



ARANJIN RESOURCES

ARANJIN RESOURCES LTD

(Formerly Five Star Diamonds Limited)

Consolidated Financial Statements

For the Years Ended December 31, 2020 and 2019

(Expressed in Canadian dollars)

Independent Auditor's Report

To the Shareholders of Aranjin Resources Ltd. (formerly Five Star Diamonds Limited):

Opinion

We have audited the consolidated financial statements of Aranjin Resources Ltd. (formerly Five Star Diamonds Limited) and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2020 and December 31, 2019, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity 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 consolidated financial position of the Company as at December 31, 2020 and December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

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 the ethical requirements that are relevant to our audits 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 1 in the consolidated financial statements, which indicates that the Company has incurred ongoing losses and had a cumulative deficit as at December 31, 2020. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises 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 audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, 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 the 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 audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

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 Brock Stroud.

Toronto, Ontario
April 29, 2021

MNP LLP

Chartered Professional Accountants
Licensed Public Accountants

MNP

Aranjin Resources Ltd (Formerly Five Star Diamonds Limited)

Consolidated Statements of Financial Position (Expressed in Canadian Dollars)

As at		December 31, 2020	December 31, 2019
	Notes	\$	\$
Assets			
Current assets			
Cash		481,144	10,391
Prepays and other receivables	4	36,875	9
Inventory		-	25,081
Total current assets		518,019	35,481
Non-current assets			
Property, plant and equipment	5	-	1,135,416
Deferred exploration and evaluation assets	6,14	290,440	
Total non-current assets		290,440	1,135,416
Total assets		808,459	1,170,897
Liabilities			
Current liabilities			
Trade and other payables	7	715,204	1,029,196
Loan payable	13	-	16,120
Total current liabilities		715,204	1,045,316
Non-Current liabilities			
Convertible debentures	8	711,975	626,951
Total non-current liabilities		711,975	626,951
Total liabilities		1,427,179	1,672,267
Equity			
Share capital	9	18,923,609	17,436,099
Reserves		3,614,764	3,525,303
Accumulated other comprehensive loss		(955,463)	(763,311)
Deficit		(22,201,630)	(20,699,461)
Total equity		(618,720)	(501,370)
Total liabilities and equity		808,459	1,170,897

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

Nature of Operations and Going concern (note 1)

Approved and authorized by the Board of Directors on April 28, 2021:

Director
Matthew Wood

Director
Luis Azevedo

Aranjin Resources Ltd (Formerly Five Star Diamonds Limited)**Consolidated Statements of Loss and Comprehensive Loss**
(Expressed in Canadian Dollars)

	Notes	Year ended December 31, 2020 \$	Year ended December 31, 2019 \$
Expenses			
Administrative expenses		(8,159)	(6,798)
Public company costs		(42,794)	(20,251)
Accounting, audit and tax fees		(130,248)	(205,295)
Legal fees		(76,364)	(37,289)
Consultant and director fees		(251,783)	(81,900)
Stock based compensation	10	(281,534)	-
Depreciation	5	(22,573)	(27,312)
Financing cost	8	(125,577)	(105,682)
Foreign exchange loss		11,054	(4,721)
Advertising and marketing		-	(8,070)
Travel and accommodation		(2,159)	(181)
Other expenses		(4,454)	(5,350)
Other income		58,773	212
Gain on debt settlement	9	320,710	26,190
Loss on disposal of assets	5	(295,938)	(450,375)
Loss on disposal of Brazilian subsidiary	15	(651,123)	-
Impairment loss	6	-	(5,830,102)
Net loss for the year		(1,502,169)	(6,756,924)
Other comprehensive loss			
Exchange differences on translation of foreign operations		(192,152)	(526,663)
Total comprehensive loss for the year		(1,694,321)	(7,283,587)
Loss per share			
Basic and diluted		(0.01)	(0.05)
Weighted average number of common shares outstanding – basic	12	176,721,352	132,764,652

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

Aranjin Resources Ltd (Formerly Five Star Diamonds Limited)

Consolidated Statements of Cash Flows (Expressed in Canadian Dollars)

For the Years Ended		December 31, 2020	December 31, 2019
	Notes	\$	\$
Operating activities			
Net loss for the year		(1,502,169)	(6,756,924)
Items not involving cash:			
Depreciation		22,573	27,312
Financing cost	8	85,024	105,682
Stock based compensation	10	281,534	-
Loss on disposal of Brazilian subsidiary	15	650,887	-
Foreign exchange movement		(20,860)	(3,872)
Loss on write off fixed assets	5	295,938	450,375
Gain on debt settlement	9	(320,710)	-
Write off of exploration assets		-	5,830,102
Changes in non-cash working capital items			
Prepays and other receivables		(36,870)	(10,732)
Trade and other payables		103,922	256,850
Net cash outflow from operating activities		(440,731)	(101,207)
Investing activities			
Proceeds from the sale of plant and equipment		-	45,054
Exploration and evaluation expenditure		(3,887)	(156,471)
Net cash outflow from investing activities		(3,887)	(111,417)
Financing activities			
Proceeds from private placement, net of costs	9	915,371	-
Proceeds from borrowings		-	16,120
Net cash inflow from financing activities		915,371	16,120
Net increase/(decrease) in cash		470,753	(196,504)
Cash at the beginning of the year		10,391	206,895
Cash at the end of the year		481,144	10,391
Supplemental cash flow information			
Payment of interest on convertible debentures	8	40,553	-

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

Aranjin Resources Ltd (Formerly Five Star Diamonds Limited)

Consolidated Statements of Changes in Shareholders' Equity
(Expressed in Canadian Dollars)

	Number of common shares	Share capital	Reserves	Accumulated other comprehensive loss	Deficit	Total equity
		\$	\$	\$	\$	\$
Balance as at January 1, 2020	132,764,652	17,436,099	3,525,303	(763,311)	(20,699,461)	(501,370)
Shares issued to settle debt	16,703,723	864,764	(484,698)	-	-	380,066
Units issued under private placement, net of costs	66,666,666	622,746	292,625	-	-	915,371
Stock based compensation	-	-	281,534	-	-	281,534
Loss for the year	-	-	-	-	(1,502,169)	(1,502,169)
Other comprehensive loss	-	-	-	(192,152)	-	(192,152)
Balance as at December 31, 2020	216,135,041	18,923,609	3,614,764	(955,463)	(22,201,630)	(618,720)
Balance as at January 1, 2019	132,764,652	17,436,099	3,525,303	(236,648)	(13,942,537)	6,782,217
Loss for the year	-	-	-	-	(6,756,924)	(6,756,924)
Other comprehensive loss	-	-	-	(526,663)	-	(526,663)
Balance as at December 31, 2019	132,764,652	17,436,099	3,525,303	(763,311)	(20,699,461)	501,370

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

Aranjin Resources Ltd (Formerly Five Star Diamonds Limited)

Notes to Consolidated Financial Statements

For the Years Ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

1. Nature of Operations and Going Concern

On May 15, 2014, Aranjin Resources Ltd. (the "Company") (formerly Five Star Diamonds Limited), was incorporated under the laws of the British Virgin Islands.

The registered office of the Company is located at 595 Howe St, Suite 704, Vancouver, British Columbia V6C 2T5. The records of the Company are located at Suite 400, 90 Adelaide Street West, Toronto, Canada, M5H 3V9.

The Company's common shares commenced trading on the TSX-V under the symbol "STAR" on April 25, 2017. Upon the name change of the Company to Aranjin Resources Ltd, the trading symbol on the TSX-V changed to "ARJN" on June 12, 2020.

On October 28, 2020, the Company acquired Mongolian copper project Bayan Undur Resources comprising four mining licenses through Aranjin Resources LLC (a wholly owned subsidiary of the Company incorporated on September 23, 2019 under the laws of Mongolia) (note 14). The Company operates in the business of mining, mineral and resource exploration and development, previously focused on exploration and development of mineral properties in Brazil. The Company is now primarily engaged in the exploration and development of mineral properties in Mongolia.

The COVID-19 pandemic has resulted in significant disruption to the Company's operations during the financial year. The Company has been experiencing ongoing adverse impacts on other pending license acquisitions as well as the Company's exploration program. This issue continues to impact the timing of exploration work. Preventative measures are in place to ensure the well-being of contractors and no risks were noted at the end of the reporting period. Management continues to monitor the business environment as a result to ensure minimal disturbances to business operations. The Company continues to be in operations as of the current date.

These consolidated financial statements have been prepared under the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. Since inception, the Company has incurred ongoing losses and had a cumulative deficit of \$22,201,630 as at December 31, 2020 (December 31, 2019: \$20,699,461). These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing, to commence profitable operations in the future, and repay its liabilities arising from normal business operations as they become due. These consolidated financial statements do not reflect any adjustments, which could be material, that may be necessary if the Company is unable to continue as a going concern.

2. Statement of Compliance

The Company applies International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of April 28, 2021, the date the Board of Directors approved the statements.

Basis of Preparation

These consolidated financial statements are presented in Canadian dollars. The consolidated financial statements are prepared on the historical cost basis, except for financial instruments that are measured at fair value.

Aranjin Resources Ltd (Formerly Five Star Diamonds Limited)

Notes to Consolidated Financial Statements

For the Years Ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

3. Significant Accounting Policies

Basis of Consolidation

The consolidated financial statements include the accounts of the Company which it is deemed to control as follows:

Name of Entity	Country of Incorporation	Equity Holding
FSD Holdings Limited	BVI	100%
FSD Brazil Limited	BVI	100%
1030301 BC Ltd	Canada	100%
Diamond Blockchain Limited	Canada	100%
BK Mining LLC	Mongolia	100%
Bayun Undur Resources LLC	Mongolia	100%

All intercompany transactions have been eliminated on consolidation.

Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement in with the investee; and
- has the ability to its power to affect its returns.

The Company will reassess whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements listed above. When the Company has less than a majority of the voting rights of an investee, it has the power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights are sufficient to give it power, including,

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties; rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholder meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the period are included in the consolidated statement of loss and comprehensive loss from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Changes in the Company's ownership interest in existing subsidiaries

Changes in the Company's ownership interest in subsidiaries that do not result in the Company losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Company's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in subsidiaries. Any difference between the amount paid by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Company.

When the Company loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between:

- The aggregate of the fair value of the consideration received and the fair value of any retained interest; and
- The previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.

Aranjin Resources Ltd (Formerly Five Star Diamonds Limited)

Notes to Consolidated Financial Statements

For the Years Ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

3. Significant Accounting Policies (continued)

Basis of Consolidation (continued)

All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Company had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit and loss or transferred to another category of equity as specified/permitted by the applicable IASBs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 28, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Critical Accounting Estimates and Judgements

Estimates by management represent an integral component of the consolidated financial statements prepared in conformity with IFRS. The estimates made in these consolidated financial statements reflect management's judgment based on past experiences, present conditions and expectation of future events. Where estimates were made, the reported amounts for assets, liabilities, revenue and expenses may differ from the amounts that would otherwise be reflected if the ultimate outcome of all uncertainties and future events were known at the time these consolidated financial statements were prepared.

Accounts which require management to make material estimates and significant assumptions in determining amounts recorded include recoverability of property rights and evaluation and exploration costs, provision for environmental remediation and mineral property reclamation liabilities, valuation of equity instruments, and contingencies.

Significant assumptions about the future that management has made that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual result differ from assumptions made also include management's assumptions in determining the functional currencies of the Company and the Company's subsidiaries, the recognition of deferred tax assets, going concern presentation of the consolidated financial statements which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due and valuation, ownership and recoverability of the Company's interest in mineral properties which is contingent on the Company's ability to obtain funding for development of the properties. Management also determined that the Company is still in the exploration and evaluation stage of development.

The Company measures the cost of equity settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. For options, the fair value is determined by using the Black Scholes option pricing model taking into account the terms, conditions and probability upon which the instruments were granted. For shares the fair value is determined by reference to the closing price of the shares on the TSX-V at the time of issue.

Functional Currency

The Company's presentation and functional currency is the Canadian dollar. The functional currency, as determined by management, of the Company, Diamond Blockchain and 1030301 BC Ltd is Canadian dollars. The functional currency of FSD Holdings Ltd and FSD Brazil Ltd is the United States dollar, functional currency of Aranjin Resources LLC, BK Mining and Bayan-Undur Resources is Mongolian Tughrig and the functional currency of Five Star Mineração Ltda is the Brazilian Real. For the purpose of the consolidated financial statements, the results and financial position are expressed in Canadian dollars.

Foreign Currency Translation

The individual financial records of each entity are kept in the currency of the primary economic environment in which the entity operates (its functional currency). Transactions in currencies other than the Company's functional currency are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated at the rates on the date of the initial transaction. Exchange differences are recognized in profit and loss in the period in which they arise.

Aranjin Resources Ltd (Formerly Five Star Diamonds Limited)

Notes to Consolidated Financial Statements

For the Years Ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

3. Significant Accounting Policies (continued)

Foreign Currency Translation (continued)

For the purpose of presenting consolidated financial statements, the assets and liabilities of the foreign entities are expressed in Canadian dollars using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for each month, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising are recognized as a separate component of equity and as a foreign currency translation adjustment in other comprehensive income in the consolidated statements of loss and comprehensive loss.

Determination of Fair Value

Fair value is determined based on the price that would be received to sell an asset or paid to transfer a liability in an arms-length transaction at the measurement date. Fair value is measured using the assumptions when pricing an asset or liability. Fair value is determined by using quoted prices in active markets for identical or similar assets or liabilities. When quoted prices in active markets are not available, fair value is determined using valuation techniques that maximize the use of observable inputs.

When observable valuation inputs are not available, significant judgment is required to determine fair value by assessing the valuation techniques and valuation inputs. The use of alternative valuation techniques or valuation inputs may result in a different fair value.

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments which are measured at fair value by valuation technique:

- Level I: Quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level II: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level III: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial Instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument.

Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 contains the primary measurement categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVTOCI") and fair value through profit and loss ("FVTPL").

Below is a summary showing the classification and measurement bases of the Company's financial instruments.

Classification	IFRS 9
Cash	FVTPL
Trade and other payables	Amortized cost
Convertible debentures	Amortized cost
Loan liability	Amortized cost

Aranjin Resources Ltd (Formerly Five Star Diamonds Limited)

Notes to Consolidated Financial Statements

For the Years Ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

3. Significant Accounting Policies (continued)

Financial Instruments (continued)

Financial assets

Financial assets are classified as either financial assets at FVTPL, amortized cost, or fair value through other comprehensive income. The Company determines the classification of its financial assets at initial recognition.

i. Financial assets recorded at FVTPL

Financial assets are classified as FVTPL if they do not meet the criteria of amortized cost or fair value through other comprehensive income. Gains or losses on these items are recognized in profit or loss. The Company's cash is classified as financial assets measured at FVTPL.

ii. Investments recorded at fair value through other comprehensive income (FVOCI)

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to measure the investment at FVOCI whereby changes in the investment's fair value (realized and unrealized) will be recognized permanently in OCI with no reclassification to profit or loss. The election is made on an investment-by-investment basis

iii. Amortized cost

Financial assets are classified as measured at amortized cost if both of the following criteria are met and the financial assets are not designated as at fair value through profit and loss: 1) the objective of the Company's business model for these financial assets is to collect their contractual cash flows; and 2) the asset's contractual cash flows represent "solely payments of principal and interest".

Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or at amortized cost. The Company determines the classification of its financial liabilities at initial recognition.

i. Amortized cost

Financial liabilities are classified as measured at amortized cost unless they fall into one of the following categories: financial liabilities at FVTPL, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition, financial guarantee contracts, commitments to provide a loan at a below-market interest rate, or contingent consideration recognized by an acquirer in a business combination.

ii. Financial liabilities recorded fair value through profit or loss ("FVTPL")

Financial liabilities are classified as FVTPL if they fall into one of the five exemptions detailed above.

Transaction costs

Transaction costs associated with financial instruments, carried FVTPL, are expensed as incurred, while transaction costs associated with all other financial instruments are included in the initial carrying amount of the asset or the liability.

Subsequent measurement

Instruments classified as FVTPL are measured at fair value with unrealized gains or losses recognized in profit or loss. Instruments classified as amortized cost are measured at amortized cost using the effective interest rate method. Instruments classified as FVOCI are measured at fair value with unrealized gains or losses recognized in other comprehensive income.

Derecognition

The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled, or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

Aranjin Resources Ltd (Formerly Five Star Diamonds Limited)

Notes to Consolidated Financial Statements
For the Years Ended December 31, 2020 and 2019
(Expressed in Canadian Dollars)

3. Significant Accounting Policies (continued)

Financial Instruments (continued)

Expected Credit Loss Impairment Model

IFRS 9 introduced a single expected credit loss impairment model, which is based on changes in credit quality since initial application.

The carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Evaluation and Exploration Costs

Exploration and evaluation expenditures in relation to each separate area of interest are recognized as an exploration and evaluation asset in the year in which they are incurred where the following conditions are satisfied:

- the rights to tenure of the area of interest are current; and
- at least one of the following conditions is also met:
 - the exploration and evaluation expenditures are expected to be recouped through successful development and exploration of the area of interest, or alternatively, by its sale; or
 - exploration and evaluation activities in the area of interest have not reached a stage which permits a reasonable assessment of the existence of economically recoverable reserves. Active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are initially measured at cost and include acquisition of rights to explore, studies, exploratory drilling, trenching and sampling and associated activities and an allocation of depreciation and amortized of assets used in exploration and evaluation activities. General and administrative costs are only included in the measurement of exploration and evaluation costs where they are related directly to operational activities in a particular area of interest.

Where a decision has been made to proceed with development in respect of a particular area of interest, the relevant exploration and evaluation asset is tested for impairment and the balance is then reclassified to development.

The Company assesses evaluation and exploration costs when there are indicators that impairment exists. Indicators of impairment include, but are not limited to:

- Rights to explore in an area have expired or will expire in the near future without renewal
- No further exploration or evaluation is planned or budgeted
- A decision to discontinue exploration and evaluation in an area because of the absence of commercial reserves and
- Sufficient data exists to indicate that the book value will not be fully recovered from future development and production

Property, Plant and Equipment

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalization when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalization.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets as follows:

Plant and equipment	10 years
Motor vehicles	5 years
Computer equipment	5 – 10 years
Furniture and fittings	10 years

The assets' residual values, useful lives and amortization methods are reviewed, and adjusted if appropriate, at each financial year end.

Aranjin Resources Ltd (Formerly Five Star Diamonds Limited)

Notes to Consolidated Financial Statements

For the Years Ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

3. Significant Accounting Policies (continued)

For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to approximate fair value. An impairment exists when the carrying value of an asset or cash-generating unit exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

Derecognition and disposal

An item of property, plant and equipment is derecognized upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period the asset is derecognized.

Impairment of Non-Financial Assets

The Company assesses the carrying amount of non-financial assets including property rights and evaluation and exploration costs and property, plant and equipment at each reporting date to determine whether there is any indication of impairment. Internal factors, such as budgets and forecasts, as well as external factors, such as expected future prices, costs and other market factors are also monitored to determine if indications of impairment exist.

An impairment loss is the amount equal to the excess of the carrying amount of the individual asset or cash-generating unit ("CGU") over the recoverable amount. The recoverable amount is the higher of estimated value in use and the estimated fair value less costs of disposal.

Impairment is assessed at the individual asset or the CGU level which is the geographical operating segments of the Company. A CGU is the smallest identifiable group of assets that generates cash inflows largely independent of the cash inflows from other assets or group of assets.

An impairment loss for an individual asset or CGU shall be reversed if there has been a change in estimates used to determine the recoverable amount since the last impairment loss was recognized and is only reversed to the extent that the assets carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Stock Based Compensation

The Company has a stock option plan, refer to note 10. Employees (including officers), directors and consultants of the Company receive remuneration in the form of stock options granted under the plan for rendering services to the Company. Stock options granted during the period are accounted for in accordance with the fair value method of accounting for stock based compensation. The fair value for these options is estimated at the date of grant using the Black-Scholes option pricing model.

The Company is also required to estimate the expected future forfeiture rate of options in its calculation of stock-based compensation expense. The cost of options is recognized, together with a corresponding increase in stock based payment reserve, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant options becomes fully entitled to the award (the "vesting date"). The cumulative expense recognized for option grants at each reporting date until the vesting date reflects the portion of the vesting period that passed and is the Company's best estimate of the number of options that will ultimately vest on the vesting date. The Company records compensation expense and credits contributed surplus for all stock options granted which represents the movement in cumulative expense recognized as at the beginning and end of that period. Any consideration received on the exercise of stock options is credited to share capital.

Where the terms of a stock option award are modified, the minimum expense recognized in compensation expense is the expense as if the terms had not been modified. An additional expense is recognized for any modification that increases the total fair value of the option or is otherwise beneficial to the options as measured at the date of modification.

Aranjin Resources Ltd (Formerly Five Star Diamonds Limited)

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3. Significant Accounting Policies (continued)

Stock Based Compensation (continued)

Where an option is cancelled, it is treated as if it had vested on the date of cancellation and any expense not yet recognized for the award is recognized immediately. If a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Income Taxes

Income tax expense consists of current and deferred tax expense. Current and deferred tax are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income.

Current tax is recognized and measured at the amount expected to be recovered from or payable to the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period and includes any adjustment to taxes payable in respect of previous years.

Deferred tax is recognized on any temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable earnings. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized and the liability is settled. The effect of a change in the enacted or substantively enacted tax rates is recognized in net earnings and comprehensive income or in equity depending on the item to which the adjustment relates.

Deferred tax assets are recognized to the extent future recovery is probable. At each reporting period end, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

Loss per Share

Basic loss per share amounts are calculated by dividing net loss available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by evaluating impact of all outstanding stock option grants and warrants are exercised, if dilutive, and the assumed proceeds are used to purchase the Company's common shares at the average market price during the period.

Share Capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a new business are not included in the cost of acquisition as part of the purchase consideration.

Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision makers – being the Board of Directors.

For management purposes, the Company is organized into one main operating segment, which involves exploration for copper. All of the Company's activities are interrelated, and discrete financial information is reported to the Board as a single segment.

Accordingly, all significant operating decisions are based upon analysis of the Company as one segment. The financial results from this segment are equivalent to the financial statements of the Company as a whole.

Convertible Debenture

Compound financial instruments issued by the Company are comprised of convertible debt that can be converted to share capital at the option of the holder.

Aranjin Resources Ltd (Formerly Five Star Diamonds Limited)

Notes to Consolidated Financial Statements
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3. Significant Accounting Policies (continued)

Convertible Debenture (continued)

The convertible debenture is considered as a compound financial instrument with a debt component and an equity component. Upon initial recognition, the debt component was accounted for at amortized cost, and the carrying amount of the equity component was measured at residual value. Subsequent to initial recognition, the debt component is measured at amortised cost using the effective interest rate through periodic charges to finance expense over the term of the note. The equity component is recognized initially as the difference between the fair value of the compound financial instrument as a whole and the fair value liability component. Any directly attributable transaction costs are allocated to the liability and the equity components in proportion to their initial carrying amounts. The Equity component of a compound financial instrument is not remeasured subsequent to initial recognition. Interest, dividends, losses and gains relating to the financial liability are recognized in the consolidated statement of comprehensive loss.

New Accounting Standards Adopted

IFRS 3, Business Combinations ("IFRS 3")

Amendments to IFRS 3, issued in October 2018, provide clarification on the definition of a business. The amendments permit a simplified assessment to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

The amendments are effective for transactions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020. The adoption of the amendments had no impact on the Company's consolidated financial statements.

IAS 1, Presentation of Financial Statements ("IAS 1")

Amendments to IAS 1, issued in October 2018, provide clarification on the definition of material and how it should be applied. The amendments also align the definition of material across IFRS and other publications.

The amendments are effective for annual periods beginning on or after January 1, 2020 and are required to be applied prospectively. The adoption of the amendments had no impact on the Company's consolidated financial statements.

IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8")

Amendments to IAS 8, issued in October 2018, provide clarification on the definition of material and how it should be applied. The amendments also align the definition of material across IFRS and other publications.

The amendments are effective for annual periods beginning on or after January 1, 2020 and are required to be applied prospectively. The adoption of the amendments had no impact on the Company's consolidated financial statements.

4. Prepaids and other receivables

	December 31, 2020	December 31, 2019
	\$	\$
Prepaid expenses on new projects	3,834	-
Sales tax receivable	33,041	9
	<u>36,875</u>	<u>9</u>

Aranjin Resources Ltd (Formerly Five Star Diamonds Limited)

Notes to Consolidated Financial Statements
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5. Property, Plant and Equipment

	Plant and equipment \$	Computer equipment \$	Furniture and fittings \$	Total \$
Cost				
Balance at January 1, 2019	1,997,486	4,986	5,394	2,007,866
Disposals	(609,284)	-	-	(609,284)
Foreign currency adjustment	(133,960)	(37)	(770)	(134,767)
Balance at December 31, 2019	1,254,242	4,949	4,624	1,263,815
Disposals	(1,100,314)	(3,715)	(3,976)	(1,108,005)
Foreign currency adjustment	(153,928)	(1,234)	(648)	(155,810)
Balance at December 31, 2020	-	-	-	-
Accumulated Amortization				
Balance at January 1, 2019	286,133	1,786	1,611	289,530
Depreciation	67,172	609	252	68,033
Disposals	(214,161)	-	-	(214,161)
Foreign currency adjustment	(15,003)	-	-	(15,003)
Balance at December 31, 2019	124,141	2,395	1,863	128,399
Depreciation	22,082	237	254	22,573
Disposals	(148,671)	(2,162)	(1,751)	(152,584)
Foreign currency adjustment	2,448	(470)	(366)	1,612
Balance at December 31, 2020	-	-	-	-
Net Book Value				
Balance, December 31, 2019	1,130,101	2,554	2,761	1,135,416
Balance, December 31, 2020	-	-	-	-

During the year ended December 31, 2020, \$nil (December 31, 2019: \$41,381) was capitalised to deferred exploration and evaluation expenditures.

During the year ended December 31, 2020, the Company wrote off certain tangible assets with a net book value of \$295,938 due to the Company's decision to focus on other projects. The write off is included in the loss on disposal of assets in the statements of loss and comprehensive loss.

The Company disposed of tangible assets with net book value of \$659,483 upon the sale of the Company's Brazilian subsidiary during the year ended December 31, 2020 (note 15).

During the year ended December 31, 2019, the Company disposed of assets with a net book value of \$395,123 for cash proceeds of \$45,054.

6. Deferred Exploration and Evaluation Expenditure

	December 31, 2020 \$	December 31, 2019 \$
Balance at beginning of the year	-	6,102,916
Expenditures incurred	3,887	197,852
Sold during the year	-	(46,392)
Purchase of Bayan Undur Project	295,495	-
Expenditures written off	-	(5,830,102)
Foreign currency adjustment	(8,942)	(424,274)
Balance at end of the year	290,440	-

Aranjin Resources Ltd (Formerly Five Star Diamonds Limited)

Notes to Consolidated Financial Statements

For the Years Ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

6. Deferred Exploration and Evaluation Expenditure (continued)

On October 28, 2020, the Company completed the acquisition of Bayan Undur Project which comprises of four mining licenses (Note 14).

As at December 31, 2019, as management of the Company had no further exploration or evaluation activities planned or budgeted for the underlying projects in the foreseeable future, the Company recognized an impairment loss on deferred exploration and evaluation expenditures of \$5,830,102 in the statement of loss and comprehensive loss for the year ended December 31, 2019. The underlying projects were those held in Brazil which have been disposed of on sale of the Company's Brazilian subsidiary (note 15).

7. Trade and Other Payables

	December 31, 2020	December 31, 2019
	\$	\$
Trade and other payables	550,815	753,758
Accrued expenses	164,389	275,438
	<u>715,204</u>	<u>1,029,196</u>

8. Convertible Debentures

In August 2018, the Company completed non-brokered private placement of 653 convertible debenture units (the "Convertible Debenture Units") for \$653,000 at a price of \$1,000 per Convertible Debenture Unit with its largest shareholder, R&R Venture Partners ("R&R"), (the "Offering"). Each Convertible Debenture Unit consisted of: (i) one \$1,000 principal amount of 12% unsecured convertible debenture (a "Convertible Debenture"); and (ii) 500 Common Share purchase warrants (each, a "Warrant") of the Company. The proceeds of the Convertible Debenture Units were used in the drilling program at Catalao and for working capital.

The Convertible Debentures bear interest from the date of closing at 12% per annum, calculated and payable quarterly in arrears on March 31, June 30, September 30 and December 31 in each year, and will mature August 2, 2023 (the "Maturity Date"). On August 2, 2020, the date that is 24 months from the date of issuance, interest payable on the outstanding principal amount of the Convertible Debentures was capitalized and the Company started paying interest on the outstanding principal accordingly.

The Convertible Debentures are unsecured obligations of the Company and rank *pari passu* in right of payment of principal and interest with all other Convertible Debentures issued under the Offering. The obligations of the Company under the Convertible Debentures will be jointly and severally guaranteed by the Company's material subsidiaries.

The Convertible Debentures are convertible at the option of the holder into Common Shares at any time prior to the close of business on the Maturity Date at a conversion price of \$0.20 per Common Share (the "Conversion Price"). Each Warrant will be exercisable to acquire one Common Share (a "Warrant Share") at an exercise price of \$0.20 per Warrant for a period of 36 months following issuance, subject to customary adjustments in certain events.

The convertible debentures were determined to be compound instruments, comprising a debt, a conversion feature, and warrants. As the debentures are convertible into common shares, the liability and equity components are presented separately. The initial carrying amount of the financial liability was determined by discounting the stream of future payments of interest and principal at a market interest rate of 20%. Using the residual method, the carrying amount of the conversion feature and the warrants issued that were measured at fair value using the Black Scholes model is the difference between the principal amount and the initial carrying value of the financial liability. The equity component, and warrants are recorded in reserves on the statement of financial position.

The debentures, net of the equity components and issue costs are accreted using the effective interest rate method over the term of the debentures, such that the carrying amount of the financial liability will equal the principal balance at maturity.

Aranjin Resources Ltd (Formerly Five Star Diamonds Limited)**Notes to Consolidated Financial Statements****For the Years Ended December 31, 2020 and 2019****(Expressed in Canadian Dollars)**

8. Convertible Debentures (continued)

During the year ended December 31, 2020, accretion expenses totaling \$125,577 (December 31, 2019 - \$105,682) were recognized in the statement of loss and comprehensive loss and \$40,553 interest expense was paid to the holder of the Convertible Debentures (December 31, 2019 - \$nil).

	Proceeds \$	Debt component \$	Equity component conversion option \$	Equity component warrants \$
Balance, January 1, 2019	653,000	521,269	151,281	11,613
Accretion expense	-	105,682	-	-
Balance, December 31, 2019	653,000	626,951	151,281	11,613
Accretion expense	-	125,577	-	-
Interest payments	-	(40,553)	-	-
Balance, December 31, 2020	653,000	711,975	151,281	11,613

9. Share Capital**(a) Issued and paid up capital**

	Number of common shares	Amount \$
Balance, December 31, 2018 and 2019	132,764,652	17,436,099
Shares issued to settle debt (c)	16,703,723	864,764
Shares issued under private placement (d)	66,666,666	622,746
Balance, December 31, 2020	216,135,041	18,923,609

(b) Common shares

The Company does not have authorized capital nor par value in respect of its issued capital. Common shares have the right to receive dividends as declared and, in the event of a winding up of the Company, to participate in the proceeds from sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Common shares entitle their holder to one vote, either in person or proxy, at a meeting of the Company.

(c) Shares issued to settle debt

On February 25, 2020, the Company issued 9,693,960 common shares in connection with a service agreement entered into in 2018 for drilling completed on the Company's Brazilian properties. As part of the settlement, \$484,698 was transferred from reserves to share capital for amount previously recognized as shares to be issued. Additionally, amounts totaling \$64,626 were recognized in share capital and as a loss on settlement of debt in the statement of loss and comprehensive loss, representing the fair value of shares issued in excess of the original agreement.

On November 17, 2020, the Company issued a total of 7,009,763 common shares with a fair value of \$315,440 in settlement of \$700,776 owed to past and current directors and consultants, resulting in a gain on settlement of debt totaling \$385,336 included in the statement of loss and comprehensive loss.

(d) Private placement

On June 10, 2020 and July 3, 2020, the Company completed a non-brokered private placement issuing 66,666,666 units of the Company at a price of \$0.015 per unit for gross proceeds of \$1,000,000 less cash issuance costs totaling \$84,629. Each unit is comprised of one common share of the Company and one common share purchase warrant with each warrant exercisable for one common shares at a price of \$0.05 per share for a period of 12 months from closing.

Net proceeds were allocated to common shares and warrants using the relative fair value method. The fair value of warrants was valued at \$319,022 and estimated based on the Black Scholes pricing model using a share price of \$0.015 - \$0.025, risk-free interest rate of 0.25% - 0.26%, an expected dividend yield of 0%, volatility rate of 176% - 193% and an expected useful life of 1 year.

Aranjin Resources Ltd (Formerly Five Star Diamonds Limited)

Notes to Consolidated Financial Statements

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10. Stock Options

The following table reflects the continuity of stock options for the year ended December 31, 2020 and 2019:

	Number of Stock Options	Weighted Average Exercise Price \$
Balance – January 1, 2019	12,870,000	0.32
Expired – May 5, 2019	(5,000,000)	0.36
Expired – November 19, 2019	(1,900,000)	0.30
Balance – December 31, 2019	5,970,000	0.30
Forfeited	(870,000)	0.30
Issued – July 24, 2020	9,750,000	0.05
Balance – December 31, 2020	14,850,000	0.14

As at December 31, 2020, there are 14,850,000 unissued common shares under options. The details of the options are as follows:

Number of Options Outstanding	Exercise Price \$	Expiry Date	Remaining Contractual Life (years)	Number of Options Vested	Grant Date Fair Value \$
4,000,000	\$0.30	February 12, 2023	2.12	4,000,000	0.189/Option
1,100,000	\$0.30	April 25, 2023	2.32	1,100,000	0.112/Option
9,750,000	\$0.05	July 17, 2022	1.54	9,750,000	0.029/Option

On July 17, 2020, the Company granted 9,750,000 options with an exercise price of \$0.05 per common share, vesting immediately and expiring on July 17, 2022, to directors and consultants of the Company.

The fair value at grant date of options granted of \$281,534 on July 17, 2020 was determined using the Black Scholes option pricing model. The following weighted average assumptions were used: share price - \$0.04; dividend yield – 0%; expected volatility (based on historical price data of the Company) – 163%; risk-free interest rate – 0.27%; and an expected life – 2 years. The options vested immediately and \$281,534 was expensed in the consolidated statement of loss and comprehensive loss the year ended December 31, 2020.

Option pricing models require the use of highly subjective estimates and assumptions including the expected stock price volatility. Changes in the underlying assumptions can materially affect the fair value estimates.

11. Warrants

The following table reflects the continuity of warrants for the year ended December 31, 2020 and 2019:

	Number of Warrants	Weighted Average Exercise Price \$
Balance – January 1, 2019	1,670,460	0.28
Expired – April 20, 2019	(1,343,960)	0.30
Balance – December 31, 2019	326,500	0.20
Private placement warrants – June 10, 2020	28,868,333	0.05
Private placement warrants – July 3, 2020	37,798,333	0.05
Balance – December 31, 2020	66,993,166	0.05

Aranjin Resources Ltd (Formerly Five Star Diamonds Limited)

Notes to Consolidated Financial Statements

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11. Warrants (continued)

As at December 31, 2020 there are 66,993,166 warrants outstanding as follows:

Number of Warrants outstanding	Exercise Price \$	Expiry Date	Remaining Contractual Life (years)	Grant Date Fair Value \$
326,500	\$0.20	August 2, 2021	0.59	11,613
28,868,333	\$0.05	June 10, 2021	0.44	119,549
37,798,333	\$0.05	July 3, 2021	0.50	199,473

12. Net Loss per Common Share

	December 31, 2020 \$	December 31, 2019 \$
Loss used in calculating basic and diluted loss per share	(1,502,169)	(6,756,924)
Weighted average number of common shares used in calculating basic and diluted loss per share:	176,721,352	132,764,652

Diluted loss per share did not include the effect of stock options and warrants as they are anti-dilutive.

13. Related Party Disclosures

The Company's related parties include its subsidiaries and key management personnel.

During the years ended December 31, 2020 and 2019, management fees paid, or otherwise accrued, to key management personnel (defined as officers and directors of the Company) are shown below:

	December 31, 2020 \$	December 31, 2019 \$
Short term employee benefits	226,723	81,900
Stock based compensation	216,565	-
Total remuneration	443,288	81,900

On November 17, 2020, the Company issued a total of 7,009,763 Common Shares in settlement of \$700,976 owed to past and current directors and consultants, resulting in a gain on settlement of debt totaling \$385,337 included in the statement of loss and comprehensive loss. The issuance of common shares covered the loan payable amount of \$36,227 (as at year ended December 31, 2019 - \$16,120) to Mr. Luis Azevedo.

As at December 31, 2020 there was an accrued payable balance to the related parties \$47,358 compared to the year ended December 31, 2019 of \$500,049.

FFA Legal Ltda, a company in which Mr. Azevedo is a director, provided the Company with legal and accounting services in Brazil totaling \$462 (December 31, 2019 - \$123,420) and the Company had outstanding accruals of \$nil to FFA Legal Ltda as at December 31, 2020 (December 31, 2019 - \$107,792).

During the year ended December 31, 2019, the Company sold \$8,751 of its exploration and evaluation assets to Mr. Azevedo.

During the year ended December 31, 2020, the Company entered into a non-binding term sheet with Steppe Gold Ltd ("Steppe") to sell a 50% interest in all gold contained in a prospective exploration license. As part of the agreement, Steppe advanced a non-refundable initial deposit of \$50,000 to Aranjin. Bataa Tumor-Ochir and Matthew Wood are also directors of the board of Steppe.

Aranjin Resources Ltd (Formerly Five Star Diamonds Limited)

Notes to Consolidated Financial Statements

For the Years Ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

14. Acquisition of Bayan Undur Project

On October 28, 2020, the Company acquired all the issued and outstanding shares of BK Mining LLC ("BK Mining") and indirectly, all the issued and outstanding shares of Bayun Undur Resources LLC ("BU Resources"), BK Mining's wholly owned subsidiary. The acquired business was purchased for 14 million Mongolian Tugrik (\$6,481). As BK Mining did not meet the definition of a business combination per IFRS 3, the acquisition has been accounted for as an asset acquisition, whereby the Company is considered to pay cash consideration for the net assets of BK Mining and indirectly, BU Resources at their fair value as follows:

Fair Value of net assets acquired:	October 28, 2020
Cash	\$ 147
Net non-cash working capital	(283,110)
Mineral property licenses ("Bayun Undur Project")	295,495
Net assets acquired	\$ 12,532

Transaction costs directly associated with the acquisition totaled \$6,053 and were capitalized as part of the transaction. The fair value of mineral property licenses was capitalized in deferred exploration and evaluation expenditures on the date of acquisition.

15. Sale of Brazilian subsidiary

On July 17, 2020, the Company completed the sale of all the issued and outstanding shares of its Brazilian subsidiary, Five Star Mineracao Ltda, to a private investor group for future consideration. In connection with the divestment, the net assets of Five Star Mineracao Ltda were derecognized on the date of sale.

The total consideration payable by the purchaser is composed of a cash payment of up to \$4,000,000 plus a 1% NSR on any production at the Catalão Project, based on future sales locally or exported.

The cash payment portion of the purchase price will be due when the Catalão Project becomes operational, per below:

- \$500,000 within 6 months after start of commercial production of Altered Zone;
- \$500,000 within 12 months after start of commercial production of Altered Zone;
- \$1,000,000 within 6 months after start of commercial production of Fresh Rock;
- \$2,000,000 within 12 months after start of commercial production of Fresh Rock

As it remains undetermined whether the Company will be successful in collecting the future consideration payable and royalties, \$nil consideration has been recognized on the sale of the Company's Brazilian subsidiary and a loss on sale of subsidiary totaling \$651,123 has been included in the statement of loss and comprehensive loss for the year ended December 31, 2020.

16. Financial risk management

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including interest rate risk, foreign currency risk and price risk).

(i) 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. Cash is held with a Canadian chartered bank and financial institutions in Mongolia and Brazil from which management believes the risk of loss to be minimal.

(ii) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure it will have sufficient liquidity to meet its liabilities when due. To the extent the Company does not believe it has sufficient liquidity to meet its obligations, it will consider securing additional equity or debt funding. As at December 31, 2020, the Company had a negative net working capital of \$197,185 (December 31, 2019 - \$1,009,835).

Aranjin Resources Ltd (Formerly Five Star Diamonds Limited)**Notes to Consolidated Financial Statements****For the Years Ended December 31, 2020 and 2019****(Expressed in Canadian Dollars)**

16. Financial risk management (continued)**(iii) Market risk**

Market risk is the risk of loss that may arise from changes in market factors such as interest rates and foreign exchange rates.

(a) Interest rate risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instruments will fluctuate due to changes in market interest rates. The Company's interest rate risk includes potential decreases on the interest rate offered on cash held with chartered Canadian, Brazil and Mongolian financial institutions. The Company considers the interest rate risk on cash held with chartered Canadian, Brazil and Mongolian financial institutions to be immaterial.

(b) Foreign currency risk

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures. The Company primarily operates in Mongolia. Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities denominated in a currency that is not the Company's functional currency. The Company's risk management policy is to review its exposure to non-Canadian dollar forecasts, operating on a case-by-case basis. The majority of the Company's forecasted operating costs are in Mongolian tugrik, Canadian dollars and United States dollars. Sensitivity to a plus or minus 10% change in the foreign exchange rate on non-Canadian dollar denominated financial instruments would affect net loss by \$18,519 (gain/loss) with all other variables held constant.

17. Capital risk management

The Company's objectives in managing its liquidity and capital are to safeguard the Company's ability to continue as a going concern and provide financial capacity to meet its strategic objectives. The capital structure of the Company consists of debt instruments and equity attributable to common shareholders, comprising of issued share capital, reserves, accumulated other comprehensive loss and accumulated deficit. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets to facilitate the management of its capital requirements. The Company defines capital as total debt less cash and it is managed by management subject to approved policies and limits by the Board of Directors. The Company is not subject to any externally imposed capital requirements.

18. Income tax

The legal parent of the consolidated group is Aranjin Resources Ltd., a Canadian entity which is subject to the combined federal and provincial statutory income tax rate of 27%. Reconciliation of the combined statutory income tax rate of 27% (December 31, 2019 – 27%) to the effective tax rate is as follows:

	December 31, 2020	December 31, 2019
Net Income (loss) before recovery of income taxes	\$ (1,502,169)	\$ (6,756,924)
Expected income tax (recovery) expense	(405,590)	(1,824,370)
Difference in foreign tax rates	2,803,810	-
Tax rate changes and other adjustments	19,010	(475,840)
Share based compensation and non-deductible expenses	(2,499,370)	1,250
Share issuance costs and other adjustments booked to equity	(22,850)	-
Expiry of losses and other adjustments on sale of subsidiary	2,531,330	-
Change in tax benefits not recognized	(2,426,340)	2,298,960
Income tax (recovery) expense	\$ -	\$ -

Aranjin Resources Ltd (Formerly Five Star Diamonds Limited)**Notes to Consolidated Financial Statements****For the Years Ended December 31, 2020 and 2019****(Expressed in Canadian Dollars)**

18. Income tax (continued)**Deferred tax**

The following table summarizes the components of deferred tax:

	December 31, 2020	December 31, 2019
Deferred tax assets		
Non-capital losses carried forward	\$ 3,260	\$ 59,155
Deferred tax liabilities		
Property, plant and equipment	-	(21,990)
Convertible debenture	(3,260)	(37,165)
	\$ -	\$ -

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right to offset.

Unrecognized deferred tax assets

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of the assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

	December 31, 2020	December 31, 2019
Property, plant and equipment	\$ 64,390	\$ -
Deferred exploration costs	741,570	-
Share issuance costs	218,830	302,250
Canadian non-capital losses carried forward	3,239,310	2,901,900
Foreign non-capital losses carried forward	-	1,928,670
Other temporary differences	-	6,202,030

Share issue and financing costs will be fully amortized in 2024. The remaining deductible temporary differences may be carried forward indefinitely. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profits will be available against which the group can utilize the benefits there from.

The Company's Canadian non-capital income tax losses expired as follows:

2037	\$ 1,361,160
2038	1,277,090
2039	397,810
2040	203,250
	<u>\$ 3,239,310</u>