**DIAMOND FIELDS RESOURCES INC.**
**Consolidated financial statements**
**For the year ended December 31, 2021**

*(All amounts are expressed in United States dollars, unless otherwise stated)*

**Management's Responsibility for Financial Reporting**

The consolidated financial statements have been prepared by management who, when necessary, has made informed judgements and estimates of the outcome of events and transactions, with due consideration given to materiality. Management acknowledges its responsibility for the fairness, integrity and objectivity of all information in the consolidated financial statements.

As a means of executing its responsibility, management relies on the Company's system of internal control. This system has been established to ensure, within reasonable limits, that the assets are safeguarded, transactions are properly recorded and are executed in accordance with management's authorization, and that the accounting records provide a solid foundation from which to prepare the consolidated financial statements.

The Board of directors carries out its responsibility for the consolidated financial statements principally through its Audit Committee, consisting solely of non-management directors. This committee makes its recommendations to the Board of directors. Based on those recommendations, the Board of directors approves the consolidated financial statements.

May 2, 2022

# INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Diamond Fields Resources Inc.

***Opinion***

We have audited the accompanying consolidated financial statements of Diamond Fields Resources Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2021 and 2020, and the consolidated statements of profit or loss and other comprehensive income (loss), changes in equity (deficit), 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, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

***Basis for Opinion***

We conducted our audit 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 audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our opinion.

***Material Uncertainty Related to Going Concern***

We draw attention to Note 2 of the consolidated financial statements, which indicates that the Company had an accumulated deficit of $61,098,338 and incurred a net loss of $554,462 during the year ended December 31, 2021. As stated in Note 2, these events and conditions 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 obtained at the date of this auditor's report includes Management's Discussion and Analysis.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

***Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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 Glenn Parchomchuk.

Davidson & Company LLP

Vancouver, Canada | Chartered Professional Accountants

May 2, 2022

**DIAMOND FIELDS RESOURCES INC.**
**Consolidated statement of financial position**
**At December 31, 2021**
**(All amounts are expressed in U.S. dollars)**

| | Notes | December 31, 2021 | December 31, 2020 |
|---|---|---|---|
| | | **$** | **$** |
| **ASSETS** | | | |
| **Current** | | | |
| Cash and cash equivalents | **13** | **265,177** | 234,937 |
| Other receivables | | **53,512** | 23,846 |
| **Total current assets** | | **318,689** | 258,783 |
| **LIABILITIES** | | | |
| **Current** | | | |
| Accounts payable and accrued liabilities | | **383,074** | 313,665 |
| Derivative financial instruments | **11** | **-** | 518,763 |
| | | **383,074** | 832,428 |
| **SHAREHOLDERS' DEFICITS** | | | |
| Share capital | **10** | **56,848,151** | 55,784,887 |
| Contributed surplus | **10** | **4,175,556** | 4,175,556 |
| Accumulated deficit | | **(61,098,338)** | (60,543,876) |
| Accumulated other comprehensive income | | **10,246** | 9,788 |
| **Shareholders' deficits** | | **(64,385)** | (573,645) |
| **Total shareholders' deficits and liabilities** | | **318,689** | 258,783 |

***Events after the reporting period (Note 18)***

"John McGloin"
**Director**

"Bertrand Boulle"
**Director**

The above consolidated statement of financial position should be read in conjunction with the accompanying notes on pages 9 to 34.

**DIAMOND FIELDS RESOURCES INC.**
**Consolidated statement of profit or loss and other comprehensive income (loss)**
**For the year ended December 31, 2021**
**(All amounts are expressed in U.S. dollars)**

| | Notes | December 31, 2021 | December 31, 2020 |
|---|---|---|---|
| | | $ | $ |
| *CONTINUING OPERATION* | | | |
| **Operating expenses** | | | |
| Exploration and evaluation expenses | 7 | (510,340) | (238,691) |
| General and administrative expenses | 8 | (547,528) | (587,586) |
| Share-based compensation | 10,16 | - | (8,767) |
| | | (1,057,868) | (835,044) |
| Fair value movement on derivative instruments | 11 | 14,392 | 437,482 |
| Change in fair value of warrants prior to exercise | 11 | 510,522 | - |
| Interest income | | - | 10,352 |
| Interest expense | 12 | (15,123) | (56,107) |
| Foreign exchange loss | | (6,385) | (235,345) |
| | | 503,406 | 156,382 |
| **Net loss for the year** | | (554,462) | (678,662) |
| **Other comprehensive income** | | | |
| *Items that may be reclassified to profit or loss* | | | |
| Exchange differences on translation of foreign operations | | 458 | 8,478 |
| **Total comprehensive loss for the year** | | (554,004) | (670,184) |
| **Loss per share for loss attributable to the ordinary equity holders of the Company:** | | | |
| - Basic | | (0.01) | (0.01) |
| - Diluted | | (0.01) | (0.01) |
| **Weighted average number of common shares outstanding** | | | |
| - Basic | | 72,197,945 | 68,797,032 |
| - Diluted | | 72,197,945 | 68,797,032 |

The above consolidated statement of profit or loss and other comprehensive income (loss) should be read in conjunction with the accompanying notes on pages 9 to 34.

**DIAMOND FIELDS RESOURCES INC.**
**Consolidated statement of changes in equity (deficit)**
**For the year ended December 31, 2021**
**(All amounts are expressed in U.S. dollars)**

| | Number of shares | Share capital | Contributed surplus | Accumulated deficit | Accumulated other comprehensive income | Total |
|---|---|---|---|---|---|---|
| | | $ | $ | $ | $ | $ |
| Balance at January 1, 2020 | 67,895,662 | 55,633,167 | 4,166,789 | (59,865,214) | 1,310 | (63,948) |
| Share issue (net) | 1,000,000 | 151,720 | - | - | - | 151,720 |
| Share-based compensation | - | - | 8,767 | - | - | 8,767 |
| Loss for the year | - | - | - | (678,662) | - | (678,662) |
| Other comprehensive income - Translation adjustment | - | - | - | - | 8,478 | 8,478 |
| **Balance at December 31, 2020** | 68,895,662 | 55,784,887 | 4,175,556 | (60,543,876) | 9,788 | (573,645) |
| Balance at January 1, 2021 | 68,895,662 | 55,784,887 | 4,175,556 | (60,543,876) | 9,788 | (573,645) |
| Issuance of shares on exercise of warrants | 10,666,667 | 1,063,264 | - | - | - | 1,063,264 |
| Loss for the year | - | - | - | (554,462) | - | (554,462) |
| Other comprehensive income - Translation adjustment | - | - | - | - | 458 | 458 |
| **Balance at December 31, 2021** | **79,562,329** | **56,848,151** | **4,175,556** | **(61,098,338)** | **10,246** | **(64,385)** |

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes on pages 9 to 34.

**DIAMOND FIELDS RESOURCES INC.**
**Consolidated statement of cash flows**
**For the year ended December 31, 2021**
**(All amounts are expressed in U.S. dollars)**

| | Notes | December 31, 2021 | December 31, 2020 |
|---|---|---|---|
| | | $ | $ |
| **Cash flows from operating activities** | | | |
| Net loss for the year | | **(554,462)** | (678,662) |
| *Adjustments for non-cash items:* | | | |
| Foreign exchange loss | | **6,609** | 11,049 |
| Share-based compensation | | **-** | 8,767 |
| Fair value movement on derivative instruments | **11** | **(14,392)** | (437,482) |
| Change in fair value of warrants prior to exercise | **11** | **(510,522)** | - |
| Interest expense | **12** | **15,123** | 56,107 |
| | | **(1,057,644)** | (1,040,221) |
| *Changes in working capital:* | | | |
| Increase in other receivables | | **(29,666)** | (13,230) |
| Increase (decrease) in accounts payable and accrued liabilities | | **69,409** | (10,011) |
| | | **15,743** | (23,241) |
| **Net cash used in operating activities** | | **(1,017,901)** | (1,063,462) |
| **Cash flows from financing activities** | | | |
| Proceeds from exercise of warrants | | **48,141** | 151,720 |
| Proceeds from loans | **12** | **1,000,000** | 606,878 |
| Loans repayments | **12** | **-** | (606,878) |
| Interest paid | | **-** | (56,107) |
| **Net cash generated from financing activities** | | **1,048,141** | 95,613 |
| Net increase (decrease) in cash and cash equivalents | | **30,240** | (967,849) |
| Cash and cash equivalents at beginning of the year | | **234,937** | 1,202,786 |
| **Cash and cash equivalents at end of the year** | **13** | **265,177** | 234,937 |

***Supplemental cash flow information (Note 13)***

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes on pages 9 to 34.

## 1. CORPORATE INFORMATION

Diamond Fields Resources Inc.'s ("DFR" or the "Company") business activity is the exploration and evaluation of mineral properties in Namibia, Madagascar and worldwide. The Company was incorporated under the Canada Business Corporations Act on May 28, 2000 and has continued as a company under the Business Corporations Act of British Columbia. The Company is listed on the TSX Venture Exchange ("TSX-V"), having the symbol DFR, as a Tier 2 mining issuer and is in the process of exploring its mineral properties.

During the year, the Company has executed definitive agreements to enter into certain transactions as disclosed under note 17. On August 24, 2021, trading of DFR shares on the stock exchange was halted until further notice at the request of the Company to ensure a fair and orderly market. Upon closing, the transactions are expected to have a material impact on the Company's business as summarized below:

- DFR will have a controlling interest in one gold project and significant interests in other gold projects in West Africa;
- DFR will issue an aggregate of 88,700,000 new common shares ("Shares") of which 10,666,667 Shares have been issued to Spirit Resources SARL ("Spirit") following the exercise of 10,666,667 share purchase warrants and a further 3,500,000 Shares if certain Moydow Holdings Limited's warrants (Note 17) ("Moydow Warrants") are exercised;
- New equity funding in DFR and Moydow totalling $ 2,750,000 will be used to eliminate existing debt in DFR (including a $1,000,000 loan from Spirit eliminated upon the exercise of Spirit's warrants), fund exploration and for working capital purposes;
- There will be a new control person in addition to Mr. Jean-Raymond Boulle; and
- There will be certain changes to the Board of directors.

Currently, the Company's ultimate controlling party is Jean-Raymond Boulle through his private investment company, Spirit Resources SARL ("Spirit").

The address of the Company's corporate office and principal place of business is Suite 2900, 550 Burrard Street, Vancouver, British Columbia V6C 0A3, Canada.

## 2. NATURE AND CONTINUANCE OF OPERATIONS

These consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they become due.

At December 31, 2021, the Group had an accumulated deficit of $61,098,338 (December 31, 2020: $60,543,876) and incurred a net loss of $554,462 during the year ended December 31, 2021 (December 31, 2020: net loss of $678,662).

To date, the Company has financed its activities through the issuance of equity securities and debt financing, primarily from significant shareholders of the Company. The Company expects to use similar financing techniques in the future and is pursuing such additional sources of financing as estimated to be required to sufficiently support its operations until such time that its operations become self-sustaining.

Subsequent to the year end, the Company has made necessary financing arrangements to ensure that the Company continues as a going concern. Management believes that the funding will be sufficient to carry out operations over the next 12 months.

## 2. NATURE AND CONTINUANCE OF OPERATIONS (CONTINUED)

On March 11, 2022, the Company announced completing a new financing consisting of a private placement to raise US$ 3,250,000 in equity at a price of C$ 0.20, out of which US$ 3,132,500 shall be settled in cash and the difference of US$ 117,500 through the net-off of accruals arising on provision of services in consideration for 20,637,500 shares (the "New Financing"), subject to certain approvals to be voted during a special meeting of shareholders. DFR has also provided an update regarding the 210,000 Moydow warrants announced as part of the Definitive Agreements on August 25, 2021 which have not been exercised and have consequently lapsed. As part of the New Financing, DFR has entered into subscription agreements with several parties including:

- Spirit Resources SARL for US$ 500,000 for 3,175,000 shares;
- Brian Kiernan for US$ 1,000,000 for 6,350,000 shares; and
- 15 investors (including insiders and settlement of accruals) with participation between US$ 25,000 and US$ 550,000 for an aggregate of US$ 1,750,000 for 11,112,500 shares.

The COVID-19 pandemic continued during the year ended December 31, 2021 with several waves. This contagious disease has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company's business or ability to raise funds, but it has had a negative impact on the Company's operations in both Namibia and Madagascar.

## 3. STATEMENT OF COMPLIANCE

The consolidated financial statements of DFR have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The consolidated financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements were authorized for issue by the Board of directors on May 2, 2022

## 4. BASIS OF MEASUREMENT

The consolidated financial statements have been prepared on a historical cost basis, except that:

(i) financial instruments classified as fair value through profit or loss have been measured at fair value;
(ii) derivatives have been measured at fair value; and
(iii) other relevant financial assets and financial liabilities have been stated at amortised cost.

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

The consolidated financial statements are presented in U.S. Dollars ("USD"). The parent company's functional currency is the USD while the functional currency of the subsidiaries is the same as the respective local currencies of the countries in which they are based.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's significant accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 6.

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, unless otherwise indicated.

*(a) Basis of consolidation*

Subsidiaries

Subsidiaries are entities controlled by DFR (the "Parent"). The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Parent.

Transactions eliminated on consolidation

Inter-company balances, transactions, and any unrealized income and expenses arising from inter-company transactions, are eliminated in preparing the consolidated financial statements.

The consolidated financial statements include the accounts of the Parent and its subsidiaries, as shown below:

| **Name** | **Country of Incorporation** | **Class of Shares** | **Ownership Interest** |
|---|---|---|---|
| Kimberley Overseas | Cayman Islands | Common | 100% |
| Diamond Fields Sierra Leone Ltd. | British Virgin Islands | Common | 100% |
| Diamond Fields (Namibia) (Pty) Ltd. | Namibia | Common | 100% |
| Diamond Fields Operations (Namibia) Ltd. | Namibia | Common | 100% |
| Diamond Fields (South Africa) (Pty) Ltd. | South Africa | Common | 100% |
| Action Mining Ltd. | Mauritius | Common | 100% |
| Compagnie Générale des Mines de Madagascar | Madagascar | Common | 100% |
| Namibian Diamond Company (Pty) Ltd | Namibia | Common | 70% |

*(b) Foreign currencies*

Transactions and balances

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency of the entity at the exchange rate in effect at the statement of financial position date and non-monetary assets and liabilities at the exchange rates in effect at the time of the transactions. Revenues and expenses denominated in foreign currencies are translated at rates approximating the exchange rates in effect at the time of the transactions.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of profit or loss and other comprehensive income (loss).

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*(b) Foreign currencies (continued)*

Subsidiaries

The results and financial position of all the subsidiaries (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the functional currency of the parent are translated into United States dollars as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
(ii) income and expenses for each statement of profit or loss and other comprehensive income are translated at exchange rates approximating the exchange rates in effect at the time of the transactions; and
(iii) all resulting exchange differences are recognized within other comprehensive income (loss).

When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognized in the statement of profit or loss and other comprehensive income (loss) as part of the gain or loss on sale.

*(c) Cash and cash equivalents*

Cash and cash equivalents include cash in hand, deposits held at call with financial institutions and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and subject to an insignificant risk of change in value.

*(d) Financial instruments*

Financial Assets

The Company will classify financial assets at amortized cost, fair value through other comprehensive income or fair value through profit or loss, based on its business model for managing the financial assets and the financial assets' contractual cash flow characteristics. The three categories are defined as follows:

(i) *Amortized cost*

A financial asset is measured at amortized cost if both of the following conditions are met:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(ii) *Fair value through other comprehensive income*

Financial assets are classified and measured at fair value through other comprehensive income if they are held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*(d) Financial instruments (continued)*

(iii) *Fair value through profit or loss*

Any financial assets that are not held in one of the two business models mentioned above are measured at fair value through profit or loss.

When, and only when, the Company changes its business model for managing financial assets it must reclassify all affected financial assets. The Company's financial assets comprised other receivables, which are all measured at amortized cost.

Impairment of Financial Assets

The Company assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortized cost and fair value through other comprehensive income. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For receivables, the Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

Financial Liabilities

Financial liabilities are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognises a financial liability when its contractual obligations are discharged, cancelled or expired. The Company has the following financial liabilities: accounts payable, accrued liabilities, loans payable, and derivative liabilities. Accounts payable, accrued liabilities and loans payable are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest rate method.

This ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position. Interest expense in this context includes initial transaction costs and premiums payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

Derivative Financial Instruments

The Company may issue share purchase warrants and conversion options on convertible debentures or as part of units that have an exercise price denominated in a currency that is different to the functional currency of the Company, thus causing them to be classified as derivative liabilities. These instruments are measured at fair value through profit or loss through the application of an appropriate valuation model.

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*(e) Mineral properties*

The Company's properties are all currently in the Exploration and Evaluation ("E&E") stage. Acquisition and E&E expenditures incurred prior to the date of a positive economic analysis on the property are expensed as incurred. Direct costs incurred for the development of mineral properties, net of cost recoveries, are capitalized once the technical feasibility and commercial viability of extracting the mineral resource has been determined. On the commencement of commercial production, the net capitalized costs are charged to operations on a unit-of-production basis, by property, using the estimated proven and probable reserves as the depletion base.

Impairment of Non-Financial Assets

At the end of each reporting period, the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

*(f) Share-based compensation*

Where equity-settled share options are awarded to employees, the fair value of the options at the date of grant is charged to the statement of profit or loss and other comprehensive income (loss) over the vesting period described as the period during which all the vesting conditions are to be satisfied. Performance vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether these market performance vesting conditions are satisfied.

The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*(f) Share-based compensation (continued)*

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the statement of profit or loss and other comprehensive income (loss) over the remaining vesting period.

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

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

Equity-settled share-based compensation are reflected in contributed surplus, until exercised. Upon exercise, shares are issued from treasury and the amount reflected in contributed surplus is credited to share capital, adjusted for any consideration paid.

Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest except to the extent the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense.

*(g) Income taxes*

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

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. At the end of each reporting period, the Company reassesses unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*(h) Earnings (loss) per share*

Basic earnings (loss) per share is computed by dividing the net profit (loss) for the year attributable to the ordinary equity holders of the Company by the weighted average number of common shares outstanding for the relevant year.

Diluted earnings (loss) per common share is computed by dividing the net profit (loss) for the year attributable to the ordinary equity holders of the Company by the sum of the weighted average number of common shares issued and outstanding and all additional common shares that would have been outstanding, if potentially dilutive instruments were converted.

*(i) Provisions*

*Rehabilitation Provisions*

The Company is subject to various government laws and regulations relating to environmental disturbances caused by exploration and evaluation activities. The Company records the present value of the estimated costs of legal and constructive obligations required to restore the exploration sites in the year in which the obligation is incurred. The nature of the rehabilitation activities may include restoration, reclamation and re-vegetation of the affected exploration sites.

The rehabilitation provision generally arises when the environmental disturbance is subject to government laws and regulations. When the liability is recognized, the present value of the estimated costs is capitalized by increasing the carrying amount of the related properties. Over time, the discounted liability is increased for the changes in present value based on current market discount rates and liability specific risks.

Additional environment disturbances or changes in rehabilitation costs will be recognized as additions to the corresponding assets and rehabilitation liability in the year in which they occur. The Company does not have any rehabilitation provisions for the years presented.

*(j) Share capital*

Equity instruments are contracts that give a residual interest in the net assets of the Company. Instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares and stock options are classified as equity instruments.

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.

*(k) Revenue*

Sales of mineral products are recognized when control passes to the customer, the price can be measured reliably and collectability is reasonably assured. Revenue is measured at the fair value of the consideration received, excluding discounts and rebates. Revenue from minerals sales is credited against mineral property costs when generated from pre-commercial production; and to operations when generated from commercial production or if there are no capitalized mineral property costs.

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*(l) Application of new and revised International Financial Reporting Standards (IFRSs)*

In the current year, the Company has applied all new and revised Standards and Interpretations issued by the International Accounting Standards Board (''IASB'') and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 January 2021.

***New standards, interpretations and amendments that are effective for the current year***

There are a number of amendments to accounting standards that become applicable for annual reporting periods commencing on or after 1 January 2021 and the Company considers that their application does not have any significant impact on the amounts reported for the current and prior periods, and so, have not been discussed in detail in the notes to the financial statements:

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 - Interest Rate Benchmark Reform – Phase 2.
- Amendments to IFRS 16 - Covid-19-Related Rent Concessions.
- Amendments to IFRS 4 Insurance contracts - Deferral of IFRS 9

***New standards, interpretations and amendments not yet effective***

- Amendments to IFRS 3 Business Combinations Reference to the Conceptual Framework
- Amendments to IAS 16 Property, Plant and Equipment - Proceeds before Intended Use
- Amendments to IAS 37 Provisions, Contingent Liabilities, Contingent Assets Onerous Contracts – Cost of Fulfilling a Contract
- Annual Improvements 2018–2020
- Amendments to IAS 1 Classification of Liabilities as Current
- Amendments to IAS 1 Disclosure of Accounting policies
- Amendments to IAS 8 Definition of Accounting Estimates
- Amendments to IAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction
- IFRS 17 Insurance Contracts

Where relevant, the Group is still evaluating the effect of Standards, Amendments to published Standards and Interpretations issued but not yet effective, on the presentation of its consolidated financial statements.

## 6. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the reporting date and the reported amounts of income and expenses during the period. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Information about critical judgements in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the consolidated financial statements within the next financial year are discussed below:

**(All amounts are expressed in U.S. dollars)**

## 6. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

*(i) Share-based compensation transactions*

The Company measures the cost of equity-settled transactions with employees and other parties by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in note 10.

*(ii) Derivative financial instruments*

The Company has determined that its functional currency is the US dollar and had issued non-broker warrants in a currency other than its functional currency. The Company measures the cost of the derivative financial instruments by reference to the fair value of the instruments at the date at which they are granted and revalues them at each reporting date.

Estimating fair value for non-broker warrant transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the warrant, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating the fair value of the derivative financial instruments transactions are disclosed in note 11.

*(iii) Title to mineral property interests*

Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

## 7. EXPLORATION AND EVALUATION EXPENSES

| | **December 31, 2021** | December 31, 2020 |
|---|---|---|
| | **$** | $ |
| Namibian diamond project | **35,092** | 46,562 |
| Beravina zircon project | **14,842** | 44,924 |
| Other projects and new prospects | **460,406** | 147,205 |
| | **510,340** | 238,691 |

Exploration and evaluation expenses by nature of expenditure are summarized below:

| | **December 31, 2021** | December 31, 2020 |
|---|---|---|
| | **$** | $ |
| Consulting | **498,911** | 224,766 |
| Travel | **3,172** | - |
| Sample testing | **-** | 1,038 |
| Licences & other expenses | **8,257** | 12,887 |
| | **510,340** | 238,691 |

## 7. EXPLORATION AND EVALUATION EXPENSES (CONTINUED)

*Namibian Diamond project*

The Company holds a 100% interest in two diamond mining licenses through its subsidiary Diamond Fields Namibia (Pty) Ltd. ("DFN"), and a 70% interest in one diamond mining license through its subsidiary Namibian Diamond Company (Pty) Ltd., off the coast of Namibia.

On November 17, 2017, the Company entered into an agreement with International Mining and Dredging Holdings Proprietary Limited ("IMDH") and its partner, Namibian Underwater Technology And Mining (Pty) Ltd. ("NUTAM"), whereby NUTAM will have an exclusive right to mine the ML111 property. As consideration for the right to mine, NUTAM will pay DFN a sliding royalty based on production from the property. As no mining activity took place, no income was received during the year ended December 31, 2021 (December 31, 2020: nil).

*Madagascar Zircon project*

The Company's subsidiary, Kimberley Overseas, owns Action Mining Ltd., a Mauritius company which fully owns Compagnie Générale des Mines de Madagascar ("CGMM"). CGMM owns 100% of the mining license (Permis d'Exploitation PE8096) for the Beravina zircon deposit in Madagascar (the "Beravina Project").

On May 16, 2019, the Company entered into a cooperation agreement (the "Cooperation Agreement") with TMH Acquisition Co. ("TMH"), a special purpose vehicle established by Denham Mining Fund LP, to advance the Company's Beravina Project. Pursuant to the terms of the Cooperation Agreement, TMH made certain payments and funded the next stage of exploration work on the Beravina Project.

On June 26, 2020, the Company announced an amendment to the Cooperation Agreement (the "Amended Agreement") which required the Company to undertake a high-resolution magnetic drone survey, the development of digital elevation models and limited groundwork with the aim of locating potential new mineral deposits and extensions to the existing deposit. If successful, the Company will then engage in a drilling campaign on the Project to be completed by 30 November 2020. On September 29, 2020, due to ongoing travel and operational restrictions resulting from the COVID-19 pandemic, the Company announced it has agreed a further extension to the Cooperation Agreement, such that the deadline for the Company to complete the work under the Amended Agreement has been extended to July 31, 2021.

Following expiry of the Cooperation Agreement, DFR is considering its options with regards to the Beravina Project.

**(All amounts are expressed in U.S. dollars)**

## 7. EXPLORATION AND EVALUATION EXPENSES (CONTINUED)

*Atlantis II Red Sea project*

The Company entered into a joint venture agreement with Manafa International Trade Company ("Manafa") of Saudi Arabia dated August 3, 2008 (the "JVA"). Manafa holds an interest in an exclusive thirty-year mining license extending over the Atlantis II Deeps. Pursuant to the terms of the JVA, DFR and Manafa agreed that this license would be transferred into a joint venture company ("JVC") owned 50.1% by DFR and 49.9% by Manafa. However, development of the project has been on hold since April 2013 following a dispute with Manafa over contractual terms. As a result, the license held by Manafa has not been transferred to joint ownership as no JVC has been constituted. The Company does not currently hold any interest in Manafa or the Atlantis II license and cannot ascertain whether the licence is in good standing. The Company continues to explore avenues to resolve the dispute.

The Company has evaluated this arrangement under the criteria within IFRS 11, Joint Arrangements, and has concluded that the arrangement is not jointly controlled. At December 31, 2021, there are no assets or liabilities which are subject to this agreement aside from the license itself.

The Company continues to assert its rights to the project.

*Other projects and prospects*

During its normal course of business, the Company engages with different parties as authorities to seek business opportunities on an ongoing basis.

At the end of the reporting period:

(i) the Company entered into definitive agreements which may lead to the acquisition of certain projects as disclosed under note 17. Most of the costs reported under the sub-heading *Other projects and prospects* relate to the asset acquisition project disclosed under note 17; and

(ii) there was no other project which had reached a stage which would be considered as material for disclosure.

## 8. GENERAL AND ADMINISTRATIVE EXPENSES

| | **December 31, 2021** | December 31, 2020 |
|---|---|---|
| | **$** | $ |
| Directors and secretary fees | **196,875** | 262,500 |
| Salaries and consultancy fees | **184,065** | 166,456 |
| Audit and tax fees | **48,292** | 39,333 |
| Regulatory | **5,685** | 7,630 |
| Insurance | **21,568** | 17,482 |
| Investor relation | **61,214** | 45,492 |
| Office and other expenses | **29,829** | 48,693 |
| | **547,528** | 587,586 |

**(All amounts are expressed in U.S. dollars)**

## 9. INCOME TAXES

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

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

| | **December 31, 2021** | **December 31, 2020** |
|---|---|---|
| | **$** | **$** |
| Loss for the year | (554,462) | (678,662) |
| Expected income tax (recovery) | (150,000) | (183,000) |
| Change in statutory, foreign tax, foreign exchange rates and other | (240,000) | 17,000 |
| Permanent difference | 89,000 | 128,000 |
| Adjustment to prior years provision versus statutory tax returns and expiry of non-capital losses | 32,000 | (1,236,000) |
| Change in unrecognized deductible temporary differences | 269,000 | 1,274,000 |
| Total income tax expense (recovery) | - | - |

**Deferred tax assets and liabilities**

The significant components of the Company's deferred tax assets that have not been included on the consolidated statement of financial position are as follows:

| ***Deferred tax assets*** | **December 31, 2021** | December 31, 2020 |
|---|---|---|
| | **$** | **$** |
| Property and equipment | **105,000** | 105,000 |
| Share issue costs | **-** | 1,000 |
| Allowable capital losses | **1,587,000** | 1,590,000 |
| Non-capital losses available for future periods | **9,208,000** | 8,935,000 |
| | **10,900,000** | 10,631,000 |
| Unrecognised deferred tax assets | **(10,900,000)** | (10,631,000) |
| **Net deferred tax assets** | **-** | **-** |

**(All amounts are expressed in U.S. dollars)**

## 9. INCOME TAXES (CONTINUED)

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the consolidated statement of financial position are as follows:

| | **December 31, 2021** | **Expiry date range** | December 31, 2020 | Expiry date range |
|---|---|---|---|---|
| | $ | | $ | |
| ***Temporary differences*** | | | | |
| • Property and equipment | 388,000 | No expiry date | 388,000 | No expiry date |
| • Share issue costs | 1,000 | 2040 to 2042 | 4,000 | 2040 to 2042 |
| • Allowable capital losses | 5,877,000 | No expiry date | 5,890,000 | No expiry date |
| • Non-capital losses available for future periods | 29,941,000 | 2023 to indefinite | 23,978,000 | 2023 to indefinite |

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

## 10. SHARE CAPITAL

### (i) Authorized share capital

The authorized capital stock of the Company comprises an unlimited number of common shares without par value.

### (ii) Issued and outstanding share capital

At December 31, 2019, the Company had 67,895,662 issued and outstanding common shares. On February 13, 2020, the Company announced the completion of a working capital financing through the issuance of 1,000,000 common shares at a price of C$0.20 per share for gross proceeds of C$200,000 (in addition to C$800,000 debt financing). The Company had a total of 68,895,662 issued and outstanding common shares at December 31, 2020.

In August 2021, the Company entered into definitive agreements for certain transactions which, following closure, would cause material changes in the share capital and ownership structure of the Company (See note 17). On September 10, 2021, Spirit Resources SARL has exercised all the 10,666,667 share purchase warrants it was holding since September 22, 2016 and acquired 10,666,667 common shares in the Company in line with the definitive agreements disclosed under note 17 further below. Following this issue, at December 31, 2021, the Company had a total of 79,562,329 issued and outstanding common shares.

After the year end, Al Gourley has exercised 700,000 DFR Options (with an exercise price of C$0.145). As a result, 700,000 DFR common shares have been issued to him. Following this issue, the total number of shares issued and outstanding after the year end was 80,262,329 shares.

**(All amounts are expressed in U.S. dollars)**

## 10. SHARE CAPITAL (CONTINUED)

### (iii) Stock Options

The Company has adopted a fixed, less than 10% stock option plan (the "Plan"), under which the maximum number of stock options issued cannot exceed 6,789,000. The stock options issued to directors and officers vest in stages and become exercisable as to one third immediately, one third one year upon grant and the balance two years upon grant. Any stock options granted to consultants performing investor relations activities, vest in stages over twelve months. The exercise period for any stock options granted under the Plan cannot exceed ten years. The exercise price of options granted under the Plan cannot be less than the "discounted market price" of the common shares (the market price less the maximum discount permitted by the TSX-V).

**Outstanding and exercisable share options**

The following is a summary of changes in options from December 31, 2019 to December 31, 2021:

| | | | During the year/period | | | |
|---|---|---|---|---|---|---|
| Grant date | Expiry date | Opening balance | Granted | Exercised | Expired/ forfeited | Closing balance |
| **At December 31, 2019, 2020, and 2021** | | **5,150,000** | **-** | **-** | **-** | **5,150,000** |

No stock options were granted or forfeited for the year ended December 31, 2021 (December 31, 2020: nil granted, nil expired and nil forfeited). Share-based compensation accounted during the year was $ nil (year ended December 31, 2020: $8,767). At December 31, 2021, the unrecognized share-based compensation expense was $ nil (December 31, 2020: $ nil).

The following is a summary of options vested and outstanding at December 31, 2021:

| **Grant date** | **Expiry date** | **Exercise price (CAD)** | **Vested December 31, 2021** | **Outstanding at December 31, 2021** |
|---|---|---|---|---|
| 12/12/16 | Note [1] | $0.145 | 2,962,800 | 2,962,800 |
| 02/05/18 | 02/04/23 | $0.145 | 400,000 | 400,000 |
| 08/28/18 | 08/27/23 | $0.145 | 1,787,200 | 1,787,200 |
| **At December 31, 2021[2]** | | | **5,150,000** | **5,150,000** |

[1]Trading of DFR shares has been halted since August 2021 and will resume after closing of the Moydow transaction (expected towards the end of the second quarter of 2022). Holders of stock options with expiry date of 12/11/2021 shall thus be eligible to exercise the expiring stock options within 10 trading days following the resumption of trading of the DFR stock.

[2]After the year end, Al Gourley has exercised 700,000 DFR Options. As a result, 4,450,000 stock options were outstanding after the year end.

The weighted average exercise price of options outstanding at December 31, 2021 and December 31, 2020 was CAD $0.145.

**(All amounts are expressed in U.S. dollars)**

## 10. SHARE CAPITAL (CONTINUED)

### (iii) Stock Options (continued)

The fair value of options granted was determined using the Black-Scholes valuation model using the following weighted average assumptions:

- Expected volatility
- Risk-free interest rate
- Expected life (years)
- Dividend yield

### (iv) Share purchase warrants

A summary of share purchase warrants activity and information concerning currently outstanding and exercisable warrants from December 31, 2019 to December 31, 2021 is as follows:

| Grant date | Opening balance | During the year<br>Granted | Exercised | Forfeited / expired | **Closing balance** | Exercisable |
|---|---|---|---|---|---|---|
| At December 31, 2019 | 10,666,667 | - | - | - | **10,666,667** | 10,666,667 |
| Movement during the year | - | - | - | - | **-** | - |
| At December 31, 2020 | 10,666,667 | - | - | - | **10,666,667** | 10,666,667 |
| Movement during the year | | | (10,666,667) | | **(10,666,667)** | (10,666,667) |
| **At December 31, 2021** | 10,666,667 | - | (10,666,667) | - | **-** | - |
| Weighted average price CAD | $0.125 | - | $0.125 | - | **-** | - |

Spirit Resources SARL has fully exercised its share purchase warrants issued on September 22, 2016 at CAD $0.125 per warrant and thereby acquired 10,666,667 shares at the price of CAD $0.185 per share. The latter represents DFR's last trading price before the suspension of dealings in the shares of the Company on August 24, 2021. The proceeds from the exercise of the warrants amounted to US$ 1,063,264. After the settlement of the loan principal (US$ 1,000,000) and interest element (US$ 15,123) payable to Spirit Resources SARL (note 12), the balance of US$ 48,141 was received in cash.

### (v) Nature and purpose of equity

The reserves recorded in equity on the Company's consolidated statement of financial position include:

(a) "Contributed surplus" is used to recognize the value of share options granted prior to exercise.

(b) "Accumulated deficit" is used to record the Company's change in deficit from year to year.

(c) "Accumulated other comprehensive income" includes foreign exchange losses/gains on translating subsidiaries with a functional currency different from that of the U.S dollar.

## 11. DERIVATIVE FINANCIAL INSTRUMENTS

The Company had issued warrants for financing purposes at various prices. As the warrants have an exercise price denominated in Canadian dollars, which is different to the functional currency of the Company (U.S. dollar), the share purchase warrants are treated as a derivative financial liability and the fair value movement during the year was recognized in the statement of profit or loss and other comprehensive income (loss).

The change in fair value of the derivative financial liabilities measured using the Binomial valuation model is as follows:

| | Warrants (note 10) |
|---|---|
| | $ |
| At December 31, 2019 | 945,196 |
| Movement in fair value | (437,482) |
| Movement in foreign exchange rates | 11,049 |
| At December 31, 2020 | 518,763 |
| Movement in fair value | (14,392) |
| Movement in foreign exchange rates | 6,151 |
| **Balance before exercise of warrants** | 510,522 |
| Movement in fair value immediately prior to exercise of warrants | (510,522) |
| **At December 31, 2021** | **-** |

The fair value of the derivative financial instruments was determined using the Binomial valuation model using the weighted average assumptions outlined in the following table:

| | **At September 10, 2021 (Date of exercise)** | At December 31, 2020 |
|---|---|---|
| Expected volatility | **40%** | 116% |
| Risk-free interest rate | **0.38%** | 0.20% |
| Expected life | **0.04 years** | 0.73 years |

Spirit Resources SARL has exercised all the 10,666,667 share purchase warrants it was holding since September 22, 2016 and acquired 10,666,667 common shares in the Company. As the share purchase warrants were classified as derivative financial liabilities, they were revalued immediately prior to the exercise and the change in fair value amounting to US$ 510,522 was recognized in statement of profit or loss and other comprehensive income (loss).

**(All amounts are expressed in U.S. dollars)**

## 12. BORROWINGS

| | **December 31, 2021** | December 31, 2020 |
|---|---|---|
| | **$** | $ |
| Opening balance | **-** | - |
| Loans received | **1,000,000** | 606,878 |
| Interest accrued | **15,123** | 56,107 |
| Repayments by way of: | | |
| - exercise of share purchase warrants | **(1,015,123)** | - |
| - cash | **-** | (662,985) |
| **Balance at December 31,** | **-** | - |

A summary of loans and their maturity profiles at December 31, 2021 and December 31, 2020 are as follows:

| **Loan received from** | **Principal amount** | **Balance at year end** | **Interest rate over duration** | **Issuance date** | **Maturity date** |
|---|---|---|---|---|---|
| | $ | $ | % | | |
| ***At December 31, 2021*** | | | | | |
| Spirit Resources SARL[1] | 1,000,000 | - | 8% | April 30, 2021 | April 29, 2022 |
| *At December 31, 2020* | | | | | |
| Albert C Gourley Professional Corporation[2] | 303,480 | - | 10% | January 29, 2020 | December 31 or May 31, 2020 |
| Spirit Resources SARL[2] | 303,398 | - | 10% | February 5, 2020 | December 31 or May 31, 2020 |

**Notes:**

1. On April 30, 2021, the Company entered into an agreement with its major shareholder, Spirit Resources SARL ("Spirit") pursuant to which Spirit made available an unsecured term loan of US$ 1,000,000 (the "Loan") to the Company at an interest rate of 8% per annum. The Loan was to be used for general corporate purposes and would be repayable in full on April 29, 2022 or earlier upon receipt of the proceeds of any debt, equity or other financing. The Company had drawn down the whole amount of US$ 1,000,000 available under the Agreement on June 2, 2021. Subsequently, the Company entered into an agreement with Spirit Resources SARL whereby the loan would be fully repaid against the exercise of the share purchase warrants held by Spirit Resources SARL (see note 11). On September 10, 2021, Spirit Resources SARL exercised all its share purchase warrants for a total consideration of US$ 1,063,264. In line with the above second Agreement, Spirit Resources SARL retained the loan principal amount (US$ 1,000,000) and interest element (US$ 15,123) and paid the balance of US$ 48,141 to the Company.

**(All amounts are expressed in U.S. dollars)**

## 12. BORROWINGS (CONTINUED)

**Notes (continued):**

2. The loans were repayable on December 31, 2020 or may be repaid earlier in the event that the Company and its subsidiaries complete an equity financing or otherwise receive funding, payments or income equal to C$ 1,000,000; or the Company's Namibian subsidiary receives authorization from the Bank of Namibia ("BON") to remit not less than US$ 500,000 from Namibia. It received the authorization from BON and repaid the loans amounting to US$ 606,878 together with interest amounting to US$ 56,107 during the year ended December 31, 2020.

   Mr. Albert C Gourley is the chairman of the Company's Board of directors and he also controls Albert C Gourley Professional Corporation.

   Mr. Jean Raymond Boulle is the ultimate controlling party of the Company, holding his shares through Spirit Resources SARL.

   Following the authorization from BON and the remittance of part of the funds held to the Company's bank account in Canada, the loans have become payable early, and interest amounting to US$ 56,107 has been recognized in the statement of profit or loss and other comprehensive income (loss) for the year ended December 31, 2020.

## 13. CASH AND CASH EQUIVALENTS

(a) ***Analysis of cash and cash equivalents***

| | **December 31, 2021** | December 31, 2020 |
|---|---|---|
| | **$** | $ |
| Bank balance | **265,177** | 234,937 |
| **Balance at December 31,** | **265,177** | 234,937 |

(b) ***Non-cash transactions***

There was not any significant non-cash transactions during the years ended December 31, 2021 and 2020.

(c) ***Reconciliation of liabilities arising from financing activities***

***At December 31, 2021***

| | | | **Non-cash changes** | | |
|---|---|---|---|---|---|
| | **December 31, 2020** | **Cash flows** | **Acquisition** | **Foreign exchange movement** | **December 31, 2021** |
| | **$** | **$** | **$** | **$** | **$** |
| Liabilities arising from financing activities | - | - | - | - | - |
| Cash & cash equivalents | (234,937) | (30,240) | - | - | (265,177) |
| Net debt/(cash) | (234,937) | (30,240) | - | - | (265,177) |

**(All amounts are expressed in U.S. dollars)**

## 13. CASH AND CASH EQUIVALENTS (CONTINUED)

(c) ***Reconciliation of liabilities arising from financing activities (continued)***

*At December 31, 2020*

| | December 31, 2019 | Cash flows | Non-cash changes: Acquisition | Non-cash changes: Foreign exchange movement | December 31, 2020 |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| Liabilities arising from financing activities | - | - | - | - | - |
| Cash & cash equivalents | (1,202,786) | 967,849 | - | - | (234,937) |
| Net debt (cash) | (1,202,786) | 967,849 | - | - | (234,937) |

## 14. SEGMENTED INFORMATION

At December 31, 2021, the Company operates in four main geographical locations as set below. Other operations comprise South Africa and British Virgin Islands. However, they do not constitute a separate reportable segment.

Assets by geographic locations for the years ended December 31, 2021 and December 31, 2020 were as follows:

| **At December 31, 2021** | Head Office | Namibia | Madagascar | Other | Total |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| Total assets | 298,010 | 8,903 | 9,759 | 2,017 | 318,689 |

| **At December 31, 2020** | Head Office | Namibia | Madagascar | Other | Total |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| Total assets | 195,762 | 51,119 | 9,594 | 2,308 | 258,783 |

## 15. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENT RISKS

*(i) Capital Management*

The Company's objective when managing its capital is to ensure it has sufficient capital to maintain its ongoing mining operations and safeguard the Company's ability to continue as a going concern in order to pursue the continued development of its various mineral properties.

The Company's capital consists of shareholders' equity. The Company's policy is to fund ongoing exploration activities, as well as its administration and corporate activities, from the issuance of shares and debt instruments. The Company may acquire additional funds from capital or debt markets where advantageous circumstances arise. The Company assesses capital and debt markets on a case-by-case basis to minimize the cost of capital in the prevailing markets and maintain an optimal capital structure.

## 15. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENT RISKS (CONTINUED)

### *(i) Capital Management (continued)*

The Company may attempt to raise capital or borrow funds, although there is no certainty that such financing will be available with terms acceptable to the Company. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. No investments in asset backed commercial paper are used. There are no outside restrictions on the Company's capital.

The Company's capital management policies have not changed during the year.

### *(ii) Financial Instruments Risks*

The Company is exposed in varying degrees to a variety of financial instruments related risks. The type of risk exposure and the way in which such exposure is managed is provided as follows:

Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices are comprised four types of risk: foreign currency risk, interest rate risk, equity price risk and commodity price risk.

*Foreign currency risk*

Foreign currency risk is the risk that a variation in exchange rates between currencies with which the Company transacts will affect the Company's operations and financial results. The Company primarily transacts business in Canada, Namibia and Madagascar and purchases goods and services denominated in US dollars, Namibian dollars, Madagascan Ariary, Pounds Sterling and South African Rand. As such, the Company has exposure to foreign currency exchange rate fluctuations at this time. The Company has not entered into any agreements or purchased any instruments to hedge possible foreign currency risks.

The following table reflects the Company's foreign currency exposure as at December 31, 2021:

| | Currency CAD | Currency NAD | Currency GBP | Currency USD | Currency Other | Total |
|---|---|---|---|---|---|---|
| **Financial assets** | $ | $ | $ | $ | $ | $ |
| Cash and cash equivalents | 3,082 | 5,847 | - | 251,057 | 5,191 | 265,177 |
| Other receivables | 6,650 | 3,055 | - | 43,807 | - | 53,512 |
| | 9,732 | 8,902 | - | 294,864 | 5,191 | 318,689 |
| **Financial liabilities** | $ | $ | $ | $ | $ | $ |
| Accounts payable and accrued liabilities | 37,793 | 28,976 | - | 43,727 | 272,578 | 383,074 |
| Derivative financial instruments | - | - | - | - | - | - |
| | 37,793 | 28,976 | - | 43,727 | 272,578 | 383,074 |

**(All amounts are expressed in U.S. dollars)**

## 15. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENT RISKS (CONTINUED)

*(ii) Financial Instruments Risks (continued)*

Market Risk (continued)

*Foreign currency risk (continued)*

The following table reflects the Company's foreign currency exposure as at December 31, 2020:

| | Currency CAD | Currency NAD | Currency GBP | Currency USD | Currency Other | Total |
|---|---|---|---|---|---|---|
| **Financial assets** | $ | $ | $ | $ | $ | $ |
| Cash and cash equivalents | 7,708 | 49,414 | - | 177,117 | 698 | 234,937 |
| Other receivables | 1,743 | 1,704 | - | 20,399 | - | 23,846 |
| | 9,451 | 51,118 | - | 197,516 | 698 | 258,783 |
| **Financial liabilities** | $ | $ | $ | $ | $ | $ |
| Accounts payable and accrued liabilities | 46,615 | 37,460 | 147,583 | 73,079 | 8,928 | 313,665 |
| Derivative financial instruments | 518,763 | - | - | - | - | 518,763 |
| | 565,378 | 37,460 | 147,583 | 73,079 | 8,928 | 832,428 |

At December 31, 2021, with other variables unchanged, a 10% change in the Canadian dollar (''CAD''), Namibian dollar (''NAD'') and other currencies to USD exchange rate would result in $ 31,552 change in foreign exchange gain (loss) (December 31, 2020: $69,808).

*Interest rate risk*

The Company does not have any financial instruments subject to interest rate risk at December 31, 2021 (December 31, 2020: nil).

*Equity price risk*

Equity price risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Company has no equity holdings and is therefore not exposed to this risk.

*Commodity price risk*

Commodity price risk is the uncertainty associated with the valuation of assets arising from changes in commodities. Though the Company is at an early exploration stage it is exposed to price risk through its Namibian operations where intermittent mining and sale of products take place.

Credit risk

The Company is primarily exposed to credit risk on its cash and the risk of financial loss if a counterparty to a financial instrument fails to meet its financial obligation. Credit risk exposure on cash is limited through maintaining cash with high-credit quality financial institutions and instruments.

**(All amounts are expressed in U.S. dollars)**

## 15. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENT RISKS (CONTINUED)

*(ii) Financial Instruments Risks (continued)*

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking harm to the Company's reputation. The Company monitors cash flows to ensure it has sufficient available funds to meet current and foreseeable financial requirements at a reasonable cost.

The following is a summary of the Company's liabilities and their respective due dates at December 31, 2021 and December 31, 2020:

***At December 31, 2021***

| | **Total** | **< 1 year** | **1 – 2 years** |
|---|---|---|---|
| | **$** | **$** | **$** |
| **Accounts payable and accrued liabilities** | **383,074** | **383,074** | **-** |

*At December 31, 2020*

| | Total | < 1 year | 1 – 2 years |
|---|---|---|---|
| | $ | $ | $ |
| Accounts payable and accrued liabilities | 313,665 | 313,665 | - |

Determination of fair value

Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The statement of financial position carrying amounts for cash, receivables, accounts payable and accrued liabilities and derivative financial instruments approximate fair value due to their short-term nature. Due to the use of subjective judgments and uncertainties in the determination of fair values these values should not be interpreted as being realizable in an immediate settlement of the financial instruments.

IFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Company's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs)

The Company's cash is measured using Level 1 fair value measurements. The Company's derivative financial instruments are measured using level 3 inputs.

**(All amounts are expressed in U.S. dollars)**

## 16. RELATED PARTY TRANSACTIONS

In addition to the information disclosed under note 12 above, the Company recorded related party transactions in terms of compensation to key management personnel of the Company for the years ended December 31, 2021 and December 31, 2020, which are recorded in the following accounts in these consolidated financial statements:

| | **December 31, 2021** | December 31, 2020 |
|---|---|---|
| | **$** | $ |
| G&A - Jean Lindberg Charles, CFO and Secretary | **143,500** | 154,500 |
| G&A - Sybrand van der Spuy, COO | **150,000** | 150,000 |
| G&A, E&E - Fasken Martineau LLP[1] | **361,500** | 255,485 |
| E&E - David Reading | - | 16,107 |
| E&E - Bertrand Boulle | - | 8,767 |
| Total, excluding share-based compensation | **655,000** | 584,859 |
| | | |
| Share-based compensation – Directors & Officers | - | 8,767 |

*G&A - denotes general and administrative expenses.*
*E&E - denotes evaluation and exploration expenses.*

At December 31, 2021, a total of US$ 210,999 (December 31, 2020 - US$ 210,659) of fees and expenses were payable to related parties as follows:

| | **December 31, 2021** | December 31, 2020 |
|---|---|---|
| | **$** | $ |
| Jean Lindberg Charles, CFO and Secretary | **-** | 54,672 |
| Sybrand van der Spuy, COO | **25,000** | 12,500 |
| Fasken Martineau LLP[1] | **185,999** | 143,487 |
| | **210,999** | 210,659 |

**Note:**
1. Fasken Martineau LLP[1] - Albert C Gourley, a Director of the Company, holds office as the Regional Managing Partner of Fasken Martineau LLP.

## 17. ASSET ACQUISITION

On August 25, 2021, the Company announced it has entered into definitive agreements in respect of the acquisition of interests in Moydow Holdings Ltd (“Moydow”) and certain of its subsidiaries (the “Transaction”) to be settled through the issuance of common shares of DFR to Moydow’s security holders.

Moydow, a company registered in BVI, holds interests in a portfolio of gold assets in West Africa. Upon closing of the Transaction, DFR will control Moydow and take over Moydow’s portfolio of assets.

The Transaction involves a combined restructuring of Moydow’s shareholdings and a securities exchange with the current security holders of Moydow at the ratio of 16.46 DFR common shares for each Moydow common share (the “Exchange Ratio”) and 8.93 DFR shares for each Moydow share option, so that DFR shall issue in aggregate 71,880,320 shares to the current security holders of Moydow as consideration for its stake in the Moydow’s portfolio.

## 17. ASSET ACQUISITION (CONTINUED)

Moreover, Moydow has issued 210,000 share purchase warrants ("Moydow Warrants") to three Moydow shareholders, which if exercised (before December 31, 2021), would have converted into 3,456,600 shares. The Moydow Warrants expired unexercised.

Following the Transaction, DFR will acquire:

- An 80% interest in Moydow, which owns an option (until May 27, 2024) to acquire 100% of the Labola (Wuo Land) licence against further payment of US$ 1,000,000.

  At closing of the Transaction, DFR will be vested with an 80% effective interest in the project with Panthera Resources Plc ("PAT") holding a 20% carried interest. DFR will maintain its 80% interest on the condition that it invests US$18,000,000 in the Labola project by September 30, 2026. If DFR were to make no investments in Labola during the specified period, subject to the exercise by PAT of its buy back right (described below), its interest would decrease to no less than 60%. PAT shall have the right to acquire an additional 10% holding in Labola on the earlier of (i) 90 days following DFR completing an investment of US$18,000,000 in Labola; or (ii) 30 September 2026, by making a payment to DFR of up to US$7,200,000, to be adjusted down based on DFR's actual investment in the Labola project during the specified period.

- A 40% indirect interest in the Kalaka (Mali) licence which is intended to be operated by PAT which also holds a 40% interest and the remaining 20% interest is held by a local company.

- A 10% indirect interest in Gurara Holdings Limited ("Gurara") (which has interest in 3 Nigerian companies owning mineral assets) with PAT owning equally a 10% indirect interest, and the option (against certain payments) to jointly (DFR and PAT 50:50) own 65% of the Nigeria licences. Moydow has subsequently earned 51% interest in Gurara following incurring an aggregate of US$ 1,000,000 qualifying expenditures pursuant to a joint venture agreement (see DFR announcement dated August 25, 2021).

***Founder Investments US$ 2.75 million (of which US$2.4 million at DFR holding level)***

In connection with the Transaction, Brian Kiernan and Spirit have executed subscription agreements with DFR and otherwise agreed to invest a combined US$2,750,000 as part of the Transaction ("Founder Investments") as follows:

*(a) Spirit Resources SARL*

Spirit Resources SARL will invest US$ 1,500,000 into DFR through the exercise of 10,666,667 existing warrants having an exercise price of CAD $ 0.125 (CAD $ 1,333,334 or approximately US$ 1,063,264) and subscribe for 2,012,607 DFR common shares at a price of US$ 0.217 per share for US$ 436,736.

The proceeds will be used to settle the existing US$ 1,000,000 loan facility from Spirit and interest arising thereon amounting to US$ 15,123. Upon closing, considering the New Financing (see below) Spirit will own 39.7% of DFR issued and outstanding common shares.

As announced on September 10, 2021, Spirit Resources SARL has fully exercised its share purchase warrants at CAD $0.125 per warrant and thereby acquired 10,666,667 common shares in the Company in line with the Founder Investments agreements.

## 17. ASSET ACQUISITION (CONTINUED)

*(b) Brian Kiernan*

Brian Kiernan has agreed to exercise US$ 350,000 of his options in Moydow (the "Moydow Options") which will be exchanged for common shares of DFR at the Exchange Ratio on closing and to make a further investment of US$ 900,000 into DFR by way of a subscription for 4,147,465 common shares of DFR at a price per common share of US$ 0.217 conditional on the closing of the Transaction. The exercise of the Moydow Options and the subscription, together with a recent exercise of US$ 250,000 Moydow Options by Brian Kiernan, will result in an aggregate capital subscription of US$ 1,500,000. Upon closing, considering the New Financing (see below), Brian Kiernan will own 37.1% of DFR's issued and outstanding common shares. As such, Brian Kiernan will be considered a *Control Person* under the TSXV rules. Subsequent to the period end, Brian Kiernan has exercised his 350,000 US$1 options.

***New Financing of USD 3,250,000***

On March 11, 2022, the Company announced completing a new financing consisting of a private placement to raise US$ 3,250,000 in equity at a price of C$ 0.20, out of which US$ 3,132,500 shall be settled in cash and the difference of US$ 117,500 through the net-off of accruals arising on provision of services in consideration for 20,637,500 shares (the "New Financing"), subject to certain approvals to be voted during a special meeting of shareholders. DFR has also provided an update regarding the 210,000 Moydow warrants announced as part of the Definitive Agreements on August 25, 2021 which have not been exercised and have consequently lapsed. As part of the New Financing, DFR has entered into subscription agreements with several parties including:

- Spirit Resources SARL for US$ 500,000 for 3,175,000 shares;
- Brian Kiernan for US$ 1,000,000 for 6,350,000 shares; and
- 15 investors (including insiders and settlement of accruals) with participation between US$ 25,000 and US$ 550,000 for an aggregate of US$ 1,750,000 for 11,112,500 shares.

Assuming completion of the Transaction, the Founder Investments and exercise of all Moydow warrants, the current shareholders of DFR will own 56.4% and the Moydow shareholders will own 43.6% of the DFR issued and outstanding common shares.

## 18. EVENTS AFTER THE REPORTING PERIOD

There has been no material event since the end of the reporting period which would require disclosure or adjustment to the consolidated financial statements for the year ended December 31, 2021, except the following:

(i) On March 11, 2022, the Company announced completing a new financing consisting of a private placement to raise US$ 3,250,000 in equity at a price of C$ 0.20, out of which US$ 3,132,500 shall be settled in cash and the difference of US$ 117,500 through the net-off of accruals arising on provision of services in consideration for 20,637,500 shares (the "New Financing"), subject to certain approvals to be voted during a special meeting of shareholders.

(ii) After the year end, Al Gourley has exercised 700,000 DFR Options (with an exercise price of C$0.145). As a result, 700,000 DFR common shares have been issued. Following this issue, the total number of shares issued and outstanding after the year end was 80,262,329 shares.