THELON DIAMONDS LTD.

(An Exploration Stage Company)

CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

For the year ended August 31, 2016 and period ended August 31, 2015

WOLRIGE MAHON

Independent Auditor's Report

To the Shareholders of Thelon Diamonds Ltd.

We have audited the accompanying consolidated financial statements of Thelon Diamonds Ltd. and its subsidiary, which comprise the consolidated statement of financial position as at August 31, 2016 and 2015 and the consolidated statement of comprehensive loss, statement of changes in equity, and statement of cash flows for the year ended August 31, 2016 and the period from incorporation on November 6, 2014 to August 31, 2015 and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Thelon Diamonds Ltd. and its subsidiary as at August 31, 2016 and 2015 and their performance and their cash flows for the year ended August 31, 2016 and the period from incorporation on November 6, 2014 to August 31, 2015 in accordance with International Financial Reporting Standards.

Emphasis of matter

Without modifying our opinion, we draw attention to Note 1 to the consolidated financial statements which describes the material uncertainty that may cast significant doubt about the ability of Thelon Diamonds Ltd. and its subsidiary to continue as a going concern.

"Wolrige Mahon LLP"

CHARTERED PROFESSIONAL ACCOUNTANTS

December 22, 2016
Vancouver, British Columbia

THELON DIAMONDS LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)

	August 31, 2016	August 31, 2015
ASSETS		
Current		
Cash	$ 11,923	$ 26,217
GST recoverable	1,785	4,695
Loans to related parties (Note 4)	37,305	111,209
Other Loans	5,000	-
Investments (Note 5)	230,000	-
	286,013	142,121
Non-Current		
Exploration and evaluation assets (Note 6)	104,489	83,347
Total Assets	$ 390,502	$ 225,468
LIABILITIES		
Current		
Accounts payable and accrued liabilities (Note 8)	$ 102,798	$ 47,763
Non-Current		
Loans from related parties (Note 4)	15,868	-
Other liability (note 7)	19,500	19,500
	35,368	19,500
	138,166	67,263
EQUITY		
Share capital (Note 7)	432,901	432,901
Deficit	(180,565)	(274,696)
	252,336	158,205
Total Liabilities and Equity	$ 390,502	$ 225,468

Nature and continuance of operations (Note 1)

Approved and authorized for issue by the Directors on December 22, 2016:

"Jason Walsh" Director *"Geoff Watson"* Director

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

THELON DIAMONDS LTD.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME AND LOSS
(Expressed in Canadian Dollars)

For the		Year ended August 31, 2016		Period ended August 31, 2015
EXPENSES				
Administration fees (Note 8)	$	42,500	$	27,000
Advertising and promotion		-		1,390
Consulting fees (Note 8)		30,700		53,012
General and administrative (Note 8)		9,352		12,349
Professional fees (Note 8)		35,234		65,513
Travel and meal and entertainment		8,083		-
		125,869		159,264
Unrealized gain on investment (Note 5)		(220,000)		-
Cost of plan of arrangement (Note 3)		-		115,432
Net and comprehensive income / (loss)	$	94,131	$	(274,696)
Income / (Loss) per share – basic and diluted	$	0.01	$	(0.03)
Weighted average number of shares outstanding – basic and diluted		12,743,666		8,912,705

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

THELON DIAMONDS LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Expressed in Canadian Dollars)

	Number of Shares	Amount	Deficit	Total
Balance, November 6, 2014	-	$ -	$ -	$ -
Shares issued pursuant to plan of arrangement (Note 3)	8,121,667	195,751	-	195,751
Share issued for acquisition (Note 3)	2,260,000	60,000	-	60,000
Shares issued for cash				
Private placement	10,000	1	-	1
Common shares $0.075	2,041,999	153,150	-	153,150
Flow-through shares $0.10	320,000	32,000	-	32,000
Premium on flow-through Shares (note 7b))	-	(8,000)	-	(8,000)
Cancellation of shares	(10,000)	(1)	-	(1)
Net loss for the period	-	-	(274,696)	(274,696)
Balance August 31, 2015	12,743,666	432,901	(274,696)	158,205
Net income for the year	-	-	94,131	94,131
Balance August 31, 2016	12,743,666	$ 432,901	$ (180,565)	$ 252,336

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

THELON DIAMONDS LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)

	For the year ended August 31, 2016	For the period ended August 31, 2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Income / (Loss) for the period	$ 94,131	$ (274,696)
Cost of plan of arrangement (Note 3)	-	115,432
Unrealized gain on investment	(220,000)	-
Accrued interest (Note 4)	3,500	-
Changes in operating assets and liabilities:		
Accounts payable and accrued liabilities	55,035	(24,469)
GST recoverable	2,910	(579)
Cash used in operating activities	(64,424)	(184,312)
CASH FLOWS FROM FINANCING ACTIVITIES		
Loans from related parties	12,368	-
Shares issued	-	140,150
Cash provided by financing activities	12,368	140,150
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash acquired with plan of arrangement	-	115,810
Exploration and evaluation assets	(21,142)	(23,347)
Acquisition of investment	(10,000)	-
Loans to related parties	73,904	(22,084)
Other loans	(5,000)	-
Cash provided by (used in) investing activities	37,762	70,379
Change in cash	(14,294)	26,217
Cash, beginning	26,217	-
Cash, ending	$ 11,923	$ 26,217
Supplemental disclosures		
Interest paid	$ -	$ -
Income tax paid	$ -	$ -

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

1. NATURE AND CONTINUANCE OF OPERATIONS

Thelon Diamonds Ltd. (the "Company") was incorporated under the laws of the province of British Columbia on November 6, 2014. The Company's principal business is the exploration and evaluation of mineral resources. The Company's corporate office is located at 908 - 510 Burrard Street, Vancouver B.C.

These financial statements have been prepared in accordance with International Financial Reporting Standards applicable to a going concern, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. During the year ended August 31, 2016, the Company has not generated revenues, net income was $94,131 (2015: net loss was $274,696) and, as at August 31, 2016, it had working capital of $183,215. The continuation of the Company as a going concern is dependent on its ability to obtain necessary financing, generate positive cash flows and, ultimately, the achievement of profitable operations. These material uncertainties cast significant doubt upon the Company's ability to continue as a going concern. As the outcome of these matters cannot be predicted at this time, these financial statements do not include any adjustments to the amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue in business. These adjustments could be material.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

(b) Basis of Preparation

These financial statements have been prepared on a historical cost basis, except for financial instruments classified as financial assets at fair value through profit or loss, and available-for-sale which are stated at their fair values. In addition these financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

The consolidated financial statements include Thelon Diamonds Ltd. and its wholly owned subsidiary Thelon Diamond Company Limited from the date of acquisition, December 18, 2014. All inter-company transactions have been eliminated.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Significant Accounting Estimates and Judgments

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates

Significant assumptions about the future that management has made and other sources of estimation uncertainty at the end of the reporting period that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ from assumptions made relate to, but are not limited to, the following:

i. The composition of the deferred income tax asset and recognition of deferred income tax asset;
ii. The recoverable amount of exploration and evaluation assets.

Critical accounting judgments

In the preparation of these consolidated financial statements, management has made judgments, aside from those that involve estimates, in the process of applying the accounting policies. The judgments which may have an effect on the amounts recognized in the consolidated financial statements include the following:

i. The determination of categories of financial assets and financial liabilities;
ii. The assessment of going concern;
iii. The assessment of impairment indicators for the exploration and evaluation assets.

(d) Exploration and evaluation assets

Pre-exploration costs or property investigation costs are expensed in the period in which they are incurred. Once the legal right to explore a property has been acquired, all costs related to the acquisition, exploration and evaluation are capitalized by property. Costs not directly attributable to exploration and evaluation activities, including general and administrative overhead costs, are expensed in the period in which they occur.

When a project is deemed to no longer have commercially viable prospects to the Company, exploration and evaluation expenditures in respect of that project are deemed to be impaired. As a result, those exploration and evaluation expenditures, in excess of estimated recoveries, are written off to income or loss.

Once the technical feasibility and commercial viability of extracting the mineral resource has been determined, the property is considered to be a mine under development and is classified as “mines under construction”. Exploration and evaluation assets are tested for impairment before the assets are transferred to development properties.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Exploration and evaluation assets (continued)

Ownership in mineral properties involves certain inherent risks due to the difficulties of determining and obtaining clear title to claims as well as the potential for problems arising from the frequently ambiguous conveyance history characteristics of many mineral properties. The Company has investigated ownership of its mineral properties and, to the best of its knowledge, ownership of its interests are in good standing.

Exploration and evaluation assets are classified as intangible assets.

When the Company's exploration and development activities are conducted jointly with others, the consolidated financial statements include only the Company's proportionate interests in these arrangements.

(e) Joint arrangements

A joint arrangement is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when significant operating and financial decisions relating to the activity require the unanimous consent of the parties sharing control. The Company's joint arrangements consist of joint operations.

A joint operation is a joint arrangement in which the parties to the arrangement have joint control over the assets contributed to or acquired for the purposes of the joint arrangement. Joint operations do not involve the establishment of a corporation, partnership or other entity. The Company records its proportionate interest in the assets, liabilities, revenues and expenses of its joint operations.

(f) Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

(i) Financial assets and liabilities at fair value through profit or loss: A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. Instruments classified under this category, including embedded derivatives, are recorded at fair value through profit or loss and accordingly are recorded on the statement of financial position at fair value. Unrealized gains and losses are recorded in profit or loss. Realized gains or losses are recorded in profit or loss in the period in which the Company disposes of the instrument. The Company has classified its investment as a financial asset at fair value through profit or loss.

(ii) Available-for-sale assets: Available-for-sale assets are non-derivatives that are either designated in this category or not classified in any of the other categories. The Company does not hold any available-for-sale assets.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) *Financial instruments (continued)*

(iii) Held-to-Maturity investments: Held-to-maturity investments are non-derivatives that are designated in this category where the Company has the intention and the ability to hold the investment to maturity. Held-to-maturity investments are initially measured at fair value including transaction costs, and subsequently carried at amortized cost using the effective interest method less a provision for impairment. The effective interest rate method is a method for calculating the amortized cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The Company does not hold any held-to-maturity assets.

(iv) Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment. The Company has classified cash and loans as loans and receivables.

(v) Financial liabilities at amortized cost: Financial instruments held by the Company and classified in this category include accounts payable and accrued liabilities and loans from related parties. Accounts payable and accrued liabilities are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, accounts payable and accrued liabilities and loans to related parties are measured at amortized cost using the effective interest method.

Impairment on Financial Assets

At each reporting date, the Company assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset of group of financial assets is deemed to be impaired, if, there is objective evidence of impairment as a result of one or more events that has occurred subsequent to the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets.

(g) Flow-through Shares

The Company will from time to time, issue flow-through common shares to finance its exploration program. Pursuant to the terms of the flow-through share agreements, these shares transfer the tax deductibility of qualifying resource expenditures to investors. On issuance, the Company bifurcates the flow-through share into: i) a flow-through share premium, equal to the estimated premium, if any, investors pay for the flow-through feature, which is recognized as a liability; and ii) share capital. Upon expenses being incurred, the Company derecognizes the liability and recognizes a deferred tax liability for the amount of tax reduction renounced to the shareholders. The premium is recognized as other income and the related deferred tax is recognized as a tax provision.

Proceeds received from the issuance of flow-through shares are restricted to be used only for Canadian resource property exploration expenditures within a two-year period. The Company indemnifies the subscribers of flow-through shares against certain tax related amounts that become due related to their flow-through subscriptions (Note 7).

The Company may also be subject to a Part XII.6 tax on flow-through proceeds renounced under the Look-back Rule, in accordance with Government of Canada flow-through regulations. When applicable, this tax is accrued as a financial expense until paid.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Stock-based Compensation

The Company accounts for stock options granted to directors, officers, employees and non-employees at grant date fair value. The fair value of stock options granted to non-employees is measured based on the fair value of the goods and services received, unless that fair value cannot be estimated reliably, in which case the fair value is determined with reference to the fair value of the instruments granted, and is re-measured at the earlier of each financial reporting or vesting date, and any adjustment is charged or credited to operations upon re-measurement. The fair value of the options awarded at the date of the grant is determined using the Black-Scholes option pricing model and stock-based compensation is accrued and charged to operations using the graded method, with an offsetting credit to contributed surplus, over the vesting periods.

The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

If and when the stock options are exercised, the applicable amounts of contributed surplus are transferred to share capital. Charges for options that are forfeited before vesting are reversed from Contributed Surplus.

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

(i) Income/(Loss) per Share

Basic income/(loss) per share is calculated by dividing the income/(loss) for the period by the weighted average number of shares outstanding. The Company uses the treasury stock method of calculating fully diluted loss per share amounts, whereby any proceeds from the exercise of stock options or other dilutive instruments are assumed to be used to purchase common shares at the average market price during the period. The assumed conversion of outstanding warrants has an anti-dilutive impact for the reported periods thus fully diluted loss per share is the same as basic loss per share.

(j) Income Taxes

Income tax comprises current and deferred tax. Income tax is recognized in the statement of loss except to the extent that it relates to items recognized directly in equity, in which case the income tax is recognized directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

In general, deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the statement of financial position date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered. Deferred income tax assets and liabilities are presented as non-current.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Share issue costs

Share issue costs that are directly attributable to issuing new shares are deducted from equity.

Costs that relate to the stock market listing, or are otherwise not incremental and directly attributable to issuing new shares, are recorded as an expense in profit or loss.

Costs that relate to both share issuance and listing are allocated based on the proportion of new shares issued to the total number of shares listed.

When units are issued, which include shares and warrants, the warrants are valued using the residual value method where proceeds are allocated to the common shares up to their fair value as determined by the current quoted trading price on the announcement date, and the balance, if any, to the reserve for the warrants.

(l) Recent *Accounting Pronouncements*

The following pronouncements and amendments are effective for annual periods beginning on or after January 1, 2018 unless otherwise stated. Adopting these standards is expected to have minimal or no impact on the financial statements.

IFRS 9 – Financial Instruments

This standard and its consequential amendments are applicable to annual reporting periods beginning on or after January 1, 2018. This standard introduces new classification and measurement models for financial assets, using a single approach to determine whether a financial asset is measured at amortised cost or fair value. To be classified and measured at amortised cost, assets must satisfy the business model test for managing the financial assets and have certain contractual cash flow characteristics. All other financial instrument assets are to be classified and measured at fair value. This standard allows an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income, with dividends as a return on these investments being recognised in profit or loss. In addition, those equity instruments measured at fair value through other comprehensive income would no longer have to apply any impairment requirements nor would there be any ‘recycling’ of gains or losses through profit or loss on disposal. The accounting for financial liabilities continues to be classified and measured in accordance with IAS 39 with one exception, being that the portion of a change of fair value relating to the entity’s own credit risk is to be presented in other comprehensive income unless it would create an accounting mismatch.

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 deals with revenue recognition and establishes principles of reporting useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. Revenue is recognized when the customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The Standard replaces IAS 18 Revenue, and IAS 11 Construction Contracts and related interpretations. It is effective for annual periods beginning on or after January 1, 2018 and earlier application is permitted.

(Expressed in Canadian Dollars)

3. TRANSACTION WITH THELON CAPITAL LTD.

On December 18, 2014 the Company's then parent company Thelon Capital Ltd. ("THC"), a public company, entered into a Plan of Arrangement with Thelon Diamond Company Limited ("THD"). Pursuant to the transaction, THD acquired all of the outstanding shares of the Company for $1,000. The Company then acquired all outstanding shares of THD from the shareholders through a 1 for 1 securities exchange, 8,121,667 common shares and 5,000,000 warrants were issued with a value of $195,751. The Company then issued 2,260,000 common shares to THC for THC's interest in a joint venture with Peregrine Diamonds valued at $60,000.

The cost of the transaction was allocated to the identifiable assets and liabilities with the difference expensed as the cost of the plan of arrangement.

	August 31, 2015
Assets acquired	
Cash	$ 115, 810
Receivables	4,116
Loans to related parties	89,125
Liabilities assumed	
Accounts payable and accrued liabilities	(119,732)
Other liabilities	(9,500)
Net assets acquired	80,319
Fair value of common shares issued	195,751
Cost of plan of arrangement	$ 115,432

4. LOANS TO AND FROM RELATED PARTIES

Loans to related parties

	August 31, 2016	August 31, 2015
THC BioMed Int'l Ltd.	$ 17,294	$ 97,209
Zadar Ventures Ltd.	14,000	14,000
Bua Group	6,011	-
Total	$ 37,305	$ 111,209

THC BioMed Int'l Ltd. (formerly Thelon Capital Ltd.) and Zadar Ventures Ltd. are public companies with Directors in common with the Company. Bua Group is a group of private companies controlled by a Director of the Company. The loans to related parties are unsecured, non-interest bearing and have no fixed terms of repayment.

Loans from related parties

On October 27, 2015, the Company entered into a loan agreement with a private company controlled by a Director of the Company. The principal loan amount was $25,000 and bears interest at 25% per year. The Company repaid $8,200 during the year and the loan was further offset by $4,432 of previous amounts loaned to the private company. The Company recorded accrued interest of $3,500 on the loan for the year. The loan is repayable on or before October 31, 2017.

As at August 31, 2016, the Company had an outstanding loan payable balance of $15,868 (2015: $Nil).

(Expressed in Canadian Dollars)

5. INVESTMENTS

On December 22, 2015, the Company acquired 1,000,000 units in Zadar Ventures Ltd. for $0.01 per unit ("Zadar"), for total consideration of $10,000. Each unit consists of one common share in Zadar and one common share purchase warrant exercisable for a period of 3 years at $0.05 per share.

The fair value of the share portion of the unit is determined using the stock price of Zadar as at August 31, 2016. The fair value of the warrant portion of the unit is determined by deducting the exercise price of the Zadar warrants as at August 31, 2016 from the Zadar stock price.

As at the August 31, 2016 the investment in Zadar was determined to have a fair value of $230,000, of which $140,000 was allocated to the shares and $90,000 was allocated to the warrants. The Company recorded an unrealized gain on investment of $220,000 during the year.

6. EXPLORATION AND EVALUATION ASSETS

During the prior year, pursuant to the transaction in note 3, the Company acquired an interest in the Lac De Gras property, Northwest Territories. The Company holds a 29.46 % interest in 3 claims, pursuant to a NMT Head Agreement with Peregrine Diamonds Ltd. The property is subject to a Gross Overriding Royalty of 4% on diamonds and a net smelter royalty of 4% on all metals, of which 50% of either of these royalties can be purchased for $4,000,000.

In addition to the royalty noted above, royalty payments would also be required to be made to the Government of the Northwest Territories in the event of future production.

		August 31, 2016		August 31, 2015
Acquisition costs	$	60,000	$	60,000
Deferred exploration:				
Maintenance fees		1,881		-
Geological services		23,810		-
Technical report		18,798		23,347
		44,489		23,347
Total Exploration and Evaluation assets	$	104,489	$	83,347

7. SHARE CAPITAL AND RESERVES

a) Authorized

An unlimited number of Common shares, without par value.

b) Issued

On December 18, 2014, pursuant to the transaction in note 3, the Company issued 8,121,667 common shares in a share for share exchange with the shareholders of Thelon Diamond Company Limited.

On December 18, 2014, pursuant to the transaction in note 3, the Company issued 2,260,000 common shares to Thelon Capital Ltd.

(Expressed in Canadian Dollars)

7. SHARE CAPITAL AND RESERVES (continued)

b) Issued (continued)

On March 18, 2015, the Company issued 1,629,999 common shares at $0.075 for cash proceeds of $122,250 and 320,000 flow-through common shares at $0.10 for cash proceeds of $32,000. The flow-through liability associated with this issuance, representing the premium of the flow-through share price in excess of the trading price, was $19,500.

On August 29, 2015 the Company issued 412,000 common shares at $0.075 for cash proceeds of $30,900.

During the period ended August 31, 2015, 1,048,667 common shares, for proceeds of $78,650, issued in the private placements above, offset amounts otherwise payable to the participants.

There were no share capital transactions during the year ended August 31, 2016.

c) Warrants

On December 18, 2014, pursuant to the transaction in note 3, the Company issued 5,000,000 warrants in a 1 for 1 securities exchange with the shareholders of Thelon Diamond Company Limited. Each warrant entitles the holder to acquire 1 common share at an exercise price of $0.10 until September 4, 2017. At August 31, 2016, 5,000,000 (2015: 5,000,000) warrants are outstanding.

8. RELATED PARTY BALANCES AND TRANSACTIONS

Key management includes directors, executive officers and officers of the Company. The Company paid or accrued fees to companies controlled by key management as follows:

	For the year ended August 31, 2016	For the period ended August 31, 2015
Administration fees	$ 42,500	$ 27,000
Accounting fees	18,000	12,000
Consulting fees	30,700	25,000
Interest expense (Note 4)	3,500	-
	$ 94,700	$ 64,000

As at August 31, 2016, accounts payable and accrued liabilities included $61,078 (2015: $15,263) owed to companies controlled by directors of the Company. The amounts are unsecured, non-interest bearing and have no fixed terms of repayment.

These transactions were agreed upon by the board of directors and were measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

9. CAPITAL DISCLOSURES

The Company's principal source of capital is from the issuance of common shares. The Company's capital management objective is to obtain sufficient capital to develop new business opportunities for the benefit of its shareholders. To meet the objectives, management monitors the Company's ongoing capital requirements on specific business opportunities on a case by case basis. The capital structure of the Company consists of equity attributable to common shareholders, consisting of issued share capital, and deficit. The Company is not subject to any externally imposed capital requirements.

10. FINANCIAL RISK MANAGEMENT

The Company's financial instruments consist of cash, loans to related parties, other loans, investments, accounts payable and accrued liabilities, and loans from related parties. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying values, unless otherwise noted.

Financial instruments measured at fair value are classified into one of the three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or 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 Company has classified its investments at Level 1.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company has credit risk in the amount of its cash, loans to related parties and other loans, with the carrying values of each representing the Company's maximum exposure to credit risk.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The Company has a working capital of $183,215. Management is assessing various options to raise funds including the issuance of shares.

Market risk

Market risk is the risk of loss that may arises from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. The Company is exposed to price risk in relation to its investment held as at August 31, 2016.

Price risk is the risk that changes in market prices including commodity or equity prices will have an effect on the fair value or future cash flows associated with financial instruments. The equity price risk associated with the Company's current investment primarily relates to the change in the market prices of the investment in Zadar common shares and warrants. As at August 31, 2016, the Company owns 1,000,000 common shares and warrants. Each common share is valued at $0.14 and each warrant is valued at $0.09. A 10% change in the market price of Zadar would have an impact of $28,000 on the Company's investments. Management believes there is price risk related to this investment.

While the Company will seek to maximize the proceeds it receives from the sale of its Zadar Shares on the TSX Venture Exchange, there is no assurance as to the timing of disposition or the amount that will be realized.

(Expressed in Canadian Dollars)

11. INCOME TAXES

Income tax recovery varies from the amount that would be computed from applying the combined federal and provincial income tax rates to income/(loss) before taxes as follows:

		For the year ended August 31, 2016		For the period ended August 31, 2015
Income (loss) before taxes	$	94,131	$	(274,696)
Statutory Canadian corporate tax rate		26%		25%
Anticipated tax expense (recovery)		24,500		(68,700)
Difference resulting from:				
Items not deductible (included in income) for tax purposes and other		(47,600)		28,900
Change in unrecognized deferred tax assets		23,100		39,800
Deferred income taxes (recovery)	$	-	$	-

The significant components of the Company's deferred tax assets and liabilities are as follows:

		August 31, 2016		August 31, 2015
Investments	$	(28,600)	$	-
Share issue costs		3,500		-
Non capital loss carry forward		112,200		64,000
Net deferred tax assets		87,100		64,000
Unrecognized deferred tax assets		(87,100)		(64,000)
Net deferred tax asset	$	-	$	-

The Company and its subsidiary have available non-capital losses for Canadian income tax purposes of $431,600 which may be carried forward to reduce taxable income in future years. If not utilized, the non-capital losses will expire as follows:

Year of expiry		Amount
2036	$	130,600
2035		204,200
2034		33,300
2033		19,700
2032		43,800
	$	431,600

As at August 31, 2016, the Company and its subsidiary also have $104,000 of tax pools related to its exploration and evaluation assets which can be used to reduce future taxable income and which can be carried forward indefinitely.

12. SUBSEQUENT EVENT

Subsequent to August 31, 2016, the Company issued an additional 3,600,000 common shares pursuant to the exercise of warrants.