

# **DEBUT DIAMONDS INC.**

**Condensed Interim Financial Statements**

**Unaudited**

**July 31, 2016**

# DEBUT DIAMONDS INC.

## NOTICE TO READERS OF THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS:

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

In accordance with National Instrument 51-102, Continuous Disclosure Obligations of the Canadian Securities Administrators, the Company herewith discloses that its independent auditor has not performed a review of these unaudited interim financial statements.

September 29, 2016

Signed: "*Frank C. Smeenk*"  
FRANK C. SMEENK, MANAGING DIRECTOR

Signed: "*Thomas E. Masters*"  
THOMAS E. MASTERS, CHIEF FINANCIAL OFFICER

# DEBUT DIAMONDS INC.

## Condensed Interim Balance Sheets (Expressed in Canadian dollars)

	Notes	As at July 31, 2016 Unaudited	As at April 30, 2016 Audited
<b>Assets</b>			
<b>Current</b>			
Cash and cash equivalents		\$ 6,456	\$ 3,219
Receivables		7,584	6,984
Due from related party	7	31,932	41,932
<b>Total current assets</b>		<b>\$ 45,972</b>	<b>\$ 52,135</b>
<b>Total assets</b>		<b>\$ 45,972</b>	<b>\$ 52,135</b>
<b>Liabilities and Equity</b>			
<b>Current liabilities</b>			
Trade and other payables		\$ 69,203	\$ 61,699
<b>Total current liabilities</b>		<b>\$ 69,203</b>	<b>\$ 61,699</b>
<b>Total liabilities</b>		<b>\$ 69,203</b>	<b>\$ 61,699</b>
<b>Equity (Deficiency)</b>			
Share capital	8	\$ 15,395,388	\$ 15,395,388
Warrants	9	182,000	182,000
Contributed surplus		3,060,080	3,060,080
Deficit		(18,660,699)	(18,647,032)
<b>Total equity (deficiency)</b>		<b>\$ (23,231)</b>	<b>\$ (9,564)</b>
<b>Total liabilities and equity (deficiency)</b>		<b>\$ 45,972</b>	<b>\$ 52,135</b>
<b>Nature of operations and going concern</b>	1		
<b>Commitments and contingencies</b>	13		

APPROVED ON BEHALF OF THE BOARD

"Frank C. Smeenk" ,Director

"Douglas Flett" ,Director

See accompanying notes to the condensed interim financial statements

# DEBUT DIAMONDS INC.

## Condensed Interim Statements of Operations

Unaudited (Expressed in Canadian dollars)

For the three months ended July 31,

	Notes	2016	2015
<b>Expenses</b>			
Exploration expenses	11	\$ (2,563)	\$ (3,130)
General and administrative	12	(11,104)	(11,447)
		\$ (13,667)	\$ (14,577)
<b>Other income (expenses)</b>			
Gain on fair value of warrants		\$ -	\$ 21,000
		\$ -	\$ 21,000
<b>Net income (loss) for the period</b>		\$ (13,667)	\$ 6,423
<b>Net income (loss) per share - basic and diluted</b>		\$ (0.00)	\$ 0.00
<b>Weighted average number of common shares outstanding</b>		<b>54,790,934</b>	<b>54,790,934</b>

See accompanying notes to the condensed interim financial statements

# DEBUT DIAMONDS INC.

## Condensed Interim Statements of Changes in Equity Unaudited (Expressed in Canadian dollars)

	Share Capital	Warrants	Contributed Surplus	Deficit	Total Equity (Deficiency)
Balance April 30, 2015	\$ 15,395,388	\$ 182,000	\$ 3,060,080	\$ (18,399,081)	\$ 238,387
Net income for the period	-	-	-	6,423	6,423
Balance July 31, 2015	\$ 15,395,388	\$ 182,000	\$ 3,060,080	\$ (18,392,658)	\$ 244,810
Net loss for the period	-	-	-	(254,374)	(254,374)
Balance April 30, 2016	\$ 15,395,388	\$ 182,000	\$ 3,060,080	\$ (18,647,032)	\$ (9,564)
Net loss for the period	-	-	-	(13,667)	(13,667)
<b>Balance July 31, 2016</b>	<b>\$ 15,395,388</b>	<b>\$ 182,000</b>	<b>\$ 3,060,080</b>	<b>\$ (18,660,699)</b>	<b>\$ (23,231)</b>

See accompanying notes to the condensed interim financial statements

# DEBUT DIAMONDS INC.

## Condensed Interim Statements of Cash Flows

Unaudited (Expressed in Canadian dollars)

For the three months ended July 31,

2016

2015

### Cash Flows From

#### Operating activities

Net income (loss) for the period	\$	(13,667)	\$	6,423
Adjustments for				
Gain on value of warrants		-		(21,000)
Increase in accounts receivable		(600)		(24)
Increase in trade and other payables		7,504		9,853

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\$ (6,763) \$ (4,748)

#### Financing activities

Decrease in due from related party	\$	10,000	\$	-
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Increase (decrease) in cash and cash equivalents during the period \$ 3,237 \$ (4,748)

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Cash and cash equivalents at beginning of the period 3,219 35,829

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Cash and cash equivalents at end of the period \$ 6,456 \$ 31,081

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See accompanying notes to the condensed interim financial statements

**Debut Diamonds Inc.**  
**Notes to the Condensed Interim Financial Statements**  
**Unaudited (Expressed in Canadian dollars)**  
**July 31, 2016**

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**1 NATURE OF OPERATIONS AND GOING CONCERN**

Debut Diamonds Inc. (the "Company" or "Debut") was incorporated under the laws of Ontario on October 17, 2007. The Company is primarily engaged in the exploration and development of diamond mineral resource properties in Canada. The head office of the Company is located at 141 Adelaide Street West, Suite 420, Toronto, Ontario, M5H 3L5. On December 13, 2011 the Company's shares became listed on the Canadian Securities Exchange under the symbol "DDI".

These financial statements have been prepared using International Financial Reporting Standards ("IFRS") applicable to a going concern, and do not reflect the adjustments to the carrying values of assets and liabilities, the reported revenues and expenses and balance sheet classifications that would be necessary were the going concern assumption deemed inappropriate. Such adjustments could be material.

The Company is in the process of exploring its exploration and evaluation projects and has not yet determined whether its exploration and evaluation projects contain mineral deposits that are economically recoverable. The Company will periodically have to find additional funds to continue its exploration activities, 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.

The business of mining and 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 continuing existence is dependent upon the discovery of economically recoverable reserves and resources, the preservation of its interest in the underlying properties, the ability of the Company to obtain necessary financing to complete exploration, development and construction of processing facilities, obtaining certain government approvals and the achievement of profitable operations. Changes in future conditions could require material write-downs of the carrying values. The Company's assets may also be subject to increases in royalties and taxes, renegotiation of contracts, currency exchange fluctuations and restrictions, and political uncertainty.

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 government licensing requirements or regulations, unregistered prior agreements, unregistered claims, aboriginal claims, and non-compliance with regulatory and environmental requirements.

At July 31, 2016 the Company has accumulated losses of \$18,660,699 (April 30, 2016 - \$18,647,032) since its inception, has limited working capital and expects to incur further losses in the development of its business, all of which casts significant doubt about the Company's ability to continue as a going concern. To date the Company has been heavily financed by KWG Resources Inc. ("KWG"). KWG was the parent company of Debut and it owns approximately 70% of its outstanding share capital as at July 31, 2016.

The Company has a need for equity capital and financing for working capital and exploration and evaluation of its properties. Because of continuing operating losses the Company's continuance as a going concern is dependent upon its ability to obtain adequate financing and to reach profitable levels of operation. It is not possible to predict whether financing efforts will be successful or if the Company will attain profitable levels of operations.

**Debut Diamonds Inc.**  
**Notes to the Condensed Interim Financial Statements**  
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**2 BASIS OF PREPARATION**

**(a) Statement of Compliance**

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"), which incorporates International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). Accordingly, these condensed interim financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34, as required by National Instrument 52-107 sec. 3.2(1)(b)(ii).

These financial statements were approved for issue by the Board of Directors on September 29, 2016.

**(b) Basis of Measurement**

These financial statements have been prepared on the historic cost basis except for financial assets such as marketable securities which are measured at fair value.

The methods used to measure fair values are discussed further in Note 5.

**(c) Functional and Presentation Currency**

These financial statements are presented in Canadian dollars, which is the Company's functional currency. All financial information is expressed in Canadian dollars unless otherwise stated and have been rounded to the nearest dollar.

**(d) Use of Estimates and Judgments**

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

It is reasonably possible that, on the basis of existing knowledge, outcomes in the next financial year that are different from the assumptions used could require a material adjustment to the carrying amount of the asset or liability affected.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. The accompanying financial statements include all adjustments that are, in the opinion of management, necessary for fair presentation.

Management has made a number of significant estimates and valuation assumptions based on present conditions and management's planned course of action as well as assumptions about future business and economic conditions which include, but are not limited to, the following:



**Debut Diamonds Inc.**  
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**2 BASIS OF PREPARATION (Cont'd)**

*(i) Income taxes and recoverability of potential deferred tax assets*

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. The Company considers whether relevant tax planning opportunities are within the Company's control, are feasible, and are within management's ability to implement. Examination by applicable tax authorities is supported based on individual facts and circumstances of the relevant tax position examined in light of all available evidence. 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.

*(ii) Stock-based compensation costs*

Management determines costs for stock-based compensation using market-based valuation techniques. The fair value of the market-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 behaviours and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

**3 SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Company are set out in Note 3 to the 2016 audited financial statements and have been applied consistently to all periods presented in these financial statements.

**4 FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT DISCLOSURES**

The Company's risk exposures and the impact on the Company's financial instruments and capital management disclosures are set out in Note 4 to the 2016 audited financial statements.

**5 DETERMINATION OF FAIR VALUES**

A number of the Company's accounting policies and disclosures require the determination of fair value for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the methods described below. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

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**5 DETERMINATION OF FAIR VALUES (Cont'd)**

**(a) Investments in Equity**

The fair value of marketable securities included in financial assets at fair value through operations or OCI is determined by reference to their quoted closing bid price at the reporting date.

***Fair value hierarchy***

The different levels of valuation are defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: 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); and

Level 3: Inputs for the asset or liability are not based on observable market data (unobservable Inputs).

Fair value estimates are made at the balance sheet date, based on relevant market information and other information about financial instruments.

As at both July 31, 2016 and April 30, 2016, cash and cash equivalents, accounts receivable and trade and other payables have fair values which approximate their carrying values due to the relatively short period to maturity of the instruments and marketable securities are recorded at fair value. It is not possible to determine if the amount due to related party is at fair value as there is no comparable market value for such loans

**6 EXPLORATION AND EVALUATION PROJECTS**

(a) **MacFadyen Kimberlites:** The MacFadyen Kimberlites project consists of certain claims on the south shore of the Attawapiskat River west of James Bay. MacFadyen Kimberlites is a joint project between Debut and Cliffs Chromite Far North Inc. ("Cliffs") (formerly Spider Resources Inc.). Debut is the operator of the joint project and currently has a 58.35% interest in the joint project. Ashton Mining Canada Ltd., ("Ashton"), a previous owner, holds a 25% clawback entitlement to any kimberlite found or developed by Debut and/or Cliffs on the MacFadyen Kimberlites property. Ashton can execute the clawback by paying Debut and Cliffs an amount equal to 300% of all exploration expenditures on the property.

(b) **Kyle:** The Kyle project is located west of the Attawapiskat River in Ontario. Debut and Cliffs each have a 50% interest in the Kyle project which is optioned to Renforth Resources Inc., ("Renforth"), who is the operator of the Kyle project. Renforth earned a 55% interest in the Kyle project by transferring a group of adjacent claims and incurring a total of \$6 million of exploration expenditures, over a period of three years. Debut's interest has been reduced to 22.5% and may be further reduced to 15% upon Cliffs incurring exploration expenditures equal to its prior capital in the joint project.

(c) **Wawa:** The Wawa joint project consists of exploration land located north of the town of Wawa, Ontario. Debut holds a 48.89% interest in the Wawa joint project with Cliffs the operator owning the balance. Debut has the right to protect its equity position by electing to resume financial support once its joint venture interest has been diluted to 33⅓%.

**Debut Diamonds Inc.**  
**Notes to the Condensed Interim Financial Statements**  
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**6 EXPLORATION AND EVALUATION PROJECTS (Cont'd)**

(d) **Pele Mountain:** The Pele Mountain project is comprised of mining claims in the James Bay Lowlands of northern Ontario, north-west of and adjoining Debut's MacFadyen Kimberlite claims. Debut holds 100% interest in the Pele claims, and is the operator of the project.

(e) **Uniform Surround:** Debut has a 28.12% participating interest and a 2% NSR in the Uniform Surround claims adjoining the east side of the MacFadyen Kimberlites property.

(f) **Diagnos Initiative:** Debut holds a 50.61% interest in certain isolated Diagnos Initiative claims in the McFaulds Lake area of the James Bay Lowlands. Debut has the right to explore and mine for diamonds on the nine isolated Diagnos Initiative claims. The Diagnos Initiative project is funded equally by Debut and Cliffs on a 50:50 basis.

(g) **Victor West:** The Company holds a 100% interest in certain claims in the Victor West area in the James Bay Lowlands south of The Pele Mountain property and west of the Victor property. Debut is the operator of the project. During the nine months ended January 31, 2015 the Company spent \$29,472 on dismantling and closing down the camp on this project until financing is obtained for further work.

(h) **Nakina project:** On August 19, 2011 the Company signed an agreement to acquire a 70% interest in 33 diamond exploration targets near Nakina, Ontario for proceeds consisting of \$30,000 in cash, 1,500,000 non flow-through shares of Debut, and 1,700,000 non flow-through shares of KWG. The Company was required to incur a total of \$750,000 in exploration expenditures within the first 12 months of the agreement and pay the vendors an additional \$25,000 and issue an additional 600,000 non flow-through shares in each of the following two years to exercise the option and acquire the 70% interest. On August 18, 2012, Debut made a cash payment of \$25,000 and issued 600,000 shares from its treasury to the vendor and on November 15, 2012,

Debut made another cash payment of \$25,000 and issued an additional 600,000 shares from its treasury to the vendor. Due to the initial delays in concluding consultations with affected First Nations for approval of exploration work on their traditional lands, the Company was unable to complete its \$750,000 work commitment within the first twelve months of signing the agreement. The Company therefore requested an extension of time from the vendor in order to fulfill the work commitment on the property. The vendor granted the Company a one hundred and eighty day (180) day extension so that the work was required to be completed by February 19, 2013. The work commitment requirement was met prior to this extension date and the Company has earned its 70% interest. During the nine months ended January 31, 2015 the Company spent \$26,884 on staking additional claims on this project.

(i) **CCC Railway Corridor:** The Company has entered into a joint venture with Canada Chrome Corporation ("CCC"), a wholly-owned subsidiary of KWG to analyze the till samples taken by CCC, wherein CCC has agreed to provide access to the valuable geotechnical database covering a 330 kilometer north-south transect through the Ring of Fire to Nakina. Debut will process the glacial till horizons at its cost under a reciprocal joint venture agreement, to recover heavy and indicator minerals. Diamond discoveries following from the analysis of these samples will be the property of Debut while metal discoveries resulting from the work will be the property of KWG.

**Debut Diamonds Inc.**  
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**7 RELATED PARTY DISCLOSURES**

The Company defines its officers (CEO, CFO and corporate secretary) and directors as Key Management Personnel (“KMP”). During the three months ended July 31, 2016, companies controlled by officers and directors did not charge consulting fees (\$nil in 2015). As at July 31, 2016 companies controlled by officers and directors were owed \$10,311 (\$nil in 2015). These balances are included in trade and other payables and are unsecured, non-interest bearing and due on demand. Directors’ fees were not incurred for the three months ended July 31, 2016 (\$nil in 2015).

**KWG Resources Inc**

The Company shares management, administrative assistance and facilities and other technical personnel with KWG. This is not covered by a written agreement. During the three months ended July 31, 2016, KWG did not charge Debut for overhead and personnel charges (\$nil in 2015). During the year ended April 30, 2016, Debut advanced cash funds to KWG by way of intercompany loan. The resulting balance, which is shown as due from related party on the balances sheets, is non-interest bearing and has no fixed terms of repayment.

**8 SHARE CAPITAL**

The Company is authorized to issue an unlimited number of common shares.

As at July 31, 2016 and April 30, 2016, the Company had 204,254,934 common shares issued and outstanding.

**9 WARRANTS**

A summary of the Company's outstanding warrants as at July 31, 2016 and April 30, 2016 is presented below:

<b>Number of Warrants</b>	<b>Exercise Price</b>	<b>Expiry Date</b>	<b>Estimated Grant Date Fair Value</b>
7,000,000	0.07	August 29, 2016	\$182,000

Each warrant entitles the holder to purchase one non flow-through common share.

**10 STOCK OPTIONS**

The Company maintains a stock option plan (the “Plan”) whereby the Board of Directors may from time to time grant to employees, officers, directors and consultants of the Company or any subsidiary thereof options to acquire common shares in such numbers, for such terms and at such exercise prices as may be determined by the Board, provided that the exercise price may not be lower than the market price of the common shares at the time of the grant of the options. Under the plan the maximum aggregate number of common shares reserved by the Company for issuance and which may be purchased upon the exercise of all options shall not exceed a maximum of 10% of the common shares issued and outstanding at the time of the grant. Options vest immediately on the effective date of granting, they must be exercised over a period no longer than five years after the date of grant and they are not transferable.

On August 28, 2012, the Company granted to directors, officers and employees, a total of 5,200,000 options exercisable at \$0.10 per share with an expiry date of September 25, 2016.

**Debut Diamonds Inc.**  
**Notes to the Condensed Interim Financial Statements**  
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**11 EXPLORATION EXPENSES**

The Company's exploration expenses for the three months ended July 31, 2016 and 2015 consist of the following:

	Three-month periods ended July 31,	
	2016	2015
Camp and support	\$ -	\$ 2,555
Consulting fees	2,563	438
Recording	-	137
	<b>\$ 2,563</b>	<b>\$ 3,130</b>

**12 GENERAL AND ADMINISTRATIVE EXPENSES**

The Company's general and administrative expenses for the three month periods ended July 31, 2016 and 2015 consist of the following:

	2016	2015
Filing fees	\$ 1,500	\$ 1,500
Insurance	2,262	1,695
Professional fees	6,500	7,500
Office and general	842	752
<b>Total general and administrative expenses</b>	<b>\$ 11,104</b>	<b>\$ 11,447</b>

**13 COMMITMENTS AND CONTINGENCIES**

- (a) The Company has indemnified the subscribers of current and previous flow-through share offerings against any tax related amounts that become payable by the shareholder as a result of the Company not meeting its expenditure commitments.
- (b) The Company's mining and 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 conducts its operations so as to protect public health and the environment and 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.