

ARCHON MINERALS LIMITED

Condensed Consolidated Interim Financial Statements
First Quarter ended August 31, 2018

(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, 2018 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, 2018	May 31, 2018
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	6,067	267,212
Amounts receivable	3,963	3,909
	10,030	271,121
Reclamation bond	31,000	31,000
Buffer Zone royalty interest (note 4)	65,311,944	65,311,944
Exploration and evaluation assets (note 3)	3	3
	65,352,977	65,614,068
Liabilities and Equity		
Current Liabilities		
Accounts payable and accrued liabilities	27,563	54,839
Interest payable	1,261,000	1,261,000
Convertible debenture (note 7)	8,000,000	8,000,000
	9,288,563	9,315,839
Due to related parties (note 6)	56,815,758	57,047,918
	66,104,321	66,363,757
Equity (Deficiency)		
Share capital (note 5(a))	19,960,114	19,320,164
Obligation to issue shares	-	350,000
Share-based payment reserve (note 5 (b))	2,965,073	3,255,023
Equity component of convertible debt (note 7)	2,190,345	2,190,345
Deficit	(25,866,876)	(25,865,221)
	(751,344)	(749,689)
	65,352,977	65,614,068

See accompanying notes to the condensed consolidated interim financial statements

Nature and continuance of operations (note 1)
Contingent liability (note 8)

Approved by the Board of Directors and authorized for issue on October 26, 2018.

"Stewart Blusson"

Stewart Blusson, Director

"Ross Blusson"

Ross Blusson, Director

ARCHON MINERALS LIMITED

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

	Three Months Ended August 31, 2018	Three Months Ended August 31, 2017
	\$	\$
Operating costs and expenses		
Accounting and legal	389	10,784
Accretion of debt	-	161,751
Bank charges and interest	21	18
Interest on convertible debenture	-	111,156
Office expense	-	25
Telephone	-	60
Trust and filing fees	1,245	1,378
Net loss and comprehensive loss for the period	(1,655)	(285,172)
Weighted average number of common shares outstanding	54,264,584	53,916,758
Basic and diluted loss per share	\$ (0.00)	\$ (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, 2018	Three Months Ended August 31, 2017
	\$	\$
Cash provided by (used for):		
Operating activities		
Net income (loss) for the period	(1,655)	(285,172)
Items not involving the use of cash		
Accretion of debt	-	161,751
Interest on convertible debenture	-	111,156
	(1,655)	(12,265)
Changes in non-cash operating capital:		
Amounts receivable	(54)	(509)
Accounts payable and accrued liabilities	(27,276)	(32,876)
Due to related parties	(6,160)	1,532
	(35,145)	(44,118)
Financing activity		
Advances (to) from related parties - net	(226,000)	40,700
Net change in cash during the period	(261,145)	(3,418)
Cash, beginning of the period	267,212	3,452
Cash, end of the period	6,067	34

See accompanying notes to the condensed consolidated interim financial statements

ARCHON MINERALS LIMITED

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

	Number of shares	Share capital	Obligation to Issue Shares	Share-based payment reserve	Equity component of convertible debenture	Deficit	Total equity (deficiency)
June 1, 2018	53,916,758	\$ 19,320,164	\$ 350,000	\$ 3,255,023	\$ 2,190,345	\$ (25,865,221)	\$ (749,689)
Options exercised	500,000	639,950	(350,000)	(289,950)	-	-	-
Net loss for the quarter	-	-	-	-	-	(1,655)	(1,655)
August 31, 2018	54,416,758	19,960,114	-	2,965,073	2,190,345	(25,866,876)	(751,344)
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 quarter	-	-	-	-	-	(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)

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, 2018

(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.

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, 2018, 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, 2018 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, 2018. 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, 2018.

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Notes to the Condensed Consolidated Interim Financial Statements

Three months ended August 31, 2018

(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 financial statements incorporate the financial statements of the Company and the Company's wholly-owned subsidiary 1012987 BC Ltd., until the companies were amalgamated on March 27, 2018.

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 Buffer Zone royalty interest may not be recoverable.

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Notes to the Condensed Consolidated Interim Financial Statements

Three months ended August 31, 2018

(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 fiscal year, as a separate component of property, plant and equipment.

	August 31, 2018
	\$
Buffer Zone claims	1
WO Block Project	1
Monument Diamond Project	1
Total Mineral Property Costs	3

Buffer Zone Project

The Company's Buffer Zone Project was, until 2017, subject to a joint venture with Dominion Diamond Mines (previously Dominion Diamond Corporation, "Dominion"), which was the joint venture Operator.

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 prior fiscal year, 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. 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.

The Company records royalty income, which is payable in cash only, on an accrual basis in accordance with the terms of its royalty agreement with Dominion, and when the receipt of such income is likely or has already occurred.

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

ARCHON MINERALS LIMITED

Notes to the Condensed Consolidated Interim Financial Statements

Three months ended August 31, 2018

(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, 2018:

The Company issued 500,000 common shares pursuant to the exercise of 500,000 share purchase options at an exercise price of \$0.70, raising gross proceeds of \$350,000. These proceeds were received prior to May 31, 2018.

During the period ended August 31, 2017:

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, 2018		Year Ended May 31, 2018	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance at the beginning of the period	2,300,000	\$ 1.20	1,500,000	\$ 1.46
Granted	-	-	800,000	0.70
Exercised	(500,000)	0.70	-	-
Expired	-	-	-	-
Outstanding, end of the period (1)	1,800,000	1.34	2,300,000	1.20

(1) At August 31, 2018, the weighted-average remaining contractual life of stock options outstanding is 1.72 years (May 31, 2018 - 2.58 years).

- c) Share purchase warrants

There are no share purchase warrants outstanding at August 31, 2018.

6. RELATED PARTY TRANSACTIONS

	August 31, 2018	May 31, 2018
	\$	\$
Due to the President	56,799,538	57,031,698
Due to the Chief Financial Officer	16,220	16,220
	56,815,758	57,047,918

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

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Notes to the Condensed Consolidated Interim Financial Statements

Three months ended August 31, 2018

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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, 2018, the president and director of the Company advanced \$nil (May 31, 2018 - \$354,237), received \$226,000 (May 31, 2018 - \$1,167,355) for repayments of shareholder advances, incurred \$nil (May 31, 2018 - \$3,995) for administration expenses and recovered \$6,160 (May 31, 2018 - \$nil) for administration expenses paid by the Company.
- b) During the three months ended August 31, 2018, a director of the Company advanced \$nil (May 31, 2018 - \$nil), and incurred \$nil (May 31, 2018 - \$4,261) for 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 matured 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 has been accreted to the \$8,000,000 principal amount using the effective interest rate method.

On November 7, 2017, the loan matured. As at August 31, 2018, the loan has not been converted and is still outstanding.

The following is a summary of the convertible debenture at August 31, 2018:

	Proceeds	Debt Component	Equity Component
	\$	\$	\$
Balance at May 31, 2017	8,000,000	7,676,846	2,190,345
Accretion expense during the year	-	323,154	-
Balance at May 31, 2018 and August 31, 2018	8,000,000	8,000,000	2,190,345

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(Unaudited - Expressed in Canadian dollars)

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 Fipco’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.

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 \$6,067 at August 31, 2018 (May 31, 2018 - \$267,212). 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 not maintained sufficient cash balances to meet these needs at August 31, 2018.

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, 2018, the Company maintained all of its cash balance on deposit in a chequing account with a major Canadian bank.

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Notes to the Condensed Consolidated Interim Financial Statements

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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, 2018 and May 31, 2018 are as follows:

	Fair value level	August 31, 2018		May 31, 2018	
		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	6,067	-	267,212	-
Reclamation bond		-	31,000	-	31,000
		6,067	31,000	267,212	31,000
<i>Financial liabilities:</i>					
Accounts payable and accrued liabilities		-	27,563	-	54,839
Interest payable		-	1,261,000	-	1,261,000
Due to related parties		-	56,815,758	-	57,047,918
Convertible debenture		-	8,000,000	-	8,000,000
		-	66,104,321	-	66,363,757

During the periods ended August 31, 2018 and May 31, 2018, there were no transfers between level 1, level 2 and level 3 classified assets.