
**SOUTHSTONE MINERALS LIMITED
(FORMERLY TANGO MINING LIMITED)**

Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the years ended August 31, 2019 and 2018



DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Southstone Minerals Limited (formerly Tango Mining Limited)

Opinion

We have audited the consolidated financial statements of Southstone Minerals Limited (formerly Tango Mining Limited) (the "Company"), which comprise the consolidated statements of financial position as at August 31, 2019 and 2018, and the consolidated statements of income (loss) and comprehensive income (loss), changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively, the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

Without qualifying our opinion, we draw attention to Note 2 in the financial statements, which describes events and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Other Information

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is David Goertz.

DMCL

**DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS**

Vancouver, BC
December 23, 2019



An independent firm
associated with Moore
Global Network Limited

SOUTHSTONE MINERALS LIMITED
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

	August 31, 2019	August 31, 2018
ASSETS		
Current Assets		
Cash	\$ 45,519	\$ 671,055
Receivables (Note 7)	119	1,204,399
Prepaid expenses	5,250	5,250
Inventories (Note 8)	158,762	890,337
Held for sale (Note 28)	2,912,135	-
	<u>3,121,785</u>	<u>2,771,041</u>
Non-current assets		
Rehabilitation deposit (Note 19)	168,750	161,332
Deposit	12,602	-
Deferred tax asset (Note 26)	26,710	26,940
Intangible assets (Note 9)	-	18,093
Exploration and evaluation assets (Note 10)	478,198	476,260
Equipment (Note 11)	380,040	316,733
TOTAL ASSETS	<u>\$ 4,188,085</u>	<u>\$ 3,770,399</u>
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Note 12)	\$ 735,902	\$ 1,677,507
Promissory notes (Note 13)	260,920	240,408
Convertible notes (Note 14)	158,643	621,657
Interest bearing loans and borrowings (Note 15)	411,939	-
Vehicle lease	-	579
Income taxes payable (Note 16)	199,347	240,619
Deferred recovery (Note 17)	35,213	37,198
Due to related parties (Note 18)	800,457	663,380
Held for sale (Note 28)	1,463,034	-
	<u>4,065,455</u>	<u>3,481,348</u>
Long-term Liabilities		
Rehabilitation provision (Note 19)	267,892	250,033
Deferred recovery (Note 17)	84,650	120,894
	<u>4,417,997</u>	<u>3,852,275</u>
Equity		
Share capital (Note 20)	17,053,081	17,469,121
Shares to be issued	-	32,550
Equity portion of convertible notes	25,178	25,178
Reserve for warrants (Note 21)	749,946	969,485
Reserve for share-based payments (Note 22)	2,378,970	2,378,970
Reserve for foreign exchange	174,037	185,067
Accumulated deficit	(20,828,387)	(21,064,208)
	<u>(447,175)</u>	<u>(3,837)</u>
Non-controlling interest (Note 27)	217,263	(78,039)
	<u>(229,912)</u>	<u>(81,876)</u>
TOTAL LIABILITIES AND EQUITY	<u>\$ 4,188,085</u>	<u>\$ 3,770,399</u>

Corporate information and nature of operations (Note 1)
Assets held for sale and discontinued operations (Note 28)
Subsequent events (Notes 20 and 28)

Approved by the Board

/s/“Terry Tucker”
Director

/s/“Samer Khalaf”
Director

The accompanying notes are an integral part of these consolidated financial statements.

SOUTHSTONE MINERALS LIMITED

Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)

(Expressed in Canadian Dollars)

Years ended August 31,	2019	2018
Revenues	\$ 3,700,177	\$ -
Operating Expenses		
Amortization	(89,980)	(6,024)
Employee benefits expense	-	(956)
Exploration and evaluation expense (Note 10)	(3,246,080)	-
Foreign exchange gain (loss)	331	(59,105)
Management and consulting (Note 18)	(349,038)	(517,842)
Office and general (Note 18)	(51,785)	(42,543)
Professional fees	(303,458)	(224,638)
Project investigation costs (Note 15)	(699,421)	(170,090)
Raw material and engineering cost (recovery) (Note 18)	(1,757)	14,691
Share-based payments (Notes 18 and 22)	-	(33,750)
Shareholder information	(27,808)	(66,381)
Travel and promotion	(20,136)	(72,294)
	<u>(4,789,132)</u>	<u>(1,199,059)</u>
Change in fair value of derivative liability (Note 14)	-	2,503
Gain on forgiveness of debt (Note 20)	694,769	-
Gain on derecognition of loan (Note 15)	362,239	-
Finance charges	(34,590)	(70,000)
	<u>1,022,418</u>	<u>(67,497)</u>
Net loss from continuing operations	(66,537)	(1,266,557)
Net income from discontinued operations (Note 28)	320,806	140,384
Net income (loss) for the year	<u>254,269</u>	<u>(1,126,172)</u>
Net income (loss) attributable to:		
Shareholders of the Company	(41,033)	(1,144,751)
Non-controlling interests	295,302	18,579
	<u>254,269</u>	<u>(1,126,172)</u>
Other comprehensive income (loss)		
Exchange differences on translating foreign operations	95,998	51,818
Total comprehensive income (loss) for the year	<u>350,267</u>	<u>(1,074,354)</u>
Other comprehensive income (loss) attributable to:		
Shareholders of the Company	174,037	51,813
Non-controlling interests	(78,039)	5
	<u>95,998</u>	<u>51,818</u>
Total comprehensive income (loss) attributable to:		
Shareholders of the Company	133,004	(1,092,938)
Non-controlling interests	217,263	18,584
	<u>\$ 350,267</u>	<u>\$ (1,074,354)</u>
Basic and fully diluted loss per common share	\$ 0.02	\$ (0.05)
Weighted average number of shares outstanding	<u>23,260,212</u>	<u>22,941,205</u>

The accompanying notes are an integral part of these consolidated financial statements.

SOUTHSTONE MINERALS LIMITED
Consolidated Statement of Changes in Equity
(Expressed in Canadian Dollars)

	Share Capital		Shares to be issued	Reserves				Equity Attributable to		Total	
	Number of Shares *	Amount		Share Based Payments	Warrants	Foreign Exchange	Convertible loan - Equity	Deficit	Shareholders		Non-controlling interests
Balance, August 31, 2017	20,387,858	\$ 15,777,590	\$ 96,588	\$ 2,345,220	\$ 860,679	\$ 133,254	\$ 25,178	\$(20,014,851)	\$ (776,342)	\$ (96,623)	\$ (872,965)
Shares issued for cash	375,484	187,745	(31,488)	-	-	-	-	-	156,257	-	156,257
Management fees	846,300	302,715	(32,550)	-	-	-	-	-	270,165	-	270,165
Settlement of debt	1,789,538	894,771	-	-	-	-	-	-	894,771	-	894,771
Equity component of convertible debt	-	-	-	-	-	-	510,500	-	510,500	-	510,500
Conversion of convertible notes	1,021,000	306,300	-	-	204,200	-	(510,500)	-	-	-	-
Share-based payments	-	-	-	33,750	-	-	-	-	33,750	-	33,750
Expiry of warrants	-	-	-	-	(95,394)	-	-	95,394	-	-	-
Currency translation adjustment	-	-	-	-	-	51,813	-	-	51,813	5	51,818
Net loss for the year	-	-	-	-	-	-	-	(1,144,751)	(1,144,751)	18,579	(1,126,172)
Balance, August 31, 2018	24,420,180	\$ 17,469,121	\$ 32,550	\$ 2,378,970	\$ 969,485	\$ 185,067	\$ 25,178	\$(21,064,208)	\$ (3,837)	\$ (78,039)	\$ (81,876)
Management fees	65,100	32,550	(32,550)	-	-	-	-	-	-	-	-
Shares cancelled	(1,832,056)	(694,769)	-	-	-	-	-	-	(694,769)	-	(694,769)
Settlement of debt	400,000	142,685	-	-	57,315	-	-	-	200,000	-	200,000
Conversion of convertible notes	206,988	103,494	-	-	-	-	-	-	103,494	-	103,494
Expiry of warrants	-	-	-	-	(276,854)	-	-	276,854	-	-	-
Currency translation adjustment	-	-	-	-	-	(11,030)	-	-	(11,030)	-	(11,030)
Net loss for the year	-	-	-	-	-	-	-	(41,033)	(41,033)	295,302	254,269
Balance, August 31, 2019	23,260,212	\$ 17,053,081	\$ -	\$ 2,378,970	\$ 749,946	\$ 174,037	\$ 25,178	\$(20,828,387)	\$ (447,175)	\$ 217,263	\$ (229,912)

*On October 29, 2019, the Company completed a consolidation of its share capital on the basis of one post-consolidated share for ten pre-consolidated shares. All share and per share amounts in these financial statements have been retroactively adjusted to reflect the share consolidation.

The accompanying notes are an integral part of these consolidated financial statements.

SOUTHSTONE MINERALS LIMITED

Consolidated Statements of Cash Flows

(Expressed in Canadian Dollars)

Years ended August 31,	2019	2018
Operating Activities		
Net income (loss) for the year	\$ 259,269	\$ (1,126,172)
Adjustments to reconcile net loss to cash flow from operating activities:		
Share-based payments	-	33,750
Deferred tax recovery	230	2,421
Amortization	89,980	20,936
Amortization of service contracts	-	20,127
Change in fair value of derivative liability	-	(2,503)
Interest on promissory note	20,512	-
Interest on convertible notes	5,156	66,759
Interest on loans payable	57,061	-
Management fees paid in shares	-	302,715
Exploration and evaluation expenditures	-	98,704
Gain on forgiveness of debt	(694,769)	-
Gain on derecognition of loan	(362,239)	-
Net change in non-cash working capital items:		
Receivables	(119)	71,351
Inventories	(158,762)	(27,919)
Prepaid expenses	(12,602)	420
Trade and other payables	477,971	397,751
Vehicle lease	-	(13,432)
Income taxes payable	(39,280)	(22,260)
Due to related parties	137,077	(579,667)
Cash flow used in operating activities – continuing operations	(225,515)	(831,847)
Cash flow provided by operating activities – discontinued operations	132,194	74,828
Investing Activities		
Rehabilitation provision withholdings	10,441	15,107
Purchase of equipment	(271,203)	(247,712)
Recoveries on exploration and evaluation assets	-	87,195
Deferred recoveries	(38,229)	159,357
Cash flow provided by (used in) investing activities – continuing operations	(298,991)	261,659
Cash flow provided by (used in) investing activities – discontinued operations	61,062	(247,712)
Financing Activities		
Shares issued for cash	25,000	156,257
Cash raised from interest bearing borrowings	696,647	-
Proceeds from issuance of convertible note	-	510,500
Proceeds from issuance of promissory note	-	240,408
Repayments on convertible notes	(255,822)	(196,957)
Cash flow provided by financing activities – continuing operations	465,825	710,208
Effect of foreign exchange translation	(105,785)	62,392
Net change in cash	134,575	29,528
Cash, beginning of the year	671,055	641,527
Cash, end of the year	\$ 699,845	\$ 671,055

The accompanying notes are an integral part of these consolidated financial statements.

SOUTHSTONE MINERALS LIMITED

Notes to the Consolidated Financial Statements

For the years ended August 31, 2019 and 2018

(Expressed in Canadian Dollars)

1. CORPORATE INFORMATION AND NATURE OF OPERATIONS

Southstone Minerals Limited (the “Company”) was incorporated under the *British Columbia Business Corporations Act* on April 10, 2007. The Company, via three Republic of South Africa subsidiaries, has three thermal coal, metallurgical and processing plant and engineering service contracts (see Note 28) and is in the business of exploring mineral properties. The Company also holds an interest in the Oena Diamond Mine, an alluvial diamond property, located in the Northern Cape Province, South Africa that consists of one New Order Mining Lease.

On October 29, 2019, the Company completed a consolidation of its share capital on the basis of one post-consolidated share for ten pre-consolidated shares. All share and per share amounts in these financial statements have been retroactively adjusted to reflect the share consolidation.

The Company is listed on the TSX Venture Exchange (“TSX.V”), under the symbol SML. The address of the Company’s corporate office is 5626 Larch Street, Suite 202, Vancouver, British Columbia, V6M 4E1, Canada.

2. GOING CONCERN

These consolidated financial statements have been prepared on a going concern basis, which assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of operations in the foreseeable future. Realization values may be substantially different from carrying values as shown and these consolidated financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern.

At August 31, 2019, the Company had not yet achieved profitable operations, has had losses since inception and expects to incur further losses in the development of its business. The Company will require additional financing in order to further develop its business, meet its ongoing levels of corporate overhead and discharge its liabilities as they come due. While the Company has been successful in securing financings in the past, there is no assurance that it will be able to do so in the future. These factors indicate the existence of a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern. If the going concern assumption was not used, then the adjustments required to report the Company’s assets and liabilities on a liquidation basis could be material to these consolidated financial statements.

3. BASIS OF PRESENTATION AND STATEMENT OF COMPLIANCE

3.1 Statement of compliance

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

These consolidated financial statements for the years ended August 31, 2019 and 2018 were reviewed and authorized for issue by the Board of Directors on December 23, 2019.

Certain comparative figures have been reclassified to conform to the current period’s presentation. These reclassifications did not impact previously report financial performance.

SOUTHSTONE MINERALS LIMITED

Notes to the Consolidated Financial Statements

For the years ended August 31, 2019 and 2018

(Expressed in Canadian Dollars)

3. BASIS OF PRESENTATION AND STATEMENT OF COMPLIANCE (continued)

3.2 Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis. The consolidated financial statements are presented in Canadian dollars.

The preparation of these financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

3.3 Principles of consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries. The results of each subsidiary will continue to be included in the consolidated financial statements of the Company until the date that the Company's control over the subsidiary ceases. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Details of controlled entities are as follows:

	Country of incorporation	Percentage owned *	
		August 31, 2019	August 31, 2018
F.D.G Mining S.A.	Nicaragua	** 100%	** 100%
Incasur S.A.	Nicaragua	** 100%	** 100%
Corlasur S.A.	Nicaragua	** 100%	** 100%
Tango Gold S.A	Nicaragua	** 100%	** 100%
F.D.G Mining NV	USA	** 100%	** 100%
TGV Resources	South Africa	100%	100%
African Star Minerals (Pty) Limited (“ASM”)	South Africa	43%	43%
Kwena Mining Projects (Pty) Ltd. ***	South Africa	74%	74%
Kwena Mining and Metallurgical Services (Pty) Ltd. ***	South Africa	74%	74%
Kwena Springlake Projects (Pty) Ltd ***	South Africa	74%	74%

*Percentage of voting power is in proportion to ownership, except for African Star Minerals (Pty) Ltd.

** Trading in these entities ceased and the Company does not control the board of directors. Effective from the 2018 financial year these entities are no longer consolidated into the group accounts.

*** Cumulatively referred to as Kwena Group.

Inter-company balances and transactions, including unrealized income and expenses arising from inter-company transactions, are eliminated on consolidation.

These consolidated financial statements include an equity interest in TML Equipment Solutions Ltd. (“**TML Equipment**”), a private company, incorporated in South Africa. The Company's ownership interest in TML Equipment was 25% as at August 31, 2019 (August 31, 2018 – 25%). The Company's ownership interest is accounted for using the equity method.

SOUTHSTONE MINERALS LIMITED

Notes to the Consolidated Financial Statements

For the years ended August 31, 2019 and 2018

(Expressed in Canadian Dollars)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Exploration and evaluation expenditures

Costs incurred before the Company has obtained the legal rights to explore an area are expensed as incurred.

Exploration and evaluation expenditures include the costs of acquiring licenses and costs associated with exploration and evaluation activities, net of recoveries and sale of tailings. Option payments are considered acquisition costs provided that the Company has the intention of exercising the underlying option.

Property option agreements are exercisable entirely at the option of the optionee. Therefore, option payments (or recoveries) are recorded when payment is made (or received) and are not accrued.

Acquisition costs are capitalized, and exploration and evaluation expenditures are expensed in the period which they incur. The Company capitalizes costs to specific blocks of claims or areas of geological interest. Government tax credits received are recorded as a reduction to the cumulative costs incurred and capitalized on the related property.

Exploration and evaluation assets are tested for impairment if facts or circumstances indicate that impairment exists. Examples of such facts and circumstances are as follows:

- the period for which the Company has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area; and
- sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

After technical feasibility and commercial viability of extracting a mineral resource are demonstrable, the Company stops capitalizing expenditures for the applicable block of claims or geological area of interest and tests the asset for impairment. The capitalized balance, net of any impairment recognized, is then reclassified to either tangible or intangible mine development assets according to the nature of the asset.

Although the Company has taken steps that it considers adequate to verify title to exploration and evaluation assets in which it has an interest, these procedures do not guarantee the Company's title. Title to exploration and evaluation assets in foreign jurisdictions is subject to uncertainty and consequently, such properties may be subject to prior undetected agreements or transfers and title may be affected by such instances.

4.2 Foreign currency transactions

The functional currency of the Company, the parent, is the Canadian Dollar. The functional currency of the subsidiaries incorporated in South Africa is the South African Rand ("ZAR"). The presentation currency of the consolidated financial statements is the Canadian Dollar.

SOUTHSTONE MINERALS LIMITED

Notes to the Consolidated Financial Statements

For the years ended August 31, 2019 and 2018

(Expressed in Canadian Dollars)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.2 Foreign currency transactions (continued)

Transactions and balances:

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in profit or loss in the period in which they arise, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognized in other comprehensive income in to the extent that gains and losses arising on those non-monetary items are also recognized in other comprehensive income. Where the non-monetary gain or loss is recognized in profit or loss, the exchange component is also recognized in profit or loss.

Foreign operations:

The financial results and position of foreign operations whose functional currency is different from the Company's presentation currency are translated as follows:

- assets and liabilities are translated at period-end exchange rates prevailing at that reporting date; and
- income and expenses are translated at average exchange rates for the period.

Exchange differences arising on translation of foreign operations are recognized in other comprehensive income and recorded in the Company's foreign currency translation reserve in equity. These differences are recognized in the profit or loss in the period in which the operation is disposed.

4.3 Equipment

Equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in net loss.

SOUTHSTONE MINERALS LIMITED

Notes to the Consolidated Financial Statements

For the years ended August 31, 2019 and 2018

(Expressed in Canadian Dollars)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.3 Equipment (continued)

Amortization

Amortization in profit or loss is provided on a straight-line basis over the estimated useful life of the assets as follows:

- | | |
|-----------------------------------|-------|
| • Computer equipment and software | 33% |
| • Office furniture | 20% |
| • Vehicles | 12.5% |
| • Equipment | 33% |
| • Plant equipment | 33% |

4.4 Income Taxes

Income tax expense comprises of current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive loss.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. At the end of each reporting period the Company reassesses unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

4.5 Loss per share

Basic loss per share is computed by dividing the Company's profit or loss applicable to common shares by the weighted average number of common shares outstanding for the relevant period. Diluted profit or loss per share is computed by dividing the Company's profit or loss applicable to common shares, by the sum of the weighted average number of common shares outstanding and all additional common shares that would have been outstanding if potentially dilutive instruments were converted at the beginning of the period. For the years ended August 31, 2019 and 2018, the Company had stock options, share purchase warrants, and convertible debt outstanding that could result in the issuance of additional common shares which were not included in the calculation of diluted loss per share as their effect would be anti-dilutive.

SOUTHSTONE MINERALS LIMITED

Notes to the Consolidated Financial Statements

For the years ended August 31, 2019 and 2018

(Expressed in Canadian Dollars)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.6 Share-based payments

Where equity-settled share options are awarded to employees or non-employees, the fair value of the options at the date of grant is charged to profit or loss over the vesting period. The number of equity instruments expected to vest at each reporting date is taken into account so that the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether these vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modifications, is charged to the Company's profit or loss over the remaining vesting period.

Where equity instruments are granted to employees, they are recorded at the fair value of the equity instrument granted at the grant date. The grant date fair value is recognized in profit or loss over the vesting period, described as the period during which all the vesting conditions are to be satisfied.

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received in profit or loss, unless they are related to the issuance of shares. Amounts related to the issuance of shares are recorded as a reduction of share capital.

When the value of goods or services received in exchange for the share-based payment with non-employees cannot be reliably estimated, the fair value is measured by use of a valuation model. The expected life used in the model is adjusted, based on management's best estimate, for effects of non-transferability, exercise restrictions and behavioural considerations.

All equity-settled share-based payments are reflected in equity reserve, until exercised. Upon exercise, shares are issued from treasury and the amount reflected in equity reserve is credited to share capital, adjusted for any consideration paid. Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and immediately recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest except to the extent that the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense.

4.7 Financial instruments

Effective September 1, 2018, the Company adopted IFRS 9 Financial Instruments ("IFRS 9") which replaced IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 provides a revised model for recognition and measurement of financial instruments and a single, forward-looking 'expected loss' impairment model. IFRS 9 also includes significant changes to hedge accounting. The Company adopted the standard retrospectively without restatement.

SOUTHSTONE MINERALS LIMITED

Notes to the Consolidated Financial Statements

For the years ended August 31, 2019 and 2018

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.7 Financial instruments (continued)

IFRS 9 largely retains the previous requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables, and available-for-sale.

Under IFRS 9, on initial recognition, financial assets are recognized at fair value and are subsequently classified and measured at amortized cost, fair value through other comprehensive income (“FVOCI”), or fair value through profit or loss (“FVTPL”). The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. A financial asset is measured at fair value net of transaction costs that are directly attributable to its acquisition except for financial assets at FVTPL where transaction costs are expensed. All financial assets not classified and measured at amortized cost or FVOCI are measured at FVTPL.

Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated, and instead the hybrid financial instrument as a whole is assessed for classification. On initial recognition of an equity instrument that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment’s fair value in other comprehensive income (loss). This election is made on an investment-by-investment basis.

The classification determines the method by which the financial assets are carried on the consolidated statement of financial position subsequent to initial recognition and how changes in value are recorded. The following accounting policies apply to the subsequent measurement of financial assets:

Financial assets at FVTPL - These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.

Financial assets at amortized cost - These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is adjusted for impairment losses, interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

Financial assets at FVOCI - These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Gains or losses recognized on the sale of the equity investment are recognized in other comprehensive income (loss) and are never reclassified to profit or loss.

SOUTHSTONE MINERALS LIMITED

Notes to the Consolidated Financial Statements

For the years ended August 31, 2019 and 2018

(Expressed in Canadian Dollars)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.7 Financial instruments (continued)

All financial liabilities are classified and subsequently measured at amortized cost except for financial liabilities at FVTPL. The classification determines the method by which the financial liabilities are carried on the consolidated statement of financial position subsequent to inception and how changes in value are recorded. Other financial liabilities are carried on the consolidated statement of financial position at amortized cost. The Company completed an assessment of its financial instruments. The following table shows the new classification under IFRS 9 and the original classification under IAS 39:

	IAS 39	IFRS 9
Financial assets		
Cash	Loans and receivables	Amortized cost
Trade and other receivables	Loans and receivables	Amortized cost
Reclamation deposits	Loans and receivables	Amortized cost
Financial liabilities		
Trade and other payables	Other financial liabilities	Amortized cost
Promissory notes payables	Other financial liabilities	Amortized cost
Convertible debentures – loans	Other financial liabilities	Amortized cost
Convertible debentures – derivative	FVTPL	FVTPL
Vehicle lease	Other financial liabilities	Amortized cost
Due to related parties	Other financial liabilities	Amortized cost

IFRS 9 introduces a new three-stage expected credit loss model for calculating impairment for financial assets. IFRS 9 no longer requires a triggering event to have occurred before credit losses are recognized. An entity is required to recognize expected credit losses when financial instruments are initially recognized and to update the amount of expected credit losses recognized at each reporting date to reflect changes in the credit risk of the financial instruments. In addition, IFRS 9 requires additional disclosure requirements about expected credit losses and credit risk. There was no adjustment relating to the implementation of the expected credit loss model for the Company's trade or settlement receivables.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized.

The Company has not designated any derivative contracts as hedges and therefore has not applied hedge accounting in these consolidated financial statements.

SOUTHSTONE MINERALS LIMITED

Notes to the Consolidated Financial Statements

For the years ended August 31, 2019 and 2018

(Expressed in Canadian Dollars)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.8 Non-controlling interest

Non-controlling interest is measured at its proportionate share of the acquiree's identifiable net assets or liabilities. Net income or loss and comprehensive income or loss for the period are allocated between non-controlling interest and shareholders of the parent. Non-controlling interest in subsidiaries must be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. Changes in the Company's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

4.9 Impairment of non-financial assets

The carrying amount of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the profit or loss.

The recoverable amount of assets is the greater of an asset's fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount. Any reversal of impairment cannot increase the carrying value of the asset to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years.

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

4.10 Restoration and environmental obligations

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of long-term assets, when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of future restoration cost estimates arising from the decommissioning of plant and other site preparation work is capitalized to the related asset along with a corresponding increase in the restoration provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. The Company's estimates of restoration costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to the related asset with a corresponding entry to the restoration provision. The Company's estimates are reviewed annually for changes in regulatory requirements, discount rates, effects of inflation and changes in estimates. These changes are recorded directly to the related asset with a corresponding entry to the provision.

SOUTHSTONE MINERALS LIMITED

Notes to the Consolidated Financial Statements

For the years ended August 31, 2019 and 2018

(Expressed in Canadian Dollars)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.10 Restoration and environmental obligations (continued)

The increase in the restoration provision due to the passage of time is recognized as interest expense. The net present value of restoration costs arising from subsequent site damage that is incurred on an ongoing basis during production are charged to the statement of comprehensive loss in the period incurred.

The costs of restoration projects that were included in the provision are recorded against the provision as incurred. The costs to prevent and control environmental impacts at specific properties are capitalized in accordance with the Company's accounting policy for exploration and evaluation assets.

4.11 Revenue recognition

Effective September 1, 2018, the Company adopted IFRS 15 Revenue from Contracts with Customers ("IFRS 15") in accordance with the transitional provisions of each standard as outlined below.

The Company adopted IFRS 15 on a modified retrospective basis. The standard supersedes IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. The Company has reviewed its sources of revenue and major contracts with customers using the guidance found in IFRS 15 and determined that there are no material changes to the timing and measurements of the Company's revenue, as compared to the provisions of the previous standards. Therefore, no adjustments to deficit were required upon adoption of IFRS 15. The Company did not apply any of the available optional transition practical expedients.

IFRS 15 sets out a five-step model for revenue recognition. The core principal is that revenue should be recognized to depict the transfer of control of goods and services to customers in an amount that reflects the consideration that the Company expects to be entitled for those goods and services. The Company earns revenue from the processing of coal and the sale of diamonds.

Revenue from the processing of coal is pursuant to contractual arrangements with its customers. This revenue is recognized once the tonnage is processed and revenue is determinable, based on agreements. Revenue is recognized at a point in time when control over the goods has been transferred to the customer. The Company transfers control and satisfies its performance obligation upon delivery and acceptance by the customer, which is consistent with the Company's previous revenue recognition policy under IAS 18. The Company recognizes revenue in the amount that the Company expects to receive after taking into account any variation that may result from rights of return.

The Company principally generates revenue from the sale of diamonds (the "Product") pursuant to contractual arrangements with its customers. This revenue is recognized when control or title of the Product is transferred from the Company and collection is reasonably assured in accordance with specified contract terms. All revenue is generally earned at a point in time and is based on the consideration that the Company expects to receive for the transfer of the Product to the customer.

During the year ended August 31, 2019, the technical and economic feasibility of the Company's diamond project had not been established and the Company continued evaluation of this property. As at August 31, 2019, all diamonds recovered from the project are virgin diamonds and the revenue earned is accounted for in the statement of income(loss) and comprehensive income(loss).

SOUTHSTONE MINERALS LIMITED

Notes to the Consolidated Financial Statements

For the years ended August 31, 2019 and 2018

(Expressed in Canadian Dollars)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.11 Revenue recognition (continued)

Revenue is measured based on the consideration specified in a contract with its customers. Payment terms with customers are generally 30 days from the date of the invoice. The Company generally does not have any sales contracts where the period between the transfer of the Product to the customer and payment by the customer exceeds one year. As a result, the Company does not adjust its revenue transactions for the time value of money.

All of trade receivables were generated from contracts with customers

4.12 Fair value of warrants

The Company measures the fair value of warrants issued from financings using the Black–Scholes Option Pricing model. When warrants are issued, the fair value is recorded in the warrant reserve, with the corresponding entry to share capital. When warrants are exercised, their fair value is removed from the warrant reserve account and recorded as share capital.

4.13 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers. The Company's executive management team has been identified as the chief operating decision-makers, and are responsible for allocating resources and assessing performance of the operating segments.

4.14 Investment in associate

Investments in entities over which the Company has a significant influence, but not control, are accounted for by the equity method, whereby the original cost of the investment is adjusted for the Company's proportionate share of the investee's income or loss. When the Company's equity investee issues its own shares to outside interests, a dilution gain or loss arises as a result of the difference between the Company's proportionate share of the proceeds and the carrying value of the underlying equity. When net accumulated losses from an equity accounted investment exceed its carrying amount, the investment balance is reduced to zero and additional losses are not provided for unless the Company is committed to provide financial support to the investee.

The Company resumes accounting for the investment under the equity method when the entity subsequently reports net income and the Company's share of that net income exceeds the share of net losses not recognized during the period the equity method was suspended. Profit or loss resulting from transactions between the Company and its associates is eliminated to the extent of the interest in the associate. The Company determines at each reporting date whether there is any objective evidence that the investments in associates are impaired. The financial statements of associates are prepared for the same reporting period as the Company. Where necessary, adjustments are made to bring the accounting policies of its associates into line with those of the Company.

SOUTHSTONE MINERALS LIMITED

Notes to the Consolidated Financial Statements

For the years ended August 31, 2019 and 2018

(Expressed in Canadian Dollars)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.15 Inventory and supplies

Rough diamond inventory is measured and valued at the lower of average production cost and net realizable value. Average production costs is estimated at a portion of the estimated selling price of the diamonds based on the prevailing diamond price and the reporting date. As at August 31, 2019, rough diamond inventory is recorded at the average United States Dollar per carat for sales in the preceding six months, converted at the year-end spot rate. Cost associated with the production recorded in inventory is recorded at either the subcontractor contractual rate or based on provisions and accruals for costs associated with the production.

Supplies inventory is recorded at the average cost method and includes consumable spares. Net realizable value is the estimated selling price in the ordinary course of business less estimated cost of completion and costs of selling the product. In order to determine net realizable value, the carrying amount of obsolete and slow moving items is written down on the basis of an estimate of their future use or realization. A write-down is made when the carrying amount is higher than the net realizable value.

4.16 Assets held for sale and discontinued operations

Non-current assets held for sale and disposal groups are presented separately in the current section of the balance sheet when management is committed to immediately selling the asset or disposal group in its present condition, and this sale is highly probable and expected to be completed within one year. Immediately before the initial classification of the assets and disposal groups as held for sale or for distribution, the carrying amounts of the assets, or all the assets and liabilities in the disposal groups, are measured in accordance with the applicable accounting policy.

Assets held for sale or distribution and disposal groups are subsequently measured at the lower of their carrying amount and fair value less cost to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the noncurrent asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale or for distribution. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale or for distribution continue to be recognised.

Non-current assets classified as held for sale or for distribution and the assets of a disposal group classified as held for sale or for distribution are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale or for distribution are presented separately from other liabilities in the balance sheet.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the statement of profit or loss.

SOUTHSTONE MINERALS LIMITED

Notes to the Consolidated Financial Statements

For the years ended August 31, 2019 and 2018

(Expressed in Canadian Dollars)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.17 Accounting standards issued but not yet effective

New standard IFRS 16 “Leases”

This new standard replaces IAS 17 “Leases” and the related interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting is not substantially changed. The standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted for entities that have adopted IFRS 15. Overall, the Company does not expect the implementation of IFRS 16 to have a material impact on its consolidated statement of financial position.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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 the estimates are revised.

Estimates and assumptions where there is significant risk of material adjustments to assets and liabilities in future accounting periods include:

- fair value of financial instruments;
- recoverability and measurement of deferred tax assets;
- provisions for restoration and environmental obligations and contingent liabilities;
- carrying value of inventories;
- amortization of intangible assets;
- recoverable amount of its evaluation and exploration assets;
- fair value of stock-based transactions; and
- fair value of derivative liability.

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:

- 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;
- classification of the Oena Project as an exploration and evaluation asset (Note 10);
- determination of control over ASM (Note 10);
- determination of the functional currency of the Company and its subsidiaries; and
- classification of Kwena as held-for-sale and discontinued operations.

SOUTHSTONE MINERALS LIMITED

Notes to the Consolidated Financial Statements

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6. INVESTMENT IN TML EQUIPMENT

In July 2017, the Company entered into a transaction with two unrelated parties and executed a share purchase agreement to acquire 25% of interest in TML Equipment for a nominal value. The Company, through its shareholding in TML Equipment, exercises significant influence over that company, but not control. As a result, the investment in TML Equipment is accounted for using the equity method.

	August 31, 2019	August 31, 2018
Common shares (25%)	\$ 3,129	\$ 3,129
Cumulative share of equity loss	(3,129)	(3,129)
	\$ -	\$ -

During the year ended August 31, 2019, the Company's share of TML Equipment's equity loss was \$11,888 (2018 - \$20,980). However, the loss exceeded the carrying amount of the initial investment in the associate entity of \$3,129. The Company recognized no further losses beyond these carrying amounts. If subsequently, TML Equipment subsequently reports profits, the Company will resume recognizing its share of those profits only after its share of the profits equals the share of losses not recognized.

The following is the financial summary of the equity investment:

	August 31, 2019	August 31, 2018
Non-current assets	\$ 132,799	\$ 174,736
Current assets	\$ 4,667	\$ 6,799
Current liabilities	\$ 261,516	\$ 265,453
Loss and comprehensive loss	\$ 47,551	\$ 83,918

7. RECEIVABLES

	August 31, 2019	August 31, 2018
GST/HST receivables	\$ 119	\$ 2,541
Trade receivables (Note 28)	-	1,201,858
Total receivables	\$ 119	\$ 1,204,399

8. INVENTORIES

As at August 31, 2018, the Kwena Group, held supplies inventory used for maintenance of the coal processing plants as required by the Service Contracts (Note 9). As at August 31, 2019, the Company has accrued for diamonds on hand during production at the historical United States Dollar per carat average rate.

	August 31, 2019	August 31, 2018
Supplies inventory (Note 28)	\$ -	\$ 890,337
Diamonds	158,762	-
Total inventories	\$ 158,762	\$ 890,337

SOUTHSTONE MINERALS LIMITED

Notes to the Consolidated Financial Statements

For the years ended August 31, 2019 and 2018

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9. INTANGIBLE ASSETS

Service Contracts

The Company has 3 thermal coal, metallurgical and processing plant and engineering service contracts (the “Service Contracts”). The contracts are amortized over 5 years.

	August 31, 2019		August 31, 2018	
Balance, beginning of year	\$	18,093	\$	39,430
Amortization		(18,888)		(20,127)
Foreign exchange		795		(1,210)
Balance, end of the year	\$	-	\$	18,093

10. EXPLORATION AND EVALUATION ASSETS

South Africa

The Company’s 43% owned subsidiary ASM has a 100% interest in the Oena Project, a diamond property located in the Northern Cape Province, South Africa.

	August 31, 2019		August 31, 2018	
Balance, beginning of year	\$	476,260	\$	614,083
Recoveries		-		(87,195)
Effect of foreign exchange		1,938		(50,628)
Balance, end of the year	\$	478,198	\$	476,260

The evaluation and exploration expenses for the Oena Project are as follows:

	August 31, 2019		August 31, 2018	
Project staff salaries, benefits and consulting	\$	291,274	\$	112,306
Habilitation expense		-		98,704
Travel expenses		22,257		43,596
Supplies expense		2,932,549		1,432,170
Recoveries		-		(1,773,971)
Exploration and evaluation recoveries		(3,246,080)		(87,195)
Net recovery credited to carrying value of Oena Property		-		87,195

During the year ended August 31, 2017, the Company entered into an agreement to sell an 8% interest in its subsidiary, ASM. Pursuant to this agreement, the Company received an advance of \$46,674 (US\$ 35,000) and issued 93,077 common shares, (which shares were held in escrow). The buyer’s acquired interest will exclude the liabilities of ASM at the time the agreement was entered into. The buyer also acquired an additional 23% interest in ASM from an existing shareholder. The Company issued and placed in escrow an additional 231,441 common shares (the “**Escrow Shares**”) as security for the buyer’s other 23% interest in ASM, to be held while the mining license was being renewed. The agreement stipulated that upon renewal of the mining license, the 324,518 Escrow Shares were to be cancelled and returned to treasury.

SOUTHSTONE MINERALS LIMITED

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10. EXPLORATION AND EVALUATION ASSETS (continued)

During the year ended August 31, 2018, the Company received the approval from the Department of Minerals and Resources of the renewal of the mining license for nine years expiring on March 15, 2027. During the year ended August 31, 2019, the Escrow Shares were returned to treasury and cancelled.

As part of the application for renewal, and in line with the proposed mining charter, the Company and the minority shareholders will undertake to restructure the shareholding in ASM on a pro-rata basis subsequent to August 31, 2019 as follows:

	ASM Shareholding		
	Pre-permit renewal	Post permit renewal	Post Restructure
Southstone Minerals Limited	51%	43%	41%
BEE Ownership			
Partner	26%	26%	14%
Employees trust	-	-	8%
Community trust	-	-	8%
Other minorities	23%	31%	29%
	100%	100%	100%

Subsequent to the disposition of 8% interest in ASM, the Company holds 43% interest in the entity, but continues to have the highest percentage shareholding. The Company has assessed it still maintains control over the entity based on the following factors:

- any shareholder can appoint one director of ASM for every 21% shareholding and may remove or replace any appointee;
- the Chairman of the board of ASM is appointed from a director that represents the shareholder with the highest percentage shareholding and the Chairman is granted a second or casting vote to give the Company control of the board; and
- the board is be responsible for the overall direction, supervision and management of ASM.

SOUTHSTONE MINERALS LIMITED

Notes to the Consolidated Financial Statements

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11. EQUIPMENT

	Computer Equipment and Software	Office Furniture	Vehicles	Plant Equipment	Equipment	Total
Cost						
As at August 31, 2017	\$ 52,850	\$ 26,745	\$ 118,357	\$ -	\$ 57,774	\$ 255,726
Additions	7,208	-	19,023	221,481	-	247,712
As at August 31, 2018	60,058	26,745	137,380	221,481	57,774	503,438
Additions	5,244	-	-	105,580	99,317	210,141
Reclassified to held for sale	(65,302)	(26,745)	(51,926)	(980)	(57,774)	(202,727)
As at August 31, 2019	\$ -	\$ -	\$ 85,454	\$ 326,081	\$ 99,317	\$ 510,852
Accumulated Amortization						
As at August 31, 2017	\$ 30,228	\$ 21,234	\$ 58,193	\$ -	\$ 29,300	\$ 138,955
Charge for the year	5,685	1,781	9,151	-	4,319	20,936
As at August 31, 2018	35,913	23,015	67,344	-	33,619	159,891
Charge for the year	9,660	1,666	8,820	28,541	56,155	104,842
Reclassified to held for sale	(45,573)	(24,681)	(49,476)	-	(37,150)	(156,880)
As at August 31, 2019	\$ -	\$ -	\$ 26,688	\$ 28,541	\$ 52,624	\$ 107,853
Foreign Exchange						
As at August 31, 2018	\$ (10,311)	\$ 2,332	\$ (3,053)	\$ -	\$ (15,782)	\$ (26,814)
As at August 31, 2019	\$ -	\$ -	\$ (26,948)	\$ 719	\$ 3,270	\$ (22,959)
Net Book Value						
As at August 31, 2018	\$ 13,834	\$ 6,062	\$ 66,983	\$ 221,481	\$ 8,373	\$ 316,733
As at August 31, 2019	\$ -	\$ -	\$ 31,818	\$ 298,259	\$ 49,963	\$ 380,040

12. TRADE AND OTHER PAYABLES

	August 31, 2019	August 31, 2018
Trade payables	\$ 639,258	\$ 923,205
Accrued liabilities	77,486	120,535
Payroll and VAT provisions	19,158	633,767
Total trade and other payables	\$ 735,902	\$ 1,677,507

13. PROMISSORY NOTE

During the year ended August 31, 2018, the Company issued an unsecured promissory note of \$240,408 (US\$185,000), interest bearing at 3% per annum, with no fixed term of repayment. During the year ended August 31, 2019, the Company recognized \$20,512 in interest expense. As at August 31, 2019, \$260,920 (August 31, 2018: \$240,408) was outstanding.

SOUTHSTONE MINERALS LIMITED

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14. CONVERTIBLE NOTES

On June 19, 2015, the Company issued \$525,000 of secured convertible notes bearing interest at 12% and due on June 19, 2016. At any time after issuance, the holder was entitled to elect, at their sole discretion, to be repaid all or a portion of the principal amount in common shares of the Company at a value of \$0.05 per share. The notes were secured against the Company's 51% interest in ASM. During the year ended August 31, 2016, the Company allocated \$35,000 of the proceeds received to the conversion option and recorded in equity.

During the year ended August 31, 2016, 275,000 of these convertible notes were converted to 5,500,000 common shares. During the year ended August 31, 2017, additional principal of \$100,000 plus accrued interest of \$97,980 were converted to 3,959,600 common shares.

In June 2018, a payment plan was executed whereby the note holders agreed to receive repayments totaling \$182,145 in installments, with the last payment occurring on June 2019. During the year ended August 31, 2019, \$68,925 (2018: \$17,384) of principal was repaid in cash. As at August 31, 2019, \$106,656 (2018: \$156,100) remains outstanding.

On June 17, 2015, the Company issued an unsecured convertible note in the amount of \$666,500 (US\$500,000) bearing interest at 10% and maturing on June 22, 2016, which was extended to August 22, 2016. On July 7, 2017, the maturity date of the loan was further extended to December 31, 2017. The note was convertible at the discretion of the holder into common shares at a price of \$0.05 per share and the interest was convertible into common shares at the closing price of the Company's shares on the date the interest becomes payable. As the note was issued in a currency different from the Company's functional currency, the conversion feature was treated as a derivative liability and recorded at fair value. During the year ended August 31, 2016, the holder elected to convert \$325,413 (US\$250,000) of the convertible note into 6,508,250 common shares. During the year August 31, 2017, the holder elected to convert \$98,663 (US\$76,416) of accrued interest and \$64,883 (US\$50,000) of principal into 3,270,924 common shares. On February 5, 2018, US\$100,000 and interest was repaid.

In June 2018, a payment plan was executed whereby the note holder agreed to receive repayments totaling \$131,067 (US\$102,626) in installments, with the last payment occurring on June 2019. During the year ended August 31, 2019, \$122,492 (US \$92,419) (2018: \$156,415) of principal was repaid in cash. As at August 31, 2019, \$nil (2018: \$122,492) remains outstanding.

On July 18, 2016, the Company issued \$304,171 of unsecured convertible notes bearing interest at 12%, due within one year. \$92,171 of these convertible notes were due on October 31, 2016, \$145,000 was due on December 31, 2016 and \$67,000 was due on February 28, 2017. At any time after issuance, the holder was entitled to elect, at their sole discretion, to be repaid all or a portion of the principal amount in common shares of the Company at a value of \$0.05 per common share. On issuance, the Company allocated \$8,511 of the proceeds received to the conversion option and the remainder was recorded in equity. During the year ended August 31, 2017, some of the holders elected to convert \$37,881 of accrued interest to 757,620 common shares.

In June 2018, a payment plan was executed whereby the note holders, who are not insiders, agreed to receive repayments totaling \$352,750 in installments, with the last payment occurring on June 2019. During the year ended August 31, 2019 \$64,405 (2018: \$23,158) of principal was repaid in cash and a combined value of \$214,391 was converted. As at August 31, 2019, \$51,987, (2018: \$120,099) remains outstanding.

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14. CONVERTIBLE NOTES (Continued)

On November 8, 2017, the Company issued an unsecured convertible note totaling \$510,500 (US\$400,000) bearing interest at 3% per annum and maturing on November 7, 2019. The note was convertible at the option of the Company into units at a price of \$0.05 per share. Accrued interest was convertible into common shares at the closing price of the Company's shares on the date the interest was payable. Each unit consists of one common share and one warrant, with each warrant entitling the holder to purchase one common share at a price of \$0.10 per share. The note was issued as convertible at the option of the Company and therefore was recorded in equity. In March 2018, the note was fully converted into 10,210,000 common shares and 10,210,000 warrants. Each warrant entitles the holder to purchase one common share at a price of \$0.10 per share on or before March 22, 2020. Out of \$501,500, \$306,300 was allocated to share capital with the remaining assigned to warrants and allocated to reserve (Note 18). Accrued interest of \$5,156 (US\$4,093) was recorded to trade and other payables

A continuity schedule of the convertible notes is as follows:

	August 31, 2019	August 31, 2018
Balance, beginning of the year	\$ 621,657	\$ 751,598
Proceeds on issuance of convertible notes	-	510,500
Accrued interest	5,156	66,759
Converted to short term debt	(110,897)	-
Converted to shares	(103,494)	-
Amount allocated to equity on issuance	-	(510,500)
Repayments in cash	(255,822)	(196,957)
Effect of foreign exchange	2,043	257
Balance, end of the year	\$ 158,643	\$ 621,657

The conversion option on the convertible notes denominated in US dollars has been accounted for as a derivative liability as the number of shares or units issuable on conversion will vary as a result of changes in foreign exchange rates. A continuity schedule of the derivative liability is as follows:

	August 31, 2019	August 31, 2018
Balance, beginning of the year	\$ -	\$ 2,503
Net change in fair value in derivative liability	-	(2,503)
Balance, end of the year	\$ -	\$ -

The fair value of the derivative liability was estimated using the Black-Scholes Option Pricing model using the following assumptions:

	August 31, 2017
Expected life	Up to 0.88 years
Volatility	204%
Risk free interest rate	Less than 1%
Dividend yield rate	Nil

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15. MOQUITA PROJECT

During the year ended August 31, 2019, the Company executed a Services Agreement for Mining and Marketing of Diamonds (“Services Agreement”) with Cooperativa Mineira Do Moquita, SCRL (“Moquita”), a concession located within the Lauchimo River basin, Province of Lunda Norte, Republic of Angola (the “Property”). The Company was responsible for capital expenditures associated with alluvial diamond mine design and equipment acquisition as well as enhancing production. As remuneration, the Company would receive 60% of the proceeds from the sale of produced diamonds.

In conjunction with this Services Agreement, the Company entered into an agreement with CC Mining Limited (“CCML”) whereby CCML provided to the Company two US dollar term loan facilities for an aggregate of US\$500,000, (collectively the “Loans”) to be solely used to fund both the capital and operating costs required for the mining of diamonds in Angola on the Moquita property (the “Project”).

The Company entered into a Phase 1 Corporate Loan Agreement whereby CCML provided a US dollar term loan facility for up to US\$250,000 (the “Corporate Loan Agreement”) bearing interest at the rate of 15% per annum, payable monthly, secured and maturing in September 2020. The Company also entered into a Phase 1 Equity Loan Agreement whereby CCML provided a US dollar term loan facility for up to US\$250,000 (the “Equity Loan”). The Equity Loan is non-interest bearing, secured and repayable on the delivery of the joint venture agreement with CCML or terminated if CCML elects not to participate in Phase 2.

Pursuant to the agreements, 50% of the proceeds received from the sale of diamonds recovered from the Project would be paid to CCML in lieu of interest. As security for the Loans, the Company agreed to a project specific bank account and a security assignment over the Project, both in favor of CCML.

On August 16, 2019, CCML elected not to partake in Phase 2 and the project was terminated. Pursuant to the termination, the Equity Loan was derecognized and the Company recorded a gain on Derecognition of loan of \$362,239.

During the year ended August 2019, another drawdown of US\$34,936 of capital was undertaken to close off the Moquita project.

A continuity schedule of the loans payable is as follows:

	August 31, 2019	August 31, 2018
Balance, beginning of the year	\$ -	\$ -
Proceeds on issuance of loan agreements	696,647	-
Accrued interest	57,061	-
Gain on derecognition of loan	(362,239)	-
Amount transferred from convertible debt	110,897	-
Effect of foreign exchange	(90,427)	-
Balance, end of the year	\$ 411,939	\$ -

During the year ended August 31, 2019, the Company incurred \$699,421 (August 31, 2018 - \$170,090) as project investigation costs.

SOUTHSTONE MINERALS LIMITED

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16. INCOME TAXES PAYABLE

The amount of \$199,347 (2018: \$240,619) represents overdue tax payable in the subsidiary African Star Minerals (Pty) Ltd.

17. DEFERRED RECOVERY

In November 2017, the Company entered into a Tailing Investment and Revenue Participation agreement with TML Equipment, whereby TML Equipment agreed to provide funding of \$191,042 to ensure ongoing operations of the Oena Property. In return, TML Equipment receives a royalty of 10.6% from sale of diamonds recovered from processing tailings. In the event that no diamond sales are generated, the Company is not obligated to make any royalty payments. The Company recognized the funding as a deferred recovery of the Oena Property and amortized the balance over a 5 year term. For the year ended August 31, 2019, the Company recorded amortization of \$39,154 (2018: \$32,950).

18. RELATED PARTY TRANSACTIONS

The Company incurred the following expenditures charged by companies controlled by current and former directors and officers of the Company:

	August 31, 2019	August 31, 2018
Management fees (included in management and consulting and employee benefits expense)	\$ 1,024,283	\$ 1,101,428
Consulting fees (included in management and consulting)	36,000	36,000
Office and general	37,336	43,250
Raw materials and engineering costs	694,446	696,297
Share-based payments	-	33,750
Total	\$ 1,792,065	\$ 1,910,725

As at August 31, 2019, \$1,099,041 (August 31, 2018 - \$663,380) is owed to the CEO, CFO and certain directors and officers of the Company. Amounts owing are non-interest bearing, unsecured and due on demand.

On December 14, 2017, the Company issued 17,895,380 common shares with a fair value of \$894,769 to settle an equivalent amount of debt.

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19. REHABILITATION PROVISION

A continuity of the Company's reclamation provision is as follows:

		August 31, 2019		August 31, 2018
Balance at the beginning of the year	\$	250,033	\$	146,827
Addition		49,184		128,316
Effect of foreign exchange		(31,325)		(25,110)
Balance at the end of the year	\$	267,892	\$	250,033

As at August 31, 2019, the rehabilitation provision relates to the Oena Project (Note 10). For the years ended August 31, 2019 and 2018, the Company contracted the services of Site Plan Consulting, and an independent consultant specializing in geological surveying. The provision is an estimate of total amount of future cash flows required to complete the restoration on the following:

- stock piles and tailings;
- existing facilities; and
- roads and other infrastructure.

The Company carries \$168,750 (August 31, 2018: \$161,332) in deposits as security against the liability.

SOUTHSTONE MINERALS LIMITED

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20. SHARE CAPITAL

(a) Authorized

Unlimited number of common shares without par value.

(b) Share consolidation

On October 29, 2019, the Company completed a consolidation of its share capital on the basis of one post-consolidated share for ten pre-consolidated shares. All share and per share amounts in these financial statements have been retroactively adjusted to reflect the share consolidation.

(c) Issued

Year Ended August 31, 2019

On September 4, 2018, the Company issued 65,100 common shares with a value of \$32,550 as consideration for management fees to the CEO and a director of the company.

On October 26, 2018, 1,389,538 common shares issued to four parties, including a director, in settlement of debt were cancelled and returned to treasury, with all parties agreeing to forgive their respective debts totaling \$694,769.

On June 27, 2019, 100,000 common shares held in escrow were cancelled. These shares were placed in escrow on as part of the separation agreement of a former CEO.

On December 7, 2018, 342,518 common shares that were held in escrow were cancelled. These shares were placed in escrow on April 11, 2017 as security for a buyer's interest in ASM (note 10), that was to be held while the mining license was under renewal. The agreement stipulated that upon renewal the escrowed shares will be cancelled and returned to treasury. In the event that the mining license was not renewed, the escrowed shares would have been released to the buyer.

On December 31, 2018, the Company issued 400,000 units at \$0.05 per unit for settlement of debt with a value of \$200,000. Each unit consists of one common share and one share purchase warrant, with each warrant exercisable into one common share of the Company at an exercise price of \$0.10 per share, exercisable for a period of 36 months from the date of issuance. The fair value of the warrants was valued at \$57,315 using the Black-Scholes Option pricing model and was accounted for as share issuance costs.

On February 15, 2019, 206,988 common with a value of \$103,494 were issued for conversion of convertible notes (Note 14).

SOUTHSTONE MINERALS LIMITED

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20. SHARE CAPITAL (continued)

Year Ended August 31, 2018

In September 2018, the Company closed a private placement and issued 375,484 common shares at a price of \$0.05 per share for gross proceeds of \$187,745. Out of \$187,745, \$31,488 was reallocated from shares to be issued to share capital.

During the year ended August 31, 2018, the Company issued 846,300 common shares with a value of \$302,715 as consideration of management fees. Out of \$302,715, \$32,550 was reallocated from shares to be issued to share capital.

On December 14, 2017, the Company issued 1,789,538 common shares with a fair value of \$894,771 to settle an equivalent amount of debt.

On March 22, 2018, the Company elected to fully convert a convertible note of \$510,500 and issued 1,021,000 units. Each unit consists of one share and one warrant. Each warrant entitles the holder to purchase one common share at a price of \$0.10 per share expiring on March 22, 2020. Out of \$510,500, \$204,200 was allocated to the warrants.

The warrants issued were valued using Black-Scholes option pricing model and the following input assumptions:

Weighted average fair value of warrants issued on March 22, 2018	\$	0.02
Risk-free interest rate		1.82%
Estimated life		2 years
Estimated volatility		215.68%
Expected dividend yield		0%
Forfeiture rate		0%

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21. WARRANTS

The continuity of the Company's outstanding warrants is as follows:

	August 31, 2019		August 31, 2018	
	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price	Number of Warrants
Outstanding, beginning of year	\$ 0.90	1,822,180	\$ 0.90	970,944
Issued	1.00	400,000	1.00	1,021,000
Expired	1.00	(401,180)	0.60	(169,764)
Outstanding, end of the year	\$ 1.00	1,821,000	\$ 0.90	1,822,180

During the year ended August 31, 2019, 400,000 warrants were issued as part of a settlement of debt, entitling the holder to purchase 400,000 common shares at an exercise price of \$1.00 per share for a period of 36 months from the date of issuance. The Company recognised \$57,315, in share issuance costs, as the fair value of the warrants using the Black Scholes option pricing model.

During the year ended August 31, 2018, 1,021,000 warrants were issued, entitling the holder to purchase 1,021,000 common shares at a price of \$1.00 per share on or before March 22, 2020 with respect to the conversion of a convertible note for US\$400,000 (C\$510,000) (Note 14).

Warrants outstanding as at August 31, 2019 are as follows:

Exercise price	Issue date	Expiry date	Number of Warrants
\$ 1.00	March 2, 2015	March 2, 2020	400,000
\$ 1.00	March 22, 2018	March 22, 2020	1,021,000
\$ 1.00	December 28, 2018	December 27, 2021	400,000

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22. SHARE BASED PAYMENTS

The Company has a stock option plan whereby the maximum number of shares reserved for issue under the plan shall not exceed 10% of the outstanding common shares of the Company, as at the date of the grant. The maximum number of common shares reserved for issue to any one person under the plan cannot exceed 5% of the issued and outstanding number of common shares at the date of the grant and the maximum number of common shares reserved for issue to a consultant or a person engaged in investor relations activities cannot exceed 2% of the issued and outstanding number of common shares at the date of the grant. Options may be granted for a maximum term of ten years from the date of the grant, are non-transferable and expire within 90 days of termination of employment or holding office as a director or officer of the Company and, in the case of death, expire within one year thereafter. Upon death, the options may be exercised by legal representation or designated beneficiaries of the holder of the option. Stock options vest 50% on grant date and 50% within 365 days from the grant date, except for certain investor relations consultants.

A summary of stock options issued and outstanding is as follows:

	August 31, 2019			August 31, 2018		
	Weighted Average Exercise Price	Number of Options		Weighted Average Exercise Price	Number of Options	
Outstanding at beginning of the year	\$ 0.50	1,005,000	\$	0.70	1,285,000	
Expired	0.50	(315,000)		1.30	(280,000)	
Outstanding at end of the year	\$ 0.50	690,000	\$	0.50	1,005,000	
Exercisable at end of the year	\$ 0.50	690,000	\$	0.50	1,005,000	

The following table provides additional information about outstanding stock options at August 31, 2019:

Exercise Price	Number of Options Outstanding and Exercisable	Weighted Average Remaining Life (Years)	Expiry date
\$ 0.50	105,000	0.16	October 27, 2019
\$ 0.50	90,000	1.87	July 15, 2021
\$ 0.50	450,000	2.45	February 10, 2022
\$ 0.50	45,000	2.59	April 3, 2022
\$ 0.50	690,000		

Subsequent to August 31, 2019, 105,000 stock options expired unexercised.

SOUTHSTONE MINERALS LIMITED

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22. SHARE BASED PAYMENTS (continued)

The following table summarizes the weighted average assumptions used with the Black-Scholes Option Pricing model for the determination of the fair value of stock options granted during the years.

Grant Date	Expiry Date	Share Price at Grant Date	Exercise Price	Risk-Free Interest Rate	Expected Life (Years)	Volatility Factor	Dividend Yield
October 27, 2014	October 27, 2019	\$0.35	\$0.50	1.50%	5	157%	Nil
July 15, 2016	July 15, 2021	\$0.70	\$0.50	0.68%	5	212%	Nil
February 10, 2017	February 10, 2022	\$0.60	\$0.50	1.09%	5	224%	Nil
April 3, 2017	April 3, 2022	\$0.60	\$0.50	1.08%	5	225%	Nil

Total expenses arising from share-based payments recognized during the year ended August 31, 2019 were \$nil (2018 - \$33,750).

23. CAPITAL RISK MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral properties and its engineering services. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company defines capital to include its shareholders' equity. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the year ended August 31, 2019.

The Company considers its capital to be shareholders' equity, which is comprised of capital stock, reserves, deficit and non-controlling interest. There are no external restrictions on the Company's capital.

The Company's objective when managing capital is to obtain adequate levels of funding to support its exploration activities, to obtain corporate and administrative functions necessary to support organizational functioning and obtain sufficient funding to further the identification and development of precious metals deposits.

The Company raises capital, as necessary, to meet its needs and take advantage of perceived opportunities and, therefore, does not have a numeric target for its capital structure. Funds are primarily secured through equity capital raised by way of private placements. There can be no assurance that the Company will be able to continue raising equity capital in this manner.

The Company invests all capital that is surplus to its immediate operational needs in short term, liquid and highly rated financial instruments, such as cash, and short term guarantee deposits, all held with major Canadian financial institutions.

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24. FINANCIAL INSTRUMENTS

Fair Value

The carrying amount of cash, receivables, trade and other payables, promissory notes, convertible notes, vehicle lease, and due to related parties approximate fair value due to the relatively short term maturity of these financial instruments. The derivative liability of convertible debentures that are past due are measured using the difference between the trading price and the exercise price at the year-end date. The fair value of the derivative liability is measured using level 3 inputs using the Black Scholes Option Pricing model.

Credit Risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash, and trade receivables. The Company has no significant concentration of credit risk arising from operations. Cash are held with reputable Canadian and South African chartered banks which are closely monitored by management. Trade receivables are usually received within 30 days.

Liquidity Risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if the Company's access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Company. The Company generates cash flow primarily from its financing activities. As at August 31, 2019 the Company had cash of \$699,845 to settle current liabilities of \$4,065,455. The Company intends to meet its financial commitments through loans, private placements and profits generated from its operations. All of the Company's financial liabilities have contractual maturities of less than 365 days and are subject to normal trade terms

Interest Rate Risk

The Company has cash balances and no variable interest bearing debt. The Company has fixed rates on its debt, changes in interest rates could result in fair value risk on the Company's fixed rate debt.

Foreign Currency Risk

Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from their respective functional currency. The coal operations' income and expenditure are incurred in South African Rands. Diamonds from the South African operations are tendered in United States Dollars and settled in South African Rands at the average rate on the day that the tender closes. The main debt instruments of the group is denominated in Canadian and United States Dollars. The group does not enter into forward cover. As a result, unrealized foreign exchange gains and losses will arise from financial instruments that are unsettled at reporting date and realized foreign exchange gains and losses will arise from the derecognition of financial instruments at the prevailing rate.

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25. SEGMENTED INFORMATION

Operating Segments

For the years ended August 31, 2019 and 2018, the Company had two reportable segments:

- The operation of four thermal coal, metallurgical and processing plants under engineering contracts; and
- The acquisition, exploration and evaluation, and development of mineral properties.

The following is summarized financial information of the Company's reportable segments for the year ended August 31, 2019:

	Coal Processing Service Contracts *	Exploration and Evaluation	Corporate	Consolidated
Revenues	\$ 14,487,292	\$ 3,692,111	\$ 8,066	\$ 18,187,469
Amortization	\$ 14,862	\$ 84,328	\$ 5,652	\$ 104,842
Amortization of service contracts	\$ 18,888	\$ -	\$ -	\$ 18,888
Net income (loss)	\$ 320,806	\$ 266,899	\$ (333,436)	\$ 254,269
Total assets	\$ 2,912,135	\$ 1,181,890	\$ 94,060	\$ 4,188,085
Total liabilities	(1,463,034)	(975,225)	(1,979,738)	(4,417,997)
Net assets (liabilities)	\$ 1,449,101	\$ 206,665	\$ (1,885,678)	\$ (229,912)

* As of August 31, 2019 the Company intended to dispose of its Kwena subsidiaries. As the disposition is intended to occur within the next 12 months of the year end date, the related assets and liabilities (the "Disposal Group") have been reclassified as held for sale and classified as current (Note 28).

The following is summarized financial information of the Company's reportable segments for the year ended August 31, 2018:

	Coal Processing Service Contracts	Exploration and Evaluation	Corporate	Consolidated
Revenues	\$ 13,094,844	\$ -	\$ -	\$ 13,094,844
Amortization	\$ 14,912	\$ -	\$ 6,024	\$ 20,936
Net income (loss)	\$ 120,258	\$ (201,526)	\$ (1,063,483)	\$ (1,144,751)
Total assets	\$ 2,835,538	\$ 809,231	\$ 125,630	\$ 3,770,399
Total liabilities	(1,734,514)	(670,065)	(1,447,696)	(3,852,275)
Net assets (liabilities)	\$ 1,101,024	\$ 139,166	\$ (1,322,066)	\$ (81,876)

Information about Major Customers

The Company's revenue for the Service Contracts for the year ended August 31, 2019 and 2018 was from one customer.

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26. INCOME TAXES

A reconciliation of income taxes calculated at the combined statutory tax rate to the income tax expense is as follows:

	August 31, 2019	August 31, 2018
Income (loss) before income taxes	\$ 254,269	\$ (1,095,474)
Expected income tax (recovery)	69,000	(285,000)
Difference between Canadian and foreign tax rates	(7,000)	(2,000)
Impact of future income tax rates versus current	(90,000)	(1,000)
Non-deductible expenses	7,000	94,000
Adjustment to prior year provision versus statutory tax returns	(414,000)	(18,000)
Effect of foreign exchange and other	206,000	(83,302)
Change in unrecognized deferred tax assets	229,000	326,000
Total income tax expense	\$ -	\$ 30,698
Current income tax expense	\$ -	\$ 30,698

Taxation in the Group's operational jurisdiction is calculated at the rate prevailing in its respective jurisdiction. There is no deferred tax charge arising for the Group for the year.

The Canadian Federal corporate tax rate remained the same at 15%, and the British Columbia provincial tax rate remained at 12%. The South African income tax rate is 28%.

The significant components of the Company's deferred income tax assets and liabilities are as follows:

	August 31, 2019	August 31, 2018
Non-capital losses	\$ 3,165,000	\$ 2,924,000
Share issue costs	10,770	12,000
Equipment	9,000	8,000
Leave pay	68,000	68,000
Bonus pay	79,000	78,000
	3,331,770	3,090,000
Unrecognized deferred tax assets	(3,305,060)	(3,063,060)
Net deferred tax asset	\$ 26,710	\$ 26,940

As at August 31, 2019, the Company has estimated non-capital losses totalling \$9,261,000 (2018 - \$9,134,000) in Canada that may be carried forward to reduce taxable income derived in future years, from 2018 to 2039 and non-capital losses totalling \$2,497,000 (2018 - \$ 2,083,000) in South Africa that can be used indefinitely.

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

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27. NON-CONTROLLING INTERESTS

The non-controlling interests consisted of the following:

	August 31, 2019		August 31, 2018	
Kwena Group (26%)	\$	566,190	\$	527,635
ASM (57%)		(348,927)		(605,674)
	\$	217,263	\$	(78,039)

The following is the summarized statement of financial position of Kwena Group and ASM as at August 31, 2019:

	Kwena Group		ASM	
Current:				
Assets	\$	2,866,289	\$	161,067
Liabilities		(1,463,034)		(587,471)
Total current net assets (liabilities)		1,403,255		(426,404)
Non-current				
Assets		45,847		1,020,822
Liabilities		-		(387,755)
Total non-current net assets		45,847		633,067
Total net assets (liabilities)	\$	1,449,102	\$	206,663

The following is the summarized comprehensive profit / loss of Kwena Group and ASM for the year ended August 31, 2019:

	Kwena Group		ASM	
Revenue	\$	14,487,292	\$	3,692,111
Net income		320,806		266,899
Other comprehensive loss		(38,555)		(132,012)
Total comprehensive income	\$	282,250	\$	134,888

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27. NON-CONTROLLING INTERESTS (continued)

The following is the summarized statement of financial position of Kwena Group and ASM as at August 31, 2018:

	Kwena Group		ASM	
Current:				
Assets	\$	3,372,192	\$	1,691
Liabilities		(1,766,222)		(1,633,049)
Total current net assets (liabilities)		1,605,970		(1,631,358)
Non-current				
Assets		140,534		807,540
Liabilities		(20,355)		(370,926)
Total non-current net assets		120,179		436,614
Total net assets (liabilities)	\$	1,726,149	\$	(1,194,744)

The following is the summarized comprehensive income (loss) of Kwena Group and ASM for the year ended August 31, 2018:

	Kwena Group		ASM	
Revenue	\$	13,094,844	\$	-
Net income (loss)		36,500		(17,921)
Other comprehensive income (loss)		5		-
Total comprehensive loss	\$	36,505	\$	(17,921)

28. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

On July 24, 2019, the Company executed the Kwena Group Disposition Agreement with the former owners of Kwena Mining Projects (Pty) Ltd., Kwena Mining and Metallurgical Services (Pty) Ltd. and Kwena Springlake Projects (Pty) Ltd. (collectively, the companies as “Kwena Group” and the former owners “Gallagher Group”), whereby the Gallagher Group would acquire the Company’s 74% interest in the issued and outstanding shares of each Kwena Group company (the “Disposition”).

Subsequently, the agreement was terminated; however, as part of its strategic plan, the Company plans to dispose of the Kwena Group in order to resubmit a tender for the Service Contracts as follows:

- The Kwena Group needs to comply with Broad Based Black Equity Empowerment (“BBBEE”) legislation and the requirements are that the Kwena Group needs to be owned 51% BBBEE. In terms of the arrangement, the current ordinary shareholding will be valued and converted to preference shares pro rata to the existing shareholders. The Kwena Group will then issue new ordinary shares which will have the effect of increasing the shares held by the current BBBEE partner to 51%. The newly issued shares will be governed by a shareholders agreement setting out the requirements for disposition of the shares, voting rights, and the appointment of directors to the board.
- The 49% ordinary shares of the Kwena Group of companies as well as all the preference shares held by the Company will be acquired by the Gallagher Group in exchange of return to treasury of 39,799,160 shares held by the Gallagher Group in the capital of the Company and forgiveness of \$1,489,199 in outstanding debt.

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Notes to the Consolidated Financial Statements

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28. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (continued)

As the Disposition met the definition of "Assets held for sale" under IFRS 5 Non-current Assets held for sale and Discontinued Operations, as of July 24, 2019, the assets and liabilities associated with the Company's interests in the Kwena Group were reclassified from their respective financial position classifications to "Assets held for sale" and "liabilities associated with assets held for sale". The Company is required to recognize assets held for distribution to owners at the lower of their carrying value and fair value less costs to sell. Management has determined that the fair value of the Kwena Group is the carrying value.

As the disposition is intended to occur within the next 12 months of the year end date, the related assets and liabilities (the "Disposal Group") have been reclassified as held for distribution to owners and classified as current.

Years ended August 31,	2019	2018
Revenues	\$ 14,487,292	\$ 13,094,844
Operating Expenses		
Amortization	(14,862)	(14,912)
Amortization of service contracts	(18,888)	(20,127)
Employee benefits expense	(9,583,841)	(8,458,347)
Management and consulting	(499,583)	(499,151)
Office and general	(197,913)	(249,637)
Raw material and engineering cost	(3,786,823)	(3,649,507)
Travel and promotion	(64,465)	(52,686)
Finance charges	(111)	478
Net loss before tax	\$ 320,806	\$ 171,082
Income tax expense	-	(30,698)
Net loss	\$ 320,806	\$ 140,384

The assets and liabilities of The Kwena Group as held for distribution are, as follows:

August 31, 2019

ASSETS		
Cash	\$	654,326
Receivables		1,382,833
Inventories		829,129
Equipment		45,847
TOTAL ASSETS HELD FOR SALE	\$	2,912,135
LIABILITIES		
Trade and other payables	\$	1,461,041
Income taxes payable		1,992
TOTAL LIABILITIES HELD FOR SALE	\$	1,463,034

As at reporting date, the Disposition is subject to suspensive conditions such as regulatory and shareholder approvals.