period ended | | | | | |
|---|---|---|---|---|---|---|
| | | June 30, 2018 | | June 30, 2017 | | June 30, 2016 |
| Cash flows from operating activities | $ | (528,015) | $ | (996,667) | $ | (730,237) |
| Cash flows from investing activities | $ | 2,116 | $ | (374,162) | $ | (12,160) |
| Cash flows from financing activities | $ | 528,079 | $ | 632,686 | $ | 691,293 |
| Net change in cash and cash equivalents | $ | 2,180 | $ | (738,143) | $ | (51,104) |
| Cash and cash equivalents at beginning of period | $ | 5,600 | $ | 833,678 | $ | 83,918 |
| Cash and cash equivalents at end of period | $ | 8,117 | $ | 95,535 | $ | 32,814 |

For the nine-month period ended June 30, 2018, the **operating activities** used $(528,015) of cash compared to $(996,667) used in the prior year. This variation can be explained by the following elements:

- Operating activities were significantly different between the two periods as the Company generated $448,004 of revenues compared to $55,747 which resulted in a positive margin of $163,034 compared to a gross loss of $523,907.

- Significant expenses in 2017 for the installation and mobilization of the treatment plant in Arizona and for thermal fragmentation operations were incurred, while in 2018 no significant costs were incurred during the period in connection with this partnership, as operations were temporarily halted. The important loss in 2017 was mainly caused by this situation;

- Significant travelling expenses to go to Arizona of $237,033 in the comparative period were incurred. In this current period, travelling expenses amounted to $33,669.

- The net change in working capital decreased from $637,135 as at June 30, 2017 to $62,796 as at June 30, 2018. This significant change comes largely from the gold production agreement with AU. The amounts held in trust were freed in entirety during the comparative period. Furthermore, accounts payable were significantly higher in the previous period due to the contract with AU that required the Company to spend a significant amount of expenses.

**Investing activities** generated $2,116 in cash as at June 30, 2018 compared to a usage of $374,162 as at June 30, 2017. The activities in the comparative period consisted particularly in the construction of the treatment plant in Arizona in order to be able to start producing ounces of gold. As for the current period, the Company sold its mining claims on the Denain Extension property which generated $9,000 in cash.

For the period ended June 30, 2018, **the financing activities** generated cash flows of $528,079 compared to $632,686 during the same period in 2017. The variation is not significant because in the comparative period, the Company had raised $949,372 that were used to repay a portion of its debts, debentures and loans along with the accumulated interest, for a total amount of $316,686. In this present period, the Company raised $645,005 but repaid only $80,800 out of its debentures and accumulated interests.

At June 30, 2018, the Company had $8,117 in cash, accounts receivables and other receivables of $45,059, sales tax receivable of $2,439, tax credits receivable of $33,266 and prepaid expenses of $17,551. Overall, the Company's working capital remains largely negative and in consequence will not be sufficient to settle its projected liabilities and pay expenses up to September 30, 2018. The Company will need to obtain additional 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 its efforts to obtain financing on the open market in order to improve its cash position. However, it is important to mention that the Company is in default with one creditor whom have a senior mortgage on the Rocmec 1 property in the amount of $1,440,541 as at June 30, 2018 ($1,440,541 as at September 30, 2017) 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 of shares, 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 could 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 debts and debentures, loans, prepaid gold sales, debts and debentures. Management intends to continue as they previously did to finance these activities by the issuance of private placements in shares and debentures. Even if Management has been successful in the past in doing so, they cannot predict if they are going to be successful in the future to raise money and it 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 June 30, **2018** | 2017 | 2016 |
|---|---|---|---|
| Salaries and fringe benefits | **$ 47,222** | $ 47,222 | $ 47,222 |
| Capitalized to exploration and evaluation assets | **-** | - | (4,120) |
| | **47,222** | 47,222 | 43,102 |
| Stock-based compensation | **-** | - | 3,167 |
| Professional fees - Guimond Lavallée inc.[1] | **18,000** | 18,000 | 18,000 |
| Total | **$ 65,222** | $ 65,222 | $ 64,269 |

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

## SHARES AND EQUITY INSTRUMENTS OUTSTANDING

The changes in shares, warrants and options outstanding of the Company is detailed as follows:

| | At June 30, 2018 | Issued | Exercised | Expired | At August 23, 2018 |
|---|---|---|---|---|---|
| Shares Issued | 163,566,413 | - | - | - | 163,566,413 |
| Stock Options Issued | 4,230,000 | - | - | | 4,230,000 |
| Warrants Issued | 35,618,256 | - | - | (6,250,000) | 29,368,256 |

## CONTINGENCIES

The Company's operations are regulated by governmental laws and regulations regarding environmental protection. The environmental consequences are difficult to identify as a result of its expiry or impact. Presently, to management's best knowledge, the Company conforms to the laws and regulations. As at June 30, 2018, a provision of $2,060 ($2,060 as at September 30, 2017) 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 shareholders 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 may 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 the 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 the 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, 2017 in Note 4. It is important to note that there was no accounting method change by the Company since the publication of the annual consolidated financial statements of September 30, 2017.

## 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 controls 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, 2017 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 faced by the Company are principally attributable to the collection of its accounts receivable. The accounts receivable balance is presented without a deduction for an allowance for doubtful accounts. The cash balances are held by a Canadian chartered bank which management believes the risk of loss is considered minimal, but it is subject to a consolidation of credit risk. 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 June 30, 2018 the Company had cash of $8,117 ($5,600 as at September 30, 2017) to settle current liabilities of $5,904,590 ($5,950,076 as at September 30, 2017). 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 cost reductions or other measures. While management may have 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 financing will be available with acceptable terms for the Company. If management is unable to obtain new financing, 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 June 30, 2018, 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 rands and in US dollars. 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 and liabilities denominated in South African rand ans US dollars, translated into Canadian dollars at the closing rate, which expose the Company to currency risk are:

| | June 30, 2018 | September 30, 2017 |
|---|---|---|
| Accounts receivable and other receivables | **$** 9,367 | $ 85,737 |
| Accounts payable | 284,678 | 252,103 |
| Net exposure | **$** 275,311 | $ 166,366 |

## RISKS AND UNCERTAINTIES

There have been no important changes in relation to risks and uncertainties since the management's annual report dated September 30, 2017.

## 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

August 23, 2018