

MARGARET LAKE DIAMONDS INC.

Condensed Interim Financial Statements

For the Three Months Ended August 31, 2021 and 2020

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)

		August 31, 2021 \$	May 31, 2021 \$
Assets			
Current assets			
Cash		13,119	38,270
Receivables	3	13,996	12,098
Prepaid expenses		15,844	10,956
		42,959	61,324
Exploration and evaluation assets			
Reclamation bond	4	714,230	701,318
	4	66,877	66,877
		824,066	829,519
Liabilities and shareholders' equity			
Current liabilities			
Trade and other payables	5, 7	1,102,535	1,072,031
Contributions from JV	4	43,966	43,966
Due to related parties	7	224,951	299,951
		1,371,452	1,415,948
Shareholders' equity (deficit)			
Share capital	6	5,949,879	5,949,879
Subscription receivable	6	-	(108,900)
Reserve	6	627,361	539,262
Deficit		(7,124,626)	(6,966,670)
		(547,386)	(586,429)
		824,066	829,519

Nature of operations (Note 1)

Approved by the Board of Directors on November 1, 2021

"George Kovalyov"

George Kovalyov, Director

"Neil Foran"

Neil Foran, Director

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

MARGARET LAKE DIAMONDS INC.

Condensed Interim Statements of Changes in Equity (Deficit)
For the Three Months Ended August 31, 2021 and 2020
(Unaudited - expressed in Canadian Dollars)

	Share Capital		Reserves	Subscription Receivable	Deficit	Total Equity
	Shares	Amount \$				
Balance, May 31, 2020	54,686,587	5,799,879	520,789	-	(6,656,351)	(335,683)
Net loss for the period	-	-	-	-	(56,354)	(56,354)
Balance, August 31, 2020	54,686,587	5,799,879	520,789	-	(6,712,705)	(392,037)
Private placement (Note 6)	5,000,000	150,000	-	(108,900)	-	41,100
Share-based compensation (Note 6)	-	-	18,473	-	-	18,473
Net loss for the period	-	-	-	-	(253,965)	(253,965)
Balance, May 31, 2021	59,686,587	5,949,879	539,262	(108,900)	(6,966,670)	(586,429)
Subscriptions received	-	-	-	108,900	-	108,900
Share-based compensation	-	-	88,099	-	-	88,099
Net loss for the period	-	-	-	-	(157,956)	(157,956)
Balance, August 31, 2021	59,686,587	5,949,879	627,361	-	(7,124,626)	(547,386)

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

MARGARET LAKE DIAMONDS INC.

Condensed Interim Statements of Comprehensive Loss
For the Three Months Ended August 31, 2021 and 2020
(Unaudited - expressed in Canadian Dollars)

	Note	2021 \$	2020 \$
Expenses:			
Consulting	7	7,500	-
Marketing		926	1,195
Office and administration		2,841	21,161
Professional fees		7,934	5,463
Wages and salaries	7	26,923	26,442
Regulatory fees		22,972	2,093
Stock-based compensation	6,7	88,099	-
Loss before other items		(157,195)	(56,354)
Foreign exchange gain		(761)	-
Net and comprehensive loss		(157,956)	(56,354)
Loss per common share			
Basic and diluted		(0.00)	(0.00)
Weighted average number of common shares outstanding			
		59,686,587	54,686,587

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MARGARET LAKE DIAMONDS INC.

Condensed Interim Statements of Cash Flows
For the Three Months Ended August 31, 2021 and 2020
(Unaudited - expressed in Canadian dollars)

	August 31, 2021 \$	August 31, 2020 \$
Cash provided by (used in):		
Operating activities:		
Net loss	(157,956)	(56,354)
Share-based compensation	88,099	-
Changes in non-cash working capital item:		
Receivables	(1,898)	4,790
Prepaid expenses	(4,888)	(18,949)
Trade and other payables	30,504	91,451
Net cash used in operating activities	(46,139)	20,938
Investing activities:		
Exploration and evaluation assets	(12,912)	(150,000)
Net cash provided by (used in) investing activities	(12,912)	(150,000)
Financing activity:		
Subscriptions received	108,900	-
Advances from/(to) related parties	(75,000)	132,870
Net cash provided by financing activity	33,900	132,870
Change in cash	(25,151)	3,808
Cash, beginning	38,270	927
Cash, ending	13,119	4,735

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, 2021 and 2020

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 focused on the exploration of mineral properties. 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.

The World Health Organization has declared COVID-19 a global pandemic. This contagious disease outbreak and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, leading to an economic downturn. This has impacted the Company's ability to raise capital and caused delays in expenditures on exploration and evaluation assets.

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 \$7,124,626 at May 31, 2021 (May 31, 2021 - \$6,966,670) and a working capital deficit of \$1,328,493 (May 31, 2021 – \$1,354,624).

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 presentation

Statement of Compliance

These condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. The condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended May 31, 2021, which have been prepared in accordance with IFRS as issued by the IASB.

The Company uses the same accounting policies and methods of computation as in the annual financial statements for the period ended May 31, 2021.

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(Unaudited - expressed in Canadian dollars)

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3. Receivables

	August 31, 2021	May 31, 2021
	\$	\$
GST receivable	13,996	12,098
Due from related party (Note 8)	-	-
Balance, end of the year	13,996	12,098

4. Exploration and evaluation assets***Diagras Property***

On November 7, 2016, the Company entered into an Option and Joint Venture Agreement (“JV Agreement”) with 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. As at May 31, 2021, the balance of the reclamation bond is \$66,877 (2020 - \$114,877).

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, 2020, 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 Diagras JV project. In July 2019 the Company received \$136,000 of which 40% was allocated to Arctic Star.

During the year ended May 31, 2021, the Company’s interest in the Diagras JV was diluted to 20% and Arctic Star is now the operator of the Diagras JV. Subsequent to August 31, 2021, the Company was further diluted to 18.5%.

As at August 31, 2021, Arctic Star’s unapplied contribution for this year’s program was \$43,966 (May 31, 2020 – \$43,966). The balance is included as a liability in the Company’s statement of financial position as at May 31, 2021. The unapplied contributions will be applied against future exploration expenditures on the Diagras Property.

Morrison Property

On August 6, 2020, the Company entered into an option agreement to acquire up to a 100% interest in the Morrison Copper-Gold Deposit (the “Morrison Project”) near Smithers, B.C. subject to a 2.5% Net Smelter Return of which 1.5% may be purchased from the vendors for \$5,000,000 and during the period ended May 31, 2021, the Company paid \$150,000 in cash acquisition costs. It was later ruled by the British Columbia Gold Commissioner that the Morrison Project would be returned to the original leaseholders of the Morrison Project as the claims had never been dropped by the original leaseholders. During the year ended May 31, 2021, the Company wrote-off its investment in the Morrison Project resulting in a write-down of exploration and evaluation assets of \$150,000. On February 4, 2021, the Company agreed to drop its claim to the Morrison

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project and received a full credit of \$150,000 that had been contributed and the Company reversed the initial write-down of the exploration assets.

The total credit was applied to payments owing on the Old Nick Nickel-Cobalt properties (see below).

Old Nick Nickel Cobalt

On February 4, 2021, the Company entered into an agreement to acquire 100% interest in Old Nick Nickel-Cobalt project and Letain Nickel-Cobalt projects in British Columbia ("Cobalt Projects"). As per the terms of the agreement the Company must make payments to each of the vendors as follows:

- 1) \$10,000 within 30 days of agreement execution or Exchange approval (accrued);
- 2) \$10,000 within 90 days of Exchange approval;
- 3) \$30,000 six months of Exchange approval;
- 4) \$300,000 prior to January 1, 2022 (\$150,000 paid)
- 5) \$400,000 prior to August 1, 2023;
- 6) \$500,000 prior to August 1, 2024.

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

	Cobalt Projects	Diagras	Total
Property:	\$	\$	\$
Acquisition Costs:			
Balance, May 31, 2020	-	112,333	112,333
Cash acquisition cost	160,000	-	160,000
Balance, May 31, 2021 and August 31, 2021	160,000	112,333	272,333
Deferred exploration costs:			
Balance, May 31, 2020	-	412,985	412,985
Additions:			
Reports	16,000	-	16,000
Balance, May 31, 2021	16,000	412,985	428,985
Field work	7,112	-	7,112
Geological	1,800	-	1,800
Reports	4,000	-	4,000
Balance, August 31, 2021	28,912	412,985	441,897
Balance, May 31, 2021	176,000	525,318	701,318
Balance, August 31, 2021	188,912	525,318	714,230

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5. Trade and other payables

	August 31, 2021	May 31, 2021
	\$	\$
Trade payables (Note 8)	926,315	912,025
Accrued liabilities	34,046	23,582
Advances payable	50,000	50,000
Payroll liabilities	92,174	86,424
	1,102,535	1,072,031

6. Share capital**a. Authorized**

Unlimited number of common shares without par value.

b. Issued and outstanding

On May 26, 2021, the Company issued a total of 5,000,000 units at a price of \$0.03 per share for total gross proceeds of \$150,000. Each unit is comprised of one common share and one common share purchase warrant, each warrant exercisable into one common share at an exercise price of \$0.08 per share for a period of two years from the date of issue. The Company allocated the full value of the offering to the shares, no value was allocated to the warrants. As at May 31, 2021, \$108,900 of the proceeds were recorded as share subscriptions receivable, which were fully received during the three months ended August 31, 2021.

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.

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

	August 31, 2021		May 31, 2021	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Outstanding, beginning of period	4,175,000	0.10	4,175,000	0.10
Granted	2,500,000	0.05	500,000	0.05
Outstanding, end of the period	6,675,000	0.08	4,675,000	0.09

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The share options outstanding and exercisable as at August 31, 2021 were as follows:

Expiry Date	Exercise Price	Number of options outstanding	Options exercisable
October 1, 2021	\$ 0.15	1,075,000	1,075,000
February 26, 2023	\$ 0.065	2,000,000	2,000,000
November 5, 2024	\$ 0.14	600,000	600,000
November 5, 2024	\$ 0.05	500,000	500,000
August 18, 2025	\$ 0.05	500,000	500,000
August 3, 2024	\$ 0.05	2,500,000	2,500,000
		6,675,000	6,675,000

The weighted average life of options outstanding is 1.95 years.

During the three months ended August 31, 2021, \$88,0993 (2020 - \$11,408) in stock-based compensation expense was recorded pursuant to the grant of 2,500,000 options to directors of the Company. The options have an exercise price of \$0.05, vest immediately and expire on August 3, 2024.

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,	2022	2021
Risk free rate	0.53%	0.38%
Dividend yield	-	-
Weighted average volatility	146%	163%
Weighted average expected life	3 years	5 years
Weighted average fair value	\$0.035	\$0.037

Subsequent to August 31, 2021, 1,075,000 stock options expired unexercised.

d. Warrants

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

	August 31, 2021		May 31, 2021	
	Number of Warrants	Weighted average exercise price \$	Number of Warrants	Weighted average exercise price \$
Outstanding, beginning of period	5,000,000	0.08	8,958,903	0.20
Granted	-	-	5,000,000	0.08
Expired	-	-	(8,958,903)	0.20
Outstanding, end of period	5,000,000	0.08	5,000,000	0.08

The share purchase warrants outstanding and exercisable as at August 31, 2021 were:

Expiry Date	Exercise Price	Number of warrants outstanding
May 26, 2023	\$ 0.08	5,000,000

The weighted average life of options outstanding is 1.73 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.

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.

Key management compensation during the three months ended August 31, 2021 and 2020 was as follows:

	2021	2020
	\$	\$
Salaries and wages	26,923	26,442
Consulting fees	7,500	-
Share-based compensation	88,099	-
Total	122,522	26,442

The Company is continuing to jointly explore the Diagas Property with Arctic Star, a company with a common director and officer, on a 20-80 joint venture basis (Note 4).

As at August 31, 2021, \$224,951 (May 31, 2021 - \$299,951) was due to a company controlled by the former CEO of the Company with no specific terms of repayment. During the three months ended August 31, 2021 the Company repaid \$75,000 to related parties. The remainder of the balance owing is non-interest bearing and due on demand.

As at August 31, 2021 included in trade payables was \$35,670 (May 31, 2021 - \$54,486) that was due to related parties.

8. 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.

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

Management assesses credit risk of cash and receivables as low.

Currency risk

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For the Three Months Ended August 31, 2021 and 2020

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.

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, 2021 the Company had cash of \$13,119 (May 31, 2021 - \$38,270), and current liabilities of \$1,381,452 (May 31, 2021 - \$1,415,948).

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 period ended August 31, 2021. The Company is not subject to any externally imposed capital requirements.