



Nippon Dragon Resources Inc.

(Exploration Stage Company)

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE 3 MONTH PERIOD ENDED DECEMBER 31, 2014

(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)

	December 31, 2014	September 30, 2014
ASSETS		
CURRENT ASSETS		
Cash	\$ 253,844	\$ 56,348
Accounts receivable and other receivables (note 7)	26,051	16,160
Sales taxes receivable	31,652	18,322
Prepaid expenses	27,500	-
Tax credits and redeemable rights receivable	42,622	42,622
TOTAL CURRENT ASSETS	381,669	133,452
NON CURRENT ASSETS		
Property, plant and equipment (note 8)	266,683	283,593
Investment in a joint venture (note 9)	729,499	801,003
Exploration and evaluation assets (note 10)	8,735,467	8,719,802
Security deposits	-	948
TOTAL NON CURRENT ASSETS	9,731,649	9,805,346
TOTAL OF ASSETS	\$ 10,113,318	\$ 9,938,798
LIABILITIES		
CURRENT		
Accounts payable (note 11)	\$ 2,552,602	\$ 3,256,976
Deposit (note 9)	90,000	90,000
Loans (note 12)	20,584	20,261
Subscription received in advance	-	85,623
Indemnities payable to subscribers (note 13)	2,760,427	6,289,782
Due to a shareholder without interest and specific repayment terms	376,279	396,785
Current portion of long term debts (note 14)	1,500,000	1,509,969
Current portion of debentures (note 15)	2,197,908	2,211,431
TOTAL CURRENT LIABILITIES	9,497,800	13,860,827
NON CURRENT		
Debentures (note 15)	100,002	140,256
TOTAL OF LIABILITIES	\$ 9,597,802	\$ 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)

	December 31, 2014	September 30, 2014
SHAREHOLDER'S DEFICIENCY		
Share capital (Note 16)	\$ 42,910,146	\$ 41,717,173
Contributed surplus	9,947,032	9,927,144
Warrants (Note 16)	573,169	141,858
Equity component of convertible debentures	776,915	776,915
Deficit	<u>(53,691,746)</u>	<u>(56,625,375)</u>
TOTAL SHAREHOLDER'S DEFICIENCY	<u>515,516</u>	<u>(4,062,285)</u>
TOTAL LIABILITIES AND SHAREHOLDER'S DEFICIENCY	<u>\$ 10,113,318</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 December 31, 2014	3 month period ended December 31, 2013
INCOME		
Contracts income from a joint operation	\$ 39,700	\$ -
CONTRACTS COST		
Mobilization cost	22,635	-
ADMINISTRATIVE AND GENERAL OPERATING EXPENSES		
Salaries and fringe benefits	145,911	88,499
Stock-based compensation	19,888	54,239
Insurances	8,681	8,746
Bank charges	525	424
Trustee fees and registration	17,980	27,990
Management fees	-	1,150
Professional fees	62,984	49,816
Rent	3,423	-
Maintenance and repairs	753	61
Stationary and office expenses	19,124	3,017
Telecommunications	2,169	773
Travelling and promotion	128,479	21,787
Amortization of property, plant and equipment	16,910	18,488
Gain on disposal of property, plant and equipment	-	-
Loss (gain) on evaluation of precious metal	323	(1,851)
Gain on debt settlement (note 13)	(3,525,355)	-
Indemnities to subscribers (note 13)	-	26,467
	(3,098,205)	299,606
OTHERS FINANCIALS ELEMENTS		
Interests on debentures and debts	105,061	227,170
Financing charges and other interests	3,543	5,863
Rent income	(1,895)	-
Other revenue	(4,251)	-
Share of results in the joint-venture (note 9)	71,504	(52,408)
	173,962	180,625
NET INCOME (LOSS) AND COMPREHENSIVE LOSS	\$ 2,941,308	\$ (480,231)
NET INCOME (LOSS) PER SHARE		
Basic	\$ 0.0383	\$ (0.0097)
Diluted	\$ 0.0383	\$ (0.0097)
Weighted average number of shares outstanding	76,767,894	49,418,936

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	-	-	19,888	-	-	-	19,888
Other issuance expenses	-	-	-	-	-	(7,679)	(7,679)
Net income and comprehensive income	-	-	-	-	-	2,941,308	2,941,308
BALANCE AS AT DECEMBER 31ST, 2014	85,128,436	\$ 42,910,146	\$ 9,947,032	\$ 573,169	\$ 776,915	\$ (53,691,746)	\$ 515,516

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)
Issuance of convertible debenture	-	-	-	-	141,216	-	141,216
Options granted – Stock-based compensation	-	-	54,239	-	-	-	54,239
Warrants expired	-	-	336,491	(336,491)	-	-	-
Net loss and comprehensive loss	-	-	-	-	-	(480,231)	(480,231)
BALANCE AS AT DECEMBER 31 ST , 2013	<u>53,740,633</u>	<u>\$ 40,873,171</u>	<u>\$ 9,540,749</u>	<u>\$ 186,148</u>	<u>\$ 1,021,040</u>	<u>\$ (54,785,689)</u>	<u>\$ (3,164,581)</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 December 31, 2014	3 month period ended December 31, 2013
OPERATING ACTIVITIES		
Net income (loss) and comprehensive income (loss)	\$ 2,941,308	\$ (480,231)
Adjustments:		
Share of results in the joint venture	71,504	(52,408)
Stock-based compensation	19,888	54,239
Interests capitalized on convertible debentures	-	112,707
Amortization of discount on issuance of debentures	46,225	-
Interest paid	233,634	55,936
Amortization of property, plant and equipment	16,910	18,488
Loss (gain) on valuation of precious metal	323	(1 851)
Gain on debt settlement	(3,525,355)	-
Indemnities to subscribers	-	26 467
	(195,563)	(266,653)
Changes in working capital items (note 20)	(839,770)	(120 712)
Cash flows from operating activities	(1,035,333)	(387,365)
INVESTING ACTIVITIES		
Addition to exploration and evaluation assets	(15,665)	(22,723)
Cash flows from investing activities	(15,665)	(22,723)
FINANCING ACTIVITIES		
Issuance of loans, debts and debentures	-	468,527
Repayment of indemnities payable to subscribers	(4,000)	(4,787)
Advance to a shareholder	(20,506)	-
Long-term debts repayment	(9,969)	(5,776)
Interest paid	(233,634)	(55,936)
Debentures repayment	(100,002)	-
Shares issuance cost	(7,679)	-
Debts and debentures issuance cost	-	8,455
Issuance of shares and warrants	1,624,284	-
Cash flows from financing activities	1,248,494	410,483
NET CHANGE IN CASH AND CASH EQUIVALENTS	197,496	395
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	56,348	\$ 51,293
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 253,844	\$ 51,688

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)

December 31, 2014

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 December 31, 2014 (including comparatives statements) were approved and authorized for issue by the Board of Directors on February 27, 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 December 31, 2014, the Company has cumulated deficit of \$53,691,746 (\$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)

December 31, 2014

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)

December 31, 2014

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)

December 31, 2014

7. ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES

	December 31, 2014	September 30, 2014
Receivable from a partner in a joint operation	\$ <u>15,160</u>	\$ <u>15,160</u>
Receivable from a non-related company	49,851	39,960
Provision	<u>(38,960)</u>	<u>(38,960)</u>
	<u>10,891</u>	<u>1,000</u>
	<u>\$ 26,051</u>	<u>\$ 16,160</u>

Receivable from a partner in a joint operation includes a receivable amount of \$72,481 and a payable amount of \$57,321.

Nippon Dragon Resources Inc.

(Exploration Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in Canadian dollars)

December 31, 2014

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	2,283,087
Depreciation	67,930	-	69	3,197	420	71,616
Disposal	-	-	-	51,149	-	109,158
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 December 31, 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 , 2014	358,973	1,819,093	25,575	37,703	4,201	2,245,545
Depreciation	16,910	-	-	-	-	16,910
Disposal	-	-	-	-	-	-
Balance as at December 31, 2014	375,883	1,819,093	25,575	37,703	4,201	2,262,455
CARRYING AMOUNT AS AT DECEMBER 31, 2014	\$ 266,683	\$ Nil	\$ Nil	\$ Nil	\$ Nil	\$ 266,683

Nippon Dragon Resources Inc.

(Exploration Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in Canadian dollars)

December 31, 2014

9. INVESTMENTS IN A JOINT VENTURE

During the previous year, the Company has optioned a gold property, concession Rey Salomon (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.

	December 31, 2014	September 30, 2014
50% interest in the net assets of Cerro Dorado	\$ 729,499	\$ 801,003
Advances to Cerro Dorado, without interest	<u>-</u>	<u>-</u>
	<u><u>\$ 729,499</u></u>	<u><u>\$ 801,003</u></u>

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

	December 31, 2014	September 30, 2014
CURRENT ASSETS		
Cash and cash equivalents	\$ 24,796	\$ 71,940
Accounts receivable and other receivables	64,893	70,466
Prepaid expenses	<u>218,906</u>	<u>189,170</u>
	<u>308,595</u>	<u>331,576</u>
NON CURRENT ASSETS		
Property, plant and equipment	143,285	160,276
Exploration and evaluation assets	<u>1,986,657</u>	<u>2,143,962</u>
	<u>2,129,942</u>	<u>2,304,238</u>
TOTAL ASSETS	<u><u>\$ 2,438,537</u></u>	<u><u>\$ 2,635,814</u></u>
CURRENT LIABILITIES		
Accounts payable	\$ 88,527	\$ 48,364
Balance of purchase price - exploration and evaluation assets	891,013	985,444
Advance from a shareholder, without interest	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	<u><u>\$ 979,540</u></u>	<u><u>\$ 1,033,808</u></u>

Nippon Dragon Resources Inc.

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(in Canadian dollars)

December 31, 2014

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 Salomon 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 Salomon 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 Salomon 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 Salomon property in exchange for an additional 15% interest in the project. As at December 31, 2014, Chazel had already disbursed an amount of \$90,000 (\$90,000 as at September 30, 2014) in regards to this agreement.

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.

10. EXPLORATION AND EVALUATION ASSETS

	Balance as at October 1st, 2014	Additions	Tax credits and duties refundable	Impairment	Balance as at December 31, 2014
Denain (a)	\$ -	\$ -	\$ -	\$ -	\$ -
Courville Maruska (b)	-	-	-	-	-
Rocmec 1 (c)					
Mining rights	2,603,982	-	-	-	2,603,982
Exploration and evaluation	6,115,820	15,665	-	-	6,131,485
	<u>\$ 8,719,802</u>	<u>\$ 15,665</u>	<u>\$ Nil</u>	<u>\$ Nil</u>	<u>\$ 8,735,467</u>

Nippon Dragon Resources Inc.

(Exploration Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in Canadian dollars)

December 31, 2014

10. EXPLORATION AND EVALUATION ASSETS (cont'd)

	Balance as at October 1st, 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:

	December 31, 2014	September 30, 2014
Supervision	\$ 10,300	\$ 70,809
Other exploration expenses	<u>5,365</u>	<u>41,475</u>
	<u>\$ 15,665</u>	<u>\$ 112,284</u>

Nippon Dragon Resources Inc.

(Exploration Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in Canadian dollars)

December 31, 2014

11. ACCOUNTS PAYABLE

	December 31, 2014	September 30, 2014
Trade accounts payable	\$ 317,485	\$ 494,193
Accrued interest payable	838,835	1,013,632
Taxes on Section XII.6 and III.14 payable	822,262	822,262
Salaries and fringe benefits payable	517,499	738,015
Other liabilities	56,521	188,874
	<u>\$ 2,552,602</u>	<u>\$ 3,256,976</u>

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

	December 31, 2014	September 30, 2014
Loans reimbursable in gold, payable on demand	<u>\$ 20 584</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 December 31st, 2014	<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 31st, 2012. During the period ended on December 31st 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 31st 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, as of December 31, 2014, 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 as of December 31, 2014, would be written off. A total of \$ 921,471 has been written off as at December 31, 2014.
- 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 31st 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, as of December 31, 2014, 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 as of December 31, 2014, would be written off. A total of \$ 1,905,073 has been written off as at December 31, 2014.

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) cont'd

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

	December 31, 2014	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
	<u>1,500,000</u>	<u>1,509,969</u>
Current portion	<u>1,500,000</u>	<u>1,509,969</u>
	\$ <u>Nil</u>	\$ <u>Nil</u>

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14. LONG-TERM DEBTS (cont'd)

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

	Long-term debts
2015	\$ 1,500,000

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.

	December 31, 2014	September 30, 2014
	\$ 260,410	\$ 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
	2,297,910	2,351,687
Current portion	2,197,908	2,211,431
	\$ 100,002	\$ 140,256

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15. DEBENTURES (cont'd)

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

2015	\$	2,187,503
2016		<u>150,000</u>
	\$	<u>2,337,503</u>

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:

	December 31, 2014		September 30, 2014	
	<u>Quantity</u>	<u>Amount</u>	<u>Quantity</u>	<u>Amount</u>
Shares issued				
Balance at beginning of year	63,471,326	\$ 41,717,173	53,740,633	\$ 40,873,171
Paid in cash	21,657,110	1,624,284	1,991,538	182,322
Debentures conversion	-	-	7,319,233	658,731
Issued warrant's value	-	(431,311)	-	(47,442)
Debts settlement	-	-	419,922	50,391
Balance at end of year	<u>85,128,436</u>	<u>\$ 42,910,146</u>	<u>63,471,326</u>	<u>\$ 41,717,173</u>

Three month period ended December 31, 2014

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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December 31, 2014

16. EQUITY (cont'd)

Three month period ended December 31, 2014 (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.

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.

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:

	December 31, 2014		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	-	-	3,355,000	0.120
Expired	(45,000)	(1.900)	-	-
Cancelled	-	-	(20,000)	(1.950)
Balance, end of year	<u>6,855,000</u>	<u>0.151</u>	<u>6,900,000</u>	<u>0.163</u>
Options exercisable at the end	<u>6,295,834</u>	<u>\$ 0.152</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 December 31, 2014:

	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
	<u>3,355,000</u>	<u>2 795 834</u>	0.12	\$ December 2018
	<u>6,855,000</u>	<u>6,295,834</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:

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

Stock-based compensation cost recognized in earnings amounts to \$19,888 (\$54,239 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:

	December 31, 2014		
	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	-	-	-
Balance as at December 31, 2014	30,109,013	\$ 0.117	\$ 573,169

	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	8,451,903	\$ \$0.122	\$ 141,858

Warrants outstanding as at December 31, 2014 are as follows:

Number of warrants	Exercise price	Expiration date
538,460	\$ 0.245	January 2015
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
30,109,013		

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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:

	December 31, 2014	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 \$58,025,756 (\$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 December 31, 2014. 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 December 31, 2014 (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 (cont'd)

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 3-month period ended on December 31st 2014, the Company concluded financing for a total amount of \$1,624,284 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 December 31st 2014:

	Less than a year	Between 1 year and 2 years	More than 2 years
Accounts payable	\$ 2,552,602	\$ -	\$ -
Loans	20,584	-	-
Indemnity payable to subscribers	2,760,427	-	-
Long-term debts	1,500,000	-	-
Debentures	2,237,494	100,002	-
	<u>\$ 9,071,107</u>	<u>\$ 100,002</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:

	December 31, 2014		September 30, 2014	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets (loans and receivables)				
Cash	\$ 253,844	\$ 253,844	\$ 56,348	\$ 56,348
Accounts receivable and other receivables	26,051	26,051	16,160	16,160
	<u>\$ 279,895</u>	<u>\$ 279,895</u>	<u>\$ 72,508</u>	<u>\$ 72,508</u>

	December 31, 2014		September 30, 2014	
	Carrying value	Fair value	Carrying value	Fair value
Financial liabilities				
<i>Financial liabilities at amortized cost</i>				
Accounts payable	\$ 2,552,602	\$ 2,552,602	\$ 3,256,976	\$ 3,256,976
Loans	20,584	20,584	20,261	20,261
Indemnities payable to subscribers	2,760,427	2,760,427	6,289,782	6,289,782
Due to a shareholder	376,279	376,279	396,785	396,785
Long term debts	-	-	9,969	9,969
Convertible debentures	1,760,410	1,760,410	1,853,814	1,853,814
	<u>7,470,302</u>	<u>7,470,302</u>	<u>11,827,587</u>	<u>11,827,587</u>

Financial liabilities at fair value through profit or loss

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>\$ 9,507,802</u>	<u>\$ 9,507,802</u>	<u>\$ 13,825,460</u>	<u>\$ 13,825,460</u>

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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 3-month period ended on December 31st 2014, 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 on December 31 st	
	<u>2014</u>	<u>2013</u>
Salaries and fringe benefits	\$ 81,067	\$ 88,499
Capitalized to exploration and evaluation assets	(10,300)	(20,600)
	70,767	67,899
Stock-based compensation	<u>12,775</u>	<u>54,239</u>
Total	<u>\$ 83,542</u>	<u>\$ 122,138</u>

Nippon Dragon Resources Inc.

(Exploration Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in Canadian dollars)

December 31, 2014

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 December 31, 2014, 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

	Period of 3 months ended December 31, 2014	Period of 3 months ended December 31, 2013
Supplemental cash flows information:		
Net changes in working capital items:		
Accounts receivable and other receivables	\$ (9,891)	\$ -
Sales tax receivable	(13,330)	(10,879)
Prepaid expenses	(27,500)	-
Security deposits	948	-
Liabilities	(704,374)	(109,833)
Subscription received in advance	(85,623)	-
	<u>\$ 839,770</u>	<u>\$ (120,712)</u>

22. SUBSEQUENT EVENTS

On January 27, 2015, the Company granted a total of 3,275,000 common share purchase options to directors, officers and employees. These options have an exercise price of \$ 0.10 per common share and an exercise period of 5 years.

On February 17, 2015, the Company decided to withdraw from the joint venture with Chazel Capital for the development of Rey Salomon 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 (note 9). Investment in a joint venture and all related components will be written-off in the next quarter.