

# **BLACK DRAGON GOLD CORP.**

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

**THREE MONTHS ENDED MARCH 31, 2018**

These unaudited condensed consolidated interim financial statements of Black Dragon Gold Corp. for the three months ended March 31, 2018 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	March 31, 2018	December 31, 2017 (Audited)
<b>ASSETS</b>			
<b>Current</b>			
Cash and equivalents		\$ 1,276,199	\$ 1,753,221
Receivables	3	159,233	69,952
Prepaid expenses		<u>8,724</u>	<u>9,154</u>
		<u>1,444,156</u>	<u>1,832,327</u>
<b>Equipment</b>		685	685
<b>Other investments</b>		4,609	-
<b>Deposits</b>		<u>1,240</u>	<u>1,240</u>
		<u>6,534</u>	<u>1,925</u>
<b>Total assets</b>		<u>\$ 1,450,690</u>	<u>\$ 1,834,252</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)</b>			
<b>Current</b>			
Accounts payable and accrued liabilities	5	<u>\$ 870,119</u>	<u>\$ 801,857</u>
		870,119	801,857
<b>Convertible debenture</b>	7	<u>216,200</u>	<u>216,200</u>
<b>Total liabilities</b>		<u>1,086,319</u>	<u>1,018,057</u>
<b>Shareholders' equity (deficiency)</b>			
Share capital	8	19,695,960	19,695,960
Warrants	8	3,164,574	3,164,574
Equity portion of convertible debenture	7	15,388	15,388
Reserves	8	5,085,240	4,629,463
Deficit		<u>(27,596,791)</u>	<u>(26,689,190)</u>
<b>Total shareholders' equity (deficiency)</b>		<u>364,371</u>	<u>816,195</u>
<b>Total liabilities and shareholders' deficiency</b>		<u>\$ 1,450,690</u>	<u>\$ 1,834,252</u>

**Nature and continuance of operations** (Note 1)

**Subsequent events** (Note 14)

These condensed consolidated interim financial statements were approved for issue by the Board of Directors on May 30, 2018 and are signed on its behalf by:

/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 LOSS**

(Expressed in Canadian dollars)

(Unaudited)

THREE MONTHS ENDED MARCH 31,

	Notes	2018	2017
<b>EXPENSES</b>			
Consulting		\$ 21,862	\$ -
Corporate development		-	-
Depreciation		370	74
Directors' fees		48,910	27,000
Filing fees		-	3,545
Foreign exchange gain		4,335	(96,094)
General and administrative	10	149,432	38,464
General exploration		179,035	63,931
Management fees	10	52,586	297,810
Professional fees		(47,525)	58,303
Rent		-	4,524
Shareholder communication		-	999
Share-based compensation	8,10	459,976	89,525
Transfer agent		262	1,356
Travel and related		38,358	10,284
<b>Income (loss) before other items</b>		<u>(907,601)</u>	<u>(499,721)</u>
<b>OTHER ITEMS</b>			
Interest and accretion expense	6	-	(186,157)
Interest income		-	-
		<u>-</u>	<u>(186,157)</u>
<b>Income (loss) and comprehensive income (loss) for the period</b>		<u>\$ (907,601)</u>	<u>\$ (685,878)</u>
<b>Basic and diluted income (loss) per common share</b>		<u>\$ (0.01)</u>	<u>\$ (0.04)</u>
<b>Weighted average number of common shares outstanding</b>		<u>78,862,741</u>	<u>17,008,265</u>

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)  
THREE MONTHS ENDED MARCH 31,

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income (loss) for the period	\$ (907,601)	\$ (685,878)
Items not affecting cash:		
Depreciation	-	74
Interest and accretion expense	-	186,157
Share-based compensation	459,976	89,525
Unrealized foreign exchange gain	(8,807)	(96,094)
Change in non-cash working capital items		
Decrease (increase) in receivables and	(89,282)	14,446
Decrease (increase) in prepaid expenses	430	-
Increase (decrease) in accounts payable and accrued liabilities	<u>68,262</u>	<u>377,114</u>
Net cash used in operating activities	<u>(477,022)</u>	<u>(114,656)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Shares issued for cash, net	<u>-</u>	<u>40,749</u>
Net cash provided by financing activities	<u>-</u>	<u>40,749</u>
<b>Change in cash during the period</b>	<u>(477,022)</u>	<u>(73,907)</u>
<b>Cash, beginning of period</b>	<u>1,753,221</u>	<u>105,834</u>
<b>Cash, end of period</b>	<u>\$ 1,276,199</u>	<u>\$ 31,927</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		Warrants	Equity Portion of Convertible Debenture	Reserves	Deficit	Total
	Number	Amount					
<b>Balance, December 31, 2017</b>	78,862,741	\$ 19,695,960	\$ 3,164,574	\$ 15,388	\$ 4,629,463	\$ (26,689,190)	\$ 816,195
Shares issued for cash, net	-	-	-	-	-	-	-
Warrants	-	-	-	-	-	-	-
Finders' fees - cash	-	-	-	-	-	-	-
Finders' fees - shares	-	-	-	-	-	-	-
Finders' fees - warrants	-	-	-	-	-	-	-
Warrants issued with convertible debentures	-	-	-	-	-	-	-
Equity portion of convertible debentures	-	-	-	-	-	-	-
Share-based compensation	-	-	-	-	455,777	-	455,777
Income (loss) for the period	-	-	-	-	-	(907,601)	(907,601)
<b>Balance, March 31, 2018</b>	<b>78,862,741</b>	<b>\$ 19,695,960</b>	<b>\$ 3,164,574</b>	<b>\$ 15,388</b>	<b>\$ 5,085,240</b>	<b>\$ (27,596,791)</b>	<b>\$ 364,371</b>

	Share Capital		Reserves	Deficit	Total
	Number	Amount			
<b>Balance, December 31, 2016</b>	17,001,117	\$ 13,165,615	\$ 4,059,101	\$ (31,267,891)	\$ (14,043,175)
Shares issued for cash, net	255,000	40,749	-	-	40,749
Share based compensation	-	-	89,525	-	89,525
Loss for the period	-	-	-	(685,878)	(685,878)
<b>Balance, March 31, 2017</b>	<b>17,256,117</b>	<b>\$ 13,206,364</b>	<b>\$ 4,148,626</b>	<b>\$ (31,953,769)</b>	<b>\$ (14,598,779)</b>

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)

THREE MONTHS ENDED MARCH 31, 2018

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**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 Second Floor, Stamford House, Cheltenham, Gloucestershire, GL50 1HN U.K. The registered and records office address is 1000 Cathedral Place, 925 West Georgia Street, Vancouver, BC V6C 3L2.

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. These material uncertainties may cast significant doubt upon the Company’s ability to continue as a going concern.

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 three months ended March 31, 2018 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 May 30, 2018 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 three months ended March 31, 2018 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, 2017 audited consolidated financial statements.

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

(Expressed in Canadian dollars)

(Unaudited)

THREE MONTHS ENDED MARCH 31, 2018

**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 has assessed the impact of these new standards on the Company's accounting policies and financial statement presentation and applied the standards effective on or after January 1, 2018. Management does not expect these standards will have a significant impact on the measurement or presentation of balances or transactions as reported in these financial statements.

**3. RECEIVABLES**

	March 31, 2018	December 31, 2017
Value-added tax receivable	\$ 129,588	\$ 38,719
GST receivable	29,645	29,183
Other	-	2,050
Total	\$ 159,233	\$ 69,952



**BLACK DRAGON GOLD CORP.**

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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**4. EXPLORATION AND EVALUATION ASSETS**

**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)

THREE MONTHS ENDED MARCH 31, 2018

**5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	March 31, 2018	December 31, 2017
Accounts payables	\$ 553,657	\$ 411,144
Accrued liabilities	242,674	275,943
Due to related parties (Note 10)	<u>73,788</u>	<u>114,770</u>
Total	\$ 870,119	\$ 801,857

**6. LOAN FACILITY**

	Three Months Ended March 31, 2018	Year Ended December 31, 2017
Loan facility borrowings, beginning of period	\$ -	\$ 10,498,919
Loan facility borrowings made during the period	-	-
Foreign exchange	-	(358,868)
Settlement	<u>-</u>	<u>(10,140,051)</u>
Loan facility borrowings, end of period	\$ -	\$ -
Loan transaction costs, beginning of period	\$ -	\$ -
Loan transaction costs accreted during the period	<u>-</u>	<u>-</u>
Loan transaction costs, end of period	\$ -	\$ -
Loan facility balance, end of period	\$ -	\$ -

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 6, 2017.

On July 6, 2017, the Company settled 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.

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

(Expressed in Canadian dollars)

(Unaudited)

THREE MONTHS ENDED MARCH 31, 2018

**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 \$0.165 per share until April 18, 2018, and \$0.30 per share thereafter until April 18, 2019. For each \$1,000 in principal amount of debentures, 6,060 common share purchase warrants were issued. Each warrant entitles the holder to acquire one additional common share of the company at a price of \$0.33 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 \$0.66 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-V, 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 190,151 common shares, valued at \$25,671, in connection with the closing of the debentures. The fair value of the warrants issued is \$166,764 determined using the Black Scholes option pricing model and recorded the amounts as share-based compensation during the period ended March 31, 2018.

Upon initial recognition, the Company allocated the proceeds, net of transaction costs (which totaled \$25,671), between the debt and equity components and recorded accretion on the liability component of \$2,071 (2017 - \$Nil) during the period ended March 31, 2018.

	Liability component		Equity component
	Fair value	Carrying value	Fair value
<b>Balance, December 31, 2017</b>	\$ 251,000	\$ 216,200	\$ 15,388
Issuance of convertible debentures, net	-	-	-
Accretion	-	2,071	-
<b>Balance, March 31, 2018</b>	<b>\$ 251,000</b>	<b>\$ 218,271</b>	<b>\$ 15,388</b>

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%.

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

(Expressed in Canadian dollars)

(Unaudited)

THREE MONTHS ENDED MARCH 31, 2018

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**8. SHARE CAPITAL AND RESERVES***Authorized:*

Unlimited number of common shares without par value.

**Issued**

On May 1, 2018, the Company completed a consolidation of its issued and outstanding common shares on the basis of three (3) pre-consolidation common shares, options and warrants to one (1) post consolidation common share, option and warrant (the "Share Consolidation"). Prior to the Share Consolidation, the Company had 236,588,374 Shares issued and outstanding. Following the Share Consolidation, the Company had 78,862,741 Shares issued and outstanding. The Share Consolidation has been presented throughout the consolidated financial statements retroactively.

On October 25, 2017, the Company issued 3,666,666 units at \$0.27 per unit 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 \$0.60 per share until December 31, 2019. The Company paid cash issuance costs of \$5,700.

On October 11, 2017, the Company issued 1,502,788 common shares and 191,266 units in conjunction with the settlement of \$323,988 of debt. The fair value of the 1,502,788 common shares and 191,266 units issued was \$457,395, or \$0.27 both per common share and per unit, resulting in a loss on settlement of \$133,407. Each unit is comprised of one common share and one share purchase warrant. Each warrant enables the holder to acquire one common share at an exercise price of \$0.60 per share, until October 11, 2019. There was no residual value allocated to the warrants of the units issued.

On October 10, 2017, the Company received proceeds of \$57,750 in conjunction with the exercise of 350,000 stock options. In addition \$38,912 representing the fair value of the options on initial vesting was re-allocated from reserves to share capital.

On June 30, 2017, the Company issued 51,849,941 units at \$0.165 per unit 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 at an exercise price of \$0.33 per share, until June 30, 2019. A residual value of \$2,333,247 was allocated to the warrants and \$6,221,993 to the common shares.

Finders' fees paid in conjunction with this private placement were comprised of cash payments totalling \$662,485, the issuance of 3,665,859 shares valued at \$384,915 and the issuance of 3,221,529 share purchase warrants valued at \$322,188, of which 554,863 warrants are exercisable for two years and of which 2,666,666 warrants are exercisable for four years, all with the same terms as those attached to the unit warrants.

On May 1, 2017, the Company issued 190,000 units at \$0.165 per unit 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 at an exercise price of \$0.33 per share, until May 1, 2019. If, during the warrant term, the closing price of the Company's common shares is at least \$0.66 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 cash issuance costs of \$915.

During March, 2017, the Company issued 255,000 units at \$0.165 per unit for gross proceeds of \$42,075 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 at an exercise price of \$0.33 per share, expiring between March 28 and March 29, 2019. If, during the warrant term, the closing price of the Company's common shares is at least \$0.66 for a period of twenty consecutive trading days, the

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## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

(Unaudited)

THREE MONTHS ENDED MARCH 31, 2018

**8. SHARE CAPITAL AND RESERVES (continued)****Issued (continued)**

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 cash issuance costs of \$1,137.

During December 2016, the Company issued 1,313,333 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 \$0.33 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 \$0.66 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 3,427,530 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 \$0.21 per share, expiring August 12, 2018. If, during the warrant term, the closing price of the Company's common shares is at least \$0.60 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.

**Warrants**

A summary of the number of common shares reserved pursuant to the Company's warrants outstanding as at March 31, 2018 and 31 December 2017, is as follows:

	Number of Warrants	Weighted Average Exercise Price
Outstanding, December 31, 2015	1,666,666	\$ 1.86
Issued	4,740,864	0.24
Expired	<u>(1,666,666)</u>	1.86
Outstanding, December 31, 2016	4,740,864	0.24
Issued	<u>60,895,489</u>	0.36
Outstanding, December 31, 2017	65,636,353	\$ 0.32
Issued	-	
Outstanding, March 31, 2018	<u>65,636,353</u>	<u>\$ 0.32</u>

**BLACK DRAGON GOLD CORP.**

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

(Unaudited)

THREE MONTHS ENDED MARCH 31, 2018

**8. SHARE CAPITAL AND RESERVES (continued)****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.

As at March 31, 2018 the following incentive stock options are outstanding;

Expiry Date	Number of Options	Exercise Price
June 30, 2018	133,333	\$0.165
February 22, 2019	33,333	\$0.165
January 16, 2021	2,393,333	\$0.24
October 17, 2020	1,196,666	\$0.33
September 24, 2027	1,196,666	\$0.33
September 24, 2027	1,196,666	\$0.45
March 31, 2023	166,666	\$0.24
October 22, 2027	250,000	\$0.24
February 7, 2028	333,333	\$0.33
<b>Total</b>	<b>6,899,996</b>	<b>\$0.31</b>

During the three months ended March 31, 2018, the Company recognized \$459,976 (2017 - \$89,525) of share-based compensation expense.

On February 23, 2017, the Company granted 810,000 stock options to directors, officers, and consultants of the Company. The options are exercisable for a period of two years at a price of \$0.165 per share. The options vested immediately upon grant.

On September 25, 2017, the Company granted 5,983,333 stock options to directors of the Company. These options vest upon achievement of certain performance conditions and expire at the earlier of: i) three years from the date each milestone is obtained, or ii) ten years from the date of grant being September 24, 2027. 40% will vest upon receipt of a drilling permit for the Salave Gold project; or if a previous permit is deemed to be still active, upon commencement of a drilling program, exercisable at a price of \$0.24 per share. 20% will vest upon completion of an equity financing of minimum \$1,000,000 in North America, exercisable at a price of \$0.33 per share. 20% will vest upon commencement of trading of the Company's shares on the Australia Stock Exchange, exercisable at a price of \$0.33 per share. 20% will vest upon completion of a Preliminary Economic Assessment Study or a Scoping Study on the Salave Gold Project, exercisable at a price of \$0.45 per share. As at March 31, 2018, two of the above milestones have been achieved for the receipt of the drilling permit and successful equity financing.

On October 23, 2017, the Company granted 416,666 stock options to an employee of the Company exercisable at a price of \$0.24 per share. These options vest upon achievement of certain performance conditions and expire at the earlier of: i) five years from the date each milestone is obtained, or ii) ten years from the date of grant being October 22, 2027. 40% will vest upon completion of 1,000m of drilling at the Salave Gold Project and 60% will vest upon completion of a Joint Ore Reserves Committee Report on exploration results, mineral resources and ore reserves or National Instrument 43-101 Preliminary Economic Assessment or Scoping Study on the Salave Gold Project. As at March 31, 2018, the milestone has been achieved for the completion of 1,000m drilling at the Salave Gold Project.

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

(Expressed in Canadian dollars)

(Unaudited)

THREE MONTHS ENDED MARCH 31, 2018

**8. SHARE CAPITAL AND RESERVES (continued)****Stock options (continued)**

On February 7, 2018, the Company granted 333,333 stock options to an officer of the Company exercisable at a price of \$0.33 per share. These options vest upon achievement of certain performance conditions and expire at the earlier of: i) five years from the date each milestone is obtained, or ii) ten years from the date of grant being February 7, 2028. 100% will vest upon commencement of the trading of the company's shares on the Australian Stock Exchange and be exercisable at a price of \$0.33 per share

**9. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS**

	Three Months ended March 31, 2018	Three Months ended March 31, 2017
Residual value of unit warrants	\$ -	\$ -
Fair value of finder's warrants	\$ -	\$ -
Fair value of warrants issued with convertible debentures	\$ -	\$ -

**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:

	Three Months ended March 31, 2018	Three Months ended March 31, 2017
Management fees – current Chief Executive Officer	\$ 66,788	\$ -
Management fees – former Chief Executive Officer	-	297,810
Directors' fees – current directors	48,910	-
Administrative fees – current Chief Executive Officer	13,358	-
Administrative fees – Chief Financial Officer	32,372	36,000
Share-based compensation	459,976	-
	\$ 621,404	\$ 338,810

**BLACK DRAGON GOLD CORP.**

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

(Unaudited)

THREE MONTHS ENDED MARCH 31, 2018

**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.

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	\$ 1,276,199	\$ -	\$ -	\$ 1,276,199

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 March 31, 2018, the Company had current assets of \$1,444,156 to settle current liabilities of \$870,119 which either have contractual maturities of less than 30 days and are subject to normal trade terms or are due on demand.



**BLACK DRAGON GOLD CORP.**

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

(Unaudited)

THREE MONTHS ENDED MARCH 31, 2018

**11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)***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 March 31, 2018, a 10% change in exchange rates between the Canadian dollar and the Euro would result in a \$9,579 change in foreign exchange gain or loss.

**12. CAPITAL MANAGEMENT**

The Company's capital structure consists of shareholders' equity and in 2017 with a loan facility agreement (see Note 6). 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:

<b>March 31, 2018</b>				
Canada	\$	1,240	\$ 685	\$ 1,925
Spain		-	-	-
	\$	1,240	\$ 685	\$ 1,925
<b>December 31, 2017</b>				
Canada	\$	1,240	\$ 685	\$ 1,925
Spain		-	-	-
	\$	1,240	\$ 685	\$ 1,925

**BLACK DRAGON GOLD CORP.**

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

(Expressed in Canadian dollars)

(Unaudited)

THREE MONTHS ENDED MARCH 31, 2018

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**14. SUBSEQUENT EVENTS**

Subsequent to March 31, 2018, the Company:

Performed a share consolidation pursuant to a resolution dated April 20, 2018, to consolidate its capital on the basis of three (3) pre-consolidation common shares, options and warrants to one (1) post consolidation common share, option and warrant. Effective at the opening on May 1, 2018, the common shares of Black Dragon Gold commenced trading on the TSX Venture Exchange on a consolidated basis with Capital of 78,862,741 shares issued and outstanding. The name of the company was not changed. Prior to the share consolidation Black Dragon had 236,588,374 Shares issued and outstanding. There were no fractional Shares issued pursuant to the Consolidation and if, as a result of the Consolidation, a shareholder would otherwise have become entitled to a fractional Share, such fraction was rounded down to the nearest whole number and no payment received by a shareholder as a result of such rounding down.

The Share Consolidation has been presented throughout the consolidated financial statements retroactively.

The Company received a Notice of Civil Claim in relation to a demand for a debt of approximately US\$50,000 in connection with transactions occurring prior to December 31, 2017. The company believes the claim to be without merit and intends to defend the allegations vigorously.

On May 2, 2018 the unsecured convertible debentures (Note 7) were converted into common shares of the company at a post share consolidation share price of \$0.165 for 1,515,151 ordinary shares.