
Management's Discussion & Analysis

The following Management's Discussion & Analysis ("MD&A") of the financial condition and results of the operations of Southstone Minerals Limited (the "**Company**" or "**Southstone**"), constitutes management's review of the factors that affected the Company's financial and operating performance for the year ended August 31, 2020 and should be read in conjunction with the Company's audited consolidated financial statements and related notes for the year ended August 31, 2020, (the "Financial Statements") which have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as published by the International Accounting Standards Board. All figures are in Canadian Dollars unless otherwise stated. Additional information, including the Financial Statements, which contain disclosure of the history and properties of the Company are available on SEDAR and may be accessed at www.sedar.com.

Date

This MD&A is dated as of December 23, 2020.

Forward-Looking Information

This MD&A includes "forward-looking statements", within the meaning of applicable securities legislation, which are based on the opinions and estimates of management and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar words suggesting future outcomes or statements regarding an outlook. Such risks and uncertainties include, but are not limited to, risks associated with the mining industry, including operational risks in exploration development and production; delays or changes in plans with respect to exploration or development projects or capital expenditures; the uncertainty of resource and reserve estimates; the uncertainty of estimates and projections in relation to production, costs and expenses; the uncertainty surrounding the ability of Southstone to obtain all permits, consents or authorizations required for its operations and activities; and health, safety and environmental risks, the risk of commodity price and foreign exchange rate fluctuations, the ability of Southstone to fund the capital and operating expenses necessary to achieve its business objectives, the uncertainty associated with commercial negotiations and negotiating with foreign governments and risks associated with international business activities, as well as those risks described in public disclosure documents filed by Southstone. Due to the risks, uncertainties and assumptions inherent in forward-looking statements, prospective investors in securities of Southstone should not place undue reliance on these forward-looking statements. Statements in relation to "reserves" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described can be profitably produced in the future.

Readers are cautioned that the foregoing lists of risks, uncertainties and other factors are not exhaustive. The forward-looking statements contained in this document are made as of the date hereof and the Company undertakes no obligation to update publicly or revise any forward-looking statements or in any other documents filed with Canadian securities regulatory authorities, whether as a result of new information,

future events or otherwise, except in accordance with applicable securities laws. The forward-looking statements are expressly qualified by this cautionary statement.

Overview

The Company is a Canadian junior mining company with an interest in the Oena Diamond Mine, an alluvial diamond property located in the Northern Cape Province, South Africa. The Company also has a strategic Joint Venture with Gumrock Mining (Pty) Ltd and its first joint venture on Farm Kareepan, Republic. of South Africa.

Assets

Oena Diamond Mine

The Company holds an interest in the Oena Diamond Mine ("**Oena Mine**"), a producing alluvial diamond mine, located in the Northern Cape Province, South Africa, which consists of one New Order Mining Lease. The New Order Mining Lease is held by the Company's subsidiary, African Star Minerals (Pty) Limited ("**African Star**"). During the year ended August 31, 2018, the South African Department of Minerals and Resources confirmed renewal of the New Order Mining Lease to March 15, 2027.

The Oena Mine is a producing alluvial diamond property that covers 8,800 ha located in the Northern Cape Province, South Africa and consists of a 4.8 kilometre ("**km**") wide strip along a 15 km length of the Orange River in a well-established alluvial diamond mining province that produces high quality and large sized diamonds. The Oena Mine is located 50 km upstream of Namdeb's Auchas and Daberas alluvial diamond mines which are on the Namibian or north bank of the Orange River, while Trans Hex's Reuning and Baken alluvial diamond mines are respectively 15 km and 60 km downstream of Oena on the South African or southern bank of the Orange River.

In October 2017, the Company entered into a five-year Contract Mining and Diamond Recovery Agreement (the "**Oena Agreement**") with Bluedust 7 Proprietary Limited ("**Bluedust**"). Bluedust has developed the Oena Mine using Bourevestnik X-ray machines and/or pan plants and Bluedust, at its own cost and expense, provides and maintains all the plant and equipment as required. In November 2017, the Company amended the Oena Agreement to include the processing of pan and bantam tailings material.

During fiscal 2018 and the period to December 2018, the Company acquired additional plant and earth moving machinery to expand processing capacity.

Total carats recovered for the year ended August 31, 2020 was 2,320.9 (2019: 1,694.50), up by 37% from the previous year, which sold for an average of US\$1,926.48 (2019: US\$1,664). Of these, 30 stones exceeded 10 carats, and sold for an average price of US\$ 4,207 per carat. The result from the increase in production was that recoveries from exploration increased by 54%. Refer to note 8 in the Financial Statements.

Gumrock Mining (Pty) Ltd Joint Venture

Southstone has entered into a Production - Exploitation Joint Venture Operating Agreement (the "**Joint Venture**") with Gumrock Mining (Pty) Ltd ("**Gumrock**"). Gumrock has been successfully operating in the alluvial diamond mining business all over South Africa for over 26 years and adds another expert mining contractor to Southstone alluvial diamond operations. The Joint Venture allows the Company to follow its corporate strategy to quickly exploit near term diamond production opportunities in South Africa.

The Joint Venture contemplates operations ranging from 7,000 to 40,000 tonnes per month, has a term of five years commencing on 1 October 2020 to 30 September 2025 and will focus on extracting diamonds from any concessions or mining permits that may be agreed to by both parties within the Republic of South Africa.

The Company has purchased a 14-foot pan plant and conveyor to contribute to the Joint Venture, which remains the property of the Company and Gumrock has provided a 20-ton excavator, front end loader, pumps and other required mining and support equipment.

The Joint Venture denotes a 50%-50% split of all operating costs and all profits or losses.

Farm Kareepan Contractors Agreement

Gumrock, on behalf of the Joint Venture, has entered into its first Contractors Agreement on portions of Farm Kareepan 177, Farm Goegedacht 197, Farm Kameelpan 148, Farm Leeuwfontein 185 and Farm Kameelboom 150 (collectively the “**Property**”). The Property covers 1,819 hectares and is located in the North West Province of South Africa approximately 200 kilometers north east of Kimberley. The Contractors Agreement is initially for a six-month period during which time the Joint Venture will pay a 15% gross sales royalty to the landowner and any diamonds sold for over 2 million South African Rand will be subject to a 20% gross sales royalty.

The Joint Venture commenced test pitting on the Property and to date over 60 test pits ranging from 1 to 5 meters in depth have been completed and mapped. Once an understanding is reached with the location of the favorable gravels, bulk sampling will commence. Any diamonds recovered during this period will be sold on open tender.

Mano River Project, Republic of Liberia

Given the outlook for the current global pandemic situation, the Company has relinquished the Mano River Project permit.

Corporate Activities

On October 29, 2019, the Company announced a change of name from Tango Mining Limited to Southstone Minerals Limited and a consolidation of its share capital on the basis of one post-consolidated share for each ten pre-consolidated shares.

On March 19, 2020, the Company entered into a disposition agreement (the “**Disposition Agreement**”) with Kevin Gallagher (“**Gallagher**”), a director of the Company, whereby Gallagher or his nominee would acquire the Company’s 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. (collectively, the “**Kwena Group**”).

At the annual and special shareholders meeting held on May 15th, 2020, the Company received disinterested and minority shareholder approval of the Company’s disposition of the Kwena Group and final approval of the TSX Venture Exchange was received on May 25, 2020. The disposition of the Kwena Group resulted in a total of 4,077,416 shares being returned to treasury and the forgiveness of outstanding indebtedness of \$851,768.

During fiscal 2020, the Company issued an aggregate of 1,921,260 common shares with a value of \$172,625 to settle indebtedness with certain creditors, including a director of the Company.

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 dated April 11, 2020.

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. It is management's assumption that the Company will continue to operate as a going concern.

Selected Annual Information

The following is a summary of the results of the financial operations of the Company for the years ended August 31, 2020, 2019 and 2018.

	Year ended August 31, 2020 \$	Year ended August 31, 2019 * \$	Year ended August 31, 2018 \$
Revenues	5,707,141	3,700,177	13,094,844
Net profit/(Loss) from continuing operations	720,817	(66,537)	(1,126,172)
Basic and Diluted Loss per share	0.01	0.02	(0.00)
Working Capital (Deficiency)	(1,204,447)	(943,670)	(710,307)
Total Assets	1,727,581	4,188,085	3,770,399
Total Long-Term Financial Liabilities	38,307	352,542	370,927
Retained Earnings (Deficit)	(20,821,339)	(20,828,387)	(21,064,208)
Number of shares outstanding at period end **	21,104,056	23,260,212	24,420,180

* Refer to the Financial Statements for the year ended August 31, 2019 which accounts for the coal business as a discontinued operation.

** Presented reflecting the share consolidation effected October 29, 2019, whereby the shares were consolidated on the basis of one new share for every ten pre-consolidated shares.

Summary of Quarterly Results

The following table sets forth selected financial information for the Company for the eight most recently completed fiscal quarters and should be read in conjunction with the Company's financial statements and related notes for such periods.

	Aug 31, 2020 \$	May 31, 2020 \$	Feb 28, 2020 \$	Nov 30, 2019 \$	Aug 31, 2019 ¹ \$	May 31, 2019 \$	Feb 28, 2019 \$	Nov 30, 2018 \$
Revenues	1,218,417	428,178	1,376,716	2,683,830	3,700,177	666,189	1,153,365	502,216
Profit / (Loss) for the quarter	1,438,286	(1,005,185)	61,971	441,288	254,269	(402,758)	(280,212)	(57,291)
Loss per share before other items – basic and diluted	0.04	(0.06)	(0.00)	0.03	0.02	(0.02)	(0.01)	(0.00)
Weighted Average Shares Outstanding	22,198,343	23,178,053	23,270,285	21,147,063	23,260,212	21,826,408	23,812,170	23,704,352

Results of Operations – Year Ended August 31, 2020

The Company generated a profit of \$720,817 from continued operations for the year ended August 31, 2020, compared to a net loss of \$66,537 from continued operations for the year ended August 31, 2019, and a profit of \$1,438,286 from operations for the fourth quarter 2020 compared to \$254,269 for the fourth quarter 2019.

The profits earned during fiscal 2020 compared to a loss for fiscal 2019 was due to higher recoveries from the diamond exploration at Oena being up \$2m for the year and \$1.2m for the fourth quarter. The Kwena disposition accounted for a once off profit of \$524,886.

Non-Exploration Expense Summary

A summary of the non-exploration activity from continued operations is as follows:

	Years ended August 31	
	2020	2019
Expenses		
Amortization	5,179	5,652
Exploration and evaluation expense	53,756	167,860
Foreign exchange gain (loss)	35,520	(331)
Impairment of PP&E	6,947	-
Management and consulting	322,316	349,038
Office and general	46,915	51,785
Professional fees	215,922	303,458
Project investigation costs	2,916	699,421
Shareholder information	35,127	27,808
Travel and promotion	11,588	20,136
	<u>736,186</u>	<u>1,624,827</u>

General amortization relates to the amortization of the vehicle fleet and plant in the diamond operations. The reduction in the amortization charges relates to the disposal of non-productive assets.

Exploration relates to expenses that are not directly attributable to the recovery of diamonds and as a result has not been included in cost of goods sold. The main reason for the reduction relates to the Covid 19 stoppages the mine had during March of 2020.

The higher foreign exchange gain reported in 2020 is driven by the Canadian Dollar being slightly stronger against the United States Dollar for 2020 compared to 2019 with the majority of the debt being denominated in United States Dollars.

The company impaired certain equipment to scrap value during the year.

The reduction in the management and consulting charge is as a result of management agreeing to a reduction in packages during 2020.

The expense for office and general is in line with last year.

Professional fees reduced in 2020 due to 2019 having been the year where the mining and environmental management plans were updated in line with the planned increase in production for 2020.

Due to the Covid 19 pandemic very little was spent on investigating new projects during 2020.

Shareholder information increased slightly due to the costs associated with the Kwena disposition.

Travel and promotion decreased due to reduced travelling as a result of the Covid 19 pandemic.

Recent Financings

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

During fiscal 2020, the Company issued an aggregate of 1,921,260 common shares with a value of \$172,626 to settle indebtedness with certain creditors, including a director of the Company.

Requirement of Additional Equity Financing

The Company has relied largely on equity financings and short-term interest-bearing loans for all funds raised to date for its operations. Until the Company starts generating profitable operations from the sale of minerals, the Company intends to continue relying upon the issuance of securities to finance its operations and acquisitions pursuant to private placements, the exercise of warrants and stock options, and short term or long-term loans. Capital markets may not be receptive to offerings of new equity from treasury or debt, whether by way of private placements or public offerings. This may be further complicated by the limited liquidity for the Company's shares, restricting access to some institutional investors. The Company's growth and success is dependent on external sources of financing which may not be available on acceptable terms or at all.

Dividend Report and Policy

The Company has not paid any dividends to date. The Company intends to retain its future earnings, if any, for use in its business and does not expect to pay dividends on its shares in the foreseeable future.

Off-Balance Sheet Arrangements

The Company does not utilize off-balance sheet arrangements.

Transactions with Related Parties

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

	August 31, 2020	August 31, 2019
Directors fees	\$ 8,202	\$ -
Consulting fees	314,114	349,038
Total	\$ 322,316	\$ 349,038

Management fees are paid as and when funds are available. Short payments are included in the amount owing to and from related parties as. Management fees accrued are made up as follow:

	August 31, 2020	August 31, 2019
Samer Khalaf (Director and CEO)	\$ 161,284	\$ 159,166
Terry Tucker (Director and Executive Chair)	80,642	119,175
Kevin Gallagher (Director)	127,180	187,258
Neil Budd	8,202	-
Wiklow Corporate Services - Donna Moroney	42,000	36,000
Simon van der Loo – CFO	83,016	111,120
Management	150,755	235,903
Total	\$ 653,079	\$ 848,621

As at August 31, 2020, \$241,099 (August 31, 2019 - \$800,457) is owed to the CEO, CFO and certain directors and officers of the Company. Amounts owing are non-interest bearing, unsecured and due on demand.

The Company settled indebtedness with certain insiders by the issuance of common shares as follows:

- 1,750,000 common shares to Terry Tucker in settlement of debt in the sum of \$164,063; and
- Subsequent to year end, 459,000 common shares in settlement of debt in the sum of \$43,031:

Foreign Currency Transactions

The functional currency of the Company, the parent, is the Canadian Dollar. The functional currency of the subsidiaries incorporated in South Africa is the ZAR. The presentation currency of the consolidated financial statements is Canadian dollars.

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.

Financial Instruments and Risk Management

The Company is exposed to the following financial risks:

- Credit Risk
- Liquidity Risk
- Interest Rate Risk
- Foreign Currency Risk

General Objectives, Policies and Processes

The Board of Directors has overall responsibility for the determination of the Company's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Company's finance function. The Board of Directors receive periodic reports through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets. The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are set out below.

Credit Risk

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

Liquidity Risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if the Company's access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Company. The Company generates cash flow primarily from its financing activities. As at August 31, 2020, the Company had current assets of \$937,095 (August 31, 2019 - \$3,121,785) to settle current liabilities of \$2,141,542 (August 31, 2019 - \$4,065,455) resulting in a working capital deficit of \$1,204,447 (August 31, 2019 - \$943,670). The Company intends to fund these through loans, private placements and profits generated from its operations. All of the Company's financial liabilities have contractual maturities of less than 365 days and are subject to normal trade terms.

Interest Rate Risk

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

Foreign Currency Risk

Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from their respective functional currency. The coal operations' income and expenditure are incurred in South African Rands. Diamonds from the South African operations are tendered in United States Dollars and settled in South African Rands at the average rate on the day that the tender closes. The main debt instruments of the group are 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.

Disclosure of Outstanding Securities

The authorized capital of the Company consists of an unlimited number of common shares without par value, of which there were 21,104,056 common shares are issued and outstanding as of the date hereof.

The following incentive stock options and share purchase warrants are outstanding as of the date hereof:

Exercise Price	Number of Options Outstanding and Exercisable	Weighted Average Remaining Life (Years)	Expiry date
\$ 0.50	90,000	0.87	July 15, 2021
\$ 0.50	450,000	1.45	February 10, 2022
\$ 0.50	45,000	1.59	April 3, 2022
\$ 0.50	585,000		

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

	August 31, 2020		August 31, 2019	
	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price	Number of Warrants
Outstanding, beginning of year	\$ 1.00	1,821,000	\$ 0.90	1,822,180
Issued	-	-	1.00	400,000
Expired	1.00	(1,421,000)	1.00	(401,180)
Outstanding, end of the year	\$ 1.00	400,000	\$ 1.00	1,821,000

There are no assurances that the options, warrants or other rights described above will be exercised in whole or in part. Except as disclosed above, there are no other options, warrants or other rights to acquire common shares of the Company outstanding.

Exploration and evaluation expenditures

The following is a breakdown of the exploration and evaluation expenditures for the year ended August 31, 2020 and year ended August 31, 2019:

	August 31, 2020		August 31, 2019	
Habilitation expense	\$	8,341	\$	49,184
Social and labour expense		43,718		24,673
Supplies expense		1,697		94,003
		53,756		167,860
Recoveries	\$	5,707,141	\$	3,700,177

Adoption of new and revised standards and interpretations

New Accounting Policies Adopted

a) IFRS 16 Leases

On September 1, 2019, the Company adopted IFRS 16 – Leases (“IFRS 16”) which replaced IAS 17 – Leases and IFRIC 4 – Determining Whether an Arrangement Contains a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. The standard is effective for annual periods beginning on or after January 1, 2019. IFRS 16 eliminates the classification of leases as either operating leases or finance leases for a lessee. Instead, all leases are treated in a similar way to finance leases as applied under IAS 17. IFRS 16 does not require a lessee to recognize assets and liabilities for short-term leases (leases of 12 months or less) or leases of low-value assets. The Company applied IFRS 16 using the modified retrospective method. Under this method, comparative financial information has not been restated and will continue to be reported under the accounting standards in effect for those periods. The Company has recognized lease liabilities related to its lease commitments for its equipment and office leases. The lease liabilities were measured at the present value of the remaining minimum lease payments, discounted using the Company’s estimated incremental borrowing rate as at September 1, 2019, the date of initial application, resulting in no adjustment to the opening balance of deficit. The associated right-of-use assets were recognized at the lease liabilities amount at initial adoption on September 1, 2019.

The Company elected to apply the following recognition exemptions and practical expedients, as described under IFRS 16:

- i) recognition exemption of short-term leases;
- ii) recognition exemption of low-value leases;
- iii) application of a single discount rate to a portfolio of leases with similar characteristics on transition;
- iv) exclusion of initial direct costs from the measurement of the right-of-use assets upon transition;
- v) application of hindsight in determining the applicable lease term at the date of transition; and
- vi) election to not separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

The following table summarizes the adjustments to opening balances resulting from the initial adoption of IFRS 16:

	Previously Reported under IAS 17		IFRS 16 Transition Adjustment	As reported under IFRS 16	
As at September 1, 2019					
Right-of-use assets	\$	-	\$ 323,674	\$	323,674
Lease liabilities		-	(323,674)		(323,674)
Total	\$	-	\$ -	\$	-

The Company recognized lease liabilities measured using its incremental borrowing rate at September 1, 2019. Weighted average incremental borrowing rate applied is 10%.

During the year ended August 31, 2020, the Company did not recognize any expenses relating to short-term leases or low-value leases. The lease liabilities and right-of-use assets disclosed above were disposed of as part of the disposition of the Kwena Group. See Note 25.

As a result of adopting IFRS 16, the Company updated its lease accounting policies as follows:

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 a index, rate, or subject to a fair market value renewal condition are expensed as incurred, in the statement of income and comprehensive income

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.

b) IFRIC 23

Effective September 1, 2019, the Company adopted IFRIC 23, Uncertainty over Income Tax Treatments which clarifies the accounting for uncertainties in income taxes. The interpretation provides guidance and clarifies the application of the recognition and measurement criteria in IAS 12, Income Taxes when there is uncertainty over income tax treatments. The adoption of IFRIC 23 has not had an impact on the consolidated financial statements of the Company.

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. The Company intends to adopt those standards when they become 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 1 January 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

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 Board 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 Board 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 1 January 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 reduced 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 1 January 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 Group

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 1 January 2022. The Group 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 1 January 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 1 January 2022 with earlier adoption permitted. The Group 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 Group.

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

Subsequent Events

Subsequent to the year ended August 31, 2020 the Company:

- a) Settled indebtedness with a director of \$43,031 through the issuance of 459,000 common shares.
- b) Settled indebtedness with CCML (Note 13) of \$475,274 through the issuance of 5,315,872 common shares. As a result of the issuance, CCML holds 19.90% of the outstanding common shares of the Company.
- c) Settled indebtedness with a third party of \$21,648 through the issuance of 432,960 common shares.
- d) Entered into an agreement to settle indebtedness with a director of \$226,500 through the issuance of 4,530,000 common shares. This transaction is subject to the approval of the TSX-V.
- e) Entered into an agreement to issue 200,000 common shares to two directors with a value of \$10,000. This transaction is subject to the approval of the TSX-V.
- f) On October 1, 2020, the Company, through its fully owned subsidiary GAH Mining (Pty) Ltd, entered into a joint venture agreement (the "JVA") with a term of five years with Gumrock Mining (Pty) Ltd. The purpose of the JVA is to extract diamond from the Danial Jacobus van Wyk mining concession and/or any new properties that might be introduced in South Africa.

Additional Information

Additional information relating to the Company is available on SEDAR at www.sedar.com.