

**MARGARET LAKE DIAMONDS INC.**

Financial Statements

For the Years Ended May 31, 2017 and 2016

Expressed in Canadian Dollars

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MARGARET LAKE DIAMONDS INC.

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DALE MATHESON CARR-HILTON LABONTE LLP  
CHARTERED PROFESSIONAL ACCOUNTANTS

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Margaret Lake Diamonds Inc.:

We have audited the accompanying financial statements of Margaret Lake Diamonds Inc. which comprise the statements of financial position as at May 31, 2017 and 2016, and the statements of changes in equity, comprehensive loss and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

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

### 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 in our audits 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 Margaret Lake Diamonds Inc. as at May 31, 2017 and 2016, 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 describe certain conditions that indicate the existence of a material uncertainty that may cast significant doubt about Margaret Lake Diamond Inc.'s ability to continue as a going concern.

DMCL

DALE MATHESON CARR-HILTON LABONTE LLP  
CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, Canada  
September 19, 2017

An independent firm associated with  
Moore Stephens International Limited

**MOORE STEPHENS**

**MARGARET LAKE DIAMONDS INC.**

Statements of Financial Position  
(Expressed in Canadian Dollars)  
As at

	Note	May 31, 2017	May 31, 2016
<b>Assets</b>			
Current assets			
Cash	3	\$ 293,721	\$ 128,339
Sales taxes receivable		27,750	8,684
Prepaid expenses		37,954	7,708
		<b>359,425</b>	144,731
Exploration and evaluation assets	5	3,242,863	2,513,349
		<b>\$ 3,602,288</b>	\$ 2,658,080
<b>Liabilities and shareholders' equity</b>			
Current liabilities			
Trade and other payables	4	\$ 237,991	\$ 88,878
Contribution from JV partner	5	78,932	–
Due to related parties	7	–	76,259
		<b>316,923</b>	165,137
Shareholders' equity			
Share capital	6	4,682,409	3,179,328
Common stock subscribed	6	155,000	–
Reserves	6	303,734	81,888
Deficit		(1,855,778)	(768,273)
		<b>3,285,365</b>	2,492,943
		<b>\$ 3,602,288</b>	\$ 2,658,080

Nature and continuance of operations (Note 1)  
Subsequent events (Note 12)

Approved on behalf of the board of directors:

"Paul Brockington"

Director

"Darryl Sittler"

Director

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

**MARGARET LAKE DIAMONDS INC.**

Statement of Changes in Equity  
(Expressed in Canadian Dollars)

	Note	Share Capital		Common Stock Subscribed	Reserves	Deficit	Total Equity
		Shares	Amount				
<b>Balance, May 31, 2015</b>		26,666,080	\$ 3,008,469	\$ –	\$ 133,967	\$ (664,434)	\$ <b>2,478,002</b>
Shares issued for exploration and evaluation assets	6(b)(iv)	200,000	16,000	–	–	–	16,000
Shares issued in debt settlement	6(b)(vii)	207,000	24,840	–	–	–	24,840
Share issuance costs	6(b)(vii)	–	(780)	–	–	–	(780)
Exercise of share options	6(b)(v)	300,000	53,771	–	(23,771)	–	30,000
Exercise of agent's options	6(b)(vi)	487,200	77,028	–	(28,308)	–	48,720
Net loss		–	–	–	–	(103,839)	(103,839)
<b>Balance, May 31, 2016</b>		<b>27,860,280</b>	<b>3,179,328</b>	<b>–</b>	<b>81,888</b>	<b>(768,273)</b>	<b>2,492,943</b>
Shares issued for exploration and evaluation assets	6(b)(i)	6,000,000	765,000	–	–	–	765,000
Private placement	6(b)(ii)	7,850,000	785,000	–	–	–	785,000
Exercise of warrants	6(b)(iii)	175,000	35,000	–	–	–	35,000
Share issuance costs	6(b)(ii)	572,000	(81,919)	–	29,975	–	(51,944)
Share-based compensation	6(e)	–	–	–	191,871	–	191,871
Common stock subscribed	6(d)	–	–	155,000	–	–	155,000
Net loss		–	–	–	–	(1,087,505)	(1,087,505)
<b>Balance, May 31, 2017</b>		<b>42,457,280</b>	<b>\$ 4,682,409</b>	<b>\$ 155,000</b>	<b>\$ 303,734</b>	<b>\$ (1,855,778)</b>	<b>\$ 3,285,365</b>

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

**MARGARET LAKE DIAMONDS INC.**

Statements of Comprehensive Loss  
For the years ended May 31,  
(Expressed in Canadian Dollars)

	<b>Note</b>	<b>2017</b>	<b>2016</b>
Expenses			
Consulting		\$ 81,362	\$ –
Marketing		105,977	–
Office and administration	7	44,971	38,660
Professional fees		27,516	41,963
Regulatory fees		9,065	9,092
Rent	7	12,000	12,000
Stock-based compensation	6(e)	191,871	–
Transfer agent fees		8,911	8,334
		(481,673)	(110,049)
Other items:			
Gain on settlement of debt		33,854	6,210
Write-off of exploration and evaluation assets	5	(639,686)	–
		(605,832)	6,210
Net loss and comprehensive loss		\$ (1,087,505)	\$ (103,839)
Weighted average number of common shares outstanding – basic and diluted		37,120,252	27,066,702
Loss per common share – basic and diluted		\$ (0.03)	\$ (0.00)

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

**MARGARET LAKE DIAMONDS INC.**

Statements of Cash Flows  
For the years ended May 31,  
(Expressed in Canadian Dollars)

	<b>2017</b>	<b>2016</b>
Cash provided by (used in):		
Operating activities:		
Net loss	\$ (1,087,505)	\$ (103,839)
Stock-based compensation	191,871	–
Gain on settlement of debt	(33,854)	(6,210)
Write-off of exploration and evaluation assets	639,686	–
Changes in non-cash working capital item:		
Sales tax receivables	(19,066)	10,914
Prepaid expenses	(30,246)	(4,675)
Trade and other payables	(34,879)	(8,404)
Due to related parties	(76,259)	311
Net cash used in operating activities	<b>(450,252)</b>	<b>(111,903)</b>
Investing activities:		
Contribution from JV partner	78,932	–
Exploration and evaluation assets	(386,354)	(98,378)
Net cash used in investing activities	<b>(307,422)</b>	<b>(98,378)</b>
Financing activities:		
Common shares issued for cash	820,000	78,720
Share issuance costs - cash	(51,944)	(780)
Common stock subscribed	155,000	–
Net cash provided by financing activities	<b>923,056</b>	<b>77,940</b>
Change in cash	<b>165,382</b>	<b>(132,341)</b>
Cash, beginning	<b>128,339</b>	<b>260,680</b>
Cash, ending	<b>\$ 293,721</b>	<b>\$ 128,339</b>

Supplementary cash flow information (Note 8)

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

## MARGARET LAKE DIAMONDS INC.

Notes to the Financial Statements  
(Expressed in Canadian Dollars)  
For the years ended May 31, 2017 and 2016

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### 1. Nature and continuance of operations

Margaret Lake Diamonds Inc. (the "Company") was incorporated by a Certificate of Incorporation issued pursuant to the provisions of the Business Corporations Act (British Columbia) on February 9, 2011. The Company is an exploration company focussing on diamond exploration. The Company's shares trade on the TSX Venture Exchange ("Exchange").

The Company's principal address and head office is Suite 2050-1055 W. Georgia Street, Vancouver BC, V6E 3P3. The registered and records office is Suite 400, 725 Granville Street, Vancouver, BC, V7Y 1G5.

On April 22, 2014, the Company received final approval from the Exchange for its Qualifying Transaction (the "QT"). Pursuant to an assignment agreement dated March 14, 2014 (the "Assignment Agreement") with Harsbo Minerals Ltd. ("Harsbo"), the Company was granted the sole and exclusive option (the "Option") to acquire up to a seventy percent (70%) undivided interest in 19 mineral claims located in the Northwest Territories, Canada, known as the Margaret Lake Diamond Property (the "Margaret Lake Property"). In consideration of the assignment of the Option, on closing the Company issued Harsbo 6,000,000 escrow shares, releasable under the terms of a value escrow agreement. As a result of closing the QT, the Company is now listed as a "Tier 2" mining issuer on the Exchange and trading under the symbol "DIA".

On July 6, 2015, the Company entered into a Mineral Property Transfer Agreement ("Transfer Agreement") with Margaret Lake Diamonds Ltd. ("MLDL"), under which it has acquired the remaining 40% interest in the Margaret Lake Property through the issuance of 6 million shares to MLDL. As a result, the Company now owns 100% of the Margaret Lake Property with no ongoing work obligations and no royalties payable (Note 5).

On November 4, 2016, the Company entered into an Option and Joint Venture Agreement ("JV Agreement") with Arctic Star Exploration Corp. ("Arctic Star") (TSX-V: ADD), under which it has acquired the 60% interest in 23 mineral claims totaling 18,699 hectares (the "Diagras Property") in the Northwest Territories, Canada comprising part of Arctic Star's former T-Rex Property (Note 5).

These financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

The Company is in the process of exploring its mineral resource properties and has not determined whether these properties contain mineral reserves, which are economically recoverable. The Company's ability to continue as a going concern and the recoverability of the amounts shown for exploration and evaluation assets are dependent on the ability of the Company to raise additional financing in order to complete the exploration of its properties, the discovery of economically recoverable reserves and upon future profitable production or proceeds from disposition of the Company's exploration and evaluation assets. As a resource company in the exploration stage, the ability of the Company to complete its acquisition, exploration and evaluation will be affected principally by its ability to raise adequate amounts of capital through equity financing, debt financings, joint venturing of projects and other means. These material uncertainties may cast significant doubt about the Company's ability to continue as a going concern.

The Company has an accumulated deficit of \$1,855,778 (2016 - \$768,273) since its inception, including a loss for the year ended May 31, 2017 of \$1,087,505 (2016 - \$103,839). At May 31, 2017, the Company had a working capital of \$42,502 (2016 - a working capital deficiency of \$20,406).

The financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

## MARGARET LAKE DIAMONDS INC.

Notes to the Financial Statements  
(Expressed in Canadian Dollars)  
For the years ended May 31, 2017 and 2016

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### 2. Significant accounting policies and basis of preparation

These financial statements were authorized for issue on September 19, 2017 by the directors of the Company.

#### **Statement of compliance with International Financial Reporting Standards (“IFRS”)**

These financial statements, including comparatives, have been prepared in accordance with IFRS as issued by the International Accounting Standards Board (“IASB”) and interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

#### **Basis of presentation**

The financial statements of the Company have been prepared on an accrual basis and are based on historical costs, modified where applicable. These financial statements are presented in Canadian dollars unless otherwise noted.

#### **Significant estimates and assumptions**

The preparation of financial statements in accordance with IFRS requires the Company to make estimates and assumptions concerning the future. The Company’s management reviews these estimates and underlying assumptions on an ongoing basis, based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are adjusted for prospectively in the period in which the estimates are revised.

Significant estimates and assumptions made by management affecting the financial statements include:

##### *Share-based Payments*

Estimating fair value for granted stock options and compensatory warrants requires determining the most appropriate valuation model which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the option or warrant, volatility, dividend yield, and rate of forfeitures and making assumptions about them.

##### *Deferred Tax Assets and Liabilities*

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

## MARGARET LAKE DIAMONDS INC.

Notes to the Financial Statements  
(Expressed in Canadian Dollars)  
For the years ended May 31, 2017 and 2016

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### 2. Significant accounting policies and basis of preparation (continued)

#### Significant estimates and assumptions (continued)

##### *Recoverability of Exploration & Evaluation Assets*

The Company is in the process of exploring and evaluating its exploration and evaluation assets and has not yet determined whether the properties contain mineral reserves that are economically recoverable. The recoverability of the amounts shown for exploration and evaluation assets are dependent upon the existence of economically recoverable mineral reserves, the ability of the Company to obtain necessary financing to complete the development of those mineral reserves and upon future production or proceeds from the disposition thereof.

#### Significant judgments

The preparation of financial statements in accordance with IFRS requires the Company to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgments in applying the Company's financial statements include:

- the assessment of the Company's ability to continue as a going concern and whether there are events or conditions that may give rise to significant uncertainty (Note 1);
- the classification and allocation of expenditures as exploration and evaluation expenditures or operating expenses;
- the classification of resource expenditures for the purpose of renunciation to flow-share subscribers; difference in judgement between management and regulatory authorities can materially increase the Company's flow-through liabilities and outstanding commitments; and
- the accounting for the Company's participation in joint ventures, which depends on the degree of control and influence.

#### Exploration and evaluation assets

Exploration and evaluation expenditures are capitalized once the legal right to explore a property has been acquired. Exploration and evaluation assets are recorded at cost less accumulated impairment losses. Direct costs related to the acquisition, exploration and evaluation of mineral properties are capitalized until the commercial viability of the asset is established, at which time the capitalized costs are reclassified to mineral properties under development. To the extent that the expenditures are spent to establish ore reserves within the rights to explore, the Company will consider those costs as intangible assets in nature. The depreciation of a capital asset in connection with exploring or evaluating a property of this nature will be included in the cost of the intangible asset.

When a project is deemed to no longer have commercially viable prospects to the Company, exploration and evaluation expenditures in respect of the project are deemed to be impaired. As a result, those exploration and expenditure costs, in excess of estimated recoveries, are written off to the statement of comprehensive loss.

Management reviews the facts and circumstances suggesting if the carrying amount of the exploration and evaluation assets exceeds their recoverable amount on a regular basis. If the facts and circumstances suggest the carrying value exceeds the recoverable amount, the Company will perform an impairment test on the property. During the year ended May 31, 2017, the Company wrote-off acquisition and exploration costs of \$639,686 incurred on the Marlin Property (Note 5).

## **MARGARET LAKE DIAMONDS INC.**

Notes to the Financial Statements  
(Expressed in Canadian Dollars)  
For the years ended May 31, 2017 and 2016

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### **2. Significant accounting policies and basis of preparation (continued)**

#### **Impairment of long-lived assets**

The recoverable amount of assets is the greater of an asset's fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash flows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss has been recognized in previous years.

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

#### **Income taxes**

Income tax expense comprise of current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity. Current tax expense is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded by providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Temporary differences are not provided for relating to goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting or taxable loss, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets and liabilities are presented separately, except where there is a right of set-off within fiscal jurisdictions.

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

The Company renounces qualifying Canadian exploration expenditures to certain share subscribers who subscribe for flow-through shares in accordance with the Income Tax Act (Canada). Under these provisions, the Company is required to incur and renounce qualifying expenditures on a timely basis for the respective flow-through subscriptions and, accordingly, it is not entitled to the related tax deductions and tax credits for such expenditures.

Any premium received by the Company on the issuance of flow-through shares is initially recorded as a liability. Provided that the Company has renounced the related expenditures or that there is a reasonable expectation that it will do so, the liability is reduced on a pro-rata basis as the expenditures are incurred and a deferred liability is recognized. The reduction to the flow-through tax liability is recognized in profit and loss as a deferred tax recovery.

To the extent that the Company has suitable unrecognized deductible temporary differences, an offsetting recovery of deferred taxes would be recorded.

## MARGARET LAKE DIAMONDS INC.

Notes to the Financial Statements  
(Expressed in Canadian Dollars)  
For the years ended May 31, 2017 and 2016

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### 2. Significant accounting policies and basis of preparation (continued)

#### Share-based payments

Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to option reserve. The fair value of options is determined using the Black-Scholes Option Pricing Model.

The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

#### Financial instruments

The Company classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale. The Company classifies its financial liabilities as either at fair value through profit or loss ("FVTPL") and financial liabilities. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

Financial assets are classified at FVTPL when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss. Transaction costs are expensed as incurred.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognized at the transaction value, including transaction costs and are subsequently measured at amortized cost. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Company's intention to hold these investments to maturity. Held-to-maturity investments are recognized on a trade-date basis and initially measured at fair value, including transaction costs. They are subsequently measured at amortized cost. Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period.

Available-for-sale ("AFS") financial assets are non-derivative financial assets that are designated as AFS or are not suitable to be classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments and are subsequently measured at fair value. These are included in current assets. AFS financial assets are measured initially at their fair value including transaction costs directly attributable to the acquisition. They are subsequently measured at fair value. Unrealized gains and losses are recognized in other comprehensive income, except for impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses.

Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the Company commits to purchase the asset.

## MARGARET LAKE DIAMONDS INC.

Notes to the Financial Statements  
(Expressed in Canadian Dollars)  
For the years ended May 31, 2017 and 2016

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### 2. Significant accounting policies and basis of preparation (continued)

#### Financial instruments (continued)

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each period end. 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 asset, the estimated future cash flows of the investment have been impacted.

Objective evidence of impairment could include the following:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments; or
- it has become probable that the borrower will enter bankruptcy or financial reorganization.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of all financial assets, excluding trade receivables, is directly reduced by the impairment loss. The carrying amount of trade receivables is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease relates to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss. On the date of impairment reversal, the carrying amount of the financial asset cannot exceed its amortized cost had impairment not been recognized.

The Company does not have any derivative financial assets and liabilities.

#### Loss per share

Loss per share is computed by dividing loss available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted loss per share is computed similar to basic loss per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods.

#### Interest in jointly controlled asset

The Company has interest in a joint venture, which is involved in mineral exploration of the Diagrass Property (Note 5). No separate entity was created upon entering the JV Agreement. All decisions regarding exploration of the property will be made by a management committee consisting of two appointees by each of the Company and Arctic Star. The Company has 60% of the voting power, while Arctic Star has 40% of the voting power. Based on that, there are no joint control arrangements. Accordingly, the Company has capitalized its 60% share in the expenditures made on the Diagrass JV.

## MARGARET LAKE DIAMONDS INC.

Notes to the Financial Statements  
(Expressed in Canadian Dollars)  
For the years ended May 31, 2017 and 2016

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### 2. Significant accounting policies and basis of preparation (continued)

#### Agents warrants and warrants

Warrants issued to agents in connection with a financing are recorded at fair value and charged to share issuance costs associated with the offering with an offsetting credit to equity reserves in shareholders' equity.

Warrants included in units offered to subscribers in connection with financing are valued using the residual value method, whereby proceeds are first allocated to the fair value of the shares and the excess, if any, allocated to the warrants.

#### Recent accounting pronouncements

The Company has not early adopted these standards and is currently assessing the impact that these standards will have on its financial statements.

- *IFRS 9, Financial instruments* ("IFRS 9") was issued by the IASB on July 24, 2014 and will replace IAS 39, *Financial instruments: recognition and measurement* ("IAS 39"). IFRS 9 utilizes a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. Final amendments released on July 24, 2014 also introduce a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.
- *IFRS 15, Revenue from Contracts and Customers* ("IFRS 15") was issued by the IASB on May 28, 2014, and will replace IAS 18, *Revenue*, IAS 11, *Construction Contracts*, and related interpretations on revenue. IFRS 15 sets out the requirements for recognizing revenue that apply to all contracts with customers, except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 uses a control based approach to recognize revenue which is a change from the risk and reward approach under the current standard. Companies can elect to use either a full or modified retrospective approach. IFRS 15 is effective for annual periods beginning on or after January 1, 2018.
- *IFRS 16, Leases*, new standard contains a single lessee accounting model, eliminating the distinction between operating and financing leases from the perspective of the lessee. The accounting requirements from the perspective of the lessor remains largely in line with previous IAS 17 requirements, effective for annual reporting periods beginning on or after January 1, 2019.

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's financial statements.

### 3. Cash

May 31,		2017		2016
Cash in bank	\$	293,721	\$	126,818
Cash held in trust		–		1,521
	\$	293,721	\$	128,339

## MARGARET LAKE DIAMONDS INC.

Notes to the Financial Statements  
(Expressed in Canadian Dollars)  
For the years ended May 31, 2017 and 2016

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### 4. Trade and other payables

May 31,	2017	2016
Accrued liabilities	\$ 28,441	\$ 12,600
Exploration payables	208,298	–
Trade payables	1,252	76,278
	\$ 237,991	\$ 88,878

### 5. Exploration and evaluation assets

#### *Margaret Lake Diamond Property*

The Margaret Lake Property is located east-northeast of Yellowknife, Northwest Territories in the District of MacKenzie and comprises 19 mineral claims.

Pursuant to the Assignment Agreement dated March 14, 2014, the Company was assigned the sole and exclusive option to acquire up to a 70% undivided interest in the Margaret Lake Property in exchange for the issue of 6,000,000 common shares of the Company with a fair value of \$600,000 and 500,000 finders' fees shares with a fair value of \$50,000.

Pursuant to the terms of the underlying option agreement between Harsbo and MLDL, the Company earned the initial 60% undivided interest in the Margaret Lake Property in fiscal 2015 by:

- making cash payment of \$102,312 (paid by Harsbo), which included a non-refundable filing fee of \$4,872 for extension of the 19 mineral claims and a refundable deposit in the amount of \$97,440 made in lieu of required exploration expenditures; and
- incurring \$1,000,000 (incurred) in qualifying expenditures by October 13, 2014.

The remaining 40% interest in the Property was acquired by the Transfer Agreement dated July 6, 2015 (Note 1), pursuant to which the Company agreed to issue common shares to MLDL as follows:

- 4,500,000 common shares of the Company on closing of the acquisition, issued on August 22, 2016 (Note 6);
- 1,500,000 common shares of the Company issued on December 22, 2016 (Note 6); and
- 1,000,000 common shares when the Company completes a bulk sample that allows a statistically meaningful independent evaluation of the diamond population contained in a deposit on any part of the Margaret Lake Property.

The Company now owns 100% of the Margaret Lake Property with no ongoing work obligations and no royalties payable.

During the year ended May 31, 2016, the Company received a refund of \$97,440 from the Government of the Northwest Territories of the deposit paid by Harsbo in 2014 in lieu of exploration expenditures on the Margaret Lake Property.

## MARGARET LAKE DIAMONDS INC.

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### 5. Exploration and evaluation assets (continued)

#### ***Kirk Lake***

During the year ended May 31, 2015, the Company expanded its project to the north of the Margaret Lake Property by staking 4 additional claims ("Kirk Lake").

#### ***Marlin Property***

On August 28, 2014, the Company signed a property option agreement with Canterra Minerals Corporation ("Canterra") (the "Marlin Property Option Agreement") whereby the Company has been granted the right to acquire an aggregate of 49% right, title and interest in and to Marlin Property (the "Marlin Property") in the Northwest Territories. The Marlin Property Option Agreement was terminated on September 15, 2016.

Under the Marlin Property Option Agreement, the Company had an option to earn a 30% right, title and interest in and to the Marlin property for the following consideration:

(a) Cash payments totalling \$80,000 as follows:

- i) \$20,000 upon signing the agreement (paid);
- ii) \$20,000 on or before September 15, 2014 ("Payment Date") (paid);
- iii) \$20,000 one year from the Payment Date (paid); and
- iv) \$20,000 two years from the Payment Date.

(b) Share issuances totalling 300,000 shares as follows:

- i) 100,000 common shares on or before September 15, 2014 (issued); and
- ii) 200,000 additional common shares on or before September 15, 2015 (Note 6).

(c) Incurring \$1,000,000 in exploration expenditures as follows:

- i) \$500,000 (incurred) on or before September 15, 2015, of which \$100,000 must be advanced to Canterra by September 20, 2014 (paid and applied against exploration expenditures incurred by Canterra); and
- ii) \$500,000 on or before September 15, 2016.

During the year ended May 31, 2017, the Company wrote-off acquisition and exploration costs of \$639,686 incurred on the Marlin Property based on the status of the Marlin Property Option Agreement, which was terminated in September 2016.

## MARGARET LAKE DIAMONDS INC.

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### 5. Exploration and evaluation assets (continued)

#### *Diagras Property*

On November 7, 2016, the Company entered into the JV Agreement (Note 1) with Arctic Star, pursuant to which the Company earned a 60% interest in the Diagras Property.

The Diagras Property is located in the north-northeastern part of the Lac de Gras kimberlite field in the Northwest Territories, Canada, and comprises 23 mineral claims totalling 18,699 hectares.

The Company earned its 60% interest in the Diagras Property by making a bond payment of \$186,990 to the Government of the Northwest Territories in lieu of required exploration expenditures and a non-refundable filing fee of \$4,675 to obtain extension of the mineral claims comprising the property such that they are maintained in good standing until August 12, 2017. The Company is in the process of submitting the required work reports to keep these claims in good standing.

The parties agreed that title to the Diagras Property shall be transferred to the Company and shall be held in trust in the name of "Margaret Lake Diamonds Inc." for each of the parties in proportion to their interests as adjusted from time to time.

The Company formed a joint venture with Arctic Star (the "Diagras JV") to jointly explore the Diagras Property on the 60-40 joint venture basis. The Diagras JV partners initiated a ground exploration program on the property in April 2017 with the Company acting as the operator. Arctic Star contributed \$240,000 towards exploration expenditures of the program, representing its 40% share of the estimated budgeted costs.

As at May 31, 2017, the Company's exploration expenditures on the Diagras property geophysical program totaled to \$402,671, of which \$161,068 has been allocated to Arctic Star based on its proportionate interest in the Diagras JV.

As at May 31, 2017, the balance of the Arctic Star's unapplied contribution for this year's program was \$78,932 (2016 - \$Nil), of which \$20,000 was returned to Arctic Star subsequent to the year end. The balance is included as current liability in the Company's statement of financial position as at May 31, 2017. The Company shall repay the remaining unspent balance of the contribution to Arctic Star after completion of the Diagras Property Program.

**MARGARET LAKE DIAMONDS INC.**

Notes to the Financial Statements  
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**5. Exploration and evaluation assets** (continued)

The following table summarizes the Company's exploration and evaluation asset expenditures:

	Margaret Lake Property		Marlin Property		Kirk Lake		Diagras JV		Total
<b>Acquisition Costs:</b>									
Balance, May 31, 2015	\$	751,303	\$	79,153	\$	16,000	\$	–	\$ <b>846,456</b>
Additions:									
Cash payments (recoveries)		(97,440)		20,000		–		–	(77,440)
Common shares		–		16,000		–		–	16,000
Regulatory costs		–		200		–		–	200
Balance, May 31, 2016		653,863		115,353		16,000		–	<b>785,216</b>
Additions:									
Cash payments		–		–		–		191,665	191,665
Common shares		765,000		–		–		–	765,000
Regulatory and legal costs		12,625		–		–		15,494	28,119
Write-off		–		(115,353)		–		–	(115,353)
<b>Balance, May 31, 2017</b>	\$	<b>1,431,488</b>	\$	<b>–</b>	\$	<b>16,000</b>	\$	<b>207,159</b>	\$ <b>1,654,647</b>
<b>Deferred exploration costs:</b>									
Balance, May 31, 2015	\$	1,057,782	\$	524,333	\$	144,843	\$	–	\$ <b>1,726,958</b>
Additions:									
Airborne survey		600		–		–		–	600
Community consultations		575		–		–		–	575
Balance, May 31, 2016		1,058,957		524,333		144,843		–	<b>1,728,133</b>
Additions:									
Camp costs		16,875		–		–		148,272	165,147
Community consultations		4,000		–		–		–	4,000
Geology		10,847		–		–		41,065	51,912
Geophysics		109,964		–		–		214,461	324,425
Contribution from the JV partner		–		–		–		(161,068)	(161,068)
Write-off		–		(524,333)		–		–	(524,333)
<b>Balance, May 31, 2017</b>	\$	<b>1,200,643</b>	\$	<b>–</b>	\$	<b>144,843</b>	\$	<b>242,730</b>	\$ <b>1,588,216</b>
<b>Exploration and evaluation assets:</b>									
Balance, May 31, 2016	\$	1,712,820	\$	639,686	\$	160,843	\$	–	\$ <b>2,513,349</b>
<b>Balance, May 31, 2017</b>	\$	<b>2,632,131</b>	\$	<b>–</b>	\$	<b>160,843</b>	\$	<b>449,889</b>	\$ <b>3,242,863</b>

## MARGARET LAKE DIAMONDS INC.

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### 6. Share capital

#### a. Authorized

Unlimited number of common shares without par value.

#### b. Issued and outstanding

During the year ended May 31, 2017:

- (i) pursuant to the Transfer Agreement with MLDL, the Company issued 6,000,000 common shares valued at \$765,000 or \$0.13 per common share issued. The Company paid regulatory fees of \$4,725 and legal fees of \$7,900 in connection with this transaction. The share issuance costs were recorded as acquisition costs of Margaret Lake Diamond Property (Note 5);
- (ii) the Company completed a private placement of 7,850,000 units at a price of \$0.10 per unit for gross proceeds of \$785,000. Each unit consisted of one common share and one-half share purchase warrant of the Company. Each whole warrant entitles the holder to purchase one common share at a price of \$0.30 per share for a two-year period from closing.

In connection with the above private placement, the Company paid cash-based finders' fee of \$34,320 and issued 572,000 finders' units, consisting of one common share and one-half share purchase warrant of the Company. Each finder's warrant entitles the holder to purchase one common share of the Company at a price of \$0.30 per share for a two-year period from closing. The common shares issued to the finders were valued at \$57,200 using the private placement price of \$0.10 per share. The finder's warrants were recorded at a fair value of \$29,975 (Note 6(f)). The Company also incurred regulatory filing fees of \$5,094 and legal fees of \$12,530 in connection with the private placement, which were included in share issuance costs; and

- (iii) 175,000 share purchase warrants were exercised at a discounted price of \$0.20 per share pursuant to the warrant acceleration program implemented by the Company (Note 6(f)), and 175,000 common shares were issued for gross proceeds of \$35,000. The Company also issued 175,000 new warrants exercisable into a common share at a price of \$0.30 per share until October 30, 2017 ("Bonus Warrants"). The Company paid a regulatory fee of \$100 in connection with this transaction, which was included in share issuance costs. There were no measurement adjustments recognised in connection with the issuance of the modified warrants.

During the year ended May 31, 2016:

- (iv) pursuant to the Marlin Property Option Agreement, the Company issued 200,000 common shares of the Company valued at \$16,000 and paid a regulatory fee of \$200 in connection with the share issuance. The amounts were recorded as acquisition costs for Marlin Property (Note 5);
- (v) 300,000 of previously granted share options were exercised by the CEO and President of the Company at a price of \$0.10 per share, and 300,000 common shares were issued for total proceeds of \$30,000. In addition, a reallocation of \$23,771 from reserves to share capital was recorded on the exercise of these options. This amount constitutes the fair value of share options recorded at the original grant date;
- (vi) an aggregate of 487,200 agent's options were exercised at a price of \$0.10 per share and 487,200 units were issued for total proceeds of \$48,720 (Note 6(f)). Each unit consisted of one common share of the Company and one-half share purchase warrant, which entitles the agent to purchase one additional common share of the Company at a price of \$0.25 per share for a two year period. In addition, a reallocation of \$28,308 from reserves to share capital was recorded on the exercise of these options. This amount constitutes the fair value of agent's options recorded at the original grant date of the options; and

**MARGARET LAKE DIAMONDS INC.**

Notes to the Financial Statements  
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**6. Share capital (continued)**

- (vii) the Company negotiated a debt settlement of exploration payables of \$31,050 with one of its contractors in exchange for 207,000 common shares of the Company issued at \$0.12 per share. The Company paid aggregate regulatory filing fees of \$780 in connection with the debt settlement. The Company recorded a gain on settlement of \$6,210.

**c. Escrow**

Under the escrow agreements dated June 20, 2011 and April 16, 2014, 10% of the escrowed common shares are to be released from escrow on the date of the issuance of the final Exchange bulletin (the "Initial Release") upon completion of the QT and an additional 15% will be released every six months following the Initial Release over a period of thirty six months. As at May 31, 2017, there were no common shares held in escrow.

	May 31, 2017		May 31, 2016	
	Number of shares in escrow	Weighted average price	Number of shares in escrow	Weighted average price
Balance, beginning of year	2,182,500	\$ 0.10	4,365,000	\$ 0.10
Released	(2,182,500)	0.10	(2,182,500)	0.10
Outstanding, end of year	–	\$ 0.10	2,182,500	\$ 0.10

**d. Common stock subscribed**

As at May 31, 2017, the Company received \$155,000 in common stock cash subscriptions with respect to the Company's flow-through private placement of 3,650,000 units. The Company issued 1,550,000 units for these subscriptions upon the closing of the private placement on June 12, 2017 (Note 12).

**e. Stock options**

The Company adopted an incentive stock option plan (the "Plan") which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with the Exchange requirements, grant to directors, officers, employees and technical consultants to the Company, non-transferable options to purchase common shares. The Company follows the policies of the Exchange where the number of common shares which may be issued pursuant to options granted under the Plan may not exceed 10% of the issued and outstanding shares of the Company from time to time at the date of granting of options and have a maximum life of 10 years. Each option agreement with the grantee sets forth, among other things, the number of options granted, the exercise price and the vesting conditions of the options.

A summary of the Company's share option transactions is presented below:

	May 31, 2017		May 31, 2016	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of year	550,000	\$ 0.10	950,000	\$ 0.10
Granted	1,075,000	0.15	–	–
Exercised (Note 6(b)(v))	–	–	(300,000)	0.10
Expired	–	–	(100,000)	0.10
Outstanding, end of year	1,625,000	\$ 0.13	550,000	\$ 0.10

**MARGARET LAKE DIAMONDS INC.**

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**6. Share capital** (continued)**e. Stock options** (continued)

The share options outstanding and exercisable as at May 31, 2017:

Expiry Date	Exercise Price	Number of options outstanding	Options exercisable
April 22, 2019	\$ 0.10	550,000	550,000
October 1, 2021	\$ 0.15	1,075,000	1,075,000
		1,625,000	1,625,000

The weighted average life of options outstanding is 3.51 years.

During the year ended May 31, 2017, \$191,871 (2016 - \$Nil) in stock-based compensation expense was recorded for 1,075,000 stock options granted to two officers and consultants of the Company.

The fair value of the stock options granted was calculated using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

	2017	2016
Risk free rate	0.57%	–
Dividend yield	–	–
Weighted average volatility	148%	–
Weighted average expected life	5 years	–
Weighted average fair value	\$ 0.18	–

**Agent's options**

In connection with the private placements in April 2014, 848,000 non-transferable agent's options were granted that allowed the Agent to acquire up to 848,000 agent's units at an exercise price of \$0.10 per unit until April 22, 2016. The agent's unit consisted of one common share of the Company and one-half share purchase warrant, which entitles the Agent to purchase one additional common share of the Company at a price of \$0.25 per share for a two year period. All Agent's options were exercised during the fiscal years ended May 31, 2016 and 2015 as per the summary below.

	May 31, 2017		May 31, 2016	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of period	–	\$ –	487,200	\$ 0.10
Exercised (Note 6(b)(vi))	–	–	(487,200)	0.10
Outstanding, end of period	–	\$ –	–	\$ –

**MARGARET LAKE DIAMONDS INC.**

Notes to the Financial Statements  
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**6. Share capital (continued)****f. Warrants**

In October 2016, the Company implemented a warrant acceleration program, under which certain existing warrant holders, holding an aggregate 4,500,000 warrants exercisable into common shares at a price of \$0.25 per share until October 22, 2017 were given an option until November 30, 2016 to exercise their existing warrants at a reduced price of \$0.20 and be granted an additional warrant (the "Bonus Warrants") for each existing warrant exercised. Each Bonus Warrant is exercisable into a common share at a price of \$0.30 per share until October 30, 2017. The warrant acceleration program expired on December 31, 2016.

The number of share purchase warrants outstanding is summarized as follows:

	May 31, 2017		May 31, 2016	
	Number of Warrants	Weighted average exercise price	Number of Warrants	Weighted average exercise price
Outstanding, beginning of year	6,050,135	\$ 0.25	6,454,535	\$ 0.26
Exercised:				
Accelerated warrants (Note 6(b)(iii))	(175,000)	0.20	–	–
Issued:				
Private placement (Note 6(b)(ii))	3,925,000	0.30	–	–
Finders' warrants (Note 6(b)(ii))	286,000	0.30	–	–
Bonus warrants (Note 6(b)(iii))	175,000	0.30	–	–
Agent's options (Note 6(b)(vi))	–	–	243,600	0.25
Expired/ forfeited	(1,306,535)	0.25	(648,000)	0.30
Outstanding, end of year	8,954,600	\$ 0.27	6,050,135	\$ 0.25

The share purchase warrants outstanding and exercisable as at May 31, 2017:

Expiry Date	Exercise Price	Number of Warrants Outstanding	Number of Warrants Exercisable
October 22, 2017	\$ 0.25	4,325,000	4,325,000
October 30, 2017	\$ 0.30	175,000	175,000
April 22, 2018	\$ 0.25	243,600	243,600
October 21, 2018	\$ 0.30	4,211,000	4,211,000
		8,954,600	8,954,600

The weighted average life of warrants outstanding is 0.88 years.

During the year ended May 31, 2017, the Company recorded \$29,975 (2016 - \$Nil) in the reserves account for the 286,000 finders' warrants issued in connection with the private placement (Note 6(b)(ii)).

## MARGARET LAKE DIAMONDS INC.

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### 6. Share capital (continued)

#### f. Warrants (continued)

The fair value of the finders' warrants granted was calculated using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

	2017	2016
Risk free rate	0.52%	–
Dividend yield	–	–
Weighted average volatility	148%	–
Weighted average expected life	2 years	–
Weighted average fair value	\$ 0.11	–

#### g. Reserves

Reserves consist of options reserve items recognized as stock-based compensation and share based payments until such time that the options are exercised, at which time the corresponding amount will be reallocated to share capital.

	Stock options	Agent's options	Total
Balance, May 31, 2015	\$ 78,808	\$ 55,159	\$ 133,967
Exercise of agent's options (Note 6(b)(vi))	–	(28,308)	(28,308)
Exercise of share options (Note 6(b)(v))	(23,771)	–	(23,771)
Balance, May 31, 2016	55,037	26,851	81,888
Share-based compensation (Note 6(e))	191,871	–	191,871
Fair value of finders' warrants (Note 6(f))	–	29,975	29,975
Balance, May 31, 2017	\$ 246,908	\$ 56,826	\$ 303,734

### 7. Related party transactions

Key management personnel are persons responsible for planning, directing and controlling activities of an entity, and include executive and non-executive directors and officers.

On May 1, 2014, the Company entered into a rent and administrative services contract with Varshney Capital Corp. ("VCC"), a company partially owned by a former director of the Company, pursuant to which the Company is obligated to pay \$3,000 per month plus taxes for administrative services and \$1,000 per month plus taxes for office premises. The agreement can be terminated with 1 month notice after a term of 3 years.

During the year ended May 31, 2017:

- the Company paid \$36,000 (2016 - \$36,000) for administrative services and \$12,000 (2016 - \$12,000) for office rent to VCC;
- the Company issued 6,000,000 (2016 – Nil) common shares of the Company to MLDL, a company with a common director, in consideration of the remaining 40% interest in the Margaret Lake Property (Note 5);

## MARGARET LAKE DIAMONDS INC.

Notes to the Financial Statements  
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### 7. Related party transactions (continued)

- c. the Company granted an aggregate of 675,000 stock options (2016 – Nil) to the CEO and the VP of Exploration of the Company exercisable at \$0.15 per common share for a five year term with vesting terms over a six month period from the date of grant (Note 6(e)). The estimated fair value of these options of \$120,477 was recognized as share-based compensation expense over the vesting periods in fiscal 2017;
- d. the Company entered into the JV Agreement with Arctic Star, a company with the common director and officer, to jointly explore the Diagras Property on a 60-40 joint venture basis (Note 5);
- e. the Company's director and the Vice President of Exploration subscribed for 600,000 units at a price of \$0.10 per unit under the private placement completed in October 2016 (Note 6(b)(ii)); and
- f. the Company's director and the CEO subscribed for 1,000,000 units at a price of \$0.10 per unit under the private placement completed in June 2017 (Note 12).

As at May 31, 2017, \$Nil (2016 - \$63,000) was due to Lithosphere Services Inc., a company controlled by the VP of Exploration of the Company.

As at May 31, 2017, \$Nil (2016 - \$13,259) was due to the CEO and President of the Company for expense reimbursements.

During the year ended May 31, 2016, 300,000 of previously granted share options were exercised by the CEO and President of the Company at a price of \$0.10 per share, and 300,000 common shares were issued for total proceeds of \$30,000 (Note 6(b)(v)).

### 8. Supplemental cash flow information

Significant non-cash transactions during the years ended May 31, 2017 and 2016 affecting cash flows from investing and financing activities included:

May 31,	2017	2016
Shares issued for exploration and evaluation assets (Note 5)	\$ 765,000	\$ 16,000
Exploration and evaluation expenditures in trade payables (Note 4)	217,846	–
Shares issued for the settlement of exploration payables (Note 6(b)(vii))	–	31,050
Reallocation from reserves to share capital on exercise of agent's options (Note 6(b)(vi))	–	28,308
Reallocation from reserves to share capital on exercise of share options (Note 6(b)(v))	–	23,771
Fair value of agent's warrants recorded as share issuance costs (Note 6(f))	29,975	–

**MARGARET LAKE DIAMONDS INC.**

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**9. Income taxes**

The actual income tax provisions differ from the expected amounts as calculated by applying the Canadian combined federal and provincial corporate income tax rates to the Company's loss before income taxes. The components of these differences are as follows:

	2017	2016
Net loss before taxes	\$ (1,087,505)	\$ (103,839)
Statutory rate	26.0%	26.0%
Expected income tax recovery at statutory rate	(283,000)	(27,000)
Non-deductible items	41,000	(2,000)
Impact of flow-through shares	-	17,000
Change in unrecognized deductible temporary differences	122,000	13,000
Change in tax rate and other differences	120,000	(1,000)
Deferred tax recovery	\$ -	\$ (103,768)

The Company has the following deductible temporary differences for which no deferred tax asset (liability) has been recognized:

	2017	2016
Deferred tax assets (liabilities)		
Loss carry-forwards	\$ 288,000	\$ 204,000
Share issuance costs	21,000	19,000
Exploration and evaluation assets	(157,000)	(193,000)
	152,000	30,000
Unrecognized deferred tax assets	(152,000)	(30,000)
Net deferred tax assets	\$ -	\$ -

The tax pools and losses available to the Company expire as follows:

	2017	Expiry date range	2016	Expiry date range
Loss carry-forwards	\$ 1,110,000	2031 to 2037	\$ 784,000	2031 to 2035
Share issuance costs	81,000	2037 to 2041	73,000	2036 to 2039
Resource pools	2,623,000	No expiry	1,824,000	No expiry

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

## MARGARET LAKE DIAMONDS INC.

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### 9. Financial instruments

#### Fair Values

The Company's financial instruments are as follows. Unless otherwise disclosed their carrying values approximate their fair values due to the short term nature of these instruments.

	<i>Loans &amp; receivables</i>	<i>Available for sale</i>	<i>Fair Value through Profit or Loss</i>	<i>Other financial liabilities</i>
<b>Financial assets</b>				
Cash	\$ –	\$ –	\$ 293,721	\$ –
<b>Financial liabilities</b>				
Trade payables	–	–	–	209,550
Contribution from the JV partner	–	–	–	78,932
	\$ –	\$ –	\$ 293,721	\$ 288,482

The Company uses the following hierarchy for determining and disclosing fair value of financial instruments:

Level 1 — quoted prices in active markets for identical assets and liabilities.

Level 2 — observable inputs other than quoted prices in active markets for identical assets and liabilities.

Level 3 — unobservable inputs in which there is little or no market data available, which require the reporting entity to develop its own assumptions.

The Company has classified its cash as held-for-trading measured at fair value, using level 1 inputs. Trade payable and due to related parties are classified as other liabilities, which are measured at amortized cost.

There were no transfers between levels during the year ended May 31, 2017.

#### Financial risk management

The Company is exposed in varying degrees to a variety of financial instrument related risks.

##### *Credit risk*

Credit risk refers to the counterparty will default on its contractual obligation resulting in financial loss to the Company. The Company's primary exposure to credit risk is on its cash deposit that are held by a Canadian bank. While there is concentration of risk holding all funds with one institution, this risk is managed by using a major bank that is a high credit quality financial institution as determined by rating agencies. As at May 31, 2017, the Company has cash deposits of \$293,721 (2016 - \$126,818) and cash held in trust with a legal advisor of \$Nil (2016 - \$1,521). Management assesses credit risk of cash as low.

The Company's secondary exposure to risk is on its receivables. This risk is minimal as receivables consist exclusively of sales taxes recoverable.

##### *Currency risk*

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company operates only in Canada and is therefore not exposed to foreign exchange risk arising from transactions denominated in a foreign currency.

## MARGARET LAKE DIAMONDS INC.

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### 10. Financial instruments (continued)

#### *Interest rate risk*

Interest rate risk is the risk that an investment's value will change due to a change in the level of interest rates. The Company is exposed to interest rate risk as its bank account earns interest income at variable rate. The income earned on the bank account is subject to the movements in interest rates. The fair value of cash deposits is relatively unaffected by changes in short term interest rates. A 1% change in interest rates will not have a material effect to the Company.

#### *Liquidity and funding risk*

Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time.

The Company management ensures that there is sufficient capital in order to meet annual business requirement, taking into account administrative costs, property commitments and exploration budgets. As at May 31, 2017, the Company had cash of \$293,721 (2016 - \$128,339), and current liabilities of \$316,923 (2016 - \$165,137). In June 2017, the Company completed the flow-through private placement of units raising gross proceeds of \$365,000 to fund its exploration activities and settle its current obligations associated with the exploration programs (Note 12).

Funding risk is the risk that market conditions will impact the Company's ability to raise capital through equity markets under acceptable terms and conditions. Under current market conditions, both liquidity and funding risk are assessed as high.

### 11. Capital management

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support its operations. Management's objective is to manage its capital to ensure that there are adequate capital resources to safeguard the Company's ability to continue as a going concern through the optimization of its capital structure. The capital structure consists of working capital and shareholder's equity.

In order to achieve this objective, management makes adjustments to it in light of changes in economic conditions and risk characteristics of the underlying assets. To maintain or adjust capital structure, management may invest its excess cash in interest bearing accounts of Canadian chartered banks and/or raise additional funds externally as needed. There were no changes in the Company's approach to capital management during the year ended May 31, 2017. The Company is not subject to any externally imposed capital requirements.

### 12. Subsequent events

Subsequent to the year ended May 31, 2017, the Company closed the non-brokered flow-through private placement of 3,650,000 units at a price \$0.10 per unit, for aggregate gross proceeds of \$365,000. Each unit consisted of one flow-through common share of the Company and one-half of one transferable non flow through common share purchase warrant, with each whole warrant entitling the holder thereof to acquire one additional non-flow-through common share at a price of \$0.15 until June 13, 2018. In connection with the closing of the offering, the Company paid cash finder's fees of \$12,600 and issued 210,000 units to certain finders in accordance with applicable securities laws and policies of the Exchange.