# PANGOLIN DIAMONDS CORP.

# CONSOLIDATED FINANCIAL STATEMENTS

# JUNE 30, 2022 AND 2021

**(EXPRESSED IN CANADIAN DOLLARS)**

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Pangolin Diamonds Corp. (the "Company") were prepared in accordance with International Financial Reporting Standards ("IFRS"). Management acknowledges responsibility for the preparation and presentation of the consolidated financial statements, including responsibility for significant accounting judgments and estimates and the choice of accounting principles and methods that are appropriate to the Company's circumstances. The significant accounting policies of the Company are summarized in Note 3 to the consolidated financial statements.

Management has established processes which are in place to provide them with sufficient knowledge to support management representations that they have exercised reasonable diligence to ensure that (i) the consolidated financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the consolidated financial statements and (ii) the consolidated financial statements fairly present in all material respects the financial position, financial performance and cash flows of the Company, as of the date of and for the periods presented by the consolidated financial statements.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the consolidated financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the consolidated financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company’s affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

October 27, 2022

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## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Pangolin Diamonds Corp.:

### *Opinion*

We have audited the consolidated financial statements of Pangolin Diamonds Corp. and its subsidiaries (together the "Company"), which comprise the consolidated statements of financial position as at June 30, 2022 and 2021, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in shareholders' deficiency and consolidated statements of 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 June 30, 2022 and 2021, 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 in our audits 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 describes events and conditions indicating 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 the information included in the Management's Discussion and Analysis filed with the relevant Canadian securities commissions.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. 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.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Baker Tilly WM LLP

CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, B.C.
October 27, 2022

## PANGOLIN DIAMONDS CORP.

**Consolidated Statements of Financial Position**
**(Expressed in Canadian Dollars)**

| As at June 30, | | 2022 | | 2021 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current assets** | | | | |
| Cash | $ | **135,150** | $ | 74,188 |
| Receivables, prepaids and deposits | | **28,348** | | 29,035 |
| **Total current assets** | | **163,498** | | 103,223 |
| **Non-current assets** | | | | |
| Prepaid expenses | | **65,134** | | 65,134 |
| Equipment (note 4) | | **1,890** | | 51,191 |
| **Total assets** | $ | **230,522** | $ | 219,548 |
| **LIABILITIES AND SHAREHOLDERS' (DEFICIENCY) EQUITY** | | | | |
| **Current liabilities** | | | | |
| Amounts payable and accrued liabilities (note 12) | $ | **441,689** | $ | 274,196 |
| Shareholders' loans (note 12) | | **8,471** | | 20,018 |
| Loan payable (note 13) | | **530,018** | | 100,000 |
| **Total current liabilities** | | **980,178** | | 394,214 |
| **Shareholders' deficiency** | | | | |
| Share capital (note 5) | | **10,093,148** | | 10,093,148 |
| Reserves (note 5) | | **1,331,175** | | 1,778,885 |
| Cumulative translation adjustment | | **18,242** | | 18,242 |
| Deficit | | **(12,192,221)** | | (12,064,941) |
| **Total shareholders' deficiency** | | **(749,656)** | | (174,666) |
| **Total liabilities and shareholders' deficiency** | $ | **230,522** | $ | 219,548 |

Nature of operations and going concern (note 1)
Commitments and contingencies (notes 8 and 11)
Subsequent events (notes 8 and 17)

**Approved on behalf of the Board:**

*(Signed) "Dr. Leon Daniels"*, Director

*(Signed) "Thomas A. Fenton"*, Director

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

# PANGOLIN DIAMONDS CORP.

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

| For the Years Ended June 30, | | 2022 | | 2021 |
|---|---|---|---|---|
| **Expenses** | | | | |
| Administrative costs | $ | 92,513 | $ | 129,114 |
| Consulting fees (note 12) | | 72,000 | | 72,000 |
| Depreciation (note 4) | | 17,779 | | 45,112 |
| Exploration and evaluation expenditures (notes 8 and 12) | | 313,197 | | 398,981 |
| Foreign exchange (gain) loss | | (2,679) | | 31,486 |
| Gain on disposition of equipment (note 4) | | - | | (10,462) |
| Investor relations, promotion, travel | | - | | 6,992 |
| Professional fees (note 12) | | 49,121 | | 61,826 |
| Write-down of equipment (note 4) | | 33,059 | | - |
| **Net loss and comprehensive loss for the year** | $ | (574,990) | $ | (735,049) |
| **Basic and diluted net loss per share** (note 9) | $ | (0.00) | $ | (0.00) |
| **Weighted average number of common shares outstanding - basic and diluted** | | 186,232,618 | | 184,171,632 |

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

## PANGOLIN DIAMONDS CORP.
**Consolidated Statements of Cash Flows**
**(Expressed in Canadian Dollars)**

| **For the years ended June 30,** | **2022** | 2021 |
|---|---|---|
| **Operating activities** | | |
| Net loss for the year | **$ (574,990)** | $ (735,049) |
| Adjustments for: | | |
| Depreciation | **17,779** | 45,112 |
| Write-down of equipment | **33,059** | - |
| (Gain) loss on disposal of equipment | **-** | (10,462) |
| Changes in non-cash working capital items: | | |
| Receivables, prepaids and deposits | **687** | 6,422 |
| Amounts payable and accrued liabilities | **167,493** | 78,693 |
| **Net cash used in operating activities** | **(355,972)** | (615,284) |
| **Investing activities** | | |
| Equipment purchases | **(1,537)** | (132) |
| **Net cash used in investing activities** | **(1,537)** | (132) |
| **Financing activities** | | |
| Proceeds from issuance of units | **-** | 293,500 |
| Share issue costs | **-** | (18,700) |
| Loan proceeds | **430,018** | 100,000 |
| Repayment of shareholders' loans | **(11,547)** | (2,141) |
| **Net cash provided by financing activities** | **418,471** | 372,659 |
| **Net change in cash** | **60,962** | (242,757) |
| **Cash, beginning of year** | **74,188** | 316,945 |
| **Cash, end of year** | **$ 135,150** | $ 74,188 |

| **Non-Cash Financing and Investing Activities** | | |
|---|---|---|
| Re-classification of expired options | **$ 6,947** | $ 317,430 |
| Re-classification of expired warrants | **$ 440,763** | $ 459,359 |
| Fair value of broker warrants issued | **$ -** | $ 13,324 |
| Taxes paid | **$ -** | $ - |
| Interest (paid) received in cash | **$ -** | $ - |
| Proceeds from private placement for long-term prepaids | **$ -** | $ 30,000 |

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

## PANGOLIN DIAMONDS CORP.
**Consolidated Statements of Changes in Shareholders' deficiency**
**(Expressed in Canadian Dollars)**

| | Share Capital Number | Share Capital Amount | Shares to be Issued | Reserves | Cumulative Translation Adjustment | Deficit | Total |
|---|---|---|---|---|---|---|---|
| Balance, June 30, 2020 | 160,292,618 | $ 9,780,018 | $ 325,000 | $ 2,238,994 | $ 18,242 | $ (12,106,671) | $ 255,583 |
| Expiration of options | - | - | - | (317,430) | - | 317,430 | - |
| Expiration of warrants | - | - | - | (459,349) | - | 459,349 | - |
| Issued on private placement, net of share issuance costs | 25,940,000 | 629,800 | (325,000) | - | - | - | 304,800 |
| Issuance of warrants | - | (303,346) | - | 303,346 | - | - | - |
| Issuance of broker warrants | - | (13,324) | - | 13,324 | - | - | - |
| Net loss and comprehensive loss for the year | - | - | - | - | - | (735,049) | (735,049) |
| **Balance, June 30, 2021** | **186,232,618** | **$ 10,093,148** | **$ -** | **$ 1,778,885** | **$ 18,242** | **$ (12,064,941)** | **$ (174,666)** |
| Expiry of options | - | - | - | (6,947) | - | 6,947 | - |
| Expiry of warrants | - | - | - | (440,763) | - | 440,763 | - |
| Net loss and comprehensive loss for the year | - | - | - | - | - | (574,990) | (574,990) |
| **Balance, June 30, 2022** | **186,232,618** | **$ 10,093,148** | **$ -** | **$ 1,331,175** | **$ 18,242** | **$ (12,192,221)** | **$ (749,656)** |

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

## 1. NATURE OF OPERATIONS AND GOING CONCERN

Pangolin Diamonds Corp. (the “Company” or "Pangolin") was incorporated under the Ontario Business Corporations Act on November 9, 2011. The Company is currently engaged in the acquisition, exploration and development of mineral properties in Botswana. The head office and principal address of the Company is 82 Richmond Street East, Toronto, Ontario M5P 1P1.

The Company is in the process of exploring its exploration properties for diamond resources and has not determined whether the properties contain economically recoverable reserves. The business of exploring for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The recoverability of amounts expended on exploration properties and the Company’s continued existence is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to raise alternative financing, if necessary, or alternatively upon the Company’s ability to dispose of its interests on an advantageous basis. All of the Company’s exploration property interests are located outside of Canada and are subject to the risk of foreign investment, including increases in taxes and royalties, renegotiation of contracts, currency exchange fluctuations and political uncertainty.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company’s title. Property title may be subject to unregistered prior agreements and noncompliance with regulatory requirements.

*COVID-19*

The outbreak of the novel strain of coronavirus, specifically identified as “COVID-19”, has resulted in governments worldwide enacting emergency measures to combat its spread. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions.

Due to the worldwide COVID-19 outbreak, material uncertainties may come into existence that could influence management's going concern assumption. Management cannot accurately predict the future impact COVID-19 may have on:

- Global oil prices;
- The severity and the length of potential measures taken by governments to manage the spread of the virus and their effect on labour availability and supply lines;
- Availability of essential supplies;
- Purchasing power of the Canadian dollar; and
- Ability to obtain funding.

At the date of the approval of these consolidated financial statements, the Canadian government has not introduced measures which impede the activities of the Company. Management believes the business will continue and accordingly, the current situation bears no impact on management's going concern assumption. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company and its operating subsidiaries in future periods.

## 1. NATURE OF OPERATIONS AND GOING CONCERN (Continued)

These consolidated financial statements have been prepared using accounting policies applicable to a going concern, which contemplate the realization of assets and settlement of liabilities in the normal course of operations. The Company has incurred a comprehensive loss during the year ended June 30, 2022 of $574,990 (2021 - $735,049) and has a working capital deficency of $816,680 (2021 - $290,991) and as at June 30, 2022, has a deficit of $12,192,221 (2021 - $12,064,941). Further financing will be required for working capital and exploration expenditures. The Company is uncertain whether it can obtain, in the current environment, financing to complete its current work programs.

The Company currently does not have sufficient cash on hand to meet all exploration and operational expenses for the next twelve months. These events and conditions indicate a material uncertainty that may cast significant doubt regarding the Company's ability to continue as a going concern. The Company plans to raise additional capital to further develop and explore its projects, however the Company may increase or decrease expenditures as necessary to adjust to a changing capital market environment.

These consolidated financial statements do not reflect any adjustments to amounts that would be necessary if the going concern assumption were not appropriate. Such adjustments could be material.

## 2. BASIS OF PRESENTATION

### Statement of Compliance

These consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and their interpretations as issued by the International Accounting Standards Board (“IASB”).

These consolidated financial statements were authorized for issue by the Board of Directors of the Company on October 27, 2022.

### Basis of Measurement

These consolidated financial statements have been prepared on a historical cost basis. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

In the preparation of these consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of expenses during the period. Actual results could differ from these estimates.

### Functional and Presentation Currency

The presentation currency adopted for these consolidated financial statements is the Canadian dollar. The functional currency of Pangolin Diamonds Corp. and its subsidiaries is the Canadian dollar.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of Consolidation

The consolidated financial statements of the Company consolidate the accounts of Pangolin Diamonds Corp., and its subsidiaries. All intercompany transactions and balances are eliminated on consolidation.

Subsidiaries are entities over which the Company has control, where control is defined to exist when the Company is exposed to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are fully consolidated from the date control is transferred to the Company, and are de-consolidated from the date control ceases.

| Name of Subsidiary | Principal Activity | Location | Proportion Ownership Interest and Voting Power Held |
|---|---|---|---|
| Pangolin Diamonds Limited ("PDL") | holding company | Seychelles | 100% |
| Pangolin Diamonds (Pty) Limited | diamond exploration | Botswana | 100% |
| Geocontracts Botswana (Pty) Limited | exploration consulting, and diamond exploration | Botswana | 100% |

### Cash and Cash Equivalents

Cash and cash equivalents comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less and subject to insignificant risk of changes in fair value. As at June 30, 2022 and 2021, the Company did not hold any cash equivalents.

### Foreign Currencies

Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each consolidated financial statement presentation date, the monetary assets and liabilities that are denominated in foreign currencies are translated at rates prevailing at the date of the consolidated statement of financial position. Revenues and expenses are translated at exchange rates at the dates of the transactions, and all resulting exchange differences are recognized in profit or loss.

### Financial Instruments

<u>Financial Assets</u>

*Recognition and Initial Measurement*

The Company recognizes financial assets when it becomes party to the contractual provisions of the instrument. Financial assets are measured initially at their fair value plus, in the case of financial assets not subsequently measured at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Transaction costs attributable to the acquisition of financial assets subsequently measured at fair value through profit or loss are expensed in profit or loss when incurred.

*Classification and Subsequent Measurement*

On initial recognition, financial assets and liabilities are classified as subsequently measured at amortized cost, fair value through other comprehensive income (“FVOCI”) or fair value through profit or loss (“FVTPL”). The Company determines the classification of its financial assets, together with any embedded derivatives, based on the business model for managing the financial assets and their contractual cash flow characteristics.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Financial Instruments (Continued)**

Financial Assets (Continued)

Financial assets are classified as follows:

- Amortized cost - Assets that are held for collection of contractual cash flows where those cash flows are solely payments of principal and interest are measured at amortized cost. Interest revenue is calculated using the effective interest method and gains or losses arising from impairment, foreign exchange and derecognition are recognized in profit or loss. The effective interest rate is the rate that discounts estimated future cash flows over the expected life of the financial asset, or where appropriate, a shorter period. Financial assets measured at amortized cost are comprised of cash.
- FVOCI - Assets that are held for collection of contractual cash flows and for selling the financial assets, and for which the contractual cash flows are solely payments of principal and interest, are measured at fair value through other comprehensive income. Interest revenue is calculated using the effective interest method and gains or losses arising from impairment and foreign exchange are recognized in profit or loss. All other changes in the carrying amount of the financial assets are recognized in other comprehensive income. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss. The Company does not hold any financial assets measured at FVOCI.
- Mandatorily at FVTPL - Assets that do not meet the criteria to be measured at amortized cost, or fair value through other comprehensive income, are measured at fair value through profit or loss. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss. The Company does not hold any financial assets measured at FVTPL.
- Designated at FVTPL – On initial recognition, the Company may irrevocably designate a financial asset to be measured at fair value through profit or loss in order to eliminate or significantly reduce an accounting mismatch that would otherwise arise from measuring assets or liabilities, or recognizing the gains and losses on them, on different bases. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss. The Company does not hold any financial assets designated to be measured at FVTPL.

*Business Model Assessment*

The Company assesses the objective of its business model for holding a financial asset at a level of aggregation which best reflects the way the business is managed, and the way information is provided to management. Information considered in this assessment includes stated policies and objectives.

*Contractual Cash Flow Assessment*

The cash flows of financial assets are assessed as to whether they are solely payments of principal and interest on the basis of their contractual terms. For this purpose, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, the credit risk associated with the principal amount outstanding, and other basic lending risks and costs. In performing this assessment, the Company considers factors that would alter the timing and amount of cash flows such as prepayment and extension features, terms that might limit the Company's claim to cash flows, and any features that modify consideration for the time value of money.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Financial Instruments (Continued)**

*Impairment*

The Company recognizes a loss allowance for the expected credit losses associated with its financial assets, other than financial assets measured at FVTPL. Expected credit losses are measured to reflect a probability-weighted amount, the time value of money, and reasonable and supportable information regarding past events, current conditions and forecasts of future economic conditions.

The Company applies the simplified approach for accounts receivable. Using the simplified approach, the Company records a loss allowance equal to the expected credit losses resulting from all possible default events over the assets' contractual lifetime.

The Company assesses whether a financial asset is credit-impaired at the reporting date. Indicators that a financial instrument is credit-impaired include significant financial difficulties as evidenced through borrowing patterns or observed balances in other accounts and breaches of borrowing contracts such as default events or breaches of borrowing covenants. For financial assets assessed as credit-impaired at the reporting date, the Company continues to recognize a loss allowance equal to lifetime expected credit losses.

For financial assets measured at amortized cost, loss allowances for expected credit losses are presented in the consolidated statement of financial position as a deduction from the gross carrying amount of the financial asset.

Financial assets are written off when the Company has no reasonable expectations of recovering all or any portion thereof.

*Derecognition of Financial Assets*

The Company derecognizes a financial asset when its contractual rights to the cash flows from the financial asset expire.

Financial Liabilities

*Recognition and Initial Measurement*

The Company recognizes a financial liability when it becomes party to the contractual provisions of the instrument. At initial recognition, the Company measures financial liabilities at their fair value plus transaction costs that are directly attributable to their issuance, with the exception of financial liabilities subsequently measured at FVTPL for which transaction costs are immediately recorded in profit or loss.

Financial liabilities are classified as either financial liabilities at FVTPL 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.

   The Company's amounts payable and accrued liabilities, loan payable and shareholders' loans do not fall into any of the exemptions and are therefore classified as measured at amortized cost.

ii. Financial liabilities recorded at FVTPL

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

   The Company has no financial liabilities classified as FVTPL.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial Instruments (Continued)

Subsequent measurement

Instruments classified as FVTPL are measured at fair value with unrealized gains and 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 FVTOCI are measured at fair value with unrealized gains and 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.

Classification

Financial instruments recorded at fair value on the consolidated statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As of June 30, 2022 and 2021, the fair values of cash, amounts payable and accrued liabilities, loan payable and shareholders' loans approximate their carrying values due to their short-term nature.

### Exploration and Evaluation Expenditures

The Company expenses exploration and evaluation expenditures as incurred. Exploration and evaluation expenditures include acquisition costs of diamond exploration properties, property option payments and exploration and evaluation activity.

Once a project has been established as commercially viable and technically feasible, related development expenditures are capitalized. This includes costs incurred in preparing the site for mining operations. Capitalization ceases when a mine is capable of commercial production, with the exception of development costs that give rise to a future benefit.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Equipment

Equipment is carried at cost, less accumulated depreciation and accumulated impairment losses.

The cost of an item of equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Depreciation is recognized based on the cost of the equipment, less its estimated residual value, over its estimated useful life on a straight-line basis at the following rates:

| | |
|---|---|
| Field equipment | 10-15% |
| Vehicle | 25% |
| Computer equipment | 25% |

An asset's residual value, useful life and depreciation method are reviewed, and adjusted on an annual basis.

### Income Taxes

Income tax included in operations for the years presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recognized using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the financial reporting date.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

### Share Capital

Equity financing transactions may involve the issuance of units. Units comprise common shares and share purchase warrants. The Company accounts for unit offering financing using the relative fair value method. Under this method, the fair values of the shares and share purchase warrants are determined separately and prorated to the actual proceeds received. The fair value of the shares is determined using the share price at the issue date. The fair value of share purchase warrants is measured using the Black-Scholes option pricing model at the issue date.

### Share-based Payment Transactions

Share-based payments to employees are measured at the fair value of the instruments issued and recognized over the vesting periods. Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued using the Black-Scholes option pricing model if it is determined the fair value of the goods and services cannot be reliably measured, and are recorded at the date the goods or services are received.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Share-based Payment Transactions (Continued)

The amount recognized as an expense is adjusted to reflect the number of awards expected to vest and is recorded within shareholders' equity as reserves. Consideration received on the exercise of stock options is recorded as share capital and the reserves amount is transferred to share capital. Charges for options that are forfeited before vesting are reversed to profit or loss. For those options and warrants that expire after vesting, the recorded value is transferred to deficit.

### Impairment

The carrying value of equipment is assessed for impairment when indicators of such impairment exist. If any indication of impairment exists an estimate of the asset's recoverable amount is calculated. The recoverable amount is determined as the higher of the fair value less costs of disposal for the asset and the asset's value in use.

Impairment is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets. If this is the case, the individual assets of the Company are grouped together into cash generating units ("CGUs") for impairment purposes. Such CGUs represent the lowest level for which there are separately identifiable cash inflows that are largely independent of the cash flows from other assets. This generally results in the Company evaluating its non-financial assets on a geographical or licence basis.

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to profit or loss so as to reduce the carrying amount to its recoverable amount.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company makes an estimate of the recoverable amount.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss.

### Provisions

A provision is recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The Company had no material provisions at June 30, 2022 or 2021.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Restoration, Rehabilitation and Environmental Obligations**

A legal or constructive obligation to incur restoration, rehabilitation and environmental costs may arise when environmental disturbance is caused by the exploration, development or ongoing production of a mineral property interest. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized at the start of each project to the carrying amount of the asset, as soon as the obligation to incur such costs arises. Discount rates using a pretax rate that reflects the time value of money are used to calculate the net present value. These costs are charged against profit or loss over the economic life of the related asset, through amortization using either a unit-of-production or the straight-line method as appropriate. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market based discount rate, amount or timing of the underlying cash flows needed to settle the obligation. Costs for restoration of subsequent site damage that is created on an ongoing basis during production are provided for at their net present values and charged to profit or loss as extraction progresses.

The Company has no material restoration, rehabilitation and environmental costs as the disturbance to date is minimal.

**Loss Per Share**

Basic loss per share is calculated by dividing the loss attributable to common shareholders by the weighted average number of common shares outstanding during the period. For all periods presented, the loss attributed to common shareholders equals the reported loss attributable to owners of the Company. The weighted average number of common shares outstanding for the calculation of diluted loss per share assumes that the net proceeds received on the exercise of dilutive stock options and warrants are used to repurchase common shares at the average market price during the period. The diluted loss per share calculation excludes any potential conversion of options and warrants that would decrease loss per share or increase earnings per share.

**Significant Accounting Judgments and Estimates**

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates that, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The areas which require management to make significant judgments, estimates and assumptions include, but are not limited to:

Existence of Decommissioning and Restoration Costs and the Timing of Expenditure

At the time a legal or constructive obligation for decommissioning, restoration, and similar liabilities has been incurred the liability is estimated based on the Company's interpretation of current regulatory requirements and constructive obligations and measured at fair value. Fair value will be determined based on the net present value of estimated future cash expenditures for the settlement of decommissioning, restoration, or similar liabilities that may occur upon decommissioning of the asset. Such estimates are subject to change based on changes in laws and regulations with regulatory authorities.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Significant Accounting Judgments and Estimates (Continued)

Share-based Payments

Management measures share-based payments using market based valuation techniques. The fair value of the market-based and performance based share awards are determined at the date of grant using the Black-Scholes option pricing model. Assumptions are made on a judgmental basis and are used in applying valuation techniques. The assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviours and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

### Future Accounting Changes

There were no changes adopted during the year ended June 30, 2022 that had a material impact on the Company. Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee ("IFRIC") that are mandatory for accounting periods commencing on or after July 1, 2022. The following have not yet been adopted:

IFRS 3 – Business Combinations (“IFRS 3”) and IFRS 11 – Joint Arrangements (“IFRS 11”) were amended in December 2017. IFRS 3 was amended to clarify that when a party to a joint arrangement obtains control of a business that is a joint operation, it re-measures previously held interests in that business. IFRS 11 was amended to clarify that when a party that participates in, but does not have joint control of, a joint operation obtains joint control of a business that is a joint operation, the entity does not re-measure previously held interests in that business. The effective date of this amendment is yet to be determined, however early adoption is permitted. No impact on the Company's consolidated financial statements is anticipated.

IFRS 10 – Consolidated Financial Statements (“IFRS 10”) and IAS 28 – Investments in Associates and Joint Ventures (“IAS 28”) were amended in September 2014 to address a conflict between the requirements of IAS 28 and IFRS 10 and clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. The effective date of this amendment is yet to be determined, however early adoption is permitted. No impact on the Company's consolidated financial statements is anticipated.

There are no other relevant IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

**(Expressed in Canadian Dollars)**

## 4. EQUIPMENT

| Cost | Field Equipment | Vehicle | Computer Equipment | Total |
|---|---|---|---|---|
| Balance, June 30, 2020 | $ 203,717 | $ 69,474 | $ 12,154 | $ 285,345 |
| Additions | - | 132 | - | 132 |
| Dispositions | (11,957) | (69,474) | (5,652) | (87,083) |
| **Balance, June 30, 2021** | **$ 191,760** | **$ 132** | **$ 6,502** | **$ 198,394** |
| Additions | - | 504 | 1,033 | 1,537 |
| Write-down | (125,482) | - | - | (125,482) |
| **Balance, June 30, 2022** | **$ 66,278** | **$ 636** | **$ 7,535** | **$ 74,449** |

| Accumulated Depreciation | | | | |
|---|---|---|---|---|
| Balance, June 30, 2020 | $ 123,230 | $ 65,686 | $ 10,720 | $ 199,636 |
| Depreciation | 29,970 | 14,934 | 208 | 45,112 |
| Dispositions | (11,957) | (80,610) | (4,978) | (97,545) |
| Balance, June 30, 2021 | 141,243 | 10 | 5,950 | 147,203 |
| Depreciation | 17,599 | 180 | - | 17,779 |
| Write-down | (92,423) | - | - | (92,423) |
| **Balance, June 30, 2022** | **$ 66,419** | **$ 190** | **$ 5,950** | **$ 72,559** |

| Carrying Amount | | | | |
|---|---|---|---|---|
| At June 30, 2021 | $ 50,517 | $ 122 | $ 552 | $ 51,191 |
| **At June 30, 2022** | **$ (141)** | **$ 446** | **$ 1,585** | **$ 1,890** |

**(Expressed in Canadian Dollars)**

## 5. SHARE CAPITAL

**Common shares**

a) Authorized capital

Unlimited number of common shares without par value.

b) Issued and outstanding

| | Number | | Amount |
|---|---|---|---|
| Balance, June 30, 2020 | 160,292,618 | $ | 9,780,018 |
| Issued on private placement, net of costs | 25,940,000 | | 629,800 |
| Issuance of warrants - valuation | - | | (303,346) |
| Issuance of broker warrants | - | | (13,324) |
| **Balance, June 30, 2021 and June 30, 2022** | **186,232,618** | | **10,093,148** |

i) On July 22, 2020, the Company closed a non-brokered private placement financing (the “Offering”) of units (“Units”) for aggregate gross proceeds of $648,500. The Offering consisted of 25,940,000 Units at a price of $0.025 per Unit, with each Unit consisting of one common share (“Common Share”) and one Common Share purchase warrant (“Warrant”). Each Warrant entitles the holder thereof to acquire one Common Share at a price of $0.05 for a period of five years. Cash share issuance costs incurred were $18,700.

The 25,940,000 Warrants, exercisable at $0.05 per warrant, issued in connection with this private placement were assigned a relative grant date fair value of $303,346 measured using the Black-Scholes option pricing model, based on a share price of $0.035, a risk-free rate of 0.35%, an expected life of 5 years, an expected volatility of 146% and an expected dividend yield of 0%.

In connection with this financing, the Company issued 434,000 broker warrants exercisable into units at $0.05 each for a period of 5 years. Each unit will consist of one common share and one common share purchase warrant exercisable at $0.05 expiring on July 22, 2025. The broker units were assigned a grant date fair value of $13,324 using the Black-Scholes option pricing model, based on a share price of $0.035, a risk-free rate of 0.35%, an expected life of 5 years, an expected volatility of 146% and an expected dividend yield of 0%.

## 6. STOCK OPTIONS

In June 2012, the directors of the Company approved the adoption of a stock option plan (the “Plan”). Under the Plan, the Board of Directors of the Company, may from time to time at its discretion, grant to directors, officers, employees and consultants of the Company, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the common shares outstanding at that time. Such options may be exercisable for a period of up to 10 years from the date of grant. The exercise price of the options is not to be less than the Company’s closing market price on the day prior to the grant of the options.

The following table shows the continuity of stock options for the year ended June 30, 2022 and 2021:

| | Number of Options Outstanding | Weighted Average Exercise Price ($) |
|---|---|---|
| Balance, June 30, 2020 | 11,515,000 | 0.08 |
| Expired | (3,750,000) | 0.11 |
| **Balance, June 30, 2021** | **7,765,000** | **0.07** |
| Expired | (165,000) | 0.10 |
| **Balance, June 30, 2022** | **7,600,000** | **0.06** |

**(Expressed in Canadian Dollars)**

## 6. STOCK OPTIONS (Continued)

The following table summarizes information about stock options outstanding and exercisable as at June 30, 2022:

| Expiry Date | Exercise Price ($) | Weighted Average Remaining Contractual Life (years) | Number of Options Outstanding and Exercisable | Grant Date Fair Value ($) |
|---|---|---|---|---|
| September 19, 2022 | 0.10 | 0.22 | 1,500,000 | 78,300 |
| November 9, 2023 | 0.05 | 1.36 | 800,000 | 28,480 |
| March 20, 2024 | 0.05 | 1.72 | 150,000 | 5,340 |
| May 24, 2024 | 0.05 | 1.90 | 1,000,000 | 35,600 |
| May 25, 2024 | 0.05 | 1.90 | 550,000 | 22,165 |
| October 2, 2024 | 0.06 | 2.26 | 3,600,000 | 194,400 |
| | **0.06** | **1.68** | **7,600,000** | **364,285** |

## 7. WARRANTS

The following table shows the continuity of warrants for the year ended June 30, 2022 and 2021:

| | Number of Warrants Outstanding | Warrants Weighted Average Exercise Price ($) |
|---|---|---|
| Balance, June 30, 2020 | 56,570,568 | 0.07 |
| Issued | 26,374,000 | 0.05 |
| Expired | (20,856,485) | 0.05 |
| **Balance, June 30, 2021** | **62,088,083** | **0.07** |
| Expired | (10,362,283) | 0.11 |
| **Balance, June 30, 2022** | **51,725,800** | **0.06** |

**(Expressed in Canadian Dollars)**

## 7. WARRANTS (Continued)

The following table summarizes information about warrants outstanding as at June 30, 2022:

| Expiry Date | Number of Warrants Outstanding | Exercise Price ($) | Weighted Average Remaining Contractual Life (years) | Fair Value ($) |
|---|---|---|---|---|
| January 16, 2024 | 7,340,000 | 0.05 | 1.55 | 163,788 |
| January 16, 2024 | 238,000 | 0.05 | 1.55 | 9,591 |
| September 9, 2024 | 16,977,200 | 0.07 | 2.20 | 396,478 |
| September 9, 2024 | 796,600 | 0.05 | 2.20 | 42,814 |
| July 22, 2025 | 25,940,000 | 0.05 | 3.06 | 357,432 |
| July 22, 2025 | 434,000 | 0.05 | 3.06 | 13,324 |
| | **51,725,800** | **0.06** | **2.54** | **983,427** |

## 8. EXPLORATION AND EVALUATION EXPENDITURES

The Company holds prospecting diamond licences in Botswana through its wholly owned Botswana subsidiaries.

During the years ended June 30, 2022 and 2021, the Company incurred the following exploration and evaluation expenditures:

| **For the year ended June 30,** | **2022** | 2021 |
|---|---|---|
| Exploration drilling | **$ 29,198** | $ 38,287 |
| Exploration sample analysis | **-** | 7,770 |
| Fuel and oil | **18,265** | 25,287 |
| Motor vehicle expenses and transport | **43,696** | 58,628 |
| Field consumables and equipment | **6,329** | 9,410 |
| Repairs and maintenance | **27** | 1,838 |
| Geological consulting and licenses | **215,682** | 257,761 |
| | **$ 313,197** | $ 398,981 |

The Botswana government retains a 10% net royalty on the market value of produced diamonds and can elect to participate in development by contribution of its share of development costs. Nomathata Diamonds Inc., a corporation incorporated in the Republic of the Seychelles, which is controlled by a shareholder who is also a director and officer of the Company, holds a 1.2% net smelter royalty ("NSR") calculated on the same basis as the government's royalty.

Five prospecting licences have been issued to the Company for a three year period from October 1, 2022 to September 30, 2025.

Three prospecting licences were issued to the Company for a period of three years from October 1, 2020 to September 30, 2023.

Subsequent to the year ended June 30, 2022, five prospecting licenses were allowed to lapse.

## 8. EXPLORATION AND EVALUATION EXPENDITURES (Continued)

On April 1, 2018, the Company signed an option agreement (the “Agreement”) with Makanwu Civil Blasting (PTY) Ltd. (“MCB”), a private company incorporated under the laws of the Republic of Botswana. Under the Agreement, MCB has granted Pangolin the sole and exclusive option to earn up to a 75% interest in respect of MCB’s precious stone AK10 Diamond Project located in the Central District of Botswana. In connection with this Agreement, the Company signed a joint venture agreement which will come into effect at such time as the interest is earned under the option agreement. In December 2020, this option agreement was allowed to lapse due to restrictive working conditions.

On November 27, 2018, the Company announced it had reached an agreement with Umgeni Holdings International Limited ("Umgeni") under which Umgeni has agreed to acquire a royalty interest in Pangolin’s Licences located within the Central District of Botswana, as well as an area defined as the Adjacent Area of Interest for $600,000. Umgeni has initially purchased a 1.3% gross overriding royalty on diamonds ("GOR") and a 1.3% NSR on base and precious metals for $600,000 in May of 2017.

Under the terms of the agreement, Umgeni agreed to pay Pangolin an additional $600,000, (of which all $600,000 had been received during the year ended June 30, 2019), for a total of $1,200,000 in funding to date to acquire the following royalty interests in Pangolin’s Malatswae, Moenyenana and Motloutse diamond projects: a 2.6% GOR and a 2.6% NSR over the Licences issued to Pangolin Diamonds (Pty) Limited and Geocontracts Botswana (Pty) Limited, located within the Central District of the Republic of Botswana, as well as a defined Adjacent Area of Interest.

During the year ended June 30, 2021, Nomathata Diamonds Inc. agreed to sell its 1.15% royalty for the districts noted above to Umgeni, increasing the GOR and NSR to 3.75%.

During the year ended June 30, 2021, the Company entered into an option agreement with Diamextract Botswana Proprietary Limited ("Diamexsrat"). Diamextrat may earn an interest of 80% in the prospecting license PL172/2020 subject to completion of a defined work program.

## 9. NET LOSS PER COMMON SHARE

The calculation of basic and diluted loss per share for the year ended June 30, 2022 was based on the loss attributable to common shareholders of $574,990 (2021 - $735,049), and the weighted average number of common shares outstanding of 186,232,618 (2021 - 184,171,632). Diluted loss per share does not include the effect of stock options or warrants as they are anti-dilutive.

## 10. SEGMENTED INFORMATION

The Company conducts its business as a single operating segment, being diamond exploration and evaluation in Botswana. As at June 30, 2022, cash of $122,906 (2021 - $59,000) is held in Canadian chartered banks, with a balance of $12,244 (2021 - $15,188) being held in Botswana. All of the Company’s equipment is held in Botswana.

**(Expressed in Canadian Dollars)**

## 11. COMMITMENTS AND CONTINGENCIES

*Environmental contingencies*

The Company's exploration activities are subject to various laws and regulations governing the protection of the environment. These laws and regulations are continually changing and are generally becoming more restrictive. The Company may make in the future, expenditures to comply with such laws and regulations.

*Contingent payment*

Pursuant to a share purchase agreement dated December 22, 2011, as amended November 8, 2012, and December 1, 2013, the Company has agreed to pay Leon Daniels, the former majority shareholder of PDL and a current director and officer of the Company, $1,200,000 in the event that the Company discovers at least ten kimberlites in connection with its properties, payable within 24 months of the discovery of such kimberlites, provided that each such kimberlite is "diamondiferous" as verified by a Qualified Person (as such term in defined in NI 43-101). In addition, the parties have agreed that for a kimberlite to be diamondiferous, it must be a kimberlite in which a "macro" diamond is contained – namely a diamond being greater than 0.5 mm in size. If a known diamondiferous kimberlite is acquired by the Company, it will not be counted as one of the 10 as described above. As there have been no such kimberlites discovered by the Company to date, no provision has been recorded in these consolidated financial statements related to this contingency.

*Consulting agreement*

The Company entered into a consulting agreement with an individual to perform functions as the Chief Financial Officer of the Company for a monthly fee of $6,000. This agreement was renewed in December 2020, and stipulates a 90 day notice provision in the event of termination.

The Company has also entered into a consulting agreement, effective September 1, 2017, with an individual to perform functions as the Chief Executive Officer of the Company for a monthly fee of US $6,000. This agreement was renewed in December 2020, and stipulates a 90 day notice provision in the event of termination.

## 12. KEY MANAGEMENT PERSONNEL COMPENSATION AND RELATED PARTY TRANSACTIONS

In accordance with IAS 24, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company.

Compensation of key management personnel of the Company:

The remuneration of the the Company's CEO and CFO during the years ended June 30, 2022 and 2021 were as follows:

| **For the year ended June 30,** | **2022** | 2021 |
|---|---|---|
| CFO Consulting fees | **$ 72,000** | $ 72,000 |
| CEO Consulting fees included in exploration expenditures | **92,300** | 93,749 |
| | **$ 164,300** | $ 165,749 |

Related party transactions:

Shareholders' loans payable are unsecured, non-interest bearing and due on demand.

| | **2022** | 2021 |
|---|---|---|
| Shareholders' loans from companies related to a director | **$ 8,471** | $ 20,018 |

## 12. KEY MANAGEMENT PERSONNEL COMPENSATION AND RELATED PARTY TRANSACTIONS (Continued)

During the year ended June 30, 2022, the Company incurred legal fees of $2,450, (2021 - $10,358) charged by a law firm of which a director of the Company is a partner. Included in amounts payable as at June 30, 2022 was $2,343 (2021 - $nil) owing to this law firm.

During the year ended June 30, 2022, the Company incurred rent expense of $18,000 (2021 - $18,000) charged by a director of the Company for use of a facility in Botswana. As at June 30, 2022, $45,000 (2021 - $27,000) was included in amounts payable and accrued liabilities pertaining to rent incurred.

During the year ended June 30, 2022, the Company incurred rent expense of $2,400 (2021 - $6,000) charged by the Company's CFO for office space. As at June 30, 2022, $nil (2021 - $nil) was included in amounts payable and accrued liabilities pertaining to rent incurred.

Included in accounts payable is $84,000 (2021 - $12,000) owed to the Company's Chief Financial Officer and $185,168 (2021 - $106,377) owed to the Company's Chief Executive Officer who is also a director of the Company for consulting fees and sundry expense reimbursements. These amounts are unsecured, non-interest bearing, with no fixed terms for repayment.

The above noted transactions were approved by the Board of Directors.

## 13. LOAN PAYABLE

During the year ended June 30, 2022, the Company received $430,018 (2021 - $100,000) in advances. As at June 30, 2022, the aggregate amount outstanding was $530,018 (2021 - $100,000). The loan bears no interest, is due on demand and bears no fixed terms for repayment.

## 14. FINANCIAL RISK FACTORS

The nature of the exploration process exposes the Company to risks associated with fluctuations in commodity prices and foreign currency exchange rates. During 2022 and 2021, the Company has not used derivative financial instruments to manage these risks. There have been no significant changes in the risks, objectives, policies and procedures from the previous periods. There were no changes to the Company’s risk exposure during the year ended June 30, 2022.

<u>Liquidity Risk</u>

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The Company’s liquidity and operating results may be adversely affected if its access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or matters specific to the Company. The Company generates cash flow primarily from its financing activities. As at June 30, 2022, the Company had cash of $135,150 (2021 - $74,188) to settle current liabilities of $980,178 (2021 - $394,214). With the exception of shareholders' loans and loan payable, all of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. The Company regularly evaluates its cash position to ensure preservation and security of capital as well as liquidity.

<u>Credit Risk</u>

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Cash is primarily held with select major Canadian chartered banks, from which management believes the risk of loss to be minimal.

<u>Market Risk</u>

Market risk is the risk that the fair value of, or future cash flows from, the Company's financial instruments will significantly fluctuate due to changes in market prices. The value of the financial instruments can be affected by changes in interest rates, prices and foreign exchange rates.

## 14. FINANCIAL RISK FACTORS (Continued)

i. Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in guaranteed investment certificates or interest-bearing accounts of major Canadian chartered banks. The Company is not subject to significant interest rate risk. The Company periodically monitors compliance to its cash management policy.

ii. Currency Risk

Currency risk is the risk that the fair value of, or future cash flows from, the Company's financial instruments will fluctuate because of changes in foreign exchange rates. The Company's property interests in Botswana make it subject to foreign currency fluctuations and inflationary pressures which may adversely affect the Company's financial position, financial performance and cash flows.

The Company is affected by changes in exchange rates between the Canadian dollar and Botswana Pula. As at June 30, 2022, the Company held cash of $12,244 and had shareholders' loans of $8,471 denominated in Botswana Pula, (2021 - $15,188 and $20,018, respectively). A 5% change in the Canadian dollar against the Botswana Pula would not have a significant impact on the Company's net loss and comprehensive loss for the years ended June 30, 2022 and 2021.

iii. Other Price Risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Company is exposed to price risk with respect to commodities (specifically diamonds). The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company. Commodity price risk is limited as the Company is not a producing entity.

## 15. CAPITAL MANAGEMENT

The Company manages and adjusts its capital structure based on available funds in order to support the acquisition, exploration and development of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company includes the components of shareholders' equity (deficiency) in the management of capital. As at June 30, 2022, the Company reported a total shareholders' deficiency of $749,656 (June 30, 2021 - a shareholders' defiency of $174,666), comprised of share capital, reserves, cumulative translation adjustment, and deficit.

The properties in which the Company currently has an interest are in the exploration and evaluation stage. As such, the Company is dependent upon external financing to fund its activities. In order to carry out planned exploration and evaluation, and pay for administrative costs, the Company will spend its existing working capital and endeavour to raise additional amounts as needed. The Company will continue to assess and seek new properties and to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The Company's capital management objectives, policies and processes have remained unchanged during the years ended June 30, 2022 and 2021. The Company is not subject to any capital requirements imposed by a lending institution or regulatory body, other than Policy 2.5 of the TSX-V which requires adequate working capital or financial resources of the greater of (i) $50,000 and (ii) an amount required in order to maintain operations and cover general and administrative expenses for a period of 6 months. As at June 30, 2022, the Company was not in compliance with this policy.

**(Expressed in Canadian Dollars)**

## 16. INCOME TAXES

Major items causing the Company's income tax rate to differ from the Canadian combined federal and provincial statutory rate of approximately 26.5% (2021 - 26.5%) are as follows:

a) Provision for income taxes

| For the years ended June 30, | 2022 | 2021 |
|---|---|---|
| Loss before income taxes | **$ (574,990)** | $ (735,049) |
| Expected income tax (recovery) | **(153,000)** | (195,000) |
| Change in foreign exchange rates | **97,000** | 18,000 |
| Share issue costs | **-** | (8,000) |
| Differences in tax rates | **14,000** | 21,000 |
| Adjustment to prior year estimate | **(51,000)** | 35,000 |
| Change in unrecognized deductible temporary differences | **93,000** | 129,000 |
| Deferred income tax provision (recovery) | **$ -** | $ - |

b) Deferred tax balances

Deferred income tax assets have not been recognized in Canada and Botswana at June 30, 2022 and 2021 in respect of the following temporary differences:

| Deductible temporary differences | 2022 | 2021 |
|---|---|---|
| Non-capital losses - Canada | **$ 3,882,000** | $ 3,589,000 |
| Non-capital losses - Botswana | **4,805,000** | 4,926,000 |
| Share issue costs and other | **382,000** | 420,000 |
| Deductible temporary differences not recognized | **$ 9,069,000** | $ 8,935,000 |

c) As at June 30, 2022, the Company has available, non-capital losses for Canadian income tax purposes which may be carried forward to reduce taxable income in future periods. If not utilized, the non-capital losses will expire from 2031 to 2042 as follows:

| | |
|---|---|
| 2031 | **$ 633,000** |
| 2032 | **495,000** |
| 2033 | **240,000** |
| 2034 | **667,000** |
| 2035 | **298,000** |
| 2036 | **312,000** |
| 2038 | **184,000** |
| 2040 | **450,000** |
| 2041 | **303,000** |
| 2042 | **300,000** |
| | **$ 3,882,000** |

The Company also has available, non-capital losses of approximately $4,800,000 (Pula - 46,500,000) (2021 - $4,900,000; Pula – 43,800,000) for Botswana tax purposes which may be carried forward to reduce taxable income indefinitely.

## 17. SUBSEQUENT EVENTS

On July 15, 2022, the company entered into an agreement to acquire from Amulet Diamond Corporation ("**Amulet Canada**"), an arm's length party to the Company, all of the issued and outstanding shares of Amulet Diamond (Botswana) Pty Limited ("**Amulet Bots**") for nominal consideration, which entity holds certain plant and equipment assets (the "**BK11 Assets**") relating to the BK11 Mine, located in Letlhakane, Botswana. The BK11 Assets were originally acquired by Amulet Bots pursuant to the terms of a contractor and sampling services agreement, signed with Firestone Diamonds Limited and dated May 23, 2017.

As at the date hereof, Diacor International Ltd. ("**Diacor**"), which party is arm's length to each of Amulet Canada, Amulet Bots and the Company, holds security (the "**Amulet Security**") over all of the assets and undertakings of Amulet Canada in connection with the extension of a US$2 million loan (the "**Amulet Indebtedness**") made by Diacor to Amulet Canada in May 2017 and has consented to the transactions (the "**Transactions**") contemplated in the Agreement, including the discharge of the Amulet Security subject to the terms and conditions of the Agreement. As consideration for the release of the Amulet Security, Pangolin has agreed to use its best commercial efforts to liquidate the BK11 Assets following completion of the Transactions, subject to certain exceptions, and remit to Diacor 90% of the proceeds from such dispositions over a period of up to 18 months (the "**Disposition Period**") until Diacor has received US$500,000 in satisfaction of the Amulet Indebtedness.

In connection with the completion of the Transactions, Pangolin has agreed to grant Diacor a general security interest (the "**Pangolin Security**") in its assets and undertakings for the duration of the Disposition Period. Regardless of the value of the proceeds remitted to Diacor by Pangolin during the Disposition Period, Diacor has agreed to discharge the Pangolin Security upon the termination of the Disposition Period, at which point Diacor will no longer have any interest in and to the proceeds of any future sales of BK11 Assets, as Pangolin will retain a 100% interest in all such sales and any remaining BK11 Assets.