

BLACK DRAGON GOLD CORP.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
(Unaudited)

NINE MONTHS ENDED SEPTEMBER 30, 2017

These unaudited condensed consolidated interim financial statements of Black Dragon Gold Corp. for the nine months ended September 30, 2017 have been prepared by management and approved by the Board of Directors. These unaudited condensed consolidated interim financial statements have not been reviewed by the Company's external auditors.

BLACK DRAGON GOLD CORP.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian dollars – Unaudited)
AS AT

	Notes	September 30, 2017	December 31, 2016 (Audited)
ASSETS			
Current			
Cash and equivalents		\$ 1,341,871	\$ 105,834
Receivables	3	34,967	34,319
Prepaid expenses		<u>29,961</u>	<u>664</u>
		<u>1,406,799</u>	<u>140,817</u>
Equipment		759	981
Deposits		1,240	1,240
Exploration and evaluation assets	4	<u>-</u>	<u>-</u>
		<u>1,999</u>	<u>2,221</u>
Total assets		<u>\$ 1,408,798</u>	<u>\$ 143,038</u>
LIABILITIES AND SHAREHOLDERS' DEFICIENCY			
Current			
Accounts payable and accrued liabilities	5	\$ 1,492,263	\$ 1,893,278
Interest payable	6	-	1,794,016
Loan facility	6	<u>-</u>	<u>10,498,919</u>
		1,492,263	14,186,213
Convertible debenture	7	<u>184,567</u>	<u>-</u>
Total liabilities		<u>1,676,830</u>	<u>14,186,213</u>
Shareholders' deficiency			
Share capital	8	20,402,914	13,165,615
Warrants	8	971,977	-
Equity portion of convertible debenture	8	52,288	-
Reserves	8	4,174,514	4,059,101
Deficit		<u>(25,869,725)</u>	<u>(31,267,891)</u>
Total shareholders' deficiency		<u>(268,032)</u>	<u>(14,043,175)</u>
Total liabilities and shareholders' deficiency		<u>\$ 1,408,798</u>	<u>\$ 143,038</u>

Nature and continuance of operations (Note 1)

Subsequent events (Note 14)

On behalf of the Board:

/s/ Paul Cronin
Paul Cronin
Director

/s/ Richard Monti
Richard Monti
Director

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

BLACK DRAGON GOLD CORP.**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)**

(Expressed in Canadian dollars)

(Unaudited)

		Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
	Notes				
EXPENSES					
Consulting		\$ -	\$ -	\$ 34,715	\$ 14,459
Corporate development		-	1,043	-	5,543
Depreciation		74	86	222	280
Directors' fees		45,427	-	90,427	-
Filing fees		10,577	2,550	17,739	7,897
Foreign exchange		35,769	120,159	(295,901)	(614,151)
General and administrative	10	10,293	65,536	145,775	125,373
General exploration		42,937	-	130,799	1,800
Management fees	10	82,945	305,704	1,181,486	335,704
Professional fees		96,421	118,365	337,833	147,475
Rent		5,244	6,382	40,465	21,557
Shareholder communications		7,866	16,449	48,531	19,045
Share-based compensation	8, 10	25,888	-	115,413	-
Transfer agent		5,711	1,760	9,084	4,715
Travel and related		<u>6,963</u>	<u>267,361</u>	<u>123,817</u>	<u>277,290</u>
Loss from operations		<u>(376,115)</u>	<u>(905,395)</u>	<u>(1,980,405)</u>	<u>(346,987)</u>
OTHER ITEMS					
Change of control obligations		-	(460,524)	-	(460,524)
Interest and accretion expense	6	(9,530)	(186,717)	(344,396)	(938,471)
Gain on settlement of RMB loan	6	<u>7,722,967</u>	<u>-</u>	<u>7,722,967</u>	<u>-</u>
		<u>7,713,437</u>	<u>(647,241)</u>	<u>7,378,571</u>	<u>(1,398,995)</u>
Net income (loss) and comprehensive net income (loss) for the period		<u>\$ 7,337,322</u>	<u>\$ (1,552,636)</u>	<u>\$ 5,398,166</u>	<u>\$ (1,745,982)</u>
Basic and diluted loss per common share		\$ 0.03	\$ (0.04)	\$ 0.05	\$ (0.05)
Weighted average number of common shares outstanding		219,456,210	42,257,359	107,482,790	38,626,354

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

BLACK DRAGON GOLD CORP.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
(Expressed in Canadian dollars)
(Unaudited)
NINE MONTHS ENDED SEPTEMBER 30,

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss) for the period	\$ 5,398,166	\$ (1,745,982)
Items not affecting cash:		
Depreciation	222	280
Interest and accretion expense	344,396	938,471
Share-based compensation	115,413	-
Gain on settlement of RMB loan	(7,722,967)	-
Unrealized foreign exchange gain	(295,901)	(614,151)
Change in non-cash working capital items		
Decrease (increase) in receivables	(648)	8,045
Decrease (increase) in prepaid expenses	(29,297)	(1,287)
Increase (decrease) in accounts payable and accrued liabilities	<u>(396,020)</u>	<u>719,298</u>
Net cash used in operating activities	<u>(2,586,636)</u>	<u>(695,326)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loan facility	-	280,099
Convertible debentures	251,000	-
Settlement of RMB loan	(4,619,049)	-
Shares issued for cash, net	<u>8,190,722</u>	<u>456,071</u>
Net cash provided by financing activities	<u>3,822,673</u>	<u>736,170</u>
Increase in cash during the period	1,236,037	40,844
Cash, beginning of period	<u>105,834</u>	<u>110,764</u>
Cash, end of period	<u>\$ 1,341,871</u>	<u>\$ 151,608</u>

Supplemental disclosure with respect to cash flows (Note 9)

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

BLACK DRAGON GOLD CORP.**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIENCY**

(Expressed in Canadian dollars)

(Unaudited)

	Share Capital			Equity Portion of Convertible Debenture	Reserves	Deficit	Total
	Number	Amount	Warrants				
Balance, December 31, 2016	51,003,353	\$ 13,165,615	\$ -	\$ -	\$ 4,059,101	\$ (31,267,891)	\$ (14,043,175)
Shares issued for cash, net	156,884,824	8,287,122	-	-	-	-	8,287,122
Warrants	-	-	777,749	-	-	-	777,749
Finders' fees - cash	-	(460,275)	-	-	-	-	(460,275)
Finders' fees - shares	10,997,579	(418,137)	-	-	-	-	(418,137)
Finders' fees - warrants	-	(171,411)	171,411	-	-	-	-
Warrants issued with convertible debentures	570,454	-	22,817	-	-	-	22,817
Equity portion of convertible debentures	-	-	-	52,288	-	-	52,288
Share-based compensation	-	-	-	-	115,413	-	115,413
Income (loss) for the period	-	-	-	-	-	5,398,166	5,398,166
Balance, September 30, 2017	219,456,210	\$ 20,402,914	\$ 971,977	\$ 52,288	\$ 4,174,514	\$ (25,869,725)	\$ (268,032)

	Share Capital			Reserves	Deficit	Total
	Number	Amount				
Balance, December 31, 2015	36,780,761	\$ 12,494,553	\$ 4,059,101	\$ (28,421,176)	\$ (11,867,522)	
Shares issued for cash	10,282,592	514,129	-	-	514,129	
Share issuance costs	-	(58,058)	-	-	(58,058)	
Loss for the period	-	-	-	(1,745,982)	(1,745,982)	
Balance, September 30, 2016	47,063,353	\$ 12,950,624	\$ 4,059,101	\$ (30,167,158)	\$ (13,157,433)	

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

BLACK DRAGON GOLD CORP.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

(Expressed in Canadian dollars)

(Unaudited)

NINE MONTHS ENDED SEPTEMBER 30, 2017

1. NATURE AND CONTINUANCE OF OPERATIONS

Black Dragon Gold Corp. (the “Company”) was incorporated under the laws of the Province of British Columbia on August 20, 2007, and is classified as a junior mining issuer with the TSX Venture Exchange (“TSX-V”). The Company’s head office address is Suite 545 – 999 Canada Place, Vancouver, British Columbia, V6C 3E1. The registered and records office address is 2080 – 777 Hornby Street, Vancouver, British Columbia, V6Z 1S4.

These unaudited condensed consolidated interim financial statements have been prepared assuming the Company will continue on a going-concern basis. The Company has incurred losses since inception and the ability of the Company to continue as a going-concern depends upon its ability to develop profitable operations and to continue to raise adequate financing. Management is actively targeting sources of additional financing through alliances with financial, exploration and mining entities, or other business and financial transactions which would assure continuation of the Company’s operations and exploration programs. In order for the Company to meet its liabilities as they come due and to continue its operations, the Company is solely dependent upon its ability to generate such financing.

On June 30, 2017, the Company issued 155,549,824 units for gross proceeds of \$8,555,240 in conjunction with the closing of a non-brokered private placement (Note 8).

There can be no assurance that the Company will be able to continue to raise funds, in which case the Company may be unable to meet its obligations. Should the Company be unable to realize its assets and discharge its liabilities in the normal course of business, the net realizable value of its assets may be materially less than the amounts recorded in these financial statements.

The unaudited condensed consolidated interim financial statements for the nine months ended September 30, 2017 do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION

These unaudited condensed consolidated interim financial statements were authorized for issue on November 29, 2017 by the directors of the Company.

Principles of consolidation

These unaudited condensed consolidated interim financial statements include the accounts of the Company and its wholly owned subsidiaries, including Exploraciones Mineras del Cantabrico S.L. (“EMC”). EMC is a mining company in Asturias, Spain. All inter-company transactions and accounts have been eliminated upon consolidation.

Basis of preparation

These unaudited condensed consolidated interim financial statements for the nine months ended September 30, 2017 are prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) applicable to the preparation of interim financial statements, including International Accounting Standard (“IAS”), *Interim Financial Reporting* (“IAS 34”). These unaudited condensed consolidated interim financial statements have been prepared using the same accounting policies and methods of application as the Company’s most recent annual audited consolidated financial statements. These unaudited condensed consolidated interim financial statements do not include all information and disclosures required in audited consolidated financial statements and should be read in conjunction with the Company’s December 31, 2016 audited consolidated financial statements.

BLACK DRAGON GOLD CORP.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

(Expressed in Canadian dollars)

(Unaudited)

NINE MONTHS ENDED SEPTEMBER 30, 2017

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (cont'd...)**Accounting standards and interpretations issued but not yet applied**

As at the date of these financial statements, the following standards have not been applied in these financial statements:

- (i) IFRS 9 – New standard that replaced IAS 39 for classification and measurement, effective for annual periods beginning on or after January 1, 2018.
- (ii) IFRS 15 - New standard to establish principles for reporting the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers, effective for annual periods beginning on or after January 1, 2018.
- (iii) IFRS 16 – Leases: New standard to establish principles for recognition, measurement, presentation and disclosure of leases with an impact on lessee accounting, effective for annual periods beginning on or after January 1, 2019.

Management is currently assessing the impact of these new standards on the Company's accounting policies and financial statement presentation.

3. RECEIVABLES

	September 30, 2017	December 31, 2016
Foreign value-added tax	\$ 15,529	\$ 15,529
GST receivable	<u>19,438</u>	<u>18,790</u>
Total	<u>\$ 34,967</u>	<u>\$ 34,319</u>

4. EXPLORATION AND EVALUATION ASSETS

	September 30, 2017	December 31, 2016
Acquisition costs	\$ -	\$ 5,536,947
Exploration and evaluation costs	-	8,872,546
Impairment	<u>-</u>	<u>(14,409,493)</u>
Total exploration and evaluation assets	<u>\$ -</u>	<u>\$ -</u>

BLACK DRAGON GOLD CORP.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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(Unaudited)

NINE MONTHS ENDED SEPTEMBER 30, 2017

4. EXPLORATION AND EVALUATION ASSETS (cont'd...)

Salave Gold Property

In April 2010, the Company completed the acquisition of a 100% interest in the Salave property located in the province of Asturias, Spain. The Salave property is comprised of several mineral concessions and an investigation permit. There is contingent consideration of €20,000,000 due to the vendor for the acquisition of the Salave property if certain permits are received to operate an open pit mine.

The Salave property is also subject to a pre-existing lease termination agreement which calls for five cash payments of US\$5,000,000 each with the first payment due when certain permits to construct and operate an open pit mine are received, the second on commencement of commercial production and the remaining three payments based on certain production levels with the final payment due after 800,000 ounces have been produced. Pursuant to the lease termination amending agreement, at the option of the Company and subject to regulatory approval, any of these payments can be satisfied in whole by the issuance of common shares of the Company.

After 800,000 ounces of gold have been produced, the Salave property is also subject to a 5% net smelter return royalty ("NSR"), half of which can be purchased by the Company for a cash payment of US \$5,000,000.

During 2005, the regional government of Asturias, Spain halted open-pit project development of the Salave property due to the introduction of certain zoning legislation and the rejection of a specific authorization for mining of the property. Immediately thereafter, a legal proceeding was commenced by EMC and the former owners of EMC against the government seeking the reversal of the decision to halt open-pit project development. This legal proceeding was not successful and, accordingly, the Company's development plans for the Salave property changed from an open pit to an underground operation. The consequence of this development plan is that the contingent consideration will not be payable.

During the fourth quarter of fiscal 2014, the Company received a negative decision on the Amended Environmental Impact Assessment from the Commission for Environmental Affairs of the Principality of Asturias for the Company's current development proposal of the Salave property. As a result of this decision, the Company impaired all of its acquisition costs and exploration and evaluation costs for the year ended December 31, 2014.

During April 2015, the Company filed a lawsuit before the Asturias Court of Justice challenging the decision to reject approval of a proposed underground mine operation for the Salave project. The initial legal action sought to challenge this ruling. In conjunction with this legal action, the Company filed a statement of claim (the "Claim") against the Ministry of Economy and Employment of the Principality of Asturias (the "Ministry") in November 2015. The Claim sought to recover Euro 8.59 million of expenditures incurred on the Salave property since 2010 when the Company acquired the property.

During fiscal 2016, the Company's claim was rejected by the Asturias Court of Justice. While the Company initially filed an appeal, management rescinded this appeal and intends to work closely with the Spanish government to develop a feasibility study that meets the requirements of the Spanish government.

BLACK DRAGON GOLD CORP.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

(Unaudited)

NINE MONTHS ENDED SEPTEMBER 30, 2017

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2017	December 31, 2016
Accounts payables	\$ 650,235	\$ 526,464
Accrued liabilities	451,489	396,725
Due to related parties (Note 10)	<u>390,539</u>	<u>970,089</u>
Total	\$ 1,492,263	\$ 1,893,278

6. LOAN FACILITY

	Nine Months Ended September 30, 2017	Year Ended December 31, 2016
Loan facility borrowings, beginning of period	\$ 10,498,919	\$ 10,472,288
Loan facility borrowings made during the period	-	305,020
Foreign exchange	(376,147)	(278,389)
Settlement	<u>(10,122,772)</u>	<u>-</u>
Loan facility borrowings, end of period	\$ -	\$ 10,498,919
Loan transaction costs, beginning of period	\$ -	\$ (377,975)
Loan transaction costs accreted during the period	<u>-</u>	<u>377,975</u>
Loan transaction costs, end of period	\$ -	\$ -
Loan facility balance, end of period	\$ -	\$ 10,498,919

In June 2013, the Company closed an agreement for a \$10,000,000 loan facility ("Facility") to be provided by RMB Australia Holdings Limited ("RMB"), the lender. On August 8, 2013, the Facility was amended to convert all amounts owing and future borrowings from Canadian dollars to US dollars. Previously drawn Canadian dollar amounts were converted to their US dollar equivalents. The total value of the loan facility available to the Company was converted to US\$10,000,000. As of June 30, 2017, US\$7,813,614 (December 31, 2016 - US\$7,813,614) had been drawn and \$2,094,162 (December 31, 2016 - \$1,794,016) of interest was payable.

The repayment of principal and interest, originally due June 2016, was extended to July 5, 2017.

On July 5, 2017, the Company repaid the RMB loan facility, including accrued interest, for cash consideration of \$4,493,966 and the granting by the Company to RMB of a 2% net smelter return royalty on the first 800,000 ounces of gold production from the Salave property.

As a result, during the nine months ended September 30, 2017, the Company recorded a gain on settlement of debt totalling \$7,722,967.

BLACK DRAGON GOLD CORP.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

(Expressed in Canadian dollars)

(Unaudited)

NINE MONTHS ENDED SEPTEMBER 30, 2017

7. CONVERTIBLE DEBENTURE

During April 2017, the Company issued unsecured convertible debentures with a total principal amount of \$251,000, bearing interest at the rate of 15% per annum. The debentures will mature and be repayable on or before April 18, 2019. The debentures are convertible into common shares of the company at a conversion price \$0.055 per share until April 18, 2018, and \$0.10 per share thereafter until April 18, 2019. Each \$1,000 in principal amount of debentures also includes 18,181 common share purchase warrants. Each warrant entitles the holder to acquire one additional common share of the company at a price of \$0.11 per common share for a period of 24 months. If, during this 24-month period, the volume-weighted average price of the Company's common shares is at least \$0.22 for a period of seven consecutive trading days, the Company may, at its option, accelerate the expiry date of the warrants by issuing a news release or giving written notice thereof to all holders of the warrants, and, in such case, the warrants will expire on the earlier of: (i) the 30th day after the date on which the news release or written notice is provided by the Company; and (ii) the original expiry date. In connection with the issuance of the debentures, the holders thereof will be granted a right to nominate a member for election to the Company's board of directors at any meeting of shareholders where directors are to be elected, provided such nominee is acceptable to regulatory authorities, for so long as the debentures are outstanding.

Pursuant to a service agreement dated July 11, 2016, and previously approved by the TSX Venture Exchange, Lionsbridge Capital Pty. Ltd., a company owned and controlled by Brian S. Wesson, former chief executive officer, B. Clyde Wesson, former chief operating officer, and Amelia Wesson, former vice-president, received a finder's fee of 570,454 common shares, valued at \$22,520, in connection with the closing of the debentures.

Upon initial recognition, the Company allocated the proceeds, net of transaction costs (which totaled \$45,337), between the debt and equity components as follows:

Conversion feature (equity component)	\$	52,287
Convertible loan (liability component)		153,376
Total	\$	205,663

The fair value of the liability component was calculated by discounting the future principal and interest payments using a market rate of 15%, with the residual value allocated to the equity component. The discount rate was based on comparable instruments without a conversion feature. Transaction costs were allocated on a pro-rata basis based on the values assigned to the components.

Subsequent to the initial recognition, the convertible loan is carried at amortized cost and is amortized to its principal amount using an effective interest rate of 22.5%.

8. SHARE CAPITAL AND RESERVES

Authorized:

Unlimited number of common shares without par value.

Issued

On June 30, 2017, the Company issued 155,549,824 units for gross proceeds of \$8,555,240 in conjunction with the closing of a non-brokered private placement. Each unit is comprised of one common share and one share purchase warrant. Each warrant enables the holder to acquire one common share with an exercise price of \$0.11 per share, expiring on June 30, 2019. A residual value of \$777,749 was allocated to the warrants and \$7,777,491 to the common shares. The value attributed to the warrants was based on the residual method, which values the common shares at fair value, with the remaining amount of the proceeds being allocated to the warrants.

BLACK DRAGON GOLD CORP.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

(Unaudited)

NINE MONTHS ENDED SEPTEMBER 30, 2017

8. SHARE CAPITAL AND RESERVES (cont'd...)**Issued (cont'd...)**

Finders' fees paid in conjunction with this private placement were comprised of cash payments totalling \$421,762, the issuance of 10,997,579 shares valued at \$418,137 and the issuance of 9,664,589 share purchase warrants valued at \$171,411, of which 1,664,589 warrants are exercisable for two years and of which 8,000,000 warrants are exercisable for four years, all with the same terms as those attached to the unit warrants.

During May 2017, the Company issued 570,000 units for gross proceeds of \$31,350 in conjunction with the closing of a tranche of a non-brokered private placement. Each unit is comprised of one common share and one share purchase warrant. Each warrant enables the holder to acquire one common share with an exercise price of \$0.11 per share, expiring between March 27 and March 28, 2019. If, during the warrant term, the closing price of the Company's common shares is at least \$0.22 for a period of twenty consecutive trading days, the Company may, at its option, accelerate the expiry date of the warrants by issuing a news release or giving written notice thereof all holders of warrants, and in such case, the warrants will expire on the earlier of the 30th day after the date on which the news release or written notice is disseminated by the Company, and the original expiry date.

During March, 2017, the Company issued 765,000 units for gross proceeds of \$42,075 in conjunction with the closing of a tranche of a non-brokered private placement. Each unit is comprised of one common share and one share purchase warrant. Each warrant enables the holder to acquire one common share with an exercise price of \$0.11 per share, expiring between March 27 and March 28, 2019. If, during the warrant term, the closing price of the Company's common shares is at least \$0.22 for a period of twenty consecutive trading days, the Company may, at its option, accelerate the expiry date of the warrants by issuing a news release or giving written notice thereof all holders of warrants, and in such case, the warrants will expire on the earlier of the 30th day after the date on which the news release or written notice is disseminated by the Company, and the original expiry date. The Company paid a finder's fee of \$1,326.

During December 2016, the Company issued 3,940,000 units for gross proceeds of \$216,700 in conjunction with the closing of two tranches of a non-brokered private placement. Each unit is comprised of one common share and one share purchase warrant. Each warrant enables the holder to acquire one common share with an exercise price of \$0.11 per share, expiring between December 6 and December 22, 2018. If, during the warrant term, the closing price of the Company's common shares is at least \$0.22 for a period of twenty consecutive trading days, the Company may, at its option, accelerate the expiry date of the warrants by issuing a news release or giving written notice thereof all holders of warrants, and in such case, the warrants will expire on the earlier of the 30th day after the date on which the news release or written notice is disseminated by the Company, and the original expiry date. The Company paid a finder's fee of \$660.

During August 2016, the Company issued 10,282,592 units for gross proceeds of \$514,130 in conjunction with a non-brokered private placement. Each unit is comprised of one common share and one share purchase warrant. Each warrant enables the holder to acquire one common share with an exercise price of \$0.07 per share, expiring August 12, 2018. If, during the warrant term, the closing price of the Company's common shares is at least \$0.20 for a period of twenty consecutive trading days, the Company may, at its option, accelerate the expiry date of the warrants by issuing a news release or giving written notice thereof all holders of warrants, and in such case, the warrants will expire on the earlier of the 30th day after the date on which the news release or written notice is disseminated by the Company, and the original expiry date. A cash finder's fee of \$37,500 was paid to Lionsbridge Pty Ltd., a company controlled by the Company's former CEO. In addition, the Company paid cash issuance costs of \$21,608.

BLACK DRAGON GOLD CORP.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

(Unaudited)

NINE MONTHS ENDED SEPTEMBER 30, 2017

8. SHARE CAPITAL AND RESERVES (cont'd...)**Warrants**

A summary of the number of common shares reserved pursuant to the Company's warrants outstanding as at September 30, 2017 and December 31, 2016 is as follows:

	Number	Exercise Price and Weighted Average Exercise Price	Expiry date
Balance, December 31, 2015	5,000,000	\$ 0.62	June 5, 2016
Expired June 5, 2016	(5,000,000)	0.62	June 5, 2016
Issued August 12, 2016	10,282,592	0.07	August 12, 2018
Issued December 6, 2016	1,410,000	0.11	December 6, 2018
Issued December 7, 2016	900,000	0.11	December 7, 2018
Issued December 22, 2016	<u>1,630,000</u>	0.11	December 22, 2018
Balance, December 31, 2016	14,222,592	\$ 0.08	
Issued March 28, 2017	400,000	0.11	March 27, 2019
Issued March 29, 2017	365,000	0.11	March 28, 2019
Issued April 18, 2017	4,563,431	0.11	April 18, 2019
Issued May 1, 2017	570,000	0.11	May 1, 2019
Issued June 30, 2017	157,214,413	0.11	June 30, 2019
Issued June 30, 2017	<u>8,000,000</u>	0.11	June 30, 2021
Balance, September 30, 2017	<u>185,335,436</u>	\$ 0.11	

Stock options

The Company has a stock option plan under which it is authorized to grant options to directors, employees and consultants, to acquire up to 10% of the issued and outstanding common stock. The exercise price of each option is based on the market price of the Company's stock at the date of grant. The options can be granted for a maximum term of 10 years and vest as determined by the board of directors.

	Number of Options	Weighted Average Exercise Price
Outstanding, December 31, 2015	3,335,000	\$ 0.54
Expired / terminated	<u>(1,470,000)</u>	0.72
Outstanding, December 31, 2016	1,865,000	0.46
Granted	20,380,000	0.09
Expired / terminated	<u>(1,590,000)</u>	0.40
Outstanding, September 30, 2017	<u>20,655,000</u>	\$ 0.09
Stock options exercisable, September 30, 2017	<u>2,705,000</u>	\$ 0.13

BLACK DRAGON GOLD CORP.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

(Expressed in Canadian dollars)

(Unaudited)

NINE MONTHS ENDED SEPTEMBER 30, 2017

8. SHARE CAPITAL AND RESERVES (cont'd...)**Stock options (cont'd...)**

As at September 30, 2017, the following incentive stock options are outstanding:

Number of Options	Exercise Price	Expiry Date
75,000	0.85	December 10, 2017
200,000	0.40	March 19, 2018
2,430,000	0.055	February 22, 2019
17,950,000	0.08-0.15	September 24, 2027

The weighted-average remaining life of stock options outstanding as of September 30, 2017 is 8.85 years (December 31, 2016 – 0.42 years).

Share-based compensation

During the nine months ended September 30, 2017, the Company recognized \$115,413 (2016 - \$Nil) of share-based compensation expense.

9. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS

During the nine months ended September 30, 2017 and 2016, the Company incurred the following non-cash transactions that are not reflected in the statements of cash flows:

	2017	2016
Fair value of unit warrants	\$ 777,749	\$ -
Fair value of finder's warrants	\$ 171,411	\$ -
Fair value of warrants issued with convertible debentures	\$ 22,817	\$ -

BLACK DRAGON GOLD CORP.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

(Expressed in Canadian dollars)

(Unaudited)

NINE MONTHS ENDED SEPTEMBER 30, 2017

10. RELATED PARTY TRANSACTIONS

The Company considers personnel with the authority and responsibility for planning, directing and controlling the activities of the Company to be key management personnel.

Transactions with key management personnel

The following amounts were incurred with respect to the Company's current and former Presidents and Chief Executive Officers, the current and former directors and the current and former Chief Financial Officers of the Company:

	Nine Months ended September 30, 2017	Nine Months ended September 30, 2016
Management fees – current Chief Executive Officer	\$ 66,458	\$ -
Management fees – former Chief Executive Officer	1,115,028	305,704
Directors' fees – current directors	45,427	-
Directors' fees – former directors	45,000	-
Administrative fees	108,000	22,500
Share-based compensation	108,781	-
	<u>\$ 1,488,694</u>	<u>\$ 328,204</u>

There is \$390,539 (December 31, 2016 - \$970,089) in accounts payable and accrued liabilities at September 30, 2017 that is due to former directors, officers and companies controlled by directors or officers or a former director or officer of the Company, of which \$287,408 was settled by the issuance of common shares subsequent to September 30, 2017 (Note 14).

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT*Fair value*

The inputs used in making fair value measurements are classified within a hierarchy that prioritizes their significance. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets and liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

The carrying value of receivables and accounts payable and accrued liabilities and loan facility approximated their fair value because of the short-term nature of these instruments. Cash is measured at fair value using Level 1 inputs. The carrying value of deposits also approximates its fair value.

BLACK DRAGON GOLD CORP.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

(Unaudited)

NINE MONTHS ENDED SEPTEMBER 30, 2017

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd...)

Financial instruments measured at fair value on the consolidated statements of financial position are summarized in levels of fair value hierarchy as follows:

Assets	Level 1	Level 2	Level 3	Total
Cash and equivalents	\$ 1,341,871	\$ -	\$ -	\$ 1,341,871

The Company has exposure to the following risks from its use of financial instruments:

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's cash is held at large financial institutions and it believes it has no significant credit risk.

Liquidity risk

Liquidity risk is the risk that the Company will not meet its financial obligations as they fall due. The Company manages its liquidity risk by forecasting cash flows from operations, and anticipating investing and financing activities. As at September 30, 2017, the Company had current assets of \$1,406,799 to settle current liabilities of \$1,492,263 which either have contractual maturities of less than 30 days and are subject to normal trade terms or are due on demand.

Market risk

Market risk is the risk of loss that may arise from changes in market factors, such as interest rates and foreign exchange rates.

a) Interest rate risk

Interest rate risk is the risk due to variability of interest rates. The Company is exposed to interest rate risk on its bank account. The income earned on the bank account is subject to the movements in interest rates. The Company has cash balances and no-interest bearing debt, therefore, interest rate risk is nominal.

b) Foreign currency risk

The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. The Company funds certain operations, exploration and administrative expenses in Spain by using Euros converted from its Canadian bank accounts. Management believes the foreign exchange risk derived from currency conversions is negligible and therefore does not hedge its foreign exchange risk. Based on the Company's Euro denominated financial instruments at September 30, 2017, a 10% change in exchange rates between the Canadian dollar and the Euro would result in a \$34,102 change in foreign exchange gain or loss.

BLACK DRAGON GOLD CORP.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

(Expressed in Canadian dollars)

(Unaudited)

NINE MONTHS ENDED SEPTEMBER 30, 2017

12. CAPITAL MANAGEMENT

The Company's capital structure consists of shareholders' equity and a loan facility agreement (see Note 7). The Company's objective when managing capital is to maintain adequate levels of funding to support the development of its business and maintain the necessary corporate and administrative functions to facilitate these activities. This is done primarily through equity financing, selling assets, and incurring debt. Future financings are dependent on market conditions and there can be no assurance the Company will be able to raise funds in the future. The Company invests all capital that is surplus to its immediate operational needs in short-term, high liquid, high-grade financial instruments. There were no changes to the Company's approach to capital management during the year. The Company will need to raise additional capital by obtaining equity financing, selling assets and incurring debt to develop its business.

13. SEGMENTED INFORMATION

The Company primarily operates in one reportable operating segment, being the acquisition, exploration of exploration and evaluation assets located in Spain. Geographic information is as follows:

	Deposits	Equipment	Exploration and Evaluation Assets	Total
September 30, 2017				
Canada	\$ 1,240	\$ 759	\$ -	\$ 1,999
Spain	-	-	-	-
	<u>\$ 1,240</u>	<u>\$ 759</u>	<u>\$ -</u>	<u>\$ 1,999</u>
December 31, 2016				
Canada	\$ 1,240	\$ 981	\$ -	\$ 2,221
Spain	-	-	-	-
	<u>\$ 1,240</u>	<u>\$ 981</u>	<u>\$ -</u>	<u>\$ 2,221</u>

14. SUBSEQUENT EVENTS

Subsequent to September 30, 2017, the Company:

- 1) Issued 11,000,000 units, for proceeds totaling \$990,000, in conjunction with the closing of a non-brokered private placement. Each unit is comprised of one common share of the Company and one share purchase warrant. Each warrant enables the holder to acquire one common share at the price of \$0.20 per share until December 31, 2019;
- 2) Issued 5,082,164 common shares at \$0.06375 per share plus 573,799 share purchase warrants exercisable at a price of \$0.11 per share for two years in conjunction with the settlement of debt;
- 3) Granted stock options enabling the holder to acquire up to 1,250,000 common shares at a price of \$0.08 per share, expiring October 23, 2027; and
- 4) Received \$57,750 in conjunction with the exercise of 1,050,000 stock options.