

ARCHON MINERALS LIMITED

Condensed Consolidated Interim Financial Statements
First Quarter ended August 31, 2017

(Expressed in Canadian Dollars)
(Unaudited)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

These condensed consolidated interim financial statements of the Company for the period ended August 31, 2017 have been prepared by management and have not been subject to review by the Company's auditors.

ARCHON MINERALS LIMITED

Condensed Consolidated Interim Statements of Financial Position
(Unaudited - Expressed in Canadian Dollars)

	August 31, 2017	May 31, 2017
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	34	3,452
Amounts receivable	3,575	3,066
Prepaid expenses	4,822	4,822
	8,431	11,340
Reclamation bond	31,000	31,000
Buffer Zone royalty interest (note 4)	65,311,944	-
Exploration and evaluation assets (note 3)	3	65,311,947
	65,351,378	65,354,287
Liabilities and Equity		
Current Liabilities		
Accounts payable and accrued liabilities	57,343	90,219
Interest payable	1,178,841	1,067,685
Convertible debenture (note 7)	7,838,597	7,676,846
	9,074,781	8,834,750
Due to related parties (note 6)	57,886,326	57,844,094
	66,961,107	66,678,844
Equity (Deficiency)		
Share capital (note 5(a))	19,320,164	19,320,164
Share-based payment reserve (note 5 (b))	2,791,103	2,791,103
Equity component of convertible debt (note 7)	2,190,345	2,190,345
Deficit	(25,911,341)	(25,626,169)
	(1,609,729)	(1,324,557)
	65,351,378	65,354,287

See accompanying notes to the condensed consolidated interim financial statements

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

Approved by the Board of Directors and authorized for issue on October 30, 2017.

"Stewart Blusson"

Stewart Blusson, Director

"Ross Blusson"

Ross Blusson, Director

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Condensed Consolidated Interim Statements of Comprehensive Loss
(Unaudited - Expressed in Canadian Dollars)

	Three Months Ended August 31, 2017	Three Months Ended August 31, 2016
	\$	\$
Operating costs and expenses		
Accounting and legal	10,784	10,211
Accretion of debt	161,751	224,720
Bank charges and interest	18	51
Interest on convertible debenture	111,156	105,574
General exploration	-	549
Office expense	25	-
Telephone	60	59
Travel	-	352
Trust and filing fees	1,378	1,020
Net loss and comprehensive loss for the period	(285,172)	(342,536)
Weighted average number of common shares outstanding	53,916,758	53,916,758
Basic and diluted loss per share	\$ (0.01)	\$ (0.01)

See accompanying notes to the condensed consolidated interim financial statements

ARCHON MINERALS LIMITED

Condensed Consolidated Interim Statements of Cash Flows
(Unaudited - Expressed in Canadian dollars)

	Three Months Ended August 31, 2017	Three Months Ended August 31, 2016
	\$	\$
Cash provided by (used for):		
Operating activities		
Net loss for the period	(285,172)	(342,536)
Items not involving the use of cash:		
Accretion of debt	161,751	224,720
Interest on convertible debenture	111,156	105,574
	(12,265)	(12,242)
Changes in non-cash operating capital:		
Amounts receivable	(509)	(566)
Accounts payable and accrued liabilities	(32,876)	(22,540)
Due to related parties	1,532	1,661
	(44,118)	(33,687)
Investing activity		
Mineral property costs	-	(633,255)
Financing activity		
Advances from related parties – net	40,700	673,500
Net change in cash during the quarter	(3,418)	6,558
Cash, beginning of the period	3,452	(3,384)
Cash, end of the period	34	3,174

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Condensed Consolidated Interim Statements of Changes in Equity (Deficiency)
(Unaudited - Expressed in Canadian dollars)

	Number of shares	Share capital	Share-based payment reserve	Equity component of convertible debenture	Deficit	Total equity
		\$	\$	\$	\$	\$
June 1, 2017	53,916,758	19,320,164	2,791,103	2,190,345	(25,626,169)	(1,324,557)
Net loss for the period	-	-	-	-	(285,172)	(285,172)
August 31, 2017	53,916,758	19,320,164	2,791,103	2,190,345	(25,911,341)	(1,609,729)
June 1, 2016	53,916,758	19,320,164	2,791,103	2,190,345	(24,270,225)	31,387
Net loss for the period	-	-	-	-	(342,536)	(342,536)
August 31, 2016	53,916,758	19,320,164	2,791,103	2,190,345	(24,612,761)	(311,149)

See accompanying notes to condensed consolidated interim financial statements

ARCHON MINERALS LIMITED

Notes to the Condensed Consolidated Interim Financial Statements

Three months ended August 31, 2017

(Unaudited - Expressed in Canadian dollars)

1. NATURE AND CONTINUANCE OF OPERATIONS

The Company is engaged in the business of diamond exploring in the Northwest Territories of Canada. The Company currently has an interest in three active property groups.

The Company's registered office address is Suite 2801, 323 Jervis Street, Vancouver, BC V6P 3P8.

These condensed consolidated interim 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 condensed consolidated interim 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 financial statements. However, there can be no assurance that management actions will be successful.

If the going concern assumption is not appropriate for these condensed consolidated interim 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 condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statement, including IAS 34, Interim Financial Reporting. Accordingly, these condensed consolidated interim financial statements do not include all of the information and footnotes required by IFRS for complete financial statements for year-end reporting purposes. These condensed consolidated interim financial statements should be read in conjunction with the Company's audited annual financial statements for the year ended May 31, 2017, which have been prepared in accordance with IFRS as issued by the IASB.

The accounting policies applied by the Company in these condensed consolidated interim financial statements are the same as those applied by the Company in its most recent annual financial statements for the year ended May 31, 2017 as filed on SEDAR at www.sedar.com.

b) Significant accounting policies

These condensed consolidated interim financial statements have been prepared using the same accounting policies and methods of computation as the audited annual financial statements of the Company for the year ended May 31, 2017. The disclosure contained in these condensed consolidated interim financial statements does not include all the requirements in IAS 1 *Presentation of Financial Statements* ("IAS 1"). Accordingly these condensed consolidated interim financial statements should be read in conjunction with the Company's audited annual financial statements for the year ended May 31, 2017.

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Notes to the Condensed Consolidated Interim Financial Statements

Three months ended August 31, 2017

(Unaudited - Expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

c) Basis of consolidation

These condensed consolidated interim 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%

d) Significant accounting judgments, estimates and assumptions

The preparation of the Company's condensed consolidated interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities and contingent liabilities at the date of the condensed consolidated interim financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

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 condensed consolidated interim financial statements:

- the determination that there have been no events or changes in circumstances that indicate the carrying amount of exploration and evaluation assets may not be recoverable.

e) New accounting standards and recent pronouncements

Effective for annual periods beginning on or after January 1, 2018:

- IFRS 9, Financial Instruments
- IFRS 15, Revenue Recognition

The Company has not early adopted these new standards or amendments to existing standards and does not expect the impact of these standards on the Company's financial statements to be material.

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Notes to the Condensed Consolidated Interim Financial Statements

Three months ended August 31, 2017

(Unaudited - Expressed in Canadian dollars)

3. EXPLORATION AND EVALUATION ASSETS

The Company's projects are located in the Mackenzie Mining Division, Northwest Territories, Canada, and for accounting purposes each is currently carried at a nominal amount. The carrying amount of the Buffer Zone Project has been reclassified, during the current period, as a separate component of property, plant and equipment.

	August 31, 2017
	\$
Buffer Zone claims	1
WO Block Project	1
Monument Diamond Project	1
Total Mineral Property Costs	3

Buffer Zone Project

During 2016, Dominion published a Feasibility Study which established probable diamond reserves in two kimberlite pipes located within the Buffer Zone. The Company during this period continued to report its joint venture costs as exploration and evaluation assets, pending confirmation of its current ownership interest, the status of the joint venture itself, and the determination of the Company's role in the continued development of the project. During the current interim period, the Company's previous 34.67% interest in the Buffer Zone Project with Dominion was converted to a royalty interest. See note 4.

The Company retains a 100% interest in certain mineral leases located in the western Buffer Zone, which were never subject to the joint venture with Dominion.

4. ROYALTY INTEREST

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 has been capitalized as a tangible asset with a finite life. It is reported at cost less accumulated depletion and accumulated impairment provisions, if any, with depletion recorded based on diamond recoveries relative to total reserves. Cost has been determined in accordance with the standards of IAS 16 – Property, Plant and Equipment. In the opinion of management, the variables that would be involved in an independent determination of the fair value of the royalty interest are currently such that this amount is not reliably measurable and is therefore not determinable. Accordingly, the Company has recorded its interest at the historical cost associated with its previous investment in the Buffer Zone Joint Venture, with no gain or loss currently recognized. However, the Company also follows the guidance of IAS 36 in connection with impairment indicators associated with non-current assets, and believes that no such indicators are currently present.

No royalty income has been recognized or received during the current interim period.

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(Unaudited - Expressed in Canadian dollars)

5. SHARE CAPITAL

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

During the period ended August 31, 2017:

No shares were issued during the period.

During the period ended August 31, 2016:

No shares were issued during the period.

- b) Share-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:

	Three Months Ended August 31, 2017		Year Ended May 31, 2017	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance at the beginning of the period	1,500,000	\$ 1.46	1,500,000	\$ 1.46
Granted	-	-	-	-
Exercised	-	-	-	-
Expired	-	-	-	-
Outstanding, end of the period (1)	1,500,000	1.46	1,500,000	1.46

(1) At August 31, 2017, the weighted-average remaining contractual life of stock options outstanding is 2.16 years (May 31, 2017 - 2.41 years).

- c) Share purchase warrants

There are no share purchase warrants outstanding at August 31, 2017.

6. RELATED PARTY TRANSACTIONS

	August 31, 2017	May 31, 2017
	\$	\$
Due to the President	57,874,367	57,832,135
Due to the Chief Financial Officer	11,959	11,959
	57,886,326	57,844,094

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

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6. RELATED PARTY TRANSACTIONS *(continued)*

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

- a) During the three months ended August 31, 2017, the president and director of the Company advanced \$40,700 (May 31, 2017 - \$1,782,432), received \$nil (May 31, 2017 - \$nil) for repayments of shareholder advances, and incurred \$1,532 (May 31, 2017 - \$3,995) for administration expenses.
- b) During the three months ended August 31, 2017, a director of the Company advanced \$nil (May 31, 2017 - \$nil), and incurred \$nil (May 31, 2017 - \$4,234) for mineral property costs and administration expenses.

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

7. 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 August 31, 2017:

	Proceeds	Debt Component	Equity Component
	\$	\$	\$
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
Accretion expense during the quarter	-	161,751	-
Balance at August 31, 2017	8,000,000	7,838,597	2,190,345

8. CONTINGENT LIABILITY

During the year ended May 31, 2015, the Company 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.

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Notes to the Condensed Consolidated Interim Financial Statements

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(Unaudited - Expressed in Canadian dollars)

9. 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.

10. 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 \$34 at August 31, 2017 (May 31, 2017 - \$3,452). 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 August 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 August 31, 2017, the Company maintained all of its cash balance on deposit in a chequing account with a major Canadian bank.

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(Unaudited - Expressed in Canadian dollars)

10. FINANCIAL INSTRUMENT RISKS (continued)

Fair Value of Financial Instruments

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

	August 31, 2017		May 31, 2017		
	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	34	-	3,452	-
Reclamation bond	1	-	31,000	-	31,000
		34	31,000	3,452	31,000
<i>Financial liabilities:</i>					
Accounts payable and accrued liabilities		-	57,343	-	90,219
Due to related parties		-	57,886,326	-	57,844,094
Convertible debenture		-	7,838,597	-	7,676,846
		-	65,782,266	-	65,611,159

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