

**MARGARET LAKE DIAMONDS INC.**

(Formerly JDV Capital Corp.)

Condensed Interim Financial Statements

For the six months ended November 30, 2014 and 2013

Expressed in Canadian Dollars

(Unaudited – Prepared by Management)

# **MARGARET LAKE DIAMONDS INC.**

(Formerly JDV Capital Corp.)

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## **MARGARET LAKE DIAMONDS INC.**

(Formerly JDV Capital Corp.)

### **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 28, 2015

# MARGARET LAKE DIAMONDS INC.

(Formerly JDV Capital Corp.)

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

|                                             | Note | November 30, 2014<br>(unaudited) | May 31, 2014<br>(audited) |
|---------------------------------------------|------|----------------------------------|---------------------------|
| <b>Assets</b>                               |      |                                  |                           |
| Current assets                              |      |                                  |                           |
| Cash                                        | 3    | \$ 305,154                       | \$ 965,357                |
| Short-term investment                       | 3    | 11,000                           | 11,000                    |
| Receivables                                 | 4    | 58,583                           | 25,800                    |
| Prepaid expenses                            |      | 10,835                           | —                         |
| Exploration advances                        |      | 28,142                           | 203,864                   |
|                                             |      | <b>413,714</b>                   | 1,206,021                 |
| Exploration and evaluation assets           | 8    | <b>2,386,787</b>                 | 766,337                   |
|                                             |      | <b>\$ 2,800,501</b>              | <b>\$ 1,972,358</b>       |
| <b>Liabilities and shareholders' equity</b> |      |                                  |                           |
| Current liabilities                         |      |                                  |                           |
| Trade and other payables                    | 5    | \$ 336,623                       | \$ 46,735                 |
| Due to related parties                      | 11   | 51,881                           | 5,236                     |
| Convertible debt                            | 7    | 202,914                          | 196,776                   |
| Flow-through premium liability              | 6    | —                                | 57,368                    |
|                                             |      | <b>591,418</b>                   | 306,115                   |
| Shareholders' equity                        |      |                                  |                           |
| Share capital                               | 9    | 2,645,161                        | 2,093,736                 |
| Equity portion of convertible debt          | 7    | 10,644                           | 10,644                    |
| Reserves                                    | 9    | 151,285                          | 118,848                   |
| Deficit                                     |      | (598,007)                        | (556,985)                 |
|                                             |      | <b>2,209,083</b>                 | 1,666,243                 |
|                                             |      | <b>\$ 2,800,501</b>              | <b>\$ 1,972,358</b>       |

Nature of operations (Note 1)

Commitments (Note 10)

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

# MARGARET LAKE DIAMONDS INC.

(Formerly JDV Capital Corp.)

Condensed Interim Statements of Changes in Equity  
(Expressed in Canadian Dollars - Unaudited)

|                                   | Note       | Share capital     |                     | Equity component<br>of convertible debt | Reserves          | Deficit             | Total Equity        |
|-----------------------------------|------------|-------------------|---------------------|-----------------------------------------|-------------------|---------------------|---------------------|
|                                   |            | Shares            | Amount              |                                         |                   |                     |                     |
| <b>Balance, May 31, 2013</b>      |            | 3,064,009         | \$ 360,269          | \$ —                                    | \$ 52,219         | \$ (305,634)        | \$ 106,854          |
| Cancellation of escrowed shares   | 9(b)(v)    | (775,000)         | —                   | —                                       | —                 | —                   | —                   |
| Comprehensive loss                |            | —                 | —                   | —                                       | —                 | (26,082)            | (26,082)            |
| <b>Balance, November 30, 2013</b> |            | 2,289,009         | 360,269             | —                                       | 52,219            | (331,716)           | <b>80,772</b>       |
| Shares issued for property        | 9(b)(vii)  | 6,500,000         | 650,000             | —                                       | —                 | —                   | 650,000             |
| Flow-through private placement    | 9(b)(viii) | 3,000,000         | 300,000             | —                                       | —                 | —                   | 300,000             |
| Flow-through premium liability    | 9(b)(viii) | —                 | (57,368)            | —                                       | —                 | —                   | (57,368)            |
| Private placement                 | 9(b)(ix)   | 9,000,000         | 900,000             | —                                       | —                 | —                   | 900,000             |
| Share issuance costs              | 9(b)(x,xi) | —                 | (107,251)           | —                                       | —                 | —                   | (107,251)           |
| Shares issued to agent            | 9(b)(x)    | 100,000           | 10,000              | —                                       | —                 | —                   | 10,000              |
| Fair value of agent's options     | 9(b)(x)    | —                 | (49,271)            | —                                       | 49,271            | —                   | —                   |
| Exercise of options               | 9(b)(xii)  | 275,000           | 87,357              | —                                       | (32,357)          | —                   | 55,000              |
| Stock-based compensation          |            | —                 | —                   | —                                       | 49,715            | —                   | 49,715              |
| Convertible debt                  |            | —                 | —                   | 10,644                                  | —                 | —                   | 10,644              |
| Comprehensive loss                |            | —                 | —                   | —                                       | —                 | (225,269)           | (225,269)           |
| <b>Balance, May 31, 2014</b>      |            | 21,164,009        | 2,093,736           | 10,644                                  | 118,848           | (556,985)           | <b>1,666,243</b>    |
| Shares issued for property        | 9(b)(i)    | 100,000           | 28,000              | —                                       | —                 | —                   | 28,000              |
| Flow-through private placement    | 9(b)(ii)   | 1,160,000         | 324,800             | —                                       | —                 | —                   | 324,800             |
| Flow-through premium liability    | 9(b)(ii)   | —                 | (34,800)            | —                                       | —                 | —                   | (34,800)            |
| Private placement                 | 9(b)(iii)  | 1,070,000         | 267,500             | —                                       | —                 | —                   | 267,500             |
| Share issuance costs              | 9(b)(iv)   | —                 | (27,200)            | —                                       | —                 | —                   | (27,200)            |
| Fair value of agent's options     | 9(b)(iv)   | —                 | (6,875)             | —                                       | 6,875             | —                   | —                   |
| Stock-based compensation          | 9(c)       | —                 | —                   | —                                       | 25,562            | —                   | 25,562              |
| Comprehensive loss                |            | —                 | —                   | —                                       | —                 | (41,022)            | (41,022)            |
| <b>Balance, November 30, 2014</b> |            | <b>23,494,009</b> | <b>\$ 2,645,161</b> | <b>\$ 10,644</b>                        | <b>\$ 151,285</b> | <b>\$ (598,007)</b> | <b>\$ 2,209,083</b> |

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

## MARGARET LAKE DIAMONDS INC.

(Formerly JDV Capital Corp.)

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

|                                                         |      | Three months ended<br>November 30, |             | Six months ended<br>November 30, |             |
|---------------------------------------------------------|------|------------------------------------|-------------|----------------------------------|-------------|
|                                                         | Note | 2014                               | 2013        | 2014                             | 2013        |
| Expenses:                                               |      |                                    |             |                                  |             |
| Accretion of convertible debt                           | 7    | \$ 3,051                           | \$ —        | \$ 6,137                         | \$ —        |
| Consulting                                              |      | 2,450                              | —           | 2,450                            | —           |
| Interest on convertible debt                            | 7    | 4,577                              | —           | 9,205                            | —           |
| Office and administration                               | 11   | 10,758                             | 5,442       | 24,652                           | 10,919      |
| Professional fees                                       |      | 12,964                             | 6,604       | 29,090                           | 6,604       |
| Regulatory fees                                         |      | 1,254                              | 6,656       | 4,728                            | 6,687       |
| Rent                                                    | 11   | 3,000                              | —           | 6,000                            | —           |
| Stock-based compensation                                | 9    | 5,347                              | —           | 25,562                           | —           |
| Transfer agent fees                                     |      | 3,437                              | 841         | 5,384                            | 1,778       |
| Travel and promotion                                    |      | 13,795                             | —           | 20,045                           | 533         |
|                                                         |      | (60,633)                           | (19,543)    | (133,253)                        | (26,521)    |
| Other items:                                            |      |                                    |             |                                  |             |
| Interest Income                                         |      | 31                                 | 182         | 63                               | 439         |
| Loss before income taxes                                |      | (60,602)                           | (19,361)    | (133,190)                        | (26,082)    |
| Deferred income tax recovery                            | 6    | 34,800                             | —           | 92,168                           | —           |
| Comprehensive loss                                      |      | \$ (25,802)                        | \$ (19,361) | \$ (41,022)                      | \$ (26,082) |
| Loss per common share                                   |      |                                    |             |                                  |             |
| Basic and diluted                                       |      | \$ (0.00)                          | \$ (0.01)   | \$ (0.01)                        | \$ (0.01)   |
| Weighted average number of<br>common shares outstanding |      | 22,053,030                         | 2,028,017   | 21,610,948                       | 2,028,017   |

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

# MARGARET LAKE DIAMONDS INC.

(Formerly JDV Capital Corp.)

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

|                                       | Three months ended<br>November 30, |             | Six months ended<br>November 30, |             |
|---------------------------------------|------------------------------------|-------------|----------------------------------|-------------|
|                                       | 2014                               | 2013        | 2014                             | 2013        |
| Cash provided by (used in):           |                                    |             |                                  |             |
| Operations:                           |                                    |             |                                  |             |
| Net loss for the period               | \$ (25,802)                        | \$ (19,361) | \$ (41,022)                      | \$ (26,082) |
| Accretion of convertible debt         | 3,051                              | —           | 6,137                            | —           |
| Deferred income tax recovery          | (34,800)                           | —           | (92,168)                         | —           |
| Interest accrued on convertible debt  | 4,577                              | —           | 9,205                            | —           |
| Stock-based compensation              | 5,347                              | —           | 25,562                           | —           |
| Changes in non-working capital items: |                                    |             |                                  |             |
| Receivables                           | (33,083)                           | 797         | (32,783)                         | 570         |
| Prepaid expenses                      | 7,504                              | 1,456       | (10,835)                         | 2,912       |
| Trade and other payables              | 13,661                             | (5,482)     | 1,987                            | (5,309)     |
| Due to related parties                | 7,545                              | —           | 7,440                            | —           |
|                                       | (52,000)                           | (22,590)    | (126,477)                        | (27,909)    |
| Investing:                            |                                    |             |                                  |             |
| Short-term investment                 | —                                  | 106,000     | —                                | 111,000     |
| Exploration advances                  | (18,142)                           | —           | 175,722                          | —           |
| Exploration and evaluation assets     | (919,271)                          | —           | (1,274,548)                      | —           |
|                                       | (937,413)                          | 106,000     | (1,098,826)                      | 111,000     |
| Financing:                            |                                    |             |                                  |             |
| Private placement proceeds, net       | 565,100                            | —           | 565,100                          | —           |
|                                       | 565,100                            | —           | 565,100                          | —           |
| Change in cash                        | (424,313)                          | 83,410      | (660,203)                        | 83,091      |
| Cash, beginning of period             | 729,467                            | 3,170       | 965,357                          | 3,489       |
| Cash, end of period                   | \$ 305,154                         | \$ 86,580   | \$ 305,154                       | \$ 86,580   |

Supplemental cash flow information:

Other significant non-cash transactions during the six months ended November 30, 2014 included:

- Accrued exploration expenditures of \$301,291 (May 31, 2014 - \$13,389) in trade payable and accrued liabilities (Note 5) and \$30,000 (May 31, 2014 - \$Nil) in due to related parties (Note 11);
- Accrued interest of \$9,205 (2013 - \$Nil) in due to related parties (Note 7);
- Fair value of shares issued for exploration and evaluation assets of \$28,000 (2013 - \$Nil) (Note 8);
- Fair value of agent's warrants of \$6,875 (2013 - \$Nil) recorded as share issuance costs (Note 9(b)(vi));
- Allocation of \$34,800 (2013 - \$Nil) to flow-through premium liability on issuance of shares (Note 8); and
- Amortization of flow-through premium liability of \$92,168 (Note 6).

During the period ended November 30, 2013, the Company did not record any significant non-cash transactions.

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

**MARGARET LAKE DIAMONDS INC.**  
(formerly JDV Capital Corp.)

Notes to the Financial Statements  
(Expressed in Canadian dollars - Unaudited)  
November 30, 2014

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**1. Nature of operations**

Margaret Lake Diamonds Inc. (formerly JDV Capital Corp.) (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. Effective September 7, 2011, the Company completed an Initial Public Offering ("IPO") and commenced trading under the symbol JAI.P. Effective September 10, 2013, the TSX Venture Exchange (the "Exchange") suspended the common shares of the Company for failure to complete a Qualifying Transaction ("QT") by the 24 month anniversary date of September 9, 2013. Pursuant to the Exchange Policy 2.4 Capital Pool Company, on November 15, 2013, the Company transferred its listing to the NEX board of the Exchange, cancelled 775,000 escrow seed shares and returned them to its treasury. Effective December 10, 2013, the Company commenced trading under the symbol JAI.H. Effective March 27, 2014, the Company changed its name to Margaret Lake Diamonds Inc., consolidated its issued and outstanding shares on a 2 old for 1 new basis, and changed its symbol to DIA.H. All shares and per share references in these financial statements have been retroactively restated accordingly unless noted otherwise.

On April 22, 2014, the Company received final approval from the Exchange for its 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 nineteen (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 no longer a Capital Pool Company, and has been listed as a "Tier 2" mining issuer on the Exchange trading under the symbol "DIA".

In October 2014, the Company earned its initial 60% interest in the Margaret Lake Property after completing its 2014 exploration program and incurring exploration expenditures in excess of the requirements of the Assignment Agreement (Note 8).

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 Canterra's Marlin Property (the "Marlin Property") in the Northwest Territories. The Exchange approved the transaction on September 5, 2014.

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 700-595 Burrard Street, Vancouver BC, V7X 1S8.

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's ability to continue as a going concern and the recoverability of the amounts shown for exploration and evaluation assets are dependant on the ability of the Company to raise additional financing in order to complete the exploration of its property, 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 development 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.

**MARGARET LAKE DIAMONDS INC.**  
(formerly JDV Capital Corp.)

Notes to the Financial Statements  
(Expressed in Canadian dollars - Unaudited)  
November 30, 2014

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**1. Nature and continuance of operations (continued)**

The Company has and may continue to have capital requirements in excess of its currently available resources. For the six months ended November 30, 2014, the Company has incurred a net loss of \$41,022 (2013 - \$26,082) with no operating revenue and, to date, has an accumulated deficit of \$598,007 (May 31, 2014 - \$556,985). At November 30, 2014, the Company had working capital deficiency of \$177,704 (May 31, 2014 – working capital of \$899,906), including its cash and short term investment of \$316,154. In order for the Company to meet its liabilities and continue operations, the Company will need to generate additional funding through financing activities that may include issuance of additional equity securities or debt arrangement.

These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

**2. Significant accounting policies and basis of presentation**

These condensed interim financial statements were authorized for issue on January 28, 2015 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, 2014.

These condensed interim financial statements do 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, 2014.

***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.

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

### ***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; and
- the classification / allocation of expenditures as exploration and evaluation expenditures or operating expenses.

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, warrants in private placements and valuation of the equity portion of convertible debt.

### ***Summary of significant accounting policies***

#### ***New accounting standards and interpretations***

The following standards are effective for the Company on June 1, 2014. There was no material impact on the financial statements arising from the implementation of these standards.

- IAS 32, Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32). On December 16, 2011, the IASB published amendments to IAS 32, Financial Instruments: Presentation to clarify the application of the offsetting requirements.
- IFRIC 21, Levies: IFRIC 21 is an interpretation of IAS 37, Provisions, Contingent Liabilities and Contingent Assets, on the accounting for levies imposed by governments. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event ("obligating event"). IFRIC 21 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.

#### ***New standard not yet adopted***

IFRS 9 Financial Instruments (Revised) was issued by the IASB in October 2010. It incorporates revised requirements for the classification and measurement of financial liabilities and carrying over the existing derecognition requirements from IAS 39 Financial instruments: recognition and measurement. The revised financial liability provisions maintain the existing amortised cost measurement basis for most liabilities. New requirements apply where an entity chooses to measure a liability at fair value through profit or loss – in these cases, the portion of the change in fair value related to changes in the entity's own credit risk is presented in other comprehensive income rather than within profit or loss. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The impact of IFRS 9 on the Company's financial instruments has not yet been determined.

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

**MARGARET LAKE DIAMONDS INC.**  
(formerly JDV Capital Corp.)

Notes to the Financial Statements  
(Expressed in Canadian dollars - Unaudited)  
November 30, 2014

**3. Cash and short term investment**

The components of cash and cash equivalents are as follows:

|                       | November 30, 2014 | May 31, 2014      |
|-----------------------|-------------------|-------------------|
| Cash in bank          | \$ 304,233        | \$ 489,891        |
| Cash held in trust    | 921               | 475,466           |
| Short-term investment | 11,000            | 11,000            |
|                       | <b>\$ 316,154</b> | <b>\$ 976,357</b> |

Short-term investment consists of a highly liquid Canadian dollar denominated guaranteed investment certificate ("GIC"). The counter-party is a financial institution. At November 30, 2014, the Company has a variable rate investment of \$11,000 (May 31, 2014 - \$11,000), the instrument yields interest at a rate of 1.15%, maturing on January 28, 2015. The short-term investment allows for early redemption after the first 30 days of investment.

The interest accrued on the GIC is included in receivables (Note 4).

**4. Receivables**

|                         | November 30, 2014 | May 31, 2014     |
|-------------------------|-------------------|------------------|
| Interest receivable     | \$ 105            | \$ 42            |
| Sales taxes recoverable | 58,149            | 25,758           |
| Other receivables       | 329               | —                |
|                         | <b>\$ 58,583</b>  | <b>\$ 25,800</b> |

**5. Trade and other payables**

|                      | November 30, 2014 | May 31, 2014     |
|----------------------|-------------------|------------------|
| Accrued liabilities  | \$ 32,806         | \$ 10,483        |
| Exploration payables | 301,292           | 13,389           |
| Trade payables       | 2,525             | 22,863           |
|                      | <b>\$ 336,623</b> | <b>\$ 46,735</b> |

**MARGARET LAKE DIAMONDS INC.**  
(formerly JDV Capital Corp.)

Notes to the Financial Statements  
(Expressed in Canadian dollars - Unaudited)  
November 30, 2014

**6. Flow-through premium liability**

|                              | November 30, 2014 | May 31, 2014 |
|------------------------------|-------------------|--------------|
| Balance, beginning of period | \$ 57,368         | \$ –         |
| Recorded                     | 34,800            | 57,368       |
| Amortized                    | (92,168)          | –            |
| Balance, end of period       | \$ –              | \$ 57,368    |

The flow-through premium liability of \$57,368 recorded at May 31, 2014 arose in connection with the flow-through private placement of the Company completed on April 22, 2014 (Note 9 (b)(viii)) based on an estimated premium of \$0.02 per a flow-through share issued.

The flow-through premium liability of \$34,800 arose in connection with the flow-through private placement of the Company completed on October 28, 2014 (Note 9 (b)(ii)) based on an estimated premium of \$0.03 per a flow-through share issued.

As at November 30, 2014, the Company incurred \$624,800 in qualified exploration expenditures for the flow-through program which will be renounced to flow-through subscribers for the 2014 calendar year. Accordingly, the flow-through premium liabilities have been fully amortised to the statement of comprehensive loss.

**7. Convertible debt**

The convertible debt consists of a promissory note with a face value of \$204,000 payable to the President and CEO of the Company (the "Lender"), who is also a significant shareholder of Harsbo. Pursuant to a loan agreement with Harsbo dated February 18, 2014, the Lender advanced \$204,000 as a loan to Harsbo, the proceeds of which were deposited with the airborne gravity survey contractor for the 2014 exploration program.

The loan was assigned by Harsbo to the Company under an assignment and amendment agreement dated March 26, 2014 (the "Loan Agreement"). Pursuant to the terms of the Loan Agreement, the Company issued the Lender a convertible promissory note payable maturing on April 23, 2015. The note is unsecured and bears interest at 9% per annum, and the principal amount of the note and any outstanding interest are convertible into units at the option of the Lender at a price of \$0.10 per unit at any time following the closing date of the QT. Each unit consists of one common share of the Company and one-half share purchase warrant of the Company. Each warrant entitles the Lender to purchase one additional common share at a price of \$0.25 for a period of 24 months from the date of the issuance of the note.

On the assignment of the note, the Company allocated \$193,356 of the face value of the note to the liability component and \$10,644 to the equity component. The fair value of the liability component was estimated by discounting the future payments of interest and principal and will be accreted to the \$204,000 face value using the estimated effective interest rate of 15%. The residual carrying value of \$10,644 of the loan was classified as equity component of convertible debentures.

During the six months ended November 30, 2014, the Company accrued interest of \$9,205 (2013 - \$Nil) and recorded an accretion expense of \$6,137 (2013 - \$Nil) relating to the convertible debt.

**MARGARET LAKE DIAMONDS INC.**  
(formerly JDV Capital Corp.)

Notes to the Financial Statements  
(Expressed in Canadian dollars - Unaudited)  
November 30, 2014

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**8. Exploration and evaluation assets**

***Margaret Lake Diamond Property***

Pursuant to the Assignment Agreement (Note 1), the Company was assigned the sole and exclusive option to acquire up to a seventy percent (70%) undivided interest in the Margaret Lake Property in exchange for the issue of 6,000,000 common shares of the Company valued at \$600,000 and 500,000 finders' fees shares valued at \$50,000.

The Margaret Lake Property is located east-northeast of Yellowknife, Northwest Territories in the District of MacKenzie and comprises nineteen (19) mineral claims totalling approximately 48,720 acres.

Pursuant to the terms of the underlying option agreement between Harsbo and Margaret Lake Diamonds Ltd. ("MLD"), the Company can earn a 70% interest in the Margaret Lake Property by:

- a) making cash payments in lieu of filing assessment work (\$102,312 paid by Harsbo);
- b) incurring \$1,000,000 in qualifying expenditures by October 13, 2014 to earn an undivided 60% interest (incurred); and
- c) incurring \$1,000,000 in exploration expenditures by October 13, 2015 to earn an additional 10% interest.

During the six months ended November 30, 2014, the Company earned its 60% interest in the Margaret Lake Property. The Company exceeded the \$1,000,000 expenditure requirement, having undertaken ground till sampling, an airborne geophysical survey and bathymetry analysis on the Margaret Lake Property this exploration season.

Upon earning either a 60% or 70% interest in the Margaret Lake Property, the Company and MLD may enter into a joint venture to further explore and develop the Margaret Lake Property.

In addition, MLD has the right and option, but not the obligation, to sell its undivided 30% right, title and interest in and to the Margaret Lake Property to the Company in consideration for common shares of the Company having a value of \$3,000,000 based on the volume weighted trading price of the Company's common shares for the ten trading days immediately preceding the date MLD gives the Company notice of its intention to so transfer its 30% interest. This vend-in right is open for exercise until March 31, 2016.

During the six months ended November 30, 2014, the Company expanded its project to the north of the Property by staking 4 additional claims ("Kirk Lake") totaling 3,483 hectares.

***Marlin Property***

Pursuant to the Marlin Property Option Agreement (Note 1), the Company has been granted the right to acquire 49% right, title and interest in and to Marlin Property. The Company may exercise two options under the agreement, the first allows the Company to earn a 30% interest and the second is to earn a further 19% interest.

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

The Company can exercise the first option, and thereby to earn 30% right, title and interest in and to the Marlin property for the following consideration:

- (a) Cash payments totalling \$80,000 as follows:
  - i) \$20,000 upon signing the agreement (paid);
  - ii) \$20,000 on or before September 15, 2014 ("Payment Date") (paid);
  - iii) \$20,000 one year from the Payment Date; and
  - iv) \$20,000 two years from the Payment Date.
- (b) Share issuances totalling 300,000 shares as follows:
  - i) 100,000 common shares on or before September 15, 2014 (issued); and
  - ii) 200,000 additional common shares on or before September 15, 2015.
- (c) Incurring \$1,000,000 in exploration expenditures as follows:
  - i) \$500,000 (\$465,130 incurred to date) on or before September 15, 2015, of which \$100,000 must be advanced to Canterra by September 20, 2014 (paid and \$71,858 expensed to date); and
  - ii) \$500,000 on or before September 15, 2016.

The Company may earn an additional 19% interest in the Marlin Property by paying Canterra an additional \$20,000 and incurring an additional \$750,000 in exploration expenditures on or before September 15, 2017, the end of the third year.

After either the 30% or, if elected, the 49% earned-in, the Company and Canterra anticipate to form a joint venture for the purpose of continuing exploration and development of the Marlin Property. Upon execution of a joint venture agreement, the Company will issue Canterra a further 300,000 common shares.

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

|                             | Margaret Lake |         | Marlin Property |        | Kirk Lake |        | Total |         |
|-----------------------------|---------------|---------|-----------------|--------|-----------|--------|-------|---------|
| Acquisition Costs:          |               |         |                 |        |           |        |       |         |
| Balance, May 31, 2013       | \$            | —       | \$              | —      | \$        | —      | \$    | —       |
| Additions:                  |               |         |                 |        |           |        |       |         |
| 6,000,000 common shares     |               | 600,000 |                 | —      |           | —      |       | 600,000 |
| 500,000 finders' fee shares |               | 50,000  |                 | —      |           | —      |       | 50,000  |
| Legal and regulatory costs  |               | 77,872  |                 | —      |           | —      |       | 77,872  |
| Balance, May 31, 2014       |               | 727,872 |                 | —      |           | —      |       | 727,872 |
| Additions:                  |               |         |                 |        |           |        |       |         |
| Cash payments               |               | —       |                 | 40,000 |           | 16,000 |       | 56,000  |
| 100,000 common shares       |               | —       |                 | 28,000 |           | —      |       | 28,000  |
| Legal and regulatory costs  |               | —       |                 | 11,153 |           | —      |       | 11,153  |
| Balance, November 30, 2014  | \$            | 727,872 | \$              | 79,153 | \$        | 16,000 | \$    | 823,025 |

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

|                                    | Margaret Lake       | Marlin Property   | Kirk Lake         | Total               |
|------------------------------------|---------------------|-------------------|-------------------|---------------------|
| <b>Deferred exploration costs:</b> |                     |                   |                   |                     |
| Balance, May 31, 2013              | \$ —                | \$ —              | \$ —              | \$ —                |
| Additions:                         |                     |                   |                   |                     |
| Technical reports                  | 11,000              | —                 | —                 | 11,000              |
| Airborne survey                    | 27,465              | —                 | —                 | 27,465              |
| Balance, May 31, 2014              | 38,465              | —                 | —                 | 38,465              |
| Additions:                         |                     |                   |                   |                     |
| Airborne survey                    | 757,671             | 354,719           | 138,393           | 1,250,783           |
| Bathymetry                         | 61,050              | 38,553            | —                 | 99,603              |
| Till sampling                      | 54,903              | 71,858            | —                 | 126,761             |
| Data analysis                      | 16,150              | —                 | —                 | 16,150              |
| Exploration consulting             | 32,000              | —                 | —                 | 32,000              |
| <b>Balance, November 30, 2014</b>  | <b>\$ 960,239</b>   | <b>\$ 465,130</b> | <b>\$ 138,393</b> | <b>\$ 1,563,762</b> |
| Total, May 31, 2014                | \$ 766,337          | \$ —              | \$ —              | \$ 766,337          |
| <b>Total, November 30, 2014</b>    | <b>\$ 1,688,111</b> | <b>\$ 544,283</b> | <b>\$ 154,393</b> | <b>\$ 2,386,787</b> |

**9. Share capital**

**a. Authorized**

Unlimited number of common shares without par value.

**b. Issued and outstanding**

During the six months ended November 30, 2014,

- (i) the Company issued 100,000 common shares of the Company valued at \$28,000 to Canterra recorded as acquisition costs for Marlin Property (Notes 1 and 8);
- (ii) the Company completed a flow-through private placement of 1,160,000 flow-through shares at a price of \$0.28 per share for gross proceeds of \$324,800. The amount recorded to share capital was reduced by the flow-through premium liability of \$34,800, being the excess of the proceeds over the market price of the shares (Note 6);
- (iii) the Company completed a private placement of 1,070,000 units at a price of \$0.25 per unit for gross proceeds of \$267,500. Each unit consisted of one common share and one-half share purchase warrant; each warrant entitles the holder to purchase one common share at a price of \$0.30 per share for a one year period; and

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**9. Share capital (continued)**

**b. Issued and outstanding (continued)**

- (iv) in connection with the private placements, the Company paid Jordan Capital Markets Inc. (the "Agent") cash based finder's fee of \$22,744 and issued 113,000 non-transferable share purchase warrants ("agent's warrant"). Each agent's warrant entitles the Agent to purchase one common share of the Company at a price of \$0.30 per share for a one year period. The agent's warrants were recorded at a fair value of \$6,875 (Note 9(e)). The Company also paid \$4,456 in regulatory filing fees in connection with the private placements.

During the year ended May 31, 2014:

- (v) the Company cancelled and returned 775,000 escrowed seed shares to its treasury. (Note 9(c));
- (vi) the Company consolidated its shares on a 2 old for 1 new basis effective March 27, 2014. All shares and per share references prior to share consolidation have been retroactively restated accordingly;
- (vii) the Company issued 6,000,000 common shares of the Company valued at \$600,000 to Harsbo and an additional 500,000 common shares of the Company valued at \$50,000 as finders' fees, which were recorded as acquisition costs for the Property (Note 8);
- (viii) the Company completed a flow-through private placement of 3,000,000 units at a price of \$0.10 per share for gross proceeds of \$300,000. The amount recorded to share capital was reduced by the flow-through premium liability of \$57,368, being the excess of the proceeds over the market price of the shares (Note 6);
- (ix) the Company completed a private placement of 9,000,000 units at a price of \$0.10 per share for gross proceeds of \$900,000. Each unit consisted of one common share and one-half share purchase warrant; each warrant entitles the holder to purchase one common share at a price of \$0.25 per share for a two year period. The warrants have an accelerated exercise provision, whereby their expiry date will be reduced to 30 days in the event that the Company's common shares trade at \$0.50 or greater for ten consecutive days. The provision will not be effective until October 22, 2014;
- (x) in connection with the private placements, the Company paid Jordan Capital Markets Inc. an agent's commission of \$59,840 and a corporate finance fee of \$29,080. In addition, the Company issued to the agent 100,000 common shares of the Company valued at \$10,000 and non-transferable agent's options to acquire up to 848,000 agent's units for two years from the closing date. The agent's options entitles the agent to purchase one common share of the Company and one-half share purchase warrant, which entitles the agent to purchase one additional common share of the Company at a price of \$0.25 per share for a two year period. The agent's options were recorded at a fair value of \$49,271 (Note 9(e));
- (xi) the Company paid \$8,331 in regulatory filing fees in connection with the private placements;
- (xii) an aggregate of 275,000 share options were exercised at a price of \$0.20 per share and 275,000 common shares were issued for total proceeds of \$55,000. In addition, a reallocation of \$32,357 from reserves to share capital was recorded on the exercise of these options. This amount constitutes the fair value of options recorded at the original grant date of the options.

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**9. Share capital (continued)**

**c. Escrow**

Under the escrow agreements dated June 20, 2011 and April 16, 2014, 10% of the escrowed common shares are to be released from escrow on the date of the issuance of the final Exchange bulletin (the "Initial Release") upon completion of the QT and an additional 15% will be released every six months following the Initial Release over a period of thirty six months. As at November 30, 2014, 1,818,750 common shares were released from escrow.

|                              | November 30, 2014             |                           | May 31, 2014                  |                           |
|------------------------------|-------------------------------|---------------------------|-------------------------------|---------------------------|
|                              | Number of<br>shares in escrow | Weighted<br>average price | Number of<br>shares in escrow | Weighted<br>average price |
| Balance, beginning of period | 6,547,500                     | \$ 0.10                   | 2,050,000                     | \$ 0.10                   |
| Cancelled (Note 9(b)(v))     | —                             | 0.10                      | (775,000)                     | 0.10                      |
| Issued (Note 9(b)(vii))      | —                             | 0.10                      | 6,000,000                     | 0.10                      |
| Released                     | (1,091,250)                   | 0.06                      | (727,500)                     | 0.06                      |
| Outstanding, end of period   | 5,456,250                     | \$ 0.10                   | 6,547,500                     | \$ 0.10                   |

During the year ended May 31, 2014, the Company cancelled 775,000 seed shares held by certain non-arm's length escrow holders as part of its transfer process to the NEX board of the Exchange (Note 1).

**d. Share 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, after the completion of the IPO, at the date of granting of options. 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.

Such options will be exercisable for a period of up to 5 years from the date of grant. Any common shares acquired pursuant to the exercise of options prior to completion of the QT will be subject to escrow until the date of the Initial Release.

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

|                                  | November 30, 2014    |                                       | May 31, 2014         |                                       |
|----------------------------------|----------------------|---------------------------------------|----------------------|---------------------------------------|
|                                  | Number of<br>options | Weighted<br>average exercise<br>price | Number of<br>options | Weighted<br>average<br>exercise price |
| Outstanding, beginning of period | 980,000              | \$ 0.10                               | 305,000              | \$ 0.20                               |
| Exercised                        | —                    | —                                     | (275,000)            | 0.20                                  |
| Granted                          | —                    | —                                     | 950,000              | 0.10                                  |
| Outstanding, end of period       | 980,000              | \$ 0.10                               | 980,000              | \$ 0.10                               |

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**9. Share capital (continued)**

**d. Share options (continued)**

The share options outstanding and exercisable as at November 30, 2014:

| Expiry Date    | Exercise Price | Number of options<br>outstanding | Options exercisable |
|----------------|----------------|----------------------------------|---------------------|
| July 27, 2016  | \$0.20         | 30,000                           | 30,000              |
| April 22, 2019 | \$0.10         | 950,000                          | 712,500             |
|                | \$0.10         | 980,000                          | 742,500             |

The weighted average life of options outstanding is 4.25 years.

During the six months ended November 30, 2014, \$25,562 (2013 - \$Nil) in stock-based compensation expense was recorded for the vested portion of the 950,000 stock options granted to directors, officers and employees of the Company in fiscal 2014.

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

| November 30,                   | 2014    | 2013 |
|--------------------------------|---------|------|
| Risk free rate                 | 1.47%   | —    |
| Dividend yield                 | —       | —    |
| Weighted average volatility    | 111%    | —    |
| Weighted average expected life | 5 years | —    |
| Weighted average fair value    | \$ 0.08 | —    |

**e. Agent's options**

In connection with the private placements, the Company granted non-transferable options to the agent to acquire up to 848,000 agent's units at an exercise price of \$0.10 per unit expiring April 22, 2016. The agent's unit entitles the agent to one common share of the Company and one-half share purchase warrant, which entitles the agent to purchase one additional common share of the Company at a price of \$0.25 per share for a two year period.

The agent's options outstanding and exercisable as at November 30, 2014:

| Expiry Date    | Exercise Price | Number of options<br>outstanding | Number of options<br>exercisable |
|----------------|----------------|----------------------------------|----------------------------------|
| April 22, 2016 | \$ 0.10        | 848,000                          | 848,000                          |

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**9. Share capital (continued)**

**e. Agent's options (continued)**

The number of agent's options outstanding is summarized as follows:

|                                  | November 30, 2014 |                                 | May 31, 2014      |                                 |
|----------------------------------|-------------------|---------------------------------|-------------------|---------------------------------|
|                                  | Number of options | Weighted average exercise price | Number of options | Weighted average exercise price |
| Outstanding, beginning of period | 848,000           | \$ 0.10                         | 85,992            | \$ 0.20                         |
| Granted                          | –                 | –                               | 848,000           | 0.10                            |
| Expired                          | –                 | –                               | (85,992)          | 0.20                            |
| Outstanding, end of period       | 848,000           | \$ 0.10                         | 848,000           | \$ 0.10                         |

The weighted average life of options outstanding is 1.38 years.

**f. Warrants**

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

|                                  | November 30, 2014  |                                 | May 31, 2014       |                                 |
|----------------------------------|--------------------|---------------------------------|--------------------|---------------------------------|
|                                  | Number of Warrants | Weighted average exercise price | Number of Warrants | Weighted average exercise price |
| Outstanding, beginning of period | 4,500,000          | \$ 0.25                         | –                  | \$ –                            |
| Issued (Note 9(b))               | 648,000            | 0.30                            | 4,500,000          | 0.25                            |
| Outstanding, end of period       | 5,148,000          | \$ 0.26                         | 4,500,000          | \$ 0.25                         |

The share purchase warrants outstanding and exercisable as at November 30, 2014:

| Expiry Date                       | Exercise Price | Number of warrants outstanding | Warrants exercisable |
|-----------------------------------|----------------|--------------------------------|----------------------|
| April 22, 2016                    | \$ 0.25        | 4,500,000                      | 4,500,000            |
| October 28, 2015 (Note 9(b)(iii)) | \$ 0.30        | 535,000                        | 535,000              |
| October 28, 2015 (Note 9(b)(iv))  | \$ 0.30        | 113,000*                       | 113,000              |

\* Non-transferable agent's warrants

The weighted average life of warrants outstanding is 1.32 years.

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**9. Share capital (continued)**

**g. 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<br>and warrants | Total      |
|--------------------------------------|---------------|---------------------------------|------------|
| Balance, May 31, 2014                | \$ 53,245     | \$ 65,603                       | \$ 118,848 |
| Stock-based compensation (Note 9(d)) | 25,562        | —                               | 25,562     |
| Fair-value of agent's warrants       | —             | 6,875                           | 6,875      |
| Balance, November 30, 2014           | \$ 78,807     | \$ 72,478                       | \$ 151,285 |

The fair value of the agent's warrants granted in connection with the October 2014 private placement (Note 9(b)(iv)) was calculated using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

| November 30,                   | 2014    | 2013 |
|--------------------------------|---------|------|
| Risk free rate                 | 1.02%   | —    |
| Dividend yield                 | —       | —    |
| Weighted average volatility    | 83%     | —    |
| Weighted average expected life | 1 year  | —    |
| Weighted average fair value    | \$ 0.06 | —    |

**10. Commitments**

On May 1, 2014, the Company entered into a one year (the "Initial Term") rent and administrative services contract with Varshney Capital Corp. ("VCC"), a company partially controlled by a director of the Company. The Company is obligated to pay \$3,000 per month plus taxes for administrative services and \$1,000 per month plus applicable taxes for office premises. The agreement can be terminated with 1 month notice after the Initial Term.

**11. 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 personnel compensation comprised of:

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**11. Related party transactions (continued)**

| November 30,                     | 2014      | 2013     |
|----------------------------------|-----------|----------|
| Administrative fee (Note 10) (a) | \$ 18,000 | \$ 9,450 |
| Office rent (Note 10) (a)        | 6,000     | –        |
| Stock-based payments (c)         | 25,024    | –        |
| Exploration consulting (e)       | 30,000    | –        |
|                                  | \$ 79,024 | \$ 9,450 |

- a. On April 1, 2011, the Company entered into a rent and administrative services contract with VCC, pursuant to which the Company was obligated to pay \$1,500 per month plus taxes until the Company completes the QT. The agreement was terminated effective April 30, 2014. After completing the QT, the Company retained VCC to provide administrative services and entered into a new rent and administrative service contract with VCC effective May 1, 2014 (Note 10).

During the six months ended November 30, 2014, the Company paid \$18,000 (2013 - \$9,450) for administrative fees and \$6,000 (2013 - \$Nil) in rent to VCC.

- b. Included in convertible debt as at November 30, 2014 and May 31, 2014 is a short-term note payable with the principal balance of \$204,000 issued to the CEO and President of the Company (Note 7). The interest of \$14,336 accrued on the note at a rate of 9% is included in due to related parties.
- c. Stock-based payments are the fair value of 930,000 options that have been granted to directors and executive officers, and the related compensation expense recognized over the vesting periods.
- d. The Assignment Agreement dated March 14, 2014, pursuant to which the Company was granted the option to acquire up to a 70% percent interest in the Property (Note 1 and 8), involves two companies with common directors.
- e. The Company accrued consulting fees of \$30,000 (2013 - \$Nil) to the VP of Exploration of the Company.

**12. 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.

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**12. Financial instruments (continued)**

|                              | <i>Loans &amp;<br/>receivables</i> | <i>Available for<br/>sale</i> | <i>Fair Value<br/>through<br/>Profit or<br/>Loss</i> | <i>Other<br/>financial<br/>liabilities</i> |
|------------------------------|------------------------------------|-------------------------------|------------------------------------------------------|--------------------------------------------|
| <b>Financial assets</b>      |                                    |                               |                                                      |                                            |
| Cash                         | \$ —                               | \$ —                          | \$ 305,154                                           | \$ —                                       |
| Short-term investment        | —                                  | —                             | 11,000                                               | —                                          |
| Receivables                  | 434                                | —                             | —                                                    | —                                          |
| <b>Financial liabilities</b> |                                    |                               |                                                      |                                            |
| Trade payables               | —                                  | —                             | —                                                    | 336,623                                    |
| Due to related parties       | —                                  | —                             | —                                                    | 51,881                                     |
| Convertible debt             |                                    |                               |                                                      | 204,000                                    |
|                              | \$ 434                             | \$ —                          | \$ 316,154                                           | \$ 592,504                                 |

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 and short-term investments as held-for-trading, receivables are classified as loans and receivables. Trade payable and accrued liabilities, due to related parties and convertible debt are classified as other liabilities, which are measured at amortized cost.

At November 30, 2014, the Company's assets measured at fair value were cash and short-term investment. There were no transfers between levels during the six months ended November 30, 2014.

**Financial risk management**

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

*Credit risk*

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash and short-term investment. As a majority of the Company's cash is held by a Canadian bank, there is a concentration of credit risk with one bank in Canada. 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, 2014, the Company has cash on hand of \$304,233, cash held in trust of \$921 and short-term investment of \$11,000. Management assesses credit risk of cash and short-term investment as low.

**12. Financial instruments (continued)**

The Company's secondary exposure to risk is on its receivables. This risk is minimal as receivables consist primarily of accrued interest on its short-term investments from a Canadian Chartered Bank and sales taxes recoverable.

*Currency risk*

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

*Interest rate risk*

Interest rate risk is the risk that an investment's value will change due to a change in the level of interest rates. The Company is exposed to interest rate risk as its bank account and short-term investments earn interest income at variable rates. The income earned on the bank account and short-term investments is subject to the movements in interest rates. Due to the short-term maturity, the fair value of its short-term investments 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 achieves this by maintaining sufficient cash and seeking equity financing when needed.

As at November 30, 2014, the Company had cash and cash equivalents of \$316,154 (May 31, 2014 - \$976,357) and current liabilities of \$591,418 (May 31, 2014 - \$306,115). Trade and other payables of \$336,623 (May 31, 2014 - \$46,735) are due within three months, and the convertible loan of \$204,000 and accrued interest of \$14,336 are payable on April 23, 2015. New funding will be required to settle its current obligations and to continue operations.

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.

*Other price risk*

The Company is not exposed to other price risk.

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**13. 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 share capital and working capital.

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, 2014. The Company is not subject to any externally imposed capital requirements.