SOUTHSTONE MINERALS LIMITED

Condensed Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

For the nine months ended

May 31, 2020 and 2019

(Unaudited)

NOTICE TO READER

Responsibility for Financial Statements:
The accompanying unaudited condensed consolidated interim financial statements of Southstone Minerals Limited for the nine months ended May 31, 2020 and 2019 have been prepared by management in accordance with International Financial Reporting Standards applicable to interim financial statements (see note 3 to the unaudited condensed consolidated interim financial statements). Recognizing that the Company is responsible for both the integrity and objectivity of the unaudited financial statements, management is satisfied that these unaudited condensed consolidated interim financial statements have been fairly presented.

Auditors Involvement:
The external auditors of Southstone Minerals Limited have not audited or performed a review of the unaudited condensed consolidated interim financial statements for the nine months ended May 31, 2020 and 2019.

SOUTHSTONE MINERALS LIMITED

Condensed Consolidated Interim Statement of Financial Position (unaudited)

(Expressed in Canadian Dollars)

		May 31, 2020		August 31, 2019
ASSETS				
Current Assets				
Cash	$	433,176	$	45,519
Receivables (*Note 7*)		-		119
Prepaid expenses		6,042		5,250
Inventories (*Note 8*)		142,592		158,762
Held for Sale *(Note 25)*		-		2,912,135
		581,811		3,121,785
Non-current assets				
Rehabilitation deposits (*Note 17*)		198,064		168,750
Deposit		-		12,602
Deferred tax asset		-		26,710
Exploration and evaluation assets (*Note 9)*		412,309		478,198
Equipment (*Note 10*)		91,929		380,040
TOTAL ASSETS	$	1,284,112	$	4,188,085
LIABILITIES AND EQUITY				
Current Liabilities				
Trade and other payables (*Note 11*)	$	419,220	$	735,902
Promissory notes (*Note 12*)		275,915		260,920
Convertible notes (*Note 13*)		149,686		158,643
Interest bearing loans and borrowings (*Note 14)*		554,944		411,939
Income tax payable		-		199,347
Deferred recovery *(Note 15)*		35,213		35,213
Due to related parties (*Note 16*)		413,557		800,457
Held for sale *(Note 25)*		-		1,463,034
		1,848,535		4,065,455
Long-term Liabilities				
Rehabilitation provision (*Note 17*)		239,529		267,892
Deferred recovery *(Note 15)*		47,227		84,650
		2,135,291		4,417,997
Shareholders' Equity				
Share capital *(Note 18)*		16,841,056		17,053,081
Equity portion of convertible notes		25,178		25,178
Reserve for warrants *(Note 19)*		430,831		749,946
Reserve for share based payments *(Note 20)*		2,312,909		2,378,970
Reserve for foreign exchange		275,257		174,037
Accumulated deficit		(20,819,142)		(20,828,387)
		(933,911)		(447,175)
Non-controlling interest (*Note 24*)		82,732		217,263
		(851,179)		(229,912)
TOTAL LIABILITIES AND EQUITY	$	1,284,112	$	4,188,085

SOUTHSTONE MINERALS LIMITED

Condensed Consolidated Interim Statements of Income and Comprehensive Income (unaudited)
(Expressed in Canadian Dollars)

	Three months ended May 31, 2020	Three months ended May 31, 2019	Nine months ended May 31, 2020	Nine months ended May 31, 2019
Revenues	$ 428,178	$ 666,189	$ 4,488,724	$ 2,321,770
Operating expenses				
Amortization *(Note 10)*	(8,195)	(35,429)	(76,292)	(61,907)
Amortization of service contracts	-	(4,777)	-	(14,264)
Exploration and evaluation expenses *(Note 9)*	(372,815)	(1,146,660)	(3,683,158)	(2,568,967)
Foreign exchange (loss)/gain	(48,841)	(65,334)	(70,482)	21,057
Management and consulting (*Note 16*)	(82,941)	(77,947)	(235,952)	(254,867)
Office and general	(21,497)	1,193	(66,735)	(12,828)
Professional fees	(103,655)	(24,415)	(195,844)	(271,689)
Project investigation costs	67	(5)	(8,248)	452
Raw material and engineering cost	98	(4)	(2,082)	(1,769)
Share based payments (*Note 20*)	-	-	66,061	-
Shareholder information	(3,652)	(7,161)	(27,194)	(24,365)
Travel and promotion	54	(3,951)	(11,840)	(15,043)
	(641,377)	(1,364,490)	(4,311,766)	(3,204,190)
Finance charge	(14,331)	60,251	(45,583)	(25,758)
Loss on sale of plant & equipment	(4,805)	-	(17,977)	-
Profit on disposition of Kwena Group	19,445	-	19,445	-
Net (loss) / income from continuing operations	(212,889)	(638,050)	132,844	(908,178)
Net (loss) / income from discontinued operations	(792,295)	235,292	(634,770)	177,070
Net loss for the period	(1,005,185)	(402,758)	(501,927)	(731,108)
Total loss attributable to:				
Shareholders of the company	(913,378)	(413,681)	(781,205)	(860,781)
Non-controlling interests	(91,807)	11,297	279,279	129,673
	(1,005,185)	(402,384)	(501,926)	(731,108)
Other comprehensive loss				
Exchange differences on translating foreign operations	(289,594)	7,372	(312,590)	7,661
Total comprehensive loss for the period	(1,294,779)	(395,012)	(814,516)	(723,447)
Other comprehensive loss attributable to:				
Shareholders of the Company	124,216	7,372	101,220	7,661
Non-controlling interests	(413,809)	-	(413,809)	-
	(289,594)	7,372	(312,589)	7,661
Total comprehensive loss attributable to:				
Shareholders of the company	(789,162)	(406,309)	(679,986)	(853,120)
Non-controlling interests	(505,617)	11,297	(134,530)	129,673
	(1,294,779)	(395,012)	(814,516)	(723,447)
Basic and fully diluted loss per common share	(0.06)	(0.02)	(0.04)	(0.03)
Weighted average number of shares outstanding	23,178,053	21,826,408	23,178,053	21,826,408

SOUTHSTONE MINERALS LIMITED

Condensed Consolidated Interim Statement of Changes in Equity (unaudited)

(Expressed in Canadian Dollars)

	Share Capital								Equity Attributable to		
	Number of shares	Amount	Units to be issued	Share based payments	Warrants	Foreign Exchange	Convertible loan - Equity	Deficit	Shareholders	NCI	Total
Balance, Aug 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)**
Private placement	-	-	-	-	-	-	-	-	-	-	-
Management compensation	65,100	32,550	(32,550)	-	-	-	-	-	-	-	-
Shares cancelled	(1,125,066)	287,218	-	-	-	-	-	-	287,218	-	287,218
Settlement of debt	-	-	-	-	(23,640)	-	-	-	(23,640)	-	(23,640)
Currency translation adjustment	-	-	-	-	-	7,661	-	-	7,661	-	7,661
Net loss for the period	-	-	-	-	-	-	-	(728,842)	(728,842)	129,673	(599,169)
Balance, May 31, 2019	**23,360,214**	**$ 17,788,889**	**$ -**	**$ 2,378,970**	**$ 945,845**	**$ 192,728**	**$ 25,178**	**$ (21,793,050)**	**$ (461,440)**	**$ 51,634**	**$ (409,806)**
Management compensation	-	-	-	-	-	-	-	-	-	-	-
Shares cancelled	(706,990)	(981,987)	-	-	-	-	-	-	(981,987)	-	(981,987)
Settlement of debt	400,000	142,685	-	-	80,957	-	-	-	223,642	-	223,642
Convertible notes issued	-	-	-	-	-	-	-	-	-	-	-
Conversion of notes	206,988	103,494	-	-	-	-	-	-	103,494	-	103,494
Expiry of warrants	-	-	-	-	(276,856)	-	-	276,856	-	-	-
Currency translation adjustment	-	-	-	-	-	(18,691)	-	-	(18,691)	40	(18,651)
Net loss for the period	-	-	-	-	-	-	-	687,807	687,807	165,589	853,396
Balance, Aug 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)**
Currency translation adjustment	-	-	-	-	-	101,220	-	-	101,220	-	101,220
Shares cancelled	(4,077,414)	(212,025)	-	-	-	-	-	-	(212,025)	-	(212,025)
Expiry of share options	-	-	-	(66,061)	-	-	-	-	(66,061)	-	(66,061)
Expiry of warrants	-	-	-	-	(319,115)	-	-	319,115	-	-	-
Kwena disposition	-	-	-	-	-	-	-	471,333	471,333	-	471,333
Net loss for the period	-	-	-	-	-	-	-	(781,203)	(781,203)	(134,531)	(915,734)
Balance, May 31, 2020	**19,182,798**	**$ 16,841,056**	**$ -**	**$ 2,312,909**	**$ 430,831**	**$ 275,257**	**$ 25,178**	**$ (20,819,142)**	**$ (933,911)**	**$ 82,732**	**$ (851,179)**

SOUTHSTONE MINERALS LIMITED
Condensed Consolidated Interim Statement of Cash Flows (unaudited)
(Expressed in Canadian Dollars)

Nine months period ended May 31,		2020		2019
Operating Activities				
Net profit / (loss) for the period	$	132,844	$	(908,178)
Adjustments to reconcile net loss to cash flow from operating activities:				
Share based payments (*Note 20*)		(66,061)		-
Amortization *(Note 10)*		76,292		61,907
Non-cash finance expense		(37,423)		(81,720)
Loss on sale of equipment		17,977		-
Management fees paid in shares		-		16,275
Non-cash profit on sale of the Kwena Group		(127,790)		-
Net changes in non-cash working capital items:				
Inventories *(Note 8)*		16,170		(120,329)
Accounts receivables and advances (*Note 7)*		119		(829)
Prepaid expenses		(792)		(2,250)
Trade and other payables *(Note 11)*		(316,682)		373,805
Tax paid		(199,347)		-
Due to related parties *(Note 16)*		(39,012)		137,118
Cash flow used in operating activities – continuing operations		(543,706)		(524,201)
Cash flow used in operating activities – discontinued operations		466,443		191,334
Financing Activities				
Shares issued for cash *(Note 18)*		-		200,000
Shares issued as part of management compensation *(Note 18)*		-		(32,551)
Shares issued as part of shares for debt settlement *(Note 18)*		-		103,494
Net settlement of convertible notes *(Note 13)*		(8,957)		(394,120)
Interest bearing loans and borrowings *(Note 14)*		143,005		1,181,230
Cash flow provided from financing activities – continued operations		134,048		1,058,053
Investing Activities				
Changes in property, plant and equipment *(Note 10)*		193,841		(551,945)
Deposits paid		(16,712)		(97,312)
Cash flow used in investing activities – continued operations		177,129		(649,257)
Effect of currency translation reserve		153,743		(1,609)
Net increase/(decrease) in cash and cash equivalents		387,657		74,320
Cash and cash equivalents, beginning of the period		45,519		671,055
Cash and cash equivalents, end of the period	$	433,176	$	745,375

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

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 had three thermal coal, metallurgical and processing plant and engineering service contracts in the Kwena Group which were disposed of on May 25, 2020.

The Company updated its strategy to focus on the business of acquiring and 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.

The Company is listed on the TSX Venture Exchange ("TSX.V"), having 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 unaudited condensed consolidated interim 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 May 31, 2020, the Company although having achieved profitable operations from continued operations for the nine months May 31, 2020, still has accumulated losses since inception and may incur further losses in the development of its business, all of which may cast significant doubt on the Company's ability to continue as a going concern. The Company will require additional financing in order to conduct its planned work programs on its mineral properties, 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

These unaudited condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with International Accounting Standards ("IAS") 34 'Interim Financial Reporting' ("IAS 34") using accounting policies consistent with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These unaudited interim condensed consolidated financial statements were authorized by the Board of Directors of the Company on July 28, 2020.

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

3.2 Basis of measurement

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

The preparation of 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 unaudited condensed consolidated interim financial statements include the accounts of the Company and its subsidiaries. The results of each subsidiary will continue to be included in the unaudited condensed consolidated interim 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:

		Percentage owned*	
	Country of incorporation	**May 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 (Pty) Ltd	South Africa	100%	100%
African Star Minerals (Pty) Limited	South Africa	43%	43%
Kwena Mining Projects (Pty) Ltd.	South Africa	*** 0%	74%
Kwena Mining and Metallurgical Services (Pty) Ltd.	South Africa	*** 0%	74%
Kwena Springlake Projects (Pty) Ltd	South Africa	*** 0%	74%
Pemba Mining Partners (Dormant)	Ajman Free Zone	50%	50%
Tango Mining Limited (Dormant)	United Kingdom	100%	100%

* Percentage of voting power is in proportion to ownership.

** 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 and included under discontinued operations note 25. The Kwena group was effectively disposed of on May 25, 2020.

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

3.3 Principles of consolidation (continued)

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

These 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 May 31, 2020. The Company's ownership interest is accounted for using the equity method.

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 activity. 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 in which they occur. 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 exist 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.1 Exploration and Evaluation Expenditures (continued)

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 Southstone Minerals Limited, 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 unaudited condensed consolidated interim financial statements is the Canadian Dollar.

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 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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%
- 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.5 Loss per share

Basic profit or 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 periods ended May 31, 2020 and 2019, the Company had stock options and share purchase warrants 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.

4.6 Share base 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 the Company's profit or loss over the vesting period. The number of equity instruments expected to vest at each reporting date, are considered 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 the Company's 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 the Company's 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 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 behavioral 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 contacts 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 May 31, 2020, 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).

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. Profits or losses resulting from transactions between the Company and its associates are 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 associates into line with those of the Company.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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:

- the fair value measurements for financial instruments;
- the recoverability and measurement of deferred tax assets;
- the provisions for restoration and environmental obligations and contingent liabilities;
- the carrying value of inventory;
- the fair value of intangible assets;
- the amortization of intangible assets;
- the fair value of stock based transactions; and
- the 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); and
- determination of the functional currency of the Company and its subsidiaries.

(Expressed in Canadian Dollars)

6. INVESTMENT IN TML EQUIPMENT SOLUTIONS ("TML")

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

		May 31, 2020		**August 31, 2019**
Common shares (25%)	$	3,129	$	3,129
Share of equity loss		(3,129)		(3,129)
	$	**-**	**$**	**-**

During the period and year ended May 31, 2020 and August 31, 2019 respectively, the Company's share of TML Equipment's equity loss was $16,091 (August 31, 2019 - $11,888). 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 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:

		February 29, 2020		**August 31, 2019**
Non-current assets	$	82,442	$	132,799
Current assets		3,496		4,667
Current liabilities		245,392		261,516
Loss and comprehensive loss	$	159,454	$	47,551

7. RECEIVABLES

		February 29, 2020		**August 31, 2019**
GST/HST receivables	$	-	$	119
Short term deposit		-		-
Trade receivables		-		-
Total other receivables	**$**	**-**	**$**	**119**

8. INVENTORIES

As at May 31, 2020, and August 31, 2019 the Company accrued for diamonds on hand during production at the historical United States Dollar per carat average rate.

		February 29, 2020		**August 31, 2019**
Diamonds		142,592		158,762
Total inventories	**$**	**142,592**	**$**	**158,762**

(Expressed in Canadian Dollars)

9. EXPLORATION AND EVALUATION ASSETS

South Africa

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

		May 31, 2020		August 31, 2019
Balance, beginning of year	$	478,198	$	476,260
Effect of foreign exchange		(65,889)		1,938
Balance, end of the year	**$**	**412,309**	**$**	**478,198**

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

		May 31, 2020		May 31, 2019
Exploration expenditures:				
Project staff salaries, benefits and consulting	$	(276,683)	$	(184,347)
Travel expenses		(8,308)		(18,899)
Supplies Expense		(3,398,167)		(1,924,126)
Recoveries		4,488,724		2,321,770
Exploration and evaluation income	$	805,566	$	194,397

During the year ended August 31, 2018, the Company received approval from the Department of Minerals and Resources of the renewal of the mining license for nine years expiring on March 15, 2027. 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 May 31, 2020 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%

9. EXPLORATION AND EVALUATION ASSETS (continued)

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.

(Expressed in Canadian Dollars)

10. EQUIPMENT

	Computer Equipment & Software	Office Furniture	Vehicles	Equipment	Plant	Total
Cost						
As at August 31, 2018	60,058	26,745	137,380	57,774	221,481	503,438
Additions	5,244	-	-	99,317	105,580	210,141
Reclassified to discontinued ops	(65,302)	(26,745)	(51,926)	(57,774)	(980)	(202,727)
As at August 31, 2019	**$ -**	**$ -**	**$ 85,454**	**$ 99,317**	**$ 326,081**	**$ 510,852**
Additions	-	-	-	-	-	-
Disposal	-	-	-	(48,776)	(231,538)	(280,314)
As at May 31, 2020	**$ -**	**$ -**	**$ 85,454**	**$ 50,541**	**$ 94,543**	**$ 230,538**
Accumulated Amortization						
As at August 31, 2018	35,913	23,015	67,344	33,619	-	159,891
Charge for the period	9,660	1,666	8,820	56,155	28,541	104,842
Reclassified to discontinued ops	(45,573)	(24,681)	(49,476)	(37,150)	-	(156,880)
As at August 31, 2019	**$ -**	**$ -**	**$ 26,688**	**$ 52,624**	**$ 28,541**	**$ 107,853**
Charge for the period	-	-	4,789	9,518	61,984	76,292
Removed on disposal	-	-	-	(28,453)	(57,885)	(86,338)
As at May 31, 2020	**$ -**	**$ -**	**$ 31,477**	**$ 33,689**	**$ 32,640**	**$ 97,807**
Foreign Exchange						
As at August 31, 2019	**$ -**	**$ -**	**$** (26,948)	**$** 3,270	**$** 719	**$** (22,959)
As at May 31, 2020	**$ -**	**$ -**	**$** (52,060)	**$** 6,599	**$** 4,659	**$** (40,802)
Net Book Value						
As at August 31, 2019	**$ -**	**$ -**	**$ 31,818**	**$ 49,963**	**$ 298,259**	**$ 380,040**
As at May 31, 2020	**$ -**	**$ -**	**$ 1,916**	**$ 23,450**	**$ 66,562**	**$ 91,929**

11. TRADE AND OTHER PAYABLES

		February 29, 2020		August 31, 2019
Trade payables	$	184,981	$	639,258
Accrued liabilities		229,351		77,486
Payroll and VAT provisions		4,888		19,158
Total trade and other payables	**$**	**419,220**	**$**	**735,902**

12. PROMISSORY NOTES

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 period May 31, 2020, the Company recognized $6,183 in interest expense (May 31, 2019 nil). As at May 31, 2020 $275,916 (August 31, 2019, $260,920) was outstanding.

13. CONVERTIBLE NOTES

A continuity schedule of the convertible notes is as follows:

		May 31, 2020	August 31, 2019
Balance, beginning of the year	$	158,643	621,657
Accrued interest		3,084	5,156
Converted to short term debt		-	(110,897)
Converted to shares		-	(103,494)
Repayments in cash		(12,500)	(255,822)
Effect of foreign exchange		459	2,043
Balance, end of the year	**$**	**149,686**	**158,643**

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.

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

14. INTEREST BEARING LOANS AND BORROWINGS (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.

(Expressed in Canadian Dollars)

14. INTEREST BEARING LOANS AND BORROWINGS (MOQUITA PROJECT continued)

A continuity schedule of the loans payable is as follows:

		May 31, 2020		**August 31, 2019**
Balance, beginning of the year	$	411,939	$	-
Proceeds on issuance of loan agreements		-		696,647
Accrued interest		52,478		57,061
Gain on derecognition of loan		-		(362,239)
Amount transferred from convertible debt		-		110,897
Effect of foreign exchange		3,611		(90,427)
Balance, end of the year	**$**	**468,028**	**$**	**411,939**

At the end of May 31, 2020 an amount of $86,916 is held as a credit balance related to rehabilitation deposit contributions from the contractor in line with the Contract Mining and Diamond Recovery Agreement.

15. 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 Diamond Mine. 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 Diamond Mine and amortized the balance over a 5 year term. During the year ended August 31, 2020, the Company recorded amortization of $39,154 on the deferred recovery. For the nine month period ended May 31, 2020, the Company recorded amortization of $26,947.

16. RELATED PARTY TRANSACTIONS

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

	Three months ended May 31,				Nine months ended May 31,			
		2020		2019		2020		2019
Management fees *	$	73,941	$	68,947	$	208,952	$	227,867
Consulting fees *		9,000		9,000		27,000		27,000
Total	$	82,941	$	77,947	$	235,952	$	254,867

*Included in the Management and consulting fees in the income statement

As at May 31, 2020, $413,557, (August 31, 2019, $800,458) is owed to the CEO, and certain directors and officers of the Company. Amounts owing are non-interest bearing, unsecured and due on demand.

(Expressed in Canadian Dollars)

17. REHABILITATION PROVISION

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

		February 29, 2020		August 31, 2019
Balance at the beginning of the year	$	267,892	$	250,033
Addition		-		49,184
Effect of foreign exchange		(28,363)		(31,325)
Balance at the end of the year	**$**	**239,529**	**$**	**267,892**

As at May 31, 2020 and August 31, 2019, the rehabilitation provision relates to the Oena Diamond Mine *(Note 10)*.
For the period and year ended May 31, 2020 and August 31, 2019, 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 $198,064 (August 31, 2019: $168,750) in deposits as security against the liability.

18. SHARE CAPITAL

(a) Authorized

Unlimited number of common shares without par value.

(b) Issued

Period Ended May 31, 2020

Effective May 25, 2020 the Company disposed of all of its interest in the Kwena Group of Companies. As part of the transaction, 4,077,416 common shares were returned to treasury and cancelled.

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 as part of the separation agreement with 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).

(Expressed in Canadian Dollars)

19. WARRANTS

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

	May 31, 2020		August 31, 2019	
	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	1,822,180
Issued	1.00	-	1.00	400,000
Expired	1.00	1,421,000	1.00	(401,180)
Outstanding, end of the year	**$ 1.00**	**400,000**	**$ 1.00**	**1,821,000**

During the period May 31, 2020 4,121,000 warrants expired thereby recognizing $319,115 directly in the statement of changes in equity. 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.

Warrants outstanding as at May 31, 2020 are as follows:

Exercise price	**Issue date**	**Expiry date**	**Number of Warrants**
$ 1.00	December 28, 2018	December 27, 2021	400,000

20. 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.

(Expressed in Canadian Dollars)

20. SHARE BASED PAYMENTS (continued)

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

		May 31, 2020			August 31, 2019	
		Weighted Average Exercise Price	**Number of Options**		**Weighted Average Exercise Price**	**Number of Options**
Outstanding at beginning of the year	$	0.50	**690,000**	$	0.50	1,005,000
Expired		0.50	(105,000)		0.50	(315,000)
Outstanding at end of the period	**$**	**0.50**	**585,000**	**$**	**0.50**	**690,000**
Exercisable at end of the period	**$**	**0.50**	**585,000**	**$**	**0.50**	**690,000**

The following table provides additional information about outstanding stock options at May 31, 2020:

Exercise Price	Number of Options Outstanding and Exercisable	Weighted Average Remaining Life (Years)	Expiry date
$ 0.50	90,000	1.38	July 15, 2021
$ 0.50	450,000	1.95	February 10, 2022
$ 0.50	45,000	2.10	April 3, 2022
$ 0.50	**585,000**		

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
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 period ended May 31, 2020 and May 31, 2019 respectively were $nil (2019 – $nil).

21. 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 nine months ended May 31, 2020.

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.

22. 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.

22. FINANCIAL INSTRUMENTS (continued)

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 May 31, 2020 the Company had current assets from continued operations of $581,811 (August 31, 2019 - $209,650) to settle current liabilities from continued operations of $1,848,534 (August 31, 2019 - $2,602,421) resulting in working capital deficit of $1,266,723 (August 31, 2019 - $ 2,392,771). The Company intends to fund these through loans, private placements and profits generated form 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.

23. SEGMENTED INFORMATION

Operating Segments

For the nine months ended May 31, 2020, the Company had two reportable segments:

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

(Expressed in Canadian Dollars)

23. SEGMENTED INFORMATION (continued)

The following is summarized financial information of the Company's reportable segments for nine months ended May 31, 2020:

	Coal Processing Service Contracts	Exploration and evaluation	Corporate	Consolidated
Revenue	$ 11,834,139	$ 4,488,724	$ -	$ 16,322,863
Amortization	7,295	72,308	3,984	83,587
Amortization of service contracts	-	-	-	14,264
Net profit/(loss)	$ (634,770)	$ 779,507	$ (646,663)	$ (501,927)
Total assets	$ -	$ 922,697	$ 361,415	$ 1,284,112
Total liabilities	-	(597,058)	(1,538,234)	(2,135,291)
Net assets (liabilities)	$ -	$ 325,640	$ (1,176,819)	$ (851,179)

The following is summarized financial information of the Company's reportable segments for nine months ended May 31, 2019:

	Coal Processing Service Contracts	Exploration and evaluation	Corporate	Consolidated
Revenue	$ 10,439,279	$ -	$ -	$ 10,439,279
Amortization	11,421	57,637	4,270	73,328
Amortization of service contracts	14,264	-	-	14,264
Net profit/(loss)	$ 99,426	$ 46,189	$ (1,071,121)	$ (925,505)
Total assets	$ 2,784,179	$ 1,587,875	$ 4,671	$ 4,376,725
Total liabilities	(1,739,792)	(1,337,696)	(1,709,042)	(4,786,530)
Net assets (liabilities)	$ 1,044,387	$ 250,179	$ (1,704,371)	$ (409,805)

Information about Major Customers

The Company's revenue for the Service Contracts for the period ended May 31, 2019 was from one customer.

24. NON-CONTROLLING INTERESTS

The non-controlling interests consisted of the following:

	February 29, 2020	August 31, 2019
Kwena Group (26%)	$ -	$ 566,190
ASM (57%)	82,732	(348,927)
	$ 82,732	$ 217,263

(Expressed in Canadian Dollars)

24. NON-CONTROLLING INTERESTS (continued)

The following is the summarized statement of financial position of Kwena Group and ASM as at May 31, 2020:

		ASM
Current:		
Assets	$	146,326
Liabilities		(366,690)
Total current net assets (liabilities)		(220,364)
Non-current		
Assets		689,178
Liabilities		(321,970)
Total non-current net assets		367,208
Total net assets (liabilities)	$	146,843

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 loss of Kwena Group and ASM for the period May 31, 2020:

		Kwena Group		ASM
Revenue	$	11,834,139	$	4,488,724
Net income (loss)		(634,770)		779,507
Other comprehensive income (loss)		(273,864)		440,738
Comprehensive loss	$	(908,634)	$	1,220,245

The following is the summarized comprehensive loss of Kwena Group and ASM for the period May 31, 2019:

		Kwena Group		ASM
Revenue	$	10,439,279	$	2,321,770
Net income (loss)		99,426		46,189
Other comprehensive income (loss)		(257,226)		(67,374)
Comprehensive loss	$	(157,800)	$	(21,185)

25. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

On July 24, 2019, the Company executed the Kwena Group Disposition Agreement with Kevin Gallagher and his associates (the "Gallagher Group") to dispose of the Company's interest in each of Kwena Mining Projects (Pty) Ltd., Kwena Mining and Metallurgical Services (Pty) Ltd. and Kwena Springlake Projects (Pty) Ltd. (collectively, the "Kwena 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"). The agreement was subsequently terminated in October 2019 in order that the Company could pursue a disposition with an unrelated third party and/or obtain a valuation of the Kwena Group from an unrelated third party.

In order to renew the Service Contracts, the Kwena Group was required to have Level 2 BEE status, meaning that the Kwena Group must be 51% black owned. The directors of the Kwena Group identified an individual ("**BEE Partner**") who qualified as a Black Person as defined in the Broad-Based Black Economic Empowerment Act 51 of 2003 and related legislative texts (the "**BBBEEE Act**") to be actively involved in the business of the Kwena Group, which person held the remaining 26% in the Kwena Group. In order to meet the requirements of the BBBEEE Act, the Kwena Group companies were restructured in order to create and authorise two classes of shares to be known as ordinary shares and redeemable preference shares capable of conversion into ordinary shares. The value at which the existing ordinary shares were converted into redeemable preference shares was equal to the auditor's valuation of each Kwena Group company. The shareholders of the Kwena Group converted their ordinary shares into redeemable preference shares. Accordingly, the Company acquired 49% of the ordinary shares in the Kwena Group companies against a nominal rate of R1.00 per share and the BEE Partner acquired 51% of the ordinary shares in the Kwena Group companies against a nominal rate of R1.00 per share. In order for the Company to maintain control of the Kwena Group, each Kwena Group company unanimously passed a shareholders' resolution giving the Company the right to nominate the majority of the directors and the constitution of each Kwena Group company was modified so that a 60% majority vote will be required for any ordinary resolution to be passed.

(Expressed in Canadian Dollars)

25. 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 occurred effective May 25, 2020. The related assets and liabilities (the "Disposal Group") are shown held for distribution and classified as current in the comparative period. The results of the Disposal Group have been included to February 25, 2020 and classified as Loss from continued operation.

	Three months ended		Nine months ended	
	May 31, 2020	May 31, 2019	May 31, 2020	May 31, 2019
Revenues	$ 3,358,275	$ 4,131,804	$11,834,139	$10,439,279
Operating expenses				
Amortization *(Note 11)*	(1,738)	(3,790)	(7,295)	(11,421)
Employee benefits expense	(2,236,281)	(2,632,668)	(7,739,168)	(6,851,832)
Management and consulting (*Note 17*)	(101,343)	(131,561)	(304,449)	(372,228)
Office and general	(68,155)	(75,920)	(221,111)	(194,086)
Raw material and engineering cost	(859,249)	(1,033,480)	(3,282,750)	(2,784,693)
Travel and promotion	(7,339)	(19,016)	(40,845)	(47,575)
Finance charge	(6,928)	(78)	(3,754)	(374)
Loss related to disposition	(869,537)	-	(869,537)	-
Net income / (loss) before tax	(792,295)	235,291	(634,770)	177,070
Income tax provision – subsidiary	-	-	-	-
Net loss for the period	$ (792,295)	$ 235,291	$ (634,770)	$ 177,070

(Expressed in Canadian Dollars)

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

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

		May 31, 2020		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.

26. SUBSEQUENT EVENTS

On May 28, 2020 the Company announced it had agreed to settle outstanding indebtedness in the sum of $705,456.75 by the issuance of an aggregate of 7,524,872 common shares in the capital stock of the Company at a price of $0.09375 per share, which transaction is subject to the approval of the TSX Venture Exchange.

CC Mining Limited ("CCML") has agreed to settle indebtedness in the sum of C$498,363 by the issuance of 5,315,872 common shares, resulting in CCML holding 19.90% of the outstanding shares of the Company. In addition, two directors have agreed to settle indebtedness for an aggregate sum of $207,093.75 by the issuance of an aggregate of 2,209,000 common shares.

On July 8, 2020, the Company agreed to settle indebtedness in the sum of $30,211 by the issuance of an aggregate of 604,220 common shares in the capital stock of the Company at a price of $0.05 per share, which shares for debt settlement is subject to approval of the TSX Venture Exchange.

COVID-19

The global pandemic outbreak of COVID-19 has had a material adverse effect on the global economy and, specifically, the regional economies in which the Company operates. The pandemic could continue to have a negative impact on the stock market, including trading prices of the Company's shares and its ability to raise new capital. On March 27, 2020, the Company announced the closure of the Oena Diamond Mine in compliance with the South African's instructions for a 21 day lockdown period which was subsequently extended to the end of April 2020. Operations resumed from May 4, 2020 in line with stipulated regulations and guidelines. The ban on international travel has put the market price for raw diamonds under pressure and could remain so in the short term.