THELON DIAMONDS LTD.

(An Exploration Stage Company)

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Expressed in Canadian Dollars)

For the period ended May 31, 2016

INTRODUCTION

Information presented in the Management's Discussion and Analysis ("MD&A") of Financial Condition and Results of Operations of Thelon Diamonds Ltd. (the "Company" or "Thelon") is for the nine months ended May 31, 2016 .The information contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the unaudited financial statements for the 9 months ended May 31, 2016, and the audited financial statements for the year ended August 31, 2015, which are prepared in accordance with International Financial Reporting Standards ("IFRS").

This MD&A is prepared as of July 29, 2016. All dollar figures stated herein are expressed in Canadian dollars, unless otherwise stated. Additional information is available on SEDAR at www.sedar.com.

CAUTION REGARDING FORWARD LOOKING STATEMENTS

This MD&A contains certain statements that constitute forward-looking statements. When used in this document the words "anticipate", "believe", "estimate", "expect", "plan", "future", "intend", "may", "will", "should", "predicts", "potential", "continue", and similar expressions, as they relate to Thelon Diamonds Ltd. or its management, are intended to identify forward-looking statements. Such statements reflect current views of management with respect to future events and are subject to certain known and unknown risks, uncertainties, and assumptions. These statements should not be relied upon. Many factors could cause the actual results, performance, or achievements to be materially different from future results, performance, or achievements that may be expressed or implied by such forward looking statements. Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward looking statements prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, or expected. Thelon Diamonds Ltd. does not intend, and does not assume, any obligation to update these forward looking statements, except as required by securities regulation.

DESCRIPTION OF THE BUSINESS

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 principal business activity has been the acquisition and exploration of mineral properties. The Company holds interests in certain mineral properties and on the basis of information available to date may not have economically viable reserves. The underlying value of the mineral interests and related deferred exploration expenditures is dependent upon the existence and economic recovery of such reserves in the future, confirmation of the Company's interest in the underlying mineral claims, and the ability to raise long-term financing.

On December 31, 2014, the statutory plan of arrangement (the "Arrangement") entered into on December 18, 2014, among Thelon Capital Ltd, the then parent company of the Company; Thelon Diamond Company Limited ("TDC"), a company with common Directors; and the Company, received approval from the Supreme Court of British Columbia in accordance with Part 9 of the Business Corporation Act (British Columbia), and the arrangement was subsequently completed on January 14, 2015. As a result of completing the arrangement, the Company became a reporting issuer in Alberta and British Columbia, and THD became a wholly owned subsidiary of the Company.

Pursuant to the Arrangement, the following principal steps were completed:

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 share exchange, 8,121,667 common shares 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.

Upon the arrangement becoming effective on January 14, 2015, the Company became a reporting issuer in the jurisdictions of Alberta and British Columbia. The Company has issued a total of 12,743,666 common shares as of the date of preparation of these financial statements.

The Company was incorporated on November 6, 2014 and its fiscal year-end is August 31. As a result of completing the Arrangement, the Company has one wholly owned subsidiary, THD, which was incorporated on February 8, 2012.

The Company's corporate office is located at Suite 1100- 888 Dunsmuir Street, Vancouver B.C. V6C 3K4

The Company is an exploration stage resource company in the province of British Columbia. The diverse backgrounds and experience of the Company's management will facilitate the ongoing corporate and exploration growth. The Management team will continue to evolve as the Company grows as a mineral exploration company.

Lac de Gras, Northwest Territories

The Lac de Gras properties are located approximately 300 km north-northeast of the city of Yellowknife in the Northwest Territories, Canada to the southeast of the Diavik diamond mine.

The Project consists of three mineral leases with an aggregate area of 1,632.91 ha held by a joint venture (JV) between Thelon Diamonds Ltd. (29.46%) and Peregrine Diamonds Ltd. (Peregrine; 70.54%) Subject to a royalty of 4% gross overriding royalty (GOR) on all diamonds and 4% net smelter return (NSR) royalty on all metals, of which 50% of either of these royalties can be purchased for $4,000,000.

Thelon Capital Ltd. transferred the rights to the three leases and participation in the Peregrine JV to Thelon Diamonds Ltd. under a statutory plan of arrangement. That transfer was announced in a press release on 30 December 2014 and completed on 14 January 2015.A report has been prepared by Amec Foster Wheeler in support of a stock exchange listing in Canada for Thelon Diamonds Ltd.

Peregrine is the operator of all work programs pertaining to the Project. Joint venture partners are required to contribute to future programs or their respective interests will be subject to dilution according to the joint venture agreement, thus the discrepancy between the registered ownership of the leases and the actual ownership.

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.

RESULTS OF OPERATIONS

The Company was incorporated as of November 6, 2014; The Company's net income for the three months ended May 31, 2016 was $ 254,021, and for the nine months ended May 31, 2016 was $ 274,839.

(Expressed in Canadian Dollars)

SUMMARY OF QUARTERLY RESULTS

Quarter ended	Revenue $	Net gain (-loss) $	loss per share
31-May-16	-	254,021	$0.00
29-Feb-16	-	58,600	$0.00
30-Nov-15	-	-37,782	$0.00
31-Aug-15	-	-58,470	($0.01)
31-May-15	-	-69,265	($0.01)
28-Feb-15	-	-31,529	($0.01)
30-Nov-15	-	0	$0.00

The increase in working capital and resulting net gain for the period compared to prior net losses is attributed to the unrealized capital gain from an investment made by the company.

LIQUIDITY

As at May 31, 2016, The Company has working capital of $348,055, including an unrealized gain on marketable securities.

While the Company will seek to maximize the proceeds it receives from the sale of its Zadar Shares on the Toronto Venture Exchange, there is no assurance as to the timing of disposition or the amount that will be realized. Funds realized from the sale of the Zadar Shares will be used by the Company for working capital and general corporate purposes.

The Company does not have any cash flow from operations or any production of mineral resources; accordingly, it must also rely on equity financing to fund operations. The Company's access to exploration financing when the financing is not transaction specific is always uncertain. There can be no assurance of continued access to any equity funding.

Since there can be no assurance that future financings will be available to the Company or, if it is, that it will be available on terms acceptable to the Company and will be sufficient to fund cash needs. If the Company is unable to obtain the financing necessary to support its operations, it may be unable to continue as a going concern. The Company currently has no commitments for any credit facilities such as revolving credit agreements or lines of credit that could provide additional working capital, and substantial doubt exists regarding the Company's ability to continue as a going concern. The Company has no long term debt, capital lease obligations, operating leases, or any other long term obligations.

(Expressed in Canadian Dollars)

PROPOSED TRANSACTIONS

There are no proposed assets or business acquisitions or disposition, other than those in the ordinary course of business, before the board of directors for consideration.

COMMON SHARES OUTSTANDING

	Number		Amount
Balance, November 6, 2014	-		-
Shares issued pursuant to plan of arrangement	8,121,667	$	195,751
Shares issued for acquisition	2,260,000		60,000
Shares issued for cash			
Private Placement	10,000		1
Common shares $0.075	2,041,999		153,150
Flow-through shares $0.10	320,000		32,000
Premium on flow-through shares			(8,000)
Cancellation of shares	(10,000)		(1)
Balance at August 31, 2015 November 30, 2015,February 29, 2016, May 31,2016	12,743,666	$	432,901
	-		-
Balance July 29, 2016	12,743,666	$	432,901

WARRANTS OUTSTANDING

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. As of April 29, 2016 5,000,000 warrants are outstanding.

OPTIONS OUTSTANDING

As of July 29, 2016 the Company had no options outstanding

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

The Company:

The Company:

- incurred administration fees of $32,000 (2015 - $16,500) and consulting fees of $23,200 (2015 - $5,250) from a company controlled by a director and President of the Company;
- incurred accounting fees of $13,500 (2015 – $nil) from a company controlled by a director and Chief Financial Officer of the Company.

As at May 31, 2016, accounts payable and accrued liabilities included $51,928 owed to companies controlled by directors of the Company.

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.

CONFLICTS OF INTEREST

The Company’s directors and officers may serve as directors or officers, or may be associated with other reporting companies, or have significant shareholdings in other public companies. To the extent that such other companies may participate in business or asset acquisitions, dispositions, or ventures in which the Company may participate, the directors and officers of the Company may have a conflict of interest in negotiating and concluding on terms with respect to the transaction. If a conflict of interest arises, the Company will follow the provisions of the Business Corporations Act (BC) (“Corporations Act”) dealing with conflict of interest. These provisions state that where a director has such a conflict, that director must, at a meeting of the

Company's directors, disclose his or her interest and refrain from voting on the matter unless otherwise permitted by the Corporations Act. In accordance with the laws of the Province of British Columbia, the directors and officers of the Company are required to act honestly, in good faith, and in the best interest of the Company.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair value of financial instruments

The carrying values of cash, amounts due to/from related parties, and accounts payable and accrued liabilities, approximate their carrying values due to the immediate or short-term nature of these instruments.

Fair value hierarchy

IFRS 7, Financial Instruments: Disclosures, establishes a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

FINANCIAL RISK MANAGEMENT

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

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial instruments that potentially subject the Company to credit risk consist primarily of cash. The Company limits its exposure to credit risk by placing its cash with a high credit quality financial institution in Canada. The Company’s financial assets are not subject to material financial risks.

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 $348,055, including the Fair market Value of marketable securities being $390,000 at May 31, 2016. 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 market risk with respect to its investment in marketable securities,

The following valuation techniques and inputs were used to estimate the fair value of marketable securities:

The fair value of common shares of publicly traded companies is determined based on the closing price of each security at the end of each reporting period. The fair value of the share purchase warrants was determined based on their intrinsic value, that is the amount by which the closing price of the underlying stock exceeds the exercise price of the warrants. The share purchase warrants are valued only when they are in the money. The closing price is a quoted market price obtained from the exchange that is the principal active market for the particular security, and therefore marketable securities are classified within Level 1 of the fair value hierarchy.

Interest rate risk

Interest rate risk consists of two components: to the extent that payments made or received on the Company's monetary assets and liabilities are affected by changes in the prevailing market interest rates, the Company is exposed to interest rate cash flow risk; and to the extent that changes in prevailing market rates differ from the interest rate in the Company's monetary assets and liabilities, the Company is exposed to interest rate price risk.

Current financial assets and financial liabilities are generally not exposed to interest rate risk because of their short-term nature and maturity. The Company is not exposed to interest rate price risk as it does not have any cash and cash equivalents or liabilities at May 31, 2016 which bear interest.

Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company is exposed to foreign currency risk to the extent that monetary assets and liabilities are denominated in foreign currency.

The Company is currently not exposed to any foreign currency risk.

Capital risk management

The Company manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through a suitable debt and equity balance appropriate for an entity of the Company's size and status. The Company's overall strategy remains unchanged from last year.

The capital structure of the Company consists of equity attributable to common shareholders, comprised of issued capital, warrants, reserves, and deficit. The availability of new capital will depend on many factors including a positive mineral exploration environment, positive stock market conditions, the Company's track record, and the experience of management. The Company is not subject to any external covenants on its capital.

Price risk

Price risk is the risk that the fair value of investments will decline below the cost of the underlying investments.

The Company is exposed to price risk regarding its investments held for sale.

OTHER RISKS AND UNCERTAINTIES

The Company is an exploration stage company with respect to its mineral interests. Based on the information available to date, the Company has not yet determined whether its mineral interests contain economically recoverable reserves. The recoverability of the amounts shown for mineral interests is dependent upon the confirmation of economically recoverable reserves, the ability of the Company to obtain necessary financing to successfully complete their development, and upon future profitable production. In conducting its business, the Company is subject to a number of other risks and uncertainties that could have a material adverse effect on the Company's business prospects or financial condition that could result in a delay or indefinite postponement in the development of the Company's mineral interests.

Risks associated with exploration stage companies

Exploring for mineral resources involves a variety of operational, financial, and regulatory risks that are typical in the natural resource industry. The Company has not commenced commercial operations and has no proven history of performance, earnings, or success. There is no guarantee that the Company will ever be able to achieve profitable results or successfully execute its business plan. The Company's Common Shares must be considered speculative primarily due to the nature of the Company's business and early stage of development.

The Company has no revenue or income from operations. The Company has limited capital resources and has to rely upon the sale of equity and/or debt securities for cash required for exploration and development purposes, for acquisitions, and to fund the administration of the Company. Since the Company does not expect to generate any revenues from operations in the near future, it must continue to rely upon the sales of it equity or debt securities or joint venture agreements to raise capital. There can be no assurance that financing, whether equity or debt, will be available to the Company in the amount required by the Company at any particular time or for any period, and that such financing can be obtained on terms satisfactory to the Company.

Exploration and development

At this time, the Company's mineral properties are in the exploration stage and the Company does not have an operating history with respect to its exploration activities. Exploration and development of mineral resources involves a high degree of risk and few properties which are explored are ultimately developed into producing properties. The amounts attributed to the Company's interest in its properties as reflected in its financial statements represent acquisition and exploration expenses and should not be taken to represent realizable value. There is no assurance that the Company's exploration and development activities will result in any discoveries of commercial bodies of ore. The long term profitability of the Company's operations will be in part directly related to the cost and success of its exploration programs which may be affected by a number of factors such as unusual or unexpected geological formations, and other conditions.

Property title

Although the Company believes it has exercised commercially reasonable due diligence with respect to determining title to properties it owns, controls, or has the right to acquire by option, there is no guarantee that title to such properties will not be challenged or impugned. The Company's mineral interests may be subject to prior unrecorded agreements or transfers or native land claims, and title may be affected by undetected defects. There may be valid challenges to the title of the Company's mineral interests which, if successful, could impair development and operations. This situation may be exacerbated due to the large number of title transfers historically involved with some properties.

Licenses and permits

The Company will require licenses and permits from various governmental authorities regarding the Company's mineral interests. There can be no assurance that the Company will be able to obtain all necessary licenses and permits that may be required to carry out exploration, development, and mining operations for its mineral interests. Failure to obtain and maintain such licenses and permits may adversely affect the Company's business as the Company would be unable to legally conduct its intended exploration and development work which may result in its losing its interest in the subject property.

Operating hazards and risks

Fires, power outages, labour disputes, flooding, explosions, cave-ins, landslides, and the inability to obtain suitable or adequate machinery, equipment, or labour are some of the risks involved in exploration programs. Unknowns with respect to geological structures and other conditions are involved. Existing and future environmental laws may cause additional expense and delays in the activities of the Company, and may render the Company's properties uneconomic. The Company has no liability insurance and the Company may become subject to liability for pollution, cave-ins, or hazards against which it cannot insure, or against which it may elect not to insure. The payment of such liabilities may have a material, adverse effect of the Company's financial position.

Competition

The mining industry is intensely competitive and the Company must compete in all aspects of its operations with a substantial number of other corporations which have greater technical and financial resources. The Company may be unable to acquire additional attractive mining properties on terms it considers acceptable.

Profitability of operations

The Company does not have profitable operations at this time and it should be anticipated that it will operate at a loss until such time as production is achieved from its properties, if production is in fact ever achieved. Investors also cannot expect to receive any dividends on their investment in the foreseeable future.

Market risks

Even if the Company's exploration programs are successful, factors beyond the control of the Company may affect the marketability of any mineral products discovered. Mineral prices have fluctuated widely in recent years. The marketability and price of minerals which may be produced or acquired by the Company will be affected by numerous factors beyond the control of the Company. These factors include extensive government regulation relating to price, taxes, royalties, allowable production land tenure, the import and export of minerals, and many other aspects of the mining business. Declines in mineral prices may have a negative effect of the Company.

Future financings

If the Company's exploration programs are successful, additional funds will be required for further exploration and development to place a property into commercial production. The Company's available sources of funds are: existing cash; the further sale of equity capital; and the offering by the Company of an interest in its properties to be earned by another party or parties carrying out further exploration or development thereof. There is no assurance such sources will continue to be available on favourable terms or at all. If available, future equity financings may result in dilution to current shareholders.

Going concern

The Company's financial statements have been prepared on a going concern basis 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. The continuing operations of the Company are dependent upon its ability to obtain the necessary financing to meet its on-going commitments and further its mineral exploration programs.

ADDITIONAL INFORMATION

Additional information is available on SEDAR at www.sedar.com.