



Nippon Dragon Resources Inc.

(Exploration Stage Company)

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE 6 MONTH PERIOD ENDED MARCH 31, 2015

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

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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Nippon Dragon Resources Inc.

(Exploration Stage Company)

INTERIM CONSOLIDATED FINANCIAL POSITION

(in Canadian dollars)

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

	March 31, 2015	September 30, 2014
ASSETS		
CURRENT ASSETS		
Cash	\$ 36,426	\$ 56,348
Accounts receivable and other receivables (note 7)	47,510	16,160
Sales taxes receivable	10,023	18,322
Prepaid expenses	20,000	-
Tax credits and redeemable rights receivable	42,622	42,622
TOTAL CURRENT ASSETS	156,581	133,452
NON CURRENT ASSETS		
Property, plant and equipment (note 8)	249,773	283,593
Investment in a joint venture (note 9)	-	801,003
Exploration and evaluation assets (note 10)	8,748,707	8,719,802
Security deposits	-	948
TOTAL NON CURRENT ASSETS	8,998,480	9,805,346
TOTAL OF ASSETS	\$ 9,155,061	\$ 9,938,798
LIABILITIES		
CURRENT		
Accounts payable (note 11)	\$ 2,740,572	\$ 3,256,976
Deposit (note 9)	-	90,000
Loans (note 12)	22,559	20,261
Subscription received in advance	-	85,623
Deferred revenues	13,450	-
Indemnities payable to subscribers (note 13)	2,760,427	6,289,782
Due to a shareholder without interest and specific repayment terms	346,576	396,785
Current portion of long term debts (note 14)	1,500,000	1,509,969
Current portion of debentures (note 15)	2,227,780	2,211,431
TOTAL CURRENT LIABILITIES	9,611,364	13,860,827
NON CURRENT		
Debentures (note 15)	43,393	140,256
TOTAL OF LIABILITIES	\$ 9,654,757	\$ 14,001,083

Nippon Dragon Resources Inc.

(Exploration Stage Company)

INTERIM CONSOLIDATED FINANCIAL POSITION (cont'd)

(in Canadian dollars)

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

	<u>March 31, 2015</u>	<u>September 30, 2014</u>
SHAREHOLDER'S DEFICIENCY		
Share capital (Note 16)	\$ 42,998,762	\$ 41,717,173
Contributed surplus	10,037,138	9,927,144
Warrants (Note 16)	546,456	141,858
Equity component of convertible debentures	776,915	776,915
Deficit	<u>(54,858,967)</u>	<u>(56,625,375)</u>
TOTAL SHAREHOLDER'S DEFICIENCY	<u>(499,696)</u>	<u>(4,062,285)</u>
TOTAL LIABILITIES AND SHAREHOLDER'S DEFICIENCY	<u>\$ 9,155,061</u>	<u>\$ 9,938,798</u>

COMMITMENTS AND CONTIGENCIES (Note 20)

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

ON BEHALF OF THE BOARD OF DIRECTORS

(s) Paul A. Girard _____, Director

(s) Émile P. Molgat _____, Director

Nippon Dragon Resources Inc.

(Exploration Stage Company)

INTERIM CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE LOSS

(in Canadian dollars)

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

	3 month period ended March 31, 2015	3 month period ended March 31, 2014	6 month period ended March 31, 2015	6 month period ended March 31, 2014
INCOME				
Contracts income from a joint operation	\$ 30,100	\$ -	\$ 69,800	\$ -
CONTRACTS COST				
Mobilization cost	7,896	-	30,531	-
ADMINISTRATIVE AND GENERAL OPERATING EXPENSES				
Salaries and fringe benefits	139,416	113,100	285,327	201,599
Stock-based compensation	92,493	56,239	112,381	110,478
Insurances	31,804	10,021	40,485	18,767
Bank charges	918	786	1,443	1,210
Trustee fees and registration	38,656	11,082	56,636	39,072
Management fees	3,011	-	3,011	1,210
Professional fees	63,539	31,471	126,520	81,287
Rent	-	16,500	3,423	16,500
Maintenance and repairs	1,612	110	2,365	171
Stationary and office expenses	27,760	13,467	46,884	16,484
Telecommunications	1,246	1,122	3,415	1,895
Travelling and promotion	20,587	25,012	149,066	46,799
Amortization of property, plant and equipment	16,910	17,709	33,820	36,197
Loss on write off of investment in a joint venture	711,003	-	711,003	-
Loss on evaluation of precious metal	1,975	3,216	2,298	1,365
Gain on debt settlement (note 13)	-	-	(3,525,355)	-
Indemnities to subscribers (note 13)	-	26,253	-	52,720
	1,150,927	326,088	(1,947,278)	625,694
OTHERS FINANCIALS ELEMENTS				
Interests on debentures and debts	111,577	232,000	216,638	459,170
Financing charges and other interests	(1,575)	12,585	1,968	18,448
Rent income	-	-	(1,895)	-
Other revenue	-	-	(4,251)	-
Gain on debentures conversion	-	(6,863)	-	(6,863)
Share of results in the joint-venture (note 9)	(71,504)	(21,564)	-	(73,972)
	38,498	216,158	212,460	396,783
(NET LOSS) NET INCOME AND COMPREHENSIVE LOSS	\$(1,167,221)	\$(542,246)	\$ 1,774,087	\$(1,022,477)
NET INCOME (LOSS) PER SHARE				
Basic	\$(0.0137)	\$(0.0100)	\$ 0.0219	\$(0.0190)
Diluted	\$(0.0137)	\$(0.0100)	\$ 0.0219	\$(0.0190)
Weighted average number of shares outstanding	85,502,689	53,770,136	80,851,172	53,755,222

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

Nippon Dragon Resources Inc.

(Exploration Stage Company)

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in Canadian dollars)

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

	Number of shares	Share capital	Contributed surplus	Warrants	Equity component of convertible debentures	Deficit	Total equity
BALANCE AS AT OCTOBER 1 st , 2014	63,471,326	\$ 41,717,173	\$ 9,927,144	\$ 141,858	\$ 776,915	\$(56,625,375)	\$(4,062,285)
Shares issued by private investment	21,657,110	1,192,973	-	431,311	-	-	1,624,284
Options granted – Stock-based compensation	-	-	112,381	-	-	-	112,381
Shares issued to settle interests on debentures	235,156	23,516	-	-	-	-	23,516
Exercise of common share purchase options	300,000	65,100	(29,100)	-	-	-	36,000
Warrants expired	-	-	26,713	(26,713)	-	-	-
Other issuance expenses	-	-	-	-	-	(7,679)	(7,679)
Net income and comprehensive income	-	-	-	-	-	1,774,087	1,774,087
BALANCE AS AT MARCH 31, 2015	85,663,592	\$ 42,998,762	\$ 10,037,138	\$ 546,456	\$ 776,915	\$(54,858,967)	\$(499,696)

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

Nippon Dragon Resources Inc.

(Exploration Stage Company)

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

(in Canadian dollars)

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

	Number of shares	Share capital	Contributed surplus	Warrants	Equity component of convertible debentures	Deficit	Total equity
BALANCE AS AT OCTOBER 1 st , 2013	53,740,633	\$40,873,171	\$ 9,150,019	\$ 522,639	\$ 879,824	\$(54,223,719)	\$(2,798,066)
Restatement (note 3)	-	-	-	-	-	(81,739)	(81,739)
BALANCE AS AT OCTOBER 1 st , 2013 (amount restated)	53,740,633	40,873,171	9,150,019	522,639	879,824	(54,305,458)	(2,879,805)
Shares issued by private placement	78,095	8,591	-	-	-	-	8,591
Issuance of convertible debenture	-	-	-	-	158,867	-	158,867
Debentures conversion	7,319,233	658,731	-	-	(212,381)	-	446,350
Options granted – Stock-based compensation	-	-	110,478	-	-	-	110,478
Warrants expired	-	-	350,158	(350,158)	-	-	-
Net loss and comprehensive loss	-	-	-	-	-	(1,022,477)	(1,022,477)
BALANCE AS AT MARCH 31, 2014	<u>61,137,961</u>	<u>\$41,540,493,</u>	<u>\$ 9,610,655</u>	<u>\$ 172,481</u>	<u>\$ 826,310</u>	<u>\$(55,246,196)</u>	<u>\$(3,177,996)</u>

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

Nippon Dragon Resources Inc.

(Exploration Stage Company)

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(in Canadian dollars)

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

	3 month period ended March 31, 2015	3 month period ended March 31, 2014	6 month period ended March 31, 2015	6 month period ended March 31, 2014
OPERATING ACTIVITIES				
(Net loss) Net income and comprehensive income (loss)	\$(1,167,221)	\$(542,246)	\$ 1,774,087	\$(1,022,477)
Adjustments:				
Share of results in the joint venture	(71,504)	(21,564)	-	(73,972)
Stock-based compensation	92,493	56,239	112,381	110,478
Interests capitalized on convertible debentures	23,516	124,936	23,516	237,643
Amortization of discount on issuance of debentures	6,597	-	52,822	-
Interest paid	29,519	30,999	263,153	86,935
Amortization of property, plant and equipment	16,910	17,709	33,820	36,197
Loss (gain) on valuation of precious metal	1,975	3,215	2,298	1,364
Gain on debt settlement	-	-	(3,525,355)	-
Loss on write off of investment in a joint venture	711,003	-	711,003	-
Indemnities to subscribers	-	26,253	-	52,720
	(356,712)	(304,459)	(552,275)	(571,112)
Changes in working capital items (note 21)	209,090	199,503	(630,680)	78,791
Cash flows from operating activities	(147,622)	(104,956)	(1,182,955)	(492,321)
INVESTING ACTIVITIES				
Addition to exploration and evaluation assets	(13,240)	(39,951)	(28,905)	(62,674)
Cash flows from investing activities	(13,240)	(39,951)	(28,905)	(62,674)
FINANCING ACTIVITIES				
Issuance of loans, debts and debentures	-	78,914	-	547,441
Repayment of indemnities payable to subscribers	-	-	(4,000)	(4,787)
Advance to a shareholder	(29,703)	154,785	(50,209)	154,785
Long-term debts repayment	-	(5,244)	(9,969)	(11,020)
	36,000	-	36,000	-
Interest paid	(29,519)	(30,999)	(263,153)	(86,935)
Debentures repayment	(33,334)	(50,001)	(133,336)	(50,001)
Shares issuance cost	-	-	(7,679)	-
Debts and debentures issuance cost	-	6,861	-	15,316
Issuance of shares and warrants	-	8,591	1,624,284	8,591
Cash flows from financing activities	(56,556)	162,907	1,191,938	573,390
NET CHANGE IN CASH AND CASH EQUIVALENTS	(217,418)	18,000	(19,922)	18,395
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	253,844	51,688	56,348	51,293
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 36,426	\$ 69,688	\$ 36,426	\$ 69,688

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

Nippon Dragon Resources Inc.

(Exploration Stage Company)

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(in Canadian dollars)

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

March 31, 2015

1. STATUTES OF INCORPORATION AND NATURE OF OPERATIONS

Nippon Dragon Resources Inc. (Formerly Rocmec Mining Inc., hereafter the "Company") specializes in the exploration of metal in mining sites located in Quebec.

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

The condensed interim consolidated financial statements for the period ended March 31, 2015 (including comparatives statements) were approved and authorized for issue by the Board of Directors on May 26, 2015.

2. GOING CONCERN

The condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and on the basis of the going concern assumption, meaning the Company will be able to realize its assets and discharge its liabilities in the normal course of operations.

Given that the Company has not yet found a mineral property containing mineral deposits that are economically recoverable, the Company has not yet generated any income or cash flows from its mining exploration operations. As at March 31, 2015, the Company has cumulated deficit of \$54,858,967 (\$56,625,375 as at September 30, 2014) and a working capital deficiency. The Company's current liquidity position is not sufficient to fund next year's administrative and exploration's expenses. These conditions raise significant doubt regarding the Company's ability to continue as a going concern and the use of the going concern assumption.

The Company's ability to continue as a going concern is dependent upon its ability to raise additional financing to further explore its mineral properties and to the current and non-current debt repayments and, even if the Company has been successful in the past in doing so, there is no assurance that it will manage to obtain additional financing in the future. Management is assessing its alternatives in terms of financing options including the renegotiation of the debts' terms and its strategic alternatives that include the disposal of its rights in the Rocmec 1 property and the reduction of its discretionary expenses.

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

Nippon Dragon Resources Inc.

(Exploration Stage Company)

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(in Canadian dollars)

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

March 31, 2015

3. CORRECTIONS OF PRIOR PERIOD ERRORS

The Company has restated the 2013 financial statements as follows:

Accrued interests on debentures

The Company found an error in the calculation of accrued interests on its debentures. Therefore, accrued interest liabilities on debentures as at September 30, 2013 were understated by \$81,739.

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

4.1 Statement of compliance

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting* and are in accordance with International Financial Reporting Standards ("IFRS") as issued by the *International Accounting Standards Board* ("IASB"). These financial statements should be read in conjunction with the audited financial statements for the year ended September 30, 2014. These unaudited condensed interim consolidated financial statements have been prepared using the accounting policies as set out in the audited annual financial statements for the year ended September 30, 2014.

5. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

Nippon Dragon Resources Inc.

(Exploration Stage Company)

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(in Canadian dollars)

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

March 31, 2015

5. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

IFRS 9 Financial Instruments (effective October 1st, 2015)

IASB intends to entirely replace IAS 39, financial instruments: recognition and measurement. The replacement standard (IFRS 9) is being issued in phases. To date, the sections dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. These sections will be effective for annual periods beginning on or after January 1st, 2015. Further sections dealing with impairment methodology and hedge accounting are still being developed. Management has yet to assess the impact of this new standard on the consolidated financial statements. However, they do not expect to implement IFRS 9 until all of its sections have been published and they can comprehensively assess the impact of all changes.

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

IAS 32 Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)

The Company adopted IAS 32, Offsetting Financial Assets and Financial Liabilities relating to additional guidance to address inconsistencies in applying IAS 32's criteria for offsetting financial assets and financial liabilities. Amendments to IAS 32 have not resulted in any material impact on the Company's condensed interim consolidated financial statements.

6. CRITICAL ACCOUNTING ESTIMATES, JUDGEMENTS AND ASSUMPTIONS

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

Classification of joint arrangements

NDR Japan Co.

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

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

Nippon Dragon Resources Inc.

(Exploration Stage Company)

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(in Canadian dollars)

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

March 31, 2015

7. ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES

	March 31, 2015	September 30, 2014
Receivable from a partner in a joint operation	\$ -	\$ 15,160
Accounts receivable	36,619	-
Receivable from a non-related company	49,851	39,960
Provision	(38,960)	(38,960)
	<u>47,510</u>	<u>1,000</u>
	<u>\$ 47,510</u>	<u>\$ 16,160</u>

Nippon Dragon Resources Inc.

(Exploration Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in Canadian dollars)

March 31, 2015

8. PROPERTY, PLANT AND EQUIPMENT

	Equipment	Mill plant	Computer equipment	Automotive equipment	Telephone system	Total
GROSS CARRYING AMOUNT						
Balance as at October 1 st , 2013	\$ 642,566	\$ 1,819,093	\$ 25,575	\$ 88,852	\$ 4,201	\$ 2,638,296
Disposal	-	-	-	51,149	-	109,158
Balance as at September 30, 2014	642,566	1,819,093	25,575	37,703	4,201	2,529,138
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
Balance as at October 1 st , 2013	291,043	1,819,093	25,506	85,655	3,781	2,225,078
Depreciation	67,930	-	69	3,197	420	71,616
Disposal	-	-	-	51,149	-	51,149
Balance as at September 30, 2014	358,973	1,819,093	25,575	37,703	4,201	2,245,545
CARRYING AMOUNT AS AT SEPTEMBER 30, 2014	283,593	Nil	Nil	Nil	Nil	283,593
GROSS CARRYING AMOUNT						
Balance as at October 1 st , 2014	642,566	1,819,093	25,575	37,703	4,201	2,529,138
Balance as at March 31, 2015	642,566	1,819,093	25,575	37,703	4,201	2,529,138
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
Balance as at October 1 st , 2014	358,973	1,819,093	25,575	37,703	4,201	2,245,545
Depreciation	33,820	-	-	-	-	33,820
Disposal	-	-	-	-	-	-
Balance as at March 31, 2015	392,793	1,819,093	25,575	37,703	4,201	2,279,365
CARRYING AMOUNT AS AT MARCH 31, 2015	249,773	Nil	Nil	Nil	Nil	249,773

Nippon Dragon Resources Inc.

(Exploration Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in Canadian dollars)

March 31, 2015

9. INVESTMENTS IN A JOINT VENTURE

During the previous year, the Company has optioned a gold property, concession Rey Solomon (OFIR mine) located in Peru. It jointly controls the property with another company through their subsidiary Cerro Dorado S.A.C., which is incorporated in Peru. The Company has not disbursed any sum to acquire this exploration and evaluation asset in joint venture. The contribution of the Company to the joint venture includes the use of its patented thermal fragmentation mining method and the equipment for its application. Also, the Company will act as the exploration operator. The joint venture agreement stipulates that for an initial five year term, the split of net revenues generated from the exploitation of this mining property will be 50-50. In subsequent years, the Company will be entitled to 75% of the net revenues generated from the exploitation of the property.

In the partnership agreement that was established in Vaudreuil-Dorion (Quebec), the Company contributes its technology and expertise in mining and development production to OFIR mine; the company partner, Chazel Capital Inc. ("Chazel"), committed itself to bring \$1.2 million (US) required for mine production. "Chazel's" president, André Savard, is also the president of Nippon Dragon Resources Inc. Thus, the parties have agreed to hold 50% each of voting shares in the joint venture.

On August 26, 2012, the company partner had reached the amount of \$1.2 million (US) of expenditures required for the project OFIR. From this date on, the joint venture supported the expenses incurred by the Company.

	March 31, 2015	September 30, 2014
50% interest in the net assets of Cerro Dorado	\$ -	\$ 801,003
Advances to Cerro Dorado, without interest	-	-
	<u>\$ -</u>	<u>\$ 801,003</u>

The carrying amount of assets and liabilities in the joint venture is as follows:

	March 31, 2015	September 30, 2014
CURRENT ASSETS		
Cash and cash equivalents	\$ -	\$ 71,940
Accounts receivable and other receivables	-	70,466
Prepaid expenses	-	189,170
	<u>-</u>	<u>331,576</u>
NON CURRENT ASSETS		
Property, plant and equipment	-	160,276
Exploration and evaluation assets	-	2,143,962
	<u>-</u>	<u>2,304,238</u>
TOTAL ASSETS	<u>\$ -</u>	<u>\$ 2,635,814</u>
CURRENT LIABILITIES		
Accounts payable	\$ -	\$ 48,364
Balance of purchase price - exploration and evaluation assets	-	985,444
Advance from a shareholder, without interest	-	-
	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	<u>\$ -</u>	<u>\$ 1,033,808</u>

Nippon Dragon Resources Inc.

(Exploration Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in Canadian dollars)

March 31, 2015

9. INVESTMENTS IN A JOINT VENTURE (cont'd)

On October 18, 2012, the Company and Chazel entered into an addendum (the « Addendum ») to the joint-venture agreement. The Addendum provides for, among other things, the following terms and conditions:

- (i) For an initial period of 7 years, the Company will be entitled to 35% of the profits generated from the Rey Solomon property while Chazel and its financial partners will be entitled to 65% of the profits and ;
- (ii) At the end of the 7-year period, the Company will be entitled to 60% of the profits whereas Chazel will be entitled to 40% of the profits.

The initial period of 7 years will commence once the production at the Rey Solomon property has reached 400 gold ounces per month. Until the commencement of such initial 7-year period, the allocation of the profits generated from the Rey Solomon property will increase gradually from 50% to 65% in the case of Chazel and decrease gradually from 50% to 35% in the case of the Company pursuant to a schedule provided for in the Addendum that is based on the aggregate amount raised by Chazel as part of the total investment of \$671,750.

Thus, Chazel has agreed to raise \$671,750 and, with the exception of an amount of \$90,000 to be disbursed directly to the Company, to invest such amount in the Rey Solomon property in exchange for an additional 15% interest in the project. As at March 31, 2015, the amount of \$90,000 disbursed by Chazel and accounted as a deposit has been write-off.

The Company will remain the mine operator and will have the option to buy the 15% interest on or before July 31, 2013, at a price equal to the addition of the two following amounts: (i) \$300,000 being an amount that has already been expended by Chazel and that will be credited from the total amount of \$671,750, and (ii) the portion of the total amount of \$671,750 exceeding \$300,000 that will have been raised by Chazel as of the date on which Nippon Dragon Resources Inc. exercises its option to purchase, carrying a 35% premium. This option has now expired.

Completion of the transaction is subject to the approval of the TSX Venture Exchange. Therefore, the amount of \$90,000 disbursed by Chazel was not accounted for as a sale of interest in the joint-venture as the transaction is not yet approved.

On February 17, 2015, the Company decided to withdraw from the joint venture with Chazel Capital for the development of Rey Solomon mining project in Peru to focus its efforts on the implementation of its thermal fragmentation mining method in the region. As a result, the Company frees itself of all financial, legal and environmental responsibilities, past, present and future, related to the Cerro Dorado SAC joint venture. Investment in a joint venture and all related components has been write-off.

10. EXPLORATION AND EVALUATION ASSETS

	Balance as at October 1 st , 2014	Additions	Tax credits and duties refundable	Impairment	Balance as at March 31, 2015
Denain (a)	\$ -	\$ -	\$ -	\$ -	\$ -
Courville Maruska (b)	-	-	-	-	-
Rocmec 1 (c)					
Mining rights	2,603,982	-	-	-	2,603,982
Exploration and evaluation	6,115,820	28,905	-	-	6,144,725
	<u>\$ 8,719,802</u>	<u>\$ 28,905</u>	<u>\$ Nil</u>	<u>\$ Nil</u>	<u>\$ 8,748,707</u>

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10. EXPLORATION AND EVALUATION ASSETS (cont'd)

	Balance as at October 1 st , 2013	Additions	Tax credits and duties refundable	Impairment	Balance as at September 30, 2014
Denain (a)	\$ -	\$ -	\$ -	\$ -	\$ -
Courville Maruska (b)	-	-	-	-	-
Rocmec 1 (c)					
Mining rights	2,603,982	-	-	-	2,603,982
Exploration and evaluation	6,046,158	112,284	(42,622)	-	6,115,820
	<u>\$ 8,650,140</u>	<u>\$ 112,284</u>	<u>\$ (42,622)</u>	<u>Nil</u>	<u>\$ 8,719,802</u>

a) Denain projet – Denain township, Quebec

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

b) Courville-Maruska project – Courville township, Quebec

100% interest in 15 mining claims.

c) Rocmec 1 project – Dasserat township, Quebec

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

The exploration and evaluation assets capitalized are as follow:

	March 31, 2015	September 30, 2014
Supervision	\$ 18,540	\$ 70,809
Other exploration expenses	<u>10,365</u>	<u>41,475</u>
	<u>\$ 28,905</u>	<u>\$ 112,284</u>

11. ACCOUNTS PAYABLE

	March 31, 2015	September 30, 2014
Trade accounts payable	\$ 372,265	\$ 494,193
Accrued interest payable	890,779	1,013,632
Taxes on Section XII.6 and III.14 payable	822,262	822,262
Salaries and fringe benefits payable	603,321	738,015
Other liabilities	<u>51,945</u>	<u>188,874</u>
	<u>\$ 2,740,572</u>	<u>\$ 3,256,976</u>

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11. ACCOUNTS PAYABLE (cont'd)

During the period, the Company settled accrued interest totaling \$23,516 by issuing 235,156 common shares at \$0.10 per share. This transaction did not result in a gain or loss on settlement of debt.

During the previous period, the Company settled accrued interest totaling \$50,391 by issuing 419,922 common shares at \$0.12 per share. This transaction did not result in a gain or loss on settlement of debt.

12. LOANS

	March 31, 2015	September 30, 2014
Loans reimbursable in gold, payable on demand	<u>\$ 22,559</u>	<u>\$ 20,261</u>

13. INDEMNITIES PAYABLE TO SUBSCRIBERS

	Flow-through placements 2011 a)	Flow-through placements 2010 b)	Flow-through placements 2009 c)	Total
Balance as at October 1 st , 2011	\$ -	\$ 1,204,500	\$ 4,318,449	\$ 5,522,949
Additions	540,809	42,400	-	583,209
Payment	-	-	(18,000)	(18,000)
Balance as at September 30, 2012	540,809	1,246,900	4,300,449	6,088,158
Addition	28,600	70,594	-	99,194
Decrease	-	-	-	-
Balance as at September 30, 2013	569,409	1,317,494	4,300,449	6,187,352
Addition	32,590	74,627	-	107,217
Decrease	-	-	(4,787)	(4,787)
Balance as at September 30, 2014	601,999	1,392,121	4,295,662	6,289,782
Addition	-	-	-	-
Decrease	(61,190)	(1,109,092)	(2,359,073)	(3,529,355)
Balance as at March 31, 2015	<u>\$ 540,809</u>	<u>\$ 283,029</u>	<u>\$ 1,936,589</u>	<u>\$ 2,760,427</u>

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13. INDEMNITIES PAYABLE TO SUBSCRIBERS (cont'd)

- a) Following flow-through financing agreements entered into with subscribers in 2011, the Company committed to incur \$839,950 in Canadian Exploration Expenses ("CEE") before December 31, 2012. At this date, the Company incurred an amount of \$120,670. Consequently, an approximated balance of \$719,300 in explorations expenses renounced to investors had not been incurred in CEE as of December 31, 2012. Amended renunciation forms have been filed with tax authorities and will consequently mean that new notice of assessment will be sent to subscribers for taxation year 2011. In this respect, the Company recorded on September 30, 2012 a \$540,809 provision as indemnities payable and interest and an expense for the same amount was recorded in earnings. At the same date, the Company recorded a \$84,427 provision in the statement of comprehensive loss as Parts XII.6 and III.14 in income taxes payable relating to the exploration expenses renounced and not incurred as at December 31, 2012. During the period ended on December 31 2014, a legal opinion was obtained concerning the Company's obligation to pay interest on the indemnities to subscribers. It was determined that no compensation was required. Therefore, interests of \$62,190 accrued as of December 31, 2014, have been written off.
- b) Following flow-through financing agreements entered into with subscribers in 2010, the Company committed to incur \$1,899,704 in Canadian Exploration Expenses before December 31, 2011. At this date, the Company incurred an amount of \$62,135 in exploration expenses. Consequently, an approximate balance of \$1,838,000 in explorations expenses renounced to investors had not been incurred in CEE as at December 31, 2011. Amended renunciation forms were filed with tax authorities and will consequently mean that new notice of assessment will be sent to subscribers for taxation year 2010. In this respect, the Company recorded as at September 30, 2011, a \$1,204,500 provision as indemnity payable and interest and an expense for the same amount was recorded in earnings. The Company also recorded at the same date a \$202,000 provision for Income taxes Part XII.6 and XII.14 payable relating to exploration expense renounced but not incurred as at December 31, 2011. For the year ended on September 30, 2014, the Company recorded a provision of \$74,627 (\$70,594 in 2013) for interest payable which was recorded in earnings as indemnities to subscribers. During the period ended on December 31 2014, a legal opinion was obtained concerning the Company's obligation to pay interest on the indemnities to subscribers. It was determined that no compensation was required. Therefore, interests of \$187 621 accrued as of December 31, 2014, have been written off. Also, many investors have not yet contacted the Company to obtain compensation following the amended notice of assessment issued by the Company. It was determined by the Company that, since the statutory limitation period of three years has expired, indemnities to subscribers who have not asked for compensation would be written off as a total of \$921,471.
- c) Following flow-through financing agreements entered into with subscribers in 2009, the Company committed to incur \$5,888,560 in Canadian Exploration Expenses ("CEE") before December 31, 2010. At that date, the Company incurred an amount of \$1,139,591 in exploration expenses. Consequently, an approximate balance of \$4,749,000 in explorations expenses renounced to investors had not been incurred in CEE as at December 31, 2010. Amended renunciation forms were filed with tax authorities and will consequently mean that new notice of assessment will be sent to subscribers for taxation year 2009. In this respect, the Company accounted as at September 30, 2010, a \$3,142,000 provision for an indemnity payable and an expense for the same amount was recorded in earnings. In addition, the Company also recorded at the same date a \$579,000 provision for Income taxes Part XII.6 and XII.14 payable relating to exploration expenses renounced but not incurred as at December 31, 2010. As at September 30, 2011, the Company provided a \$372,000 for interest payable which was recorded in earnings as indemnities to subscribers. During the period ended on December 31 2014, a legal opinion was obtained concerning the Company's obligation to pay interest on the indemnities to subscribers. It was determined that no compensation was required. Therefore, interests of \$450,000 accrued as of December 31, 2014, have been written off. Also, many investors have not yet contacted the Company to obtain compensation following the amended notice of assessment issued by the Company. It was determined by the Company that, since the statutory limitation period of three years has expired, indemnities to subscribers who have not asked for compensation would be written off as a total of \$1,905,073.

Regarding flow-through financing of 2009, a group of investors has filed a lawsuit with the Superior Court of Quebec for an approximate amount of \$1,726,000. The amount is currently being debated in Court and management deems that the amount recognized as an indemnity payable to subscribers is adequate.

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13. INDEMNITIES PAYABLE TO SUBSCRIBERS (cont'd)

- c) The amounts of indemnity payable to subscribers provided by the Company represent management's best estimate of the potential liability in this regard and the actual amount may differ from management's current estimate. The amounts of indemnity payable to subscribers and the interests were calculated according to the tax laws and tax rates enacted for the concerned subscribers and the prescribed interest rates. However, it was determined, by a legal opinion, that no compensation was required by the Company. The Company has always voluntarily fulfilled its responsibilities in accordance with the relevant authorities in the flow-through financing case and in relation with all the uncommitted balances in exploration work.

14. LONG-TERM DEBTS

	March 31, 2015	September 30, 2014
Obligations under capital leases secured by equipment, payable by monthly instalments of \$948, including interest calculated at a 9% rate, bought back by the Company in November 2014.	\$ -	\$ 9,969
Loan of nominal value of \$1,134,906, secured by a first rank mortgage on Rocmec 1 property for an amount of \$1,134,906, repayable at maturity at 7.5% interest (effective rate of 40%), payable monthly, either in cash or in common shares at the Company's option, which 50% of the capital balance is redeemable before maturity, redeemable by the Company in cash or in units (each unit is comprised of one (1) common share of the Company and one (1) half warrant; each whole warrant entitles the holder to purchase one (1) common share of the Company at a price equal to the reference price plus 50%), maturing in May 2015	1,134,906	1,134,906
Loan of nominal value of \$365,094, secured by a first rank mortgage on Romec 1 property for an amount of \$365,094, repayable at maturity at 13.5% interest, payable monthly in cash, redeemable by the Company before maturity in cash, maturing in May, 2015	365,094	365,094
	<hr/>	<hr/>
	1,500,000	1,509,969
Current portion	<hr/> 1,500,000	<hr/> 1,509,969
	<hr/> <hr/> \$ Nil	<hr/> <hr/> \$ Nil

Long-term debts principal repayments to be made during the following years are as follows:

	Long-term debts
2015	<hr/> \$ 1,500,000

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15. DEBENTURES

Liability component of convertible debentures

Five \$100,000 debentures, bearing interest at 13.5% (effective rate of 40%), repayable semi-annually in five equal and consecutive payments of \$100,000 starting from December 31, 2012. These debentures are convertible at the holder's option, into common shares at conversion prices of \$0.13. Interest is payable monthly since July 2012.

	March 31, 2015	September 30, 2014
	\$ 233,673	\$ 353,814

During the year 2014, the repayment terms stated above have been modified so that the capital will now be refundable after January 1st, 2014, repayable monthly in thirty payments of \$16,667, deferring the deadline to June 2016.

Debenture totalling \$1,500,000 secured by equipment and the thermal fragmentation exclusive licence (written-off in the year 2010), bearing interest at 9% (effective rate of 49%) payable quarterly, an amount equal to \$1,380,000 is convertible, at the price of \$2 per unit, at any time at the holder's option into units consisting of one (1) common share and one (1) common share purchase warrant, each warrant entitling the holder to purchase one (1) common share at the price of \$0.10 per common share for a 2 years period, expired in May 2012

1,500,000	1,500,000
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Debenture issued in 2010 with a \$120,000 discount. The holder conversion right was valued at \$579,600 and was accounted as equity component of the convertible debentures. The fair value was estimate using the Black-Scholes options pricing model from the following assumptions: risk-free rate of 1.53 %, expected volatility of 106 %, no average dividend per share and expected life of two years.

Others debentures

Debentures of a nominal value of \$537,500 redeemable by the Company at any time in cash or in units (each unit is comprised of one (1) common share of the Company and one (1) half warrant; each whole warrant entitles the holder to purchase one (1) common share of the Company at a price equal to the reference price plus 50%), bearing annual interest at 7.5% (effective rate of 40%), payable quarterly in cash or common shares, at the Company's option matured on December 31, 2014.

	537,500	497,873
	2,271,173	2,351,687
Current portion	2,227,780	2,211,431
	\$ 43,393	\$ 140,256

Long-term debenture principal repayments to be made during the following years are:

2015	\$ 2,154,169
2016	149,993
	<u>\$ 2,304,162</u>

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16. 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:

	March 31, 2015		September 30, 2014	
	<u>Quantity</u>	<u>Amount</u>	<u>Quantity</u>	<u>Amount</u>
Shares issued				
Balance at beginning of period	63,471,326	\$ 41,717,173	53,740,633	\$ 40,873,171
Paid in cash	21,657,110	1,660,284	1,991,538	182,322
Debentures conversion	-	-	7,319,233	658,731
Issued warrant's value	-	(431,311)	-	(47,442)
Exercise of common share purchase options		29,100		
Debts settlement	-	23,516	419,922	50,391
Balance at end of period	<u>85,128,436</u>	<u>\$ 42,998,762</u>	<u>63,471,326</u>	<u>\$ 41,717,173</u>

Six month period ended March 31, 2015

On October 3, 2014, the Company realized private placement of \$ 49,814 by issuing 664,190 units at a price of \$0.075 per unit each unit being comprised of one (1) common share and one (1) common share purchase warrant of the Company. Each common share purchase warrant entitles its holder thereof to purchase one (1) common share of the Company at a price of \$0.115 per common share for a period of 24 months following the date of issuance. An amount of \$14,498 related to the warrants issued has been recognized. There was no issuance cost.

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March 31, 2015

16. EQUITY (cont'd)

Six month period ended March 31, 2015 (cont'd)

On October 16, 2014, the Company completed the first tranche of a private placement for \$ 660,735 by issuing 8,809,805 units at a price of \$0.075 per unit, each unit 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 \$0.115 per common share for a period of 24 months following the date of issuance. An amount of \$188,782 related to the warrants issued has been recognized. Issuance costs of \$3,223 were incurred.

On November 13, 2014, the Company completed the second tranche of a private placement for \$ 620,046 by issuing 8,267,282 units at a price of \$ 0.075 per unit, each unit 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 \$ 0.115 per common share for a period of 24 months following the date of issuance. An amount of \$156,460 related to the warrants issued has been recognized. Issuance costs of \$3,024 were incurred.

On December 17, 2014, the Company completed the second tranche of a private placement for \$293,688 by issuing 3,915,833 units at a price of \$0.075 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 \$0.115 per common share for a period of 24 months following the date of issuance. An amount of \$71,571 related to the warrants issued has been recognized. Issuance costs of \$1,432 were incurred.

On January 8, 2015, the Company settled accrued interest totaling \$23,516 by issuing 235,156 common shares at \$0.10 per share. This transaction did not result in a gain or loss on settlement of debt.

During the period, 300,000 shares were issued following the exercise of common share purchase options at \$0.12 per share.

Year ended September 30, 2014

On February 25, 2014, the Company issued 78,095 common shares by private placement for a gross proceed of \$8,591. There was no issuance cost.

On March 31, 2014, convertible debentures with a principal value of \$658,731 have been converted at a price of \$0.09 per shares for a total issuance of 7,319,233 shares.

On April 3, 2014, the Company issued by private placement 1,208,936 units at a price of \$0.10 per unit for a gross proceeds of \$120,893 ; each unit being comprised of one (1) common share and one (1) common share purchase warrant of the Company. Each common share purchase warrant entitles its holder thereof to purchase one (1) additional common share of the Company at a price of \$0.18 per common share for a period of 24 months following the date of issuance. An amount of \$33,455 related to the warrants issued has been recognized. There was no issuance cost.

On April 23, 2014, the Company settled the accrued interest totaling \$50,391 issued by 419,922 common shares at \$0.12 per share. This transaction did not result in a gain or loss on settlement of debt.

On July 31, 2014, the Company completed a \$52,838 private placement by issuing 704,507 units of the Company at a price of \$0.075 per unit, each unit is comprised of one (1) common shares of the Company and one (1) warrant. Each common share purchase warrant entitles its holder thereof to purchase one (1) common share of the Company at a price of \$0.115 per common share for a period of 24 months following the date of issuance. An amount of \$13,987 related to the warrants issued has been recognized. There was no issuance cost.

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16. EQUITY (cont'd)

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 who have a vesting period of twelve months for a maximum of a quarter each 3 month period.

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

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

	March 31, 2015		September 30, 2014	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of year	6,900,000	\$ 0.163	3,565,000	\$ 0.213
Granted	3,275,000	0.100	3,355,000	0.120
Exercised	(300,000)	(0.120)	-	-
Expired	(45,000)	(1.900)	-	-
Cancelled	-	-	(20,000)	(1.950)
Balance, end of year	<u>9,830,000</u>	<u>\$ 0.135</u>	<u>6,900,000</u>	<u>\$ 0.163</u>
Options exercisable at the end	<u>7,009,166</u>	<u>\$ 0.149</u>	<u>5,781,667</u>	<u>\$ 0.169</u>

During the previous year, the Company granted a total of 3,355,000 purchase options for common shares to directors, administrators, employees and consultant. These options have an exercise price of \$0.12 per common share and an exercise period of 5 years.

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16. EQUITY (cont'd)

Common share purchase options (cont'd)

Granted options and exercisable options as at March 31, 2015:

	Granted options	Exercisable options	Exercise price	Expiration date
(a)	65,000	65,000	\$ 2.00	December 2015
	3,335,000	3,335,000	\$ 0.14	June 2017
	100,000	100,000	\$ 0.10	April 2018
	3,055,000	3,055,000	\$ 0.12	December 2018
	3,275,000	454,166	\$ 0.10	January 2020
	<u>9,830,000</u>	<u>7,009,166</u>		

- a) Options for common shares granted at an exercise price of \$0.10 (before regrouping) while the market value was \$0.035.

Accounting for compensation plans

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

	March 31, 2015	September 30, 2014
Average share price at grant date	\$0.095	\$0.10
Risk-free interest rate	0.69 %	1.55 %
Expected volatility	113 %	127.00 %
Expected life	60 mois	60 months
Expected dividend	0.00 %	0.00 %
Average exercise price at grant date	\$0.10	\$0.12
Fair value of options granted at market value	\$0.075	\$0.097

Stock-based compensation cost recognized in earnings amounts to \$112,381 (\$110.478 in 2014).

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16. EQUITY (cont'd)

Warrants

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

	March 31, 2015		
	Number of warrants	Weighted average exercise price	Fair value allocated
Balance as at October 1 st , 2014	8,451,903	\$0.122	\$ 141,858
Granted	21,657,110	0.115	431,311
Expired	(538,460)	(0.245)	(26,713)
Balance as at March 31, 2015	<u>29,570,553</u>	<u>\$0.117</u>	<u>\$ 546,456</u>

	September 30, 2014		
	Number of warrants	Weighted average exercise price	Fair value allocated
Balance as at October 1 st , 2013	10,608,695	\$0.152	\$ 522,639
Granted	1,913,443	0.156	47,442
Expired	(4,070,235)	(0.216)	(428,223)
Balance as at September 30, 2014	<u>8,451,903</u>	<u>\$0.122</u>	<u>\$ 141,858</u>

Warrants outstanding as at March 31, 2015 are as follows:

Number of warrants	Exercise price	Expiration date
6,000,000	\$ 0.100	May 2015
1,208,936	\$ 0.180	April 2016
704,507	\$ 0.115	July 2016
664,190	\$ 0.115	October 2016
8,809,805	\$ 0.115	October 2016
8,267,282	\$ 0.115	November 2016
3,915,833	\$ 0.115	December 2016
<u>29,570,553</u>		

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16. EQUITY (cont'd)

Warrants (cont'd)

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

	March 31, 2015	September 30, 2014
Average share price at grant date	\$0.086	\$0.100
Risk-free interest rate	0.98 %	1.08 %
Expected volatility	81.74 %	90.79 %
Expected life	24 months	24 months
Expected dividend	0.00 %	0.00 %
Average exercise price at grant date	\$0.115	\$0.160

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 dividend in the foreseeable future.

The Company's capital includes loans, due to a shareholder, long-term debts, debentures, share capital, contributed surplus, warrants and equity component of convertible debentures in the definition of capital for a total amount of \$58,153,003 (\$56,445,007 as at September 30, 2014).

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

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

There were no significant changes in the Company's approach to capital management during the period ended March 31, 2015. The Company does not have any externally imposed capital requirements neither regulatory nor contractual requirements to which it is subject, other than those related to its flow-through financing agreements and who have not yet been complied by the Company as at March 31, 2015 (see note 13).

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

The credit risk is the risk associated with non-payment of financial obligations by the customers of the Company. The credit risks that faced the Company are principally attributable to collection of its accounts receivable. The collection is held by a Canadian bank in which the direction think the loss risk is considered negligible, but it is subject to credit risk concentration. The maximum credit risk is equivalent to the book value.

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18. FINANCIAL INSTRUMENTS (continued)

Liquidity risk

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

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

During the 6-month period ended on March 31, 2015, the Company concluded financing for a total amount of \$1,624,284 and has paid interest on debentures by issuing shares of the Company in order to maintain its level of liquidity (note 16). However, more financing will be necessary to enable the Company to finance next year's operation expenditures.

The following table summarizes the Company's financial liabilities as at March 31, 2015:

	Less than a year	Between 1 year and 2 years	More than 2 years
Accounts payable	\$ 2,740,572	\$ -	\$ -
Loans	22,559	-	-
Indemnity payable to subscribers	2,760,427	-	-
Long-term debts	1,500,000	-	-
Debentures	2,254,171	49,991	-
	<u>\$ 9,277,729</u>	<u>\$ 49,991</u>	<u>\$ Nil</u>

Interest rate risk

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

Sensitivity analysis of interest rate

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

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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:

	March 31, 2015		September 30, 2014	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets (loans and receivables)				
Cash	\$ 36,426	\$ 36,426	\$ 56,348	\$ 56,348
Accounts receivable and other receivables	47,510	47,510	16,160	16,160
	<u>\$ 83,936</u>	<u>\$ 83,936</u>	<u>\$ 72,508</u>	<u>\$ 72,508</u>
	March 31, 2015		September 30, 2014	
	Carrying value	Fair value	Carrying value	Fair value
Financial liabilities				
<i>Financial liabilities at amortized cost</i>				
Accounts payable	\$ 2,740,572	\$2,740,572	\$ 3,256,976	\$ 3,256,976
Loans	22,559	22,559	20,261	20,261
Indemnities payable to subscribers	2,760,427	2,760,427	6,289,782	6,289,782
Due to a shareholder	346,576	346,576	396,785	396,785
Long term debts	-	-	9,969	9,969
Convertible debentures	1,777,066	1,777,066	1,853,814	1,853,814
	<u>7,647,200</u>	<u>7,647,200</u>	<u>11,827,587</u>	<u>11,827,587</u>
<i>Financial liabilities at fair value through profit or loss</i>				
Debts- Loans with nominal value of \$1,134,906 and \$365,094	1,500,000	1,500,000	1,500,000	1,500,000
Other debentures	537,500	537,500	497,873	497,873
	<u>2,037,500</u>	<u>2,037,500</u>	<u>1,997,873</u>	<u>1,997,873</u>
	<u>\$ 9,684,700</u>	<u>\$9,684,700</u>	<u>\$13,825,460</u>	<u>\$13,825,460</u>

Nippon Dragon Resources Inc.

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18. FINANCIAL INSTRUMENTS (cont'd)

Fair value (cont'd)

In determining fair value, the Company uses observable data based on different levels which are defined as follows:

- First level includes quoted prices (unadjusted) in an active market of identical assets or liabilities.
- Second level includes data that are not based on observable inputs other than quoted prices included in the first level.
- The third level includes data that are not based on observable market data.

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

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

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

19. RELATED PARTIES

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

During the period ended on March 31 2015, there has been no transaction between related parties. Key management includes directors and members of top management.

The key management compensation includes:

	3 month period ended March 31, 2015	3 months period ended March 31, 2014	6 months period ended March 31, 2015	6 months period ended March 31, 2014
Salaries and fringe benefits	\$ 81,068	\$ 73,635	\$ 162,135	\$ 162,134
Capitalized to exploration and evaluation assets	(8,240)	(20,600)	(18,540)	(41,200)
	72,828	53,035	143,595	120,934
Stock-based compensation	49,729	54,239	62,504	108,478
Total	\$ 122,557	\$ 107,274	\$ 206,099	\$ 229,412

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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, whether it is the result level, the impact or its deadline. At the present time and to the best knowledge of its management, the Company is in conformity with the laws and regulations. As at March 31, 2015, a provision of \$2,060 (\$2,060 as at September 30, 2014) for restoration of the premises is included in the accounts payable and other liabilities. The actual amount might differ from this estimate.
- ii) The Company is partly financed by issuance of flow-through common shares for which the Company commits itself to incur admissible Canadian exploration expenses. However, there are no guarantees that the funds spent by the Company will qualify as Canadian explorations expenses, even if the Company has taken all the necessary measures to meet its commitment. The refusal of some expenses by the tax authorities would have a negative fiscal impact on investors and the Company and these consequences will only be determinable when such expenses will be denied by tax authorities.

21. CASH FLOWS

	3 month period ended March 31, 2015	3 months period ended March 31, 2014	6 months period ended March 31, 2015	6 months period ended March 31, 2014
Supplemental cash flows information:				
Net changes in working capital items:				
Accounts receivable and other receivables	\$(21,459)	\$ -	\$(31,350)	\$ -
Sales tax receivable	21,629	9,979	8,299	(900)
Prepaid expenses	7,500	-	(20,000)	-
Security deposits	-	-	948	-
Liabilities	187,970	189,524	(516,404)	79,691
Subscription received in advance	-	-	(85,623)	-
Deferred revenues	13,450	-	13,450	-
	\$ 209,090	\$ 199,503	\$(630,680)	\$ 78,791

22. SUBSEQUENT EVENTS

On April 15, 2015, the Company completed the first tranche of a private placement for \$486,235 by issuing 6,077,936 units at a price of \$0.08 per unit, each unit consisting of one (1) common share of the Company and one (1) warrant. Each warrant entitles the holder to acquire one (1) additional common share of the Company at a price of \$0.12 per common share for a period of 24 months following the issue date. An amount of \$89,308 related to the issuance of warrants was recorded. There were no issue costs.

On April 27, 2015, the Company completed the second tranche of a private placement for \$65,000 by issuing 812,500 units at a price of \$0.08 per unit, each unit consisting of one (1) common share of the Company and one (1) warrant. Each warrant entitles the holder to acquire one (1) additional common share of the Company at a price of \$0.12 per common share for a period of 24 months following the issue date. An amount of \$11,939 related to the issuance of warrants was recorded. There were no issue costs.

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22. SUBSEQUENT EVENTS (cont'd)

On April 27, 2015, the Company entered into an exclusive distribution agreement with Safescape in Australia for the distribution and use of its patented thermal fragmentation mining method. The exclusive agreement is for a period of 5 years.