



Nippon Dragon Resources Inc.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE 6 MONTH PERIOD ENDED MARCH 31, 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)

	<u>March 31, 2017</u>	<u>September 30, 2016</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 65,732	\$ 833,678
Cash in Escrow	-	216,000
Accounts receivable and other receivables	59,593	73,786
Sales tax receivable	19,741	52,092
Prepaid expenses	20,202	49,371
Tax credits receivable	11,205	-
Total current assets	<u>176,473</u>	<u>1,224,927</u>
NON CURRENT ASSETS		
Property, plant and equipment (Note 4)	1,017,886	469,197
Exploration and evaluation assets (Note 5)	<u>8,845,811</u>	<u>8,778,776</u>
Total non-current assets	<u>9,863,697</u>	<u>9,247,973</u>
TOTAL ASSETS	<u>\$ 10,040,170</u>	<u>\$ 10,472,900</u>
LIABILITIES		
CURRENT		
Accounts payable (Note 6)	\$ 2,417,806	\$ 2,329,206
Loans	14,978	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)	<u>550,370</u>	<u>787,495</u>
TOTAL CURRENT AND TOTAL LIABILITIES	<u>6,223,775</u>	<u>6,412,753</u>
SHAREHOLDERS' EQUITY		
Share capital (Note 10)	46,647,074	45,807,286
Shares to be issued (Note 10)	70,000	186,000
Contributed surplus	11,490,648	11,059,337
Warrants (Note 10)	888,913	1,021,960
Deficit	<u>(55,280,240)</u>	<u>(54,014,436)</u>
TOTAL SHAREHOLDERS' EQUITY	<u>3,816,395</u>	<u>4,060,147</u>
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	<u>\$ 10,040,170</u>	<u>\$ 10,472,900</u>
GOING CONCERN (Note 2)		
SUBSEQUENT EVENT (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 March 31, 2017	3 month period ended March 31, 2016	6 month period ended March 31, 2017	6 month period ended March 31, 2016
INCOME				
Contracts income from a joint operation	\$ -	\$ 65,490	\$ -	\$ 136,445
Thermal fragmentation technology distribution income	3,791	-	50,924	-
Other income	1,013	-	4,823	4,062
	<u>\$ 4,804</u>	<u>\$ 65,490</u>	<u>\$ 55,747</u>	<u>\$ 140,507</u>
CONTRACTS COST				
Contract cost from a joint operation	\$ -	\$ 57,217	\$ -	\$ 112,054
Contract Costs from thermal fragmentation technology distribution	148,743	-	395,283	-
Salaries and fringe benefits	-	-	-	-
Royalties	4,046	6,860	11,664	9,635
Depreciation of property, plant and equipment	-	6,410	-	12,820
	<u>152,789</u>	<u>70,487</u>	<u>406,947</u>	<u>134,509</u>
GROSS PROFIT (LOSS)	<u>(147,985)</u>	<u>(4,997)</u>	<u>(351,200)</u>	<u>5,998</u>
GENERAL AND ADMINISTRATIVE EXPENSES (Note 11)	431,538	273,384	793,942	556,696
OTHER EXPENSES (INCOME) (Note 11)	<u>72,570</u>	<u>(204,404)</u>	<u>120,662</u>	<u>(81,435)</u>
TOTAL NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	<u>\$ (652,093)</u>	<u>\$ (73,977)</u>	<u>\$ (1,265,804)</u>	<u>\$ (469,263)</u>
NET (LOSS) INCOME PER SHARE				
Basic	\$(0.0046)	\$(0.0007)	\$(0.0089)	\$(0.0046)
Diluted	\$(0.0046)	\$(0.0007)	\$(0.0089)	\$(0.0046)
Weighted average number of shares outstanding	142,506,944	101,442,598	142,454,888	103,133,982

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)
March 31, 2017 and 2016

	<u>Number of shares</u>	<u>Share capital</u>	<u>Shares to be issued</u>	<u>Contributed surplus</u>	<u>Warrants</u>	<u>Deficit</u>	<u>Total equity</u>
BALANCE AS AT OCTOBER 1 st , 2016	<u>128,510,079</u>	<u>\$ 45,807,286</u>	<u>\$ 186,000</u>	<u>\$ 11,059,337</u>	<u>\$ 1,021,960</u>	<u>\$(54,014,436)</u>	<u>\$ 4,060,147</u>
Shares issued by private investments (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
Warrants exercised (Note 10)	1,000,000	99,200	-	-	(14,200)	-	85,000
Warrants expired (Note 10)	-	-	-	431,311	(431,311)	-	-
Net income (loss) and comprehensive income (loss)	-	-	-	-	-	(1,265,804)	(1,265,804)
BALANCE AS AT MARCH 31, 2017	<u>143,289,553</u>	<u>\$ 46,647,074</u>	<u>\$ 70,000</u>	<u>\$11,490,648</u>	<u>\$ 888,913</u>	<u>\$(55,280,240)</u>	<u>\$ 3,816,395</u>
	<u>Number of shares</u>	<u>Share capital</u>	<u>Contributed surplus</u>	<u>Warrants</u>	<u>Equity component of convertible debentures</u>	<u>Deficit</u>	<u>Total equity</u>
BALANCE AS AT OCTOBER 1 st , 2015	<u>98,315,278</u>	<u>\$44,023,670</u>	<u>\$ 10,293,200</u>	<u>\$ 540,112</u>	<u>\$ 703,087</u>	<u>\$(55,571,521)</u>	<u>\$(11,452)</u>
Shares issued by private investments	6,021,111	386,182	-	122,268	-	-	508,450
Stock-based compensation	-	-	42,024	-	-	-	42,024
Common share purchase options exercised	400,000	56,600	(19,600)	-	-	-	37,000
Warrants exercised	16,500	2,210	-	(313)	-	-	1,897
Issuance expenses	-	-	-	-	-	(10,495)	(10,495)
Net income (loss) and comprehensive income (loss)	-	-	-	-	-	(469,263)	(469,263)
BALANCE AS AT MARCH 31, 2016	<u>104,752,889</u>	<u>\$44,468,662</u>	<u>\$10,315,624</u>	<u>\$ 662,067</u>	<u>\$ 703,087</u>	<u>\$(56,051,279)</u>	<u>\$ 98,161</u>

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)

	6 month period ended March 31, 2017	6 month period ended March 31, 2016
OPERATING ACTIVITIES		
Net income (loss)	\$(1,265,804)	\$(469,263)
Adjustments:		
Stock-based compensation	-	42,024
Amortization of discount on issuance of debentures and debts	-	5,655
Amortization of property, plant and equipment	54,452	40,446
Amortization of financing cost of a debenture	12,070	-
De-recognition of debenture and its related interests	-	(331,201)
Interest paid	67,666	20,158
Interest paid by issuance of share capital	6,393	-
Loss on disposal of property, plant and equipment	2,865	-
Other	(2,135)	1,251
	(1,124,493)	(690,930)
Changes in working capital items (Note 13)	417,452	182,857
Cash flows from operating activities	(707,041)	(508,073)
INVESTING ACTIVITIES		
Tax credits collected	-	6,058
Property, plant and equipment additions	(679,617)	(2,479)
Property, plant and equipment disposal	73,611	-
Additions to exploration and evaluation assets	(8,240)	(23,240)
Cash flows used in investing activities	(614,246)	(19,661)
FINANCING ACTIVITIES		
Exercise of common share purchase options	-	37,000
Warrants exercised	85,000	1,897
Interest paid	(67,666)	(20,158)
Issuance of debenture	100,000	-
Debts repayment	(31,266)	-
Debentures repayment	(210,000)	-
Loans repayment	(7,755)	-
Shares issuance cost paid	-	(10,495)
Shares to be issued	(186,000)	-
Issuance of shares and warrants	871,028	508,450
Cash flows from financing activities	553,341	516,694
NET CHANGE IN CASH AND CASH EQUIVALENTS	(767,946)	(11,040)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	833,678	83,918
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 65,732	\$ 72,878

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 THE 6 MONTH PERIOD ENDED MARCH 31, 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 March 31, 2017 and 2016 were approved and authorized for issue by the Board of Directors on May 24, 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 March 31, 2017, the Company has accumulated a deficit of \$55,280,240 (\$54,014,436 as at September 30, 2016) and has a working capital deficiency of \$6,047,302 (\$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.

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

Nippon Dragon Resources Inc.

NOTES TO INTERIM CONSOLIDATED STATEMENTS FOR THE 6 MONTH PERIOD ENDED MARCH 31, 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

	Equipment	Mill plant	Computer equipment	Automotive equipment	Telephone system	Total
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)	-	-	-	-	(88,000)
Balance as at						
March 31, 2017	981,114	2,422,321	26,754	37,703	4,201	3,472,093
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	54,142	-	310	-	-	54,452
Disposal	(11,524)	-	-	-	-	(11,524)
Balance as at						
March 31, 2017	568,004	1,819,093	25,206	37,703	4,201	2,454,207
CARRYING AMOUNT AS AT						
MARCH 31, 2017	\$ 413,110	\$ 603,228	\$ 1,548	-	-	\$ 1,017,886

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

Nippon Dragon Resources Inc.

NOTES TO INTERIM CONSOLIDATED STATEMENTS FOR THE 6 MONTH PERIOD ENDED MARCH 31, 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, 2016	Additions	Tax credits and duties refundable	Impairment	Balance as at March 31, 2017
Rocmec 1					
Mining rights	\$ 2,603,982	\$ -	\$ -	\$ -	\$ 2,603,982
Exploration and evaluation	6,174,794	78,240	(11,205)	-	6,241,829
	\$ 8,778,776	\$ 78,240	\$(11,205)	\$ -	\$ 8,845,811

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

Nippon Dragon Resources Inc.

NOTES TO INTERIM CONSOLIDATED STATEMENTS FOR THE 6 MONTH PERIOD ENDED MARCH 31, 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, 2015	Additions	Tax credits and duties refundable	Impairment	Balance as at September 30, 2016
Rocmec 1					
Mining rights	\$ 2,603,982	\$ -	\$ -	\$ -	\$ 2,603,982
Exploration and evaluation	6,145,704	31,480	(2,390)	-	6,174,794
	<u>\$ 8,749,686</u>	<u>\$ 31,480</u>	<u>\$(2,390)</u>	<u>\$ -</u>	<u>\$ 8,778,776</u>

Rocmec 1 project – Dasserat township, Quebec

100% interest in mining rights including 19 mining claims of which 11 mining claims 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

	March 31, 2017	September 30, 2016
Trade accounts payable*	\$ 569,566	\$ 469,042
Accrued interest payable	135,894	142,536
Taxes on Section XII.6 and III.14 payable	822,262	822,262
Salaries and fringe benefits payable	757,975	849,629
Other liabilities	132,109	45,737
	<u>\$ 2,417,806</u>	<u>\$ 2,329,206</u>

*Includes an amount of \$14,538 (\$9,054 as at September 30, 2016) payable to related parties.

During the period, the Company settled accrued interest totaling \$36,437 by issuing 520,528 common shares at \$0.07 per share. This transaction did not result in a gain or loss on settlement of debt (Note 10).

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.

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

Nippon Dragon Resources Inc.

NOTES TO INTERIM CONSOLIDATED STATEMENTS FOR THE 6 MONTH PERIOD ENDED MARCH 31, 2017

(in Canadian dollars)

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

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.

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 March 31, 2017 no gold delivery has been made.

As at March 31, 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

	March 31, 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.	<u>305,635</u>	<u>336,901</u>
Current Debts	<u>\$ 1,440,541</u>	<u>\$ 1,471,807</u>

The outstanding and repayable balance as at March 31, 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 investments, 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 THE 6 MONTH PERIOD ENDED MARCH 31, 2017

(in Canadian dollars)

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

9. DEBENTURES

	March 31, 2017	September 30, 2016
<p>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.</p>	\$ -	\$ 249,995
<p>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.</p>	537,500	537,500
<p>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.</p>	12,870	-
Current Debentures	<u>\$ 550,370</u>	<u>\$ 787,495</u>

The outstanding and repayable balance as at March 31, 2017 of the debentures is \$550,370 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:

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

Nippon Dragon Resources Inc.

NOTES TO INTERIM CONSOLIDATED STATEMENTS FOR THE 6 MONTH PERIOD ENDED MARCH 31, 2017

(in Canadian dollars)

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

10. EQUITY (cont'd)

Issued (cont'd)

Six month period ended March 31, 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.

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 March 31, 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.

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

Nippon Dragon Resources Inc.**NOTES TO INTERIM CONSOLIDATED STATEMENTS FOR THE 6 MONTH PERIOD ENDED MARCH 31, 2017**

(in Canadian dollars)

(Unaudited and not reviewed by the Company's independent auditors)**10. EQUITY (cont'd)****Common share purchase options (cont'd)**

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

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

	March 31, 2017		September 30, 2016	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of period	6,765,000	\$ 0.124	10,030,000	\$ 0.134
Granted	-	-	-	-
Exercised	-	-	(500,000)	(0.094)
Expired	-	-	(2,765,000)	(0.166)
Balance, end of period	<u>6,765,000</u>	<u>0.124</u>	<u>6,765,000</u>	<u>0.124</u>
Options exercisable at the end	<u>6,765,000</u>	<u>\$ 0.124</u>	<u>6,765,000</u>	<u>0.124</u>

Granted options and exercisable options as at March 31, 2017:

Granted options	Exercisable options	Exercise price	Expiration date
2,435,000	2,435,000	\$ 0.14	June 2017
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>6,765,000</u>	<u>6,765,000</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 THE 6 MONTH PERIOD ENDED MARCH 31, 2017

(in Canadian dollars)

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

10. EQUITY (cont'd)

Warrants

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

	March 31, 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	(21,640,610)	(0.115)	(431,311)
Balance as at March 31, 2017	39,125,963	\$ 0.121	\$ 888,913

	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 March 31, 2017 are as follows:

Number of warrants	Exercise price	Expiration date
12,766,686	\$ 0.120	May - Nov. 2017
2,676,111	\$ 0.135	Feb. - March 2018
23,683,166	\$ 0.120	May - Dec. 2018
39,125,963		

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

Nippon Dragon Resources Inc.

NOTES TO INTERIM CONSOLIDATED STATEMENTS FOR THE 6 MONTH PERIOD ENDED MARCH 31, 2017

(in Canadian dollars)

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

10. 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:

	<u>March 31, 2017</u>	<u>September 30, 2016</u>
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

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

	<u>3 month period ended March 31, 2017</u>	<u>3 month period ended March 31, 2016</u>	<u>6 month period ended March 31, 2017</u>	<u>6 month period ended March 31, 2016</u>
GENERAL AND ADMINISTRATIVE EXPENSES				
Salaries and fringe benefits	\$ 158,148	\$ 123,148	\$ 294,953	\$ 263,275
Insurance	6,415	6,918	12,924	14,004
Trustee fees and registration	15,377	22,231	29,010	41,981
Professional fees	83,147	38,832	140,674	90,342
Maintenance and repairs	25,843	-	27,599	3,607
Stationary and office expenses	6,372	12,800	38,464	17,999
Travelling and promotion	108,650	55,487	195,866	97,862
Depreciation of property, plant and equipment	27,586	13,968	54,452	27,626
	<u>\$ 431,538</u>	<u>\$ 273,384</u>	<u>\$ 793,942</u>	<u>\$ 556,696</u>
OTHER EXPENSES (INCOME)				
Interests on debentures and debts	\$ 63,947	\$ 120,732	\$ 102,603	\$ 237,870
Financing charges and other interests	5,758	6,065	15,194	11,896
Loss on disposal of property, plant and equipment	2,865	-	2,865	-
Gain on settlement of indemnities payable to subscribers	-	(331,201)	-	(331,201)
	<u>\$ 72,570</u>	<u>\$(204,404)</u>	<u>\$ 120,662</u>	<u>\$(81,435)</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 THE 6 MONTH PERIOD ENDED MARCH 31, 2017

(in Canadian dollars)

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

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:

	March 31, 2017		September 30, 2016	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets (loans and receivables)				
Cash	\$ 65,732	\$ 65,732	\$ 833,678	\$ 833,678
Cash in escrow	-	-	216,000	216,000
Accounts receivable and other receivables	59,593	59,593	73,786	73,786
	<u>\$ 125,325</u>	<u>\$ 125,325</u>	<u>\$ 1,123,464</u>	<u>\$ 1,123,464</u>
	March 31, 2017		September 30, 2016	
	Carrying value	Fair value	Carrying value	Fair value
Financial liabilities				
Financial liabilities at amortized cost				
Accounts payable	\$ 2,417,806	\$ 2,417,806	\$ 2,329,206	\$ 2,329,206
Loans	14,978	14,978	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	550,370	550,370	787,495	787,495
	<u>\$ 5,143,775</u>	<u>\$ 5,143,775</u>	<u>\$ 5,332,753</u>	<u>\$ 5,332,753</u>

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

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

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

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

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

Nippon Dragon Resources Inc.

NOTES TO INTERIM CONSOLIDATED STATEMENTS FOR THE 6 MONTH PERIOD ENDED MARCH 31, 2017

(in Canadian dollars)

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

13. SUPPLEMENTAL CASH FLOW INFORMATION

	6 month period ended March 31, 2017	6 month period ended March 31, 2016
Supplemental cash flow information:		
Net changes in working capital items:		
Cash in escrow	\$ 216,000	\$ -
Accounts receivable and other receivables	18,024	2,977
Sales tax receivable	32,351	(861)
Prepaid expenses	29,169	51,559
Accounts Payable	121,908	129,182
	<u>\$ 417,452</u>	<u>\$ 182,857</u>

	6 month period ended March 31, 2017	6 month period ended March 31, 2016
Non-cash investing and financing activities :		
Increase in tax credits receivables	\$ 11,205	\$ 2,390
Exploration and evaluation assets payable in common shares	70,000	-
Share issuance in settlement of an expired debenture and its accrued interest	167,824	-
Share issuance in settlement of indemnities payable to subscribers	-	795,000
Stock options exercised	-	19,600
Warrants exercised	14,200	313
Warrants expired	431,311	-

14. SUBSEQUENT EVENT

On April 7, 2017, the Company entered into an agreement with Au Consolidated Inc. ("AU") regarding the modular treatment plant referred as the UMCO 75 F. AU agreed to purchase all rights and title of UMCO 75 F from the Company for an amount of \$980,542 USD. This amount takes into account all costs incurred by AU for a total of \$535,850 USD under the cost sharing arrangement between AU and the Company at 50% each, a write-off of debt in the amount of \$264,692 USD payable by the Company to AU as at March 31, 2017 and 3 monthly cash payments of \$60,000 USD beginning in April 2017 and ending in June 2017 totaling \$180,000 USD.

This new agreement also modifies the initial agreement that the Company had with AU regarding the sharing of the gold to be produced. Initially, the first 2,000 ounces of gold would be shared at 80% for the Company and 20% for AU. The new agreement modifies the sharing at a ratio of 70% for the Company and 30% for AU as of April 1, 2017.

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