

MARGARET LAKE DIAMONDS INC.

Financial Statements

For the Years Ended May 31, 2021 and 2020

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, 2021 and 2020, and the statements of changes in equity (deficit), comprehensive loss, and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at May 31, 2021 and 2020, 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 describes 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.

We obtained Management's Discussion and Analysis prior to the date of this auditors' report. 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.

DMCL

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

September 28, 2021



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, 2021 \$	May 31, 2020 \$
Assets			
Current assets			
Cash		38,270	927
Receivables	3	12,098	34,824
Prepaid expenses		10,956	7,322
		61,324	43,073
Exploration and evaluation assets	4	701,318	525,318
Reclamation bond	4	66,877	114,877
		829,519	683,268
Liabilities and shareholders' equity			
Current liabilities			
Trade and other payables	5, 8	1,072,031	839,916
Contributions from JV	4	43,966	43,966
Due to related parties	8	299,951	135,069
		1,415,948	1,018,951
Shareholders' equity (deficit)			
Share capital	6	5,949,879	5,799,879
Subscription receivable	6	(108,900)	-
Reserve	6	539,262	520,789
Deficit		(6,966,670)	(6,656,351)
		(586,429)	(335,683)
		829,519	683,268

Nature of operations (Note 1)

Subsequent event (Note 13)

Approved by the Board of Directors on September 28, 2021

"George Kovalyov"

George Kovalyov, Director

"Neil Foran"

Neil Foran, Director

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

MARGARET LAKE DIAMONDS INC.

Statements of Changes in Equity (Deficit)
For the Years Ended May 31, 2021 and 2020
(Expressed in Canadian Dollars)

	Share Capital		Reserves	Subscription Receivable	Deficit	Total Equity
	Shares	Amount \$				
Balance, May 31, 2019	54,686,587	5,799,879	509,381	-	(5,484,241)	825,019
Share-based compensation (Note 6)	-	-	11,408	-	-	11,408
Net loss for the period	-	-	-	-	(1,172,110)	(1,172,110)
Balance, May 31, 2020	54,686,587	5,799,879	520,789	-	(6,656,351)	(335,683)
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	-	-	-	-	(310,319)	(310,319)
Balance, May 31, 2021	59,686,587	5,949,879	539,262	(108,900)	(6,966,670)	(586,429)

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

MARGARET LAKE DIAMONDS INC.

Statements of Comprehensive Loss
For the Years Ended May 31, 2021 and 2020
(Expressed in Canadian Dollars)

	Note	2021 \$	2020 \$
Expenses:			
Consulting	8	30,139	35,000
Marketing		11,229	55,359
Management fees	8	-	22,000
Office and administration		38,711	60,570
Professional fees		137,974	93,650
Wages and salaries	8	45,453	105,575
Regulatory fees		29,705	35,905
Stock-based compensation	6,8	18,473	11,408
Loss before other items		(311,684)	(419,467)
Foreign exchange gain		1,365	-
Write-off of exploration and evaluation assets	4	-	(752,643)
Net and comprehensive loss		(310,319)	(1,172,110)
Loss per common share			
Basic and diluted		(0.01)	(0.02)
Weighted average number of common shares			
outstanding		54,755,080	54,686,587

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, 2021 and 2020

(Expressed in Canadian dollars)

	May 31, 2021	May 31, 2020
	\$	\$
Cash provided by (used in):		
Operating activities:		
Net loss	(310,319)	(1,172,110)
Share-based compensation	18,473	11,408
Write-off of exploration and evaluation asset	-	752,643
Changes in non-cash working capital item:		
Receivables	22,726	(13,463)
Prepaid expenses	(3,634)	(518)
Trade and other payables	214,115	190,804
Net cash used in operating activities	(58,639)	(231,236)
Investing activities:		
Mineral Incentive Program ("MIP") grants	-	152,742
Exploration and evaluation assets	(158,000)	(102,414)
Reclamation bond	48,000	-
Net cash provided by (used in) investing activities	(110,000)	50,328
Financing activity:		
Proceeds from private placement	41,100	-
Advances from related parties	317,300	-
Due to related parties	(152,418)	135,069
Net cash provided by financing activity	205,982	135,069
Change in cash	37,343	(45,839)
Cash, beginning	927	46,766
Cash, ending	38,270	927

Supplemental cash flow information (Note 11)

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, 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 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 \$6,966,670 at May 31, 2021 (May 31, 2020 - \$6,656,351) since its inception, including a loss of \$310,319 for the year ended May 31, 2021 (2020 – \$1,172,110). At May 31, 2021, the Company had a working capital deficit of \$1,354,624 (May 31, 2020 – \$975,878).

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 presentation

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

These financial statements were authorized for issue on September 28, 2021 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 of the International Financial Reporting Interpretations Committee (“IFRIC”).

Basis of presentation

The financial statements of the Company have been prepared on an accrual basis except for cash flow information and are based on historical costs except for financial instruments measured at fair value, modified where applicable and are presented in Canadian dollars unless otherwise noted.

MARGARET LAKE DIAMONDS INC.

Notes to the Financial Statements

(Expressed in Canadian dollars)

For the Years Ended May 31, 2021 and 2020

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 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-through share subscribers; differences 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.

MARGARET LAKE DIAMONDS INC.

Notes to the Financial Statements

(Expressed in Canadian dollars)

For the Years Ended May 31, 2021 and 2020

Exploration and evaluation assets

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

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

Management reviews the facts and circumstances suggesting if the carrying amount of the exploration and evaluation assets exceeds their recoverable amount on a regular basis. If the facts and circumstances suggest the carrying value exceeds the recoverable amount, the Company will perform an impairment test on the property.

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.

MARGARET LAKE DIAMONDS INC.

Notes to the Financial Statements

(Expressed in Canadian dollars)

For the Years Ended May 31, 2021 and 2020

Flow-through shares

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

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

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

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

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 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.

The Company's cash, receivables, trade payables, and due to related parties are classified at amortized cost.

MARGARET LAKE DIAMONDS INC.

Notes to the Financial Statements

(Expressed in Canadian dollars)

For the Years Ended May 31, 2021 and 2020

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 comprehensive loss. 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 comprehensive loss 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 comprehensive loss, 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.

Interest in jointly controlled asset

The Company has interest in a joint venture, which is involved in mineral exploration of the Diagas Property (Note 4). 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 Exploration Corp. ("Arctic Star").

The Company has 20% (2020 – 60%) of the interest in the JV, while Arctic Star has 80% of the interest in the JV. Accordingly, the Company has capitalized its 20% share in the expenditures made on the Diagas JV.

MARGARET LAKE DIAMONDS INC.

Notes to the Financial Statements

(Expressed in Canadian dollars)

For the Years Ended May 31, 2021 and 2020

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

Certain new accounting standards, amendments to standards and interpretations have been issued, effective for annual periods beginning on or after May 31, 2021. These standards have been assessed to not have a significant impact on the Company's financial statements.

3. Receivables

	May 31, 2021	May 31, 2020
	\$	\$
GST receivable	12,098	29,554
Due from related party (Note 8)	-	5,270
Balance, end of the year	12,098	34,824

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.

MARGARET LAKE DIAMONDS INC.

Notes to the Financial Statements

(Expressed in Canadian dollars)

For the Years Ended May 31, 2021 and 2020

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 Diagrass 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 Diagrass JV was diluted to 20% and Arctic Star is now the operator of the Diagrass JV.

As at May 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 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, 2020 the Company received a default notice on the Kiyuk Option as it had failed to issue 5,000,000 common shares or make the \$150,000 investment. The Company consequently wrote-off the Kiyuk Lake Property and recorded a write-off of exploration assets of \$752,643 during the year ended May 31, 2020.

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 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:

MARGARET LAKE DIAMONDS INC.

Notes to the Financial Statements

(Expressed in Canadian dollars)

For the Years Ended May 31, 2021 and 2020

- 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:

Property:	Cobalt Projects	Kiyuk Lake	Diagras	Total
	\$	\$	\$	\$
Acquisition Costs:				
Balance, May 31, 2019	-	-	112,333	112,333
Staking	-	18,500	-	18,500
Impairment	-	(18,500)	-	(18,500)
Balance, May 31, 2020	-	-	112,333	112,333
Cash acquisition cost	160,000	-	-	160,000
Balance, May 31, 2021	160,000	-	112,333	272,333
Deferred exploration costs:				
Balance, May 31, 2019	-	87,378	500,085	587,463
Additions:				
Consulting	-	4,740	7,575	12,315
Reports	-	12,570	-	12,570
Camp	-	105,175	-	105,175
Fuel	-	6,280	-	6,280
Surveying	-	518,000	-	518,000
MIP Grants received	-	-	(152,742)	(152,742)
Allocation to JV Partner	-	-	58,067	58,067
Impairment	-	(734,143)	-	(734,143)
Balance, May 31, 2020	-	-	412,985	412,985
Additions:				
Reports	16,000	-	-	16,000
Balance, May 31, 2021	16,000	-	412,985	428,985
Balance, May 31, 2020	-	-	525,318	525,318
Balance, May 31, 2021	176,000	-	525,318	701,318

MARGARET LAKE DIAMONDS INC.

Notes to the Financial Statements

(Expressed in Canadian dollars)

For the Years Ended May 31, 2021 and 2020

5. Trade and other payables

	May 31, 2021	May 31, 2020
	\$	\$
Trade payables (Note 8)	912,025	797,395
Accrued liabilities	23,582	583
Advances payable	50,000	-
Payroll liabilities	86,424	41,938
	1,072,031	839,916

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 subsequent to May 31, 2021.

There were no transactions affecting share capital during the year ended May 31, 2020.

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:

	May 31, 2021		May 31, 2020	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Outstanding, beginning of year	4,175,000	0.10	3,675,000	0.10
Granted	500,000	0.05	500,000	0.05
Expired	-	-	-	-
Outstanding, end of year	4,675,000	0.09	4,175,000	0.10

MARGARET LAKE DIAMONDS INC.

Notes to the Financial Statements

(Expressed in Canadian dollars)

For the Years Ended May 31, 2021 and 2020

The share options outstanding and exercisable as at May 31, 2021:

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
		4,675,000	4,675,000

The weighted average life of options outstanding is 1.89 years.

During the year ended May 31, 2021, \$18,473 (2020 - \$11,408) in stock-based compensation expense was recorded for the stock options granted.

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,	2021	2020
Risk free rate	0.38%	1.59%
Dividend yield	-	-
Weighted average volatility	163%	151%
Weighted average expected life	5 years	5 years
Weighted average fair value	\$0.037	\$ 0.023

d. Warrants

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

	May 31, 2021		May 31, 2020	
	Number of Warrants	Weighted average exercise price \$	Number of Warrants	Weighted average exercise price \$
Outstanding, beginning of year	8,958,903	0.20	8,958,903	0.20
Granted	5,000,000	0.08	-	-
Expired	(8,958,903)	0.20	-	-
Outstanding, end of year	5,000,000	0.08	8,958,903	0.20

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

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

The weighted average life of options outstanding is 1.99 years.

MARGARET LAKE DIAMONDS INC.

Notes to the Financial Statements

(Expressed in Canadian dollars)

For the Years Ended May 31, 2021 and 2020

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. 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:

	2021	2020
Net loss before taxes	\$ (310,319)	\$ (1,172,110)
Statutory rate	26.5%	26.5%
Expected income tax recovery at statutory rate	\$ (82,000)	\$ (311,000)
Non-deductible items	7,000	21,000
Change in unrecognized deductible temporary differences	75,000	290,000
Deferred tax recovery	\$ -	\$ -

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

	2021	2020
	\$	\$
Deferred tax assets (liabilities)		
Loss carry-forwards	653,000	569,000
Share issuance costs	6,000	15,000
Exploration and evaluation assets	778,000	778,000
Other	2,000	2,000
	1,439,000	1,364,000
Unrecognized deferred tax assets	(1,439,000)	(1,364,000)
Net deferred tax assets	-	-

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

	\$	Expiry date range
Loss carry-forwards	2,465,000	2031 to 2041
Share issuance costs	23,000	2021 to 2022
Resource pools	3,633,000	No expiry

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

MARGARET LAKE DIAMONDS INC.

Notes to the Financial Statements

(Expressed in Canadian dollars)

For the Years Ended May 31, 2021 and 2020

8. 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 year ended May 31, 2021 and 2020 was as follows:

	2021	2020
	\$	\$
Management fees	-	14,500
Salaries and wages	45,453	105,575
Consulting fees	12,500	-
Share-based compensation	-	11,408
Total	57,953	131,483

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

As at May 31, 2021, \$299,951 (May 31, 2020 - \$135,069) was due to a company controlled by the former CEO of the Company with no specific terms of repayment. During the year ended May 31, 2021, the Company received \$317,300 in advances from related parties, the amounts are non-interest bearing and due on demand. During the year ended May 31, 2021, the Company applied a portion of the payments received to salary expense incurred by the current CEO and former CFO, as part of a shared work agreement.

As at May 31, 2021 included in trade payables was \$54,486 (May 31, 2020 - \$23,305) that was due to related parties.

As at May 31, 2021, included in receivables was \$Nil (May 31, 2020 - \$5,270) that was due from a company with common officers (Note 3).

9. 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.

MARGARET LAKE DIAMONDS INC.

Notes to the Financial Statements

(Expressed in Canadian dollars)

For the Years Ended May 31, 2021 and 2020

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.

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, 2021 the Company had cash of \$38,270 (May 31, 2020 - \$927), and current liabilities of \$1,415,948 (May 31, 2020 - \$1,018,951).

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.

10. 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, 2021. The Company is not subject to any externally imposed capital requirements.

11. Supplemental cash flow information

During the year ended May 31, 2020, the Company incurred \$672,840 of deferred exploration expenditures, of which \$570,426 was included in accounts payable and accrued liabilities at May 31, 2020 and May 31, 2021.

MARGARET LAKE DIAMONDS INC.

Notes to the Financial Statements

(Expressed in Canadian dollars)

For the Years Ended May 31, 2021 and 2020

12. Joint Venture Agreement

On January 13, 2020 the Company entered into a Joint Venture Agreement (the “JV”) with KORID Energy Company Inc. (“KORID”) to construct a factory in the United States for the purpose of producing vanadium redox flow batteries and energy storage systems.

The JV grants exclusive global rights to KORID’s proprietary vanadium redox battery technology, with the exception of Korea and Australia, to the Company. In consideration the Company has agreed to:

- 1) Consolidate its outstanding shares on 5.468:1 basis resulting in shares outstanding of 10,001,205 (not completed at May 31, 2021)
- 2) The Company will complete a financing for \$5,000,000 at \$0.25 per share, resulting in the issuance of 20,000,000 post consolidation shares of the Company (not completed at May 31, 2021)
- 3) The Company will issue 20,000,000 post consolidation shares to KORID and its related companies

During the year ended May 31, 2021 the Company made the decision to not proceed with the JV and has no further obligations relating to the JV.

13. Subsequent Event

On August 3, 2021 the Company granted 2,500,000 option exercisable at \$0.05 for a period of 3 years.