

**TALMORA DIAMOND INC.**  
**FINANCIAL STATEMENTS**  
**December 31, 2016 and 2015**  
**(Expressed in Canadian dollars)**

**TALMORA DIAMOND INC.**  
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**December 31, 2016**

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## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Talmora Diamond Inc.

We have audited the accompanying financial statements of Talmora Diamond Inc., which comprise the statements of financial position as at December 31, 2016 and 2015, and the statements of loss and comprehensive loss, statements of changes in equity and statements of 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.

### Auditor's 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 auditor's 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 is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Talmora Diamonds Inc. as at December 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 indicates that Talmora Diamonds Inc. had continuing losses during the year ended December 31, 2016 and limited working capital as at December 31, 2016. These conditions along with other matters set forth in Note 1 indicate the existence of a material uncertainty which casts significant doubt about the ability of Talmora Diamonds Inc. to continue as a going concern.

UHY McGovern Hurley LLP



Chartered Professional Accountants  
Licensed Public Accountants

Toronto, Canada  
April 8, 2017

**TALMORA DIAMOND INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
(Expressed in Canadian Dollars)  
**AS AT DECEMBER 31, 2016 AND 2015**

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|   | Notes | 2016<br>\$         | 2015<br>\$         |
|---|-------|--------------------|--------------------|
| <b>ASSETS</b>                                     |       |                    |                    |
| Current   |       |                    |                    |
| Cash  |       | 13,183             | 10,338             |
| Sundry receivables                                |       | <u>9,327</u>       | <u>10,883</u>      |
| Total current assets                              |       | 22,510             | 21,221             |
| Equipment   | 7     | <u>6,649</u>       | <u>13,298</u>      |
| <b>Total assets</b>                               |       | <u>29,159</u>      | <u>34,519</u>      |
| <b>LIABILITIES</b>                                |       |                    |                    |
| Current   |       |                    |                    |
| Accounts payable and accrued liabilities          | 12    | <u>-</u>           | <u>-</u>           |
| <b>Total liabilities</b>                          |       | <u>-</u>           | <u>-</u>           |
| <b>SHAREHOLDERS' EQUITY</b>                       |       |                    |                    |
| Share capital                                     | 8     | 3,094,365          | 3,012,365          |
| Warrant reserve                                   | 8     | -                  | 12,469             |
| Share-based payment reserve                       | 9     | 37,782             | 62,969             |
| Deficit   |       | <u>(3,102,988)</u> | <u>(3,053,284)</u> |
| <b>Total shareholders' equity</b>                 |       | <u>29,159</u>      | <u>34,519</u>      |
| <b>Total liabilities and shareholders' equity</b> |       | <u>29,159</u>      | <u>34,519</u>      |

Going concern (Note 1)  
Commitments and contingencies (Note 13)

Approved on behalf of the Board of Directors:

/s/ Raymond Davies  
Director

/s/ Richard Hogarth  
Director

**TALMORA DIAMOND INC.**  
**STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**  
**(Expressed in Canadian Dollars)**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

**3**

|  | Notes | 2016<br>\$        | 2015<br>\$        |
|--|-------|-------------------|-------------------|
| <b>Expenses</b>  |       |                   |                   |
| Share-based payments   | 12    | 6,365             | -                 |
| Administration   | 12    | 60,046            | 53,969            |
| Exploration and evaluation expenditures                                  | 6, 12 | 11,499            | 4,791             |
| Professional fees  |       | 9,180             | 3,464             |
| Depreciation   |       | <u>6,649</u>      | <u>6,648</u>      |
| <b>Loss before undernoted item</b>                                       |       | 93,739            | 68,872            |
| Investment Income  |       | <u>14</u>         | <u>-</u>          |
| <b>Net loss and comprehensive loss for the year</b>                      |       | <u>93,725</u>     | <u>68,872</u>     |
| <b>Net loss per share – basic and diluted</b>                            |       | <u>0.001</u>      | <u>0.001</u>      |
| <b>Weighted average number of shares outstanding – basic and diluted</b> |       | <u>66,017,517</u> | <u>62,363,459</u> |

The notes are an integral part of these financial statements.

**TALMORA DIAMOND INC.**  
**STATEMENTS OF CHANGES IN EQUITY**  
**(Expressed in Canadian Dollars)**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

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|   | Notes | Share<br>Capital | Share-based<br>payment<br>reserve | Warrant<br>reserve | Deficit     | Total    |
|---|-------|------------------|-----------------------------------|--------------------|-------------|----------|
|   |       | \$               | \$                                | \$                 | \$          | \$       |
| Balance at December 31, 2014                    |       | 2,885,678        | 68,456                            | 34,156             | (2,989,899) | (1,609)  |
| Expired stock options                           | 9     | -                | (5,487)                           | -                  | 5,487       | -        |
| Warrants exercised                              | 8     | 126,687          | -                                 | (21,687)           | -           | 105,000  |
| Net loss and comprehensive<br>loss for the year |       | -                | -                                 | -                  | (68,872)    | (68,872) |
| Balance at December 31, 2015                    |       | 3,012,365        | 62,969                            | 12,469             | (3,053,284) | 34,519   |
| Private placement                               | 8     | 82,000           | -                                 | -                  | -           | 82,000   |
| Expired warrants                                | 8     | -                | -                                 | (12,469)           | 12,469      | -        |
| Expired stock options                           | 9     | -                | (31,552)                          | -                  | 31,552      | -        |
| Share-based payments                            | 8     | -                | 6,365                             | -                  | -           | 6,365    |
| Net loss and comprehensive<br>loss for the year |       | -                | -                                 | -                  | (93,725)    | (93,725) |
| Balance at December 31, 2016                    |       | 3,094,365        | 37,782                            | -                  | (3,102,988) | 29,159   |

The notes are an integral part of these financial statements.

**TALMORA DIAMOND INC.**  
**STATEMENTS OF CASH FLOWS**  
**(Expressed in Canadian Dollars)**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

**5**

|  | Notes | 2016<br>\$      | 2015<br>\$       |
|--|-------|-----------------|------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>        |       |                 |                  |
| Net (loss) for the year                            |       | (93,725)        | (68,872)         |
| Changes not involving cash:                        |       |                 |                  |
| Share-based payments                               |       | 6,365           | -                |
| Depreciation                                       |       | 6,648           | 6,648            |
| Changes in non-cash working capital balances:      |       |                 |                  |
| Decrease in sundry receivables                     |       | 1,557           | 4,042            |
| Change in accounts payable and accrued liabilities |       | -               | (47,937)         |
| Cash flows from operating activities               |       | <u>(79,155)</u> | <u>(106,119)</u> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>        |       |                 |                  |
| Private placement                                  | 8     | 82,000          | 105,000          |
| Cash flows from financing activities               |       | <u>82,000</u>   | <u>105,000</u>   |
| Increase/(decrease) in cash                        |       | 2,845           | (1,119)          |
| Cash, beginning of year                            |       | <u>10,338</u>   | <u>11,457</u>    |
| Cash, end of year                                  |       | <u>13,183</u>   | <u>10,338</u>    |

The notes are an integral part of these financial statements.

## **1. CORPORATE INFORMATION AND GOING CONCERN**

Talmora Diamond Inc. (the "Company" or "Talmora") was incorporated on April 18, 1996 under the Canada Business Corporations Act. The Company is publicly traded with its shares listed on the Canadian Securities Exchange. The Company's registered and head office is located at 6 Willowood Court, Toronto, Ontario, Canada, M2J 2M3.

These financial statements were reviewed, approved and authorized for issue by the Board of Directors on April 8, 2017.

The Company is in the business of exploring and evaluating mineral exploration properties. There has been no determination whether the Company's interests in mineral properties contain mineral reserves, which are economically recoverable. Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements, government licensing requirements or regulations, social licensing requirements and non-compliance with regulatory requirements. The Company's assets may also be subject to increases in taxes and royalties, renegotiation of contracts and political uncertainty.

The business of exploring for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The Company's continued existence is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to raise alternative financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis.

As at December 31, 2016 the Company had continuing losses, cash totaling \$13,183 and working capital of \$22,510. The Company's ability to continue operations and fund its exploration property expenditures is dependent on management's ability to secure additional financing. Management is actively pursuing such additional sources of financing, and while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future. Because of this material uncertainty there is significant doubt about the ability of the Company to continue as a going concern. These financial statements do not include the adjustments that would be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

## **2. STATEMENT OF COMPLIANCE AND BASIS OF PRESENTATION**

These financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Committee ("IFRIC"). These policies set out in the financial statements were consistently applied to all periods unless otherwise noted.

The financial statements have been prepared on the historical cost basis. In addition, these financial statements have been prepared using the accrual basis of accounting except for cash flow information.

## **3. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED**

During the year ended December 31, 2016, the Company adopted the amendment to the existing standard, IAS 1 – Presentation of Financial Statements ("IAS 1"). This amended standard did not have any material impact on the Company's financial statements.



### 3. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED (Continued)

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods on or after January 1, 2017 or later periods. Many are not applicable or do not have a significant impact to the Company and have been excluded. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

IFRS 9 – Financial Instruments (“IFRS 9”) was issued by the IASB in November 2009 with additions in October 2010 and May 2013 and will replace IAS 39 Financial Instruments: Recognition and Measurement (“IAS 39”). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9, except that an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity’s own credit risk in other comprehensive income, rather than within profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted.

### 4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of these financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These financial statements include estimates that, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Significant assumptions about the future that management has made that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- The inputs used in accounting for share-based payment transactions. Management determines costs for share-based payments using market-based valuation techniques. The fair value of the market-based and performance-based share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviors and corporate performance. These assumptions are based largely on historical trends and management’s expectations of the future. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.
- Management assumption of no material restoration, rehabilitation and environmental obligations, based on the facts and circumstances that existed during the period. Decommissioning, restoration and similar liabilities are estimated based on the Company’s interpretation of current

#### 4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

regulatory requirements, constructive obligations and are measured at fair value. Fair value is determined based on the net present value of estimated future cash expenditures for the settlement of decommissioning, restoration or similar liabilities that may occur upon decommissioning of the mine. Such estimates are subject to change based on changes in laws and regulations and negotiations with regulatory authorities.

- In assessing the probability of realizing income tax assets, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting period.
- The Company is subject to income, value added, withholding and other taxes. Significant judgment is required in determining the Company's provisions for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The determination of the Company's income, value added, withholding and other tax liabilities requires interpretation of complex laws and regulations. The Company's interpretation of taxation law as applied to transactions and activities may not coincide with the interpretation of the tax authorities. All tax related filings are subject to government audit and potential reassessment subsequent to the financial statement reporting period. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax related accruals and deferred income tax provisions in the period in which such determination is made.

#### 5. SIGNIFICANT ACCOUNTING POLICIES

##### **Functional and presentation currency**

The Company's presentation and functional currency is the Canadian dollar ("C\$"). The Company does not have any foreign operations. Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the dates of transactions. At each financial position reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items at period end exchange rates are recognized in the statement of loss.

##### **Flow through shares**

The Company finances a portion of its project exploration and evaluation activities through the issuance of flow-through shares. Under the terms of the flow-through common share issues, the tax attributes of the related expenditures are renounced to investors and deferred income tax expense and income tax liabilities are increased by the estimated income tax benefits renounced by the Company to the investors. On the date of issuance of the flow-through shares, the premium relating to the proceeds received in excess of the fair value of the Company's common shares is allocated to liabilities. The premium liability

## 5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Flow through shares (continued)

is reduced during the period of renunciation. The reduction to the premium liability in the period of renunciation is recognized through net loss.

Where the Company has unused tax benefits on loss carry forwards and tax pools in excess of book value available for deduction, the Company offsets the increase in deferred tax liabilities resulting in an offsetting recovery of deferred income taxes being recognized through net loss in the reporting period.

### Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. The Company currently operates in one business segment, being the exploration and evaluation of resource properties. All of the Company's assets are located in Canada.

### Share-based payment

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in the stock options and share-based payment reserve (Note 9).

The fair value is measured at the grant date and each tranche is recognized on a graded-vesting basis over the period in which options vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

For those options and warrants that expire after vesting, the recorded value is transferred to deficit.

### Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

## 5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Deferred tax (continued)

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset 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.

### Loss per share

The Company presents basic and diluted loss per share data 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 is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all warrants and options outstanding that may add to the total number of common shares. The issued and outstanding stock options and warrants were not included in the calculation of diluted loss per share for the periods presented, as their effect would be anti-dilutive.

### Cash and cash equivalents

Cash and cash equivalents in the statement of financial position are comprised of cash at banks, on hand, short-term deposits with an original maturity of three months or less, and guaranteed investment certificates which are readily convertible into a known amount of cash. The Company's cash and cash equivalents are invested with major financial institutions in business accounts and guaranteed investment certificates that are available on demand by the Company for its programs. The Company does not invest in any asset-backed deposits/investments. As at December 31, 2016 and December 31, 2015, the Company did not have any cash equivalents.

### Share capital

Common shares are classified as equity. Costs directly attributable to the issue of new shares and warrants are shown in equity as a deduction, net of tax benefits received, if any, from proceeds.

### Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

The timing of recognition and quantification of the liability requires the application of judgment to existing facts and circumstances, which can be subject to change. A change in estimate of a recognized provision or liability would result in a charge or credit to operations in the period in which the change occurs, with the exception of decommissioning and restoration costs described below.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money.

Where discounting is used, the increase in the provision due to the passage of time referred to as "unwinding of discount" is recognized in the statement of loss as a finance cost.

### *Decommissioning and restoration provisions*

The Company records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines and tailings dams,

## 5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Provisions (Continued)

dismantling operating facilities, closure of plant and waste sites, and restoration, reclamation and re-vegetation of affected areas.

The obligation generally arises when the asset is installed or the ground / environment is disturbed at the production location. When the liability is initially recognized, the present value of the estimated cost is capitalized by increasing the carrying amount of the related mining assets to the extent that it was incurred prior to the production of related ore. Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability. The periodic unwinding of the discount is recognized in the statement of loss as a finance cost.

Additional disturbances or changes in rehabilitation costs will be recognized as additions or charges to the corresponding assets and rehabilitation liability when they occur. For closed sites, changes to estimated costs are recognized immediately in the statement of loss.

The Company does not currently have any such significant legal or constructive obligations and therefore no decommissioning liabilities have been recorded as at December 31, 2016 and December 31, 2015.

Contingent assets are not recognized in the financial statements but they are disclosed by way of a note if they are deemed probable.

Contingent liabilities are possible obligations whose existence will only be confirmed by future events not wholly within the control of the Company. Contingent liabilities are recognized in the financial statements unless the possibility of an outflow of economic resources is considered remote, uncertain, difficult to quantify or the events giving rise to such contingent liabilities occur subsequent to the reporting date. In these cases, they are disclosed in the notes to the financial statements.

### Exploration and evaluation expenditures

The Company expenses exploration and evaluation expenditures as incurred. Exploration and evaluation expenditures include acquisition costs of mineral properties, property option payments and exploration and evaluation activity.

Once a project has been established as commercially viable and technically feasible, related development expenditures are capitalized. This includes costs incurred in preparing the site for mining operations. Capitalization ceases when the mine is capable of commercial production, with the exception of development costs that give rise to a future benefit.

### Equipment

On initial recognition, equipment is valued at cost, being the purchase price and directly attributable cost of acquisition or construction required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the Company, including appropriate borrowing costs and the estimated present value of any future unavoidable costs of dismantling and removing items.

Equipment is subsequently measured at cost less accumulated depreciation, less any accumulated impairment losses. Depreciation is based on the cost of an asset less its residual value. Depreciation is recognized in profit or loss over the estimated useful life of the exploration equipment on a 20% declining balance basis.

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

## 5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Equipment (continued)

The cost of replacing part of an item of equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of equipment are recognized in profit or loss as incurred.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial year in which they are incurred.

### Leases

Assets held under finance leases are initially recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability is included in the statement of financial position as a finance lease payable.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Company's general policy on borrowing costs. Contingent rentals are recognized as expenses in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

### Financial assets

Financial assets are classified at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or derivatives. The Company determines the classification of its financial assets at initial recognition. The Company's cash has been classified as loans and receivables.

Financial assets at fair value through profit or loss are initially recognized at fair value with changes in fair value recorded through net loss. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets or non-current assets based on their maturity date. Loans and receivables are carried at amortized cost less any impairment.

### Financial liabilities

Financial liabilities are classified at fair value through profit or loss, other financial liabilities, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition. The Company has classified its accounts payable and accrued liabilities as other financial liabilities.

All financial liabilities are recognised initially at fair value and in the case of other financial liabilities, plus directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest and any transaction costs over the relevant period.

**5. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Financial liabilities (continued)**

The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or (where appropriate) to the net carrying amount on initial recognition. Other financial liabilities are de-recognized when the obligations are discharged, cancelled or expired.

**Impairment of financial assets**

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investments have been negatively impacted.

Evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- the likelihood that the borrower will enter bankruptcy or financial re-organization.

**6. EXPLORATION AND EVALUATION EXPENDITURES**

The exploration and evaluation expenditures incurred by the Company are as follows:

|   | Year ended December 31, |           |
|---|-------------------------|-----------|
|   | 2016                    | 2015      |
| Exploration and evaluation expenditures     | \$                      | \$        |
| Travel accommodations/meals                 | 1,281                   | 1,192     |
| Travel airline, car rentals, mileage, taxis | 1,035                   | 1,276     |
| Sample sorting and analyses adjustment *    | -                       | (8,109)   |
| Professional exploration fees               | 4,425                   | 10,063    |
| Conferences and forums                      | 224                     | 309       |
| Licences and permits                        | 4,534                   | 60        |
| Expenditures for the year                   | 11,499                  | 4,791     |
| Cumulative expenditures, beginning of year  | 2,095,616               | 2,090,825 |
| Cumulative expenditures, end of year        | 2,107,115               | 2,095,616 |

\*Adjustment was due to a 2013 accrued liability billing estimate that was reversed in June 2015.

As at December 31, 2016, the Company held claims, in the Horton River area, south of Paulatuk, about 400 kilometres east of Inuvik, in the Northwest Territories. Most of the claims are in the Inuvialuit Settlement Area and some of the claims are in the adjoining Sahtu Settlement Area. All are on Crown Land.

The Crown owns both mineral and surface rights to the claim areas, the exploration and exploitation of which is governed by the Canada Mining Regulations. Prospecting permits, claims, mining leases and

**6. EXPLORATION AND EVALUATION EXPENDITURES (Continued)**

work permits are dealt with under these regulations. The Land Settlement Agreements deal with environmental matters, creates environmental agencies and related procedures, and provides the Inuvialuit and Sahtu with equal representation on the agencies. Those who conduct economic activity in the region require their approval.

**7. EQUIPMENT**

|                            | <b>Cost</b> | <b>Accumulated<br/>Amortization</b> | <b>Net Book Value</b> |
|----------------------------|-------------|-------------------------------------|-----------------------|
|                            | \$          | \$                                  | \$                    |
| Balance, December 31, 2014 | 35,913      | 15,967                              | 19,946                |
| Additions in 2015          | -           | 6,648                               | (6,648)               |
| Balance December 31, 2015  | 35,913      | 22,615                              | 13,298                |
| Additions in 2016          | -           | 6,649                               | ( 6,649)              |
| Balance, December 31, 2016 | 35,913      | 29,264                              | 6,649                 |

**8. SHARE CAPITAL AND WARRANT RESERVE**

**Authorized**

The authorized share capital consists of an unlimited number of common shares. The common shares do not have a par value. All issued shares are fully paid.

**Common shares issued**

|                                    | <b>Number<br/>#</b> | <b>Amount<br/>\$</b> |
|------------------------------------|---------------------|----------------------|
| <b>Balance, December 31, 2014</b>  | 61,198,801          | 2,885,678            |
| Warrants exercised (i)             | 2,100,000           | 126,687              |
| <b>Balance, December 31, 2015</b>  | 63,298,801          | 3,012,365            |
| Common shares issued for cash (ii) | 4,100,000           | 82,000               |
| <b>Balance, December 31, 2016</b>  | <u>67,398,801</u>   | <u>3,094,365</u>     |

(i) During the year ended December 31, 2015, certain directors and officers of the Company exercised 2,100,000 warrants at \$0.05 per share to net the Company \$105,000.

(ii) On May 4, 2016, the Company closed a non-brokered private placement of 4,100,000 common shares at \$0.02 per share for gross proceeds of \$82,000. There were no common share purchase warrants attached to this subscription.

Directors and officers of the Company acquired a total of 3,300,000 shares pursuant to this financing, for gross proceeds of \$66,000.



**8. SHARE CAPITAL AND WARRANT RESERVE (Continued)**

A summary of changes in warrants is as follows:

|                                   | Warrants<br># | Weighted<br>Average<br>Exercise Price<br>\$ | Value<br>\$ |
|-----------------------------------|---------------|---|-------------|
| <b>Balance, December 31, 2014</b> | 3,307,333     | 0.05  | 34,156      |
| Exercised                         | (2,100,000)   | 0.05  | (21,687)    |
| <b>Balance, December 31, 2015</b> | 1,207,333     | 0.05  | 12,469      |
| Expired                           | -1,207,333    | 0.05  | (12,469)    |
| <b>Balance December 31, 2016</b>  | -             | -   | -           |

**9. STOCK OPTIONS AND SHARE-BASED PAYMENT RESERVE**

The Company has a stock option plan under which officers, directors, employees, and consultants of the Company are eligible to receive stock options. The aggregate number of shares to be issued upon exercise of all options granted under the plan may not exceed 10% of the outstanding shares of the Company. Options granted under the plan generally have a term of five years and vest at terms to be determined by the directors at the time of grant. The exercise price of each option is fixed by the board of directors but shall not be less than the price permitted by any stock exchange on which the Company's common shares may be listed which is generally the trading price of the Company's stock at or about the grant date of the options.

A summary of changes in stock options is as follows:

|                            | Options<br># | Weighted<br>Average<br>Exercise Price<br>\$ |
|----------------------------|--------------|---|
| Balance, December 31, 2014 | 5,368,000    | 0.05  |
| Expired March 1, 2015      | (50,000)     | 0.05  |
| Expired June 9, 2015       | (951,000)    | 0.05  |
| Balance December 31, 2015  | 4,367,000    | 0.05  |
| Expired May 1, 2016        | (100,000)    | 0.05  |
| Expired December 16, 2016  | (914,000)    | 0.05  |
| Granted December 16, 2016  | 2,300,000    | 0.05  |
| Balance December 31, 2016  | 5,653,000    | 0.05  |

**9. STOCK OPTIONS AND SHARE-BASED PAYMENT RESERVE (Continued)**

As at December 31, 2016, the following options were issued and outstanding:

| Options<br>Granted<br># | Options<br>Exercisable<br># | Exercise<br>Price<br>\$ | Expiry Date       | Remaining<br>Contractual<br>Life (years) | Value<br>\$ |
|-------------------------|-----------------------------|-------------------------|-------------------|--|-------------|
| 1,890,000               | 1,890,000                   | 0.05                    | June 29, 2017     | 0.490                                    | 7,587       |
| 100,000                 | 100,000                     | 0.05                    | July 20, 2017     | 0.548                                    | 397         |
| 20,000                  | 20,000                      | 0.05                    | November 1, 2017  | 0.833                                    | 36          |
| 1,343,000               | 1,343,000                   | 0.05                    | July 2, 2018      | 1.493                                    | 23,397      |
| 2,300,000               | 2,300,000                   | 0.05                    | December 16, 2021 | 4.956                                    | 6,365       |
| 5,653,000               | 5,653,000                   | 0.05                    |                   |  | 37,782      |

On December 16, 2016, the Company granted 2,300,000 stock options to directors, officers and consultants at \$0.05 until December 16, 2021. The stock options were assigned a value of \$6,365 or approximately \$0.0028, using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 120%; risk free interest rate of 1.21%; and an expected life of 5 years.

The weighted average exercise price of options outstanding and exercisable at December 31, 2016 is \$0.05 (2015 - \$0.05.) The options outstanding and exercisable as at December 31, 2016 have a weighted average remaining contractual life 2.55 years (2015 - 1.67 years).

**10. CAPITAL MANAGEMENT**

When managing capital, the Company's objective is to ensure the entity continues as a going concern as well as to maintain appropriate returns to shareholders and benefits for other stakeholders. Management adjusts the capital structure as necessary, in order to support the acquisition, exploration and development of its projects. The Board of Directors does not establish criteria for quantitative return on capital for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company considers its capital to be equity, which comprises share capital, warrant reserve and share-based payment reserve. The properties in which the Company currently has an interest are at the exploration stage; as such, the Company is dependent on external financing to fund its activities. In order to carry out the planned project related development activities and pay for exploration and administrative costs, the Company will spend its existing working capital and plans to raise additional funds as needed.

The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is appropriate. There was no change to the Company's approach to capital management during the years ended December 31, 2016 and 2015. The Company is not subject to any capital requirements imposed by a lending institution or regulatory body.

## 11. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

### Categories of financial instruments and fair value measurement

The Company defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an arm's length transaction between market participants at the measurement date. When appropriate, the Company adjusts the valuation models to incorporate a measure of credit risk.

The Company classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs). The Company does not have any Level 3 financial instruments.

The Company does not have any financial instruments that are carried at fair value.

The carrying values of the Company's financial assets and financial liabilities approximate fair values given their short-term nature.

The Company is exposed to a variety of financial risks: credit risk, liquidity risk, property risk, and market risk, including price risk, interest rate and currency risk, as explained below. Risk management is carried out by the Company's management team with guidance from the Audit Committee and the Board of Directors. There were no changes in the Company's policies and procedures for managing risk during the years ended December 31, 2016 and 2015.

### Liquidity Risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2016, the Company had a cash balance of \$13,183 (2015 – \$10,338) to settle current liabilities of nil (2015 – nil).

### Credit Risk

The Company has no significant concentration of credit risk arising from operations. Cash equivalents, when applicable, consist of guaranteed investment certificates, which will be invested with reputable financial institutions, from which management believes the risk of loss to be remote. Management believes that the credit risk is remote.

### Market Risk

#### (a) Interest Rate Risk

The Company may have cash equivalent balances subject to fluctuations in the prime rate. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. Currently, the Company does not hedge against interest rate risk.

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## 11. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

### (b) Foreign Currency Risk

The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. Management believes the foreign exchange risk derived from currency conversions is negligible and therefore does not hedge its foreign exchange risk. The Company does not hold balances in foreign currencies to give rise to exposure to foreign exchange risk.

### (c) Price Risk

The Company is exposed to price risk with respect to diamond prices. The Company closely monitors diamond prices to determine the appropriate course of action to be taken by the Company. As the Company's mineral properties are in the exploration stage and do not contain any mineral resources or mineral reserves, the Company does not hedge against price risk.

### Property Risk

The Company's significant mineral exploration property is the Horton River property. Unless the Company acquires or develops additional significant properties, the Company will be solely dependent upon the Horton River property. If no additional mineral exploration properties are acquired by the Company, any material development affecting the Horton River property could have a material effect on the Company's financial condition and results of operations.

### Sensitivity Analysis

The Company does not anticipate any material fluctuations in its financial assets and liabilities as a result of changes in interest or foreign currency rates.

## 12. RELATED PARTY DISCLOSURES

Related parties include officers and members of the Board of Directors, close family members and enterprises that are controlled by these individuals as well as certain persons performing similar functions.

In accordance with IAS 24, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company. Remuneration of directors and key management of the Company was as follows:

|                       | Years ended December 31 |          |
|-----------------------|-------------------------|----------|
|                       | 2016                    | 2015     |
|                       | \$                      | \$       |
| Salaries and benefits | \$36,131                | \$35,831 |
| Share-based payments  | 5,534                   | -        |

As at December 31, 2016, the total exploration and evaluation expenditures included in the above table was \$4,350 (2015 - \$10,062) of which the balance of \$31,781 (2015 - \$25,769) was charged to administration expense. The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

**13. COMMITMENTS AND CONTINGENCIES**

**Flow-Through**

The Company has agreed to indemnify the subscribers of its flow-through shares for any tax-related consequences that become payable by them, if the Company failed to meet its expenditure commitment. The Company had no flow-through expenditure requirements in 2016.

**Environmental Contingencies**

The Company's exploration activities are subject to various laws and regulations, governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

**14. INCOME TAXES**

**a) Provision for Income Taxes**

Major items causing the Company's income tax rate to differ from the Canadian statutory rate of approximately 26.5% (2015 – 26.5%) are as follows:

|  | 2016        | 2015        |
|--|-------------|-------------|
| Loss before income taxes                       | \$ (93,725) | \$ (68,872) |
| Expected tax recovery at statutory rate        | \$ (25,000) | \$ (18,000) |
| Other  | 4,000       | 5,000       |
| Change in benefit of tax assets not recognized | 21,000      | 13,000      |
| Deferred income tax recovery                   | \$ -        | \$ -        |

**b) Deferred Income Taxes**

|  | 2016     | 2015     |
|--|----------|----------|
| <u>Recognized deferred tax assets and liabilities:</u> |          |          |
| Non-capital loss carry-forwards                        | \$ 5,000 | \$ 4,000 |
| Other temporary differences                            | (5,000)  | (4,000)  |
| Deferred income tax liability                          | \$ -     | \$ -     |

Deferred income tax assets have not been recognized in respect of the following deductible temporary differences:

|                                 |              |              |
|---------------------------------|--------------|--------------|
| Non-capital loss carry-forwards | \$ 27,000    | \$ 34,000    |
| Share issue costs               | 1,000        | 40,000       |
| Mineral property costs          | 2,108,000    | 2,027,000    |
| Other temporary differences     | 61,000       | 61,000       |
| Total                           | \$ 2,197,000 | \$ 2,126,000 |

Deferred income tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can use the benefits.

14. INCOME TAXES (Continued)

c) Tax Loss Carry-Forwards

As at December 31, 2016, the Company had available for deduction against future taxable income, non-capital losses of approximately \$47,000 which expire as follows:

|      |    |               |
|------|----|---------------|
| 2026 | \$ | 9,000         |
| 2028 |    | 6,000         |
| 2029 |    | 11,000        |
| 2030 |    | 11,000        |
| 2032 |    | 1,000         |
| 2035 |    | 6,000         |
| 2036 |    | 3,000         |
|      |    | <u>47,000</u> |