



Nippon Dragon Resources Inc.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE 9 MONTH PERIOD ENDED JUNE 30, 2017

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

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

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

	June 30, 2017	September 30, 2016
ASSETS		
CURRENT ASSETS		
Cash	\$ 95,535	\$ 833,678
Cash in Escrow	-	216,000
Accounts receivable and other receivables	54,113	73,786
Sales tax receivable	6,037	52,092
Prepaid expenses	13,374	49,371
Tax credits receivable	6,591	-
Total current assets	175,650	1,224,927
NON CURRENT ASSETS		
Property, plant and equipment (Note 4)	388,516	469,197
Exploration and evaluation assets (Note 5)	8,850,425	8,778,776
Total non-current assets	9,238,941	9,247,973
TOTAL ASSETS	\$ 9,414,591	\$ 10,472,900
LIABILITIES		
CURRENT		
Accounts payable (Note 6)	\$ 2,063,859	\$ 2,329,206
Loans	14,496	24,165
Prepaid gold sales (Note 7)	1,080,000	1,080,000
Indemnities payable to subscribers	720,080	720,080
Debts (Note 8)	1,440,541	1,471,807
Debentures (Note 9)	551,009	787,495
TOTAL CURRENT AND TOTAL LIABILITIES	5,869,985	6,412,753
SHAREHOLDERS' EQUITY		
Share capital (Note 10)	\$ 46,753,502	\$ 45,807,286
Shares to be issued (Note 10)	149,344	186,000
Contributed surplus	11,591,895	11,059,337
Warrants (Note 10)	787,666	1,021,960
Deficit	(55,737,801)	(54,014,436)
TOTAL SHAREHOLDERS' EQUITY	3,544,606	4,060,147
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	\$ 9,414,591	\$ 10,472,900
GOING CONCERN (Note 2)		
SUBSEQUENT EVENTS (Note 14)		

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

Nippon Dragon Resources Inc.

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

(in Canadian dollars)

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

	3 month period ended June 30, 2017	3 month period ended June 30, 2016	9 month period ended June 30, 2017	9 month period ended June 30, 2016
INCOME				
Contracts income from a joint operation	\$ -	\$ 73,826	\$ -	\$ 210,271
Thermal fragmentation technology distribution income	-	-	50,924	-
Other income	-	21,351	4,823	25,413
	-	95,177	55,747	235,684
CONTRACTS COST				
Contract cost from a joint operation	-	60,770	-	172,824
Contract costs from thermal fragmentation technology distribution	172,707	-	567,990	-
Royalties	-	6,546	11,664	16,181
Depreciation of property, plant and equipment	-	-	-	12,820
TOTAL CONTRACT COSTS	172,707	67,316	579,654	201,825
GROSS PROFIT (LOSS)	(172,707)	27,861	(523,907)	33,859
GENERAL AND ADMINISTRATIVE EXPENSES (Note 11)	306,741	442,842	1,100,683	999,538
OTHER EXPENSES (INCOME) (Note 11)	(21,887)	19,404	98,775	(62,031)
TOTAL NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	\$(457,561)	\$(434,385)	\$(1,723,365)	\$(903,648)
NET INCOME (LOSS) PER SHARE				
Basic	\$(0.0032)	\$(0.0040)	\$(0.0123)	\$(0.0084)
Diluted	\$(0.0032)	\$(0.0040)	\$(0.0123)	\$(0.0084)
Weighted average number of shares outstanding	143,542,952	109,536,832	139,987,523	107,022,715

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

Nippon Dragon Resources Inc.
INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(in Canadian dollars)

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

June 30, 2017

	Number of shares	Share capital	Shares to be issued	Contributed surplus	Warrants	Deficit	Total equity
BALANCE AS AT OCTOBER 1 st , 2016	128,510,079	\$ 45,807,286	\$ 186,000	\$11,059,337	\$ 1,021,960	\$(54,014,436)	\$ 4,060,147
Shares issued in private placements (Note 10)	11,381,984	572,765	(186,000)	-	298,264	-	685,029
Shares issued to settle a debenture (Note 10)	2,397,490	167,823	-	-	-	-	167,823
Shares to be issued in order to pay a service contract (Note 10)	-	-	70,000	-	-	-	70,000
Warrants issued in connection with the issuance of a debenture (Note 10)	-	-	-	-	14,200	-	14,200
Shares to be issued in a private placement (Note 14)	-	-	79,344	-	-	-	79,344
Warrants exercised (Note 10)	1,000,000	99,200	-	-	(14,200)	-	85,000
Warrants expired (Note 10)	-	-	-	532,558	(532,558)	-	-
Shares issued to settle interest on debentures (Note 10)	1,520,396	106,428	-	-	-	-	106,428
Net income (loss) and comprehensive income (loss)	-	-	-	-	-	(1,723,365)	(1,723,365)
BALANCE AS AT JUNE 30, 2017	144,809,949	\$ 46,753,502	\$ 149,344	\$ 11,591,895	\$ 787,666	\$(55,737,801)	\$ 3,544,606

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

Nippon Dragon Resources Inc.

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

(in Canadian dollars)

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

June 30, 2016

	Number of shares	Share capital	Contributed surplus	Warrants	Equity component of convertible debentures	Deficit	Total equity
BALANCE AS AT OCTOBER 1 st , 2015	98,315,278	\$ 44,023,670	\$ 10,293,200	\$ 540,112	\$ 703,087	\$(55,571,521)	\$(11,452)
Shares issued in private placements	12,072,293	709,853	-	232,055	-	-	941,908
Stock-based compensation	-	-	47,700	-	-	-	47,700
Shares issued to settle a debt	11,356,008	795,000	-	-	-	-	795,000
Common share purchase options exercised	500,000	74,100	(27,100)	-	-	-	47,000
Warrants exercised	16,500	2,210	-	(313)	-	-	1,897
Warrants expired	-	-	33,455	(33,455)	-	-	-
Issuance expenses	-	-	-	-	-	(21,029)	(21,029)
Net income (loss) and comprehensive income (loss)	-	-	-	-	-	(903,648)	(903,648)
BALANCE AS AT JUNE 30, 2016	122,260,079	\$ 45,604,833	\$10,347,255	\$ 738,399	\$ 703,087	\$(56,496,198)	\$ 897,376

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

Nippon Dragon Resources Inc.
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(in Canadian dollars)

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

	9 month period ended June 30, 2017	9 month period ended June 30, 2016
OPERATING ACTIVITIES		
Net income (loss)	\$(1,723,365)	\$(903,648)
Adjustments:		
Stock-based compensation	-	47,700
Amortization of discount on issuance of debentures and debts	-	8,483
Amortization of property, plant and equipment	80,594	60,669
Amortization of financing cost of a debenture	12,709	-
Gain on debt settlement	-	(398,199)
Interest paid	67,665	278,483
Interest paid by issuance of share capital	6,393	-
Gain on disposal of property, plant and equipment	(75,793)	-
Other	(2,005)	3,021
	(1,633,802)	(903,491)
Changes in working capital items (note 13)	637,135	173,254
Cash flows from operating activities	(996,667)	(730,237)
INVESTING ACTIVITIES		
Tax credits collected	-	17,679
Property, plant and equipment additions	(679,617)	(2,479)
Property, plant and equipment disposals	313,695	-
Additions to exploration and evaluation assets	(8,240)	(27,360)
Cash flows used in investing activities	(374,162)	(12,160)
FINANCING ACTIVITIES		
Exercise of common share purchase options	-	47,000
Warrants exercised	85,000	1,897
Interest paid	(67,665)	(278,483)
Issuance of debenture	100,000	-
Debt repayment	(31,266)	-
Debentures repayment	(210,000)	-
Shares issuance cost	-	(21,029)
Shares to be issued	(106,656)	-
Issuance of shares and warrants	871,028	941,908
Loans repayment	(7,755)	-
Cash flows from financing activities	632,686	691,293
NET CHANGE IN CASH AND CASH EQUIVALENTS	(738,143)	(51,104)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	833,678	83,918
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$ 95,535</u>	<u>\$ 32,814</u>

Supplemental cash flow information (Note 13)

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

Nippon Dragon Resources Inc.

NOTES TO INTERIM CONSOLIDATED STATEMENTS FOR 9 MONTHS ENDED JUNE 30, 2017

(in Canadian dollars)

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

1. STATUTES OF INCORPORATION AND NATURE OF OPERATIONS

Nippon Dragon Resources Inc. (hereafter the "Company") specializes in the exploration of metal in mining sites located in Quebec. In addition, the Company's mission is to introduce thermal fragmentation technology in the mining industry to enable the commercialization of this technology worldwide.

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

The condensed interim consolidated financial statements for the period ended June 30, 2017 and 2016 were approved and authorized for issue by the Board of Directors on August 21, 2017.

2. GOING CONCERN

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

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

Given that the Company has not yet found a mineral property containing mineral deposits that are economically recoverable, the Company has not yet generated any income or cash flows from its mining properties. The Company generates revenues from its thermal fragmentation technology distribution, but these are not sufficient to ensure the sustainability of the Company. As at June 30, 2017, the Company has accumulated a deficit of \$55,737,801 (\$54,014,436 as at September 30, 2016) and has a working capital deficiency of \$5,694,335 (\$5,187,826 as at September 30, 2016).

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

Nippon Dragon Resources Inc.

NOTES TO INTERIM CONSOLIDATED STATEMENTS FOR 9 MONTHS ENDED JUNE 30, 2017

(in Canadian dollars)

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

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

3.1 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 IFRS as issued by the International Accounting Standards Board ("IASB"). These condensed interim consolidated financial statements therefore do not contain all of the information and notes required under IFRS for the purposes of the annual financial statements.

3.2 Presentation method

These condensed interim consolidated financial statements should be read in conjunction with the audited financial statements for the year ended September 30, 2016, which have been prepared in accordance with IFRS as published by the IASB. These unaudited condensed interim consolidated financial statements have been prepared using the accounting policies as set out in the audited annual consolidated financial statements for the year ended September 30, 2016.

4. PROPERTY, PLANT AND EQUIPMENT

	<u>Equipment</u>	<u>Mill plant</u>	<u>Computer equipment</u>	<u>Automotive equipment</u>	<u>Telephone system</u>	<u>Total</u>
COST						
Balance as at October 1, 2016	\$ 992,725	\$1,819,093	\$ 26,754	\$ 37,703	\$ 4,201	\$ 2,880,476
Additions	76,389	603,228	-	-	-	679,617
Disposal	(88,000)	(2,422,321)	-	-	-	(2,510,321)
Balance as at June 30, 2017	<u>981,114</u>	<u>-</u>	<u>26,754</u>	<u>37,703</u>	<u>4,201</u>	<u>1,049,772</u>
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
Balance as at October 1, 2016	525,386	1,819,093	24,896	37,703	4,201	2,411,279
Depreciation	80,129	-	465	-	-	80,594
Disposal	(11,524)	(1,819,093)	-	-	-	(1,830,617)
Balance as at June 30, 2017	<u>593,991</u>	<u>-</u>	<u>25,361</u>	<u>37,703</u>	<u>4,201</u>	<u>661,256</u>
CARRYING AMOUNT AS AT JUNE 30, 2017	<u>\$ 387,123</u>	<u>\$ -</u>	<u>\$ 1,393</u>	<u>-</u>	<u>-</u>	<u>\$ 388,516</u>

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

Nippon Dragon Resources Inc.

NOTES TO INTERIM CONSOLIDATED STATEMENTS FOR 9 MONTHS ENDED JUNE 30, 2017

(in Canadian dollars)

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

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

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

5. EXPLORATION AND EVALUATION ASSETS

	Balance as at October 1 st , 2016	Additions	Tax credits and duties refundable	Impairment	Balance as at June 30, 2017
Rocmec 1					
Mining rights	\$ 2,603,982	\$ -	\$ -	\$ -	\$ 2,603,982
Exploration and evaluation	6,174,794	78,240	(6,591)	-	6,246,443
	<u>\$ 8,778,776</u>	<u>\$ 78,240</u>	<u>\$(6,591)</u>	<u>\$ -</u>	<u>\$ 8,850,425</u>

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

Nippon Dragon Resources Inc.

NOTES TO INTERIM CONSOLIDATED STATEMENTS FOR 9 MONTHS ENDED JUNE 30, 2017

(in Canadian dollars)

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

5. EXPLORATION AND EVALUATION ASSETS (cont'd)

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

Rocmec 1 project – Dasserat township, Quebec

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

6. ACCOUNTS PAYABLE

	June 30, 2017	September 30, 2016
Trade accounts payable*	\$ 313,384	\$ 469,042
Accrued interest payable	72,717	142,536
Taxes on Section XII.6 and III.14 payable	822,262	822,262
Salaries and fringe benefits payable	771,429	849,629
Other liabilities	84,067	45,737
	<u>\$ 2,063,859</u>	<u>\$ 2,329,206</u>

*Includes an amount of \$21,111 (\$ 9,054 at September 30, 2016) payable to related parties

During the period, the Company settled accrued interest totaling \$142,865 by issuing 2,040,924 common shares at \$0.07 per share. This transaction did not result in a gain or loss on settlement of debt.

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

7. PREPAID GOLD SALES

During the previous year, the Company entered into a gold production agreement with Au Consolidated Inc. ("AU"), a company from Arizona. The Company will conduct thermal fragmentation operations to extract 2,000 ounces of gold that will be shared based on an 80/20 ratio. The Company will be entitled to 80% of the gold ounces while AU will be entitled to 20% of the ounces of gold produced. On October 26, 2016, the Company mobilized its 75 t/d flotation plant on AU's property. With the addition of the Company's treatment plant, the original agreement between the parties was modified to add an additional 1,000 ounces to 2,000 ounces previously planned. The additional 1,000 ounces of gold recovered will be shared based on a 60/40 ratio. The Company will be entitled to 60% of the gold ounces while AU will be entitled to 40% of the ounces of gold produced.

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

Nippon Dragon Resources Inc.

NOTES TO INTERIM CONSOLIDATED STATEMENTS FOR 9 MONTHS ENDED JUNE 30, 2017

(in Canadian dollars)

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

7. PREPAID GOLD SALES (cont'd)

In connection with this agreement, the Company entered into prepaid gold sales totalling \$1,080,000 for the delivery of approximately 1,200 units, each unit consisting of one (1) ounce of gold at a price of \$900 per unit. The prepaid gold sales, in the form of metal sales forward contracts, allow the Company to deliver pre-determined volumes of gold on agreed future delivery dates in exchange for an upfront cash pre-payment.

The prepaid gold sales have a maximum term of 14 months. The Company agrees to periodically deliver gold ounces to buyers based on ore shipments to the smelter. The Company, at its sole discretion, will determine the frequency of ore shipments; however, the first shipment to the smelter shall be no later than 60 days following mobilization on the mining site. In the event of a default, the buyer may at his option, request a partial or total refund of the purchase, and the Company must refund the equivalent of the total principal amount then outstanding plus a penalty of three (3) months of interest at a rate of 10% per annum on the sum outstanding at such date. As at June 30, 2017, no gold delivery has been made.

As at June 30, 2017, the gold forward contracts were outstanding. These contracts are excluded from the scope of IAS 39 and accounted for as executory contracts because they were entered into and continue to be held for the purpose of delivery in accordance with the Company's expected production schedule.

8. DEBTS

	June 30, 2017	September 30, 2016
Loan of nominal value of \$1,134,906, secured by a first rank mortgage on Rocmec 1 property for an amount of \$1,134,906, repayable at maturity at 7.5% interest, payable monthly, either in cash or in common shares at the Company's option, which originally matured in May 2015 but has yet to be repaid.	\$ 1,134,906	\$ 1,134,906
Loan of nominal value of \$365,094, secured by a first rank mortgage on Rocmec 1 property for an amount of \$365,094, repayable at maturity at 13.5% interest, payable monthly in cash, which originally matured in May 2015 but has yet to be repaid.	305,635	336,901
Current Debts	<u>\$ 1,440,541</u>	<u>\$ 1,471,807</u>

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

On June 8, 2016, the Company and the lender agreed that 10% of the Company's proceeds from all of its operations, as well as private placements, will be used to pay the accrued interest and principal of the debts.

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

Nippon Dragon Resources Inc.

NOTES TO INTERIM CONSOLIDATED STATEMENTS FOR 9 MONTHS ENDED JUNE 30, 2017

(in Canadian dollars)

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

9. DEBENTURES

	<u>June 30, 2017</u>	<u>September 30, 2016</u>
Debenture with a nominal value of \$249,995, bearing interest at 13.5% payable monthly. This debenture has been repaid in full on December 14, 2016, in the following manner: a cash payment of \$125,000 and the balance of \$124,995 repaid in common shares of the Company at a price of \$0.07 per share.	\$ -	\$ 249,995
Debentures of \$537,500 redeemable by the Company at any time in cash or in units (each unit is comprised of one (1) common share of the Company and one half (1/2) warrant; each whole warrant entitles the holder to purchase one (1) common share of the Company at a price equal to the reference price plus 50%), bearing annual interest at 7.5%, payable quarterly in cash or common shares, at the Company's option. These debentures expired on December 31, 2014 and were not repaid.	537,500	537,500
Debenture with a nominal value of \$100,000, bearing interest at 10% payable on the date of execution of the contract, maturing in January 2018 and one million (1,000,000) warrants were granted to the lender; each whole warrant entitles the holder to purchase one (1) common share of the Company at an exercise price of \$0.085 over a period of one year following the date of execution of the contract. On March 13, 2017, the Company repaid \$85,000 of the principal amount of the debenture.	<u>13,509</u>	<u>-</u>
Current Debentures	<u>\$ 551,009</u>	<u>\$ 787,495</u>

The outstanding and repayable balance as at June 30, 2017 of the debentures is \$ 551,009 since the debentures have expired or mature within one year and have yet to be repaid.

10. 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:

Nine month period ended June 30, 2017

On October 4, 2016, the Company completed a non-brokered private placement of 3,476,250 units of the Company at a price of \$0.08 per unit, for aggregate gross proceeds of \$278,100. Each unit consists of one (1) common share in the share capital of the Company and one (1) warrant. Each warrant entitles the holder thereof to purchase one (1) additional common share in the share capital of the Company at a price of \$0.12 per common share for a period of 24 months following the closing of the private placement. An amount of \$97,715 related to the warrants issued has been recognized.

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

Nippon Dragon Resources Inc.

NOTES TO INTERIM CONSOLIDATED STATEMENTS FOR 9 MONTHS ENDED JUNE 30, 2017

(in Canadian dollars)

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

10. EQUITY (cont'd)

Issued (cont'd)

On November 22, 2016, the Company completed a non-brokered private placement of 3,333,334 units of the Company at a price of \$0.075 per unit, for aggregate gross proceeds of \$250,000. Each unit consists of one (1) common share in the share capital of the Company and one (1) warrant. Each warrant entitles the holder thereof to purchase one (1) additional common share in the share capital of the Company at a price of \$0.12 per common share for a period of 24 months following the closing of the private placement. An amount of \$88,215 related to the warrants issued has been recognized.

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

On December 23, 2016, the Company completed a non-brokered private placement of 4,572,400 units of the Company at a price of \$0.075 per unit, for aggregate gross proceeds of \$342,930. Each unit consists of one (1) common share in the share capital of the Company and one (1) warrant. Each warrant entitles the holder thereof to purchase one (1) additional common share in the share capital of the Company at a price of \$0.12 per common share for a period of 24 months following the closing of the private placement. An amount of \$112,334 related to the warrants issued has been recognized.

On January 17, 2017, the Company entered into an agreement with Diagnos Inc., a leader in the application of artificial intelligence in data mining services for the use of its Computer Aided Resource Detection Software (CARDS) to generate mining targets on the Rocmec 1 and Denain properties. The agreement totals \$70,000 and the Company has the option of paying cash or by issuing common shares for the amount stipulated in the contract. As management intends to issue common shares to pay for the agreement, an amount of \$70,000 was recorded as share capital to be issued as at June 30, 2017.

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

On June 14, 2017, the Company issued 1,520,396 common shares priced at \$0.07 as interest payments on outstanding debentures. The amount of interests totals \$106,428 and represents accumulated interests at March 31, 2017.

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 (1/6) per quarter except for those granted to consultants providing services for investors' relations which have a vesting period of twelve months for a maximum of a fourth (1/4) per quarter.

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

Nippon Dragon Resources Inc.

NOTES TO INTERIM CONSOLIDATED STATEMENTS FOR 9 MONTHS ENDED JUNE 30, 2017

(in Canadian dollars)

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

10. EQUITY (cont'd)

Common share purchase options (cont'd)

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

	June 30, 2017		September 30, 2016	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of year	6,765,000	\$ 0.124	10,030,000	\$ 0.134
Granted	-	-	-	-
Exercised	-	-	(500,000)	(0.094)
Expired	(2,435,000)	(0.145)	(2,765,000)	(0.166)
Balance, end of year	<u>4,330,000</u>	<u>0.112</u>	<u>6,765,000</u>	<u>0.124</u>
Options exercisable at the end	<u>4,330,000</u>	<u>\$ 0.112</u>	<u>6,765,000</u>	<u>\$ 0.124</u>

Granted options and exercisable options as at June 30, 2017:

Granted options	Exercisable options	Exercise price	Expiration date
100,000	100,000	\$ 0.10	April 2018
2,155,000	2,155,000	\$ 0.12	December 2018
2,075,000	2,075,000	\$ 0.10	January 2020
<u>4,330,000</u>	<u>4,330,000</u>		

Warrants

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

	June 30, 2017		
	Number of warrants	Weighted average exercise price	Fair value allocated
Balance as at October 1 st , 2016	49,384,589	\$ 0.119	\$ 1,021,960
Granted	12,381,984	0.117	312,464
Exercised	(1,000,000)	(0.085)	(14,200)
Expired	(28,531,046)	(0.116)	(532,558)
Balance as at June 30, 2017	<u>32,235,527</u>	<u>\$ 0.121</u>	<u>\$ 787,666</u>

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

Nippon Dragon Resources Inc.

NOTES TO INTERIM CONSOLIDATED STATEMENTS FOR 9 MONTHS ENDED JUNE 30, 2017

(in Canadian dollars)

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

10. EQUITY (cont'd)

Warrants (cont'd)

	September 30, 2016		
	Number of warrants	Weighted average exercise price	Fair value allocated
Balance as at October 1 st , 2015	32,992,239	\$ 0.119	\$ 540,112
Granted	18,322,293	0.122	529,603
Exercised	(16,500)	(0.115)	(313)
Expired	(1,913,443)	(0.156)	(47,442)
Balance as at September 30, 2016	49,384,589	\$ 0.119	\$ 1,021,960

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

Number of warrants	Exercise price	Expiration date
5,876,250	\$ 0.120	July – Nov. 2017
2,676,111	\$ 0.135	Feb. - March 2018
23,683,166	\$ 0.120	May – Dec. 2018
32,235,527		

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

	June 30, 2017	September 30, 2016
Average share price at grant date	\$0.07	\$0.10
Risk-free interest rate	0.68 %	0.54 %
Expected volatility	122.97 %	126.18 %
Expected life (in years)	1.75 years	2 years
Expected dividend	0.00 %	0.00 %
Average exercise price at grant date	\$0.12	\$0.12

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

Nippon Dragon Resources Inc.

NOTES TO INTERIM CONSOLIDATED STATEMENTS FOR 9 MONTHS ENDED JUNE 30, 2017

(in Canadian dollars)

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

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

	3 month period ended June 30, 2017	3 month period ended June 30, 2016	9 month period ended June 30, 2017	9 month period ended June 30, 2016
GENERAL AND ADMINISTRATIVE EXPENSES				
Salaries and fringe benefits	\$ 166,303	\$ 115,138	\$ 461,256	\$ 378,413
Insurance	6,454	6,243	19,378	20,247
Trustee fees and registration	1,058	33,134	30,068	75,115
Professional fees	52,071	187,297	192,745	277,639
Maintenance and repairs	7,158	1,522	34,757	5,129
Stationary and office expenses	6,388	5,629	44,852	23,628
Travelling and promotion	41,167	73,656	237,033	171,518
Depreciation of property, plant and equipment	26,142	20,223	80,594	47,849
	<u>\$ 306,741</u>	<u>\$ 442,842</u>	<u>\$ 1,100,683</u>	<u>\$ 999,538</u>
OTHER EXPENSES (INCOME)				
Interests on debentures and debts	\$ 43,624	\$ 85,241	\$ 146,227	\$ 323,111
Financing charges and other interests	13,147	1,161	28,341	13,057
De-recognition of a debenture and its related accrued interests	-	(66,998)	-	(398,199)
Gain on disposition of capital property	(78,658)	-	(75,793)	-
	<u>\$(21,887)</u>	<u>\$ 19,404</u>	<u>\$ 98,775</u>	<u>\$ (62,031)</u>

12. FINANCIAL INSTRUMENTS

Fair value

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

	June 30, 2017		September 30, 2016	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets (loans and receivables)				
Cash	\$ 95,535	\$ 95,535	\$ 833,678	\$ 833,678
Cash in escrow	-	-	216,000	216,000
Accounts receivable and other receivables	54,113	54,113	73,786	73,786
	<u>\$ 149,648</u>	<u>\$ 149,648</u>	<u>\$ 1,123,464</u>	<u>\$ 1,123,464</u>

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

Nippon Dragon Resources Inc.

NOTES TO INTERIM CONSOLIDATED STATEMENTS FOR 9 MONTHS ENDED JUNE 30, 2017

(in Canadian dollars)

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

12. FINANCIAL INSTRUMENTS (cont'd)

Fair value (cont'd)

	June 30, 2017		September 30, 2016	
	Carrying value	Fair value	Carrying value	Fair value
Financial liabilities				
Financial liabilities at amortized cost				
Accounts payable	\$ 2,063,859	\$ 2,063,859	\$ 2,329,206	\$ 2,329,206
Loans	14,496	14,496	24,165	24,165
Indemnities payable to subscribers	720,080	720,080	720,080	720,080
Debts	1,440,541	1,440,541	1,471,807	1,471,807
Debentures	551,009	551,009	787,495	787,495
	<u>\$ 4,789,985</u>	<u>\$ 4,789,985</u>	<u>\$ 5,332,753</u>	<u>\$ 5,332,753</u>

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

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

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

The carrying value of debts and debentures is considered to be a reasonable approximation of fair value as they are past their maturity date or are short-term maturity. (Level 2)

13. SUPPLEMENTAL CASH FLOW INFORMATION

	9 months period ended June 30, 2017	9 months period ended June 30, 2016
Supplemental cash flows information:		
Net changes in working capital items:		
Cash in escrow	\$ 216,000	\$ -
Accounts receivable and other receivables	18,273	(17,234)
Sales tax receivable	46,055	(1,874)
Prepaid expenses	35,997	85,248
Accounts Payable	320,810	107,114
	<u>\$ 637,135</u>	<u>\$ 173,254</u>

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

Nippon Dragon Resources Inc.

NOTES TO INTERIM CONSOLIDATED STATEMENTS FOR 9 MONTHS ENDED JUNE 30, 2017

(in Canadian dollars)

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

13. SUPPLEMENTAL CASH FLOW INFORMATION (cont'd)

	9 months period ended June 30, 2017	9 months period ended June 30, 2016
Investment and financing activities not affecting cash		
Tax credits receivables	\$ 6,591	\$ 2,390
Exploration and evaluation assets payable in common shares	70,000	-
Share issuance in settlement of an expired debenture and its accrued interests	167,824	-
Share issuance in settlement of accrued interest on debentures	106,428	-
Share issuance in settlement of indemnities payable to subscribers	-	795,000
Stock options exercised	-	27,100
Warrants exercised	14,200	313
Warrants expired	532,558	33,455

14. SUBSEQUENT EVENTS

On August 3rd, 2017, the Company announced the creation of a joint-venture partnership agreement with an American company, Val d'Or Resources Corporation ("VRC").

Management personnel of VRC have recently completed their due diligence by an on-site visit of both properties owned by the Company, Denain and Rocmec 1. They also have firsthand knowledge of the Company's exclusive and patented thermal fragmentation mining process as it is currently employed on one of their projects in Arizona; including the cost savings, efficiency and ease of use that the technology offers as well as the safety features for its mining personnel.

As a result of the joint-venture, a new entity Rocmec Gold Inc., will be created, of which the Company will hold a 51% interest and VRC a 49% interest. Once completed, Rocmec Gold Inc. will hold both the Denain and Rocmec 1 properties, additional mining acquisitions in Quebec, and a percentage ownership of the patents related to the thermal fragmentation mining process. VRC is currently in the process of securing the requisite funds totaling \$16,200,000.

On August 7th, 2017, the Company completed a non-brokered private placement of 4,818,200 units of the Company at a price of \$0.05 per unit, for aggregate gross proceeds of \$240,910. Each unit consists of one (1) common share in the share capital of the Company and one (1) warrant. Each warrant entitles the holder thereof to purchase one (1) additional common share in the share capital of the Company at a price of \$0.075 per common share for a period of 24 months following the closing of the private placement. As at June 30, 2017, the Company had already received \$ 73,344 in regards to this private placement.

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