# MARGARET LAKE DIAMONDS INC.

Condensed Interim Financial Statements

For the six months ended November 30, 2017 and 2016

Expressed in Canadian Dollars

(Unaudited – Prepared by Management)

# MARGARET LAKE DIAMONDS INC.

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## 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.

January 29, 2018

## MARGARET LAKE DIAMONDS INC.

Condensed Interim Statements of Financial Position
(Expressed in Canadian Dollars - unaudited)

| | Note | | **November 30, 2017 (unaudited)** | | May 31, 2017 (audited) |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Current assets | | | | | |
| Cash | | **$** | **158,964** | $ | 293,721 |
| Sales taxes receivable | | | **4,514** | | 27,750 |
| Prepaid expenses | | | **1,248** | | 37,954 |
| | | | **164,726** | | 359,425 |
| Exploration and evaluation assets | 5 | | **3,274,237** | | 3,242,863 |
| | | **$** | **3,438,963** | $ | 3,602,288 |
| **Liabilities and shareholders' equity** | | | | | |
| Current liabilities | | | | | |
| Trade and other payables | 3 | **$** | **15,973** | $ | 237,991 |
| Contribution from JV partner | 5 | | **27,281** | | 78,932 |
| | | | **43,254** | | 316,923 |
| Shareholders' equity | | | | | |
| Share capital | 6 | | **4,932,025** | | 4,682,409 |
| Common stock subscribed | 6 | | – | | 155,000 |
| Reserves | 6 | | **305,734** | | 303,734 |
| Deficit | | | **(1,842,050)** | | (1,855,778) |
| | | | **3,395,709** | | 3,285,365 |
| | | **$** | **3,438,963** | $ | 3,602,288 |

Nature of operations (Note 1)

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

## MARGARET LAKE DIAMONDS INC.

Condensed Interim Statement of Changes in Equity
(Expressed in Canadian Dollars - unaudited)

| | | Share Capital | | | | | |
|---|---|---|---|---|---|---|---|
| | **Note** | **Shares** | **Amount** | **Common stock subscribed** | **Reserves** | **Deficit** | **Total Equity** |
| **Balance, May 31, 2016** | | 27,860,280 | $ 3,179,328 | $ – | $ 81,888 | $ (768,273) | $ 2,492,943 |
| Shares issued for exploration and evaluation assets | 6(b)(i) | 4,500,000 | 495,000 | – | – | – | 495,000 |
| Private placement | 6(b)(ii) | 7,850,000 | 785,000 | – | – | – | 785,000 |
| Exercise of warrants | 6(b)(iii) | 75,000 | 15,000 | – | – | – | 15,000 |
| Share issuance costs | 6(b)(ii) | – | (51,944) | – | – | – | (51,944) |
| Finders' shares and warrants | 6(b)(ii)(f) | 572,000 | (29,975) | – | 29,975 | | – |
| Share-based compensation | 6(d) | – | – | – | 108,629 | – | 108,629 |
| Net loss | | – | – | – | – | (903,324) | (903,324) |
| **Balance, November 30, 2016** | | 40,857,280 | 4,392,409 | – | 220,492 | (1,671,597) | 2,941,304 |
| Shares issued for exploration and evaluation assets | 6(b)(i) | 1,500,000 | 270,000 | – | – | – | 270,000 |
| Exercise of warrants | 6(b)(iii) | 100,000 | 20,000 | – | – | – | 20,000 |
| Common stock subscribed | 6(b)(iii) | – | – | 155,000 | – | – | 155,000 |
| Share-based compensation | 6(d) | – | – | – | 83,242 | – | 83,242 |
| Net loss | | – | – | – | – | (184,181) | (184,181) |
| **Balance, May 31, 2017** | | 42,457,280 | 4,682,409 | 155,000 | 303,734 | (1,855,778) | 3,285,365 |
| Private placement | 6(b)(i) | 3,650,000 | 365,000 | (155,000) | – | – | 210,000 |
| Flow-through premium liability | 4 | – | (91,250) | – | – | – | (91,250) |
| Share issuance costs | 6(b)(i) | 210,000 | (24,134) | – | 2,000 | – | (22,134) |
| Net income | | – | – | – | – | 13,728 | 13,728 |
| **Balance, November 30, 2017** | | **46,317,280** | **$ 4,932,025** | **$ –** | **$ 305,734** | **$ (1,842,050)** | **$ 3,395,709** |

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

# MARGARET LAKE DIAMONDS INC.

Condensed Interim Statements of Comprehensive Loss
(Expressed in Canadian Dollars - unaudited)

| | Note | Three months ended November 30, 2017 | Three months ended November 30, 2016 | Six months ended November 30, 2017 | Six months ended November 30, 2016 |
|---|---|---|---|---|---|
| Expenses: | | | | | |
| Consulting | | $ – | $ 55,730 | $ **18,689** | $ 55,730 |
| Marketing | | **4,000** | 81,977 | **16,000** | 81,977 |
| Office and administration | 7 | **10,121** | 15,691 | **20,893** | 24,919 |
| Professional fees (recovery) | | **5,701** | 7,350 | **7,667** | (24,303) |
| Regulatory fees | | **3,189** | 3,729 | **4,589** | 5,029 |
| Rent | 7 | **3,000** | 3,000 | **6,000** | 6,000 |
| Share-based compensation | | – | 108,629 | – | 108,629 |
| Transfer agent fees | | **1,868** | 4,421 | **2,840** | 5,657 |
| Travel and promotion | | **844** | – | **844** | – |
| | | **(28,723)** | (280,527) | **(77,522)** | (263,638) |
| Other items: | | | | | |
| Write-off of exploration and evaluation assets | 5 | – | – | – | (639,686) |
| Loss before taxes | | **(28,723)** | (280,527) | **(77,522)** | (903,324) |
| Deferred tax recovery | | – | – | **91,250** | – |
| Net and comprehensive income (loss) | | **$ (28,723)** | $ (280,527) | **$ 13,728** | $ (903,324) |
| Loss per common share Basic and diluted | | **$ (0.00)** | $ (0.01) | **$ 0.00** | $ (0.03) |
| Weighted average number of common shares outstanding | | **46,317,280** | 35,987,016 | **45,979,793** | 32,073,575 |

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

# MARGARET LAKE DIAMONDS INC.

Condensed Interim Statements of Cash Flows
(Expressed in Canadian Dollars - unaudited)

| | For the six months ended November 30, | |
|---|---|---|
| | **2017** | 2016 |
| Cash provided by (used in): | | |
| Operating activities: | | |
| Net and comprehensive income (loss) | **$ 13,728** | $ (903,324) |
| Deferred tax recovery | **(91,250)** | – |
| Write-off of exploration and evaluation assets | – | 639,686 |
| Share-based compensation expense | – | 108,629 |
| Changes in non-cash working capital item: | | |
| Sales taxes receivable | **23,236** | (2,247) |
| Prepaid expenses | **36,706** | (76,745) |
| Trade and other payables | **(11,467)** | (56,509) |
| Due to related parties | – | (76,213) |
| Net cash used in operating activities | **(29,047)** | (366,723) |
| Investing activities: | | |
| Contribution from JV partner | **(51,651)** | – |
| Exploration and evaluation assets | **(273,036)** | (211,322) |
| Government assistance | **31,111** | – |
| Net cash used in investing activities | **(293,576)** | (211,322) |
| Financing activities: | | |
| Common shares issued for cash, net | **187,866** | 748,056 |
| Net cash provided by financing activities | **187,866** | 748,056 |
| Change in cash | **(134,757)** | 170,011 |
| Cash, beginning | **293,721** | 128,339 |
| Cash, ending | **$ 158,964** | $ 298,350 |

Supplemental cash flow information:

Other significant non-cash transactions during the six months ended November 30, 2017 included:

- Accrued exploration expenditures of $7,297 (May 31, 2017 - $217,846) in trade and other payables;
- fair value of agent's warrants of $2,000 (2016 - $Nil) recorded as share issuance costs (Note 6(f));
- allocation of $91,250 (2016 - $Nil) from capital stock to flow-through premium liability on the issuance of the flow-through shares (Note 4);
- issuance of common shares of the Company with a fair value of $Nil (2016 - $495,000) for acquisition of exploration and evaluation assets (Notes 5 and 6(b)(ii)).

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

## 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").

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

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

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

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

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

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

The Company has an accumulated deficit of $1,842,050 (May 31, 2017 - $1,855,778) since its inception, including a loss before deferred tax recovery of $77,522 for the six months ended November 30, 2017 (2016 – a loss of $903,324). At November 30, 2017, the Company had a working capital of $121,472 (May 31, 2017 - $42,502).

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

## 2. Significant accounting policies and basis of preparation

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

These condensed interim financial statements were authorized for issue on January 29, 2018 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.

***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, 2017.

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, 2017.

***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;

## 2. Significant accounting policies and basis of presentation (cont'd)

***Significant judgments***

- the classification of resource expenditures for the purpose of renunciation to flow-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.

***Interest in jointly controlled asset***

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

***Recent accounting pronouncements***

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

- *IFRS 9, Financial instruments* ("IFRS 9") was issued by the IASB on July 24, 2014 and will replace IAS 39, Financial instruments: recognition and measurement ("IAS 39"). IFRS 9 utilizes a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. Final amendments released on July 24, 2014 also introduce a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

- *IFRS 15, Revenue from Contracts and Customers* ("IFRS 15") was issued by the IASB on May 28, 2014, and will replace IAS 18, Revenue, IAS 11, Construction Contracts, and related interpretations on revenue. IFRS 15 sets out the requirements for recognizing revenue that apply to all contracts with customers, except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 uses a control based approach to recognize revenue which is a change from the risk and reward approach under the current standard. Companies can elect to use either a full or modified retrospective approach. IFRS 15 is effective for annual periods beginning on or after January 1, 2018.

- *IFRS 16, Leases,* new standard contains a single lessee accounting model, eliminating the distinction between operating and financing leases from the perspective of the lessee. The accounting requirements from the perspective of the lessor remains largely in line with previous IAS 17 requirements, effective for annual reporting periods beginning on or after January 1, 2019.

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

(Expressed in Canadian Dollars)

## 3. Trade and other payables

| | November 30, 2017 | May 31, 2017 |
|---|---|---|
| Accrued liabilities | $ – | $ 28,441 |
| Exploration payables | 7,297 | 208,298 |
| Trade payables | 8,676 | 1,252 |
| | $ 15,973 | $ 237,991 |

## 4. Flow-through liabilities

| | November 30, 2017 | May 31, 2017 |
|---|---|---|
| Balance, beginning of the period | $ – | $ – |
| Recorded | 91,250 | – |
| Amortized | (91,250) | – |
| Balance, end of the period | $ – | $ – |

On June 13, 2017, the Company completed a unit private placement issuing 3,650,000 flow-through shares (Note 6(b)(i)) for gross proceeds of $365,000. The Company recorded a flow-through premium liability of $91,250 (2016 - $Nil) in connection with this flow-through private placement, which was calculated based on an estimated premium of approximately $0.025 per flow-through share issued in excess of the market value of the Company’s shares at the closing.

The flow-through agreements require the Company to renounce certain deductions for Canadian exploration expenditures incurred on the Company’s resource properties to the flow-through share subscribers. During the six months ended November 30, 2017, the Company incurred the required eligible exploration expenditures of $365,000, which will be renounced to the flow-through subscribers for calendar year 2017. As a result, the Company fully amortized the flow-through premium liability and recorded a deferred income tax recovery of $91,250 in the statement of comprehensive loss.

## 5. Exploration and evaluation assets

***Margaret Lake Diamond Property***

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

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

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

***Margaret Lake Diamond Property*** *(continued)*

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

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

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

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

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

During the six months ended November 30, 2017, the Company's application under the Mining Incentive Program ("MIP") of the Northwest Territories for the Margaret Lake Property was approved. The total value of the approved MIP funding for 2017-2018 is $36,601. In November 2017, the Company received first payment in the amount of $31,111, which equals to 85% of the total funding and was recorded against exploration expenditures incurred on the Margaret Lake property in calendar 2017.

***Kirk Lake***

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

***Marlin Property***

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

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

## 5. Exploration and evaluation assets (continued)

### *Diagras Property*

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

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

The Company earned its 60% interest in the Diagras Property by making a bond payment of $186,990 to the Government of the Northwest Territories in lieu of required exploration expenditures and a non-refundable filing fee of $4,675 to obtain extension of the mineral claims comprising the property.

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

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

As at November 30, 2017, the Company’s exploration expenditures on the Diagras property geophysical program totaled $481,798 (May 31, 2017 - $402,671), of which $192,719 (May 31, 2017 - $161,068) has been allocated to Arctic Star based on its proportionate interest in the Diagras JV.

As at November 30, 2017, the unspent balance of the Arctic Star’s contribution was $27,281 (May 31, 2017 - $78,932). The Company returned $20,000 to Arctic Star during the first quarter ended August 31, 2017. The unapplied balance of the JV partner contribution is included as current liability in the Company’s statement of financial position as at November 30, 2017.

(Expressed in Canadian dollars - unaudited)

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

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

| | Margaret Lake Property | Marlin Property | Kirk Lake | Diagras JV | Total |
|---|---|---|---|---|---|
| **Acquisition Costs:** | | | | | |
| Balance, May 31, 2016 | $ 653,863 | $ 115,353 | $ 16,000 | $ – | $ **785,216** |
| Additions: | | | | | |
| Cash payments | – | – | – | 191,665 | 191,665 |
| Common shares | 765,000 | – | – | – | 765,000 |
| Regulatory and legal costs | 12,625 | – | – | 15,494 | 28,119 |
| Write-off | – | (115,353) | – | – | (115,353) |
| **Balance, May 31, 2017 and November 30, 2017** | $ 1,431,488 | $ – | $ 16,000 | $ 207,159 | **$ 1,654,647** |
| **Deferred exploration costs:** | | | | | |
| Balance, May 31, 2016 | $ 1,058,957 | $ 524,333 | $ 144,843 | $ – | $ **1,728,133** |
| Additions: | | | | | |
| Camp costs | 16,875 | – | – | 148,272 | 165,147 |
| Community consultations | 4,000 | – | – | – | 4,000 |
| Geology | 10,847 | – | – | 41,065 | 51,912 |
| Geophysics | 109,964 | – | – | 214,461 | 324,425 |
| Contribution from the JV partner (Note 5) | – | – | – | (161,068) | (161,068) |
| Write-off | – | (524,333) | – | – | (524,333) |
| **Balance, May 31, 2017** | 1,200,643 | – | 144,843 | 242,730 | **1,588,216** |
| Additions: | | | | | |
| Geology | 10,857 | – | – | 40,356 | 51,213 |
| Geophysics | – | – | – | 33,808 | 33,808 |
| Regulatory filing fees | 4,203 | – | – | 4,912 | 9,115 |
| MIP Grant (Note 5) | (31,111) | – | – | – | (31,111) |
| Contribution from the JV partner (Note 5) | – | – | – | (31,651) | (31,651) |
| **Balance, November 30, 2017** | $ 1,184,592 | $ – | $ 144,843 | $ 290,155 | **$ 1,619,590** |
| **Exploration and evaluation assets:** | | | | | |
| **Balance, May 31, 2017** | **$ 2,632,131** | **$ –** | **$ 160,843** | **$ 449,889** | **$ 3,242,863** |
| **Balance, November 30, 2017** | **$ 2,616,080** | **$ –** | **$ 160,843** | **$ 497,314** | **$ 3,274,237** |

## 6. Share capital

### a. Authorized

Unlimited number of common shares without par value.

### b. Issued and outstanding

During the six months ended November 30, 2017:

(i) the Company completed a private placement of 3,650,000 units at a price of $0.10 per unit for gross proceeds of $365,000. Each unit consisted of one flow-through common share and one-half non flow-through share purchase warrant of the Company. Each whole warrant entitles the holder to purchase one common share at a price of $0.15 per share for a period of 12 months from closing. A flow-through premium liability of $91,250 was recorded in connection with this private placement (Note 4);

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

During the year ended May 31, 2017:

(ii) pursuant to the Transfer Agreement with MLDL, the Company issued 6,000,000 common shares valued at $765,000 or $0.13 per common share issued. The Company paid regulatory fees of $4,725 and legal fees of $7,900 in connection with this transaction. The share issuance costs were recorded as acquisition costs of Margaret Lake Diamond Property (Note 5);

(iii) the Company completed a private placement of 7,850,000 units at a price of $0.10 per unit for gross proceeds of $785,000. Each unit consisted of one common share and one-half share purchase warrant of the Company. Each whole warrant entitles the holder to purchase one common share at a price of $0.30 per share for a two-year period from closing.

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

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

(Expressed in Canadian dollars - unaudited)

## 6. Share capital (continued)

### c. Common stock subscribed

As at May 31, 2017, the Company received $155,000 in common stock cash subscriptions with respect to the Company's flow-through private placement of 3,650,000 units. The Company issued 1,550,000 units for these subscriptions upon the closing of the private placement on June 13, 2017 (Note 6(b)(i)).

### d. Stock options

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

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

| | November 30, 2017 | | May 31, 2017 | |
|---|---|---|---|---|
| | Number of options | Weighted average exercise price | Number of options | Weighted average exercise price |
| Outstanding, beginning of period | 1,625,000 | $ 0.13 | 550,000 | $ 0.10 |
| Granted | – | – | 1,075,000 | 0.15 |
| Outstanding, end of period | 1,625,000 | $ 0.13 | 1,625,000 | $ 0.13 |

The share options outstanding and exercisable as at November 30, 2017:

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

The weighted average life of options outstanding is 3.01 years.

(Expressed in Canadian dollars - unaudited)

**6. Share capital** (continued)

**e. Warrants**

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

| | November 30, 2017 | | May 31, 2017 | |
|---|---|---|---|---|
| | Number of Warrants | Weighted average exercise price | Number of Warrants | Weighted average exercise price |
| Outstanding, beginning of period | 8,954,600 | $ 0.27 | 6,050,135 | $ 0.25 |
| Exercised: | | | | |
| Accelerated warrants *(Note 6(b)(iv)) | – | – | (175,000) | 0.20 |
| Issued: | | | | |
| Private placement (Note 6(b)(i)(iii)) | 1,825,000 | 0.15 | 3,925,000 | 0.30 |
| Finders' warrants (Note 6(b)(i)(iii)) | 105,000 | 0.15 | 286,000 | 0.30 |
| Bonus warrants *(Note 6(b)(iv)) | – | – | 175,000 | 0.30 |
| Expired/ forfeited | (4,500,000) | 0.25 | (1,306,535) | 0.25 |
| Outstanding, end of period | 6,384,600 | $ 0.25 | 8,954,600 | $ 0.27 |

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

The share purchase warrants outstanding and exercisable as at November 30, 2017:

| Expiry Date | Exercise Price | Number of Warrants Outstanding | Number of Warrants Exercisable |
|---|---|---|---|
| April 22, 2018 | $ 0.25 | 243,600 | 243,600 |
| June 13, 2018 | $ 0.15 | 1,930,000 | 1,930,000 |
| October 21, 2018 | $ 0.30 | 4,211,000 | 4,211,000 |
| | | 6,384,600 | 10,884,600 |

The weighted average life of warrants outstanding is 0.76 years.

During the six months ended November 30, 2017, the Company recorded $2,000 (2016 - $Nil) in the reserves account for the 105,000 finders' warrants issued in connection with the June 2017 private placement (Note 6(b)(i)).

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

(Expressed in Canadian dollars - unaudited)

## 6. Share capital (continued)

### e. Warrants *(continued)*

| For the period ended | November 30, 2017 | May 31, 2017 |
|---|---|---|
| Risk free rate | 0.91% | 0.52% |
| Dividend yield | – | – |
| Weighted average volatility | 115% | 148% |
| Weighted average expected life | 1 year | 2 years |
| Weighted average fair value | $ 0.02 | $ 0.11 |

### f. Reserves

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

| | Stock options | Agent's options | Total |
|---|---|---|---|
| Balance, May 31, 2016 | $ 55,037 | $ 26,851 | $ 81,888 |
| Share-based compensation | 191,871 | – | 191,871 |
| Fair value of finders' warrants | – | 29,975 | 29,975 |
| Balance, May 31, 2017 | 246,908 | 56,826 | 303,734 |
| Fair value of finders' warrants (Note 6(e)) | – | 2,000 | 2,000 |
| Balance, November 30, 2017 | $ 246,908 | $ 58,826 | $ 305,734 |

## 7. Related party transactions

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

On May 1, 2014, the Company entered into a rent and administrative services contract with Varshney Capital Corp. ("VCC"), a company partially owned by a former director of the Company, who resigned effective June 23, 2017. Pursuant to the agreement, the Company is obligated to pay $3,000 per month plus taxes for administrative services and $1,000 per month plus taxes for office premises. The agreement can be terminated with 1 month notice after a term of 3 years.

During the six months ended November 30, 2017, the Company paid $18,000 (2016 - $18,000) for administrative services and $6,000 (2016 - $6,000) for office rent to VCC.

The Company's director and the CEO subscribed for 1,000,000 units at a price of $0.10 per unit under the private placement completed in June 2017 (Note 6).

The Company is continuing to jointly explore the Diagras Property with Arctic Star, a company with a common director and officer, on a 60-40 joint venture basis (Note 5).

(Expressed in Canadian dollars - unaudited)

## 8. Financial instruments

### Fair Values

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

| | *Loans & receivables* | *Available for sale* | *Fair Value through Profit or Loss* | *Other financial liabilities* |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash | $ – | $ – | $ 158,964 | $ – |
| **Financial liabilities** | | | | |
| Trade payables | – | – | – | 15,973 |
| Contribution from the JV partner | – | – | – | 27,281 |
| | $ – | $ – | $ 158,964 | $ 43,254 |

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

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

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

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

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

There were no transfers between levels during the six months period ended November 30, 2017.

### Financial risk management

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

*Credit risk*

Credit risk refers to the counterparty will default on its contractual obligation resulting in financial loss to the Company. The Company's primary exposure to credit risk is on its cash deposit that are held by a Canadian bank. While there is concentration of risk holding all funds with one institution, this risk is managed by using a major bank that is a high credit quality financial institution as determined by rating agencies. As at November 30, 2017, the Company has cash deposits of $158,964 (May 31, 2017 - $293,721). Management assesses credit risk of cash as low.

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

**8. Financial instruments** (continued)

*Currency risk*

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

*Interest rate risk*

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

*Liquidity and funding risk*

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

The Company management ensures that there is sufficient capital in order to meet annual business requirement, taking into account administrative costs, property commitments and exploration budgets. As at November 30, 2017, the Company had cash of $158,964 (May 31, 2017 - $293,721) and current liabilities of $43,254 (May 31, 2017 - $316,923) including the unspent balance of the JV partner's contribution of $27,281 (May 31, 2017 - $78,932) (Note 5).

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

**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 six months ended November 30, 2017. The Company is not subject to any externally imposed capital requirements.