Churchill Diamond Corporation

(An Exploration Stage Company)

FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2016

(Expressed in Canadian Dollars)

INDEPENDENT AUDITORS' REPORT

To the Directors of

Churchill Diamond Corporation

We have audited the accompanying financial statements of Churchill Diamond Corporation, which comprise the statements of financial position as at August 31, 2016 and 2015, and the statements of loss and comprehensive loss, changes in shareholders' equity, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of Churchill Diamond Corporation as at August 31, 2016 and 2015 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about Churchill Diamond Corporation's ability to continue as a going concern.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada

Chartered Professional Accountants

November 29, 2016

Churchill Diamond Corporation
Statements of Financial Position
(Expressed in Canadian Dollars)

As at		**August 31, 2016**		August 31, 2015
ASSETS				
Current assets				
Cash	**$**	**164,868**	$	184,730
Accounts receivable		**158**		23,025
Prepaid expenses		**334**		5,025
		165,360		212,780
Non-current assets				
Exploration and evaluation assets (note 4)		**502,144**		407,144
		502,144		407,144
TOTAL ASSETS	**$**	**667,504**	$	619,924
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities (note 7)	**$**	**11,633**	$	56,541
Flow-through share premium liability (note 8)		**31,123**		31,576
TOTAL LIABILITIES		**42,756**		88,117
SHAREHOLDERS' EQUITY				
Share capital (notes 5 and 8)	**$**	**1,013,856**	$	940,083
Subscriptions received in advance (note 13)		**60,000**		-
Stock options reserve		**63,848**		63,848
Accumulated deficit		**(512,956)**		(472,124)
TOTAL SHAREHOLDERS' EQUITY		**624,748**		531,807
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$**	**667,504**	$	619,924

Nature and continuance of operations (note 1)
Subsequent events (notes 4(a) and 13)

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

These financial statements were approved for issue by the Board of Directors on November 27, 2016, and signed on its behalf by: /s/ Paul Sobie Director /s/ Bill Fisher Director

Churchill Diamond Corporation
Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)

For the years ended		August 31, 2016		August 31, 2015
EXPENSES				
Bank charges	$	**32**	$	560
Exploration and evaluation (notes 4 and 7)		**8,047**		234,960
Finance income		**(114)**		(9)
General and administrative costs		**12,216**		7,652
Other income (note 8)		**(453)**		(11,441)
Professional fees		**17,529**		94,267
Salaries and benefits		**1,575**		2,113
Share-based payments (note 5)		**-**		63,848
Rent		**2,000**		12,000
TOTAL LOSS AND COMPREHENSIVE LOSS FOR THE YEAR	$	**40,832**	$	403,950
Basic and diluted loss per share for the year attributable to common shareholders	$	**0.00**	$	0.04
Weighted average number of common shares outstanding - basic and diluted		**12,266,990**		10,884,079

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

Churchill Diamond Corporation
Statement of Changes in Shareholders' Equity
(Expressed in Canadian Dollars)

	Share capital					
	Number of shares	**Amount**	**Subscriptions received in advance**	**Stock options reserve**	**Accumulated deficit**	**Total**
Balance at August 31, 2014	**10,200,100**	**$ 470,000**	**$ -**	**$ -**	**$ (68,174)**	**$ 401,826**
Shares issued for cash - flow-through	1,040,333	258,100	-	-	-	**258,100**
Flow-through premium on share issuance	-	(43,017)	-	-	-	**(43,017)**
Shares issued for cash - non flow-through	1,020,000	255,000	-	-	-	**255,000**
Share-based payments	-	-	-	63,848	-	**63,848**
Net loss for the year	-	-	-	-	(403,950)	**(403,950)**
Balance at August 31, 2015	**12,260,433**	**$ 940,083**	**$ -**	**$ 63,848**	**$ (472,124)**	**$ 531,807**
Shares issued for exploration and evaluation assets	300,000	75,000	-	-	-	**75,000**
Share subscriptions received in advance	-	-	60,000	-	-	**60,000**
Share issue costs - cash	-	(1,227)	-	-	-	**(1,227)**
Net loss for the year	-	-	-	-	(40,832)	**(40,832)**
Balance at August 31, 2016	**12,560,433**	**$ 1,013,856**	**$ 60,000**	**$ 63,848**	**$ (512,956)**	**$ 624,748**

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

Churchill Diamond Corporation
Statements of Cash Flows
(Expressed in Canadian Dollars)

For the years ended		August 31, 2016		August 31, 2015
Cash flows used in:				
OPERATING ACTIVITIES				
Net loss for the year	$	**(40,832)**	$	(403,950)
Adjustments for items not affecting cash:				
Share-based payments		**-**		63,848
Other income		**(453)**		(11,441)
Net changes in non-cash working capital items:				
Accounts receivable		**22,867**		(9,547)
Prepaid expenses		**4,691**		(5,025)
Accounts payable and accrued liabilities		**(44,908)**		(31,348)
Net cash flows used in operating activities		**(58,635)**		(397,463)
FINANCING ACTIVITIES				
Share issuance costs		**(1,227)**		513,100
Subscriptions received in advance		**60,000**		-
Net cash flows from financing activities		**58,773**		513,100
INVESTING ACTIVITIES				
Acquisition of exploration and evaluation assets		**(20,000)**		-
Net cash flows used in investing activities		**(20,000)**		-
Change in cash		**(19,862)**		115,637
Cash, beginning of year		**184,730**		69,093
Cash, end of year	$	**164,868**	$	184,730
Cash paid during the year for interest	$	**-**	$	-
Cash paid during the year for income taxes	$	**-**	$	-
Supplementary cash flow information				
Shares issued for exploration and evaluation assets	$	**75,000**	$	-
Reduction to share capital for flow-through share premium liability	$	**-**	$	43,017

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

1. NATURE AND CONTINUANCE OF OPERATIONS

Churchill Diamond Corporation (referred to as the "Company" or "Churchill"), is a Canadian exploration stage mining company which is focused on the exploration of minerals and precious gems in Canada's Northwest Territories.

The Company was incorporated on April 10, 2014 under the *Canada Business Corporations Act*. Its registered office is located at Suite 501, 133 Richmond Street West, Toronto, Ontario, M5H 2L3. The Company's records office is located at 2100 Scotia Plaza, 40 King Street West, Toronto, Ontario, M5H 3C2.

At the date of these financial statements, the Company has not identified a known body of commercial grade minerals on any of its properties. The ability of the Company to realize the costs it has incurred to date on these properties is dependent upon the Company identifying a commercial mineral body, to finance its development costs and to resolve any environmental, regulatory or other constraints which may hinder the successful development of the property. To date, the Company has not earned any revenues and is considered to be in the exploration stage.

These financial statements have been prepared assuming the Company will continue on a going concern basis. The Company has incurred losses since its inception and the ability of the Company to continue as a going concern depends upon its ability to raise adequate financing and to develop profitable operations. As at August 31, 2016, the Company had working capital of $122,604 and an accumulated deficit of $512,956. These conditions may cast substantial doubt regarding the Company's ability to continue as a going concern. These financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

Management is actively targeting sources of additional financing through alliances with financial, exploration and mining entities, and other business and financial transactions which would assure continuation of the Company's operations and exploration programs. In addition, management closely monitors commodity prices of precious metals, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company if favorable or adverse market conditions occur.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION

Statement of compliance

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

Basis of preparation

These financial statements have been prepared on a historical cost basis, except for financial instruments classified as financial instruments at fair value through profit and loss, which are stated at their fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information. The accounting policies set out below have been applied consistently to all years presented in these financial statements.

Critical accounting estimates

The information about significant areas of estimation uncertainly considered by management in preparing the financial statements are as follows:

Carrying value and recoverability of exploration and evaluation assets

The carrying amount of Company's exploration and evaluation assets does not necessarily represent present or future values, and the Company's exploration and evaluation assets have been accounted for under the assumption that the carrying amount will be recoverable. Recoverability is dependent on various factors, including the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to commence and complete development and upon future profitable production or proceeds from the disposition of the mineral properties themselves. Additionally, there are numerous geological, economic, environmental and regulatory factors and uncertainties that could impact management's assessment as to the overall viability of its properties or to the ability to generate future cash flows necessary to cover or exceed the carrying value of the Company's exploration and evaluation assets.

To the extent that any of management's assumptions change, there could be a significant impact on the Company's future financial position, operating results and cash flows.

Income taxes

The estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income prior to expiry of those deductions. Management assesses whether it is probable that some or all of the deferred income tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income, which in turn is dependent upon the successful discovery, extraction, development and commercialization of mineral reserves. To the extent that management's assessment of the Company's ability to utilize future tax deductions changes, the Company would be required to recognize more or fewer deferred tax assets, and future income tax provisions or recoveries could be affected.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (CONTINUED)

Critical accounting judgments

Critical accounting judgments are accounting policies that have been identified as being complex or involving subjective judgments or assessments.

The preparation of these financial statements requires management to make judgments regarding the going concern of the Company as discussed in Note 1.

Share-based payments

The Company grants stock options to buy common shares of the Company to directors, officers, employees and consultants. The Company recognizes share-based payments expense based on the estimated fair value of the options. A fair value measurement is made for each vesting installment within each option grant and is determined using the Black-Scholes option-pricing model. The fair value of the options is recognized over the vesting period of the options granted as both share-based payments and stock options reserve. This includes a forfeiture estimate, which is revised for actual forfeitures in subsequent periods. The reserves account is subsequently reduced if the options are exercised and the amount initially recorded is then credited to share capital.

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

Income taxes

Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in shareholders' equity, in which case it is recognized in shareholders' equity. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous periods.

Deferred tax is recorded by providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting or taxable loss; nor differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (CONTINUED)

Income taxes (continued)

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Exploration and evaluation assets

Upon acquiring the legal right to explore a mineral property, all direct costs related to the acquisition of exploration and evaluation assets are capitalized. Exploration and evaluation expenditures incurred prior to the determination of the feasibility of mining operations and a decision to proceed with development, are charged to operations as incurred.

Exploration costs are expensed as incurred as the Company is in the process of exploring its exploration and evaluation assets and has not yet determined whether these properties contain ore reserves that are economically recoverable. If and when the Company's management determines that economically extractable proven or probable mineral reserves have been established, the subsequent costs incurred to develop such property, including costs to further delineate the ore body, will be capitalized.

At each reporting date the carrying amounts of the Company's exploration and evaluation assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order 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. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (CONTINUED)

Provision for environmental rehabilitation

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of long-lived assets, when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of future rehabilitation cost estimates arising from the decommissioning of plant and other site preparation work is capitalized to the related asset along with a corresponding increase in the rehabilitation provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. The rehabilitation asset is depreciated on the same basis as the related asset.

The Company's estimates of reclamation costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to the related asset with a corresponding entry to the rehabilitation provision. The Company's estimates are reviewed annually for changes in regulatory requirements, discount rates, effects of inflation and changes in estimates.

Changes in the net present value, excluding changes in the Company's estimates of reclamation costs, are charged to profit and loss for the year.

For the periods presented the Company has no provisions for environmental rehabilitation.

Foreign exchange

The functional currency is the currency of the primary economic environment in which the entity operates. The functional currency for the Company is the Canadian dollar.

Transactions in currencies other than the Canadian dollar are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period the monetary assets and liabilities of the Company that are denominated in foreign currencies are translated at the rate of exchange on the statement of financial position date while nonmonetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are charged to profit or loss.

Loss per share

The Company presents basic loss per share for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (CONTINUED)

Financial instruments

Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss - This category comprises derivatives, or assets acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in profit or loss.

Loans and receivables - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

Held-to-maturity investments - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in profit or loss.

Available-for-sale - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in profit or loss.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

Financial liabilities
The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss - This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in profit or loss.

Other financial liabilities: This category consists of liabilities carried at amortized cost using the effective interest rate method.

See Note 11 for relevant disclosures.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (CONTINUED)

Impairment of long-lived assets

At the end of each reporting period, the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order 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 between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be 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 the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Flow-through Shares

Under Canadian income tax legislation, a company is permitted to issue flow-through shares whereby it agrees to incur qualifying expenditures and renounce the related income tax deductions to the investors. The proceeds from issuance of these shares are allocated between the offering of shares and the sale of tax benefits. The allocation is made based on the difference between the quoted price of the existing shares and the amount the investor pays for the flow-through shares. A flow-through share premium liability is recognized for this difference. The Company renounces the deductions for tax purposes related to the eligible exploration and evaluation expenditures on the date the flow-through shares are issued under the look-back rule.

The flow-through share premium liability is reduced on a pro-rata basis and recorded in profit or loss based on the corresponding eligible expenditures that have been incurred.

(Expressed in Canadian Dollars)

3. ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

New standards adopted during the year

Effective September 1, 2015, the following standards were adopted but did not have a material impact on the financial statements.

- IFRS 7: Amended to require additional disclosures on transition from IAS 39 and IFRS 9.

New standards and interpretations not yet adopted

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC that are mandatory for future accounting periods. The following have not yet been adopted by the Company and are being evaluated to determine their impact.

- IFRS 9: New standard that replaced IAS 39 for classification and measurement, tentatively effective for annual periods beginning on or after January 1, 2018.
- IFRS 16, Leases: New standard to establish principles for recognition, measurement, presentation and disclosure of leases with an impact on lessee accounting, effective for annual periods beginning on or after January 1, 2019.

4. EXPLORATION AND EVALUATION ASSETS

The Company's exploration and evaluation assets are broken down as follows:

	For the year ended August 31, 2016	For the year ended August 31, 2015	**Cumulative acquisition costs, August 31, 2016**
Pelly Bay Property			
Balance, beginning of year	**$ 407,144**	$ 407,144	**$ -**
Database			
- Cash	**-**	-	**100,000**
- Common Shares	**-**	-	**100,000**
	-	-	**200,000**
Staking costs	**-**	-	**207,144**
Balance, end of year	**$ 407,144**	$ 407,144	**$ 407,144**
Eric Lake Property			
Balance, beginning of year	**$ -**	$ -	**$ -**
Acquisition costs			
- Cash	**10,000**	-	**10,000**
- Common Shares	**37,500**	-	**37,500**
Balance, end of year	**$ 47,500**	$ -	**$ 47,500**
Sandspit Lake Property			
Balance, beginning of year	**$ -**	$ -	**$ -**
Acquisition costs			
- Cash	**10,000**	-	**10,000**
- Common Shares	**37,500**	-	**37,500**
Balance, end of year	**$ 47,500**	$ -	**$ 47,500**
Total	**$ 502,144**	$ 407,144	**$ 502,144**

(Expressed in Canadian Dollars)

4. EXPLORATION AND EVALUATION ASSETS (CONTINUED)

The Company's exploration and evaluation expenditures during the years ended August 31, 2016, and 2015 are broken down as follows:

		August 31, 2016		August 31, 2015		**Cumulative exploration and evaluation costs as at August 31, 2016**
During the year:						
Consulting	**$**	**7,113**	$	175,192	**$**	**231,515**
Field		**36**		5,084		**5,120**
Licenses and permits		**-**		555		**555**
Project		**-**		24,209		**24,209**
Salaries and wages		**-**		15,960		**15,960**
Transportation		**329**		1,114		**1,443**
Travel		**569**		12,846		**13,415**
Balance, end of year	**$**	**8,047**	$	234,960	**$**	**292,217**

Title to exploration and evaluation assets involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many exploration and evaluation assets. The Company has investigated title to all of its exploration and evaluation assets, and, to the best of its knowledge, title to all of its properties, are properly registered and in good standing.

a) Pelly Bay Property, Nunavut

The Pelly Bay Property is located in central Nunavut, Canada. The Company has a 100% interest in all claims of the Pelly Bay Property.

Adamera, the original Optionor, can retain a 2% Gross Over-riding Royalty ("GOR") on all diamonds mined in a specific Area of Interest, of which 1% can be purchased by the Company not later than within the first year of production, for $1,000,000. Adamera also retains a 2% GOR on all other commodities mined in the Area of Interest, under the same terms. The Company is also in discussions with Adamera about revising terms.

The Pelly Bay Property requires $1,707,500 in qualified work expenditures, or cash fees, to keep all claims in good standing to July 24, 2016 (extended to July 24, 2017). In addition, annual work or cash fees thereafter, payable on or by July 24 annually up to July 24, 2024, is $853,750 per year. Subsequent to August 31, 2016, the Company applied for an extension on its expenditure commitments to July 24, 2018 (awaiting extension), as it awaits the required access permits to commence exploration.

4. EXPLORATION AND EVALUATION ASSETS (CONTINUED)

b) Eric Lake Property, Northern Ontario

On August 23, 2016, the Company entered into an earn-in agreement with Rudolf Wahl and Frederick Lowndes (collectively, the “Vendors”) on the Eric Lake property (“Eric Lake”). Eric Lake consists of three contiguous claims with road access and requires $14,400 work annually.

Pursuant to the agreement, the Company can acquire up to a 100% interest in Eric Lake by making the following payments:

- On August 23, 2016: $10,000 cash (paid) and 150,000 common shares (issued)
- On August 23, 2017: $15,000 cash and 100,000 common shares
- On August 23, 2018: $15,000 cash and 100,000 common shares
- On August 23, 2019: $50,000 cash and 300,000 common shares

In addition, the Company also agreed that a minimum work commitment of $50,000 will be expended on Eric Lake by December 31, 2016, pursuant to an amendment executed subsequent to August 31, 2016.

The Vendors can retain a 3% GOR on all diamonds minded in Eric Lake, of which 2% can be purchased by the Company at anytime for $2,000,000. The Vendors will also retain a 3% GOR on all other commodities mined at Eric Lake.

c) Sandspit Lake Property, Northern Ontario

On August 23, 2016, the Company entered into an earn-in agreement with Rudolf Wahl and Mike Dorval (collectively, the “Vendors”) on the Sandspit Lake property (“Sandspit Lake”). Sandspit Lake consists of one isolated claim that requires $5,103 work annually.

Pursuant to the agreement, the Company can acquire up to a 100% interest in Sandspit Lake by making the following payments:

- On August 23, 2016: $10,000 cash (paid) and 150,000 common shares (issued)
- On August 23, 2017: $15,000 cash and 100,000 common shares
- On August 23, 2018: $15,000 cash and 100,000 common shares
- On August 31, 2019: $50,000 cash and 300,000 common shares

In addition, the Company also agreed that a minimum work commitment of $50,000 will be expended on Sandspit Lake by December 31, 2016, pursuant to an amendment executed subsequent to August 31, 2016.

The Vendors can retain a 3% GOR on all diamonds minded in Sandspit Lake, of which 2% can be purchased by the Company at anytime for $2,000,000. The Vendors will also retain a 3% GOR on all other commodities mined at Sandspit Lake.

5. SHARE CAPITAL

a) Authorized share capital

Unlimited number of common shares without par value.

b) Issued share capital

At August 31, 2016, the Company had 12,560,433 common shares issued and outstanding (August 31, 2015 – 12,260,433).

During the year ended August 31, 2016

- On August 23, 2016, the Company issued 300,000 common shares with fair value of $75,000 for exploration and evaluation assets (Note 4(b) and (c)).

  In connection with the issuance of shares, the Company incurred $1,227 as share issue costs recorded as a reduction to share capital.

During the year ended August 31, 2015

- On December 12, 2014, the Company issued 300,000 flow-through shares for gross proceeds of $36,000 of which $6,000 was recorded as a flow-through share premium liability (Note 8).

- On May 27, 2015, the Company completed a non-brokered private placement of 1,020,000 non flow-through shares at a price of $0.25 per non flow-through share for aggregate gross proceeds of $255,000.

- On May 27, 2015, the Company completed a non-brokered private placement of 740,333 flow-through shares at a price of $0.30 per non-flow through share for aggregate gross proceeds of $222,100 of which $37,017 was reclassified as flow through shares premium liability (Note 8).

c) Stock options

The Company does not have a formal stock option plan, any historical grants of stock options occurred outside of any formal plan. Stock options to purchase common shares have been granted to executives, directors, and consultants at exercise prices determined by the Board of Directors at the time such stock options were granted. The Board of Directors also set vesting provisions, and maximum option life terms.

(Expressed in Canadian Dollars)

5. SHARE CAPITAL

c) Stock options (continued)

The changes in stock options during the years ended August 31, 2016 and 2015 are as follows:

	August 31, 2016			August 31, 2015		
	Number outstanding		**Weighted average exercise price**	Number outstanding		Weighted average exercise price
Outstanding, beginning of year	**1,050,000**	$	0.25	-	$	-
Granted	-		-	1,050,000		0.25
Outstanding, end of year	**1,050,000**	**$**	**0.25**	1,050,000	$	0.25

There were no options granted, exercised or expired during the year ended August 31, 2016.

The following summarizes information about stock options outstanding and exercisable at August 31, 2016:

Expiry date	**Options outstanding**	**Options exercisable**		**Exercise price**		**Estimated grant date fair value**	**Weighted average remaining contractual life (in years)**
March 20, 2020	1,050,000	1,050,000	$	0.250	$	63,848	3.55

The estimated grant date fair value of the options granted during the years ended August 31, 2016 and 2015 was calculated using the Black-Scholes option pricing model with the following weighted average assumptions:

	August 31, 2016	**August 31, 2015**
Risk-free interest rate	N/A	0.72%
Expected annual volatility	N/A	100.00%
Expected life (in years)	N/A	5
Expected dividend yield	N/A	0.00%

6. LOSS PER SHARE

The calculation of basic and diluted loss per share for the year ended August 31, 2016 is based on the net loss attributable to common shareholders of $40,832 (August 31, 2015 – $403,950) and a weighted average number of common shares outstanding during the year ended August 31, 2016 of 12,266,990 (August 31, 2015 – 10,884,079).

(Expressed in Canadian Dollars)

7. RELATED PARTY TRANSACTIONS AND BALANCES

Key management personnel include persons having the authority and responsibility for planning, directing, and controlling the activities of the Company as a whole. Key management includes executive officers, and directors. During the year ended August 31, 2016, the Company incurred $nil (August 31, 2015 – $63,848) in share-based payments to key management personnel. There were no other payments to key management.

Related party transactions are recorded at the exchange amount as agreed to by the parties.

- The Company paid $2,343(August 31, 2015 – $65,602) in consulting fees expensed to exploration and evaluation and $2,000 (August 31, 2015 - $12,000) in rent to a consulting firm of which the Company's Chief Executive Officer is a partner. As at August 31, 2016, $407 (August 31, 2015 – $12,100) was owed to companies controlled by the Chief Executive Officer.

- The Company incurred accounting and administrative fees of $3,025 (August 31, 2015 – $23,407) with an accounting firm of which the Company's Chief Financial Officer is a partner. As at August 31, 2016, $nil (August 31, 2015 – $nil) was owed to this company.

- The Company paid $nil (August 31, 2015 – $63,470) in consulting fees expensed to exploration and evaluation to a company controlled by its VP Exploration. As at August 31, 2016, $nil (August 31, 2015 – $7,384) was owed to this company.

8. COMMITMENTS

The Company periodically issues flow-through shares with any resulting flow-through premium recorded as a flow-through share premium liability. The liability is subsequently reduced when the required exploration expenditures are made, and accordingly, a recovery of the flow-through premium is recorded as other income.

During the year ended August 31, 2015, the Company raised $258,100 through the issuance of flow-through shares (Note 5(b)). Based on Canadian tax law, the Company was required to spend $36,000 of this amount on eligible exploration expenditures by December 31, 2014 (completed). The Company is required to spend the remaining $222,100 on eligible expenditures by December 31, 2016. If the Company is unable to meet this deadline, it will be subject to Part XII.6 taxes in accordance with the Canadian Income Tax Act.

The Company initially recorded a flow-through share premium liability of $43,017. During the years ended August 31, 2016 and 2015, the Company recognized $453 and $11,441, respectively, as other income on the statements of loss and comprehensive loss to reflect the flow-through expenditures spent during the years ended August 31, 2016 and 2015.

A continuity of the flow-through share premium liability is as follows:

		August 31, 2016		August 31, 2015
Balance, beginning of the year	**$**	**31,576**	$	-
Liability incurred on flow-through shares issued		**-**		43,017
Settlement on expenditures made		**(453)**		(11,441)
Balance, end of year	**$**	**31,123**	$	31,576

9. SEGMENTED INFORMATION

The Company operates in one reportable segment, being the exploration and evaluation of exploration and evaluation assets. All of the Company's exploration and evaluation assets are located in Canada.

10. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the exploration of its exploration and evaluation assets, acquire additional exploration interests and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. In the management of capital, the Company includes components of shareholders' equity.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue debt, acquire or dispose of assets or adjust the amount of cash.

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

The Company is not subject to externally imposed capital requirements.

There were no changes in the Company's approach to capital management during the year ended August 31, 2016.

11. FINANCIAL INSTRUMENTS

a) Fair value

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

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

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

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

The fair value of the Company's accounts receivable and accounts payable and accrued liabilities approximate their carrying value, which is the amount recorded on the statement of financial position. The Company's other financial instrument, cash, under the fair value hierarchy is based on level one quoted prices in active markets for identical assets or liabilities.

11. FINANCIAL INSTRUMENTS (CONTINUED)

b) Financial risk management

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to financial instruments fails to meet its contractual obligations. The Company's exposure to credit risk includes cash and accounts receivable.

The Company's cash is held at a large Canadian financial institution in interest bearing accounts. The Company has no investments in asset-backed commercial paper.

The Company's accounts receivable consists of GST receivable from the government of Canada. The Company's maximum exposure to credit risk is the carrying value of its financial assets. Management believes that the credit risk related to its cash and accounts receivable is negligible.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Company manages liquidity by maintaining adequate cash balances to meet liabilities as they become due.

At August 31, 2016, the Company had cash of $164,868 and accounts payable and accrued liabilities of $11,633. All accounts payable and accrued liabilities are current.

Market Risk

The significant market risks to which the Company is exposed are interest rate risk, foreign currency risk, and price risk.

Interest Rate Risk

Interest rate risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's cash is held mainly in high yield saving accounts and term deposits and therefore there is currently minimal interest rate risk. Because of the short-term nature of these financial instruments, fluctuations in market rates do not have a significant impact on estimated fair values as of August 31, 2016.

Foreign Currency risk

The Company is exposed to foreign currency risk to the extent that monetary assets and liabilities held by the Company are not denominated in Canadian dollars. As at August 31, 2016, the Company is not exposed to currency risk as all transactions and balances are denominated in Canadian dollars.

(Expressed in Canadian Dollars)

11. FINANCIAL INSTRUMENTS (CONTINUED)

b) Financial risk management (continued)

Price risk

The Company is exposed to price risk with respect to commodity prices. Commodity price risk is defined as the potential adverse impact on the results of operations due to commodity price movements and volatilities. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company.

12. INCOME TAX

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

		August 31, 2016		August 31, 2015
Net loss for the year	$	(40,832)	$	(403,950)
Expected income tax (recovery)	$	(11,000)	$	(105,000)
Permanent difference		1,000		14,000
Impact of flow-through shares		-		9,000
Change in unrecognized deductible temporary differences		10,000		82,000
Total income tax expense (recovery)	**$**	**-**	**$**	**-**

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the statement of financial position are as follows:

		August 31, 2016	Expiry Date Range		August 31, 2015	Expiry Date Range
Temporary Differences						
Exploration and evaluation assets	$	149,000	No expiry date	$	13,000	No expiry date
Non-capital losses available for future periods		169,000	2034 to 2036		141,000	2034 to 2035

Tax attributes are subject to review, and potential adjustment, by tax authorities.

13. SUBSEQUENT EVENT

Subsequent to August 31, 2016, the Company issued 240,000 shares for gross proceeds of $60,000 which was received during the year ended August 31, 2016.