

# THELON DIAMONDS LTD.

(An Exploration Stage Company)

## INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

(Unaudited – prepared by management)

For the three months ended November 30, 2016

THELON DIAMONDS LTD.  
INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
(Expressed in Canadian Dollars)  
(Unaudited – prepared by management)  
For the three months ended November 30, 2016

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THELON DIAMONDS LTD.  
INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
(Expressed in Canadian Dollars)  
(Unaudited – prepared by management)

	November 30, 2016	August 31, 2016
<b>ASSETS</b>		
Current		
Cash	\$ 290,307	\$ 11,923
GST recoverable	2,416	1,785
Loans to related parties (Note 3)	37,305	37,305
Other loans	5,000	5,000
Investments (Note 4)	110,000	230,000
	445,028	286,013
Non-Current		
Exploration and evaluation assets (Note 5)	104,489	104,489
<b>Total Assets</b>	<b>\$ 549,517</b>	<b>\$ 390,502</b>
<b>LIABILITIES</b>		
Current		
Accounts payable and accrued liabilities (Note 7)	\$ 114,652	\$ 102,798
Non-Current		
Loans from related parties (Note 3)	15,868	15,868
Other liability	19,500	19,500
	35,368	35,368
	150,020	138,166
<b>EQUITY</b>		
Share capital (Note 6)	582,901	432,901
Subscriptions received in advance (Note 6)	145,000	-
Deficit	(328,404)	(180,565)
	399,497	252,336
<b>Total Liabilities and Equity</b>	<b>\$ 549,517</b>	<b>\$ 390,502</b>

Nature and continuance of operations (Note 1)

Approved and authorized for issue by the Directors on January 30, 2017:

*“Jason Walsh”*

Director

*“Geoff Watson”*

Director

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

THELON DIAMONDS LTD.  
INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS  
(Expressed in Canadian Dollars)  
(Unaudited – prepared by management)

For the period ended November 30,	2016	2015
EXPENSES		
Administration fees (Note 7)	\$ 10,500	\$ 10,500
Consulting fees (Note 7)	7,500	7,500
General and administrative (Note 7)	2,081	3,777
Professional fees (Note 7)	10,377	16,005
	30,458	37,782
Forgiveness of accounts payable	(2,619)	-
Unrealized loss on investment (Note 4)	120,000	-
Net and comprehensive loss	\$ (147,839)	\$ (37,782)
Loss per share – basic and diluted	\$ (0.01)	\$ (0.00)
Weighted average number of shares outstanding – basic and diluted	13,572,237	12,743,666

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

THELON DIAMONDS LTD.  
INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
(Expressed in Canadian Dollars)  
(Unaudited – prepared by management)

	Number of Shares	Share Capital	Subscriptions received in advance	Deficit	Total
Balance August 31, 2015	12,743,666	\$ 432,901	\$ -	\$ (274,696)	\$ 158,205
Net loss for the period	-	-		(37,782)	(37,782)
Balance, November 30, 2015	12,743,666	432,901	-	(312,478)	120,423
Net income for the period	-	-	-	131,913	131,913
Balance August 31, 2016	12,743,666	432,901	-	(180,565)	252,336
Warrants exercised	1,500,000	150,000	-	-	150,000
Subscriptions received in advance	-	-	145,000	-	145,000
Net loss for the period	-	-	-	(147,839)	(147,839)
Balance, November 30, 2016	14,243,666	\$ 582,901	\$ 145,000	\$ (328,404)	\$ 399,497

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

THELON DIAMONDS LTD.  
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Expressed in Canadian Dollars)  
(Unaudited – prepared by management)

Period ended November 30,	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss for the period	\$ (147,839)	\$ (37,782)
Items not involving cash:		
Unrealized loss on investment	120,000	-
Forgiveness of accounts payable	(2,319)	-
Changes in operating assets and liabilities:		
Accounts payable and accrued liabilities	14,173	34,712
Amounts receivable	(631)	1,806
Cash used in operating activities	(16,616)	(1,264)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Loans from related parties	-	12,368
Subscriptions received in advance	145,000	-
Shares issued	150,000	-
Cash provided by financing activities	295,000	12,368
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Exploration and evaluation assets	-	(23,803)
Loans to related parties	-	(2,000)
Cash provided by (used in) investing activities	-	(25,803)
Change in cash	278,384	(14,699)
Cash, beginning	11,923	26,217
Cash, ending	\$ 290,307	\$ 11,518
Supplemental disclosures		
Interest paid	\$ -	\$ -
Income tax paid	\$ -	\$ -

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

1. NATURE AND CONTINUANCE OF OPERATIONS

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

These interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards applicable to a going concern, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. During the period ended November 30, 2016 the Company incurred a net loss of \$150,458 and at November 30, 2016 had working capital of \$330,376. The continuation of the Company as a going concern is dependent on its ability to obtain necessary financing, generate positive cash flows and ultimately the achievement of profitable operations. These material uncertainties cast significant doubt upon the Company's ability to continue as a going concern. As the outcome of these matters cannot be predicted at this time, these financial statements do not include any adjustments to the amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue in business. These adjustments could be material.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) *Statement of Compliance*

These interim consolidated financial statements, including comparatives, have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") using accounting policies consistent with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the IFRS Interpretations Committee. The accounting policies applied by the Company in these financial statements are the same as those applied by the Company in its most recent annual consolidated financial statements for the year ended August 31, 2016.

(b) *Basis of Preparation*

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) *Significant Accounting Estimates and Judgments*

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

*Critical accounting estimates*

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

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

*Critical accounting judgments*

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

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



2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) *Recent Accounting Pronouncements*

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

*IFRS 9 – Financial Instruments*

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

*IFRS 15 – Revenue from Contracts with Customers*

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

3. LOANS TO AND FROM RELATED PARTIES

<i>Loans to related parties</i>	November 30, 2016	August 31, 2016
THC BioMed Int'l Ltd.	\$ 17,294	\$ 17,294
Zadar Ventures Ltd.	14,000	14,000
Bua Group	6,011	6,011
<b>Total</b>	<b>\$ 37,305</b>	<b>\$ 37,305</b>

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

THELON DIAMONDS LTD.  
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
NOVEMBER 30, 2016  
(Expressed in Canadian Dollars)

3. LOANS TO AND FROM RELATED PARTIES (continued)

*Loans from related parties*

On October 27, 2015, the Company entered into a loan agreement with a private company controlled by a Director of the Company. The principal loan amount was \$25,000 and bears interest at 25% per year. The Company repaid \$8,200 during the year ended August 31, 2016 and the loan was further offset by \$4,432 of previous amounts loaned to the private company. The Company recorded accrued interest of \$ Nil (2015: \$Nil) on the loan for the period ended November 31, 2016. The loan is repayable on or before October 31, 2017.

As at November 30, 2016, the Company had an outstanding loan payable balance of \$15,868 (August 31, 2016: \$15,868).

4. INVESTMENTS

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

The fair value of the share portion of the unit is determined using the stock price of Zadar as at the date of the statement of financial position. The fair value of the warrant portion of the unit is determined by deducting the exercise price of the Zadar warrants as at the date of the statement of financial position from the Zadar stock price.

As at November 30, 2016 the investment in Zadar was determined to have a fair value of \$110,000 (August 31, 2016 - \$230,000), of which \$80,000 was allocated to the shares (August 31, 2016 - \$140,000) and \$30,000 was allocated to the warrants (August 31, 2016 - \$90,000). The Company recorded an unrealized loss on investment of \$120,000 during the period (2015 - \$Nil).

5. EXPLORATION AND EVALUATION ASSETS

During the year ended August 31, 2016, pursuant to the transaction in note 3, the Company acquired an interest in the Lac De Gras property, NorthWest Territories. The Company holds a 29.46 % interest in 3 claims, pursuant to a NMT Head Agreement with Peregrine Diamonds Ltd. The property is subject to a GOR of 4% on diamonds and a net smelter royalty of 4% on all metals, of which 50% of either of these royalties can be purchased for \$4,000,000.

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

	November 30, 2016	August 31, 2016
Acquisition costs	\$ 60,000	\$ 60,000
Deferred exploration		
Maintenance fees	1,881	1,881
Geological services	23,810	23,810
Technical report	18,798	18,798
	44,489	44,489
	\$ 104,489	\$ 104,489

6. SHARE CAPITAL AND RESERVES

a) Authorized

An unlimited number of Common shares, without par value

b) Issued

During the period ended November 30, 2016, 1,500,000 common shares were issued pursuant to the exercise of warrants at \$0.10 per warrant, for gross proceeds of \$150,000.

During the period ended November 30, 2016, \$145,000 of subscriptions were received in advance for shares issued subsequent to the period end.

There were no share capital transactions during the period ended November 30, 2015.

c) Warrants

On December 18, 2014 pursuant to the transaction in note 3 the Company issued 5,000,000 warrants in a 1 for 1 securities exchange with the shareholders of Thelon Diamond Company Limited. Each warrant entitles the holder to acquire 1 common share at an exercise price of \$0.10 until September 4, 2017. At November 30, 2016 3,500,000 warrants are outstanding (August 31, 2016 – 5,000,000).

7. RELATED PARTY BALANCES AND TRANSACTIONS

The Company:

- incurred administration fees of \$10,500 (2015 - \$10,500) and consulting fees of \$7,500 (2015 - \$7,500) from a company controlled by a director and President of the Company;
- incurred accounting fees of \$4,500 (2015 - \$6,000) from a company controlled by a director and Chief Financial Officer of the Company.

As at November 30, 2016, accounts payable and accrued liabilities included \$73,678 (2015 - \$36,963), owed to a 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.

8. CAPITAL DISCLOSURES

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

## 9. FINANCIAL RISK MANAGEMENT

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

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

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

The Company has classified its investments at Level 1.

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

### *Credit risk*

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

### *Liquidity risk*

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The Company has a working capital of \$330,376. Management is assessing various options to raise funds including the issuance of shares.

### *Market risk*

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. The Company is exposed to price risk in relation to its investment held as at November 30, 2016.

Price risk is the risk that changes in market prices including commodity or equity prices will have an effect on the fair value or future cash flows associated with financial instruments. The equity price risk associated with the Company's current investment primarily relates to the change in the market prices of the investment in Zadar common shares and warrants. As at November 30, 2016, the Company owns 1,000,000 common shares and warrants. Each common share is valued at \$0.08 and each warrant is valued at \$0.03. A 10% change in the market price of Zadar would have an impact of \$16,000 on the Company's investments. Management believes there is price risk related to this investment.

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

#### 10. SUBSEQUENT EVENTS

Subsequent to November 30, 2016, the Company issued 2,750,000 common shares pursuant to the exercise of warrants at \$0.10 per warrant.

On December 30, 2016, the Company signed an option agreement (the "Agreement") to acquire 100% interest in certain mining claims located in Nevada (the "Property").

The Company will make the following cash and share payments, pursuant to the terms of the Agreement:

- pay US\$25,000 upon execution of the Standstill Agreement (paid);
- issue 1,000,000 common shares upon listing on an exchange and 1,000,000 common shares on each of the next 4 anniversary dates;
- pay US \$50,000 upon execution of the Agreement;
- pay US\$75,000 on or before the first anniversary of the Agreement;
- pay US\$75,000 on or before the second anniversary of the Agreement;
- pay US\$100,000 on or before the third anniversary of the Agreement; and
- pay US\$150,000 on or before the fourth anniversary of the Agreement.

The Company will also incur the following expenditures on the Property, pursuant to the terms of the Agreement:

- expend a minimum of US\$100,000 on the Property by the first anniversary of the Agreement;
- expend a further US\$200,000 on the Property by the second anniversary of the Agreement;
- expend a further US\$300,000 on the Property by the third anniversary of the Agreement; and
- expend a further US\$500,000 on the Property by the fourth anniversary of the Agreement.

Upon the completion of an inferred resource calculation that confirms the presence on the Property of a minimum of 100,000 tons equivalent to be completed on or before the fourth anniversary of the Agreement, the Company shall pay US\$1,000,000 in cash or in common shares.

Upon completion of a positive preliminary economic assessment on the Property to be completed on or before the sixth anniversary of the Agreement, the Company US\$2,000,000 in cash or common shares.

The Property is subject to a 3% royalty which the Company has the option to reduce to 2% at any time in consideration for US\$5,000,000.

The Company is also required to make minimum annual advance royalty payments commencing on the fifth anniversary date of the Agreement of US\$100,000.