

ARCHON MINERALS LIMITED

Consolidated Financial Statements

May 31, 2017

and

May 31, 2016

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Archon Minerals Limited,

We have audited the accompanying consolidated financial statements of Archon Minerals Limited, which comprise the consolidated statements of financial position as at May 31, 2017 and 2016 and the consolidated statements of comprehensive loss, cash flows and changes in equity (deficiency) for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Archon Minerals Limited as at May 31, 2017 and 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that the Company has negative working capital, losses since inception and is dependent upon its ability to continue receiving financing from related parties or, alternatively, secure new sources of financing. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.



CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, Canada
September 28, 2017

ARCHON MINERALS LIMITED

Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

As at May 31,	2017	2016
	\$	\$
Assets		
Current Assets		
Cash	3,452	-
Amounts receivable	3,066	4,676
Prepaid expenses	4,822	3,838
	11,340	8,514
Reclamation bond	31,000	31,000
Exploration and evaluation assets (note 3)	65,311,947	63,640,998
	65,354,287	63,680,512
Liabilities and Equity		
Current Liabilities		
Cheques issued in excess of funds on deposit	-	3,384
Accounts payable and accrued liabilities	90,219	59,283
Interest payable	1,067,685	-
Convertible debenture (note 6)	7,676,846	-
	8,834,750	62,667
Due to related parties (note 5)	57,844,094	56,053,433
Interest payable	-	636,393
Convertible debenture (note 6)	-	6,896,632
	66,678,844	63,649,125
Equity (Deficiency)		
Share capital (note 4 (a))	19,320,164	19,320,164
Share-based payment reserve (note 4 (d))	2,791,103	2,791,103
Equity component of convertible debt (note 6)	2,190,345	2,190,345
Deficit	(25,626,169)	(24,270,225)
	(1,324,557)	31,387
	65,354,287	63,680,512

See accompanying Notes to the Consolidated Financial Statements

Nature and continuance of operations (note 1)
Contingent liability (note 7)
Subsequent event (note 11)

Approved by the Board of Directors and authorized for issue on September 28, 2017.

"Stewart Blusson"

Stewart Blusson, Director

"Ross Blusson"

Ross Blusson, Director

ARCHON MINERALS LIMITEDConsolidated Statements of Comprehensive Loss
(Expressed in Canadian Dollars)

For the years ended May 31,	2017	2016
	\$	\$
Operating costs and expenses		
Accounting and legal	104,382	80,340
Accretion of debt	780,214	688,914
Automobile	1,175	940
Bank charges and interest	127	184
Consulting	14,000	-
General exploration	3,696	4,052
Interest on convertible debenture	431,291	419,407
Office and administration	1,844	1,198
Share-based compensation	-	711,480
Telephone	178	498
Travel and accommodation	1,549	1,717
Trust and filing fees	17,488	25,030
Loss from operations	(1,355,944)	(1,933,760)
Impairment of exploration and evaluation assets (note 3)	-	(13,805,085)
Net loss for the year	(1,355,944)	(15,738,845)
Weighted average number of common shares outstanding	53,916,758	53,916,758
Basic and diluted loss per share	\$ (0.03)	\$ (0.29)

See accompanying Notes to the Consolidated Financial Statements

ARCHON MINERALS LIMITED

Consolidated Statements of Cash Flows

(Expressed in Canadian dollars)

For the years ended May 31,	2017	2016
	\$	\$
Cash provided by (used for):		
Operating activities		
Net loss for the year	(1,355,944)	(15,738,845)
Items not involving the use of cash:		
Accretion of debt	780,214	688,914
Interest on convertible debenture	431,292	419,407
Share-based compensation	-	711,480
Impairment of evaluation and exploration assets	-	13,805,085
	(144,438)	(113,959)
Changes in non-cash operating capital:		
Amounts receivable	1,610	11,602
Prepaid expenses	(984)	1,244
Accounts payable and accrued liabilities	30,936	30,693
Due to related parties	8,229	33,127
	(104,647)	(37,293)
Investing activity		
Mineral property costs	(1,670,949)	(17,879,743)
Financing activities		
Advances from related parties - net	1,782,432	17,912,316
Net cash received (used) during the year	6,836	(4,720)
Cash (cheques issued in excess of funds on deposit), beginning of the year	(3,384)	1,336
Cash (cheques issued in excess of funds on deposit), end of the year	3,452	(3,384)

Supplementary Disclosure:

The company received \$4 (2016 - \$15) in interest income.

See accompanying Notes to the Consolidated Financial Statements

ARCHON MINERALS LIMITED

Consolidated Statements of Changes in Equity (Deficiency)

(Expressed in Canadian dollars)

	Number of shares	Share capital \$	Share-based payment reserve \$	Equity component of convertible debenture	Deficit \$	Total equity (deficiency) \$
May 31, 2015	53,916,758	19,320,164	2,079,623	2,190,345	(8,531,380)	15,058,752
Share based compensation	-	-	711,480	-	-	711,480
Net loss for the year	-	-	-	-	(15,738,845)	(15,738,845)
May 31, 2016	53,916,758	19,320,164	2,791,103	2,190,345	(24,270,225)	31,387
Net loss for the year	-	-	-	-	(1,355,944)	(1,355,944)
May 31, 2017	53,916,758	19,320,164	2,791,103	2,190,345	(25,626,169)	(1,324,557)

See accompanying Notes to the Consolidated Financial Statements

ARCHON MINERALS LIMITED

Notes to the Consolidated Financial Statements

For the years ended May 31, 2017 and 2016

(Expressed in Canadian dollars)

1. NATURE AND CONTINUANCE OF OPERATIONS

Archon Minerals Limited (“the Company” or “Archon”), located at Suite 2801-323 Jervis Street, Vancouver, BC, V6P 3P8, is engaged in the business of diamond exploration in the Northwest Territories of Canada. The Company currently has interests in three property groups.

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business.

Several adverse conditions cast doubt on the validity of this assumption. The Company has incurred significant operating losses and negative operating cash flows over the past several fiscal years, has a working capital deficiency and is currently unable to self-finance from current operations. In addition, the Company is obligated to make cash call payments to operators under the WO Block Project and Monument Diamond Project to maintain its participating interests.

The Company’s continued existence is dependent upon its ability to raise additional financing, the continued support of its related parties and its capacity to generate profitable operations in the future.

These factors indicate the existence of a material uncertainty which may cast significant doubt about the Company’s ability to continue as a going concern. These consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate because management believes that the actions already taken or planned will mitigate the adverse conditions and events which raise doubts about the validity of the going concern assumption used in preparing these consolidated financial statements. However, there can be no assurance that management actions will be successful.

If the going concern assumption is not appropriate for these consolidated financial statements, then adjustments would be necessary in the carrying value of assets and liabilities, the reported revenue and expenses and the balance sheet classifications used.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

b) Basis of preparation

These consolidated financial statements have been prepared on the historical cost basis. The presentation and functional currency of the Company is the Canadian dollar. Certain comparative amounts have been reclassified to conform to the presentation adopted in the current year.

c) Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Company and the Company’s wholly-owned subsidiary listed below:

<u>Name of Subsidiary</u>	<u>Place of Incorporation</u>	<u>Principal Activity</u>	<u>Ownership</u>
1012987 BC Ltd.	British Columbia	Holding Company	100%

ARCHON MINERALS LIMITED

Notes to the Consolidated Financial Statements

For the years ended May 31, 2017 and 2016

(Expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

d) Cash and cash equivalents

Cash and cash equivalents include term investments with maturities of three months or less, together with accrued interest thereon, which are readily convertible to known amounts of cash. At May 31, 2017, the Company's cash and cash equivalents consisted of \$3,452 (May 31, 2016: \$nil).

e) Use of judgements and estimates

The preparation of consolidated financial statements requires management to make estimates that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future periods.

Critical judgements in applying accounting policies:

The following are critical judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements:

i) Going concern

Management applies judgment in determining whether the Company will continue as a going concern for the next year.

ii) Valuation of exploration and evaluation properties

Management applies judgment in determining whether a property is technically feasible and commercially viable and the amounts recognized on the Company's statement of financial position.

iii) Financial instruments

Financial assets and liabilities are recognized when the Company becomes party to the contracts that give rise to them. The Company determines the classification of its financial assets and liabilities at initial recognition and, where allowed and appropriate, reevaluates such classification at each financial year end.

iv) Compound financial instruments

The Company presents convertible debentures separately in its debt and equity components on the statement of financial position. The fair value of a compound instrument at issuance is assigned to its respective debt and equity components. The fair value of the debt component is established first with the equity component being determined with the residual.

Key sources of estimation uncertainty:

There were no key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next year.

ARCHON MINERALS LIMITED

Notes to the Consolidated Financial Statements

For the years ended May 31, 2017 and 2016

(Expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

f) Exploration and evaluation assets

Once a permit to explore an area has been secured, expenditures on exploration and evaluation assets are capitalized to exploration and classified as a non-current asset.

Exploration expenditures relate to the initial search for mineral deposits with economic potential and to detailed assessments of deposits or other projects that have been identified as having economic potential.

Exploration expenditure costs incurred are included in exploration and evaluation assets and these include any cash consideration and advance earn in payments and the fair market value of shares issued, if any, related to the mineral property interests. Properties acquired under option agreements, whereby payments are made at the sole discretion of the Company, are recorded in the accounts when the payments are made.

All capitalized exploration and evaluation expenditures are monitored for indications of impairment. Where a potential impairment is indicated, assessments are performed for each area of interest. To the extent that an expenditure is not expected to be recovered, it is charged to comprehensive income.

Once an economically viable reserve has been determined for an area and the decision to proceed with development has been approved, exploration and evaluation assets attributable to that area are first tested for impairment and then reclassified to construction in progress within property, plant and equipment.

Amount recorded as exploration and evaluation assets are reflective of actual costs incurred and are not intended to represent current or future fair values.

Subsequent recovery of the resulting carrying value depends on successful development or sale of the undeveloped project. If a project does not prove viable, all irrecoverable costs associated with the project net of any impairment provisions are written off.

g) Marketable Securities

Marketable securities are classified as available-for-sale securities and are measured at fair market value with unrealized gains or losses recorded in comprehensive income (loss). At the time securities are sold or otherwise disposed of, gains or losses are included in earnings (loss).

h) Impairment

At each reporting period, management reviews all assets for indicators of impairment. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction. In assessing value in use, the estimated future cash flows are discounted to their present value. If the recoverable amount of the asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for that period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which that asset belongs.

Past impairments are also considered at each reporting period and where there is an indication that an impairment loss may have decreased, the recoverable amount is calculated as outlined above to determine the extent of the recovery. If the recoverable amount of the asset is more than its carrying amount, the carrying amount of the asset is increased to its recoverable amount and the impairment loss is reversed in the profit or loss for that period. The increased carrying amount due to reversal will not be more than what the depreciated historical cost would have been if the impairment had not been recognized.

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Notes to the Consolidated Financial Statements

For the years ended May 31, 2017 and 2016

(Expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

i) Income taxes

The Company uses the balance sheet method of accounting for income taxes. Under the balance sheet method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred income tax assets also result from unused loss carry forwards, resource related pools and other deductions. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

j) Share capital

The Company records in share capital proceeds from share issuances, net of issue costs and any tax effects. The fair value of common shares issued as consideration for mineral properties is based on the trading price of those shares on the TSX.V on the date of the agreement to issue shares as determined by the Board of Directors. Stock options and other equity instruments issued as purchase consideration in non-monetary transactions are recorded at fair value determined by management using the Black-Scholes option pricing model. Proceeds from unit placements are allocated between shares and warrants issued according to their relative fair values.

k) Share-based payments

The Company's Stock Option Plan allows employees and consultants to acquire shares of the Company. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The fair value of the share-based payment is measured using the Black-Scholes option pricing model. The fair value of the share based payment is recognized as an expense or capitalized to mineral property with a corresponding increase in contributed surplus. Consideration received on the exercise of stock options are recorded as share capital and the related contributed surplus amount are transferred to share capital.

l) Loss per share

Basic loss per share is calculated by dividing the loss available to common shareholders by the weighted average number of common shares outstanding in the period. Diluted loss per share is calculated by the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period. Where the effects of including all outstanding options and warrants would be anti-dilutive, no dilution is calculated and the diluted loss per share is presented as the same as basic loss per share.

m) Reclamation bond

The Company maintains cash deposits, or letters of credit secured by cash deposits, as required by regulatory bodies as assurance for the funding of reclamation costs. These funds are restricted to that purpose and are not available to the Company until the reclamation obligations have been fulfilled or the related property is sold and the obligation is assumed by the buyer.

ARCHON MINERALS LIMITED

Notes to the Consolidated Financial Statements
For the years ended May 31, 2017 and 2016
(Expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

n) Financial instruments

(i) Financial Assets

The Company classifies its financial assets in the following categories: fair value through profit or loss, loans and receivables and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at recognition.

Financial Assets at Fair Value through Profit or Loss

Financial assets at fair value through profit or loss are initially recognized at fair value with changes in fair value recorded through income. Cash and cash equivalents have been classified under this category.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets or non-current assets based on their maturity date. Loans and receivables are carried at amortized cost less any impairment. Reclamation bonds have been classified under this category.

(ii) Financial Liabilities

The Company classifies its financial liabilities in the following categories: borrowings and other financial liabilities and derivative financial liabilities.

Borrowings and Other Financial Liabilities

Borrowings and other financial liabilities are non-derivatives and are recognized initially at fair value, net of transactions costs incurred and are subsequently stated at amortized cost. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in the statement of loss over the period to maturity using the effective interest method. Borrowings and other financial liabilities are classified as current or non-current based on their maturity date. Accounts payable, accrued liabilities, balances due to related parties, interest payable and convertible debenture have been classified under this category.

Derivative Financial Liabilities

Derivative financial liabilities are initially recognized at their fair value on the date the derivative contract is entered into and are subsequently re-measured at their fair value at each reporting period with changes in the fair value recognized in profit or loss.

o) Provision for closure and reclamation

Provisions for closure and reclamation obligations are recognized when a legal or constructive obligation arises. The liability is recognized at the present value of management's best estimate of the closure and reclamation obligation. The estimate is discounted to the present value using a discount rate specific to the obligation. When the liability is initially recorded the Company capitalizes the cost by increasing the carrying amount of the related long-lived assets. Over time the liability is accreted to its present value each period, and the capitalized cost is amortized on the same basis as the related asset. Upon settlement of the liability, the Company may incur a gain or loss. At May 31, 2017, the Company had no material provisions for closure and reclamation.

ARCHON MINERALS LIMITED

Notes to the Consolidated Financial Statements

For the years ended May 31, 2017 and 2016

(Expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

p) Accounting standards and interpretations issued but not yet adopted

As at the date of these financial statements, the following standard has not been applied in these financial statements:

- (i) The completed version of IFRS 9, *Financial Instruments*, was issued in July 2014. The completed standard provides for revised guidance on the classification and measurement of financial assets. It also introduces a new expected credit loss model for calculating impairment for financial assets. The new hedging guidance that was issued in November 2013 is incorporated into this new final standard. This final version of IFRS 9 will be effective for periods beginning on or after January 1, 2018, with early adoption permitted.
- (ii) IFRS 15 outlines the principles for recognizing revenue from contracts with customers. The new standard establishes a new five-step model for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new standard is effective for annual periods beginning on or after January 1, 2018, and is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Management is currently assessing the impact of this new standard on the Company's accounting policies and financial

ARCHON MINERALS LIMITED

Notes to the Consolidated Financial Statements

For the years ended May 31, 2017 and 2016

(Expressed in Canadian dollars)

3. EXPLORATION AND EVALUATION ASSETS

The Company's projects are located in the Mackenzie Mining Division, Northwest Territories, Canada.

	May 31, 2015	Expenditures	Impairment	May 31, 2016	Expenditures	May 31, 2017
	\$	\$		\$	\$	\$
Buffer Zone Project						
Acquisition	20,598,957	3,505,662	-	24,104,619	-	24,104,619
Aircraft, rental and fuel	91,015	93,793	-	184,808	-	184,808
Assay	38,263	412,388	-	450,651	-	450,651
Camp accommodations and travel	21,327	2,617,952	-	2,639,279	664,373	3,303,652
Claim maintenance fees	1,110,370	75,892	-	1,186,262	44,948	1,231,210
Community engagement	-	122,866	-	122,866	440,921	563,787
Drilling	4,223,684	2,429,125	-	6,652,809	33,295	6,686,104
Field office	273,471	677,354	-	950,825	-	950,825
Geological and geophysical	1,357,019	5,619,933	-	6,976,952	470,374	7,447,326
Management fees	291,947	154,791	-	446,738	17,038	463,776
Cash advances (1)	17,763,243	2,161,944	-	19,925,187	-	19,925,187
	45,769,296	17,871,700	-	63,640,996	1,670,949	65,311,945
WO Block Project						
Acquisition	304,227	-	(304,226)	1	-	1
Aircraft, rental and fuel	1,774,352	-	(1,774,352)	-	-	-
Assay	1,373,883	-	(1,373,883)	-	-	-
Camp accommodations and travel	1,508,450	918	(1,509,368)	-	-	-
Drilling	6,699,243	-	(6,699,243)	-	-	-
Environmental	147,795	-	(147,795)	-	-	-
Field office	1,068,621	-	(1,068,621)	-	-	-
Geological and geophysical	837,116	-	(837,116)	-	-	-
Management fees	90,481	-	(90,481)	-	-	-
	13,804,168	918	(13,805,085)	1	-	1
Monument Diamond Project						
Acquisition	1	-		1	-	1
	1	-		1	-	1
Total Mineral Property Costs	59,573,465	17,872,618	(13,805,085)	63,640,998	1,670,949	65,311,947

(1) A breakdown of these expenditures of these cash calls remains outstanding at the reporting date.

ARCHON MINERALS LIMITED

Notes to the Consolidated Financial Statements

For the years ended May 31, 2017 and 2016

(Expressed in Canadian dollars)

3. EXPLORATION AND EVALUATION ASSETS *(continued)*

Buffer Zone Project

- In the Buffer Zone Project, the Company had acquired a participating joint venture interest of 192 mineral leases by the issuance of 40,000,000 shares of the Company at a value of \$70,000,000. As this was a related party transaction, the acquisition was recorded at \$997,049, being the cost expended by the related party to obtain and maintain the participating interest. The participating interest is comprised of the following:

A 29.25% participating interest in the first kimberlite pipe to be developed in the Buffer Zone

A 31.20% participating interest in all other kimberlite pipes subsequently developed in the Buffer Zone.

- After March 16, 2002, all financing is obtained via cash calls from the participants. The Company must provide pro-rata funding or suffer dilution of its participating interest. If the participating interest is reduced to less than 5%, the interest is replaced with a gross production royalty of 1.25% of the gross value of diamonds produced on the property.
- During the year ended May 31, 2010, the joint venture dropped 86 mineral leases, and the Company elected, pursuant to the terms of the joint venture agreement, to acquire a 100% interest in all 86 leases by agreeing to pay aggregate annual lease maintenance fees of approximately \$176,000.
- During the 2015 year, the Company exercised its pre-emptive right to acquire, on a pro rata basis, C. Fipke Holdings Ltd.'s ("FipkeCo") interest in the Buffer Zone of the Ekati diamond mine. The pre-emptive right was triggered by an offer from Dominion Diamond Corporation ("Dominion"), the current operator of the Buffer Zone Joint Venture, to acquire FipkeCo's 10% interest in the Buffer Zone. By exercising its pre-emptive right, the Company increased its interest in the buffer zone from 31.2% to 34.67%. The purchase price for this additional 3.47% interest was US\$7,614,571 (CDN\$8,572,484) and the funds for this acquisition were provided by convertible loans from two of the Company's directors (refer to note 6).
- Subsequent to their acquisition of FipkeCo's interest, the participating joint venture interests of Dominion and the Company were 65.33 % and 34.67%, respectively.

Under IFRS 11, the Company accounts for its interest in the Buffer Zone Joint Venture as a joint operation. However the Company has neither joint control of, nor any rights to assets or obligations of, that joint operation. Accordingly the Company accounts for its joint venture interest at cost in accordance with IFRS standards applicable to the exploration costs that are being funded by its cash advances to Dominion. Refer to note 11.

- Subsequent to year-end, the Company reached an agreement with Dominion to convert its working interest to a royalty. See Note 11.

WO Block Project, Lac de Gras area

The Company has an approximate 17.57% working interest in mineral claims known as the WO Block Project.

The Company must continue to fund its portion of exploration costs or be subject to dilution for non-participation.

The Company accounts for its interest in this joint operation at cost as well, with the cash advances paid to the operator recorded as exploration costs as incurred.

During the 2016 year, the Company impaired the carrying value of the WO Block Project to \$1 due to limited exploration activities and no planned expenditures by the operator.

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Notes to the Consolidated Financial Statements
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(Expressed in Canadian dollars)

3. EXPLORATION AND EVALUATION ASSETS *(continued)*

Monument Diamond Project, Lac de Gras area

The Company has an agreement for three of the former leases of mineral claims, known as the DHK claim block, by which it can acquire a 10% interest in the leases for \$15,000 and the option to earn an additional 10.4% interest by contributing its proportionate share of costs to each work program. The property is subject to a 2% Gross Overriding Royalty. During the year ended May 31, 2005, the Company increased its interest to 20.4%. The Company must continue to fund its 20.4% portion of exploration costs by way of cash calls demanded by its operator or its interest will be subject to dilution.

The Company has written-down the carrying value of the Monument Diamond Project to \$1 due to limited exploration activities.

4. SHARE CAPITAL

a) The authorized share capital of the Company consists of an unlimited number of common shares.

During the year ended May 31, 2017:

No shares were issued during the year.

During the year ended May 31, 2016:

No shares were issued during the year.

b) Stock-based compensation and share purchase options

The Company has established a share purchase option plan whereby the board of directors may grant up to a total of 10% of the issued and outstanding common shares of the Company to directors, officers, employees or consultants. Options granted must be exercised no later than five years from the date of grant or such lesser period as determined by the Company's board of directors.

The following is a summary of the changes in the Company's outstanding stock options:

	2017		2016	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance at the beginning of the year	1,500,000	\$ 1.46	800,000	\$ 1.08
Granted	-	-	700,000	1.90
Exercised	-	-	-	-
Expired	-	-	-	-
Outstanding, end of the year (1)	1,500,000	1.46	1,500,000	1.46

(1) At May 31, 2017, the weighted-average remaining contractual life of stock options outstanding is 2.41 years (2016 – 3.41 years).

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For the years ended May 31, 2017 and 2016
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4. SHARE CAPITAL (continued)

c) Share purchase warrants

There are no share purchase warrants outstanding at May 31, 2017 and 2016.

d) Share-based payment reserve

There were no stock options granted during the year ended May 31, 2017

During the year ended May 31, 2016, the Company granted 700,000 stock options with a fair value of \$711,480, or \$1.02 per option.

The following weighted average assumptions were used for the Black Scholes valuation of stock options granted in:

	2017	2016
Risk-free interest rate	-	0.81%
Expected life	-	5 years
Expected volatility	-	59.26%
Dividend rate	-	0

5. RELATED PARTY TRANSACTIONS

	2017	2016
	\$	\$
Due to the President	57,832,135	56,045,708
Due to the Chief Financial Officer	11,959	7,725
	57,844,094	56,053,433

These amounts are unsecured non-interest bearing and have no specific terms of repayment.

Related party transactions not noted elsewhere in these consolidated financial statements are as follows:

- During the current year, the president and director of the Company advanced \$1,782,432 (2016 - \$17,912,316), received \$nil (2016 - \$nil) for repayments of shareholder advances, and incurred \$3,995 (2016 - \$29,398) for mineral property costs and administration expenses
- During the current year, a director of the Company advanced \$nil (2016 - \$nil) and incurred \$4,234 (2016 - \$3,729) for mineral property costs and administration expenses.

These transactions occurred in the normal course of operations and are therefore measured at their exchange amounts.

ARCHON MINERALS LIMITED

Notes to the Consolidated Financial Statements

For the years ended May 31, 2017 and 2016

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6. CONVERTIBLE DEBENTURE

On November 7, 2014, the Company issued unsecured convertible debentures to two directors of the Company with a face value of \$8,000,000.

The convertible loan bears interest at 5% per year, compounded annually, and matures on November 7, 2017. At any time before the convertible debt matures, each lender may convert the outstanding indebtedness of their loan into the Company's common shares at a rate of \$1.35 per share during the first year, \$1.45 per share during the second year, and \$1.55 per share during the third year. On the loan's maturity date, if the total indebtedness outstanding at that time has not been paid in full, the Company may at its discretion convert the outstanding amounts into common shares at the higher of \$1.55 per share and the Discounted Market Price (as that term is defined under the TSX Venture Exchange policies) at the time of conversion.

In accordance with IFRS relating to the presentation of convertible debt instruments, the debenture has been classified into its separate loan liability and conversion feature components in the Company's financial statements. The Company valued the liability portion at \$5,809,655 (being the present value of the future cash flow streams) with the residual amount being allocated to the conversion feature, or \$2,190,345. Over the term of the debenture, this carrying value is to be accreted to the \$8,000,000 principal amount using the effective interest rate method.

The following is a summary of the convertible debenture at May 31, 2017:

	Proceeds	Debt Component	Equity Component
	\$	\$	\$
Balance at May 31, 2015	8,000,000	6,207,718	2,190,345
Accretion expense during the year	-	688,914	-
Balance at May 31, 2016	8,000,000	6,896,632	2,190,345
Accretion expense during the year	-	780,214	-
Balance at May 31, 2017	8,000,000	7,676,846	2,190,345

7. CONTINGENT LIABILITY

The Company has received a notice of civil claim from C. Fipke Holdings Ltd. ("FipkeCo") with respect to an alleged cost-sharing arrangement involving FipkeCo and the Company. FipkeCo alleges that the Company and its President were collectively responsible for paying a portion of FipkeCo's legal costs incurred during FipkeCo's lawsuit against BHP Billiton Canada Inc. (the former operator of the Ekati diamond mine) during 2012 and 2013. The aggregate amount claimed by FipkeCo from the Company and its President is \$423,000. The Company believes the action is without merit and intends to defend itself. These financial statements reflect no provision in connection with this action and any amounts paid in connection with it will be recorded if and when they are paid.

ARCHON MINERALS LIMITED

Notes to the Consolidated Financial Statements

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(Expressed in Canadian dollars)

8. CAPITAL MANAGEMENT

The Company's primary objective for managing its capital structure is to maintain financial capacity for the purpose of sustaining the future development of the business and maintaining investor, creditor and market confidence.

The Company considers its capital structure to include shareholders' equity and working capital. To effectively manage its resources and minimize risks, the Company prepares annual expenditure budgets that are updated as necessary depending on factors including success of programs and general industry conditions. In the event that adjustments to the capital structure are necessary, the Company may consider issuing additional equity, raising debt or revising its capital investment programs.

The Company's share capital is not subject to any external restrictions. The Company has not paid or declared any dividends since the date of incorporation, nor are any currently contemplated. There have been no changes to the Company's approach to capital management during the year.

9. FINANCIAL INSTRUMENT RISKS

The Company's financial instruments are exposed to the following risks:

Credit Risk

The Company's primary exposure to credit risk is the risk of illiquidity of cash and cash equivalents, amounting to \$3,452 at May 31, 2017 (2016 - \$nil). As the Company's policy is to limit cash holdings to instruments issued by major Canadian banks, the credit risk is considered by management to be negligible.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to pay financial instrument liabilities as they come due. The Company's only liquidity risk from financial instruments is its need to meet operating accounts payable requirements. The Company has maintained sufficient cash balances to meet these needs at May 31, 2017.

Foreign Exchange Risk

The Company has virtually no foreign exchange risk as all its activities are carried out in Canada and all its financial assets and liabilities are denominated in Canadian dollars.

Interest Rate Risk

The Company has been exposed to interest rate risk on its cash and cash equivalents. The majority of these deposits have been in discounted instruments with pre-determined fixed yields. Interest rate movements will affect the fair value of these instruments so the Company manages maturity dates of these instruments to match cash flow needs, enabling realization at no loss in almost all cases. At May 31, 2017, the Company maintained all of its cash balance on deposit in a chequing account with a major Canadian bank.

ARCHON MINERALS LIMITED

Notes to the Consolidated Financial Statements

For the years ended May 31, 2017 and 2016

(Expressed in Canadian dollars)

9. FINANCIAL INSTRUMENT RISKS (continued)

Fair Value of Financial Instruments

The fair value classification of the Company's financial instruments as at May 31, 2017 and 2016 are as follows:

	2017		2016		
	Fair value level	Fair value through profit or loss	Loans and receivables and other financial liabilities at amortized cost	Fair value through profit or loss	Loans and receivables and other financial liabilities at amortized cost
		\$	\$	\$	\$
<i>Financial assets:</i>					
Cash and cash equivalents	1	3,452	-	-	-
Reclamation bond	1	-	31,000	-	31,000
		3,452	31,000	-	31,000
<i>Financial liabilities:</i>					
Cheques issued in excess of funds on deposit		-	-	-	3,384
Accounts payable and accrued liabilities		-	90,219	-	59,283
Due to related parties		-	57,844,094	-	56,053,433
Convertible debenture		-	7,676,846	-	6,896,632
		-	65,611,159	-	63,012,732

During the years ended May 31, 2017 and 2016, there were no transfers between level 1, level 2 and level 3 classified assets.

10. INCOME TAXES

The Company is subject to income taxes in Canada. The provision for income tax varies from the amount that would be computed from applying the combined federal and provincial income tax rate to loss before taxes as follows:

	2017	2016
	\$	\$
Net loss for the year	(1,355,944)	(15,738,846)
Expected income tax recovery	(352,545)	(4,092,100)
Net adjustment for deductible and non-deductible amounts	203,972	3,953,620
Unrecognized benefit of non-capital losses	148,573	138,480
Total income taxes	-	-

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Notes to the Consolidated Financial Statements

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10. INCOME TAXES (continued)

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

	2017	2016
	\$	\$
Exploration and evaluation assets	6,151,400	15,425,800
Equipment	9,689,200	2,200
Non-capital losses carried forward	2,610,000	1,995,600
	18,450,600	17,423,600

Subject to certain restrictions, the Company has mineral property expenditures of approximately \$63 million (2016 - \$70 million) available to reduce taxable income in future years. The Company also has non-capital losses of approximately \$2,610,000 (2016 - \$1,995,000). The Company has not recognized any future benefit for these tax losses and resource deductions as it is not considered likely that they will be utilized. If unused, the non-capital losses will expire as follows:

Year	Amount
	\$
2028	21,000
2029	47,000
2030	49,000
2031	872,000
2032	64,000
2034	95,000
2035	360,000
2036	531,000
2037	571,000
	2,610,000

11. SUBSEQUENT EVENT

On June 5, 2017, the Company reached an agreement with Dominion to convert its working interest in the Buffer Zone Joint Venture into a 2.3% gross production royalty. Under this agreement, Archon will receive a royalty equal to 2.3% of the gross value of diamonds produced from the Buffer Zone. The Buffer Zone Joint Venture is terminated, and Archon will not be required to contribute any further capital expenditures nor will it have to pay for any operating costs related to the Buffer Zone. The royalty interest acquired is expected to be capitalized as a tangible asset with a finite life. Subsequent to initial measurement, it will be reported at cost less accumulated depletion and accumulated impairment provisions, if any.