

Condensed Interim Financial Statements  
(Expressed in Canadian Dollars)

**KENNADY DIAMONDS INC.**

For the three and six months ended June 30, 2016  
(Unaudited)

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**NOTICE OF NO AUDITOR REVIEW OF  
CONDENSED INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the condensed interim financial statements, they must be accompanied by a notice indicating that an auditor has not reviewed the financial statements.

The accompanying unaudited condensed interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of condensed interim financial statements by an entity's auditor.

**RESPONSIBILITY FOR FINANCIAL STATEMENTS**

The accompanying unaudited condensed interim financial statements of Kennady Diamonds Inc. (“Kennady Diamonds” or the “Company”) are the responsibility of the Board of Directors.

The unaudited condensed interim financial statements have been prepared by management, on behalf of the Board of Directors, in accordance with the accounting policies disclosed in the notes to these financial statements. Where necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the balance sheet date. In the opinion of management, the unaudited condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) appropriate in the circumstances.

Management has established processes, which are in place to provide sufficient knowledge to support management representations that it has exercised reasonable diligence that the unaudited condensed interim financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented by the unaudited condensed interim financial statements.

The Board of Directors is responsible for reviewing and approving the unaudited condensed interim financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. The Audit Committee assists the Board of Directors in fulfilling this responsibility.

The Audit Committee meets with management to review the financial reporting process and financial statements together with other financial information of the Company. The Audit Committee approves the unaudited condensed interim financial statements together with other financial information of the Company for issuance to the shareholders on behalf of the Board of Directors.

Management recognizes its responsibility for conducting the Company’s affairs in compliance with IFRS as issued by the IASB, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

*“Rory Moore”*  
Rory Moore  
President and Chief Executive Officer

*“Bruce Ramsden”*  
Bruce Ramsden  
VP Finance and Chief Financial Officer

Toronto, Canada  
August 25, 2016

**Condensed Interim Statements of Financial Position**

In Canadian dollars  
(Unaudited)

	Notes	June 30, 2016	December 31, 2015
<b>ASSETS</b>			
Current assets			
Cash	4	\$ 18,205,006	\$ 41,068,805
Amounts receivable	4	686,062	533,453
Prepaid expenses	5	83,332	228,925
		<b>18,974,400</b>	41,831,183
Reclamation deposit	6	295,000	295,000
Property and equipment	7	1,676,805	1,683,305
Mineral properties	8	481,423	481,423
<b>Total assets</b>		<b>\$ 21,427,628</b>	\$ 44,290,911
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current liabilities			
Accounts payable and accrued liabilities	4	\$ 1,683,342	\$ 1,103,900
Deferred premium on flow-through shares	9, 11(ii)	-	335,748
		<b>1,683,342</b>	1,439,648
Decommissioning and restoration liability	10	248,171	247,568
Shareholders' equity:			
Share capital	11	95,806,666	95,269,951
Share-based payments reserve	11	4,760,568	3,806,954
Deficit		<b>(81,071,119)</b>	(56,473,210)
Total shareholders' equity		<b>19,496,115</b>	42,603,695
<b>Total liabilities and shareholders' equity</b>		<b>\$ 21,427,628</b>	\$ 44,290,911
<b>Subsequent events</b>	<b>11 (iv), 16</b>		

The notes to the condensed interim financial statements are an integral part of these statements.

On behalf of the Board:

"Rory Moore"  
Director

"Jonathan Comerford"  
Director

**Condensed Interim Statements of Comprehensive Loss**

 In Canadian dollars  
 (Unaudited)

	Notes	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
<b>Expenses</b>					
Exploration and evaluation expenses	13	\$ (9,311,450)	\$ (6,860,080)	\$ (23,160,495)	\$ (16,374,080)
Management fees	12	(22,500)	(22,500)	(45,000)	(45,000)
Share-based payment expense	11, 12	(334,439)	-	(1,187,329)	(1,902,694)
Professional fees		(19,288)	(19,837)	(36,803)	(39,012)
Promotion and investor relations		(49,364)	(44,759)	(55,364)	(45,838)
Director fees		(8,577)	-	(39,230)	(20,322)
Transfer agent & regulatory fees		(22,550)	(17,084)	(50,610)	(48,475)
Consulting fees and payroll expenses		(190,632)	(79,924)	(429,998)	(160,419)
Office expenses		(25,207)	(20,102)	(35,587)	(27,861)
Travel expenses		(9,493)	(1,050)	(16,553)	(1,050)
Depreciation	7	(3,250)	(3,250)	(6,500)	(4,333)
Total expenses		(9,996,750)	(7,068,586)	(25,063,469)	(18,669,084)
Accretion expense on decommissioning and restoration liability	10	(302)	(370)	(603)	(736)
Interest income		50,754	11,634	130,415	12,767
Other income - flow through shares	9	-	-	335,748	870,000
<b>Net loss and comprehensive loss for the period</b>		<b>\$ (9,946,298)</b>	<b>\$ (7,057,322)</b>	<b>\$ (24,597,909)</b>	<b>\$ (17,787,053)</b>
<b>Basic and diluted loss per share</b>	11 (iii)	<b>\$ (0.21)</b>	<b>\$ (0.25)</b>	<b>\$ (0.52)</b>	<b>\$ (0.66)</b>
<b>Weighted average number of shares outstanding</b>		<b>47,033,454</b>	<b>28,633,122</b>	<b>46,977,355</b>	<b>27,134,542</b>

*The notes to the condensed interim financial statements are an integral part of these statements.*

**Condensed Interim Statements of Equity**

In Canadian dollars

(Unaudited)

	Notes	Number of shares	Share capital	Share-based payments reserve	Deficit	Total
<b>Balance, January 1, 2015</b>		23,627,175	\$ 26,969,543	\$ 1,904,260	\$ (26,672,259)	\$ 2,201,544
Net loss for the period		-	-	-	(17,787,053)	(17,787,053)
Issuance of common shares - private placement	<b>11</b>	5,005,947	17,771,112	-	-	17,771,112
Share issue costs		-	(100,196)	-	-	(100,196)
Share-based payment expense	<b>11</b>	-	-	1,902,694	-	1,902,694
<b>Balance, June 30, 2015</b>		<b>28,633,122</b>	<b>\$ 44,640,459</b>	<b>\$ 3,806,954</b>	<b>\$ (44,459,312)</b>	<b>\$ 3,988,101</b>
<b>Balance, January 1, 2016</b>		46,906,970	\$ 95,269,951	\$ 3,806,954	\$ (56,473,210)	\$ 42,603,695
Net loss for the period		-	-	-	(24,597,909)	(24,597,909)
Issuance of common shares - exercise of options	<b>11</b>	215,000	303,000	-	-	303,000
Fair value of options exercised from share-based payments reserve		-	233,715	(233,715)	-	-
Share-based payment expense		-	-	1,187,329	-	1,187,329
<b>Balance, June 30, 2016</b>		<b>47,121,970</b>	<b>\$ 95,806,666</b>	<b>\$ 4,760,568</b>	<b>\$ (81,071,119)</b>	<b>\$ 19,496,115</b>

*The notes to the condensed interim financial statements are an integral part of these statements.*

**Condensed Interim Statements of Cash Flows**

In Canadian dollars

(Unaudited)

	Notes	Six months ended June 30, 2016	Six months ended June 30, 2015
Cash provided by (used in):			
Operating activities:			
Net loss for the period		\$ (24,597,909)	\$ (17,787,053)
Adjustments:			
Accretion expense on decommissioning and restoration liability		603	736
Depreciation		6,500	4,333
Interest income		(130,415)	(12,767)
Other income - flow-through premium		(335,748)	(870,000)
Share-based payment expense		1,187,329	1,902,694
Changes in non-cash operating working capital:			
Amounts receivable		(152,609)	(282,106)
Prepaid expenses		145,593	792,641
Accounts payable and accrued liabilities		579,442	190,251
		<b>(23,297,214)</b>	<b>(16,061,271)</b>
Investing activities:			
Interest income		130,415	12,767
Purchase of property and equipment		-	(1,630,000)
Redemption of short-term investments		-	2,002,762
		<b>130,415</b>	<b>385,529</b>
Financing activities:			
Proceeds from option exercises	11	303,000	-
Issuance of shares, net of share issue costs	11	-	18,540,916
		<b>303,000</b>	<b>18,540,916</b>
(Decrease) increase in cash		<b>(22,863,799)</b>	2,865,174
Cash, beginning of period		<b>41,068,805</b>	507,808
Cash, end of period		<b>\$ 18,205,006</b>	<b>\$ 3,372,982</b>

*The notes to the condensed interim financial statements are an integral part of these statements.*



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**Notes to Condensed Interim Financial Statements**  
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**1. NATURE OF OPERATIONS**

Kennady Diamonds Inc. was incorporated on February 27, 2012 under the Ontario Business Corporation Act.

The address of the Company's registered office and its principal place of business is 161 Bay Street, Suite 2315, PO Box 216, Toronto, ON, Canada, M5J 2S1. The Company's shares are listed on the TSX Venture Exchange under the symbol 'KDI'.

Kennady Diamonds is involved in the exploration, discovery, evaluation and development of diamond properties in Canada's Northwest Territories. The underlying value and recoverability of amounts shown as "Mineral Properties" is dependent upon the ability of the Company to discover economically recoverable reserves, to have successful exploration, permitting and development, and upon future profitable production or proceeds from disposition of the Company's mineral properties. Failure to discover and develop economically recoverable reserves will require the Company to write off costs capitalized to date.

*Authorization of Financial Statements*

The unaudited condensed interim financial statements for the period ended June 30, 2016 (including comparatives) were approved by the Audit Committee on behalf of the Board of Directors on August 25, 2016.

**2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES**

These unaudited condensed interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. These condensed interim financial statements follow the same accounting policies and methods of computation as compared with the most recent annual financial statements, being for the year ended December 31, 2015, which were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Accordingly, these unaudited condensed interim financial statements should be read in conjunction with the Company's most recent annual financial statements.

*(i) Basis of preparation*

These financial statements have been prepared on a historical cost basis except for cash which has been measured at fair value.

The Company has elected to present the 'Condensed Interim Statement of Comprehensive Loss' as a single financial statement with its Statement of Income, titled 'Statement of Comprehensive Loss'.

The significant accounting policies adopted in the preparation of these financial statements are set out below.

*(ii) Interest income*

Interest income from financial assets is recognized when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income is accrued on the basis of time that has passed by reference to the principal outstanding and at the effective interest rate.

*(iii) Mineral properties and exploration and evaluation costs*

Exploration and evaluation ("E&E") costs are those costs required to find a mineral property and determine technical feasibility and commercial viability. E&E costs include costs to establish an initial mineral resource and determine whether inferred mineral resources can be upgraded to measured and indicated mineral resources, and whether measured and indicated mineral resources can be converted to proven and probable reserves.

E&E costs consist of:

- gathering exploration data through topographical and geological studies;

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- exploratory drilling, trenching and sampling;
- determining the volume and grade of the resource;
- test work on geology, metallurgy, mining, geotechnical and environmental; and
- conducting engineering, marketing and financial studies.

Costs in relation to these activities are expensed as incurred until such time that technical feasibility and commercial viability are demonstrable. At such time, mineral properties are assessed for impairment, and an impairment loss, if any, is recognized. Capitalized acquisition costs included in Mineral Properties are transferred to capitalized costs within property, plant and equipment, or intangible assets, as appropriate. Determination of technical feasibility and commercial viability require management's judgment and include assessment of legal, environmental, social and governmental factors.

The Company recognizes E&E costs as assets when acquired as part of a business combination, or asset purchase, or as a result of rights acquired relating to a mineral property. These assets are recognized at fair value or relative fair value if applicable. Acquired capitalized E&E consists of:

- interest in exploration properties, and
- amounts paid for acquired rights associated with exploration properties.

*(iv) Equipment*

Equipment is stated at cost less accumulated amortization and accumulated impairment losses. Cost comprises the fair value of consideration given to acquire an asset and includes direct charges associated with bringing the asset to the location and condition necessary to put the asset into use, as well as future cost of dismantling and removing the asset. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. Replacement cost, including major inspection and overhaul expenditures are capitalized for components of property and equipment, which are accounted for separately.

Equipment are amortized over their useful lives. Amortization is calculated so as to allocate the cost of each asset over its expected useful life to its estimated residual value. The estimated useful lives, residual values and amortization method are reviewed at the end of each annual reporting period. Earthmoving equipment is amortized on a straight line basis over its estimated useful life of ten years. Assets under construction are not amortized.

*(v) Provisions*

A provision is recognized in the statements of financial position when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at the present value of the expected expenditures to settle the obligation, applying a risk-free interest rate. The increase in the provision due to passage of time is recognized as accretion expense.

The Company's decommissioning and restoration liability arise from its obligations to undertake site reclamation and remediation in connection with its mineral properties. The estimated costs of reclamation are based management's best estimates of costs to date. Future changes to any regulations and standards, as well as changes resulting from operations may result in actual reclamation costs differing from the estimate.

*(vi) Financial instruments*

Financial instruments are classified into one of the following four categories: loans and receivables; fair value through profit or loss; held-to-maturity; and available-for-sale. Financial assets are initially measured at fair value. Subsequent measurement and recognition of the changes in fair value of financial instruments depends upon their initial classifications, as follows:

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- Financial assets and financial liabilities at fair value through profit and loss include financial assets and financial liabilities that are held for trading or designated upon initial recognition as at fair value through profit and loss. These financial instruments are measured at fair value with changes in fair values recognized in the Statement of Comprehensive Loss.
- Financial assets classified as available-for-sale are measured at fair value, with changes in fair values recognized as other comprehensive income (“OCI”) in the Statement of Comprehensive Loss, except when there is objective evidence that the asset is impaired, at which point the cumulative loss that had been previously recognized in OCI is recognized within the Statement of Comprehensive Loss.
- Financial assets classified as held-to-maturity and loans and receivables are measured subsequent to initial recognition at amortized cost using the effective interest method.
- Financial liabilities, other than financial liabilities classified as fair value through profit and loss, are measured in subsequent periods 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 expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or where appropriate, a short period, to the net carrying amount on initial recognition.

The Company has classified its financial instruments as follows:

<b>Asset/Liability</b>	<b>Classification</b>	<b>Measurement</b>
Cash	Fair value through profit and loss	Fair value
Amounts receivable	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost

The Company’s cash consists of balances with banks.

The fair values of the Company’s amounts receivable, and accounts payable and accrued liabilities approximate their carrying values because of the immediate or short-term to maturity of these financial instruments.

*(vii) Flow-through shares*

Under Canadian income tax legislation, a company is permitted to issue flow-through shares whereby the Company 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 deferred 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. The premium liability is reduced on a pro-rata basis and recorded in other income based on the corresponding eligible expenditures that have been incurred.

Where the Company has unused tax benefits on loss carry forwards and tax pools in excess of book value available for deduction for which no deferred tax asset is recognized, the Company recognizes the deferred tax benefit of such amounts to offset the increase in deferred tax liabilities resulting in an offsetting recovery of deferred income taxes being recognized through profit or loss in the reporting period.

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*(viii) Share-based payments*

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.

The fair value determined at the grant date of the equity-settled share-based payments is expensed to the Statement of Comprehensive Loss over the vesting period, if any, which is the period during which the employee becomes unconditionally entitled to equity instruments. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest, if any.

Equity-settled share-based payment transactions with parties other than employees, if any, 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.

*(ix) Loss per share*

Basic loss or earnings per share is calculated by dividing loss or earnings attributable to common shares by the weighted average number of shares outstanding during the period.

Diluted loss or earnings per share is calculated using the denominator of the basic loss or earnings calculation described above adjusted to include the potentially dilutive effect of outstanding stock options. The denominator is increased by the total number of additional common shares that would have been issued by the Company assuming exercise of all stock options with exercise prices below the average market price for the period.

*(x) Restricted and deferred share unit plans*

The Restricted and Deferred Share Unit ("RSU" and "DSU") plans are full value phantom shares that mirror the value of Kennedy Diamonds Inc.'s publicly traded common shares. Grants under the RSU and DSU plan are made on a discretionary basis to qualified persons and employees of the Company subject to the Board of Directors' approval. RSU's and DSU's vest according to the terms set out in the award agreement.

Both the RSU and DSU plans are equity settled. Equity-settled transactions are measured by reference to the fair value at the grant date. The fair value determined at grant date is recognized over the vesting period in accordance with the vesting terms and conditions, with a corresponding increase to contributed surplus.

*(xi) Income taxes and deferred taxes*

The income tax expense or benefit for the period consists of two components: current and deferred. Income tax expense or benefit is recognized in the Statement of Comprehensive Loss except to the extent it relates to a business combination or items recognized directly in equity.

Current tax is the expected tax payable or receivable on the taxable profit or loss for the period. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the balance sheet date in each of the jurisdictions and includes any adjustments for taxes payable or recovery in respect of prior periods.

Taxable profit or loss differs from profit or loss as reported in the condensed interim Statement of Comprehensive Loss because of items of income or expense that are taxable or deductible in other years, and items that are never taxable or deductible.

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

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recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, loss carryforwards and tax credit carryforwards to the extent that it is probable that taxable profits will be available against which they can be utilized. To the extent that the Company does not consider it to be probable that taxable profits will be available against which deductible temporary differences, loss carryforwards, and tax credit carryforwards can be utilized, a deferred tax asset is not recognized.

Deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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. 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 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.

Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly into equity, in which case, the current and deferred taxes are also recognized in other comprehensive income or directly in equity respectively.

(xii) *Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Company*

At the date of authorization of these unaudited condensed interim financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the Company.

The Company anticipates that all of the relevant pronouncements will be adopted in the Company's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Company's audited financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Company's financial statements and are therefore not discussed below.

**Financial instruments**

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments ("IFRS 9") bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The extent of the impact of adoption of IFRS 9 has not yet been determined.

**Leases**

On January 13, 2016, the IASB issued International Financial Reporting Standard 16, Leases ("IFRS 16"). The new standard will replace existing lease guidance in IFRS and related interpretations, and requires companies to bring most leases on-balance sheet. The new standard is effective for annuals beginning on or after January 1, 2019. The Company is currently assessing the impact of IFRS 16.

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**3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS**

The preparation of the Company's unaudited condensed interim financial statements requires management to make judgments, estimates 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 audited financial statements include estimates, which, by their nature, are uncertain 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.

i) Significant Judgments in Applying Accounting Policies

The areas which require management to make significant judgments in applying the Company's accounting policies in determining carrying values include, but are not limited to:

a) *Impairment analysis – Mineral Properties*

The Company reviews its mineral properties for impairment based on results to date and when events and changes in circumstances indicate that the carrying value of the assets may not be recoverable. IFRS 6 - *Exploration for and evaluation of mineral resources* requires the Company to make certain judgments in respect of such events and changes in circumstances, and in assessing their impact on the valuations of the affected assets. The Company's assessment is that as at June 30, 2016, no indicators of an impairment in the carrying value of its mineral properties had occurred.

ii) Significant Accounting Estimates and Assumptions

The areas which require management to make significant estimates and assumptions in determining carrying values include, but are not limited to:

a) *Impairment analysis – Mineral Properties*

The Company reviews its mineral properties for impairment based on results to date and when events and changes in circumstances indicate that the carrying value of the assets may not be recoverable. If indicators of impairment are identified, management will perform an impairment test in accordance with IAS 36 - *Impairment of assets* ("IAS 36"). IAS 36 requires the Company to make certain judgments, assumptions, and estimates in determining the estimate of the net recoverable amount. Impairments are recognized when the carrying values exceed management's estimate of the net recoverable amounts associated with the affected assets. The values shown on the statement of financial position for Mineral Properties represents the Company's assumption that the amounts are recoverable. As a result of the numerous variables associated with the Company's judgments and assumptions, the precision and accuracy of estimates of the recoverable amount is subject to significant uncertainties, and may change significantly as additional information becomes known.

b) *Stock options*

The stock option pricing model requires the input of highly subjective assumptions including the expected life and volatility. Changes in the subjective input assumptions can materially affect the fair value estimate.

c) *Provision for decommissioning and restoration*

The decommissioning and restoration liability and the accretion recorded are based on estimates of future cash flows, discount rates, and assumptions regarding timing. The estimates are subject to change and the actual costs for the decommissioning and restoration liability may change significantly.

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d) *Deferred taxes*

Deferred income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and on unused losses carried forward, and are measured using the substantively enacted tax rates that are expected to be in effect when the differences are expected to reverse or losses are expected to be utilized. Deferred tax assets are recorded to recognize tax benefits only to the extent that, based on available evidence, including forecasts, it is probable that they will be realized. The Company has not recorded the benefit of tax losses or deductible temporary differences.

**4. FAIR VALUE MEASUREMENT**

For financial instruments recorded at fair value, the Company categorizes each of its fair value measurements in accordance with a fair value hierarchy. The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability (for example, interest rate and yield curves observable at commonly quoted intervals, forward pricing curves used to value currency and commodity contracts and volatility measurements used to value option contracts), or inputs that are derived principally from or corroborated by observable market data or other means. Level 3 inputs are unobservable (supported by little or no market activity).

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs.

The Company's financial assets are measured at fair value and are summarized in the following table:

	<b>June 30, 2016</b>		
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Cash	\$ 18,205,006	\$ -	\$ -

  

	<b>December 31, 2015</b>		
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Cash	\$ 41,068,805	\$ -	\$ -

The fair values of the amounts receivable, and accounts payable and accrued liabilities approximate their carrying values due to the relatively short-term maturity of these financial instruments.

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The carrying amounts by classification are:

	June 30, 2016	December 31, 2015
<b>Financial assets</b>		
<b>Fair Value Through Profit or Loss</b>		
Cash	\$ 18,205,006	\$ 41,068,805
<b>Loans and receivables</b>		
Amounts receivable	686,062	533,453
<b>Financial liabilities</b>		
Financial liabilities measured at amortized cost		
Accounts payable and accrued liabilities	1,683,342	1,103,900

The Company's interest income on its bank balances carried at fair value is presented on the condensed interim Statements of Comprehensive Loss in the interest line.

*Financial instruments risks*

The Company thoroughly examines the various financial instrument risks to which it is exposed and assesses the impact and likelihood of those risks. These risks may include credit risk, liquidity risk and market risk.

*Credit risk*

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its obligations.

At June 30, 2016 and December 31, 2015, the Company does not have any allowance for doubtful accounts, and does not consider that any such allowance is necessary.

All of the Company's cash is held with a major Canadian financial institution and thus the exposure to credit risk is considered insignificant. Management actively monitors the Company's exposure to credit risk under its financial instruments, including with respect to amounts receivable. The Company considers the risk of loss for its amounts receivable to be remote and significantly mitigated due to the financial strength of the party from whom the receivables are due - the Canadian government for harmonized sales tax ("HST") refunds receivable in the amount of \$686,062 (December 31, 2015 - \$503,453).

The Company's current policy is to hold excess cash in high interest bank accounts. It periodically monitors the investment income it makes and is satisfied with the credit ratings of its bank.

*Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with financial liabilities. The Company has a planning and budgeting process in place by which it anticipates and determines the funds required to support its operating requirements. The Company coordinates this planning and budgeting process with its financing activities through its capital management process. The Company's financial liabilities comprise its accounts payable and accrued liabilities, all of which are due within the next 12 month period. There are no operating lease commitments.



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*Market risk*

Market risk primarily relates to the risk of loss that results from change in commodity prices, foreign exchange and interest rates. The Company does not have commodity price risk or foreign exchange risk. The Company has no significant exposure at June 30, 2016 to interest rate risk through its financial instruments. The short-term investments are at fixed rates of interest that do not fluctuate during the remaining term. The Company has no interest-bearing debt.

**5. PREPAID EXPENSES**

	June 30, 2016	December 31, 2015
Prepaid expenses	\$ 81,842	\$ 28,925
Prepaid deposits	1,490	-
Prepaid drilling expense	-	200,000
	<b>\$ 83,332</b>	<b>\$ 228,925</b>

**6. RECLAMATION DEPOSIT**

At June 30, 2016, the Company had provided a total reclamation deposit of \$295,000 (December 31, 2015 – \$295,000) to the Mackenzie Valley Land and Water Board for its mining project to secure clean-up costs if the project is abandoned or closed (Note 10).

**7. EQUIPMENT**

The Company's equipment as at June 30, 2016 and December 31, 2015 is as follows:

	Earthmoving equipment	Assets under construction*	Total
<b>Cost</b>			
At January 1, 2015	\$ -	\$ -	\$ -
Additions	130,000	1,564,138	1,694,138
At December 31, 2015	130,000	1,564,138	1,694,138
Additions	-	-	-
<b>At June 30, 2016</b>	<b>\$ 130,000</b>	<b>\$ 1,564,138</b>	<b>\$ 1,694,138</b>
<b>Accumulated depreciation</b>			
At January 1, 2015	\$ -	\$ -	\$ -
Depreciation	(10,833)	-	(10,833)
At December 31, 2015	(10,833)	-	(10,833)
Depreciation	(6,500)	-	(6,500)
<b>At June 30, 2016</b>	<b>\$ (17,333)</b>	<b>\$ -</b>	<b>\$ (17,333)</b>
<b>Carrying amounts</b>			
At December 31, 2015	\$ 119,167	\$ 1,564,138	\$ 1,683,305
<b>At June 30, 2016</b>	<b>\$ 112,667</b>	<b>\$ 1,564,138</b>	<b>\$ 1,676,805</b>

\*Assets under construction represents an exploration camp that is currently in storage and not in use. The asset will be shipped on-site during the winter of 2017. Further costs will be required in bringing the asset to the location and condition necessary to put the asset into use.

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**8. MINERAL PROPERTIES**

Mineral properties represent the Company's claim to the Kennady North Project.

The continuity of the Mineral Properties is as follows:

Balance, January 1, 2015	\$	<b>382,355</b>
Change in expected decommissioning and restoration liability		99,068
<b>Balance, December 31, 2015 and June 30, 2016</b>	<b>\$</b>	<b>481,423</b>

**9. DEFERRED PREMIUM ON FLOW-THROUGH SHARES**

The premium paid for flow-through shares in excess of the fair value of common shares is initially recognized as a liability. The liability is reduced on a pro-rata basis and recorded in other income based on the corresponding eligible expenditures that have been incurred.

	June 30, 2016	December 31, 2015
Balance, beginning of period	\$ 335,748	\$ -
Deferred premium liability recognized on flow-through issuances	-	1,970,603
Income recognized based on corresponding eligible expenditures	(335,748)	(1,634,855)
Balance, end of period	\$ -	\$ 335,748

**10. DECOMMISSIONING AND RESTORATION LIABILITY**

The decommissioning and restoration liability was calculated using the following assumptions as at June 30, 2016 and December 31, 2015:

	June 30, 2016	December 31, 2015
Expected undiscounted cash flows	\$ 250,000	\$ 250,000
Discount rate	0.49%	0.49%
Periods	2018	2018

The continuity of the decommissioning and restoration liability at June 30, 2016 and December 31, 2015 is as follows:

	June 30, 2016	December 31, 2015
Balance, beginning of period	\$ 247,568	\$ 147,016
Change in estimate of discounted cash flows for the period	-	99,068
Accretion recorded in the period	603	1,484
Balance, end of the period	\$ 248,171	\$ 247,568

**11. SHAREHOLDERS' EQUITY**

*i. Authorized share capital*

Unlimited common shares, without par value. Each common share entitles the holder to one shareholder vote.

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There is no other class of shares in the Company.

*ii. Share capital*

The number of shares issued and fully paid as at June 30, 2016 is 47,121,970.

On October 8, 2015, the Company closed a non-brokered private placement of flow-through common shares and non-flow-through common shares, at the prices of \$3.40 per share and \$2.75 per share, respectively. The Company issued a total of 11,731,105 non-flow through common shares for gross proceeds of \$32,260,539, and 300,000 flow-through common shares for gross proceeds of \$1,020,000. An amount of \$195,000 was recognized as the premium paid for flow-through shares in excess of the fair value of the common shares and was initially recognized as a liability. Share issuance costs of \$202,646 were incurred in connection with the private placement.

On September 30, 2015, the Company closed a non-brokered private placement of flow-through common shares and non-flow-through common shares, at the prices of \$3.40 per share and \$2.75 per share, respectively. The Company issued 1,393,235 flow-through common shares for gross proceeds of \$4,736,999, and 3,672,773 non flow-through common shares for gross proceeds of \$10,100,126 as a result of the non-brokered private placement. An amount of \$905,603 was recognized as the premium paid for flow-through shares in excess of the fair value of the common shares and was initially recognized as a liability. Share issuance costs of \$150,042 were incurred in connection with the private placement.

On August 12, 2015, the Company closed a non-brokered private placement and issued a total of 1,176,735 common shares at a price of \$3.40 per share, for aggregate gross proceeds of \$4,000,899. Share issuance costs of \$35,780 were incurred in connection with the private placement.

On March 10, 2015, the Company closed the final tranche of the non-brokered private placement and issued a total of 4,405,947 common shares at a price of \$3.55 per share, for aggregate gross proceeds of \$15,641,112. Share issuance costs of \$100,196 were incurred in connection with the private placement.

On February 25, 2015, the Company issued 600,000 flow-through common shares at a price of \$5.00 per share, for aggregate gross proceeds of \$3,000,000. An amount of \$870,000 was recognized as the premium paid for flow-through shares in excess of the fair value of the common shares was recognized as a liability.

*iii. Loss or earnings per share*

The following table sets forth the computation of basic and diluted loss or earnings per share:

	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
<b>Numerator</b>				
Net loss for the period	\$ (9,946,298)	\$ (7,057,322)	\$ (24,597,909)	\$ (17,787,053)
<b>Denominator</b>				
For basic - weighted average number of shares outstanding	46,977,355	28,633,122	47,033,454	27,134,542
Effect of dilutive securities	-	-	-	-
For diluted - adjusted weighted average number of shares outstanding	46,977,355	28,633,122	47,033,454	27,134,542
<b>Loss Per Share</b>				
Basic	\$ (0.21)	\$ (0.25)	\$ (0.52)	\$ (0.66)
Diluted	(0.21)	(0.25)	(0.52)	(0.66)

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The calculation for the weighted average number of shares outstanding is based on the number of shares outstanding on a daily basis in the three and six months ended June 30, 2016 and 2015. Shares issuable on exercise of stock options totaling 2,160,000 on June 30, 2016 (1,785,000 – June 30, 2015) were not included in the computation of diluted loss per share because the effect would have been anti-dilutive.

*iv. Stock options, RSUs, DSUs and share-based payments reserve*

The Company, through its Board of Directors and shareholders, adopted a long-term equity incentive plan (the “Plan”) which, among other things, allows for the maximum number of shares that may be reserved for issuance under the Plan to be 10% of the Company’s issued and outstanding shares at the time of the grant. The Board of Directors has the authority and discretion to grant stock option, RSU and DSU awards within the limits identified in the Plan, which includes provisions limiting the issuance of options to qualified persons and employees of the Company to maximums identified in the Plan.

The following table summarizes information about the stock options outstanding and exercisable at June 30, 2016 and December 31, 2015:

	June 30, 2016	
	Number of options	Weighted average exercise price
Balance at beginning of period	1,785,000	2.23
Granted during the period	590,000	3.01
Exercised during the period	(215,000)	1.41
<b>Balance at end of the period</b>	<b>2,160,000</b>	<b>\$ 3.08</b>
<b>Options exercisable at the end of the period</b>	<b>2,060,000</b>	

  

	December 31, 2015	
	Number of options	Weighted average exercise price
Balance at beginning of year	1,100,000	\$ 2.23
Granted during the year	685,000	3.61
Balance at end of the year	1,785,000	\$ 2.76
Options exercisable at the end of the year	1,785,000	

The fair value of the 590,000 (685,000 - December 31, 2015) stock options granted in the period ended June 30, 2016 has been estimated on the date of grant using the Black-Scholes option pricing model, using the assumptions below, and total \$1,357,390 (\$1,899,505 – December 31, 2015). The stock options granted in the period ended June 30, 2016 and December 31, 2015 vested immediately, except for the 200,000 granted on April 5, 2016 which vest 50% on May 1, 2016 and the remainder on November 1, 2016.

	June 30, 2016	December 31, 2015
Exercise price	\$2.80 - \$3.30	\$3.61
Expected volatility	72.76%	72.76%
Expected option life	10 years	10 years
Expected forfeiture	none	none
Expected dividend yield	0%	0%
Risk-free interest rate	1.16% - 1.40%	1.48%

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The following tables reflect the Black-Scholes values, the number of stock options outstanding, the weighted average of options outstanding, and the exercise price of stock options outstanding at June 30, 2016 and December 31, 2015.

**At June 30, 2016**

<b>Expiry Date</b>	<b>Black-Scholes Value</b>	<b>Number of Options</b>	<b>Exercise Price</b>
November 6, 2022	\$ 489,500	500,000	1.27
March 17, 2023	47,549	50,000	1.23
February 13, 2024	799,000	250,000	4.10
March 9, 2024	369,800	100,000	4.74
March 12, 2025	1,899,505	685,000	3.61
December 31, 2025	230,100	100,000	3.00
January 12, 2026	408,690	190,000	2.81
February 28, 2026	181,985	85,000	2.80
April 5, 2026	504,500	200,000	3.30
	\$ 4,930,629	2,160,000	3.08

**At December 31, 2015**

<b>Expiry Date</b>	<b>Black-Scholes Value</b>	<b>Number of Options</b>	<b>Exercise Price</b>
November 6, 2022	\$ 587,400	600,000	1.27
January 31, 2023	103,700	100,000	1.34
March 17, 2023	47,550	50,000	1.23
February 13, 2024	799,000	250,000	4.10
March 9, 2024	369,800	100,000	4.74
March 12, 2025	1,899,505	685,000	3.61
	\$ 3,806,955	1,785,000	2.76

The weighted average remaining contractual life of the options outstanding at June 30, 2016 is 8.48 years (December 31, 2015 – 8.03 years).

During the period ended June 30, 2016, 215,000 stock options were exercised for gross proceeds of \$303,000 (December 31, 2015 - \$Nil). The market price of stock options exercised during the period ended June 30, 2016 were \$812,150 (December 31, 2015 - \$Nil).

The Restricted and Deferred Share Unit (“RSU” and “DSU”) plans are full value phantom shares that mirror the value of Kennedy Diamonds Inc.’s publicly traded common shares. Grants under the RSU and DSU plan are made on a discretionary basis to qualified persons and employees of the Company subject to the Board of Directors’ approval. Under the 2016 RSU and DSU plan, RSU’s vests according to the terms set out in the award agreement. Vesting under the RSU and DSU plan is subject to special rules for death, disability and change in control. The awards can be settled through issuance of common shares or paid in cash, at the discretion of the Board of Directors.

As at June 30, 2016, no RSU or DSU awards have been granted.

Subsequent to the period ended June 30, 2016, 35,000 stock options were exercised for gross proceeds of \$44,450. The market price of stock options exercised were \$145,250.

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**12. RELATED PARTIES**

In accordance with IAS 24 *Related Parties*, 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.

The Company's related parties include its key management, the Company's directors, and their close family members. Mountain Province and the Gahcho Kué Joint Venture, in which Mountain Province holds an interest, are also related parties since the Company and Mountain Province have common members of key management and certain directors.

None of the transactions with related parties incorporate special terms and conditions, and no guarantees were given or received. Related party transactions are recorded at their exchange amount, being the amount agreed to by the parties. Outstanding balances are settled in cash.

The Company had the following transactions and balances with its related parties including key management personnel, and Mountain Province which includes the monthly management fee charged by Mountain Province for the reimbursement of expenses incurred on the Company's behalf by Mountain Province. The transactions with key management personnel are in the nature of remuneration which are paid directly by the Company and are not included in the monthly management fee charged by Mountain Province.

The balances as at June 30, 2016 and December 31, 2015 were as follows:

	<b>June 30, 2016</b>	December 31, 2015
Payable to key management personnel	\$ 7,793	\$ -
Payable to Mountain Province Diamonds Inc.	-	8,475

The transactions for the three and six months ended June 30, 2016 and 2015 were as follows:

	<b>Three months ended June 30, 2016</b>	Three months ended June 30, 2015	<b>Six months ended June 30, 2016</b>	Six months ended June 30, 2015
The total of the transactions:				
Management fee and reimburseable expenses charged by Mountain Province	\$ 22,500	\$ 22,500	\$ 45,000	\$ 45,000
Remuneration of key management personnel	504,815	52,650	1,541,857	2,037,541

The remuneration expense of key management personnel for the three and six months ended June 30, 2016 and 2015 were as follows:

	<b>Three months ended June 30, 2016</b>	Three months ended June 30, 2015	<b>Six months ended June 30, 2016</b>	Six months ended June 30, 2015
Consulting fees and payroll expenses	\$ 170,376	\$ 52,650	\$ 354,528	\$ 134,847
Share-based payment expense	334,439	-	1,187,329	1,902,694
	\$ 504,815	\$ 52,650	\$ 1,541,857	\$ 2,037,541

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**13. EXPLORATION AND EVALUATION EXPENSES**

	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Lease payments	\$ 7,150	\$ 7,155	\$ 13,965	\$ 13,857
Aircraft support	888,262	548,142	1,378,455	863,176
Fuel	60,873	176,361	1,263,438	1,164,759
Geophysics	275,598	68,975	532,503	98,225
Drilling support	11,994	70,138	50,498	103,986
Exploration personnel and program support	1,528,542	829,836	2,894,245	1,716,676
Camp maintenance, supplies, mobilization, general costs	1,388,454	1,354,876	3,287,480	2,957,561
Site & logistical support	1,856,141	509,198	4,932,861	1,413,140
Environmental	60,519	3,286	72,767	5,056
Professional geological services	186,942	140,096	354,115	202,489
Drilling	2,727,240	2,491,576	7,412,935	7,141,841
Technical consultant	30,598	30,296	51,511	46,209
Laboratory analysis	41,352	630,145	637,134	647,105
Diamond valuation	-	-	10,000	-
Permitting	34,099	-	54,902	-
Preliminary economic assessment	213,686	-	213,686	-
	<b>\$ 9,311,450</b>	<b>\$ 6,860,080</b>	<b>\$ 23,160,495</b>	<b>\$ 16,374,080</b>

**14. CAPITAL MANAGEMENT**

The capital of Kennady Diamonds consists of its shareholders' equity. The Company's objectives when managing capital are to safeguard Kennady Diamonds' ability to continue to pursue the exploration and evaluation of its mineral properties and to maintain optimal returns to shareholders and benefits for other stakeholders. The Company manages its capital structure and makes adjustments to it, in order to have the funds available to support the exploration of its mineral properties. The Company's main property, Kennady North, is in the exploration stage, and as such the Company is dependent on external equity financing to fund its activities. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company's capital consists of:

	June 30, 2016	December 31, 2015
Share capital	\$ 95,806,666	\$ 95,269,951
Share-based payments reserve	4,760,568	3,806,954
Deficit	(81,071,119)	(56,473,210)
	<b>\$ 19,496,115</b>	<b>\$ 42,603,695</b>

In order to carry out the planned management of the Company's properties and to pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed.

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Management reviews its capital management approach on an on-going basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the period ended June 30, 2016.

**15. SEGMENTED REPORTING**

The Company has determined that it has only one operating segment.

**16. SUBSEQUENT EVENT**

Subsequent to the period ended June 30, 2016, the Company acquired six mining leases from GGL Resources Corp ("GGL"). In consideration for the purchase, the Company paid to GGL a cash sum of \$200,000 and GGL retains a 0.75% royalty interest (the "Royalty") on all mineral products produced from the property. The Company has the right at any time prior to commencement of production from the property to purchase one-third (1/3) of the Royalty, being 0.25%, for the sum of \$1,000,000.