

ARRANGEMENT AGREEMENT

This **ARRANGEMENT AGREEMENT** is made as of and with effect from December 18, 2014

AMONG:

THELON DIAMONDS LTD., a company incorporated under the *Business Corporations Act* (British Columbia), with a registered office at Suite 1820 Cathedral Place, 925 West Georgia Street, Vancouver, British Columbia V6C 3L2

("Subco-RI")

AND:

THELON CAPITAL LTD., a company existing under the *Business Corporations Act* (British Columbia) and incorporation number BC0248347, with an office at 1500 – 888 Dunsmuir Street, Vancouver, BC V6C 3K4

("Pubco")

AND:

THELON DIAMOND COMPANY LIMITED, a company existing under the *Business Corporations Act* (British Columbia), and incorporation number BC0932238, with an office at 1500 – 888 Dunsmuir Street, Vancouver, BC V6C 3K4

("Buyco")

WHEREAS:

- A. Subco-RI is or will be a wholly owned subsidiary of Pubco created solely for the purpose of giving effect to this Arrangement Agreement.
- B. Pubco is a reporting issuer in the jurisdictions of British Columbia and Alberta.
- C. The Parties have agreed to reorganize their businesses by way of a plan of arrangement to be carried out under the provisions of Part 9, Division 5 of the Business Corporations Act (British Columbia) on the terms of the Plan of Arrangement annexed hereto as Schedule A.

NOW THEREFORE in consideration of the covenants and agreements herein contained and for other good and valuable consideration, the Parties hereby covenant and agree as follows:

**ARTICLE 1.
DEFINITIONS, INTERPRETATION AND SCHEDULES**

1.1. Definitions

All capitalized terms in this Arrangement Agreement have the meaning ascribed to them by Section 1.1 of the Plan of Arrangement, unless otherwise defined herein or the context otherwise requires. In addition, words and phrases used herein and defined in the BCBCA shall have the same meaning herein as in the BCBCA unless otherwise defined herein or the context otherwise requires.

1.2. Interpretation Not Affected by Headings

The division of this Arrangement Agreement into articles, sections, subsections, paragraphs and subparagraphs and the insertion of headings herein are for convenience of reference only and shall not affect in any way the meaning or interpretation of this Arrangement Agreement. The terms “this Arrangement Agreement”, “hereof”, “herein”, “hereto”, “hereunder” and similar expressions refer to this Arrangement Agreement and the schedules annexed hereto and not to any particular article, section or other portion hereof and include any agreement, schedule or instrument supplementary or ancillary hereto or thereto.

1.3. Number, Gender And Persons

In this Arrangement Agreement, unless the context otherwise requires, words importing the singular shall include the plural and vice versa, words importing the use of either gender shall include both genders and neuter, and the word person and all words importing persons shall include a natural person, firm, trust, partnership, association, corporation, joint venture or government (including any Governmental Entity, political subdivision or instrumentality thereof) and any other entity of any kind or nature whatsoever.

1.4. Date For Any Action

If the date on which any action is required to be taken hereunder by any Party is not a Business Day, such action shall be required to be taken on the next succeeding day which is a Business Day.

1.5. Statutory References

Any reference in this Arrangement Agreement to a statute includes all regulations and rules made thereunder, all amendments to such statute or regulation in force from time to time and any statute or regulation that supplements or supersedes such statute or regulation.

1.6. Currency

All references to money in this Arrangement Agreement are expressed in the lawful currency of Canada.

1.7. Entire Agreement

This Arrangement Agreement, together with the agreements and documents herein and therein referred to, constitute the entire agreement among the Parties pertaining to the subject matter

hereof and supersede all prior agreements, understandings, negotiations and discussions, whether oral or written, among the Parties with respect to the subject matter hereof.

1.8. Invalidity Of Provisions

Each of the provisions contained in this Arrangement Agreement is distinct and severable and a declaration of invalidity or unenforceability of any such provision or part thereof by a court of competent jurisdiction shall not affect the validity or enforceability of any other provision hereof. To the extent permitted by applicable Law, the Parties waive any provision of Law which renders any provision of this Arrangement Agreement or any part thereof invalid or unenforceable in any respect. The Parties shall engage in good faith negotiations to replace any provision hereof or any part thereof which is declared invalid or unenforceable with a valid and enforceable provision or part thereof, the economic effect of which approximates as much as possible the invalid or unenforceable provision or part thereof which it replaces.

1.9. Accounting Matters

Unless otherwise stated, all accounting terms used in this Arrangement Agreement shall have the meanings attributable thereto under IFRS and all determinations of an accounting nature required to be made hereunder shall be made in a manner consistent with IFRS.

1.10. Schedules

The following schedule attached hereto is incorporated into and forms an integral part of this Arrangement Agreement:

Schedule A – Plan of Arrangement

**ARTICLE 2.
THE ARRANGEMENT**

2.1. Implementation Steps

In order to implement the Arrangement, the following steps shall be taken by the Parties:

- a) upon execution of this Arrangement Agreement, Buyco shall forthwith deliver to Pubco payment for the Deposit, which shall be a non-refundable deposit in partial payment of the Purchase Price;
- b) Buyco covenants in favour of Pubco and Subco-RI that Buyco shall, subject to the terms of this Arrangement Agreement, use commercially reasonable efforts to have the Buyco Shareholders approve the Arrangement either by (i) unanimous consent resolutions, or (ii) convening and holding the Buyco Meeting on a date to be determined by the directors of Buyco, for the purpose of Buyco Shareholders considering and, if deemed advisable, approving the Arrangement and the transactions contemplated thereby by way of the Arrangement Resolution (and for any other proper purpose as may be set out in the notice for such meeting and the Information Statement), for which the requisite approval shall be 2/3 of the votes cast thereon by the Buyco Shareholders present in person or represented by proxy at the Buyco Meeting, with each holder of Buyco Shares being entitled to one vote for each one Buyco Share held;

- c) Pubco covenants in favour of Subco-RI and Buyco that Pubco shall work with Subco-RI and Buyco to assist them in meeting the distribution obligations for listing on a Canadian Securities Exchange and that Pubco shall make such introductions to investors, on their behalf, as is necessary;
- d) Buyco shall proceed with and diligently pursue the application to the Court for the Final Order; and
- e) upon issuance by the Court of the Final Order and subject to fulfillment or waiver of the conditions precedent in Article 5 hereof, the Arrangement shall be carried out substantially on the terms set forth in the Plan of Arrangement, subject to such changes as may be mutually agreed to in writing by the Parties on the advice of their respective legal, tax, and financial advisors, and the Closing shall proceed in accordance with Section 2.6 and 2.7 hereof.

2.2. Arrangement

The Plan of Arrangement shall, with such other matters as are necessary to give effect to the Arrangement, proceed as set out in Section 2.3 of Schedule A at the Effective Time and in chronological order, without any further act or formality.

2.3. Section 3(a)(10) Exemption

The Parties agree that, at the option of Buyco, the Arrangement may be carried out so that all Subco-RI Shares issued under the Arrangement by Subco-RI to Buyco Shareholders resident in the United States will be issued in reliance upon the exemption from the registration requirements of the U.S. Securities Act of 1933 (the "1933 Act") provided by Section 3(a)(10) of the 1933 Act (the "Section 3(a)(10) Exemption"). At the option of Buyco, to make the Section 3(a)(10) Exemption available to Buyco Shareholders, the Arrangement may be carried out on the following basis:

- a) the Arrangement will be subject to the approval of the Court;
- b) the Court will be advised as to the intention of the Parties to rely on the Section 3(a)(10) Exemption prior to the hearing required to approve the Arrangement;
- c) prior to approving the Arrangement the Court will first:
 - i) consider the fairness of the terms and conditions of the Arrangement to the Buyco Shareholders who are subject to the Arrangement; and
 - ii) make a determination that the terms and conditions of the exchange of securities under the Arrangement are fair to the Buyco Shareholders;
- d) the Final Order will expressly state that the Arrangement is approved by the Court as being fair to the Buyco Shareholders; and
- e) Buyco will ensure that each Buyco Shareholder entitled to Subco-RI Shares pursuant to the Arrangement will be given adequate notice advising it of its right to attend the hearing of the Court to give approval of the Arrangement and providing it with sufficient information necessary for it to exercise that right.

2.4. Buyco Information Statement

As promptly as practicable after the execution and delivery of this Arrangement Agreement, Buyco shall prepare the Information Statement, together with any and all other documents required by the BCBCA or other applicable Laws in connection with the Arrangement. As promptly as practicable after the completion of the Information Statement, Buyco shall cause the Information Statement and all other documentation required in connection with the Buyco Meeting to be sent to each Buyco Shareholder and to be filed if required by applicable Laws.

2.5. Preparation of Filings

- a) Each Party hereto shall cooperate in the taking of all such action as may be required under the BCBCA and the policies and requirements of the CSE in connection with the transactions contemplated by this Arrangement Agreement and the Plan of Arrangement.
- b) Each Party hereto shall, on a timely basis, furnish to each other Party hereto all such information concerning it and its securityholders as may be required (and, in the case of its securityholders, available to it) to effect the actions described in Article 2 hereof, and each covenants that no information furnished by it (to its knowledge in the case of information concerning its shareholders) in connection with such actions or otherwise in connection with the consummation of the Arrangement and the other transactions contemplated by this Arrangement Agreement will contain any untrue statement of a material fact or omit to state a material fact required to be stated in any such document or necessary in order to make any information so furnished for use in any such document not misleading in light of the circumstances in which it is furnished or to be used.
- c) Each Party hereto shall promptly notify the other Parties if at any time before or after the Effective Time it becomes aware that the Information Statement contains any untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements contained therein not misleading in light of the circumstances in which they are made, or that otherwise requires an amendment or supplement to the Information Statement. In any such event, all Parties shall cooperate in the preparation of any supplement or amendment to the Information Statement that may be required, and shall cause the same to be distributed to the Buyco Shareholders, as necessary.
- d) Buyco shall ensure that the Information Statement complies with all applicable Laws and, without limiting the generality of the foregoing, shall ensure that the Information Statement does not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements contained therein not misleading in light of the circumstances in which they are made (other than with respect to any information relating to and provided by Pubco and Subco-RI) and shall ensure that the Information Statement provides Buyco Shareholders with information in sufficient detail to permit them to form a reasoned judgment concerning the matters to be placed before them at the Buyco Meeting.

2.6. Closing

The Parties shall return signed documents to Suite 1820 Cathedral Place, 925 West Georgia

Street, Vancouver, British Columbia V6C 3L2 by 4:00 p.m. (Vancouver time) on the Closing Date, or such other time and date as may be agreed upon, for the purposes of Closing and giving effect to the Arrangement. The Closing shall be carried out in accordance with the provisions of this Arrangement Agreement and the Plan of Arrangement. Upon Closing, the transactions comprising the Arrangement shall occur and shall be deemed to have occurred without any further act or formality in the order set out in the Plan of Arrangement. On Closing, each Party shall deliver:

- a) all documents required to be delivered by it hereunder to complete the transactions contemplated hereby, provided that each such document required to be dated the Closing Date shall be dated as of, or become effective on, the Closing Date and shall be held in escrow to be released upon the occurrence of the Closing Date; and
- b) written confirmation as to the satisfaction or waiver by it of the conditions in its favour set forth in Article 5 herein.

2.7. Purchase and Sale of Subco-RI

At Closing, Buyco shall pay the Balance of the Purchase Price, less the amount of the previously paid Deposit to Pubco, on the understanding that the Purchase Price represents the full consideration for the acquisition by Buyco of Subco-RI, inclusive of independent legal fees incurred by Pubco in connection with the Arrangement and the other transactions contemplated by this Arrangement Agreement.

2.8. Consultation

Each Party shall consult with the other Parties hereto in issuing any press release or otherwise making any public statement with respect to this Arrangement Agreement or the Arrangement and in making any filing with any Governmental Entity, Securities Authority or stock exchange with respect thereto. The Parties hereto shall use commercially reasonable efforts to enable the other to review and comment on all such press releases and filings prior to the release or filing, respectively, thereof.

ARTICLE 3. REPRESENTATIONS AND WARRANTIES

3.1. Representations and Warranties of Pubco and Subco-RI

Pubco and Subco-RI hereby represent and warrant to Buyco, and hereby acknowledge that Buyco is relying upon such representations and warranties in connection with entering into this Arrangement Agreement and agreeing to complete the Arrangement, as follows:

- a) *Organization.* Pubco has been incorporated, is validly subsisting and in good standing with respect to all filings required under applicable laws, and has full corporate or legal power and authority to own its assets and to conduct its business as currently owned and conducted.
- b) *Adoption of Arrangement Agreement.* Upon incorporation of Subco-RI, Subco-RI will approve and adopt the Arrangement Agreement and will be bound by all of the terms and conditions thereunder;

- c) *Capitalization.* Pubco and Subco-RI are or will be at Closing, each authorized to issue an unlimited number of Common Shares without par value. All outstanding Subco-RI Shares will be duly authorized and validly issued and outstanding as fully paid and non-assessable, free of pre-emptive rights at the time of Closing. Subco-RI has or will have no options, warrants or other rights, agreements or commitments of any character whatsoever convertible into, or exchangeable or exercisable for or otherwise requiring the issuance, sale or transfer by Subco-RI of any Subco-RI Shares or any securities convertible into, or exchangeable or exercisable for, or otherwise evidencing a right to acquire any Subco-RI Shares, other than pursuant to the Arrangement.
- d) *Authority.* Pubco has all necessary power, authority and capacity to enter into this Arrangement Agreement and all other agreements and instruments to be executed by each of them as contemplated by this Arrangement Agreement, and to perform their respective obligations hereunder and under such other agreements and instruments. The execution and delivery of this Arrangement Agreement by Pubco and Subco-RI and the completion of the transactions contemplated by this Arrangement Agreement have been authorized by the directors of Pubco and of Subco-RI, and no other corporate proceedings on the part of Pubco or Subco-RI are necessary to authorize this Arrangement Agreement or to complete the transactions contemplated hereby, unless otherwise directed by the Court in an order concerning the Arrangement.
- e) *Execution and Delivery.* This Arrangement Agreement has been duly executed and delivered by Pubco and Subco-RI and constitutes a legal and binding obligation, enforceable against Pubco and Subco-RI in accordance with its terms, subject to bankruptcy, insolvency and other similar Laws affecting creditors' rights generally and to general principles of equity. All documents required to be executed by Pubco and Subco-RI in connection with the transactions contemplated herein will be duly executed and delivered by Pubco and Subco-RI and, when so executed and delivered, will constitute legal, valid and binding obligations, enforceable against Pubco and Subco-RI in accordance with their terms, subject to bankruptcy, insolvency and other similar Laws affecting creditors' rights generally, and to general principles of equity.
- f) *No Breach or Violation.* The execution and delivery of this Arrangement Agreement and the consummation of the Arrangement do not and will not:
 - i) result in the breach of or violate any term or provision of the constating documents of Pubco and Subco-RI;
 - ii) conflict with, result in a breach of, constitute a default under, or accelerate or permit the acceleration of the performance required by, any agreement or instrument to which Pubco or Subco-RI is a party or by which it is bound or to which any property of Pubco or Subco-RI is subject or result in the creation of any lien, charge or encumbrance upon any of the assets of Pubco or Subco-RI under any such agreement or instrument, or give to others any material interest or rights in the assets of Pubco or Subco-RI, including rights of purchase, termination, cancellation or acceleration, under any such agreement or instrument; or
 - iii) violate any provision or law or administrative regulation or any judicial or administrative order, award, judgment or decree applicable to Pubco or Subco-RI.

- g) *Reporting Status.* Pubco is a reporting issuer in the jurisdictions of British Columbia and Alberta, and the documents filed by Pubco on SEDAR were, at their respective dates, true and correct in all material respects and did not omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.
- h) *No Defaults.* Pubco and Subco-RI are not in default under, and there exists no event, condition or occurrence which, after notice or lapse of time or both, would constitute such a default under, any contract, agreement, licence or franchise to which either of them is a party which would, if terminated due to such default, cause a Material Adverse Effect on Pubco or Subco-RI.
- i) *Financial Statements.* The audited interim balance sheets, statements of operations, statements of shareholders' equity, and statements of cash flows of Subco-RI to be delivered by Pubco will be prepared in accordance with IFRS, consistently applied, and will fairly present in all material respects the financial condition of Subco-RI at the date indicated and the results of operations of Subco-RI for the periods covered and reflect adequate provision for the liabilities of Subco-RI in accordance with IFRS.
- j) *Corporate Records.* The minute books and corporate records of Subco-RI have been maintained substantially in accordance with all applicable Laws and are complete and accurate in all material respects, except where such incompleteness or inaccuracy would not have a Material Adverse Effect on Subco-RI. Financial books and records and accounts of Subco-RI in all material respects (i) have been maintained in accordance with good business practices, (ii) are stated in reasonable detail and accurately and fairly reflect the transactions and acquisitions and dispositions of assets of Subco-RI, and (iii) accurately and fairly reflect the basis for the financial statements of Subco-RI. Subco-RI has devised and maintains a system of internal accounting controls sufficient to provide reasonable assurances that, in all material respects: (a) transactions are executed in accordance with the general or specific authorization of the management of Subco-RI, and (b) transactions are recorded as necessary (i) to permit the preparation of financial statements in conformity with IFRS or any criteria applicable to such financial statements, and (ii) to maintain accountability for assets and liabilities.
- k) *Guarantees.* Subco-RI is not a Party to or bound by or subject to any guarantee, agreement, contract or commitment providing for such guarantee, indemnification, assumption or endorsement or any like commitment with respect to the obligations, liabilities (contingent or otherwise) or indebtedness of any other Person.
- l) *Legal Proceedings.* There are no actions, suits, investigations or proceedings, whether private, governmental or otherwise, in progress, pending, or to the knowledge of Pubco or Subco-RI, threatened, against or affecting Pubco or Subco-RI, including actions, suits, investigations or proceedings against any directors, officers or employees of Pubco or Subco-RI that relate to the business, affairs, assets or operations of Pubco or Subco-RI, at law or in equity. There is no judgment, decree, injunction, ruling, order or award of any Governmental Authority outstanding against or affecting Pubco or Subco-RI. Pubco and Subco-RI are not aware of any grounds on which any such action, suit, investigation or proceeding might be commenced with any reasonable likelihood of success, and neither Pubco nor Subco-RI has any present plans or intentions for Pubco or Subco-RI to initiate any litigation, arbitration or other proceedings against any third party that would have a Material Adverse Effect on the Arrangement.

- m) *Liabilities.* Buyco shall pay all the expenses of Subco in advance of the Closing Date, including incorporation fees, CUSIP fees, listing fees, transfer agent fees and any required accounting fees.
- n) *Finder's Fees.* Pubco and Subco-RI have not entered into any agreement that would entitle any person to any valid claim against Subco-RI for a broker's commission, finder's fee or any like payment in respect of the Arrangement or any other matter contemplated by this Arrangement Agreement.
- o) *Arrangement Shares.* Any securities to be issued by Pubco or Subco-RI to Buyco or any Buyco Shareholders pursuant to the Arrangement will be issued as fully-paid and non-assessable, free of pre-emptive rights.
- p) *Bankruptcy.* No dissolution, winding up, bankruptcy, liquidation or similar proceedings has been commenced or is pending or proposed in respect of Pubco or Subco-RI.
- q) *Disclosure.* As of the date hereof, the representations and warranties of Pubco and Subco-RI contained in this Arrangement Agreement and in any agreement, certificate, affidavit, statutory declaration or other document delivered or given pursuant to this Arrangement Agreement are true and correct in all material respects and do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements contained in such representations not misleading to Buyco.

3.2. Representations and Warranties of Buyco

Buyco hereby represents and warrants to Pubco and Subco-RI, and hereby acknowledges that both Pubco and Subco-RI are relying upon such representations and warranties in connection with entering into this Arrangement Agreement and agreeing to complete the Arrangement, as follows:

- a) *Organization.* Buyco has been incorporated, is validly subsisting and in good standing with respect to all filings required under applicable laws, and has full corporate or legal power and authority to own its assets and to conduct its business as currently owned and conducted.
- b) *Capitalization.* Buyco is authorized to issue an unlimited number of Buyco Shares without par value.
- c) *Authority.* Buyco has all necessary power, authority and capacity to enter into this Arrangement Agreement and all other agreements and instruments to be executed by Buyco as contemplated by this Arrangement Agreement, and to perform its obligations hereunder and under such other agreements and instruments. The execution and delivery of this Arrangement Agreement by Buyco and the completion by Buyco of the transactions contemplated by this Arrangement Agreement have been authorized by the directors of Buyco, and other than the Buyco Shareholder Meeting, no other corporate proceedings on the part of Buyco are necessary to authorize this Arrangement Agreement or to complete the transactions contemplated hereby, unless otherwise directed by the Court in an order concerning the Arrangement.
- d) *Execution and Delivery.* This Arrangement Agreement has been duly executed and delivered by Buyco and constitutes a legal and binding obligation, enforceable against

Buyco in accordance with its terms, subject to bankruptcy, insolvency and other similar Laws affecting creditors' rights generally and to general principles of equity. All documents required to be executed by Buyco in connection with the transactions contemplated herein will be duly executed and delivered by Buyco and, when so executed and delivered, will constitute legal, valid and binding obligations, enforceable against Buyco in accordance with their terms, subject to bankruptcy, insolvency and other similar Laws affecting creditors' rights generally, and to general principles of equity.

- e) *No Breach or Violation.* The execution and delivery of this Arrangement Agreement and the consummation of the Arrangement do not and will not:
- i) result in the breach of or violate any term or provision of the constating documents of Buyco;
 - ii) conflict with, result in a breach of, constitute a default under, or accelerate or permit the acceleration of the performance required by, any agreement or instrument to which Buyco is a party or by which it is bound or to which any property of Buyco is subject or result in the creation of any lien, charge or encumbrance upon any of the assets of Buyco under any such agreement or instrument, or give to others any material interest or rights in the assets of Buyco, including rights of purchase, termination, cancellation or acceleration, under any such agreement or instrument; or
 - iii) violate any provision or law or administrative regulation or any judicial or administrative order, award, judgment or decree applicable to Buyco.
- f) *No Defaults.* Buyco is not in default under, and there exists no event, condition or occurrence which, after notice or lapse of time or both, would constitute such a default under, any contract, agreement, licence or franchise to which it is a party which would, if terminated due to such default, cause a Material Adverse Effect on Buyco.
- g) *Financial Statements.* The financial statements of Buyco to be delivered to Pubco and Subco-RI will be prepared in accordance with IFRS, consistently applied, and will fairly present in all material respects the financial condition of Subco-RI at the date indicated and the results of operations of Subco-RI for the periods covered and reflect adequate provision for the liabilities of Subco-RI in accordance with IFRS.
- h) *Corporate Records.* The minute books and corporate records of Buyco contain complete and accurate minutes of all meetings of, and copies of all resolutions passed by, or consented to in writing by, its directors (and any committees thereof) and shareholders since its incorporation, all such meetings were duly called and held and all such resolutions were duly passed or enacted. The registers of shareholders, registers of transfers, registers of directors and other corporate registers of Buyco are complete and accurate in all material respects. Buyco is not a party to or bound by or subject to any shareholder agreement or unanimous shareholder agreement governing its affairs or the relationships, rights and duties of its shareholders and is not subject to a shareholder rights plan or "poison pill" or similar plan.
- i) *Guarantees.* Buyco is not a party to or bound by or subject to any guarantee, agreement, contract or commitment providing for such guarantee, indemnification, assumption or endorsement or any like commitment with respect to the obligations, liabilities

(contingent or otherwise) or indebtedness of any other Person.

- j) *Legal Proceedings.* Except as otherwise disclosed herein, there are no actions, suits, investigations or proceedings, whether private, governmental or otherwise, in progress, pending, or to the knowledge of Buyco, threatened, against or affecting Buyco, including actions, suits, investigations or proceedings against any directors, officers or employees of Buyco that relate to the business, affairs, assets or operations of Buyco, at law or in equity. There is no judgment, decree, injunction, ruling, order or award of any Governmental Authority outstanding against or affecting Buyco. Buyco is not aware of any grounds on which any such action, suit, investigation or proceeding might be commenced with any reasonable likelihood of success, and does not have any present plans or intentions to initiate any litigation, arbitration or other proceedings against any third party.
- k) *Finder's Fees.* No commissions, finder's fees or other compensation is payable in respect of the transactions contemplated hereby, other than normal brokerage commissions or similar fees payable in connection with any financing completed by Buyco prior to the Effective Time. Payment of such fees shall be subject to any required regulatory approvals.
- l) *Arrangement Securities.* Any securities to be issued by Buyco to Pubco or Subco-RI or any securityholders of each pursuant to the Arrangement will be issued as fully-paid and non-assessable, free of pre-emptive rights.
- m) *Bankruptcy.* No dissolution, winding up, bankruptcy, liquidation or similar proceedings has been commenced or is pending or proposed in respect of Buyco.
- n) *Disclosure.* As of the date hereof, the representations and warranties of Buyco contained in this Arrangement Agreement and in any agreement, certificate, affidavit, statutory declaration or other document delivered or given pursuant to this Arrangement Agreement are true and correct in all material respects and do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements contained in such representations not misleading to Pubco.

3.3. Survival of Representations and Warranties

The representations and warranties contained in this Arrangement Agreement shall survive the Closing Date for a period of six months. Any investigation by a Party and its advisors shall not mitigate, diminish or affect the representations and warranties of the other Party contained in this Arrangement Agreement.

ARTICLE 4. COVENANTS

4.1. Covenants of Pubco and Subco-RI

Pubco and Subco-RI hereby covenant and agree with Buyco as follows:

- a) *Copy of Documents.* Except for proxies and other non-substantive communications, Pubco and Subco-RI shall furnish promptly to Buyco a copy of each notice, report, schedule, or other document or communication delivered, filed, or received by Pubco or

Subco-RI in connection with this Arrangement Agreement, the Arrangement, or any meeting of Pubco Shareholders in respect of the Arrangement, any filings made under any applicable Law and any dealings or communications with any Governmental Entity, Securities Authority or stock exchange in connection with, or in any way affecting, the transactions contemplated by this Arrangement Agreement.

- b) *Closing Documents.* Pubco and Subco-RI shall execute and deliver, or cause to be executed and delivered, at the Closing of the transactions contemplated hereby such customary agreements, certificates, resolutions, opinions or other closing documents as may be required by the other Parties, all in form satisfactory to such other Parties, acting reasonably.
- c) *Approvals.* At or prior to Closing, Pubco shall obtain all necessary consents required to effect the assignment of the Pubco Joint Venture to Subco-RI.
- d) *Usual Business.* Other than in contemplation of or as required to give effect to the transactions contemplated by this Arrangement Agreement, Pubco shall conduct the business of Subco-RI only in, and not take any action except in, the ordinary course of business and consistent with past practice. Pubco will use its best efforts to preserve the current capital and assets of Subco-RI and Subco-RI shall immediately prior to the Effective Time have no material liabilities accrued, other than as provided in this Arrangement Agreement or as may otherwise be pre-approved by Buyco.
- e) *Satisfaction of Conditions.* Pubco and Subco-RI shall use all commercially reasonable efforts to satisfy, or cause to be satisfied, all conditions precedent to its obligations hereunder to the extent that the same is within its control and to take, or cause to be taken, all other action and to do, or cause to be done, all other things necessary, proper or advisable under all applicable Laws to complete the transactions contemplated by this Arrangement Agreement.
- f) *Cooperation.* Pubco and Subco-RI shall make, or cooperate as necessary in the making of, all necessary filings and applications under all applicable Laws required in connection with the transactions contemplated hereby and take all reasonable action necessary to be in compliance with such Laws.
- g) *Due Diligence.* Pubco and Subco-RI shall continue to make available and cause to be made available to Buyco and its agents and advisors all documents, agreements, corporate records and minute books as may be necessary to enable Buyco to effect a thorough examination of Pubco and Subco-RI and the business and financial status thereof and shall cooperate with Buyco in securing access for Buyco to any documents, agreements, corporate records or minute books not in the possession or under the control of Pubco or Subco-RI.
- h) *Further Actions.* In a timely and expeditious manner, Pubco and Subco-RI shall take all such actions as may be required under the BCBCA in connection with the transactions contemplated by this Arrangement Agreement and the Plan of Arrangement, including obtaining all necessary waivers, consents and approvals required to be taken by it to fulfill their obligations under this Arrangement Agreement and to carry out the Arrangement and other transactions contemplated hereby.

4.2. Covenants of Buyco

Buyco hereby covenants and agrees with Pubco and Subco-RI as follows:

- a) *Copy of Documents.* Except for proxies and other non-substantive communications, Buyco shall furnish promptly to Pubco and Subco-RI a copy of each notice, report, schedule or other document or communication delivered, filed or received by Buyco in connection with this Arrangement Agreement, the Arrangement, the Final Order, the Buyco Meeting or any other meeting at which Buyco Shareholders are entitled to attend, including the Information Statement and any notice of meeting, any filings made under any applicable Laws and any dealings or communications with any Governmental Entity, Securities Authority, the CSE or any other stock exchange in connection with, or in any way affecting, the transactions contemplated by this Arrangement Agreement.
- b) *Final Order.* Prior to the Effective Time, Buyco shall file, proceed with and diligently prosecute an application for the Final Order, which application shall be in a form and substance satisfactory to the Parties, acting reasonably.
- c) *Information Statement and Meeting.* In accordance with Section 2.1(b) and Section 2.5 hereof, Buyco shall forthwith prepare the Information Statement, and use commercially reasonable efforts to obtain approval from the Buyco Shareholders for the Arrangement Resolution by way of either unanimous written consent resolutions or by calling the Buyco Meeting to obtain such approval.
- d) *CSE Listing.* Buyco shall apply for a listing of the Subco-RI Shares on the CSE.
- e) *Closing Documents.* Buyco shall execute and deliver, or cause to be executed and delivered, at the Closing of the transactions contemplated hereby such customary agreements, certificates, resolutions, opinions and other closing documents as may be required by the other Party, all in a form satisfactory to the other Party, acting reasonably.
- f) *Usual Business.* Other than in contemplation of or as required to give effect to the transactions contemplated by this Arrangement Agreement, Buyco shall conduct business only in, and not take any action except in, the ordinary course of its business and consistent with past practice.
- g) *Satisfaction of Conditions.* Buyco shall use all commercially reasonable efforts to satisfy, or cause to be satisfied, all conditions precedent to its obligations hereunder to the extent that the same is within its control and to take, or cause to be taken, all other action and to do, or cause to be done, all other things necessary, proper or advisable under all applicable Laws to complete the transactions contemplated by this Arrangement Agreement.
- h) *Cooperation.* Buyco shall make, or cooperate as necessary in the making of, all necessary filings and applications under all applicable Laws required in connection with the transactions contemplated hereby and take all reasonable action necessary to be in compliance with such Laws.
- i) *Due Diligence.* Buyco shall continue to make available and cause to be made available to Pubco, Subco-RI, and their respective agents and advisors all documents,

agreements, corporate records, and minute books as may be necessary to enable Pubco and Subco-RI to effect a thorough examination of Buyco and the business and financial status thereof and shall cooperate with Pubco and Subco-RI in securing access for Pubco and Subco-RI to any documents, agreements, corporate records or minute books not in the possession or under the control of Buyco.

- j) *Further Actions.* In a timely and expeditious manner, Buyco shall take all such actions as may be required under the BCBCA in connection with the transactions contemplated by this Arrangement Agreement and the Plan of Arrangement, including obtaining all necessary waivers, consents and approvals required to be taken by it to fulfill its obligations under this Arrangement Agreement and to carry out the Arrangement and other transactions contemplated hereby.

ARTICLE 5. CONDITIONS

5.1. Mutual Conditions

The respective obligations of Pubco, Subco-RI, and Buyco to complete the transactions contemplated herein are subject to the fulfillment of the following conditions at or before the Effective Time or such other time as is specified below:

- a) the Court shall have granted the Final Order, in form and substance satisfactory to the Parties acting reasonably, and in the Final Order shall have found that the Arrangement is fair and reasonable to the Buyco Shareholders in accordance with Section 2.3 hereof, and the Final Order shall not have been set aside or modified in a manner unacceptable to such Parties, acting reasonably, on appeal or otherwise;
- b) the Arrangement, with or without amendment, shall have been approved by the Buyco Shareholders in accordance with Section 2.1(b) of this Arrangement Agreement, the provisions of the BCBCA and the requirements of any applicable Securities Authority;
- c) this Arrangement Agreement shall not have been terminated pursuant to Article 6 hereof.

The foregoing conditions are for the mutual benefit of the Parties hereto and may be waived, in whole or in part, by a Party in writing at any time, insofar as the condition being waived is in favor of such Party. If any such conditions are not complied with or waived as aforesaid on or before the date required for the performance thereof, then any Party hereto may terminate this Arrangement Agreement by written notice to the other Parties in circumstances where the failure to satisfy any such condition is not the result, directly or indirectly, of a breach of this Arrangement Agreement by such rescinding Party.

5.2. Pubco and Subco-RI Conditions

The obligations of Pubco and Subco-RI to complete the transactions contemplated herein are subject to the fulfillment of the following additional conditions at or before the Effective Time or such other time as is specified below:

- a) Buyco shall have complied in all material respects with its covenants and conditions herein;

- b) the directors of Buyco shall have adopted all necessary resolutions and all other necessary corporate action shall have been taken by Buyco to permit the consummation of the Arrangement and other transactions contemplated hereby;
- c) all necessary consents and approvals by third parties shall have been obtained to permit the consummation of the Arrangement;
- d) Pubco and Subco-RI shall be satisfied in their sole and absolute discretion that the results of its tax, financial and legal due diligence investigation of Buyco have not revealed any adverse material fact regarding Buyco or the assets thereof;
- e) there shall be no material actions, suits or proceedings, outstanding, pending or threatened against Buyco at law or in equity or before or by any federal, provincial, municipal or other government department, commission, bureau, agency or instrumentality;
- f) the representations and warranties of Buyco shall be true in all material respects at the Effective Time; and
- g) no material adverse change shall have occurred in the assets, proprietary technology, liabilities, business, operations or financial condition (contingent or otherwise) of Buyco from the date of entry into this Arrangement Agreement until the Effective Time.

The foregoing conditions are for the benefit of Pubco and Subco-RI and may be waived, in whole or in part, by Pubco and Subco-RI in writing at any time. If any of such conditions shall not be complied with or waived by Pubco or Subco-RI on or before the date required for the performance thereof, then Pubco and Subco-RI may terminate this Arrangement Agreement by delivering written notice to Buyco in circumstances where the failure to satisfy any such condition is not the result, directly or indirectly, of a breach of this Arrangement Agreement by Pubco or Subco-RI.

5.3. Buyco Conditions

The obligation of Buyco to complete the transactions contemplated herein is subject to the fulfillment of the following additional conditions at or before the Effective Time or such other time as is specified below:

- a) Subco-RI shall not have incurred any further liabilities or made any payments thereon, other than liabilities and payments in connection with the transactions contemplated herein in respect of regulatory maintenance and filing fees, transfer agent fees, accounting or auditing fees, legal fees and reasonable expenses;
- b) Subco-RI shall not have issued any securities, other than as contemplated herein or otherwise agreed to by the Parties, without the prior written consent of Buyco;
- c) Pubco and Subco-RI shall have complied in all material respects with their covenants herein;
- d) the directors of Pubco and Subco-RI shall have adopted all necessary resolutions and all other necessary corporate action shall have been taken by Pubco and Subco-RI to permit the consummation of the Arrangement and the other transactions contemplated

hereby;

- e) Subco-RI, upon incorporation, will have approved and adopted the Arrangement Agreement and will have agreed to be bound by all of the terms and conditions thereunder, as evidenced by a written acknowledgement to that effect;
- f) all necessary consents and approvals shall have been obtained to permit the consummation of the Arrangement;
- g) Buyco shall be satisfied in its sole and absolute discretion that the results of its tax, financial and legal due diligence investigation of Pubco and Subco-RI have not revealed any adverse material fact regarding Pubco or Subco-RI or the assets thereof;
- h) there shall be no material actions, suits or proceedings, outstanding, pending or threatened against Pubco or Subco-RI at law or in equity or before or by any federal, provincial, municipal or other government department, commission, bureau, agency or instrumentality;
- i) the representations and warranties of Pubco and Subco-RI shall be true in all material respects at the Effective Time;
- j) no material adverse change shall have occurred in the assets, proprietary technology, liabilities, business, operations or financial condition (contingent or otherwise) of Pubco or Subco-RI from the date of entry into this Arrangement Agreement until the Effective Time;
- k) Pubco shall have a minimum of 150 shareholders with a board lot of at least 500 Common Shares each so that, upon completion of the Arrangement, Subco-RI will have the required number of shareholders with minimum board lots to qualify for listing on the CSE; and
- l) the CSE shall have granted approval, conditional approval, or given an indication satisfactory to Buyco that the Subco-RI Shares will be listed on the CSE.

The foregoing conditions are for the benefit of Buyco and may be waived, in whole or in part, by Buyco in writing at any time. If any of such conditions shall not be complied with or waived by Buyco on or before the date required for the performance thereof, then Buyco may terminate this Arrangement Agreement by delivering notice in writing to Pubco and Subco-RI in circumstances where the failure to satisfy any such condition is not the result, directly or indirectly, of a breach of this Arrangement Agreement by Buyco.

5.4. Notice and Cure Provisions

Each Party hereto shall give prompt notice to the other Parties hereto of the occurrence, or failure to occur, at any time from the date hereof until the Effective Time, of any event or state of facts which occurrence or failure would, would be likely to or could:

- a) cause any of the representations or warranties of such Party hereto contained herein to be untrue or inaccurate in any respect on the date hereof or on the Closing Date;
- b) result in the failure to comply with or satisfy any covenant or agreement to be complied

with or satisfied by such Party hereto prior to the Effective Time; or

- c) result in the failure to satisfy any of the conditions precedent in favor of the other Parties hereto contained in sections 5.1, 5.2 or 5.3 hereof, as the case may be.

Subject as herein provided, a Party hereto may elect not to complete the transactions contemplated hereby pursuant to the conditions contained in sections 5.1, 5.2 or 5.3 hereof or exercise any termination right arising therefrom; provided, however, that (i) promptly and in any event prior to the Effective Time, the Party intending to rely thereon has delivered a written notice to the other Parties hereto specifying in reasonable detail the breaches of covenants or untruthfulness or inaccuracy of representations and warranties or other matters which the Party hereto delivering such notice is asserting as the basis for the exercise of the termination right, as the case may be, and (ii) if any such notice is delivered, and a Party hereto is proceeding diligently, at its own expense, to cure such matter, if such matter is susceptible to being cured, the Party hereto which has delivered such notice may not terminate this Arrangement Agreement until the expiration of a period of 15 days from date of delivery of such notice.

5.5. Amendment

This Arrangement Agreement may, at any time and from time to time before or after the holding of the Buyco Meeting, be amended by mutual written agreement of the Parties without, subject to applicable Laws and the Final Order, further notice to or authorization on the part of their respective securityholders provided that no such amendment reduces or materially adversely affects the consideration to be received by any of the Buyco Shareholders without prior approval by the Buyco Shareholders, given in the same manner as required for the approval of the Arrangement Resolution or as may be ordered by the Court.

5.6. Mutual Understanding Regarding Amendments

The Parties hereto mutually agree that if a Party hereto proposes any other amendment or amendments to this Arrangement Agreement or to the Plan of Arrangement, the Parties shall act reasonably in considering such amendment and if the other Parties and its securityholders are not prejudiced by reason of any such amendment they shall co-operate in a reasonable fashion with the Party hereto proposing the amendment so that such amendment can be effected subject to applicable Laws and the Final Order.

5.7. Termination

This Arrangement Agreement may be terminated by mutual agreement of the Parties at any time prior to the Closing Date, in each case without further action on the part of the Buyco Shareholders. If, by the Termination Date, the Arrangement has not been effected, any Party may terminate the Arrangement Agreement by providing written notice of termination to the other Parties. The right of any Party to terminate this Arrangement Agreement shall be extinguished upon the occurrence of the Closing Date.

ARTICLE 6. GENERAL

6.1. Time of the Essence

Time shall be of the essence of this Arrangement Agreement.

6.2. Notices

Any notice, consent, waiver, direction or other communication required or permitted to be given under this Arrangement Agreement by a Party to the other Party shall be in writing and may be given by delivering such notice by facsimile transmission, courier service or by hand to the Party at the address or fax number for delivery of notice set out below or such other address or number as a Party may, from time to time, advise the other Party of by notice in writing made in accordance with this section. Any notice, consent, waiver, direction or other communication aforesaid shall, if delivered, be deemed to have been given and received on the date on which it was delivered to the address provided herein (if such a day falls on a Business Day, and if not, then on the next succeeding Business Day) and if sent by facsimile transmission shall be deemed to have been given and received: (i) on the day of delivery provided it is received prior to 4:00 p.m. on a Business Day; or (ii) the next Business Day if received after 4:00 p.m. on a Business Day or on a non-Business Day.

If to Pubco:

THELON CAPITAL LTD.
1500 – 888 Dunsmuir Street
Vancouver, BC V6C 3K4

If to Subco-RI:

THELON DIAMONDS LTD.
Suite 1820 -925 W. Georgia Street
Vancouver, British Columbia V6C 3L2

If to Buyco:

THELON DIAMOND COMPANY LIMITED
1500 – 888 Dunsmuir Street
Vancouver, BC V6C 3K4

6.3. Public Announcements

The Parties hereto agree to coordinate the public disclosure made by them with respect to the Arrangement. The Parties hereto further agree that there shall be no public announcement or other disclosure with respect to the Arrangement or of the matters dealt with herein unless they have mutually agreed thereto or unless otherwise required by law or by regulatory rule or policy based on the advice of counsel. If any of the Parties hereto is required by law or regulatory rule or policy to make a further public announcement with respect to the Arrangement, such Party hereto shall provide as much notice to the other Parties hereto as is reasonably possible, including the proposed text of the announcement.

6.4. Expenses

Each Party shall bear the costs of its own fees and expenses in connection with this Arrangement Agreement and the transactions contemplated hereby, including legal and accounting fees, printing costs, financial advisor fees and all disbursements by advisors. Pubco shall pay all of its transfer agent fees with respect to the distribution of the Subco-RI Distribution Shares to the Pubco Shareholders.

6.5. Third Party Beneficiaries

The Parties intend that this Arrangement Agreement shall not benefit or create any right or cause of action in or on behalf of any Person other than the Parties.

6.6. Further Assurances

Each Party shall, from time to time, and at all times hereafter, at the request of any other Party, but without further consideration, do, or cause to be done, all such other acts and things and execute and deliver, or cause to be executed and delivered, all such further agreements, transfers, assurances, instruments or documents as shall be reasonably required in order to give effect to the Arrangement and fully perform and carry out the terms and intent hereof, including without limitation, the Plan of Arrangement.

6.7. Governing Laws

This Arrangement Agreement shall be exclusively governed by and be construed in accordance with the laws of the Province of British Columbia and the laws of Canada applicable therein. Each Party hereby irrevocably attorns to the exclusive jurisdiction of the courts of the Province of British Columbia in respect of all matters arising under or in relation to this Arrangement Agreement.

6.8. Waiver or Release

Any waiver or release of any conditions of this Arrangement Agreement, to be effective, must be in writing executed by the Party for whom such condition is expressed by this Agreement to benefit.

6.9. Enurement and Assignment

This Arrangement Agreement shall enure to the benefit of and be binding upon the Parties, their respective successors and permitted assigns, and may not be assigned by any Party without the prior written consent of the other Party.

6.10. Entire Agreement

This Arrangement Agreement, together with the agreements and other documents herein or therein referred to, constitute the entire agreement between the Parties hereto pertaining to the subject matter hereof and supersede all prior agreements, understandings, negotiations and discussions, whether oral or written, between the Parties hereto with respect to the subject matter hereof.

6.11. Severability

If any provision of this Arrangement Agreement is determined to be void or unenforceable in whole or in part, it shall be deemed not to affect or impair the validity of any other provision of this Arrangement Agreement and such void or unenforceable provision shall be severed from this Arrangement Agreement.

6.12. Counterparts

This Arrangement Agreement may be executed in counterparts and delivered by electronic transmission, each of which shall conclusively be deemed to be an original and all of which collectively shall constitute one and the same agreement.

IN WITNESS WHEREOF the Parties hereto have executed this Arrangement Agreement as of the date first written above.

THELON CAPITAL LTD.

THELON DIAMOND COMPANY LIMITED

Per: "Mark Tommasi"
Authorized Signatory

Per: "Geoff Watson"
Authorized Signatory

THELON DIAMONDS LTD.

Per: "Jason Walsh"
Authorized Signatory

Schedule A

PLAN OF ARRANGEMENT

[inserted as following pages]

**PLAN OF ARRANGEMENT
UNDER THE PROVISIONS OF DIVISION 5 OF PART 9
OF THE BUSINESS CORPORATIONS ACT (BRITISH COLUMBIA)**

**ARTICLE 1.
INTERPRETATION**

1.1. Definitions

In this Plan of Arrangement, unless the context otherwise requires, the following words and phrases shall have the meanings hereinafter set out:

- a) **“Arrangement”** means the arrangement under the provisions of section 288 of the BCBCA on the terms and conditions set forth in the Plan of Arrangement, which shall include the exchange of each one Buyco Common Share outstanding for one Subco-RI Common Share;
- b) **“Arrangement Agreement”** means this arrangement agreement, together with the schedules attached hereto, as may be amended, modified or supplemented from time to time in accordance herewith;
- c) **“Arrangement Resolution”** means the resolution of Buyco Shareholders in respect of the Arrangement;
- d) **“Balance”** means \$900 balance of the Purchase Price to be paid by Buyco to Pubco at Closing;
- e) **“BCBCA”** means the *Business Corporations Act* (British Columbia);
- f) **“Business Day”** means any day, other than a Saturday, a Sunday or a statutory holiday in Vancouver, British Columbia;
- g) **“Buyco”** means Thelon Diamond Company Limited, a private company incorporated under the BCBCA;
- h) **“Buyco Meeting”** means the special meeting of Buyco Shareholders that may be held to consider and, if deemed advisable, approve the Arrangement, to be held as soon as reasonably practicable on such date as may be deemed advisable by the board of directors of Buyco, and any adjournment(s) or postponement(s) thereof;
- i) **“Buyco Meeting Date”** means the date of the Buyco Meeting or the date of the written resolutions of Buyco Shareholders in lieu thereof;
- j) **“Buyco Shareholders”** means the holders of Buyco Shares at such time;
- k) **“Buyco Shares”** means, at any time, the Common Shares in the authorized capital of Buyco as constituted at such time;
- l) **“Closing”** means closing of the Arrangement contemplated by the Arrangement Agreement and this Plan of Arrangement;

- m) **"Closing Date"** means the date on which the Arrangement becomes effective, which shall be a date within five Business Days of the date that all conditions precedent contained in Article 5 of the Arrangement Agreement have been fulfilled or waived or such other date as determined by Buyco on providing the other Parties with at least two days' advance notice;
- n) **"Court"** means the Supreme Court of British Columbia;
- o) **"CSE"** means the Canadian Securities Exchange;
- p) **"Deposit"** means a deposit of \$100 against the Purchase Price payable from Buyco to Pubco upon execution of the Arrangement Agreement;
- q) **"Effective Time"** means 4:00 pm. (Vancouver time) on the Closing Date;
- r) **"Final Order"** means the order of the Court approving the Arrangement granted pursuant to section 291 of the BCBCA, as such order may be amended at any time prior to the Closing Date or, if appealed, then unless such appeal is abandoned, withdrawn or denied, as affirmed;
- s) **"Governmental Entity"** means any
 - i) multinational, federal, provincial, state, regional, municipal, local or other government, governmental or public department, central bank, court, tribunal (judicial, quasi-judicial, administrative or quasi-administrative), arbitral body, commission, board, bureau or agency, domestic or foreign;
 - ii) any subdivision, agency, commission, board or authority of any of the foregoing; or
 - iii) any quasi-governmental or private body exercising any regulatory, expropriation or taxing authority in respect of or for the account of any of the foregoing;
- t) **"Head Agreement"** means the Option Agreement made the 12th day of July, 2002 between Mackenzie Jaims and Pubco;
- u) **"IFRS"** means the International Financial Reporting Standards;
- v) **"Information Statement"** means the management information statement summarizing the transactions under the Arrangement Agreement to be prepared and delivered to each of the Buyco Shareholders;
- w) **"Laws"** means all statutes, regulations, statutory rules, principles of law, orders, published policies and guidelines, and terms and conditions of any grant of approval, permission, authority or licence of any court, Governmental Entity, statutory body or self-regulatory authority, and the term "applicable" with respect to such Laws and in the context that refers to one or more Persons means that such Laws apply to such Person or Persons or its or their business, undertaking, property or securities and emanate from a Person having jurisdiction over the Person or Persons or its or their business, undertaking, property or securities;

- x) **“Letter Agreement”** means a letter agreement dated February 18, 2004, as amended March 30, 2004 and September 8, 2004, between Buyco and Dunsmuir Ventures Ltd., whose rights and obligations under the letter agreement were assumed by Peregrine Diamonds Ltd. pursuant to a business combination completed on January 16, 2006;
- y) **“Listing Date”** means the date on which the Subco-RI Shares are listed on the CSE;
- z) **“Material Adverse Effect”**, when used in connection with Pubco, Subco-RI or Buyco, means any matter or action that has an effect that is, or would reasonably be expected to be, material and adverse to the business, properties, assets, operations, condition (financial or otherwise) or prospects of such Party;
- aa) **“Party”** and **“Parties”** means a signatory or multiple signatories to the Arrangement Agreement, respectively;
- bb) **“Peregrine”** means Peregrine Diamonds Ltd.;
- cc) **“Person”** includes an individual, partnership, association, body corporate, trustee, executor, administrator, legal representative, government, regulatory authority or other entity;
- dd) **“Plan of Arrangement”** means the plan of arrangement annexed as Schedule A to the Arrangement Agreement, as may be amended, varied, modified or supplemented from time to time in accordance with the Arrangement Agreement, the Plan of Arrangement, or by order of the Court;
- ee) **“Property”** means the mineral rights listed in Schedule “A” to the Letter Agreement including any renewals, extensions or replacements thereof, together with any other mining rights held or applied for in connection therewith and all other rights and mineral interests appurtenant or incidental thereto;
- ff) **“Pubco”** means Thelon Capital Ltd., a reporting issuer in British Columbia and Alberta and incorporated under the BCBCA;
- gg) **“Pubco Joint Venture”** means Pubco’s interest in and to the Head Agreement and Pubco’s rights and obligations under a joint venture with Peregrine in respect of the Property;
- hh) **“Pubco Shareholders”** means, at any time, the holders of Pubco Shares at such time;
- ii) **“Pubco Shares”** means, at any time, the Common Shares in the authorized capital of Pubco as constituted at such time;
- jj) **“Purchase Price”** means the aggregate purchase price to be paid by Buyco to Pubco as consideration for the acquisition of Subco-RI of \$1,000 (one thousand dollars), comprised of the Deposit to be paid on execution of the Arrangement Agreement and the Balance to be paid at Closing;
- kk) **“Purchase Shares”** means the 10,000 shares in Subco-RI that were issued to Pubco immediately after incorporation of Subco-RI;

- ll) **“Record Date”** means October 21, 2014, being the date set by Pubco as the date that establishes the Pubco Shareholders who will be entitled to receive the Subco-RI Distribution Shares pursuant to this Plan of Arrangement;
- mm) **“Registrar”** means the Registrar of Companies for the Province of British Columbia duly appointed under the BCBCA;
- nn) **“Section 3(a)(10) Exemption”** has the meaning set out in Section 2.3 of the Arrangement Agreement;
- oo) **“Securities Authorities”** means the British Columbia Securities Commission and the other securities regulatory authorities in the provinces and territories of Canada and the Securities and Exchange Commission of the United States of America, collectively;
- pp) **“SEDAR”** means the System for Electronic Disclosure and Analysis and Retrieval;
- qq) **“Subco-RI”** means Thelon Diamonds Ltd., a company incorporated under the BCBCA as a wholly-owned subsidiary of Pubco;
- rr) **“Subco-RI Distribution Shares”** means 2,260,000 Subco-RI Shares;
- ss) **“Subco-RI Shareholders”** means, at any time, the holders of Subco-RI Shares at such time;
- tt) **“Subco-RI Shares”** means, at any time, the Common Shares in the authorized capital of Subco-RI as constituted at such time;
- uu) **“Termination Date”** means January 31, 2015 or such later date as may be agreed upon in writing by the Parties. After such date, either Party may terminate this Arrangement Agreement by giving written notice of such intention to the other Party;
- vv) **“Transfer Agent”** means the registrar and transfer agent for the Subco-RI Shares.

In addition, words and phrases used herein and defined in the BCBCA shall have the same meaning herein as in the BCBCA unless the context otherwise requires.

1.2. Interpretation Not Affected by Headings

The division of this Plan of Arrangement into articles, sections, subsections, paragraphs and subparagraphs and the insertion of headings herein are for convenience of reference only and shall not affect in any way the meaning or interpretation of this Plan of Arrangement. Unless otherwise indicated, any reference in this Plan of Arrangement to a section or an exhibit refers to the specific section of or exhibit to this Plan of Arrangement.

1.3. Number, Gender and Persons

In this Plan of Arrangement, unless the context otherwise requires, words importing the singular shall include the plural and vice versa, words importing the use of either gender shall include both genders and neuter, and the word person and all words importing persons shall include a natural person, firm, trust, partnership, association, corporation, joint venture, or government (including any Governmental Entity, political subdivision or instrumentality thereof) and any

other entity of any kind or nature whatsoever.

1.4. Date for any Action

If any date on which any action is required to be taken under this Plan of Arrangement is not a Business Day, such action shall be required to be taken on the next succeeding Business Day.

1.5. Currency

All references to money in this Plan of Arrangement are expressed in the lawful currency of Canada.

**ARTICLE 2.
THE ARRANGEMENT**

2.1. Arrangement Agreement

This Plan of Arrangement is made pursuant to, and is subject to the provisions of and forms a part of the Arrangement Agreement, as amended in accordance with its terms or by order of the Court.

2.2. Closing Date

The Plan of Arrangement shall become effective at, and be binding on the Parties and the Buyco Shareholders at and after the Effective Time.

2.3. Arrangement Procedure

Commencing at the Effective Time, the following shall occur and be deemed to occur in the following chronological order without any further act or formality:

- 1) Buyco shall acquire the Purchase Shares, being all issued and outstanding Subco-RI Shares, from Pubco for consideration of the Purchase Price, comprised of the Deposit to be paid on execution of the Arrangement Agreement and the Balance to be paid at Closing;
- 2) Buyco and Subco-RI shall exchange securities on a 1:1 basis, as follows:
 - i) each Buyco Share will be exchanged by the holder thereof without any further act or formality and free and clear of all liens, claims and encumbrances, for one (1) fully paid and non-assessable Subco-RI Share, and the name of each holder will be removed from the central securities register of Buyco and added to the central securities register of Subco-RI;
 - ii) each Buyco Shareholder shall be deemed, without any further action on his or her part, to have executed and delivered any necessary transfer form, power of attorney or assignment required to transfer his or her Buyco Shares to Subco-RI; and
 - iii) the certificates representing the Buyco Shares held by the former Buyco Shareholders will be deemed to have been cancelled subsequent to their

transfer to Subco-RI and will be replaced by a single share certificate registered in the name of Subco-RI and Subco-RI will be and will be deemed to be the lawful owner and transferee of all such Buyco Shares; thereafter, any director of Subco-RI will be authorized to execute any such further documents and assurances as may be required by any transfer agent or depository to fully give effect to the transfer, share exchange and cancellations contemplated hereby;

- 3) Subco-RI shall issue the Subco-RI Distribution Shares to Pubco in exchange for Pubco assigning all of its right and interest in and to the Head Agreement, the Property, and the Pubco Joint Venture to Subco-RI;
- 4) Pubco will reduce its paid-up capital by an amount equal to the value of the Subco-RI Distribution Shares;
- 5) the Subco-RI Distribution Shares shall then be distributed to the Pubco Shareholders holding Pubco Shares as of the Record Date as payment towards the return and reduction of paid-up capital;
- 6) the Purchase Shares shall be cancelled; and
- 7) the central securities register of each of Pubco, Buyco and Subco-RI shall be updated accordingly.

2.4. Certificates of Subco-RI Securities

Subco-RI shall, as soon as practicable following the Effective Time, arrange for the delivery to each Buyco Shareholder of one or more certificates representing that number of Subco-RI Shares to which such Buyco Shareholder is entitled as determined in accordance with Section 2.3 of this Plan of Arrangement. Buyco shall arrange for the cancellation on its books and records of all previously issued certificates for Buyco Shares. In the event of a transfer of ownership of Buyco Shares that is not registered in the transfer records of Buyco, one or more certificates representing the proper number of Subco-RI Shares may be issued to the transferee if the certificates representing such Buyco Shares are presented to the Transfer Agent, accompanied by all documents required to evidence and effect such transfer to the transferee. Until surrendered as contemplated by this Section 2.4, each certificate which immediately prior to the Effective Time represented one or more outstanding Buyco Shares shall be deemed at all times after the Effective Time to represent only the right to receive upon such surrender the certificates representing Subco-RI Shares, as contemplated by this Section 2.4.

2.5. Fractional Shares

No fractional shares shall be issued to the Buyco Shareholders in connection with the foregoing procedure (after aggregating all fractional entitlements for a particular Buyco Shareholder) and fractions shall be rounded down to the next nearest whole share.

2.6. Further Acts

Notwithstanding that the transactions or events set out in this Article 2 occur and shall be deemed to occur in the order herein set out without any further act or formality, each of Pubco, Subco-RI, and Buyco agree to make, do and execute or cause to be made, done and executed

all such further acts, deeds, agreements, transfers, assurances, instruments or documents as may be required by it in order to further document or evidence any of the transactions or events set out in this Article 2 including, without limitation, any resolutions of directors authorizing the issuance, transfer or cancellation of shares, any powers of attorney evidencing the transfer of securities and any receipt therefor and any necessary additions to or deletions from the central securities register.

ARTICLE 3. AMENDMENT

3.1. Documentation

Pubco, Subco-RI, and Buyco reserve the right to collectively amend, modify and/or supplement this Plan of Arrangement at any time and from time to time, provided that any such amendment, modification or supplement must be contained in a written document which is filed with the Court and, if made following the dates on which the Arrangement is approved by the Buyco Shareholders:

- a) is approved by the Court; and
- b) if the Court so directs, is approved by the Buyco Shareholders;

and, in any event, is communicated to the Buyco Shareholders in the manner required by the Court, if so directed.

3.2. Timing

Any amendment, modification or supplement to this Plan of Arrangement, if agreed to by the Parties, may be made at any time and, and shall become part of this Plan of Arrangement for all purposes, unless it materially affects the rights or entitlements of the Buyco Shareholders, in which case it must also be accepted by the Buyco Shareholders.

3.3. Consent

Any amendment, modification or supplement to this Plan of Arrangement that is approved or directed by the Court shall be effective only if consented to by each of Pubco, Subco-RI, or Buyco, if the Court so directs.

ARTICLE 4. TERMINATION

4.1. Termination

This Arrangement Agreement may be terminated by mutual agreement of the Parties at any time prior to the Closing Date, in each case without further action on the part of the Buyco Shareholders. If, by the Termination Date, the Arrangement has not been effected, any Party may terminate the Arrangement Agreement by providing written notice of termination to the other Parties. The right of any Party to terminate this Arrangement Agreement shall be extinguished upon the occurrence of the Closing Date.