
SOUTHSTONE MINERALS LIMITED

Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the years ended

August 31, 2023 and 2022

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of **Southstone Minerals Limited**

Opinion

We have audited the consolidated financial statements of Southstone Minerals Limited (the "Company"), which comprise the consolidated statements of financial position as at August 31, 2023 and 2022, and the consolidated statements of operations and comprehensive loss, changes in deficiency and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2023 and 2022, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the consolidated financial statements, which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matter described below to be the key audit matter to be communicated in this report.

Rehabilitation provision

The rehabilitation provision is material to the financial statements as it relates to the estimated costs associated with restoring certain assets to their original condition after the cessation of mining operations. As described in Note 15 to the consolidated financial statements, the carrying amount of the rehabilitation provision was \$291,121 as at August 31, 2023.

The principal considerations for our determination that the rehabilitation provision is a key audit matter are that there were judgments and estimations made by management when determining the rehabilitation provision. This in turn led to a high degree of auditor judgment, subjectivity, and effort in performing procedures to evaluate audit evidence relating to the judgments and estimations made by management in their assessment of the rehabilitation provision as at August 31, 2023.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. Our audit procedures included, among others:

- Evaluating management’s internal assessment of the rehabilitation provision to understand the estimation process performed by management;
- Reviewing the Company’s mining activity in the year ended August 31, 2023; and
- Obtaining and reviewing an independent environmental assessment specialist’s opinion on the appropriateness of the rehabilitation provision determined by management.

Other Information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the consolidated financial statements

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

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

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

Auditor’s Responsibilities for the Audit of the Consolidated financial statements

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

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and,

based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Mao & Ying LLP

Vancouver, Canada,
December 21, 2023

Chartered Professional Accountants

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

	August 31, 2023	August 31, 2022
ASSETS		
Current Assets		
Cash	\$ 11,734	\$ 18,055
Receivables (Note 6)	89	1,793
Prepaid expenses	-	5,753
Inventories (Note 7)	-	176,619
	<u>11,823</u>	<u>202,220</u>
Non-current assets		
Rehabilitation deposit (Note 15)	180,801	193,396
Property, plant and equipment (Note 8)	10,974	14,368
Investment (Note 9)	12	-
TOTAL ASSETS	<u>\$ 203,610</u>	<u>\$ 409,984</u>
LIABILITIES AND DEFICIENCY		
Current Liabilities		
Trade and other payables (Note 10)	\$ 212,124	\$ 459,379
Promissory notes (Note 11)	490,481	449,759
Loans payable (Note 12)	233,284	46,068
Rehabilitation deposit to be transferred (Note 15)	64,602	69,102
Rehabilitation provision (Note 15)	291,121	311,401
Deferred recovery (Note 13)	-	8,050
Due to related parties (Note 14)	150,619	-
	<u>1,442,231</u>	<u>1,343,759</u>
Long-term Liabilities		
Loans payable (Note 12)	-	172,755
	<u>1,442,231</u>	<u>1,516,514</u>
Deficiency		
Share capital (Note 16)	17,301,635	17,301,635
Reserve for warrants (Note 17)	749,946	749,946
Reserve for share-based payments (Note 18)	2,378,970	2,378,970
Accumulated other comprehensive income	341,604	307,789
Accumulated deficit	(22,110,557)	(21,914,153)
	<u>(1,338,402)</u>	<u>(1,175,813)</u>
Non-controlling interest (Note 22)	99,781	69,283
	<u>(1,238,621)</u>	<u>(1,106,530)</u>
TOTAL LIABILITIES AND DEFICIENCY	<u>\$ 203,610</u>	<u>\$ 409,984</u>

Corporate information and nature of operations (Note 1)

Going concern (Note 2)

Commitments (Note 25)

Approved by the Board

/s/“Terry Tucker”

Director

/s/“Samer Khalaf”

Director

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

SOUTHSTONE MINERALS LIMITED

Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)

	Years ended August 31,	
	2023	2022
Revenues	\$ 1,296,497	\$ 848,345
Cost of sales	(1,194,075)	(847,619)
Gross profit	102,422	726
Expenses		
Change of rehabilitation provision and others	-	(52,122)
Foreign exchange gain (loss)	(4,474)	(66,047)
Management and consulting (<i>Note 14</i>)	(170,809)	(340,564)
Office and general	(72,765)	(60,241)
Professional fees	(40,557)	(104,871)
Shareholder information	(12,673)	(20,341)
Travel and promotion	(3,729)	(2,753)
	(305,007)	(646,939)
Other Items:		
Bad debt	-	(6,147)
Finance income (loss)	(23,375)	4,729
Other income	37,706	-
	14,331	(1,418)
Net loss for the year	<u>\$ (188,254)</u>	<u>\$ (647,631)</u>
Net income (loss) attributable to:		
Shareholders of the Company	(196,404)	(578,536)
Non-controlling interests	8,150	(69,095)
	(188,254)	(647,631)
Other comprehensive income		
Currency translation adjustment	56,163	106,488
Total comprehensive loss for the year	<u>(132,091)</u>	<u>(541,143)</u>
Other comprehensive income attributable to:		
Controlling shareholders of the Company	33,815	77,723
Non-controlling interests	22,348	28,765
	<u>56,163</u>	<u>106,488</u>
Total comprehensive income (loss) attributable to:		
Controlling shareholders of the Company	(162,589)	(500,813)
Non-controlling interests	30,498	(40,330)
	<u>\$ (132,091)</u>	<u>\$ (541,143)</u>
Basic and fully diluted loss per share	\$ (0.006)	\$ (0.021)
Weighted average number of shares outstanding – basic and diluted	32,041,888	30,825,614

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

SOUTHSTONE MINERALS LIMITED

Consolidated Statement of Changes in Deficiency (Expressed in Canadian Dollars)

	Share Capital		Reserve for Share-based payments	Reserve for Warrants	Accumulated Other Comprehensive Income	Accumulated Deficit	Controlling Shareholders	Non-Controlling Interest	Total
	Number of shares	Amount							
Balance, August 31, 2021	27,511,888	\$ 17,075,335	\$ 2,378,970	\$ 749,946	\$ 230,066	\$ (21,335,617)	\$ (901,300)	\$ 109,613	\$ (791,687)
Settlement of debt	4,530,000	226,300	-	-	-	-	226,300	-	226,300
Currency translation adjustment	-	-	-	-	77,723	-	77,723	28,765	106,488
Net loss for the year	-	-	-	-	-	(578,536)	(578,536)	(69,095)	(647,631)
Balance, August 31, 2022	32,041,888	\$ 17,301,635	\$ 2,378,970	\$ 749,946	\$ 307,789	\$ (21,914,153)	\$ (1,175,813)	\$ 69,283	\$ (1,106,530)
Currency translation adjustment	-	-	-	-	33,815	-	33,815	22,348	56,163
Net loss for the year	-	-	-	-	-	(196,404)	(196,404)	8,150	(188,254)
Balance, August 31, 2023	32,041,888	\$ 17,301,635	\$ 2,378,970	\$ 749,946	\$ 341,604	\$ (22,110,557)	\$ (1,338,402)	\$ 99,781	\$ (1,238,621)

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

SOUTHSTONE MINERALS LIMITED

Consolidated Statements of Cash Flows

(Expressed in Canadian Dollars)

Year ended August 31,	2023	2022
Operating Activities		
Net loss for the year	\$ (188,254)	\$ (647,631)
Adjustments to reconcile net loss to cash flow from operating activities:		
Amortization	2,553	23,209
Interest expense	30,869	28,306
Amortization of deferred recovery	(8,050)	(37,310)
Unrealized foreign exchange gains and losses	9,855	40,395
Bad debt	-	6,147
Change of rehabilitation provision	-	35,791
Non-cash working capital items:		
Receivables	1,704	19,302
Inventories	176,619	(164,550)
Prepaid expenses and deposits	5,753	(614)
Trade and other payables	(247,269)	(19,667)
Due to related parties	150,619	-
Rehabilitation deposit to be transferred	-	15,356
Cash used in operating activities	(65,601)	(701,266)
Financing Activities		
Loans payable	28,712	208,354
Cash provided by financing activities	28,712	208,354
Currency translation reserve	30,568	77,723
Net decrease in cash	(6,321)	(415,189)
Cash - Beginning of the year	18,055	433,244
Cash - End of the year	\$ 11,734	\$ 18,055

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

SOUTHSTONE MINERALS LIMITED

Notes to the Consolidated Financial Statements

For the years ended August 31, 2023 and 2022

(Expressed in Canadian Dollars)

1. CORPORATE INFORMATION AND NATURE OF OPERATIONS

Southstone Minerals Limited (the “Company”) was incorporated under the *British Columbia Business Corporations Act* on April 10, 2007. The Company holds a 43% interest in the Oena Diamond Mine (“Oena”), an alluvial diamond property, located in the Northern Cape Province, Republic of South Africa that consists of one New Order Mining Lease.

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

The Company is listed on the TSX Venture Exchange (“TSX.V”), under the symbol SML. The address of the Company’s corporate office is 2751 Graham Street, Victoria, British Columbia, V8T 3Z1 Canada.

2. GOING CONCERN

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

At August 31, 2023, the Company had negative working capital of \$1,430,408 and an accumulated deficit of \$22,110,557. 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.

SOUTHSTONE MINERALS LIMITED

Notes to the Consolidated Financial Statements

For the years ended August 31, 2023 and 2022

(Expressed in Canadian Dollars)

3. BASIS OF PRESENTATION AND STATEMENT OF COMPLIANCE

3.1 Statement of compliance

These consolidated financial statements, including comparatives, have been prepared in accordance with International Accounting Standards as issued by the International Accounting Standards Board (“IASB”) and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

These consolidated financial statements were approved by the Board of Directors of the Company on December 21, 2023.

3.2 Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis. The consolidated financial statements are presented in Canadian dollars. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

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

3.3 Principles of consolidation

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

Details of controlled entities are as follows:

	Country of incorporation	Percentage owned *	
		August 31, 2023	August 31, 2022
TGV Resources (Pty) Ltd (“TGV”)	South Africa	100%	100%
African Star Minerals (Pty) Limited (“ASM”)	South Africa	43%	43%
GAH Mining (Pty) Ltd (“GAH”)	South Africa	100%	100%

*Percentage of voting power is in proportion to ownership, except for ASM (see below).

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

SOUTHSTONE MINERALS LIMITED

Notes to the Consolidated Financial Statements

For the years ended August 31, 2023 and 2022

(Expressed in Canadian Dollars)

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

3.3 Principles of consolidation (continued)

- The Group's voting rights and potential voting rights
- The contractual arrangement(s) with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (loss) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Company holds 43% interest in ASM but continues to have the highest percentage shareholding and has elected the majority of the board of directors (the "Board"). The Company 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) board decision is taken by a simple majority of the votes, and 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.

SOUTHSTONE MINERALS LIMITED

Notes to the Consolidated Financial Statements

For the years ended August 31, 2023 and 2022

(Expressed in Canadian Dollars)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Exploration and evaluation expenditures

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

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

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

Acquisition costs are capitalized, and exploration and evaluation expenditures are expensed in the period which they incur. The Company capitalizes costs to specific blocks of claims or areas of geological interest. Due to the negative political and economic environment in South Africa together with the decline in production, management decided to fully impair the Oena exploration and evaluation asset.

Government tax credits received are recorded as a reduction to the cumulative costs incurred and capitalized on the related property.

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

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

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

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

SOUTHSTONE MINERALS LIMITED

Notes to the Consolidated Financial Statements

For the years ended August 31, 2023 and 2022

(Expressed in Canadian Dollars)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.2 Foreign currency transactions

The functional currency of the Company, the parent, is the Canadian Dollar. The functional currency of the subsidiaries incorporated in Republic of South Africa is the South African Rand (“ZAR”). The presentation currency of the consolidated 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. At each statement of financial position date, foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items are translated using the historical rate on the date of the transaction. Non-monetary items that are stated at fair value are translated using historical rate on the date that fair values were determined.

Exchange differences arising on the translation of these foreign currency transactions 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.

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 (loss) 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.

SOUTHSTONE MINERALS LIMITED

Notes to the Consolidated Financial Statements

For the years ended August 31, 2023 and 2022

(Expressed in Canadian Dollars)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.3 Property, plant and equipment

Property, plant and 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:

- | | |
|-------------|-------|
| • Vehicles | 12.5% |
| • Equipment | 33% |
| • Plant | 33% |

4.4 Leases

The Company assesses whether a contract is or contains a lease at inception of the contract. A lease is recognized as a right-of-use asset and corresponding liability at the commencement date. Each lease payment included in the lease liability is apportioned between the repayment of the liability and an interest expense. Lease liabilities represent the net present value of fixed lease payments (including in-substance fixed payments); variable lease payments based on an index, rate, or subject to a fair market value renewal condition; amounts expected to be payable by the lessee under residual value guarantees, the exercise price of a purchase option if the Company is reasonably certain to exercise that option, and payments of penalties for terminating the lease, if it is probable that the lessee will exercise that option.

The Company's lease liability is recognized net of lease incentives receivable. The lease payments are discounted using the interest rate implicit in the lease or, if that rate cannot be determined, the Company's incremental borrowing rate. The period over which the lease payments are discounted is the expected lease term, including renewal and termination options that the Company is reasonably certain to exercise. Payments associated with short-term leases and leases of low-value assets are recognized as an expense on a straight-line basis in general and administration and sales and marketing expense in the statement of operations and comprehensive loss. Short-term leases are defined as leases with a lease term of 12 months or less. Variable lease payments that do not depend on an index, rate, or subject to a fair market value renewal condition are expensed as incurred, in the statement of income (loss) and comprehensive income (loss).

Right-of-use assets are measured at cost, which is calculated as the amount of the initial measurement of lease liability plus any lease payments made at or before the commencement date, any initial direct costs and related restoration costs. The right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the useful life of the asset.

During the years ended August 31, 2023 and 2022, the Company does not have material lease contracts.

SOUTHSTONE MINERALS LIMITED

Notes to the Consolidated Financial Statements

For the years ended August 31, 2023 and 2022

(Expressed in Canadian Dollars)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.5 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.

4.6 Loss per share

Basic loss per share is computed by dividing the Company's profit or loss applicable to common shares by the weighted average number of common shares outstanding for the relevant period. Diluted profit or loss per share is computed by dividing the Company's profit or loss applicable to common shares, by the sum of the weighted average number of common shares outstanding and all additional common shares that would have been outstanding if potentially dilutive instruments were converted at the beginning of the period.

4.7 Share-based payments

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

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

SOUTHSTONE MINERALS LIMITED

Notes to the Consolidated Financial Statements

For the years ended August 31, 2023 and 2022

(Expressed in Canadian Dollars)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.7 Share-based payments (continued)

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

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

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

All equity-settled share-based payments are reflected in equity reserve, until exercised. Upon exercise, shares are issued from treasury and the amount reflected in equity reserve is credited to share capital, adjusted for any consideration paid. Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and immediately recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period.

4.8 Financial instruments

(i) *Non-derivative financial assets*

Financial assets are classified into one of three categories: (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).

Financial assets classified as amortized cost are measured using the effective interest method. Amortized cost is calculated by taking into account any discount or premiums on acquisition and fees that are an integral part of the effective interest method. Amortization from the effective interest method is included in finance income. Financial assets classified as FVTPL are measured at fair value with changes in fair values recognized in profit or loss. Equity investments designated as FVTOCI are measured at fair value with changes in fair values recognized in other comprehensive income ("OCI"). Dividends from that investment are recorded in profit or loss when the Company's right to receive payment of the dividend is established unless they represent a recovery of part of the cost of the investment.

The Company classifies cash and receivables as amortized cost with subsequent impairments recognized in profit or loss.

SOUTHSTONE MINERALS LIMITED

Notes to the Consolidated Financial Statements

For the years ended August 31, 2023 and 2022

(Expressed in Canadian Dollars)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.8 Financial instruments (continued)

(i) *Non-derivative financial assets (continued)*

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 are classified into one of two categories: (i) amortized cost; and (ii) FVTPL, Financial liabilities are initially recognized at fair value less directly attributable transaction costs except for liabilities classified as FVTPL, in which case transaction costs are expensed as incurred.

Subsequently, financial liabilities classified as amortized cost 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 classifies trade and other payables, promissory notes, loans payable, and due to related party as amortized cost.

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated.

(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.

SOUTHSTONE MINERALS LIMITED

Notes to the Consolidated Financial Statements

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(Expressed in Canadian Dollars)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.9 Non-controlling interests

Non-controlling interests 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 interests 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.

4.10 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 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.

SOUTHSTONE MINERALS LIMITED

Notes to the Consolidated Financial Statements

For the years ended August 31, 2023 and 2022

(Expressed in Canadian Dollars)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.11 Restoration and environmental obligations

Mine rehabilitation costs will be incurred by the Company either while operating, or at the end of the operating life of, the Company's facilities and mine properties. The Company assesses its mine rehabilitation provision at each reporting date. The Company recognizes a rehabilitation provision where it has a legal and constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. The nature of these restoration activities includes: dismantling and removing structures; rehabilitating mines and tailings dams; dismantling operating facilities; closing plant and waste sites; and restoring, reclaiming and revegetating affected areas. The obligation generally arises when the asset is installed or the ground/environment is disturbed at the mining operation's location. When the liability is initially recognized, the present value of the estimated costs is capitalized by increasing the carrying amount of the related mining assets to the extent that it was incurred as a result of the development/construction of the mine. Any rehabilitation obligations that arise through the production of inventory are recognized as part of the related inventory item. Additional disturbances that arise due to further development/construction at the mine are recognized as additions or charges to the corresponding assets and rehabilitation liability when they occur.

Costs related to the restoration of site damage (subsequent to the start of commercial production) that is created on an ongoing basis during production are provided for at their net present values and recognized in profit or loss as extraction progresses. Changes in the estimated timing of rehabilitation or changes to the estimated future costs are dealt with prospectively by recognizing an adjustment to the rehabilitation liability and a corresponding adjustment to the asset to which it relates, if the initial estimate was originally recognized as part of an asset measured in accordance with IAS 16. Any reduction in the rehabilitation liability and, therefore, any deduction from the asset to which it relates, may not exceed the carrying amount of that asset. If it does, any excess over the carrying value is taken immediately to the statement of profit or loss and other comprehensive income. If the change in estimate results in an increase in the rehabilitation liability and, therefore, an addition to the carrying value of the asset, the Company considers whether this is an indication of impairment of the asset as a whole, and if so, tests for impairment. If, for mature mines, the estimate for the revised mine assets net of rehabilitation provisions exceeds the recoverable value, that portion of the increase is charged directly to expense. Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability. The periodic unwinding of the discount is recognized in the statement of profit or loss and other comprehensive income as part of finance costs. For closed sites, changes to estimated costs are recognized immediately in the statement of profit or loss and other comprehensive income. The Company recognizes neither the deferred tax asset in respect of the temporary difference on the decommissioning liability nor the corresponding deferred tax liability in respect of the temporary difference on a decommissioning asset.

SOUTHSTONE MINERALS LIMITED

Notes to the Consolidated Financial Statements

For the years ended August 31, 2023 and 2022

(Expressed in Canadian Dollars)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.12 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 generates revenue from the sale of diamonds (the “Product”) pursuant to contractual arrangements with its customers, being the diamond bidders. The Company bears the inventory risk as diamonds are consigned at the tender house’s facility and has the right to determine the final price to sell the diamonds. Tender house acts as an agent to sell the diamonds through auction on behalf of the Company. Following the auction, the tender house invoices the buyer for the purchase price of the diamond, collects payment from the buyer, and remits to the Company the net sale proceeds after deducting its commissions and applicable expenses. Commissions are calculated as a percentage of the hammer price of the property sold at auction. In accordance with IFRS 15, the Company only has one performance obligation, which is the sale of diamonds to the customer. Therefore, 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.

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.

4.13 Fair value of warrants

The Company measures the fair value of warrants issued from financings using the residual method, and compensatory warrants 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.

4.14 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.

4.15 Inventory and supplies

Inventories, which are 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 on a per diamond sold basis and includes the respective contractor’s mining costs, separately tracked and recognized in the Company’s cost of goods sold and inventory. Net realizable value represents the estimated selling price in the ordinary course of business, less all estimated costs to completion and selling expenses.

SOUTHSTONE MINERALS LIMITED

Notes to the Consolidated Financial Statements

For the years ended August 31, 2023 and 2022

(Expressed in Canadian Dollars)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.16 Accounting standards issued but not yet effective

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended August 31, 2023, and have not been applied in preparing these consolidated financial statements. None of these pronouncements are expected to have material impact on the Company's consolidated financial statements.

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:

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.

SOUTHSTONE MINERALS LIMITED

Notes to the Consolidated Financial Statements

For the years ended August 31, 2023 and 2022

(Expressed in Canadian Dollars)

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

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 2);

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) determination of control over ASM (Note 3.3);

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 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.

- iii) 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

	August 31, 2023		August 31, 2022	
GST/HST/VAT receivables	\$	-	\$	1,698
Other		89		95
Total receivables	\$	89	\$	1,793

7. INVENTORIES

The Company's inventory consists of rough diamonds. As at August 31, 2023, there was \$nil of inventory stock on hand (August 31, 2022 - \$176,619).

	August 31, 2023		August 31, 2022	
Diamonds	\$	-	\$	176,619
Total inventories	\$	-	\$	176,619

SOUTHSTONE MINERALS LIMITED

Notes to the Consolidated Financial Statements

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8. PROPERTY, PLANT AND EQUIPMENT

	Vehicles		Plant		Total
Cost					
As at August 31, 2021	\$	58,113	\$	86,531	\$ 144,644
Foreign exchange		(4,576)		(6,813)	(11,389)
As at August 31, 2022	\$	53,537	\$	79,718	\$ 133,255
Foreign exchange		(3,135)		(4,669)	(7,804)
As at August 31, 2023	\$	50,402	\$	75,049	\$ 125,451
Accumulated Amortization					
As at August 31, 2021	\$	38,957	\$	64,898	\$ 103,855
Charge for the year		2,796		20,413	23,209
Foreign exchange		(2,584)		(5,593)	(8,177)
As at August 31, 2022	\$	39,169	\$	79,718	\$ 118,887
Charge for the year		2,553		-	2,553
Foreign exchange		(2,294)		(4,669)	(6,963)
As at August 31, 2023	\$	39,428	\$	75,049	\$ 114,477
Net Book Value					
As at August 31, 2022	\$	14,368	\$	-	\$ 14,368
As at August 31, 2023	\$	10,974	\$	-	\$ 10,974

During the year ended August 31, 2023, amortization of \$2,553 (2022 - \$23,209) was recorded in cost of sales.

9. INVESTMENT

During the year, the Company subscribed for 1,152 shares of Padstone Pte. Ltd. ("Padstone") at an issue price of \$0.01 per share, which represents 10% ownership of Padstone. Padstone is the registered proprietor of all the issued share capital of Pan African Diamonds, which is an independent mining exploration company focused on diamond exploration in Guinea-Conakry. The subscribed shares are subject to certain conditions and will be returned to Padstone, should the conditions not be met, by December 31, 2023. This will require Padstone to buy back the shares at a cost of \$1.35 (USD\$1.00).

With the Company's agreement, Padstone concurrently established a wholly owned subsidiary in Guinea-Conakry, Southstone Guinée SARL, for the purpose of applying for two diamond exploration permits located in Guinea-Conakry.

SOUTHSTONE MINERALS LIMITED

Notes to the Consolidated Financial Statements
For the years ended August 31, 2023 and 2022
(Expressed in Canadian Dollars)

10. TRADE AND OTHER PAYABLES

	August 31, 2023		August 31, 2022	
Trade payables	\$	87,587	\$	291,912
Accrued liabilities		94,913		140,296
Payroll and VAT provisions		29,624		27,171
Total trade and other payables	\$	212,124	\$	459,379

11. 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 to a third party, with no fixed terms of repayment. As at August 31, 2023, \$293,461 (US\$185,000) (August 31, 2022 - \$275,436 (US\$185,000)) was outstanding.

	August 31, 2023		August 31, 2022	
Balance, beginning of the year	\$	275,436	\$	257,450
Accrued interest		8,689		8,178
Effect of foreign exchange		9,336		9,808
Balance, end of the year	\$	293,461	\$	275,436

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, 2023 and 2022 all conversion options expired and therefore became ordinary promissory notes. As at August 31, 2023, \$197,020 is outstanding (August 31, 2022 - \$174,323). A continuity schedule of the previously convertible promissory notes due is as follows:

	August 31, 2023		August 31, 2022	
Balance, beginning of the year	\$	174,323	\$	177,457
Accrued interest		22,181		20,343
Settled via issuance of shares		-		(24,014)
Effect of foreign exchange		516		537
Balance, end of the year	\$	197,020	\$	174,323

12. LOANS PAYABLE

In November 2021, the Company through ASM entered into a Loan and Offtake Agreement with Hall of Diamonds Pty Ltd (“HOD”), pursuant to which HOD provided an unsecured loan to ASM for ZAR 750,000 for a term of two years (“Loan 1”). As consideration for the loan, HOD received a right to purchase all of the diamonds produced from Oena by the Company (“Offtake Right 1”). Offtake Right 1 shall expire on the date that HOD has received a minimum sales value of ZAR 750,000. The sale price of the diamonds produced from Oena shall be determined by an independent evaluator appointed by ASM in its sole discretion. As at August 31, 2023, there was a balance of \$53,835 (ZAR 750,000) (August 31, 2022 - \$57,585 (ZAR 750,000)) outstanding on this loan payable.

SOUTHSTONE MINERALS LIMITED

Notes to the Consolidated Financial Statements

For the years ended August 31, 2023 and 2022

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12. LOANS PAYABLE (continued)

In April 2022, the Company through ASM entered into another Loan and Offtake Agreement with HOD, pursuant to which HOD provided an unsecured loan to ASM for ZAR 1,500,000 for a term of two years (“Loan 2”). As consideration for the loan, HOD received a right to purchase all diamonds produced from Oena (“Offtake Right 2”), Offtake Right 2 shall expire on the date that HOD has received minimum sales value of ZAR 1,500,000. The sales price (“Valuation Price”) of the diamonds produced from Oena shall be the highest price bid during the tender process at a designated tender house located in the Republic of South Africa or an independent evaluator appointed by ASM in its sole discretion. HOD will be allowed to purchase all or a portion of the diamonds at the tender house by paying the Valuation Price to ASM plus any outstanding commissions (typically 1.5%) to the tender house.

As at August 31, 2023, there was a balance of \$107,670 (ZAR 1,500,000) (August 31, 2022 - \$115,170 (ZAR 1,500,000) outstanding on this loan payable amount.

In August 2022, ASM entered into an advance agreement with HOD for ZAR 600,000. This advance will be repaid with proceeds from Oena mining production revenues. As at August 31, 2023, there was a balance of \$43,067 (ZAR 600,000) (August 31, 2022 - \$46,068 (ZAR 600,000) outstanding on this advance payable.

During the year ended August 31, 2023, ASM entered into two advance agreements with HOD for ZAR 400,000. These advances will be repaid with proceeds from Oena mining production revenues on or before December 31, 2023. As at August 31, 2023, there was a balance of \$28,712 (ZAR 400,000) outstanding on these advance payables.

The continuity of the Company’s outstanding loans is as follows:

	August 31, 2023		August 31, 2022	
Balance, beginning of the year	\$	218,823	\$	-
Additions:				
Loan 1		-		61,710
Loan 2		-		121,515
Advances		28,712		46,068
Effect of foreign exchange		(14,251)		(10,470)
Balance, end of the year	\$	233,284	\$	218,823

13. DEFERRED RECOVERY

In November 2017, the Company entered into a Tailing Investment and Revenue Participation Agreement (the “Tailing Royalty Agreement”) with TML Equipment Solutions (Pty) Ltd. (“TML”), whereby TML agreed to provide funding of \$191,042 (R2,096,828) to ensure ongoing operations of Oena with the processing of historical tailings. In return, TML receives a royalty of 10.6% from the net sale (defined in the Tailing Royalty Agreement) of diamonds recovered from processing of 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 Oena and amortized the balance over a 5-year term. For the year ended August 31, 2023, the Company recorded amortization of \$7,815 (2021 - \$33,034) in finance charges in profit and loss. During the year ended August 31, 2022, there is no diamond revenue (2022 - \$nil) generated from the processing of historical tailings.

SOUTHSTONE MINERALS LIMITED

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14. RELATED PARTY TRANSACTIONS

The related party transactions are in the normal course of business and are measured at the exchange amount which is the amount agreed by the related parties. Related party transactions not presented elsewhere in these consolidated financial statements are disclosed below:

	August 31, 2023		August 31, 2022	
Directors fees	\$	16,180	\$	15,246
Consulting fees (included in management and consulting)		166,629		327,194
Total	\$	182,809	\$	342,440

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 chief executive officer and chief financial officer and members of its Board of Directors. The remuneration of key management personnel was presented in the above table. Key management personnel were not paid post-employment benefit, termination fees or other long-term benefits during the years ended August 31, 2023 and 2022.

During the year ended August 31, 2022, the amount of \$226,500, partially related to this note owing to a director and officer, was settled in consideration for 4,530,000 common shares of the Company (Note 16).

In addition, as at August 31, 2023, \$150,619 (August 31, 2022 - \$nil owed to the CEO, CFO and certain directors and officers) is owed to directors and corporate secretary of the Company. Amounts owing are non-interest bearing, unsecured and due on demand.

15. REHABILITATION PROVISION

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

	August 31, 2023		August 31, 2022	
Balance, beginning of the year	\$	311,401	\$	313,018
Change of estimate		-		35,791
Effect of foreign exchange		(20,280)		(37,408)
Balance, end of the year	\$	291,121	\$	311,401

As at August 31, 2023, the rehabilitation provision relates to Oena. For the year ended August 31, 2022, the Company contracted the services of Site Plan Consulting, an independent consultant specializing in geological surveying, who determined a \$35,791 change in the provision. For the year ended August 31, 2023, the Company contracted the services of Site Plan Consulting to review the current situation and assess whether there were any material changes from the report prepared last fiscal year. The independent consultant concluded there were no material changes in the rehabilitation provision at August 31, 2023.

SOUTHSTONE MINERALS LIMITED

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15. REHABILITATION PROVISION (continued)

The provision is an estimate of total amount of 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 various 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 \$180,801 (ZAR 2,507,864) (August 31, 2022- \$193,396 (ZAR 2,507,864)) in deposits as security against the liability. Of this, \$64,602 (August 31, 2022 - \$69,102) relates to the rehabilitation deposit that is currently in the Company's trust account and will be transferred to the Department Mineral Resources of South Africa. Refer to Note 25 regarding commitments for additional deposits.

16. SHARE CAPITAL

(a) Authorized

Unlimited number of common shares without par value.

(b) Issued

Year Ended August 31, 2023

- There were no share capital transactions in the year.

Year Ended August 31, 2022

- On December 7, 2021, debt in the amount of \$226,500 owing to a director and officer of the Company was settled in consideration for 4,530,000 common shares of the Company.

17. WARRANTS

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

	August 31, 2023		August 31, 2022	
	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price	Number of Warrants
Outstanding, beginning of year	\$ -	-	\$ 1.00	400,000
Expired	-	-	1.00	(400,000)
Outstanding, end of the period	\$ -	-	\$ -	-

During the year ended August 31, 2022, 400,000 warrants expired unexercised.

SOUTHSTONE MINERALS LIMITED

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18. 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.

During the year ended August 31, 2022, 390,000 options expired unexercised.

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

	August 31, 2023		August 31, 2022	
	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price	Number of Options
Outstanding at beginning of the year	\$ -	-	\$ 0.50	390,000
Expired / Cancelled	-	-	0.50	(390,000)
Outstanding at end of the period	\$ -	-	\$ -	-
Exercisable at end of the period	\$ -	-	\$ -	-

19. 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 (deficiency). In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the year ended August 31, 2023.

The Company considers its capital to be shareholders' equity (deficiency), which is comprised of share capital, reserves, deficit and non-controlling interest. The Company is not subject to externally imposed capital requirements.

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19. CAPITAL RISK MANAGEMENT (continued)

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 and South African financial institutions.

20. FINANCIAL INSTRUMENTS

Fair Value

The carrying amount of cash, receivables, trade and other payables, promissory notes, refundable deposits and due to related parties approximate fair value due to the relatively short term maturity of these financial instruments.

Financial instruments that are measured subsequent to initial recognition at fair value are grouped into a hierarchy based on the degree to which the fair value is observable. Level 1 fair value measurements are derived from unadjusted, quoted prices in active markets for identical assets or liabilities. Level 2 fair value measurements are derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability directly or indirectly. Level 3 fair value measurements are derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data. As at August 31, 2023 and 2022, the Company does not financial instruments measured at fair value on a recurring basis.

Credit and Concentration 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 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.

During the year ended August 31, 2023, the Company's generated revenue from 2 (2022 - 3) customers.

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 August 31, 2023, the Company had cash of \$11,734 to settle current liabilities of \$1,442,231. The Company intends to meet its financial commitments through loans, private placements, debt conversion, and revenue generated from its operations. All of the Company's financial liabilities have contractual maturities of less than 365 days and are subject to normal trade terms.

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20. FINANCIAL INSTRUMENTS (continued)

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. 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 are denominated in Canadian, United States Dollars and South African Rand. 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.

A 10% appreciation (weakening) in the USD against the CAD, with all other variables held constant, would result in a \$5,700 increase (decrease) to net loss for the year ended August 31, 2023.

21. INCOME TAXES

A reconciliation of income taxes calculated at the Canadian combined statutory tax rate of 27% to the income tax expense is as follows:

		2023		2022
Loss before income taxes	\$	(188,254)	\$	(647,631)
Expected income tax (recovery)		(51,000)		(175,000)
Change in statutory, foreign tax, foreign exchange rates and other		12,000		33,000
Permanent differences		1,000		2,000
Adjustment to prior year provision versus statutory tax returns		-		187,000
Change in unrecognized deferred tax assets		38,000		(47,000)
Total income tax expense	\$	-	\$	-
Current income tax expense	\$	-	\$	-

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

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

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21. INCOME TAXES (continued)

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

	2023	2022
Intangible assets	\$ 215,000	\$ 215,000
Allowable capital losses	6,000	6,000
Non-capital losses	2,927,000	2,889,000
	3,148,000	3,110,000
Unrecognized deferred tax assets	(3,148,000)	(3,110,000)
Net deferred tax asset	\$ -	\$ -

As at August 31, 2023, the Company has estimated non-capital losses totalling \$9,757,000 in Canada that may be carried forward to reduce taxable income derived in future years from 2028 to 2043 and non-capital losses totalling \$1,047,000 in South Africa that can be used indefinitely.

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

22. NON-CONTROLLING INTERESTS

The non-controlling interests consisted of the following:

	August 31, 2023	August 31, 2022
ASM (57% (2022 – 57%))	99,781	69,283
	\$ 99,781	\$ 69,283

Net income (loss) allocated to non-controlling interests:

	August 31, 2023	August 31, 2022
ASM (57% (2022 – 57%))	8,150	(69,095)
	\$ 8,150	\$ (69,095)

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22. NON-CONTROLLING INTERESTS (continued)

The following is the summarized statement of financial position of ASM as at August 31, 2023:

		ASM
Current:		
Assets	\$	146,725
Liabilities		(773,893)
Total current net assets (liabilities)		(627,168)
Non-current		
Assets		181,620
Liabilities		-
Total non-current net assets (liabilities)		181,620
Total net assets (liabilities)		\$ (445,548)

The following is the summarized statement of financial position of ASM as at August 31, 2022:

		ASM
Current:		
Assets	\$	186,081
Liabilities		(701,541)
Total current net assets (liabilities)		(515,460)
Non-current		
Assets		196,902
Liabilities		(172,755)
Total non-current net assets		24,147
Total net assets (liabilities)		\$ (491,313)

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22. NON-CONTROLLING INTERESTS (continued)

The following is the summarized comprehensive income of ASM for the year ended August 31, 2023:

		ASM
Revenue	\$	1,296,497
Net income		14,298
Other comprehensive income		22,348
Total comprehensive income	\$	36,647

The following is the summarized comprehensive loss of ASM for the year ended August 31, 2022:

		ASM
Revenue	\$	848,345
Net loss		(121,219)
Other comprehensive income		50,466
Total comprehensive loss	\$	(70,753)

23. SUPPLEMENTAL CASH FLOW INFORMATION

The following non-cash transactions occurred during the year ended August 31, 2023 and 2022:

- Shares issued to settle payables – \$nil (2022 - \$202,486)
- Shares issued to settle notes – \$nil (2022 - \$24,014)

24. SEGMENTED INFORMATION

For the year ended August 31, 2023, the Company had one reportable segment which was the acquisition, exploration, evaluation, development and mining of mineral properties.

As at August 31, 2023 and 2022, all of the Company's revenue was earned in South Africa and all long-term assets were held in South Africa.

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25. COMMITMENTS

The Company has committed to make additional deposits of \$46,518 (ZAR 648,064) in connection with its rehabilitation provision. There is no formal deadline to make the deposit, however the Company typically complies on an annual basis in connection with filing its estimate of the total asset retirement obligation, as disclosed in Note 15.

On April 19, 2022, ASM entered into a Contract Mining and Diamond Recovery Agreement (the “Agreement”) with Oryx Mining (Pty) Ltd (“Oryx”) at Oena. Oryx, at its own cost and expense, will provide and maintain all the Plant and Equipment as required to perform the Mining Services. The diamonds produced by Oryx will be sold via a designated Tender Facility in South Africa and 80% of the gross income of net diamond sales, less commission, will be paid to Oryx for the duration of the 36-month Agreement. For any individual stones recovered with a gross selling price, less commission, of greater than ZAR 10,000,000, Oryx will be paid 70% of the gross income. Oryx commenced mining operations on June 13, 2022.

On April 11, 2023, Oryx advised the Company operations at Oena were to be discontinued, and no further production or sales would be produced by Oryx.

Also see Note 13 for commitments related to deferred recovery.

26. SUBSEQUENT EVENTS

Subsequent to the year ended August 31, 2023, the Company completed a non-brokered private placement by the issuance of 1,360,000 common shares at a price of \$0.05 per share, for gross proceeds of \$68,000. Each unit of the private placement shall consist of one common share in the capital of the Company and one half of a share purchase warrant, with each whole warrant entitling the holder to purchase one additional common share at a price of \$0.10 per share at any time within two years from the date of issuance.

Subsequent to the year ended August 31, 2023, the Company received additional advances from HOD for \$23,266 (ZAR 320,000) that will be repaid with proceeds from mining production revenues on or before December 31, 2023.