

ARCHON MINERALS LIMITED

Condensed Interim Financial Statements
First Quarter ended August 31, 2020

(Expressed in Canadian Dollars)
(Unaudited)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

These condensed interim financial statements of the Company for the period ended August 31, 2020 have been prepared by management and have not been subject to review by the Company's auditors.

ARCHON MINERALS LIMITED

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

	August 31, 2020	May 31, 2020
	\$	\$
Assets		
Current assets		
Amounts receivable	12,224	11,099
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
	65,355,171	65,354,046
Liabilities and Equity		
Current Liabilities		
Accounts payable and accrued liabilities	58,844	65,374
Interest payable	2,627,055	2,498,377
Convertible debenture (note 7)	8,000,000	8,000,000
	10,685,899	10,563,751
 Due to related parties (note 6)	 54,610,595	 54,574,843
	65,296,494	65,138,594
Equity		
Share capital (note 5(a))	19,960,114	19,960,114
Share-based payment reserve (note 5 (b))	2,965,073	2,965,073
Equity component of convertible debt (note 7)	2,190,345	2,190,345
Deficit	(25,056,855)	(24,900,080)
	58,677	215,452
	65,355,171	65,354,046

See accompanying notes to the condensed interim financial statements

Nature and continuance of operations (note 1)

Approved by the Board of Directors and authorized for issue on October 28, 2020.

"Stewart Blusson"

Stewart Blusson, Director

"Ross Blusson"

Ross Blusson, Director

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

	Three Months Ended August 31, 2020	Three Months Ended August 31, 2019
	\$	\$
Royalty income (note 4)	-	182,545
Operating costs and expenses		
Accounting and legal	1,200	1,500
Bank charges and interest	18	16
Consulting	22,000	-
Interest on convertible debenture	128,677	122,550
Office and administration	60	-
Trust and filing fees	4,820	2,953
Net income (loss) and comprehensive income (loss) for the period	(156,775)	55,526
 Weighted average number of common shares outstanding	 54,416,758	 54,416,758
Basic and diluted income (loss) per share	\$ (0.00)	\$ 0.00

See accompanying notes to the condensed interim financial statements

ARCHON MINERALS LIMITED

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

	Three Months Ended August 31, 2020	Three Months Ended August 31, 2019
	\$	\$
Cash provided by (used for):		
Operating activities		
Net income (loss) for the period	(156,775)	55,526
Item not involving the use of cash		
Interest on convertible debenture	128,678	122,549
	(28,097)	178,075
Changes in non-cash operating capital:		
Amounts receivable	(1,125)	364,945
Accounts payable and accrued liabilities	(6,530)	(22,379)
Due to related parties	35,752	13,871
	28,097	534,512
Financing activity		
Repayments to related parties - net	-	(534,000)
Net change in cash during the period	-	512
Cash, beginning of the period	-	5
Cash, end of the period	-	517

See accompanying notes to the condensed interim financial statements

ARCHON MINERALS LIMITED

Condensed 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 (deficiency)
		\$	\$	\$	\$	\$
June 1, 2020	54,416,758	19,960,114	2,965,073	2,190,345	(24,900,080)	215,452
Net loss for the quarter	-	-	-	-	(156,775)	(156,775)
August 31, 2020	54,416,758	19,960,114	2,965,073	2,190,345	(25,056,855)	58,677
June 1, 2019	54,416,758	19,960,114	2,965,073	2,190,345	(25,953,739)	(838,207)
Net income for the quarter	-	-	-	-	55,526	55,526
August 31, 2019	54,416,758	19,960,114	2,965,073	2,190,345	(25,898,213)	(782,681)

See accompanying notes to condensed interim financial statements

ARCHON MINERALS LIMITED

Notes to the Condensed Interim Financial Statements

Three months ended August 31, 2020

(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 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 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 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.

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company's business or ability to raise funds.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

These condensed 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 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 interim financial statements should be read in conjunction with the Company's audited annual financial statements for the year ended May 31, 2020, which have been prepared in accordance with IFRS as issued by the IASB.

The accounting policies applied by the Company in these condensed 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, 2020 as filed on SEDAR at www.sedar.com.

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Notes to the Condensed Interim Financial Statements

Three months ended August 31, 2020

(Unaudited - Expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Significant accounting policies

These condensed 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, 2020. The disclosure contained in these condensed interim financial statements does not include all the requirements in IAS 1 *Presentation of Financial Statements* ("IAS 1"). Accordingly these condensed interim financial statements should be read in conjunction with the Company's audited annual financial statements for the year ended May 31, 2020.

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

c) Significant accounting judgments, estimates and assumptions

The preparation of the Company's condensed 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 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 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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Three months ended August 31, 2020
(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.

	August 31, 2020
	\$
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.

Royalty income aggregating \$nil (May 31, 2020 - \$1,666,997) has been recognized or received during the current period.

ARCHON MINERALS LIMITED

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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, 2020:

No shares were issued during the period.

During the period ended August 31, 2019:

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, 2020		Year Ended May 31, 2020	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
		\$		\$
Balance at the beginning of the period	1,000,000	1.54	1,000,000	1.54
Exercised	-	-	-	-
Expired	-	-	-	-
Outstanding, end of the period	1,000,000	1.54	1,000,000	1.54

At August 31, 2020, the weighted-average remaining contractual life of stock options outstanding is 0.80 year (May 31, 2020 – 1.05 years):

Number of Options	Exercise Price	Expiry Date
700,000	\$ 1.90	September 20, 2020 *
300,000	\$ 0.70	March 5, 2023
1,000,000		

* Subsequently expired unexercised.

- c) Share purchase warrants

There are no share purchase warrants outstanding at August 31, 2020.

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6. RELATED PARTY TRANSACTIONS

	August 31, 2020	May 31, 2020
	\$	\$
Due to the President	54,587,615	54,551,863
Due to the Chief Financial Officer	22,980	22,980
	54,610,595	54,574,843

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

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

- During the three months ended August 31, 2020, the president and director of the Company advanced \$nil (May 31, 2020 - \$14,000), received \$nil (May 31, 2020 - \$2,032,895) for repayments of shareholder advances, incurred \$35,752 (May 31, 2020 - \$102,387) for mineral property costs and administration expenses.
- During the three months ended August 31, 2020, a director of the Company incurred \$nil (May 31, 2020 - \$2,768) 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 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. After maturity, the debenture continues to accrue interest at 5% per year, compounded annually.

On November 7, 2017, the loan matured. As at August 31, 2020, the loan has not been converted and is still outstanding.

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.

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8. CAPITAL MANAGEMENT (Continued)

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 \$nil at August 31, 2020 (May 31, 2020 - \$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 not maintained sufficient financing from related parties to meet these needs at August 31, 2020.

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, 2020, the Company maintained all of its cash balance on deposit in a chequing account with a major Canadian bank.

Fair Value of Financial Instruments

The fair value classification of the Company's financial instruments as at August 31, 2020 and May 31, 2020 are as follows:

	August 31, 2020	May 31, 2020
Fair value level	Loans and receivables and other financial liabilities at amortized cost	Loans and receivables and other financial liabilities at amortized cost
	\$	\$
<i>Financial asset:</i>		
Reclamation bond	31,000	31,000
	31,000	31,000
<i>Financial liabilities:</i>		
Accounts payable and accrued liabilities	58,844	65,374
Interest payable	2,627,055	2,498,377
Due to related parties	54,610,595	54,574,843
Convertible debenture	8,000,000	8,000,000
	65,296,494	65,138,594

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(Unaudited - Expressed in Canadian dollars)

9. FINANCIAL INSTRUMENT RISKS *(Continued)*

During the periods ended August 31, 2020 and May 31, 2020, there were no transfers between level 1, level 2 and level 3 classified assets.