

MARGARET LAKE DIAMONDS INC.

Financial Statements

For the Years Ended May 31, 2019 and 2018

Expressed in Canadian Dollars



DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Margaret Lake Diamonds Inc.

Opinion

We have audited the financial statements of Margaret Lake Diamonds Inc. (the "Company"), which comprise the statements of financial position as at May 31, 2019 and 2018, and the statements of comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at May 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 to the financial statements, which indicates that the Company incurred a net loss of \$3,530,462 during the year ended May 31, 2019 and, as of that date, the Company had an accumulated deficit of \$5,484,241. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Rakesh Patel.

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DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, BC

September 30, 2019



An independent firm
associated with Moore
Global Network Limited

MARGARET LAKE DIAMONDS INC.

Statements of Financial Position

As at

(Expressed in Canadian Dollars)

	Note	May 31, 2019 \$	May 31, 2018 \$
Assets			
Current assets			
Cash		46,766	475,968
Receivables		35,462	40,618
Subscriptions receivable	5(b)(ii)	-	123,800
Prepaid expenses		6,804	26,033
Exploration advances		-	136,605
		89,032	803,024
Exploration and evaluation assets	4	699,796	3,694,717
Reclamation bond	4	114,877	48,000
		903,705	4,545,741
Liabilities and shareholders' equity			
Current liabilities			
Trade and other payables		78,686	220,080
Contribution from JV partner	4	-	60,947
Due to related parties	7	-	17,820
Flow-through premium liability	3	-	8,886
		78,686	307,733
Shareholders' equity			
Share capital	5	5,799,879	5,799,879
Reserve	5	509,381	391,909
Deficit		(5,484,241)	(1,953,780)
		825,019	4,238,008
		903,705	4,545,741

Nature of operations (Note 1)

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

MARGARET LAKE DIAMONDS INC.

Statements of Changes in Equity
 For the years ended May 31, 2019 and 2018
 (Expressed in Canadian Dollars)

	Share Capital		Common Stock Subscribed \$	Reserves \$	Deficit \$	Total Equity \$
	Shares	Amount \$				
Balance, May 31, 2017	42,457,280	4,682,409	155,000	303,734	(1,855,778)	3,285,365
Private placements	3,654,999	438,600	–	–	–	438,600
Flow-through private placements	8,364,308	977,860	(155,000)	–	–	822,860
Flow-through premium liability	–	(138,393)	–	–	–	(138,393)
Share issuance costs	210,000	(160,597)	–	46,627	–	(113,970)
Stock-based compensation	–	–	–	41,548	–	41,548
Net loss	–	–	–	–	(98,002)	(98,002)
Balance, May 31, 2018	54,686,587	5,799,879	–	391,909	(1,953,780)	4,238,008
Stock-based compensation	–	–	–	117,472	–	117,472
Net loss	–	–	–	–	(3,530,461)	(3,530,462)
Balance, May 31, 2019	54,686,587	5,799,879	–	509,381	(5,484,241)	825,019

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

MARGARET LAKE DIAMONDS INC.

Statements Comprehensive Loss

For the years ended May 31, 2019 and 2018

(Expressed in Canadian Dollars)

	Note	2019 \$	2018 \$
Expenses:			
Consulting		61,872	25,389
Marketing		162,432	65,662
Management fees	7	10,500	-
Office and administration	7	35,421	41,761
Professional fees		22,087	28,317
Regulatory fees		12,264	15,832
Rent	7	-	9,000
Stock-based compensation	5	117,472	41,548
Loss before other items		(422,048)	(227,509)
Impairment of exploration and evaluation assets	4	(3,117,299)	-
Amortization of flow-through premium liability	3	8,886	129,507
Net and comprehensive loss		(3,530,461)	(98,002)
Loss per common share			
Basic and diluted		(0.06)	(0.00)
Weighted average number of common shares outstanding		54,686,587	46,641,745

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, 2019 and 2018

(Expressed in Canadian dollars)

	2019	2018
	\$	\$
Cash provided by (used in):		
Operating activities:		
Net and comprehensive loss	(3,530,461)	(98,002)
Amortization of flow through premium	(8,886)	(129,507)
Stock-based compensation	117,472	41,548
Impairment of exploration and evaluation asset	3,117,299	-
Changes in non-cash working capital item:		
Receivables	5,156	(7,378)
Prepaid expenses	19,229	11,921
Trade and other payables	(141,394)	40,953
Due to related parties	(17,820)	17,820
Net cash used in operating activities	(439,405)	(122,645)
Investing activities:		
Contribution from JV partner	(60,947)	(17,985)
Exploration advances	136,605	(136,605)
Mineral Incentive Program ("MIP") grants	234,873	-
Exploration and evaluation assets	(357,251)	(607,170)
Reclamation bond	(66,877)	(48,000)
Net cash used in investing activities	(113,597)	(809,760)
Financing activities:		
Common stock subscribed	-	1,137,660
Share issue costs	-	(23,008)
Subscription receivable	123,800	-
Net cash provided by financing activities	123,800	1,114,652
Change in cash	(429,202)	182,247
Cash, beginning	475,968	293,721
Cash, ending	46,766	475,968

Supplemental cash flow information

Other significant non-cash transactions during the year ended May 31, 2019:

- accrued exploration expenditures of \$nil (May 31, 2018 - \$68,020) in trade and other payables (Note 4);
- MIP grant of \$Nil (May 31, 2018 - \$5,490) accrued in other receivables;
- fair value of agent's warrants of \$Nil (2017 - \$2,000) recorded as share issuance costs (Note 5(b)(i)); and
- allocation of \$Nil (2017 - \$91,250) from capital stock to flow-through premium liability on the issuance of the flow-through shares (Note 5).

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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, 2019 and 2018

1. Nature 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") and trading under the symbol "DIA".

The Company's principal address and head office is Suite 303-1080 Howe Street, Vancouver BC, V6Z 2T1. The registered and records office is Suite 400, 725 Granville Street, Vancouver, BC, V7Y 1G5.

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 factors indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

The Company has an accumulated deficit of \$5,484,241 (May 31, 2018 - \$1,953,780) since its inception, including a loss of \$3,530,461 for the year ended May 31, 2019 (2018 - \$98,002). At May 31, 2019, the Company had a working capital of \$10,346 (May 31, 2018 - \$495,291).

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.

2. Significant accounting policies and basis of preparation

Statement of compliance with International Financial Reporting Standards ("IFRS")

These financial statements were authorized for issue on September 30, 2019 by the directors of the Company.

Statement of compliance

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 and 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

MARGARET LAKE DIAMONDS INC.

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(Expressed in Canadian dollars)

For the Years Ended May 31, 2019 and 2018

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.

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

MARGARET LAKE DIAMONDS INC.

Notes to the Financial Statements

(Expressed in Canadian dollars)

For the Years Ended May 31, 2019 and 2018

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.

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

MARGARET LAKE DIAMONDS INC.

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(Expressed in Canadian dollars)

For the Years Ended May 31, 2019 and 2018

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.

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 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 adopted all of the requirements of IFRS 9 Financial Instruments ("IFRS 9") as of June 1, 2018. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 is now the new standard which sets out the recognition and measurement requirements for financial instruments and some contracts to buy or sell non-financial items. The new standard provides a model for the classification and measurement of financial instruments, a single forward-looking "expected loss" impairment model, and a reformed approach for hedge accounting. As most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward into IFRS 9, the Company's accounting policy with respect to financial liabilities is unchanged. The Company has determined that the adoption of this standard has resulted in no material impact to its financial statements.

The Company completed a detailed assessment of its financial assets and liabilities as at June 1, 2018. The following table shows the original classification under IAS 39 and the new classification under IFRS 9:

	Original classification IAS 39 (Year ended May 31, 2018)	New classification IFRS 9 (Year ended May 31, 2019)
Cash	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Contribution from JV Partner	Other financial liabilities	Amortized cost

Recognition and Classification

The Company recognizes a financial asset or financial liability on the statement of financial position when it becomes party to the contractual provisions of the financial instrument.

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVTOCI") or at amortized cost. The

MARGARET LAKE DIAMONDS INC.

Notes to the Financial Statements

(Expressed in Canadian dollars)

For the Years Ended May 31, 2019 and 2018

Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics.

Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

Measurement**Financial assets at FVTOCI**

Elected investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses recognized in other comprehensive income (loss).

Financial assets and liabilities at amortized cost

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

Financial assets and liabilities at FVTPL

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the statements of net (loss) income. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the statements of net (loss) income in the period in which they arise. Where management has opted to recognize a financial liability at FVTPL, any changes associated with the Company's own credit risk will be recognized in other comprehensive income (loss).

Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost.

At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the credit risk on the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the statements of net (loss) income, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

Derecognition**Financial assets**

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the statements of net (loss) income. However, gains and losses on derecognition of financial assets classified as FVTOCI remain within accumulated other comprehensive income (loss).

Financial liabilities

The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

MARGARET LAKE DIAMONDS INC.

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(Expressed in Canadian dollars)

For the Years Ended May 31, 2019 and 2018

Interest in jointly controlled asset

The Company has interest in a joint venture, which is involved in mineral exploration of the Diagras Property (Note 4). 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. No separate entity was created upon entering the JV Agreement, meaning that a joint operation exists. Accordingly, the Company has capitalized its 60% share in the expenditures made on the Diagras JV.

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.

Agent's 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 following standards were adopted during the year

IFRS 15 "Revenue from Contracts with Customers"

On June 1, 2018, the Company adopted IFRS 15 – Revenue from Contracts with Customers ("IFRS 15") which supersedes IAS 18 – Revenue ("IAS 18"). IFRS 15 establishes a single five-step model framework for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The standard was effective for annual periods beginning on or after January 1, 2018.

The Company is a junior mining exploration company and it currently does not generate any revenue from contracts with customers. Therefore, the adoption of this standard did not have any significant impact on the Company's financial statements.

The following standard has been issued but is not yet effective for the Company.

IFRS 16, Leases

IFRS 16 is a new standard that 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. The Company has not early adopted this standard and does not believe it will have a material effect on its financial statements.

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.

MARGARET LAKE DIAMONDS INC.

Notes to the Financial Statements

(Expressed in Canadian dollars)

For the Years Ended May 31, 2019 and 2018

3. Flow-through liabilities

	May 31, 2019	May 31, 2018
	\$	\$
Balance, beginning of the year	8,886	–
Recorded	–	138,393
Amortized	(8,886)	(129,507)
Balance, end of the year	-	8,886

On June 13, 2017, the Company completed a unit private placement issuing 3,650,000 flow-through shares (Note 5(b)(i)) for gross proceeds of \$365,000. The Company recorded a flow-through premium liability of \$91,250 in connection with this flow-through private placement, which was calculated based on an estimated premium of approximately \$0.025 per flow-through share issued in excess of the market value of the Company's shares at the closing.

During the year ended May 31, 2018, the Company incurred required eligible exploration expenditures of \$365,000, which were renounced to the flow-through subscribers for calendar year 2017. As a result, the Company fully amortized the flow-through premium liability associated with the June 2017 flow-through private placement of \$91,250 in the statement of comprehensive loss.

On May 31, 2018, the Company completed a unit private placement consisting of two tranches issuing 4,714,308 flow-through shares (Note 5(b)(ii)) for total gross proceeds of \$612,860. The Company recorded a flow-through premium liability of \$47,143 in connection with this flow-through private placement, which was calculated based on an estimated premium of approximately \$0.01 per flow-through share issued in excess of the value of the non-flow through units issued concurrently.

The Company is required to incur Canadian exploration expenditures equal to the total amount of the gross proceeds raised of \$612,860 no later than December 31, 2019 pursuant to the terms of subscription agreements. As of May 31, 2019, the Company incurred the full \$612,860 (May 31, 2018 - \$497,340) of required eligible exploration expenditures and amortized \$8,886 (May 31, 2018 - \$38,257) of its flow-through liability associated with the May 2018 flow-through private placement in the statement of comprehensive loss.

4. Exploration and evaluation assets***Margaret Lake Property***

Pursuant to an assignment agreement with Harsbo Minerals Ltd. dated March 14, 2014 and a subsequent mineral property transfer agreement with Margaret Lake Diamonds Ltd. ("MLDL") dated July 6, 2015, the Company owns a 100% undivided interest in 19 mineral claims located in the Northwest Territories, Canada, known as the Margaret Lake Diamond Property (the "Margaret Lake Property").

The Company completed the purchase by issuing 6,000,000 common shares at a fair value of \$765,000 during the year ended May 31, 2017. The Company has no ongoing work obligations and no royalties payable other than an obligation to issue 1,000,000 common shares to MLDL 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.

During the year ended May 31, 2019, the Company received an approval for the 2018-2019 MIP funding of \$140,000 (2017 - \$36,601) for the Margaret Lake Property project from the Government of the Northwest

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Territories. The Company received the full \$140,000 during the year ended May 31, 2019 and recorded this amount against exploration expenditures incurred on the Margaret Lake Property.

During the year ended May 31, 2018, the Company posted a reclamation bond of \$48,000 with the Government of the Northwest Territories in relation to the Land Use Permit for conducting 2018 Drill program on the Margaret Lake Property.

During the year ended May 31, 2019 the Company recorded an impairment charge of \$2,956,456 (2018 - \$Nil) on the Margaret Lake Property as the Company no longer intends to further pursue the exploration of the property.

Kirk Lake

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

During the year ended May 31, 2019 the Company recorded an impairment charge of \$160,843 (2018 – Nil) on the Kirk Lake property as the Company no longer intends to further pursue the exploration of the property.

Diagras Property

On November 7, 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 a 60% interest in 23 mineral claims located in the Northwest Territories, Canada (the "Diagras Property").

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, with the Company acting as the operator.

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. During the year ended May 31, 2018, the Company received a cash refund of the \$183,514 from the Government of the Northwest Territories of the bond deposit. 40% of the refunded bond deposit, or \$73,406, was allocated to Arctic Star and 60% of the refunded bond deposit, or \$110,108 was credited against the Company's acquisition costs of the Diagras property.

During the year ended May 31, 2019, the Diagras JV partners staked 8 new mineral claims adjoining the pre-existing Diagras Property. The new claims cover 3,896 hectares and, now, the Diagras property consists of 31 mineral claims covering approximately 22,595 hectares.

During the year ended May 31, 2019, the Diagras JV completed the geophysical and staking programs and incurred a total of \$345,407 (2018 - \$178,426) in exploration and development expenditures on the Diagras Property, of which \$100,214 (2018 - \$71,391) has been allocated to Arctic Star based on its proportionate interest in the Diagras JV.

During the year ended May 31, 2019, the Company received an approval for the 2018-2019 MIP funding of \$111,615, from the Government of the Northwest Territories that will cover certain eligible exploration costs incurred on the Diagras JV project. In August 2018, the Company received its first payment in the amount of \$94,873 or 85% of the total funding. The final payment will be made after the Company submits its 2018 projects reports. \$37,949 of the received funding has been allocated to Arctic Star based on its proportionate interest in the Diagras JV, and \$56,924 was recorded against the Company's expenditures incurred on the Diagras Property.

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As at May 31, 2019, the deficiency Arctic Star's contribution for this year's program was \$14,101 (May 31, 2018 – unapplied contribution of \$60,947). The balance is included as a receivable in the Company's statement of financial position as at May 31, 2019. The unapplied contributions will be applied against future exploration expenditures on the Diagrass Property.

Kiyuk Lake Property

On February 14, 2019 the Company entered into an Option Agreement (the "Kiyuk Option") to acquire up to an 80% interest in the Kiyuk Lake Gold Property ("Kiyuk Lake") located in southern Nunavut. Kiyuk Lake consists of 70 contiguous mineral claims encompassing over 59,000 hectares.

As per the Kiyuk Option the Company can earn an initial 50% interest by issuing 5,000,000 common shares of the Company and investing \$150,000 through the purchase of 3,000,000 common shares of the Optionor at an agreed price of \$0.05 within 30 days. The Company will also make a cash payment of \$100,000 on February 14, 2020 and incur \$3,000,000 of exploration expenditures by February 14, 2022. The Company can acquire an additional 30% by making a one-time cash payment of \$5,000,000.

During the year ended May 31, 2019 the Company incurred \$87,378 of exploration costs on the property related to mining lease payments and other exploration work.

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

Property:	Margaret Lake \$	Kiyuk Lake \$	Kirk Lake \$	Diagras \$	Total \$
Acquisition Costs:					
Balance, May 31, 2017	1,431,488	-	16,000	207,159	1,654,647
Refund of exploration deposit	-	-	-	(110,108)	(110,108)
Balance, May 31, 2018	1,431,488	-	16,000	97,051	1,544,539
Staking	-	-	-	25,470	25,470
Allocation to the JV partner	-	-	-	(10,188)	(10,188)
Impairment	(1,431,488)	-	(16,000)	-	(1,447,488)
Balance, May 31, 2019	-	-	-	112,333	112,333
Deferred exploration costs:					
Balance, May 31, 2017	1,200,643	-	144,843	242,730	1,588,216
Additions:					
Community consultations	8,304	-	-	12,457	20,761
Drilling	455,164	-	-	-	455,164
Geology	23,875	-	-	52,327	76,202
Geophysics	-	-	-	108,917	108,917
Assessment reports filing fees	4,185	-	-	4,725	8,910
MIP grant received	(36,601)	-	-	-	(36,601)
Allocation to the JV partner	-	-	-	(71,391)	(71,391)
Balance, May 31, 2018	1,655,570	-	144,843	349,765	2,150,178
Additions:					
Camp costs	-	-	-	193,382	193,382
Consulting	4,525	11,214	-	12,385	28,124
Geology	3,188	-	-	46,096	49,284
Geophysics	-	-	-	90,250	90,250
License and fees	-	62,414	-	-	62,414
Reports	-	13,750	-	-	13,750
Assessment reports filing fees	1,685	-	-	3,294	4,979
MIP grants received	(140,000)	-	-	(94,873)	(234,873)
Allocation to the JV partner	-	-	-	(100,214)	(100,214)
Impairment	(1,524,968)	-	(144,843)	-	(1,669,811)
Balance, May 31, 2019	-	87,378	-	500,085	587,463
Balance, May 31, 2018	3,087,058	-	160,843	446,816	3,694,717
Balance, May 31, 2019	-	87,378	-	612,418	699,796

5. Share capital**a. Authorized**

Unlimited number of common shares without par value.

b. Issued and outstanding

There were no transactions affecting share capital during the year ended May 31, 2019.

The Company fully collected the subscriptions receivable of \$123,800 in connection to the private placements closed on May 31, 2018 (Note 5(b)(ii)).

During the year ended May 31, 2018:

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- (i) In June 2017, the Company completed a non-brokered flow-through private placement of 3,650,000 units at a price of \$0.10 per unit for gross proceeds of \$365,000. Each unit consisted of one flow-through common share and one-half non flow-through share purchase warrant of the Company. Each whole warrant entitles the holder to purchase one common share at a price of \$0.15 per share for a period of 12 months from closing. A flow-through premium liability of \$91,250 was recorded in connection with this private placement based on an estimated premium of approximately \$0.025 per flow-through share issued (Note 3).

The Company paid cash-based finders' fee of \$12,600 and issued 210,000 units to certain finders in connection with the above private placement. Each finder's unit consisted of one non flow-through 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 \$0.15 per share for a period of 12 months from closing. The common shares issued to the finders were valued at \$15,750 using the market price of \$0.075 per share at closing. The finder's warrants were recorded at a fair value of \$2,000. The Company also incurred regulatory filing fees of \$2,830 and legal fees of \$6,704 in connection with the private placement, which were included in share issuance costs.

- (ii) In April and May 2018, the Company completed two tranches of its non-brokered flow-through private placement (the "FT Offering") issuing a total of 4,714,308 units (each a "FT Unit") at a price of \$0.13 per FT Unit, for gross proceeds of \$612,860 and a concurrent non flow-through private placement (the "NFT Offering") issuing 3,654,999 units (each a "NFT Unit") at a price of \$0.12 per NFT Unit for gross proceeds of an additional \$438,600. Each FT and NFT unit consisted of one common share and one transferable non flow-through share purchase warrant of the Company. Each whole warrant entitles the holder to purchase one common share at a price of \$0.20 per share for a three-year period from closing. \$123,800 of gross proceeds was recorded in subscription receivable on the statement of financial position as of May 31, 2018 and paid subsequently.

In connection with the above private placements, the Company paid cash-based finders' fee of \$59,061 and issued 589,596 finders' warrants. Each finder's warrant entitles the holder to purchase one common share of the Company at a price of \$0.20 per share for a three-year period from closing. The finder's warrants were recorded at a fair value of \$44,627. The Company also incurred regulatory filing fees of \$7,259, corporate finance fees of \$3,000 and accrued legal fees of \$22,516 in connection with these private placements. Share issuance costs of \$90,962 was recorded in trade and other payables at May 31, 2018 and paid during the current year.

A flow-through premium liability of \$47,143 was recorded in connection with the flow-through private placement based on an estimated premium of approximately \$0.01 per flow-through share issued (Note 3).

c. 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.

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

	May 31, 2019		May 31, 2018	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Outstanding, beginning of period	2,050,000	0.14	1,625,000	0.13
Granted	2,000,000	0.065	600,000	0.14
Cancelled	-	-	(175,000)	0.10
Expired	(375,000)	0.10	-	-
Outstanding, end of period	3,675,000	0.10	2,050,000	0.14

The share options outstanding and exercisable as at May 31, 2019:

Expiry Date	Exercise Price	Number of options outstanding	Options exercisable
October 1, 2021	\$ 0.15	1,075,000	1,075,000
February 26, 2022	\$ 0.065	2,000,000	2,000,000
May 11, 2023	\$ 0.14	600,000	600,000
		3,675,000	3,675,000

The weighted average life of options outstanding is 2.82 years.

During the year ended May 31, 2019, \$100,421 in stock-based compensation expense was recorded for 2,000,000 stock options granted (2018 – 600,000) to four directors of the Company, all of which vested in the year. An additional \$17,051 (2018 - \$41,548) in stock-based compensation expense was recorded for the 600,000 stock options granted in fiscal 2018 that vested during the current year.

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

Years ended May 31,	2019	2018
Risk free rate	2.15%	2.15%
Dividend yield	-	-
Weighted average volatility	142%	142%
Weighted average expected life	3 years	5 years
Weighted average fair value	\$ 0.05	\$ 0.12

d. Warrants

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

	May 31, 2019		May 31, 2018	
	Number of Warrants	Weighted average exercise price \$	Number of Warrants	Weighted average exercise price \$
Outstanding, beginning of period	15,099,903	0.22	8,954,600	0.27
Issued:				
Private placement (Note 5(b)(i)(ii))	-	-	10,194,307	0.19
Finders' warrants (Note 5(b)(i)(ii))	-	-	694,596	0.19
Expired/ forfeited	(6,141,000)	0.25	(4,743,600)	0.25
Outstanding, end of period	8,958,903	0.20	15,099,903	0.22

The share purchase warrants outstanding and exercisable as at May 31, 2019:

Expiry Date	Exercise Price \$	Number of Warrants Outstanding	Number of Warrants Exercisable
April 16, 2021	0.20	4,390,665	4,390,665
May 31, 2021	0.20	4,568,238	4,568,238
		8,958,903	15,099,903

The weighted average life of warrants outstanding is 1.94 years.

e. Reserve

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

6. 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:

	2019	2018
Net loss before taxes	(3,530,461)	(98,002)
Statutory rate	26.5%	26.0%
Expected income tax recovery at statutory rate	(936,000)	(25,000)
Non-deductible items	(20,000)	(2,000)
Impact of flow-through shares	162,000	(95,000)
Effect of change in tax rate	(6,000)	-
Change in unrecognized deductible temporary differences	800,000	122,000
Deferred tax recovery	-	-

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

	2019	2018
	\$	\$
Deferred tax assets (liabilities)		
Loss carry-forwards	446,000	320,000
Share issuance costs	24,000	34,000
Exploration and evaluation assets	602,000	(80,000)
Other	2,000	-
	1,074,000	274,000
Unrecognized deferred tax assets	(1,074,000)	(274,000)
Net deferred tax assets	-	-

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

		Expiry date range
Loss carry-forwards	1,682,000	2031 to 2039
Share issuance costs	89,000	2037 to 2041
Resource pools	2,866,000	No expiry

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

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.

During the year ended May 31, 2019, the Company paid \$14,175 (2018 - \$Nil) to Lithosphere Services Inc., a company controlled by the VP of Exploration of the Company, for services provided in fiscal 2019.

During the year ended May 31, 2019, the Company paid \$3,645 (2018 - \$Nil) to the former CEO and President of the Company for reimbursement of travel and regulatory expenses incurred in fiscal 2018. The amount was included in due to related parties balance as at May 31, 2018.

During the year ended May 31, 2019, the Company paid the current CEO and CFO \$10,500 (2018 - \$Nil) in management fees

During the year ended May 31, 2019, the Company recognised \$115,540 (2018 - \$Nil) as stock-based compensation expense for the options granted in fiscal 2019 to directors and fiscal 2018 to certain directors of the Company that vested during the current period.

During the year ended May 31, 2018, the Company's former 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 5).

The Company is continuing to jointly explore the Diagas Property with Arctic Star, a company with a common director and officer, on a 60-40 joint venture basis (Note 4).

8. Financial instruments**Financial risk management**

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

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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. Management assesses credit risk of cash and receivables as low.

The Company's secondary exposure to risk is on its receivables. This risk is minimal as receivables consist 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.

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, 2019, the Company had cash of \$46,766 (May 31, 2018 - \$475,968), and current liabilities of \$78,686 (May 31, 2018 - \$307,733).

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 in the future. Under current market conditions, both liquidity and funding risk are assessed as high.

9. 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, 2019. The Company is not subject to any externally imposed capital requirements.