

MARGARET LAKE DIAMONDS INC.

Condensed Interim Financial Statements

For the Three Months Ended August 31, 2019 and 2018

Unaudited - expressed in Canadian Dollars

NOTICE TO READER

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

The accompanying unaudited condensed interim financial statements of the Company have been prepared by management and approved by the Audit Committee and Board of Directors of the Company.

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

MARGARET LAKE DIAMONDS INC.

Condensed Interim Statements of Financial Position

As at

(Unaudited - expressed in Canadian Dollars)

	Note	August 31, 2019 \$	May 31, 2019 \$
Assets			
Current assets			
Cash		35,577	46,766
Receivables		33,974	35,462
Prepaid expenses		19,575	6,804
		89,126	89,032
Exploration and evaluation assets	4	824,062	699,796
Reclamation bond	4	114,877	114,877
		1,028,065	903,705
Liabilities and shareholders' equity			
Current liabilities			
Trade and other payables		224,707	78,686
Contributions from JV		46,996	-
		271,703	78,686
Shareholders' equity			
Share capital	5	5,799,879	5,799,879
Reserve	5	509,381	509,381
Deficit		(5,552,898)	(5,484,241)
		756,362	825,019
		1,028,065	903,705

Nature of operations (Note 1)

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

MARGARET LAKE DIAMONDS INC.

Condensed Interim Statements of Changes in Equity
For the three months ended August 31, 2019 and 2018
(Unaudited - expressed in Canadian Dollars)

	Share Capital		Reserves	Deficit	Total Equity
	Shares	Amount \$			
Balance, May 31, 2018	54,686,587	5,799,879	391,909	(1,953,780)	4,238,008
Share-based compensation	-	-	12,392	-	12,392
Net loss	-	-	-	(51,790)	(51,790)
Balance, August 31, 2018	54,686,587	5,799,879	404,301	(2,005,570)	4,198,610
Share-based compensation	-	-	105,080	-	105,080
Net loss	-	-	-	(3,478,671)	(3,478,671)
Balance, May 31, 2019	54,686,587	5,799,879	509,381	(5,484,241)	825,019
Net loss	-	-	-	(68,657)	(68,657)
Balance, August 31, 2019	54,686,587	5,799,879	509,381	(5,552,898)	756,362

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

MARGARET LAKE DIAMONDS INC.

Condensed Interim Statements Comprehensive Loss
For the three months ended August 31, 2019 and 2018
(Unaudited - expressed in Canadian Dollars)

		2019	2018
	Note	\$	\$
Expenses:			
Consulting		35,000	-
Marketing		10,715	31,000
Management fees	7	14,000	-
Office and administration	7	5,275	10,579
Professional fees		3,112	-
Regulatory fees		555	2,827
Stock-based compensation	5	-	12,392
Loss before other items		(68,657)	(56,798)
Amortization of flow-through premium liability	3	-	5,008
Net and comprehensive loss		(68,657)	(51,790)
Loss per common share			
Basic and diluted		(0.00)	(0.00)
Weighted average number of common shares			
outstanding		54,686,587	54,686,587

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

MARGARET LAKE DIAMONDS INC.

Condensed Interim Statements of Cash Flows
For the three months ended August 31, 2019 and 2018
(Unaudited - expressed in Canadian dollars)

	2019	2018
	\$	\$
Cash provided by (used in):		
Operating activities:		
Net and comprehensive loss	(68,657)	(51,790)
Amortization of flow through premium	-	(5,008)
Share-based compensation	-	12,392
Changes in non-cash working capital item:		
Receivables	(12,613)	5,730
Prepaid expenses	(12,771)	(22,992)
Trade and other payables	146,021	4,533
Due to related parties	-	(17,820)
Net cash used in operating activities	51,980	(74,955)
Investing activities:		
Contribution from JV partner	-	(15,946)
Exploration advances	-	136,605
Mineral Incentive Program ("MIP") grants	152,742	181,414
Exploration and evaluation assets	(215,911)	(142,011)
Net cash used in investing activities	(63,169)	160,062
Financing activities:		
Share issue costs	-	(90,962)
Subscription receivable	-	123,800
Net cash provided by financing activities	-	32,838
Change in cash	(11,189)	117,945
Cash, beginning	46,766	475,968
Cash, ending	35,577	593,913

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

MARGARET LAKE DIAMONDS INC.

Notes to the Condensed Interim Financial Statements

(Unaudited - expressed in Canadian dollars)

For the three months ended August 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 condensed interim 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 \$5,552,898 (May 31, 2019 - \$5,484,241) since its inception, including a loss of \$68,657 for the three months ended August 31, 2019 (2018 - \$51,790). At August 31, 2019, the Company had a working capital deficit of \$182,577 (May 31, 2019 - \$10,346).

The condensed interim 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 condensed interim financial statements were authorized for issue on October 30, 2019 by the directors of the Company.

Statement of compliance

These condensed interim financial statements are unaudited and have been prepared in accordance with International Accounting Standards ("IAS") 34, "Interim Financial Reporting" using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). The Company adopted accounting policies consistent with IFRS since incorporation on February 9, 2011.

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Basis of presentation

The condensed interim 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.

These condensed interim financial statements have been prepared on the basis of accounting policies and methods of computation consistent with those applied in the Company's audited financial statements for the year ended May 31, 2019.

The accounting policies applied in the preparation of these condensed interim financial statements are consistent with those applied and disclosed in the Company's audited financial statements for the year ended May 31, 2019, except for the adoption of IFRS 16, Leases, which was effective and has been applied from June 1, 2019.

These condensed interim financial statements does not include all of the information required of a full annual financial report and is intended to provide users with an update in relation to events and transactions that are significant to an understanding of the changes in financial position and performance of the Company since the end of the last annual reporting period. It is therefore recommended that this financial report be read in conjunction with the Company's audited annual financial statements for the year ended May 31, 2019.

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 estimates are revised.

Significant accounts that require estimates relate to valuation allowances for deferred income taxes, valuation of stock-based compensation, shares issued for acquisition of mineral properties, shares issued as finder's fees and warrants issued in private placements.

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-through share subscribers; difference in judgment 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.

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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 Joint Venture 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.

The following standard was adopted during the period***IFRS 16, Leases***

IFRS 16 specifies how an issuer will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less, or the underlying asset has an insignificant value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. The adoption of IFRS 16 did not have a significant impact on the Company's financial statements as it does not have any leases.

3. Flow-through liabilities

	August 31, 2019	May 31, 2019
	\$	\$
Balance, beginning of the year	-	8,886
Recorded	-	-
Amortized	-	(8,886)
Balance, end of the year	-	-

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").

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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 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 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, 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 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. In June 2019 the Company received the remaining \$16,742 of the funding, 40% of which was allocated to Arctic Star.

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During the three months ended August 31, 2019 the Company received approval for 2019-202 MIP funding of \$160,000, from the Government of the Northwest Territories that will cover certain eligible exploration costs incurred on the Diagrass JV project. During the period ended August 31, 2019 the Company received \$136,000 of which 40% was allocated to Arctic Star.

As at August 31, 2019 Arctic Star's unapplied contribution for this year's program was \$46,996 (May 31, 2019 – deficit of \$14,101). The balance is included as a liability in the Company's statement of financial position as at August 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. The Company incurred additional exploration costs during the period ended August 31, 2019 of \$215,911 and filed a National Instrument 43-101 Technical Report on the property.

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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, 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 and August 31, 2019	-	-	-	112,333	112,333
Deferred exploration costs:					
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
Additions:					
Consulting	-	3,341	-	-	3,341
Reports	-	12,570	-	-	12,570
Surveying	-	200,000	-	-	200,000
MIP Grants received	-	-	-	(152,742)	(152,742)
Allocation to JV Partner	-	-	-	61,097	61,097
	-	215,911	-	(91,645)	124,266
Balance, May 31, 2019	-	87,378	-	612,418	699,796
Balance, August 31, 2019	-	303,289	-	520,773	824,062

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 three months ended August 31, 2019 or August 31, 2018.

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

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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 stock option transactions is presented below:

	August 31, 2019		May 31, 2019	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Outstanding, beginning of period	3,675,000	0.10	2,050,000	0.14
Granted	-	-	2,000,000	0.065
Expired	-	-	(375,000)	0.10
Outstanding, end of period	3,675,000	0.10	3,675,000	0.10

The share options outstanding and exercisable as at August 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 3.12 years.

During the three months ended August 31, 2018 the Company recorded \$12,392 in share-based compensation expense for options that were granted in fiscal 2018 and vested during the period ended August 31, 2018.

d. Warrants

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

	August 31, 2019		May 31, 2019	
	Number of Warrants	Weighted average exercise price \$	Number of Warrants	Weighted average exercise price \$
Outstanding, beginning of period	8,958,903	0.20	15,099,903	0.22
Expired/ forfeited	-	-	(6,141,000)	0.25
Outstanding, end of period	8,958,903	0.20	8,958,903	0.20

The share purchase warrants outstanding and exercisable as at August 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 1.69 years.

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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. 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 three months ended August 31, 2019 the Company incurred management fees of \$14,000 (2018 - \$nil) paid to the CEO and CFO of the Company.

During the three months ended August 31, 2018 the Company incurred share-based compensation expense of \$11,584 relating to the vesting of options granted to related parties.

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

7. Financial instruments

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. 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

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For the three months ended August 31, 2019 and 2018

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 August 31, 2019 the Company had cash of \$35,577 (May 31, 2019 -\$46,766), and current liabilities of \$224,707 (May 31, 2019 - \$78,686).

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.

8. 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 August 31, 2019. The Company is not subject to any externally imposed capital requirements.