



## **Nippon Dragon Resources Inc.**

### **CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE 6 MONTH PERIOD ENDED MARCH 31, 2018

(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)

	<b>March 31, 2018</b>	<b>September 30, 2017</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	45,309	5,600
Accounts receivable and other receivables	19,188	91,139
Sales tax receivable	33,471	27,473
Work in progress	198,637	-
Prepaid expenses	17,453	12,981
Tax credits receivable	33,266	-
<b>Total current assets</b>	<b>347,324</b>	<b>137,193</b>
<b>NON CURRENT ASSETS</b>		
Property, plant and equipment (Note 4)	311,041	362,373
Exploration and evaluation assets (Note 5)	8,852,750	8,879,219
<b>Total non-current assets</b>	<b>9,163,791</b>	<b>9,241,592</b>
<b>TOTAL ASSETS</b>	<b>9,511,115</b>	<b>9,378,785</b>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable (Note 6)	2,269,813	2,361,641
Loans	15,376	14,370
Deferred revenues (Note 7)	1,245,165	1,080,000
Indemnities payable to subscribers	501,876	501,876
Debts (Note 8)	1,440,541	1,440,541
Debentures (Note 9)	537,500	551,648
<b>TOTAL CURRENT AND TOTAL LIABILITIES</b>	<b>6,010,271</b>	<b>5,950,076</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	47,480,722	46,984,495
Contributed surplus	12,372,979	11,610,304
Warrants (Note 10)	270,858	859,655
Deficit	( 56,623,715 )	( 56,025,745 )
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>3,500,844</b>	<b>3,428,709</b>
<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>	<b>9,511,115</b>	<b>9,378,785</b>
<b>GOING CONCERN (Note 2)</b>		
<b>SUBSEQUENT EVENT (Note 14)</b>		

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, 2018	3 month period ended March 31, 2017	6 month period ended March 31, 2018	6 month period ended March 31, 2017
INCOME				
Thermal fragmentation technology distribution income	\$ 28,249	\$ 3,791	\$ 56,543	\$ 50,924
Other income		1,013		4,823
	<u>\$ 28,249</u>	<u>\$ 4,804</u>	<u>\$ 56,543</u>	<u>\$ 55,747</u>
CONTRACTS COST				
Contract Costs from thermal fragmentation technology distribution	\$ 7,863	\$ 148,743	\$ 20,487	\$ 395,283
Royalties	8,475	4,046	16,963	11,664
	<u>16,338</u>	<u>152,789</u>	<u>37,450</u>	<u>406,947</u>
GROSS PROFIT (LOSS)	<u>11,911</u>	<u>( 147,985 )</u>	<u>19,093</u>	<u>( 351,200 )</u>
GENERAL AND ADMINISTRATIVE EXPENSES (Note 11)	255,332	431,538	496,356	793,942
OTHER EXPENSES (INCOME) (Note 11)	<u>51,459</u>	<u>72,570</u>	<u>49,481</u>	<u>120,662</u>
TOTAL NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	<u>\$ ( 294,880 )</u>	<u>\$ ( 652,093 )</u>	<u>\$ ( 526,744 )</u>	<u>\$ ( 1,265,804 )</u>
NET (LOSS) INCOME PER SHARE				
Basic	\$( 0.0018 )	\$( 0.0046 )	\$( 0.0033 )	\$( 0.0089 )
Diluted	\$( 0.0018 )	\$( 0.0046 )	\$( 0.0033 )	\$( 0.0089 )
Weighted average number of shares outstanding	162,612,480	142,506,944	160,903,800	142,454,888

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, 2018 and 2017**

	Number of shares	Share capital	Shares to be issued	Contributed surplus	Warrants	Deficit	Total equity
BALANCE AS AT OCTOBER 1 <sup>st</sup> , 2017	150,866,341	46,984,495	-	11,610,304	859,655	( 56,025,745 )	3,428,709
Shares issued by private investments (Note 10)	12,700,072	496,227	-	-	138,778	-	635,005
Warrants expired (Note 10)	-	-	-	762,675	( 762,675 )	-	-
Issuance expenses	-	-	-	-	35,100	( 71,226 )	( 36,126 )
Net income (loss) and comprehensive income (loss)	-	-	-	-	-	( 526,744 )	( 526,744 )
BALANCE AS AT MARCH 31, 2018	163,566,413	47,480,722	-	12,372,979	270,858	(56,623,715 )	3,500,844

  

	Number of shares	Share capital	Shares to be issued	Contributed surplus	Warrants	Deficit	Total equity
BALANCE AS AT OCTOBER 1 <sup>st</sup> , 2016	128,510,079	\$ 45,807,286	\$ 186,000	\$ 11,059,337	\$ 1,021,960	\$(54,014,436 )	\$ 4,060,147
Shares issued by private investments	11,381,984	572,765	( 186,000 )	-	298,264	-	685,029
Shares issued to settle a debenture	2,397,490	167,823	-	-	-	-	167,823
Shares to be issued in order to pay a service contract	-	-	70,000	-	-	-	70,000
Warrants issued in connection with the issuance of a debenture	-	-	-	-	14,200	-	14,200
Warrants exercised	1,000,000	99,200	-	-	( 14,200 )	-	85,000
Warrants expired	-	-	-	431,311	( 431,311 )	-	-
Net income (loss) and comprehensive income (loss)	-	-	-	-	-	( 1,265,804 )	( 1,265,804 )
BALANCE AS AT MARCH 31, 2017	143,289,553	\$ 46,647,074	\$ 70,000	\$11,490,648	\$ 888,913	\$(55,280,240 )	\$ 3,816,395

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)

	<b>6 month period ended March 31, 2018</b>	<b>6 month period ended March 31, 2017</b>
<b>OPERATING ACTIVITIES</b>		
Net (loss) income	\$ ( 526,744 )	\$ ( 1,265,804 )
Adjustments:		
Amortization of financing cost of a debenture	852	12,070
Depreciation of property, plant and equipment	51,332	54,452
Gain on recovery of account receivables	( 56,279 )	-
Interest paid	65,800	67,666
Unrealized foreign exchange loss	7,078	-
Interest paid by issuance of share capital	-	6,393
Loss on disposal of property, plant and equipment	-	2,865
Other	1,006	( 2,135 )
	( 456,955 )	( 1,124,493 )
Changes in working capital items (Note 13)	( 14,787 )	417,452
Cash flows used in operating activities	( 471,742 )	( 707,041 )
<b>INVESTING ACTIVITIES</b>		
Property, plant and equipment additions	-	( 679,617 )
Property, plant and equipment disposals	-	73,611
Additions to exploration and evaluation assets	( 6,884 )	( 8,240 )
Cash flows used in investing activities	( 6,884 )	( 614,246 )
<b>FINANCING ACTIVITIES</b>		
Warrants exercised	-	85,000
Interest paid	( 65,800 )	( 67,666 )
Issuance of a debenture	-	100,000
Debt repayment	-	( 31,266 )
Debentures repayment	( 15,000 )	( 210,000 )
Share issuance costs	( 36,126 )	-
Shares to be issued	-	( 186,000 )
Shares and warrants exercised	635,005	871,028
Loans repayment	-	( 7,755 )
Cash flow from financing activities	518,079	553,341
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>39,453</b>	<b>( 767,946 )</b>
Effect of foreign exchange rate changes on cash	256	-
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>5,600</b>	<b>833,678</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 45,309</b>	<b>\$ 65,732</b>

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 CONDENSED INTERIM CONSOLIDATED STATEMENTS

(in Canadian dollars)

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

**March 31, 2018**

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### 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.

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, 2018 (including comparative statements) were approved and authorized for issue by the Board of Directors on May 28, 2018.

### 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, 2018, the Company has accumulated a deficit of \$56,623,715 (\$56,025,745 as at September 30, 2017) and has a working capital deficiency of \$5,662,947 (\$5,812,883 as at September 30, 2017).

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 CONDENSED INTERIM CONSOLIDATED STATEMENTS

(in Canadian dollars)

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

**March 31, 2018**

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### 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, 2017, 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, 2017.

### 4. PROPERTY, PLANT AND EQUIPMENT

	<u>Equipment</u>	<u>Computer equipment</u>	<u>Automotive equipment</u>	<u>Telephone system</u>	<u>Total</u>
COST					
Balance as at October 1, 2017	981,109 \$	26,754 \$	37,703 \$	4,201 \$	1,049,767 \$
Additions	-	-	-	-	-
Disposal	-	-	-	-	-
Balance as at March 31, 2018	<u>981,109</u>	<u>26,754</u>	<u>37,703</u>	<u>4,201</u>	<u>1,049,767</u>
ACCUMULATED DEPRECIATION					
Balance as at October 1, 2017	619,975	25,515	37,703	4,201	687,394
Depreciation	51,022	310	-	-	51,332
Disposal	-	-	-	-	-
Balance as at March 31, 2018	<u>670,997</u>	<u>25,825</u>	<u>37,703</u>	<u>4,201</u>	<u>738,726</u>
CARRYING AMOUNT AS AT MARCH 31, 2018	<u>310,112</u>	<u>929</u>	<u>-</u>	<u>-</u>	<u>311,041</u>

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

# Nippon Dragon Resources Inc.

## NOTES TO CONDENSED INTERIM CONSOLIDATED STATEMENTS

(in Canadian dollars)

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

**March 31, 2018**

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

	Equipment	Treatment plant	Computer equipment	Automotive equipment	Telephone system	Total
<b>COST</b>						
Balance as at October 1, 2016	\$ 992,725	\$1,819,093	\$ 26,754	\$ 37,703	\$ 4,201	\$ 2,880,476
Additions	76,384	621,165	-	-	-	697,549
Disposal	( 88,000 )	( 2,440,258 )	-	-	-	( 2,528,258 )
Balance as at September 30, 2017	981,109	-	26,754	37,703	4,201	1,049,767
<b>ACCUMULATED DEPRECIATION</b>						
Balance as at October 1, 2016	525,386	1,819,093	24,896	37,703	4,201	2,411,279
Depreciation	106,117	-	619	-	-	106,736
Disposal	( 11,528 )	( 1,819,093 )	-	-	-	( 1,830,621 )
Balance as at September 30, 2017	619,975	-	25,515	37,703	4,201	687,394
<b>CARRYING AMOUNT AS AT SEPTEMBER 30, 2017</b>	<u>\$ 361,134</u>	<u>-</u>	<u>\$ 1,239</u>	<u>-</u>	<u>-</u>	<u>\$ 362,373</u>

On April 7, 2017, the Company sold all rights and title to its treatment plant to AU Consolidated ("AU") for USD \$1,006,268. The amount corresponds to the treatment plant installation costs paid by AU and due by the Company, extinguishment of payables from the Company to AU for operating costs and a cash payment. This disposal resulted in a gain on disposal of \$65,707.

Treatment plant installation costs by AU	USD \$	535,850
Extinguishment of payables		290,418
Cash payment		<u>180,000</u>
	USD \$	<u>1,006,268</u>

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



# Nippon Dragon Resources Inc.

## NOTES TO CONDENSED INTERIM CONSOLIDATED STATEMENTS

(in Canadian dollars)

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

**March 31, 2018**

### 5. EXPLORATION AND EVALUATION ASSETS

	Balance as at October 1, 2017	Additions	Tax credits and duties refundable	Impairment	Balance as at March 31, 2018
<b>Rocmec 1</b>					
Mining rights	2,603,982	-	-	-	2,603,982
Exploration and evaluation	6,275,237	6,884	( 33,353 )	-	6,248,768
	<u>\$ 8 879 219</u>	<u>\$ 6,884</u>	<u>\$ ( 33,353 )</u>	<u>\$ -</u>	<u>\$ 8,852,750</u>
	Balance as at October 1, 2016	Additions	Tax credits and duties refundable	Impairment	Balance as at September 30, 2017
<b>Rocmec 1</b>					
Mining rights	2,603,982	-	-	-	2,603,982
Exploration and evaluation	6,174,794	107,034	( 6,591 )	-	6,275,237
	<u>\$ 8,778,776</u>	<u>\$ 107,034</u>	<u>\$ ( 6,591 )</u>	<u>\$ -</u>	<u>\$ 8,879,219</u>

#### Rocmec 1 project – Dasserat township, Quebec

100% interest in mining rights including 19 mining claims of 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.

On August 1, 2017, the Company entered into a joint-venture agreement with Val d'Or Resources Corporation ("VRC"). The joint venture will take effect once VRC secures funding in the amount of \$16,200,000 (not effective March 31, 2018) that will be dedicated to the Rocmec 1 and Denain properties. As a result of the joint-venture, VRC will hold 49% of the Company's subsidiary Rocmec Gold inc. while the Company will continue to hold the 51% left. As at March 31, 2018, the funds were not secured by VRC and as such, the Company still owned 100% of its subsidiary.

Respectively on September 22 and 27, 2017, the following claims and mining properties were transferred from the Company into Rocmec Gold inc. as requested by the joint-venture agreement:

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

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

# Nippon Dragon Resources Inc.

## NOTES TO CONDENSED INTERIM CONSOLIDATED STATEMENTS

(in Canadian dollars)

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

### March 31, 2018

#### 6. ACCOUNTS PAYABLE

	March 31, 2018	September 30, 2017
Trade accounts payable	\$ 434,732	\$ 568,751
Accrued interest payable	134,009	115,113
Taxes on Section XII.6 and III.14 payable	822,262	822,262
Salaries and fringe benefits payable	811,026	811,297
Other liabilities	67,784	44,218
	<u>\$ 2,269,813</u>	<u>\$ 2,361,641</u>

During the year ended September 30, 2017, the Company settled accrued interest totaling \$149,257 by issuing 2,132,243 common shares at \$0.07 per share.

#### 7. DEFERRED REVENUES

	March 31, 2018	September 30, 2017
Prepaid gold sales	\$ 1,080,000	\$ 1,080,000
Deferred revenue relating to the sale of an equipment	165,165	-
	<u>\$ 1,245,165</u>	<u>\$ 1,080,000</u>

#### 8. DEBTS

	March 31, 2018	September 30, 2017
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	305,635
Current Debts	<u>\$ 1,440,541</u>	<u>\$ 1,440,541</u>

The outstanding and repayable balance as at March 31, 2018 is \$1,440,541 since the debts expired in May 2015 and have yet to be repaid.

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 CONDENSED INTERIM CONSOLIDATED STATEMENTS

(in Canadian dollars)

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

**March 31, 2018**

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### 9. DEBENTURES

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.

	<b>March 31, 2018</b>	September 30, 2017
	\$ 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 and on November 9, 2017, the balance of \$15,000 was repaid.

	-	14,148
	<u>537,500</u>	<u>\$ 551 648 \$</u>

Current Debenture

The outstanding and repayable balance as at March 31, 2018 of the debenture is \$537,500 since the debenture has expired and has 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 CONDENSED INTERIM CONSOLIDATED STATEMENTS

(in Canadian dollars)

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

**March 31, 2018**

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### 10. EQUITY (cont'd)

*Issued (cont'd)*

#### ***Six month period ended March 31, 2018***

On November 22, 2017, the Company completed a non-brokered private placement of 11,700,072 units of the Company at a price of \$0.05 per unit, for aggregate gross proceeds of \$585,005. 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 of the Company's share capital at a price of \$0.075 per common share for a period of 24 months following the closing of the private placement. An amount of \$120,068 related to the warrants issued has been recognized.

On January 8, 2018, the Company completed a non-brokered private placement of 1,000,000 units of the Company at a price of \$0.05 per unit, for aggregate gross proceeds of \$50,000. 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 of the Company's share capital at a price of \$0.075 per common share for a period of 24 months following the closing of the private placement. An amount of \$18 710 related to the warrants issued has been recognized.

Issuance costs of \$71,226 were incurred for the closing of these private placements.

#### ***Year ended September 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.

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.

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

# Nippon Dragon Resources Inc.

## NOTES TO CONDENSED INTERIM CONSOLIDATED STATEMENTS

(in Canadian dollars)

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

**March 31, 2018**

### 10. EQUITY (cont'd)

#### *Year ended September 30, 2017 (cont'd)*

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 at a price of \$0.07 per common share as interest payments on outstanding debentures. The amount of interests totals \$106,428 and represents accumulated interests at March 31, 2017.

On August 11, 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. An amount of \$90,398 was allocated to the warrants issued.

No issuance costs were incurred for private placements closed in the year ended September 30, 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.

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

	<b>March 31, 2018</b>		<b>September 30, 2017</b>	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of period	4 330 000	0,112	6 765 000	0,124
Expired	-	-	( 2 435 000 )	( 0,145 )
Balance, end of period	<u>4 330 000</u>	<u>0,112</u>	<u>4 330 000</u>	<u>0,112</u>
Options exercisable at the end	<u>4 330 000</u>	<u>0,112</u>	<u>4 330 000</u>	<u>0,112</u>

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

# Nippon Dragon Resources Inc.

## NOTES TO CONDENSED INTERIM CONSOLIDATED STATEMENTS

(in Canadian dollars)

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

**March 31, 2018**

### 10. EQUITY (cont'd)

#### Common share purchase options (cont'd)

Granted options and exercisable options as at March 31, 2018:

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:

	<b>March 31, 2018</b>		
	Number of warrants	Weighted average exercise price	Fair value allocated
Balance as at October 1 <sup>st</sup> , 2017	34,522,477	\$ 0.115	\$ 859,655
Granted	13,168,072	0.075	173,878
Expired	( 6,021,111 )	( 0.127 )	( 762,675 )
<b>Balance as at March 31, 2018</b>	<u>41,669,438</u>	0.099	<u>270,858</u>

	<b>September 30, 2017</b>		
	Number of warrants	Weighted average exercise price	Fair value allocated
Balance as at October 1 <sup>st</sup> , 2016	49,384,589	\$ 0.119	\$ 1,021,960
Granted	17,200,184	0.105	402,862
Exercised	( 1,000,000 )	( 0.085 )	( 14,200 )
Expired	( 31,062,296 )	( 0.117 )	( 550,967 )
Balance as at September 30, 2017	<u>34,522,477</u>	0.115	<u>859,655</u>

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

# Nippon Dragon Resources Inc.

## NOTES TO CONDENSED INTERIM CONSOLIDATED STATEMENTS

(in Canadian dollars)

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

**March 31, 2018**

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### 10. EQUITY (cont'd)

#### Warrants (cont'd)

Warrants outstanding as at March 31, 2018 are as follows:

Number of warrants	Exercise price	Expiration date
23,683,166	\$ 0.120	May – Dec. 2018
16,986,272	\$ 0.075	Aug. – Nov. 2019
1,000,000	\$ 0.075	Jan. 2020
<u>41,669,438</u>		

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

	March 31, 2018	September 30, 2017
Average share price at grant date	\$0.05	\$0.06
Risk-free interest rate	1.46 %	0.83%
Expected volatility	72.99 %	124.58%
Expected life (in years)	2	1.75
Expected dividend	0.00 %	0.00%
Average exercise price at grant date	\$0.075	\$0.11

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

# Nippon Dragon Resources Inc.

## NOTES TO CONDENSED INTERIM CONSOLIDATED STATEMENTS

(in Canadian dollars)

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

### March 31, 2018

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

	<b>3 month period ended March 31, 2018</b>	3 month period ended March 31, 2017	<b>6 month period ended March 31, 2018</b>	6 month period ended March 31, 2017
GENERAL AND ADMINISTRATIVE EXPENSES				
Salaries and fringe benefits	148,195	\$ 158,148	261,761	\$ 294,953
Insurance	6,127	6,415	12,370	12,924
Trustee fees and registration	11,789	15,377	41,057	29,010
Professional fees	37,891	83,147	74,680	140,674
Maintenance and repairs	-	25,843	9,806	27,599
Stationary and office expenses	14,914	6,372	19,255	38,464
Travelling and promotion	11,226	108,650	26,095	195,866
Depreciation of property, plant and equipment	25,190	27,586	51,332	54,452
	<u>255,332</u>	<u>\$ 431,538</u>	<u>496,356</u>	<u>\$ 793,942</u>
OTHER EXPENSES (INCOME)				
Interests on debentures and debts	41,849	\$ 63,947	84,695	\$ 102,603
Financing charges and other interests	9,610	5,758	21,065	15,194
Loss on disposal of property, plant and equipment	-	2,865	-	2,865
Gain on settlement of indemnities payable to subscribers	-	-	( 56,279 )	-
	<u>51,459</u>	<u>\$ 72,570</u>	<u>49,481</u>	<u>\$ 120,662</u>

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



# Nippon Dragon Resources Inc.

## NOTES TO CONDENSED INTERIM CONSOLIDATED STATEMENTS

(in Canadian dollars)

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

**March 31, 2018**

### 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:

	<b>March 31, 2018</b>		<b>September 30, 2017</b>	
	Carrying value	Fair value	Carrying value	Fair value
<b>Financial assets (loans and receivables)</b>				
Cash	45,309	45,309	5,600	\$ 5,600
Accounts receivable and other receivables	19,188	19,188	91,139	91,139
	<u>64,497</u>	<u>64,497</u>	<u>96,739</u>	<u>\$ 96,739</u>
	<b>March 31, 2018</b>		<b>September 30, 2017</b>	
	Carrying value	Fair value	Carrying value	Fair value
<b>Financial liabilities</b>				
<b><i>Financial liabilities at amortized cost</i></b>				
Accounts payable	2,269,813	2,269,813	2,361,641	\$ 2,361,641
Loans	15,376	15,376	14,370	14,370
Indemnities payable to subscribers	501,876	501,876	501,876	501,876
Debts	1,440,541	1,440,541	1,440,541	1,440,541
Debentures	537,500	537,500	551,648	551,648
	<u>4,765,106</u>	<u>4,765,106</u>	<u>4,870,076</u>	<u>\$ 4,870,076</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;
- Third level includes data that are not based on observable market data.

The carrying value of cash, 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 CONDENSED INTERIM CONSOLIDATED STATEMENTS

(in Canadian dollars)

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

**March 31, 2018**

### 13. SUPPLEMENTAL CASH FLOW INFORMATION

	6 month period ended <u>March 31, 2018</u>	6 month period ended <u>March 31, 2017</u>
<b>Supplemental cash flow information:</b>		
Net changes in working capital items:		
Cash in escrow	-	216,000
Accounts receivable and other receivables	94,668	18,024
Sales tax receivable	( 5,998 )	32,351
Work in progress	( 198,637 )	-
Prepaid expenses	( 4,472 )	29,169
Accounts Payable	( 65,513 )	121,908
Deferred revenues	165,165	-
	<u>( 14,787 )</u>	<u>417,452</u>

	6 month period ended <u>March 31, 2018</u>	6 month period ended <u>March 31, 2017</u>
<b>Non-cash investing and financing activities :</b>		
Increase in tax credits receivables	\$ 33,353	\$ 11,205
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	-	-
Issuance costs	35,100	-
Warrants exercised	-	14,200
Warrants expired	762,675	431,311

### 14. SUBSEQUENT EVENT

On April 9, 2018, the Company has shipped to the private company Metalfer in Serbia, a mini-dragon internally built. The sale of this equipment will allow the Company to recognize an initial revenue of \$335,200 and includes the following:

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

Following the sale, Metalfer will be subject to a monthly licensing and royalty fees.

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