SOUTHSTONE MINERALS LIMITED

Condensed Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

For the six months ended

February 28, 2021 and February 29, 2020

(Unaudited)

NOTICE TO READER

Responsibility for Financial Statements:
The accompanying unaudited condensed consolidated interim financial statements of Southstone Minerals Limited for the six months ended February 28, 2021 and February 29, 2020 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 six months ended February 28, 2021 and February 29, 2020.

SOUTHSTONE MINERALS LIMITED
Condensed Consolidated Interim Statement of Financial Position (unaudited)
(Expressed in Canadian Dollars)

		February 28, 2021		August 31, 2020
ASSETS				
Current Assets				
Cash	$	410,307	$	498,115
Receivables (*Note 6*)		97,167		68,734
Prepaid expenses		606		4,230
Inventories (*Note 7*)		-		366,016
		508,080		937,095
Non-current assets				
Rehabilitation deposit *(Note 16)*		212,349		196,259
Exploration and evaluation assets (*Note 8)*		535,528		494,951
Equipment (*Note 9*)		87,076		99,276
TOTAL ASSETS	$	1,343,033	$	1,727,581
LIABILITIES AND DEFICIENCY				
Current Liabilities				
Trade and other payables (*Note 10*)	$	366,869	$	690,837
Promissory notes *(Note 11)*		417,129		399,480
Interest bearing loans and borrowings *(Note 12)*				475,274
Refundable deposit *(Note 16)*		59,013		54,542
Rehabilitation provision *(Note 16)*		265,191		245,097
Deferred recovery *(Note 14)*		35,354		35,213
Due to related parties (*Note 15*)		189,131		241,099
		1,332,687		2,141,542
Long-term Liabilities				
Deferred recovery (*Note 14*)		26,516		38,307
		1,359,203		2,179,849
Deficiency				
Share capital (*Note 17*)		17,345,025		16,781,982
Reserve for warrants *(Note 18)*		749,948		749,946
Reserve for share-based payments *(Note 19)*		2,378,970		2,378,970
Reserve for foreign exchange		245,665		231,544
Accumulated deficit		(20,928,794)		(20,821,339)
		(209,186)		(678,897)
Non-controlling interest *(Note 23)*		193,016		226,629
		(16,170)		(452,268)
TOTAL LIABILITIES AND DEFICIENCY	$	1,343,033	$	1,727,581

SOUTHSTONE MINERALS LIMITED

Condensed Consolidated Interim Statements of Income and Comprehensive Income (unaudited)

(Expressed in Canadian Dollars)

	Three months ended		Six months ended	
	February 28, 2021	February 29, 2020	February 28, 2021	February 29, 2020
Revenues	$ 201,638	$ 1,376,716	$ 1,784,767	$ 4,060,546
Cost of sales	(265,160)	(1,196,017)	(1,488,157)	(3,419,801)
Gross profit	(63,522)	180,699	296,610	640,745
Expenses				
Amortization *(Note 9)*	(23)	(357)	(848)	(737)
Foreign exchange (loss)/gain	(5,702)	(988)	11,717	(21,641)
Management and consulting (*Note 15*)	(104,394)	(73,827)	(190,212)	(153,011)
Office and general	(11,457)	(8,424)	(19,312)	(17,214)
Professional fees	(19,587)	(54,715)	(82,748)	(92,189)
Project investigation costs	(26,081)	(5,399)	(26,081)	(8,315)
Share based payments (*Note 19*)	-	66,061	-	66,061
Shareholder information	(3,637)	(12,202)	(7,060)	(23,542)
	(170,881)	(89,851)	(314,544)	(250,588)
Loss on sale of plant & equipment	17,482	(13,172)	17,482	(13,172)
Finance charge	(54,849)	(15,705)	(46,301)	(31,252)
	(37,367)	(28,877)	(28,819)	(44,424)
Net income / (loss) before tax	(271,771)	61,971	(46,754)	345,733
Income tax provision		-	-	-
Net income / (loss) for the period	(271,771)	61,971	(46,754)	345,733
Total income / (loss) attributable to:				
Shareholders of the company	(169,744)	(52,146)	(106,998)	15,604
Non-controlling interests	(102,027)	114,118	60,244	330,130
	(271,771)	61,972	(46,754)	345,734
Other comprehensive income / (loss)				
Exchange differences on translating foreign operations	(25,928)	(139,712)	(79,736)	(2,146,212)
Total comprehensive income / (loss) for the period	(297,699)	(77,740)	(126,490)	(1,800,478)
Other comprehensive income / (loss) attributable to:				
Shareholders of the Company	77,294	(139,711)	14,121	(2,146,212)
Non-controlling interests	(103,222)	-	(93,856)	-
	(25,929)	(139,711)	(79,736)	(2,146,212)
Total comprehensive income / (loss) attributable to:				
Shareholders of the company	(92,450)	(191,857)	(92,877)	(2,130,608)
Non-controlling interests	(205,250)	114,117	(33,613)	330,130
	(297,700)	(77,740)	$ (126,490)	$(1,800,478)
Basic and fully diluted income / (loss) per common share	$ (0.00)	$ (0.00)	$ (0.00)	$ 0.01
Weighted average number of shares outstanding	23,419,643	23,270,285	23,419,643	23,270,285

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

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	Share based payments	Warrants	Foreign Exchange	Convertible loan - Equity	Deficit	Shareholders	NCI	Total
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)**
Currency translation adjustment	-	-	-	-	107,969	-	-	107,969	-	107,969
Net profit for the period	-	-	-	-	-	-	184,319	184,319	256,969	441,288
Balance, February 28, 2020	**23,260,212**	**$17,053,081**	**$ 2,378,970**	**$ 749,946**	**$ 282,006**	**$ 25,178**	**$ (20,644,068)**	**$ (154,887)**	**$ 474,232**	**$ 319,345**
Shares cancelled	(4,077,416)	(468,903)	-	-	-	-	-	(468,903)	-	(468,903)
Settlement of debt	1,750,000	164,063	-	-	-	-	-	164,063	-	164,063
Effect on Kwena share conversion on NCI	-	-	-	-	-	-	(349,049)	(349,049)	349,049	-
Conversion of notes	171,260	33,741	-	-	-	(25,178)	-	8,563	-	8,563
Derecognize CTA related to Kwena Disposition	-	-	-	-	(80,525)	-	-	(80,525)	(50,663)	(131,188)
Elimination of NCI related to Kwena	-	-	-	-	-	-	-	-	(1,025,156)	(1,025,156)
Currency translation adjustment	-	-	-	-	30,063	-	-	30,063	155,843	185,906
Net profit for the period	-	-	-	-	-	-	171,778	171,778	323,324	495,102
Balance, August 31, 2020	**21,104,056**	**$16,781,982**	**$ 2,378,970**	**$ 749,946**	**$ 231,544**	**$ -**	**$ (20,821,339)**	**$ (678,897)**	**$ 226,629**	**$ (452,268)**
Conversion of debt	6,207,832	563,043	-	-	-	-	-	563,043	-	563,043
Subsidiary dividend									(93,857)	(93,857)
Currency translation adjustment	-	-	-	-	14,121	-	(457)	13,664	-	13,664
Net profit for the period	-	-	-	-	-	-	(106,998)	(106,998)	60,244	(46,754)
Balance, February 28, 2021	**27,311,888**	**$17,345,025**	**$ 2,378,970**	**$ 749,946**	**$ 245,665**	**$ -**	**$ (20,928,794)**	**$ (209,188)**	**$ 193,016**	**$ (16,172)**

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

Six month period ended		February 28, 2021		February 29, 2020
Operating Activities				
Net profit / (loss)	$	(46,754)	$	345,734
Adjustments to reconcile net loss to cash flow from operating activities:				
Share based payments (*Note 21*)		-		(66,061)
Amortization *(Note 10)*		20,670		68,097
Amortization of deferred recovery		(17,481)		-
Effect of non-cash items in finance expense		46,583		(20,959)
Management fees paid in shares *(Note 17)*		-		-
Loss on sale of equipment		-		13,172
Unrealized foreign exchange		(27,871)		-
Net changes in non-cash working capital items:				
Inventories		366,016		158,762
Accounts receivables and advances		(28,433)		(265,401)
Prepaid expenses		3,624		4,500
Trade and other payables		(323,968)		(100,160)
Income tax paid		-		(107,272)
Due to related parties *(Note 17)*		-		44,806
Cash flow from operating activities – continuing operations		(7,615)		75,218
Cash flow from operating activities – discontinued operations		-		153,289
Financing Activities				
Minority dividend		(93,856)		-
Net settlement of convertible notes *(Note 13)*		-		(10,314)
Interest bearing loans and borrowings *(Note 14)*		-		116,122
Cash flow from financing activities – continuing operations		(93,856)		105,808
Investing Activities				
Sale / (purchase) of equipment		-		187,228
Deposits released / (paid)		-		(34,668)
Cash flow from investing activities – continued operations		-		152,560
Effect of currency translation reserve		13,664		(952)
Net increase in cash and cash equivalents		(87,808)		485,922
Cash and cash equivalents, beginning of the year		498,115		45,519
Cash and cash equivalents, end of the period	$	410,307	$	531,442

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 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 the carrying values as shown and these unaudited condensed consolidated interim financial statements, and 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.

The outbreak of COVID-19 has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. 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. Operations at the Oena Diamond Mine were halted between March 27, 2020 and May 4, 2020 in compliance with the South African government's instructions. On April 16, 2020, the South African Government announced amendments to the Regulations promulgated under the Disaster Management Act 57 of 2002 to prevent and combat the spread of COVID-19 The duration and impact of the COVID-19 pandemic is unclear at this time and as a result it is not possible for management to estimate the severity of the impact it may have on the financial results and operations of the Company in future periods.

For the six months ended February 29, 2021, the Company reported a loss and has an accumulated deficit of $20,928,794. 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

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 interim financial statements were authorized by the Board of Directors of the Company on April 23, 2021.

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.

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

Details of controlled entities are as follows:

		Percentage owned *	
	Country of incorporation	**August 31, 2021**	**August 31, 2020**
TGV Resources	South Africa	100%	100%
African Star Minerals (Pty) Limited (“ASM”)	South Africa	43%	43%
GAH Mining (Pty) Ltd	South Africa	100%	100%

* Percentage of voting power is in proportion to ownership.

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.

4.2 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.

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 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.

(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 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 six months ended February 28, 2021 and February 29, 2020, 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. 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 the Company's profit or loss over the vesting period. The number of equity instruments expected to vest at each reporting date, are 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 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 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.7 Financial Instruments

(i) Non-derivative financial assets

On initial recognition, financial assets are recognized at fair value and are subsequently classified and measured at: (i) amortized cost; (ii) fair value through other comprehensive income ("FVOCI"); or (iii) 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 classified as FVTPL. 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.

The classification determines the method by which the financial assets are carried on the statement of financial position subsequent to inception and how changes in value are recorded. Cash, and receivables and rehabilitation deposit are measured at amortized cost with subsequent impairments recognized in profit or loss.

Impairment

An 'expected credit loss' impairment model applies which requires a loss allowance to be recognized based on expected credit losses. The estimated present value of future cash flows associated with the asset is determined and an impairment loss is recognized for the difference between this amount and the carrying amount as follows: the carrying amount of the asset is reduced to estimated present value of the future cash flows associated with the asset, discounted at the financial asset's original effective interest rate, either directly or through the use of an allowance account and the resulting loss is recognized in profit or loss for the period.

In a subsequent period, if the amount of the impairment loss related to financial assets measured at amortized cost decreases, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

(ii) Non-derivative financial liabilities

Financial liabilities, other than derivatives, are initially recognized at fair value less directly attributable transaction costs. Subsequently, financial liabilities are measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and allocating the interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. The Company's trade and other payables, promissory notes, interest bearing loans and borrowings, and due to related party are measured at amortized cost.

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon recognition as FVTPL. Fair value changes on these liabilities are recognized in profit or loss.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.7 Financial instruments (continued)

(iii) Derivative financial instruments

Derivative financial instruments are initially recognized at fair value and subsequently measured at fair value with changes in fair value recognized in profit or loss. Transaction costs are recognized in profit or loss as incurred.

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.

4.9 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

4.11 Revenue recognition

The Company recognizes revenue using a five-step model. 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. 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.

As of February 28, 2021, the technical and economic feasibility of the Company's diamond project had not been established and the Company continued evaluation of this property. As of February 28, 2021, the material value of 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).

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.11 Revenue recognition

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.

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.15 Inventory and supplies

Inventories, which include rough diamonds, are measured at the lower of cost and net realizable value. The amount of any write-down of inventories to net realizable value is recognized in the period the write-down occurs. Cost is determined using the weighted average method. Cost includes directly attributable mining overhead but excludes borrowing costs. Net realizable value represents the estimated selling price in the ordinary course of business, less all estimated costs to completion and selling expenses.

4.17 Accounting standards issued but not yet effective

Amendments to IAS 1: Classification of Liabilities as Current or Non-current
In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right;
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and must be applied retrospectively. The Company is currently assessing the impact that this amendment will have on its consolidated financial statements.

Reference to the Conceptual Framework – Amendments to IFRS 3
In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The IASB also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately. At the same time, the IASB decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements. The amendments are effective for annual reporting periods beginning on or after January 2, 2022 and apply prospectively.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16
In May 2020, the IASB issued Property, Plant and Equipment — Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss. The amendment is effective for annual reporting periods beginning on or after January 1, 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment. The amendments are not expected to have a material impact on the Company.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.17 Accounting standards issued but not yet effective (continued)

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37
In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual reporting periods beginning on or after January 1, 2022. The Company will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter
As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent’s date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1. The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted.

IFRS 9 Financial Instruments – Fees in the ’10 per cent’ test for derecognition of financial liabilities
As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The Company will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendments are not expected to have a material impact on the Company.

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.

i) recoverability and measurement of deferred tax assets:

In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. Forecasted cash flows from operations are based on life of mine projections internally developed and reviewed by management. The likelihood that tax positions taken will be sustained upon examination by applicable tax authorities is assessed based on individual facts and circumstances of the relevant tax position evaluated in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. At the end of each reporting period, the Company reassesses unrecognized income tax assets.

ii) provisions for restoration and environmental obligations and contingent liabilities:

The Company assesses its provision for reclamation and remediation on an annual basis or when new material information becomes available. Mining and exploration activities are subject to various laws and regulations governing the protection of the environment. In general, these laws and regulations are continually changing and the Company has made, and intends to make in the future, expenditures to comply with such laws and regulations. Accounting for reclamation and remediation obligations requires management to make estimates of the future costs the Company will incur to complete the reclamation and remediation work required to comply with existing laws and regulations at each mining operation and exploration and development property. Actual costs incurred may differ from those amounts estimated. Also, future changes to environmental laws and regulations could increase the extent of reclamation and remediation work required to be performed by the Company. Increases in future costs could materially impact the amounts charged to operations for reclamation and remediation. The provision represents management's best estimate of the present value of the future reclamation and remediation obligation. The actual future expenditures may differ from the amounts currently provided.

iii) carrying value of inventories:

The allocation of costs to inventories and the determination of net realizable value involves the use of estimates. There is a high degree of judgment in estimating future costs, future production levels, recovery levels, and prices. There can be no assurance that actual results will not differ significantly from estimates used in the determination of the carrying value of inventories.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

i) recoverable amount of its evaluation and exploration assets:

Management considers both external and internal sources of information in assessing whether there are any indications that the Company's mining properties and exploration and evaluation assets are impaired. External sources of information management considers include changes in the market, economic and legal environments, in which the Company operates, that are not within its control and that affect the recoverable amount of its mining properties. Internal sources of information that management considers include the manner in which mining properties are being used, or are expected to be used, and indications of economic performance of the assets.

In determining the recoverable amounts of the Company's mining properties, management makes estimates of the undiscounted future pre-tax cash flows expected to be derived from the Company's mining properties, and the appropriate discount rate. Reductions in commodity price forecasts, increases in estimated future costs of production, increases in estimated future non expansionary capital expenditures, reductions in the amount of recoverable resources and exploration potential, and adverse current economic conditions are examples of factors that could result in a write-down of the carrying amounts of the Company's mining properties and exploration and evaluation assets.

ii) fair value of stock-based transactions:

Share-based payments are determined using the Black-Scholes option pricing model based on estimated fair values of all share-based awards at the date of grant and is expensed to profit or loss over each award's vesting period. The Black-Scholes option pricing model utilizes subjective assumptions such as expected price volatility and expected life of the option. Changes in these input assumptions can significantly affect the fair value estimate.

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:

i) assessment of the Company's ability to continue as a going concern and whether there are events or conditions that may give rise to significant uncertainty (Note 1)

The assessment of the Company's ability to execute its strategy by funding future working capital requirements involves judgment. Estimates and assumptions are continually assessed and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

ii) classification of the Oena Diamond Mine as an exploration and evaluation asset (Note 8);

The application of the Company's accounting policy for exploration and evaluation assets requires management to make certain judgments as to future events and circumstances and as to whether economic quantities of reserves will be found so as to assess if technical feasibility and commercial viability have been achieved.

(Expressed in Canadian Dollars)

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

iii) determination of control over ASM (Note 8);

The determination of control of subsidiaries involves significant judgment. De facto control exists in circumstances when an entity owns less than 50% voting rights in another entity but has control for reason other than voting rights or contractual and other statutory means. The consolidated financial statements include the results of African Star Minerals ("ASM") as management has determined that the Company has de facto control over ASM. The Company has the practical ability to direct the relevant activities of ASM and controls the Board of Directors.

iv) determination of the functional currency of the Company and its subsidiaries; and

The determination of functional currency of the Company and its subsidiaries requires significant judgments. Management considered all of the relevant primary and secondary factors in making this determination.

6. RECEIVABLES

		February 28, 2021		August 31, 2020
GST/HST receivables	$	-	$	194
Other receivables		37,644		68,540
Trade debtors		59,523		-
Total receivables	**$**	**97,167**	**$**	**68,734**

7. INVENTORIES

		February 28, 2021		August 31, 2020
Diamonds		-		366,016
Total inventories	**$**	**-**	**$**	**366,016**

8. 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.

Acquisition Costs:		February 28, 2021		August 31, 2020
Balance, beginning of year	$	494,951	$	478,198
Effect of foreign exchange		40,577		16,753
Balance, end of the year	**$**	**535,528**	**$**	**494,951**

(Expressed in Canadian Dollars)

8. EXPLORATION AND EVALUATION ASSETS (continued)

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 August 31, 2020 (not yet completed) as follows:

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

The Company holds 43% interest in the entity but continues to have the highest percentage shareholding and has elected the majority of the board of directors (the "Board"). The Company has assessed it still maintains control over the entity based on the following factors:

i) any shareholder can appoint one director of ASM for every 20% shareholding and may remove or replace any appointee;

ii) 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

iii) the Board is responsible for the overall direction, supervision and management of ASM.

(Expressed in Canadian Dollars)

9. EQUIPMENT

	Computer Equipment & Software	Office Furniture	Vehicles	Plant	Equipment	Total
Cost						
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 assets held for sale	(65,302)	(26,745)	(51,926)	(980)	(57,774)	(202,727)
Foreign exchange	-	-	(26,391)	(712)	607	(26,496)
As at August 31, 2019	**$ -**	**$ -**	**$ 59,063**	**$ 325,369**	**$ 99,924**	**$ 484,356**
Additions	-	-	-	25,309	-	25,309
Disposal	-	-	-	(210,234)	(44,289)	(254,523)
Impairment	-	-	-	-	(6,947)	(6,947)
Foreign exchange	-	-	(6,764)	(37,262)	(11,444)	(55,470)
As at August 31, 2020	**$ -**	**$ -**	**$ 52,299**	**$ 103,182**	**$ 37,244**	**$ 192,725**
Foreign exchange	-	-	1,302	7,175	2,203	10,680
As at February 28, 2021	**$ -**	**$ -**	**$ 53,601**	**$ 110,357**	**$ 39,447**	**$ 203,405**
Accumulated Amortization						
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 assets held for sale	(45,573)	(24,681)	(49,476)	-	(37,150)	(156,880)
Foreign exchange	-	-	519	(1,427)	(2,629)	(3,537)
As at August 31, 2019	**$ -**	**$ -**	**$ 27,207**	**$ 27,114**	**$ 49,995**	**$ 104,316**
Charge for the year	-	-	7,420	60,996	11,051	79,467
Removed on disposal	-	-	-	(52,559)	(25,859)	(78,418)
Foreign exchange	-	-	(3,084)	(3,106)	(5,726)	(11,916)
As at August 31, 2020	**$ -**	**$ -**	**$ 31,543**	**$ 32,445**	**$ 29,461**	**$ 93,449**
Charge for the year	-	-	3,580	11,675	5,415	20,670
Foreign exchange	-	-	518	784	909	2,211
As at February 28, 2021	**$ -**	**$ -**	**$ 35,641**	**$ 44,904**	**$ 35,785**	**$ 116,330**
Net Book Value						
As at August 31, 2020	**$ -**	**$ -**	**$ 20,756**	**$ 70,737**	**$ 7,783**	**$ 99,276**
As at February 28, 2021	**$ -**	**$ -**	**$ 17,960**	**$ 65,453**	**$ 3,662**	**$ 87,076**

(Expressed in Canadian Dollars)

10. TRADE AND OTHER PAYABLES

		February 28, 2021		August 31, 2020
Trade payables	$	217,641	$	195,671
Accrued liabilities		149,228		495,166
Total trade and other payables	**$**	**366,869**	**$**	**690,837**

11. 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 to a third party, with no fixed terms of repayment. As at February 28, 2021, $251,156 (August 31, 2020: $258,194) was outstanding.

During the year ended August 31, 2015, the Company issued a combination of secured and unsecured convertible notes at 12% interest. As at August 31, 2020, all conversion options expired and therefore became ordinary promissory notes. As at February 28, 2021, $165,973 remain outstanding ($141,286 - August 31, 2020).

A continuity schedule of the previously convertible promissory notes due is as follows:

		February 28, 2021		August 31, 2020
Balance, beginning of the year	$	141,286	$	158,643
Accrued interest		46,583		3,876
Converted to short term debt (Note 13)		-		-
Converted to shares (Note 18)		(21,648)		(8,563)
Repayments in cash		-		(12,500)
Effect of foreign exchange		(248)		(170)
Balance, end of the year	**$**	**165,973**	**$**	**141,286**

12. 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 Property.

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 Property 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 Property, both in favor of CCML.

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

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 forgiven and derecognized and the Company recorded a gain on Derecognition of loan of $362,239.

On May 28, 2020, CCML agreed to settle the outstanding indebtedness in the sum of $475,274 through the issuance of 5,315,872 common shares, resulting in CCML holding 19.90% of the outstanding shares of the Company, which was completed subsequent to August 31, 2020. See Note 17.

(Expressed in Canadian Dollars)

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

	February 28, 2021	August 31, 2020
Balance, beginning of the year	$ 475,274	$ 411,939
Accrued interest	-	52,477
Converted to shares	(498,363)	-
Effect of foreign exchange	23,089	10,858
Balance, end of the year	**$ -**	**$ 475,274**

13. INCOME TAXES PAYABLE

As of February 28, 2021 the accumulated assessed losses exceeded taxable income. No provision for income tax has been made.

14. 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. For the six months ended February 28, 2021, the Company recorded amortization of $17,481 (six months February 2020: $18,814) in finance charges in profit and loss.

(Expressed in Canadian Dollars)

15. RELATED PARTY TRANSACTIONS

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. Key management personnel include the Company's named executive officers and members of its Board of Directors. The remuneration of key management personnel was as follows:

		February 28, 2021		February 29, 2021
Directors fees	$	7,803	$	-
Consulting fees (included in management and consulting)		182,409		153,011
Total	$	**190,212**	**$**	**153,011**

As at February 28, 2021, $189,131 (August 31, 2020 - $241,099) is owed to the a director and officers of the Company. Amounts owing are non-interest bearing, unsecured and due on demand.

16. REHABILITATION PROVISION

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

		February 28, 2021		August 31, 2020
Balance at the beginning of the year	$	245,097	$	267,892
Change in estimate		-		8,341
Effect of foreign exchange		20,094		(31,136)
Balance at the end of the year	**$**	**265,191**	**$**	**245,097**

As at February 28, 2021, the rehabilitation provision relates to the Oena Diamond Mine (Note 8). For the years ended August 31, 2020 and 2019, the Company contracted the services of Site Plan Consulting, 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.

Significant estimates and assumptions are made in determining the site restoration provision as there are numerous factors that will affect the ultimate liability payable. Those uncertainties may result in future actual expenditures differing from the amount currently recorded.

The Company carries $212,349 (August 31, 2020: $196,259) in deposits as security against the liability. Of this, $59,013 (August 31, 2020: $54,542) is refundable to an arm's length third party.

17. SHARE CAPITAL

(a) Authorized

Unlimited number of common shares without par value.

(b) Issued

Period Ended February 28, 2021

- On May 28, 2020, CCML agreed to settle outstanding indebtedness in the sum of $498,363 through the issuance of 5,315,872 common shares at a price of $0.09375, resulting in CCML holding 19.90% of the outstanding shares of the Company, which issuance was completed October 15, 2020.
- A director converted $43,031 in debt in consideration for 459,000 common shares at a price of $0.09375 per share, which was completed on October 15, 2020.
- A non-related party converted a promissory note to the value of $21,648 in exchange for 432,960 common shares of the Company.

Year Ended August 31, 2020

Effective May 25, 2020, the Company disposed of its 49% interest in the issued and outstanding Ordinary Shares and 74% interest in the issued and outstanding Preference Shares of each of Kwena Mining Projects (Pty) Ltd., Kwena Mining and Metallurgical Services (Pty) Ltd. and Kwena Springlake Projects (Pty) Ltd. Total consideration received by the Company was $1,320,671 as follows:

- Return for cancellation of an aggregate of 4,077,416 Common Shares (the "Payment Shares") at a value of $0.115 per share, which Payment Shares are collectively held by the Kevin Gallagher, a director of the Company and other related parties, for aggregate value of $468,903; and
- Forgiveness of outstanding indebtedness owed to the Kwena Group from the Company and its subsidiaries in the aggregate sum of $851,768.

On August 24, 2020, the Company issued 1,750,000 common shares of the Company in a debt settlement with a director with a value of $164,063 and on July 16, 2020 the Company issued 171,260 common shares of the Company with a value of $8,563 to settle promissory notes of the same value. Upon settlement, reserves of $25,178 were also reclassified into share capital as no conversion options remained outstanding on any notes (Note 11).

(Expressed in Canadian Dollars)

18. WARRANTS

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

	February 28, 2021		August 31, 2020	
	Weighted Average Exercise Price	**Number of Warrants**	**Weighted Average Exercise Price**	**Number of Warrants**
Outstanding, beginning of year	$ 1.00	400,000	$ 1.00	1,821,000
Expired	-	-	1.00	(1,421,000)
Outstanding, end of the year	**$ 1.00**	**400,000**	**$ 1.00**	**400,000**

During the year ended August 31, 2020 1,421,000 warrants expired unexercised.

Warrants outstanding as at February 28, 2021 are as follows:

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

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(Expressed in Canadian Dollars)

19. 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:

		February 28, 2021			**August 31, 2020**	
		Weighted Average Exercise Price	**Number of Options**		**Weighted Average Exercise Price**	**Number of Options**
Outstanding at beginning of the year	$	0.50	**585,000**	$	0.50	**690,000**
Expired		-	-		0.50	(105,000)
Outstanding at end of the year	**$**	**0.59**	**585,000**	**$**	**0.59**	**585,000**
Exercisable at end of the year	**$**	**0.59**	**585,000**	**$**	**0.59**	**585,000**

The following table provides additional information about outstanding stock options at February 28, 2021:

Exercise Price	**Number of Options Outstanding and Exercisable**	**Weighted Average Remaining Life (Years)**	**Expiry date**
$ 0.50	90,000	0.38	July 15, 2021
$ 0.50	450,000	0.95	February 10, 2022
$ 0.50	45,000	1.09	April 3, 2022
$ 0.50	**585,000**		

20. 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 six months ended February 29, 2021.

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.

21. FINANCIAL INSTRUMENTS

Fair Value

The carrying amount of cash, receivables, trade and other payables, promissory notes, interest bearing loans and borrowings, and due to related parties approximate fair value due to the relatively short term maturity of these financial instruments. The fair value of the rehabilitation deposit approximates carrying value due to the nature of the financial asset.

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.

21. 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 from both operations as well as financing activities. As at February 28, 2021 the Company had cash of $410,307 to settle current liabilities of $1,332,687. The Company intends to meet its financial commitments through loans, private placements, debt conversion, 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 is not subject to significant interest rate risk.

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.

(Expressed in Canadian Dollars)

22. SEGMENTED INFORMATION

Operating Segments

For the six months ended February 28, 2021, the Company had one reportable segment:

- The acquisition, exploration and evaluation, and development of mineral properties.

The following is summarized financial information of the Company's reportable segments for the six months ended February 28, 2021:

	Exploration and evaluation	Corporate	Consolidated
Revenue	$ 1,784,767	$ -	$ 1,784,767
Amortization	19,822	848	20,670
Net profit/(loss)	$ 230,748	$ (277,502)	$ (46,754)
Total assets	$ 928,348	$ 414,684	$ 1,343,033
Total liabilities	(659,746)	(699,457)	(1,359,203)
Net assets (liabilities)	$ 268,602	$ (284,773)	$ (16,170)

The following is summarized financial information of the Company's reportable segments for the six months ended February 29, 2020:

	Exploration and evaluation	Corporate	Consolidated
Revenue	$ 4,060,546	$ -	$ 4,060,546
Amortization	65,359	2,378	67,737
Net profit/(loss)	$ 579,175	$ (233,442)	$ 345,733

(Expressed in Canadian Dollars)

22. SEGMENTED INFORMATION (continued)

The following is summarized financial position of the Company's reportable segments for the year ended August 31, 2020:

	Exploration and evaluation	Corporate	Consolidated
Total assets	$ 1,136,085	$ 446,783	$ 1,582,868
Total liabilities	(669,105)	(1,860,977)	(2,530,082)
Net assets (liabilities)	$ 466,980	$ (1,414,194)	$ (947,214)

Information about Major Customer

The Company's revenue for diamond sales are from a tender process and thus not reliant on a specific customer.

23. NON-CONTROLLING INTERESTS

The non-controlling interests consisted of the following:

	February 28, 2021	August 31, 2020
ASM (57% (2020 – 57%))	$ 193,016	$ 226,629

Net income allocated to non-controlling interests:

	February 28, 2021	August 31, 2020
Kwena Group (0% (2020 – 26%)) - Note 25	$ -	109,927
ASM (57% (2020 – 57%))	60,244	470,345
	$ 60,244	580,272

The following is the summarized statement of financial position of ASM as at February 28, 2021:

	ASM
Current:	
Assets	$ 132,721
Liabilities	(538,863)
Total current net assets (liabilities)	(406,141)
Non-current	
Assets	260,099
Liabilities	(120,884)
Total non-current net assets	139,215
Total net assets (liabilities)	$ (266,925)

(Expressed in Canadian Dollars)

23. NON-CONTROLLING INTERESTS (continued)

The following is the summarized statement of financial position of ASM as at August 31, 2020:

		ASM
Current:		
Assets	$	373,475
Liabilities		(734,359)
Total current net assets (liabilities)		(360,884)
Non-current		
Assets		283,719
Liabilities		(128,062)
Total non-current net assets		155,657
Total net assets (liabilities)	$	205,227

The following is the summarized comprehensive loss of ASM for the period February 28, 2021:

		ASM
Revenue	$	1,784,767
Net income (loss)		230,748
Other comprehensive income (loss)		(24,499)
Comprehensive loss	$	206,249

The following is the summarized comprehensive loss of ASM for the period February 29, 2020:

		ASM
Revenue	$	4,060,546
Net income (loss)		579,175
Other comprehensive income (loss)		261,664
Comprehensive loss	$	840,839

24. SUBSEQUENT EVENTS

Production at the Oena Diamond Mine during Q1 2021 operated at 38% of capacity due to holiday related breaks, COVID related matters and extremely high water in the Orange River which prevented access to the Sandberg area for much of the period. As a result, diamond production for the period was reduced from previous periods.

Production at the Gumrock Joint Venture during Q2 2021 operated at <47% pf capacity due to significant delays caused by rain. Further production and reclamation work during the quarter was completed on the Grass Camp. Mining operations were moved to the Cultivated Area where the 14-foot pan was erected. Work in the Cultivated Area was extremely difficult to impossible during the quarter due to heavy rainfall during the latter part of December through to the end of February 2021.

The Farm Kareepan Agreement has been terminated and reclamation work has been fully completed and approved by the Department of Minerals Resources.