STAR DIAMOND CORPORATION

Management's Discussion & Analysis

For the Fiscal Year Ended December 31, 2021

March 29, 2022

The following discussion and analysis is prepared by Management as of March 29, 2022 and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2021 ("financial statements for the year ended December 31, 2021") available on SEDAR at www.sedar.com. Star Diamond Corporation ("DIAM", "Star Diamond", or "the Company") prepared its financial statements for the year ended December 31, 2021 in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). All currency amounts are quoted in Canadian Dollars, unless otherwise stated.

Overview

Star Diamond Corporation is a Canadian natural resource company focused on exploring and developing Saskatchewan's diamond resources. As a result of the 2021 agreements (as discussed below), the Company is now in an enhanced position for the advancement of the Star - Orion South Diamond Project ("Project") and other kimberlite bodies in the Fort à la Corne diamond district.

During 2018, the Company announced the positive results of an independent Preliminary Economic Assessment ("PEA") on the Project. The PEA estimated that 66 million carats of diamonds could be recovered in a surface mine over a 38-year Project life, with a Net Present Value ("NPV") (7%) of $2.0 billion after tax, an Internal Rate of Return ("IRR") of 19% and an after-tax payback period of 3.4 years after the commencement of diamond production (see News Release dated April 16, 2018 and Technical Report dated May 30, 2018). The PEA was led by independent mining, processing and design consultants, with support from the Company's technical team. The PEA cash flow model is based on developing two open pits, initially on the Orion South Kimberlite and subsequently on the Star Kimberlite.

The PEA Highlights Included [1]:

- Total potential plant feed of 470 million tonnes at a weighted average grade of 14 carats per hundred tonnes ("cpht"), containing 66 million carats over the 34 year Life of Mine [2] ("LOM");
- The Base Case scenario (Model diamond price) has an NPV (7%) of $3.3 billion and an IRR of 22% before taxes and royalties, and an after-taxes and royalties NPV (7%) of $2.0 billion with an IRR of 19%;
- The Case 1 scenario (High Model diamond price) has an NPV (7%) of $5.4 billion for an IRR of 32% before taxes and royalties;
- Pre-production capital cost of $1.41 billion with a total capital cost of $1.87 billion (including direct, indirect costs and contingency) over the LOM and an initial capital cost payback period of 3.4 years.

1. Cautionary note: The PEA was prepared in accordance with National Instrument 43-101 Standards of Disclosure for Mineral Projects ("NI 43-101"). Readers are cautioned that the PEA is preliminary in nature and includes the use of Inferred Mineral Resources that are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as Mineral Reserves, and there is no certainty that the results of the PEA will be realized.

2. Diamond-bearing kimberlite is produced from the mine and diamonds are recovered in the processing plant for 34 years. The overall project life is 38 years, which includes just over four years of pre-stripping activities.

During 2018, the Saskatchewan Ministry of Environment ("Ministry") approved the Company's Star - Orion South Diamond Project (see News Release dated October 25, 2018). The Ministry indicated that it had conducted a thorough environmental assessment for the Project, including a detailed environmental impact statement, and carried out in-depth consultation prior to the decision to approve the Project. This included fulfilling the Province's duty to consult with local First Nations and Métis communities. The Canadian Environmental Assessment Agency previously announced a positive Environmental Assessment Decision for the proposed Project by the federal Environment Minister (see News Release dated December 3, 2014).

Fort à la Corne mineral properties (including the Project) Agreements with Rio Tinto Canada

In June 2017, the Company announced that it had acquired (the "Newmont Acquisition") from Newmont Corporation ("Newmont") all of its participating interest in the previous Fort à la Corne joint venture, resulting in the Company owning 100% of the Fort à la Corne mineral properties (including the Project), and concurrently entered into an Option to Joint Venture Agreement (the "Option Agreement") with Rio Tinto Exploration Canada Inc. ("Rio Tinto Canada"), a wholly-owned subsidiary of Rio Tinto plc, pursuant to which the Company granted Rio Tinto Canada an option to earn up to a 60% interest in the Company's Fort à la Corne mineral properties (including the Project) on the terms and conditions contained in the Option Agreement (see News Release dated June 23, 2017). Immediately after the closing of the Newmont Acquisition, Newmont held approximately 19.9% (15.6% at December 31, 2021) of the Company's common shares issued and outstanding on a non-diluted basis.

In November 2019, Star Diamond received notice from Rio Tinto Canada advising that Rio Tinto Canada was purporting to exercise all four of its options under the Option Agreement (see News Release dated November 15, 2019). In March 2020, the Company announced that it had commenced legal proceedings against Rio Tinto Canada in relation to Rio Tinto Canada's exercise notice of its options under the Option Agreement (see News Release dated March 5, 2020).

In December 2021, the Company entered into binding agreements with Rio Tinto Canada that comprehensively resolved all disputes between them (see News Release and related filings dated December 9, 2021). As part of these agreements, Star Diamond and Rio Tinto Canada agreed to revised arrangements. Under these new arrangements:

- All expenditures on the Fort à la Corne mineral properties (including the Project) prior to December 31, 2021 are the sole responsibility of Rio Tinto Canada;
- All expenditures incurred between January 1, 2022 and the public announcement of a decision to develop a diamond mining operation, based upon the completion of a positive feasibility study, will initially be advanced by Rio Tinto Canada. Star Diamond is not required to begin reimbursing Rio Tinto Canada for Star Diamond's share of these expenditures unless and until commercial production has been achieved. As a result, Star Diamond is under no obligation to contribute additional investment to the project until a decision to develop the mine is made and publicly announced;
- Once the decision to develop the mine has been announced, Star Diamond will have six months to begin contributing Star Diamond's share of the capital costs and expenditures required to build the mine; and
- In exchange for these amendments, the participating interests of Rio Tinto Canada and Star Diamond in the joint venture agreement were adjusted to 75% for Rio Tinto Canada and 25% for Star Diamond (from 60% and 40%, respectively, as per the previous Option Agreement).

These arrangements are intended to ensure that key project milestones, and the certainty associated with them, will have been achieved before Star Diamond has to contribute any additional capital.

Activities relating to the Star - Orion South Diamond Project and Fort à la Corne mineral properties

During 2019, the Company announced that Rio Tinto Canada completed the drilling of ten bulk sample holes (trenches) on the Company's Star Kimberlite using the Trench Cutter Sampling Rig. These ten trench cutter holes included a total of 2,351 metres of trench cutter drilling and intersected a total of 1,215.5 metres of kimberlite. Kimberlite was pumped to the surface and recovered using a Kimberlite Separation Unit, with samples loaded and stored in cubic metre bulk bags. During the second quarter of 2020, the Company announced that Rio Tinto Canada had commenced the processing of bulk samples from Rio Tinto Canada's trench cutter program on the Star Kimberlite (see News Release dated April 23, 2020). The mineral concentrates produced by the on-site bulk sample plant were shipped by Rio Tinto Canada to an off-site facility for diamond recovery and reporting of such recovery to Star Diamond and Rio Tinto Canada. The results reported from the ten trench cutter holes were reported by Star Diamond in 2020 and 2021. The results reported from these ten reported trenches continue to validate the grades outlined in the PEA that was based upon Star Diamond's own prior underground bulk sampling and large diameter drilling programs. The recovery of larger diamonds from Rio Tinto Canada's bulk sample program, including larger Type IIa diamonds, also continues to strengthen the expectation for recovery of large, high value diamonds in a future producing diamond mine.

During February 2021, Rio Tinto Canada provided written notice to Star Diamond that Rio Tinto Canada had successfully completed its ten-trench cutter hole bulk sample program (see News Release dated February 22, 2021). Rio Tinto Canada also confirmed to Star Diamond that this bulk sample program had met Rio Tinto Canada's objective of improving confidence in the diamond grade of the Project.

During the first quarter of 2021, the Company announced that Rio Tinto Canada had commenced an eight-hole geotechnical drilling program on and in proximity to the Orion North Kimberlite (see News Release dated January 19, 2021). The drill rigs utilized were capable of sonic drilling to obtain representative samples of the glacial overburden and core drilling for the underlying kimberlite or host rock sediments. Star Diamond was advised that the aim of this drilling was to investigate the geotechnical properties of the overburden, kimberlite and host rock sediments, with this information to be used for open pit design. Parts of the Orion North Kimberlite have shallower overburden than the Star and Orion South Kimberlites.

Rio Tinto Canada has indicated to the Company that a number of desktop studies have been undertaken to evaluate the mineability and economic viability of the Project (see News Release dated February 17, 2022). Star Diamond recently received presentations from both Rio Tinto Canada and Rio Tinto personnel concerning data analysis and exploration activities that have been underway by Rio Tinto Canada over the last two years (see News Release dated March 9, 2022). Topics of interest covered during these technical meetings included: 1) Star Kimberlite trench cutter bulk sampling program results, 2) Diamond size and quality analysis, 3) 'Orbit' project update, 4) Mineability study, 5) Geological model and resource update, 6) Community and stakeholder engagement, 7) Environmental and permitting and, 8) Green energy and carbon mineralization.

Rio Tinto Canada has informed Star Diamond that it intends to submit an additional program and budget to the "FalCon Project Joint Venture Management Committee" of the Fort à la Corne project (the "JVMC") for the period commencing May 31, 2022. Star Diamond will be reviewing materials relating to these topic areas with Rio Tinto Canada as the Company collaborates on 2022 programs and the budget to be approved by the JVMC.

Star Diamond, in concert with a number of external consultants, is also in the process of completing a diamond breakage study.

Selected Annual Information

Selected financial information of the Company for each of the last 3 fiscal years is summarized as follows:

	2021 $	2020 $	2019 $
Interest and other income (millions)	0.0	0.1	0.1
Net loss (millions)	7.7	6.1	4.1
Net loss per share (1)	0.02	0.01	0.01
Total assets (millions)	69.4	72.6	75.7
Total non-current liabilities (millions) (2)	1.1	1.3	1.6
Working capital (deficit) (millions)	(1.6)	4.0	7.7

(1) *Basic and diluted.*
(2) *Total non-current liabilities are comprised of environmental rehabilitation provisions (for which the Company has provided letters of credit, backed by short-term securities that are recorded on the Company's financial statements as restricted cash). Non-current liabilities also included contingent consideration relating to the Newmont Acquisition. The discounted present value of this contingent consideration at December 31, 2021 was $0.9 million (2020 - $0.9 million; 2019 - $0.7 million). Also included at December 31, 2021 is a lease liability of $0.1 million (2020 - $0.1 million; 2019 - $0.2 million) which relates to the adoption of IFRS 16 in 2019.*

Results of Operations

For the year ended December 31, 2021, the Company recorded a net loss of $7.7 million or $0.02 per share (basic and fully diluted) compared to a net loss of $6.1 million or $0.01 per share in 2020. The losses during 2021 and 2020 were primarily due to ongoing operating costs and exploration and evaluation expenditures incurred by the Company exceeding interest and other income earned.

Interest and other income

For the years ended December 31, 2021 and 2020, the Company reported interest and other income of $39 thousand and $85 thousand, respectively. The Company invests excess cash reserves in interest bearing short-term deposits while ensuring funds would be available for cash outflow requirements associated with the Company's exploration and evaluation projects. Other revenue is measured at the fair value of the consideration received or receivable for goods and services in the normal course of business.

Expenses

Expenses incurred during the year ended December 31, 2021 were $8.0 million compared to $6.1 million in 2020. This increase was primarily due to higher exploration and evaluation expenditures and consulting and professional expenditures, offset by lower share-based payments expensed during 2021. These amounts also include $0.6 million of share-based payments that were expensed during the year ended December 31, 2021 (2020 – $0.7 million).

Exploration and evaluation expenditures were $3.0 million for the year ended December 31, 2021 compared to $1.9 million for the same period in 2020. Exploration and evaluation expenditures incurred during 2021 and 2020 primarily related to metallurgical investigations, diamond analyses and test work for the Project as well as other costs associated with the Project. Approximately 17 percent, or $0.5 million (2020 – $0.7 million), of the exploration and evaluation expenditures were made up of compensation costs, including share-based payments, incurred by the Company.

Administration, consulting and professional fees and corporate development expenditures were $5.0 million, compared to $4.2 million in 2020. This $0.8 million increase from the same period in 2020 was primarily due to higher professional fees incurred, offset by lower non-cash share-based payments expensed during the year. Approximately $1.3 million (2020 – $1.2 million) of administration, consulting and professional fees and corporate development expenditures were made up of compensation costs, including share-based payments of $0.5 million (2020 – $0.5 million), incurred by the Company.

Use of flow-through proceeds

	$millions
Flow-through proceeds raised during 2019 (1) (2)	5.1
Flow-through eligible expenditures incurred to December 31, 2021	5.1
Remaining flow-through eligible expenditures to be incurred	0.0
Additional flow-through proceeds raised during 2020 (3)	1.0
Flow-through eligible expenditures to be incurred by December 31, 2022	1.0

(1) During 2019, the Company raised $5.1 million from flow-through financing activities to be used on exploration and evaluation activities.
(2) Due to the global COVID-19 pandemic, the Government of Canada extended the expenditure period ("FT Legislation") for incurring qualifying expenditures (to fulfill obligations under flow-through financing commitments) by one year. As a result, qualifying expenditures were to be incurred by December 31, 2021 (rather than by December 31, 2020).
(3) During 2020, the Company raised $1.0 million from flow-through financing activities to be used on exploration and evaluation activities before the end of 2022 (based on the FT Legislation discussed above).

The Company expects that exploration and evaluation expenditures to be incurred in 2022 will fulfill its obligations under its flow-through commitments.

Investment in Wescan Goldfields Inc.

At December 31, 2021, the Company held 5.8 million shares or 12.9% (December 31, 2020 – 5.8 million shares) of Wescan Goldfields Inc. ("Wescan"), a publicly traded company listed on the TSX Venture exchange. The Company considers certain judgments and assumptions when assessing whether significant influence exists over its investments. This includes an assessment of the Company's ability to participate in financial and operating policy decisions of the investee. The existence and effect of potential voting rights held by the investor or other entities were also considered. The fair value of this investment, based on the closing trading price at December 31, 2021, was $668 thousand (2020 – $377 thousand). As a result, during 2021 the Company recognized a $291 thousand increase (2020 – $145 thousand) in the carrying value of its investment in Wescan.

Financing

During 2021, the Company completed a $2.0 million private placement of 13.3 million common shares.

During 2020 the Company completed a $1.0 million private placement of 5.6 million flow-through common shares. In addition, during the year ended December 31, 2020 the Company issued 0.1 million common shares from treasury as a result of deferred share units ("DSUs") that were redeemed, 3.5 million options (weighted average exercise price of $0.21) and 0.7 million common shares pursuant to an agreement with a third-party consulting and professional service provider.

Summary of Quarterly Results

	2021				2020			
	Qtr 4	Qtr 3	Qtr 2	Qtr 1	Qtr 4	Qtr 3	Qtr 2	Qtr 1
Income (1) ($millions)	**0.0**	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Net loss (2) ($millions)	**2.5**	2.0	2.1	1.1	2.0	1.6	1.5	1.0
Net loss per share (3) ($)	**0.00**	0.00	0.01	0.00	0.00	0.01	0.00	0.00
Shares outstanding (millions) (4)	**452.8**	452.8	452.8	452.8	438.7	432.8	429.3	429.1

(1) Income relates to revenue for services provided as well as interest earned on the Company's cash and short-term investments.
(2) Net losses relate to expenditures incurred by the Company exceeding income earned.
(3) Basic and diluted.
(4) During the first quarter of 2021, the Company completed a private placement of 13.3 million common shares. In relation to this private placement, the Company also issued 0.8 million common shares. During the fourth quarter of 2020, the Company completed a private placement of 5.6 million flow-through shares. In relation to this private placement, the Company also issued 0.3 million common shares. Other changes in shares outstanding were due to shares issued from treasury as a result of option exercises and vested Deferred Share Unit ("DSU") redemptions.

Fourth quarter results

For the quarter ended December 31, 2021, the Company recorded a net loss of $2.5 million or $0.00 per share compared to a net loss of $2.0 million or $0.00 per share for the same period in 2020. These losses were primarily due to operating costs and exploration and evaluation expenditures incurred by the Company.

Expenses incurred during the quarter ended December 31, 2021 were $2.8 million compared to $1.7 million for the same period in 2020.

Exploration and evaluation expenditures incurred during the quarter ended December 31, 2021 were $0.6 million, compared to $0.7 million during the same period in 2020. Exploration and evaluation expenditures incurred during the quarters ended December 31, 2021 and 2020 were primarily related to metallurgical investigations, diamond analyses and test work for the Project as well as other costs associated with the Project.

In addition, administration, consulting and professional fees, and corporate development expenditures for the quarters ended December 31, 2021 were $2.2, compared to $1.0 million during the same period in the prior year.

During the fourth quarter of 2020, the Company announced the successful completion of a private placement for gross proceeds of $1.0 million.

Related Party Transactions

During 2021, Mr. Kenneth E. MacNeill (President and Chief Executive Officer), through his consulting company, held management and consulting contracts with the Company. Mr. MacNeill's monthly fees during the year ended December 31, 2021 were $20 thousand (2020 – $20 thousand).

During the fourth quarter of 2020, the Company announced that Mr. Read had assumed the consultancy title of Senior Technical Advisor to the Company (see News Release dated October 14, 2020). Mr. Read continues to support the Company with his considerable expertise and continues to prepare technical information for the Company as a "Qualified Person" under the definition of NI 43-101. Prior to this announcement, Mr. Read's monthly fees as Senior Vice President of Exploration and Development were $15 thousand.

Total compensation paid or payable to officers (including amounts paid through companies controlled by Mr. MacNeill) and to directors of the Company during the year ended December 31, 2021 was $1.0 million (2020 – $1.2 million). Of these amounts, $1.0 million (2020 – $1.0 million) was included in administration expense and $0.0 million was included in exploration and evaluation expense (2020 – $0.2 million). Included in these amounts are share-based payment transactions of $0.4 million (2020 – $0.6 million).

The above transactions were in the normal course of operations and are measured at an amount agreed to by the related parties. The fair value of share-based payments in the form of options was determined using the Black-Scholes model. The fair value of share-based payments in the form of RSUs and DSUs was determined based on the five-day volume weighted average trading price of the Company's shares preceding the date of grant.

Liquidity

The Company does not currently operate any producing properties and, as such, is dependent upon the issuance of new equity to finance its ongoing obligations and advance its exploration and evaluation properties. Until the Company's surplus cash is required to fund exploration, evaluation and/or development activities it is invested in a variety of highly rated instruments.

At December 31, 2021 the Company had $1.3 million (2020 – $4.8 million) in cash and cash equivalents. The Company has also supplied $0.6 million (2020 – $0.6 million) of irrevocable standby letters of credit issued by a Canadian chartered bank. The Company backs the letters of credit with investments which have been recorded on the financial statements as restricted cash. The Company does not include restricted cash in its working capital when analyzing its liquidity requirements. As well, at December 31, 2021, the Company is required to spend $1.0 million on qualifying expenditures to fulfill its obligations under its flow-through commitments.

Capital Resources and Outstanding Share Data

As at December 31, 2021 the Company had a working capital deficit of $1.6 million compared to working capital of $4.0 million at December 31, 2020. The Company believes it has sufficient liquidity to continue operations until further financing is arranged.

At December 31, 2021 the Company had 452,804,364 common shares that were issued and outstanding, as well as 1,016,600 DSUs, 4,531,600 RSUs, 19,741,700 options (weighted average exercise price of $0.21), 16,111,112 warrants (weighted average exercise price of $0.25) and 1,077,778 broker warrants (weighted average exercise price of $0.19) that were outstanding.

As at March 29, 2022, the Company has 455,457,142 common shares that were issued and outstanding, an increase of 2,6527,778 from December 31, 2021. This increase was due to option, warrant and broker warrant exercises. As at March 29, 2022, the Company also has 1,016,600 DSUs, 4,531,600 RSUs, 19,416,700 options (weighted average exercise price of $0.21) and 14,861,112 warrants (weighted average exercise price of $0.25) outstanding.

Financial Instruments

As at December 31, 2021, the fair values of all of the Company's financial instruments approximates their carrying values. Certain financial instruments are exposed to the following financial risks:

Credit risk
Credit risk is the risk of an unexpected loss by the Company if a customer or third-party to a financial instrument fails to meet its contractual obligations. The Company considers this risk to be insignificant as the majority of the Company's cash and cash equivalents, and restricted cash are held by financial institutions with an A (low) credit rating or are invested in Government of Canada treasury bills which are backed by the Government of Canada. At December 31, 2021, the Company's credit risk relates to its cash and cash equivalents, receivables and restricted cash of $2.0 million (December 31, 2020 – $5.5 million).

Liquidity risk
Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to forecast future cash flows to ensure that it will have sufficient liquidity to meet its obligations when due. To ensure the Company has sufficient cash on hand, the Company prepares annual capital and operating budgets which are regularly monitored and updated as considered necessary. As at December 31, 2021, the Company had a working capital deficit of $1.6 million and cash of $1.3 million (excluding restricted cash) and is required to incur $1.0 million of qualifying expenditures as a result of the flow-through share financings. Given that cash flow from operations and working capital are negative, the Company is dependent on additional sources of financing in 2022 and beyond.

As at December 31, 2021, the Company is committed to trade payables and other operating leases as set out in the following table on an undiscounted basis:

(millions)	Up to 3 months	Between 3 months and 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
Trade payables and accrued liabilities	$ 2.8	$ -	$ -	$ -	$ -	**$ 2.8**
Lease payments	-	0.1	0.1	-	-	**0.2**
Total	**$ 2.8**	**$ 0.1**	**$ 0.1**	**$ -**	**$ -**	**$ 3.0**

Excluded from this table is the contingent consideration as described in note 10 to the financial statements for the year ended December 31, 2021. An estimate of the discounted present value of this contingent consideration was determined to be $0.9 million at December 31, 2021 (2020 - $0.9 million). The ultimate settlement and timing of payment, if any, is currently not determined.

As at December 31, 2021, the Company had guaranteed certain liabilities by issuing $0.6 million (December 31, 2020 – $0.6 million) of irrevocable standby letters of credit. These guarantees relate to future environmental rehabilitation. The Company backs the letters of credit with investments which have been recorded on the financial statements as restricted cash. The Company does not include restricted cash in its working capital when analyzing its liquidity requirements.

The Company may pursue options to finance further exploration, evaluation and/or development as it currently does not have sufficient funds to bring any of its property interests into production from its own financial resources. Financing options may include equity financing, debt financing or other means. Although the Company has been successful in the past in obtaining financing, there can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favorable. Failure to obtain additional financing could result in delay or indefinite postponement of further exploration, evaluation and/or development of its projects with the possible loss of such properties.

The Company is aware, in making its going concern assessment, of material uncertainties related to events and conditions that cast significant doubt upon the Company's ability to continue as a going concern. At December 31, 2021, the Company had a working capital deficit of $1.6 million and cash of $1.3 million (excluding $0.6

million of restricted cash), of which $1.0 million is committed to be spent on qualifying expenditures by December 31, 2022. The ability of the Company to continue as a going concern and fund general and administrative expenses in an orderly manner will require further equity issuances or other forms of financings in 2022 and beyond. In March 2020, the World Health Organization declared a global pandemic related to the novel coronavirus known as COVID-19. The duration and magnitude of the impact on the economy and equity markets are not known at this time. An extended disruption to equity markets may affect the Company's ability to obtain additional financing. There is no assurance that the Company will be successful in obtaining required financing at an acceptable cost as and when needed or at all. Failure to obtain additional financing on a timely basis may cause the Company to postpone exploration and/or evaluation plans, forfeit rights in its properties or reduce or terminate its operations. The Company is assessing opportunities to address the issue of liquidity.

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

Foreign currency risk:
Foreign currency risk is the risk that a variation in exchange rates between the Canadian dollar and US dollar or other foreign currencies will affect the Company's operations and financial results. The Company does not have significant exposure to foreign exchange rate fluctuation since transactions and balances in foreign currencies are minimal, if any.

Commodity price risk:
Commodity price risk is the risk that a variation in commodity price will affect the Company's operations and financial results. The Company does not have significant exposure to commodity price fluctuations since it is currently not producing.

Interest rate risk:
Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company does not have any borrowings. Interest rate risk is limited to potential decreases on the interest rate offered on cash and cash equivalents, short-term investments and restricted cash held with chartered Canadian financial institutions. The Company considers this risk to be immaterial.

Equity price risk:
Equity price risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Company is exposed to this risk through its equity holdings. The investment in the common shares of Wescan is monitored by management with recommendations on any sale taken to the Company's Board of Directors. A ten percent decrease in the market price of Wescan would result in a $67 thousand decrease in fair value.

Critical Accounting Estimates and Judgments

The financial statements for the year ended December 31, 2021 have been prepared in accordance with IFRS issued by the IASB. The Company's accounting policies are described in Note 4 to the financial statements for the year ended December 31, 2021. Certain of these policies involve critical accounting estimates as they require management to make particularly subjective or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts could be reported under different conditions or using different assumptions. The uncertainties related to these areas could significantly impact the Company's results of operations, financial condition and cash flows.

In preparing the financial statements for the year ended December 31, 2021, significant judgments and estimations have been made by management in applying the Company's accounting policies. In particular, the significant areas of judgment and estimation uncertainty considered by management in preparing the consolidated financial statements are: identification of cash generating units, exploration and evaluation expenditures, reserve and resource estimation, asset valuations and impairment of exploration and evaluation assets, estimations for environmental rehabilitation provisions, share-based payment transactions and estimation of contingent consideration payable. These are discussed in more detail in Note 5 of the Company's financial statements for the year ended December 31, 2021.

A critical accounting estimate in determining the Company's financial results relates to the recoverability of the carried amounts of exploration and evaluation assets. Management monitors these assets for indications of impairment at each reporting date. Where impairment indicators exist, management will estimate the recoverable amount of these assets in comparison to the carrying values.

Accounting Changes

Accounting Changes during the period

At the date of authorization of the consolidated financial statements for the year ended December 31, 2021, the IASB has not issued any new standards which became effective for the reporting period that would have a material impact on the Company.

IFRS standards issued but not yet effective

<u>IAS 16 – Property, Plant and Equipment</u>
On May 14, 2020, the IASB issued an amendment to IAS 16 Property, Plant and Equipment to prohibit deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The proceeds from selling such items, and the cost of producing those items are to be recognized in profit and loss. The amendments are effective for annual periods beginning on or after January 1, 2022 with early adoption permitted. The amendment is to be applied retrospectively only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the earliest period presented in the financial statements in the year in which the amendments are first applied. The amendment will not have a material financial impact at the time of adoption.

<u>IAS 37 – Provisions, Contingent Liabilities and Contingent Assets</u>
On May 14, 2020, the IASB issued an amendment to IAS 37 Provisions, Contingent Liabilities and Contingent Assets to specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous. The amendment specifies that the cost of fulfilling a contract comprises the costs that relate directly to the contract. Costs that relate directly to the contract can either be incremental costs of fulfilling the contract or an allocation of other costs that relate directly to fulfilling contracts. The amendments are effective for contracts for which the Company has not yet fulfilled all its obligations on or after January 1, 2022 with early adoption permitted. The amendment will not have a material financial impact at the time of adoption.

There are no IFRSs or International Financial Reporting Interpretations Committee ("IFRIC") interpretations that are not yet effective that would be expected to have a material impact on the Company.

Disclosure Controls and Procedures

The Company has disclosure controls and procedures in place to provide reasonable assurance that any information required to be disclosed by the Company under securities legislation is recorded, processed, summarized and reported within the applicable time periods, and to ensure that required information is gathered and communicated to the Company's management so that decisions can be made about timely disclosure of that information. In accordance with the requirements of *National Instrument 52-109 Certification of Disclosure in Issuer's Annual and Interim Filings*, the Company's management, under the supervision and with the participation of the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), are responsible for establishing and maintaining disclosure controls and procedures and have caused these to be designed to provide reasonable assurance that material information is made known to management, particularly during the period in which these filings are being prepared; and information required to be disclosed is recorded, processed, summarized and reported within the time periods specified in securities legislation.

As at the end of the period covered by this MD&A and accompanying consolidated financial statements, the CEO and the CFO have reviewed and evaluated the design and effectiveness of the Company's disclosure controls and procedures. Based on that evaluation, the CEO and the CFO have concluded that the Company's disclosure controls and procedures were effective as at December 31, 2021.

There have been no significant changes in the Company's disclosure controls during the year ended December 31, 2021.

Internal Controls over Financial Reporting Procedures

The Company's management is responsible for establishing and maintaining adequate internal controls over financial reporting. Any system of internal controls over financial reporting, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. In accordance with the requirements of *National Instrument 52-109 Certification of Disclosure in Issuer's Annual and Interim Filings*, the Company's management, under the supervision and with the participation of the CEO and the CFO and effected by the Company's board of directors, have designed the Company's internal controls over financial reporting as of December 31, 2021 so that the internal controls over financial reporting provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS issued by the IASB and interpretations of the IFRIC.

Management, including the CEO and the CFO, assessed the effectiveness of the Company's internal controls over financial reporting as at December 31, 2021. In making its assessment, management, including the CEO and the CFO, used the criteria set forth in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concluded that the Company's internal controls over financial reporting were effective as at December 31, 2021.

There have been no significant changes to internal controls over financial reporting during the year ended December 31, 2021 that could have materially affected or are reasonably likely to materially affect the Company's internal controls over financial reporting.

Outlook

The provincial environmental approval of the Project received in 2018, alongside the previous positive federal decision, marked a major milestone for the Project. In addition, the positive results of the 2018 independent PEA show that the Project can be economically developed and operated while providing direct employment for hundreds of people throughout the construction phase and hundreds of people continuously over its estimated 38 year mine life.

The successful completion of the 2017 consolidation of the Fort à la Corne mineral properties (including the Project) and the amended Fort à la Corne joint venture agreement that was announced in December 2021 defines a new phase for the Company. Under the amended Fort à la Corne joint venture agreement , expenditures incurred at the Fort à la Corne properties ("carried interest costs") from and after January 1, 2022 are to be 100% advanced by Rio Tinto Canada in the first instance until, among other things: (a) the completion of a feasibility study demonstrating that extraction of diamonds is reasonably justified (economically mineable) and that contemplates the construction and operation of a diamond mining operation having certain minimum requirements; (b) a positive decision has been made to develop such mine; (c) a development program and budget for the construction of such mine has been approved; and (d) public disclosure has been made of the decision to develop such mine. Star Diamond will have no obligation to fund or contribute to carried interest costs until the commencement of commercial production, which will not occur until after the completion of construction of the diamond mine with it generally operating at certain specified thresholds for 90 days. Once a decision to develop the mine has been made and publicly announced, Star Diamond will have six months before it is required to begin contributing to its share of capital costs and expenditures incurred for construction of the mine. As part of the December 2021 amendments, the respective participating interests of Rio Tinto Canada and Star Diamond were adjusted to 75% for Rio Tinto Canada and 25% for Star Diamond.

As of March 29, 2022, the Company had approximately $1.3 million in cash and cash equivalents (excluding $0.6 million in restricted cash). A portion of the Company's cash and cash equivalents will be used for programs (including remaining flow-through commitments) to further assess, evaluate and advance certain aspects of the Company's mineral properties, as well as for general corporate matters.

The Company recently announced that it intends to raise up to $5 million by way of a non-brokered private placement of units of the Company (collectively, the "Units") at a price of $0.30 per Unit (the "Offering") (see News Release dated March 16, 2022). Each Unit will consist of one common share in the capital of the Company (each, a "Common Share") and one Common Share purchase warrant (each, a "Warrant"). Each Warrant will entitle the holder thereof to purchase one Common Share at a price of $0.40 for a period of 24 months from the date of issuance.

Risks and Uncertainties

The principal risks faced by the Company include, without limitation: the Company's ability to obtain financing to further the exploration, evaluation and/or development of exploration and evaluation properties in which the Company holds interests; changes in exploration, development or mining plans due to exploration results and changing budget priorities of Rio Tinto Canada or the Company; maintaining title to property claims in which the Company holds interests; obtaining the required permits from various federal, provincial and local governmental authorities; the ultimate economic feasibility of any future development projects; the impact of the COVID-19 pandemic; and the effectiveness of the extraction and diamond methodologies used by Rio Tinto Canada.

The further exploration, evaluation and/or development of exploration and evaluation properties in which the Company holds interests or which the Company acquires may depend upon the Company's ability to obtain financing through equity financing, debt financing or other means. The Company currently does not have sufficient funds to put any of its property interests into production from its own financial resources. There is no assurance that the Company will be successful in obtaining required financing as and when needed. Failure to obtain additional financing on a timely basis may cause the Company to postpone development plans, forfeit rights in its property interests, have its ownership interest in properties diluted or reduce or terminate its operations. Reduced liquidity or difficulty in obtaining future financing could have an adverse impact on the Company's future cash flows, results of operations and financial condition. The relative prices of diamonds and future expectations for such prices have a significant impact on the market sentiment for investment in diamond mining and exploration companies. To ensure that exploration and evaluation procedures are being performed effectively and those results are interpreted and reported in a proper manner, management ensures that qualified individuals, service providers and external consultants are utilized in the verification and quality assurance of analytical results.

Title disputes could have adverse consequences to the Company. Managing these issues is an integral part of exploration, development and mining in Canada and the Company is committed to managing these issues effectively. The Company has in the past diligently investigated title to its claims. However, no assurance can be given that title to these properties will not be challenged or impugned in the future by third parties or governments.

The current or future operations of the Company, including development activities and commencement of production on its properties, require permits from various federal, provincial and local governmental authorities. Failure to comply with applicable laws, regulations, and permitting requirements may result in permits not being granted or enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. In addition, application for permits will be required for the construction and operation of the proposed Project. While the majority of permits will be required from provincial authorities, permits required from the federal government include authorization from the Department of Fisheries and Oceans to allow anticipated changes to fish and fish habitat, permits from Natural Resources Canada for the explosives storage site and authorizations from Environment and Climate Change Canada and Transport Canada.

All of the Company's property interests are currently in the exploration stage. The exploration, development and production of precious metals and gems are capital-intensive, subject to the normal risks and capital expenditure requirements associated with mining operations. While the rewards can be substantial if commercial quantities of minerals or gems are found, there can be no assurance that the Company's past or future exploration efforts will be successful, that any production therefrom will be obtained or continued, or that any such production which is attempted will be profitable.

Notwithstanding the work that has been and continues to be undertaken by Rio Tinto Canada in relation to the Fort à la Corne mineral properties (including the Project), and prior statements made by Rio Tinto and its affiliates in relation to the Fort à la Corne mineral properties (including the Project), there can be no assurance that Rio Tinto Canada will seek to further invest in the Fort à la Corne mineral properties (including the Project) or seek to develop the Project into an operating mine, nor regarding what further studies, analyses, criteria or conditions Rio Tinto Canada may consider relevant to its assessment of whether to do so.

A local epidemic or a major global pandemic (e.g. COVID-19) could have a material adverse impact on the Company's ability to operate due to worker absences, supply chain disruptions, information technology system constraints, government interventions, market volatility and overall economic uncertainty. There can be no assurance that a local epidemic or a major global pandemic will not impact the Company's personnel and ultimately its operations. The Company's operations (including those of Rio Tinto Canada) depend on uninterrupted supply of key consumables, equipment and components, which may be impacted by matters outside of the Company's control or ability to mitigate. These conditions may include global events such as the COVID-19 pandemic which may impact our operations.

For more information on these and other risks and uncertainties, see the risks described in the Company's most recently filed Annual Information Form, news releases and technical reports.

Technical Information

All technical information in this MD&A has been prepared under the supervision of George Read, Senior Technical Advisor , Professional Geoscientist in the Provinces of Saskatchewan and British Columbia and Mark Shimell, Project Manager, Professional Geoscientist in the Province of Saskatchewan, who are the Company's "Qualified Persons" under NI 43-101.

Caution regarding Forward-looking Statements

This MD&A contains forward-looking statements as defined by certain securities laws, including the "safe harbour" provisions of Canadian securities legislation and the United States Private Securities Litigation Reform Act of 1995. Forward-looking information is often, but not always, identified by the use of words such as "anticipate", "believe", "expect", "plan", "intend", "forecast", "target", "project", "guidance", "may", "will", "should", "could", "estimate", "predict" or similar words suggesting future outcomes or language suggesting an outlook. In particular, statements regarding the Company's future operations, future exploration and development activities or other development plans constitute forward-looking statements. By their nature, statements referring to mineral reserves, mineral resources or the PEA constitute forward-looking statements. Forward-looking statements contained or implied in this MD&A include, but are not limited to, statements relating to the Company's ability to continue as a going concern; statements regarding programs previously performed by Rio Tinto Canada; statements regarding future programs by Rio Tinto Canada; statements related to diamond breakage and other reporting; disclosure regarding the economics and project parameters presented in the PEA, including, without limitation, IRR, NPV and other costs and economic information, carats of diamonds to be recovered, after-tax payback period, tonnes of kimberlite to be mined, carats per tonne to be recovered (grade), diamond prices, project life, life of mine, capital costs, and length of pre-production period; statements related to mineral resources and/or reserves; statements related to the approval of the development of the Star - Orion South Diamond Project; statements relating to future development of the Star - Orion South Diamond Project and associated timelines; statements with respect to environmental permitting and approvals; the Company's need for and intention to seek additional financing; statements with respect to metallurgical and diamond investigations, assessments and test work including diamond breakage studies; the potential proportion of Type IIa diamonds in the Star and Orion South kimberlites and the potential for the recovery of large, high-quality diamonds.

These forward-looking statements are based on the Company's current beliefs as well as assumptions made by and information currently available to it and involve inherent risks and uncertainties, both general and specific. Risks exist that forward-looking statements will not be achieved due to a number of factors including, but not limited to, developments in world diamond markets, changes in diamond valuations, risks relating to fluctuations in the Canadian dollar and other currencies relative to the US dollar, changes in exploration, development or mining plans due to exploration results and changing budget priorities of Rio Tinto Canada or the Company, the nature and outcome of studies, analyses, criteria or conditions that Rio Tinto Canada may consider relevant to its assessment of whether to seek to further invest in the Project or seek to develop the Project into an operating mine, the effects of competition in the markets in which the Company operates, the impact of the COVID-19 pandemic, risks related to diamond breakage from extraction and diamond recovery, risks related to the Company's need for additional financing and the Company's ability to raise that financing, the impact of changes in the laws and regulations regulating mining exploration and development, judicial or regulatory judgments and legal proceedings, operational and infrastructure risks and the additional risks described in the Company's most recently filed Annual Information Form, annual and interim MD&A, news releases and technical reports. The Company's anticipation of and success in managing the foregoing risks could cause actual results to differ materially from what is anticipated in such forward-looking statements.

Although the Company considers the assumptions contained in forward-looking statements to be reasonable based on information currently available to it, those assumptions may prove to be incorrect. When making decisions with respect to the Company, investors and others should not place undue reliance on these statements and should carefully consider the foregoing factors and other uncertainties and potential events. Unless required by applicable securities laws, the Company does not undertake to update any forward-looking statement that is made herein.

Additional Information

Additional information related to the Company, including the latest available Annual Information Form, is available on SEDAR at www.sedar.com.

Consolidated Financial Statements
December 31, 2021

Management's Responsibility for Consolidated Financial Statements

The accompanying consolidated financial statements of Star Diamond Corporation are the responsibility of management and have been approved by the Board of Directors.

Management, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board, has prepared the consolidated financial statements. The consolidated financial statements include some amounts that are based on best estimates and judgments.

The management of the Company, in furtherance of the integrity and objectivity of data in the consolidated financial statements, has developed and maintains a system of internal accounting controls. Management believes the internal accounting controls provide reasonable assurance that financial records are reliable and form a proper basis for preparation of consolidated financial statements and that assets are properly accounted for and safeguarded. The internal accounting control process includes management's communication to employees of policies that govern ethical business conduct.

The Board of Directors carries out its responsibility for the consolidated financial statements principally through its audit committee, consisting entirely of outside directors. The audit committee reviewed the Company's annual consolidated financial statements and recommended their approval to the Board of Directors. The shareholders' auditors have full access to the audit committee, with and without management being present.

The shareholders' auditors, KPMG LLP, Chartered Professional Accountants, in accordance with Canadian Auditing Standards, have examined these consolidated financial statements and their independent professional opinion on the fairness of the consolidated financial statements is attached.

"Ken MacNeill"
Ken MacNeill
President and Chief Executive Officer

"Greg Shyluk"
Greg Shyluk
Chief Financial Officer

Saskatoon, Saskatchewan
March 29, 2022

KPMG LLP
500-475 2nd Avenue South
Saskatoon Saskatchewan S7K 1P4
Canada
Tel (306) 934-6200
Fax (306) 934-6233

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Star Diamond Corporation

Opinion

We have audited the consolidated financial statements of Star Diamond Corporation (the Entity) which comprise:

- the consolidated statements of financial position as at December 31, 2021 and December 31, 2020
- the consolidated statements of income (loss) and comprehensive income (loss) for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies (hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2021 and December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

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 "**Auditors' Responsibilities for the Audit of the Financial Statements**" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 3 in the financial statements, which indicates that the Entity requires additional funding to finance its operating activities through its 2022 fiscal year.

As stated in Note 3 in the financial statements, these events or conditions, along with other matters as set forth in Note 3 in the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Entity's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2021. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the "***Material Uncertainty Related to Going Concern***" section of the auditors' report, we have determined the matter described below to be the key audit matter to be communicated in our auditors' report.

Evaluation of indicators of impairment of exploration and evaluation assets

Description of the matter

We draw attention to Notes 4(g), 5(b), 5(e), and Note 10 to the financial statements. The Entity has exploration and evaluation assets of $66,344 thousand. Exploration and evaluation assets are assessed for impairment at each reporting period to determine whether facts and circumstances indicate that the carrying amount may exceed its recoverable amount.

Management exercises judgment in determining when an indicator of impairment exists. In making this determination, Management uses several criteria in its assessment of impairment indicators for exploration and evaluation assets including factors such as whether substantive expenditures on further exploration and evaluation resource assets are budgeted and results of exploration and evaluation activities on the exploration and evaluation assets.

Why the matter is a key audit matter

We identified the evaluation of indicators of impairment of exploration and evaluation assets as a key audit matter. This matter represented an area of significant risk of material misstatement given the magnitude of exploration and evaluation assets. This matter was of most significance due to the auditor judgment required to evaluate the results of our audit procedures regarding the Entity's determination of whether factors, individually or in the aggregate, resulted in indicators of impairment.

How the matter was addressed in the audit

The following are the primary procedures we performed to address this key audit matter:

We compared the Entity's actual exploration and evaluation expenditures in 2021 to the budgeted expenditures to assess management's ability to accurately budget.

We read the Entity's exploration budget for the upcoming year to determine whether the Entity has plans to incur further exploration and evaluation expenditures.

We read information regarding results of exploration and evaluation activities on the exploration and evaluation assets included in the Entity's technical reports and internal and external communications to assess if the Entity has decided to continue or discontinue exploration for and evaluation of mineral resources in the specific area.

Other Information

Management is responsible for the other information. Other information comprises the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

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

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

In preparing the financial statements, management is responsible for assessing the Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 the 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 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 Entity'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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the 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 auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- 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.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG LLP

Chartered Professional Accountants

The engagement partner on the audit resulting in this auditors' report is Scott Douglas Verity.

Saskatoon, Canada

March 29, 2022

Star Diamond Corporation

Consolidated Statements of Financial Position

For the years ended December 31

(Cdn$ in thousands)	2021	2020
Assets		
Current assets:		
Cash and cash equivalents	$ 1,265	$ 4,774
Receivables	149	142
Prepaids	80	36
	1,494	4,952
Restricted cash (note 7)	622	622
Investment in Wescan Goldfields Inc. (note 8)	668	377
Property and equipment (note 9)	246	338
Exploration and evaluation assets (note 10)	66,344	66,344
	$ 69,374	$ 72,633
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities (note 18(b))	$ 2,839	$ 693
Current portion of lease liability (note 9)	79	75
Current portion of environmental rehabilitation provision (note 12)	169	192
	3,087	960
Lease liability (note 9)	38	117
Environmental rehabilitation provision (note 12)	96	215
Contingent consideration (note 10)	940	940
Shareholders' equity:		
Share capital (note 14)	849,973	849,162
Warrants (note 14)	1,194	371
Broker warrants (note 14)	96	176
Contributed surplus	34,901	33,954
Accumulated deficit	(820,951)	(813,262)
	65,213	70,401
	$ 69,374	$ 72,633

Going Concern (note 3)

Commitments (note 18(b))

On behalf of the Board:

"Harvey J. Bay"	"Ewan D. Mason"
Harvey J. Bay	Ewan D. Mason
Chairman of the Audit Committee	Chairman of the Board

See accompanying notes to consolidated financial statements

Star Diamond Corporation

Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)

For the years ended December 31

(Cdn$ in thousands, except for share data)	2021	2020
Income		
Interest and other income	$ 39	$ 85
Expenses		
Administration	1,923	1,836
Consulting and professional fees	3,062	2,231
Corporate development	54	187
Exploration and evaluation (note 11)	2,968	1,881
	8,007	6,135
Loss before the under noted items	(7,968)	(6,050)
Unwinding of discount of environmental reclamation provision	(4)	(3)
Unwinding of discount of lease liability	(8)	(11)
Contingent consideration (note 10)	-	(210)
Investment in Wescan Goldfields Inc. (note 8)	291	145
Total comprehensive loss for the year	$ (7,689)	$ (6,129)
Net loss per share		
Basic and diluted (note 15)	$ (0.02)	$ (0.01)
Weighted average number of shares outstanding (000's)	451,991	430,507

See accompanying notes to consolidated financial statements

Star Diamond Corporation

Consolidated Statements of Cash Flows

For the years ended December 31

(Cdn$ in thousands)	2021	2020
Cash provided by (used in):		
Operations:		
Net loss	$ (7,689)	$ (6,129)
Adjustments:		
Depreciation on property and equipment	96	104
Loss (gain) on disposal of property and equipment	1	51
Investment in Wescan Goldfields Inc.	(291)	(145)
Contingent consideration	-	210
Fair value of share-based payments expensed (note 16)	566	742
Unwinding of discount and changes to environmental rehabilitation provision	(142)	(232)
Unwinding of discount and changes to lease liability	8	11
Issuance of shares for consulting and professional services	-	290
Net change in non-cash operating working capital items:		
Receivables	(7)	(109)
Prepaids	(44)	14
Accounts payable and accrued liabilities	2,146	405
	(5,356)	(4,788)
Investing:		
Proceeds from disposal of property and equipment	-	12
Purchases of property and equipment	(5)	-
	(5)	12
Financing:		
Issuances of equity through financings (net of issue costs)	1,935	959
Issuances of equity from option, warrant and broker warrant exercises	-	719
Lease liability payments	(83)	(76)
	1,852	1,602
Decrease in cash and cash equivalents	(3,509)	(3,174)
Cash and cash equivalents, beginning of year	4,774	7,948
Cash and cash equivalents, end of year	$ 1,265	$ 4,774
Cash and cash equivalents consists of:		
Cash	$ 1,265	$ 4,774
	$ 1,265	$ 4,774

See accompanying notes to consolidated financial statements

Star Diamond Corporation
Consolidated Statements of Changes in Equity
For the years ended December 31

(Cdn$ in thousands)		2021		2020
Share capital (note 14)				
Balance, beginning of year	$	849,162	$	846,887
Shares issued (net of issue costs)		811		2,275
Balance, end of year	$	849,973	$	849,162
Warrants (note 14)				
Balance, beginning of year	$	371	$	224
Issued		1,047		147
Expired		(224)		-
Balance, end of year	$	1,194	$	371
Broker warrants (note 14)				
Balance, beginning of year	$	176	$	157
Issued		77		19
Expired		(157)		-
Balance, end of year	$	96	$	176
Contributed surplus				
Balance, beginning of year	$	33,954	$	33,685
Share-based payments - options (note 16)		196		477
Share-based payments - deferred share units (note 16)		130		45
Share-based payments - restricted share units (note 16)		240		220
Options exercised (note 16)		-		(440)
Deferred share unit redemptions		-		(33)
Warrants expired		381		-
Balance, end of year	$	34,901	$	33,954
Accumulated deficit				
Balance, beginning of year	$	(813,262)	$	(807,133)
Loss for the period		(7,689)		(6,129)
Balance, end of year	$	(820,951)	$	(813,262)
Total shareholders' equity	$	65,213	$	70,401

See accompanying notes to consolidated financial statements

1. Corporate information

Star Diamond Corporation (the "Company") was incorporated under the *Canada Business Corporations Act* on April 29, 1985 and its shares are publicly traded on the Toronto Stock Exchange. The principal activities of the Company are the exploration, development and production of diamonds. The Company is located at 600 – 224 4th Avenue South, Saskatoon, Saskatchewan, Canada.

2. Basis of preparation

The consolidated financial statements of the Company for the year ended December 31, 2021 were authorized for issue by the Company's Board on March 29, 2022. The consolidated financial statements of the Company and all its subsidiaries have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). The Company's financial statements have been prepared on a historical cost basis, except as disclosed, using the Company's functional currency of Canadian dollars.

3. Going concern

These financial statements are prepared on the assumption that the Company will continue as a going concern and realize its assets and discharge its liabilities and commitments in the normal course of business. Management is aware, in making its going concern assessment, of material uncertainties related to events and conditions that cast significant doubt upon the Company's ability to continue as a going concern. At December 31, 2021, the Company had a working capital deficit of $1.6 million and cash of $1.3 million (excluding restricted cash), of which $1.0 million is committed to be spent on qualifying expenditures to satisfy flow-through share requirements. Given that cash flow from operations are negative, the ability of the Company to continue as a going concern and fund general and administrative expenses in an orderly manner will require further equity issues or other forms of financings in 2022 and beyond.

There is no assurance that the Company will be successful in obtaining required financing at an acceptable cost as and when needed or at all. Failure to obtain additional financing on a timely basis may cause the Company to postpone exploration and/or evaluation plans, forfeit rights in its properties or reduce or terminate its operations.

These financial statements do not include any adjustments to carrying values of assets and liabilities, reported expense and the statement of financial position classifications used, that would be necessary if the going concern assumption were not appropriate.

4. Summary of significant accounting policies

The Company's principal accounting policies are outlined below:

a. Basis of consolidation

i. Subsidiaries

The consolidated financial statements include the financial statements of the Company and its subsidiaries. All intra-company transactions, balances, income and expenses are eliminated in full on consolidation. The Company's significant subsidiaries include Kensington Resources Ltd. and Shore Mining and Development Corporation, both wholly-owned Canadian corporations.

ii. Interests in joint operations and other contractual arrangements

A joint operation involves joint control and offers joint ownership by the Company and other venturers of assets contributed to or acquired for the purpose of a joint arrangement, without the formation of a corporation, partnership or other entity. Where the Company's activities are conducted through a joint operation, the Company recognizes its share of the jointly controlled assets, and liabilities it has incurred, related revenue and operating costs in the financial statements and a share of their production, if any.

A contractual arrangement may involve circumstances in which the Company and other parties contribute or acquire assets, without the formation of a corporation, partnership or other entity, where joint control of the arrangement no longer exists or where there is not joint control of the arrangement. Where the Company's activities are conducted through such a contractual arrangement, the Company recognizes its share of the assets, liabilities it has incurred, related revenue and operating costs in the financial statements and a share of their production, if any.

When the Company, acting as an operator, receives reimbursement of direct and indirect costs recharged to the other venturers such recharges represent reimbursement of costs that the operator incurred as an agent for the arrangement. The Company does not recognize any consideration for the value of work performed by the other participants in a joint operation or a contractual agreement.

b. Financial instruments

i. Non-derivative financial assets

IFRS 9 includes three classifications for financial assets; measurement at fair value through profit or loss, measurement at fair value through comprehensive income and measurement at amortized cost.

Financial assets at fair value through profit or loss

A financial asset is classified as fair value through profit or loss ("FVPL") upon initial recognition. Financial assets designated as FVPL are measured at fair value and changes therein are recognized in profit or loss. Attributable transaction costs are recognized in profit or loss as incurred. Financial assets designated as FVPL are comprised of the Company's equity investment in Wescan Goldfields Inc.

Financial assets at fair value through comprehensive income

Entities can make an irrevocable election at initial recognition to classify the instruments as measured at fair value through other comprehensive income ("FVOCI"), with all subsequent changes in fair value being recognized in other comprehensive income. This election is available for each separate investment. The Company has not made this election.

Financial assets measured at amortized cost

Financial assets measured at amortized cost are comprised of the Company's cash and cash equivalents, short-term investments, restricted cash and receivables. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, financial assets measured at amortized cost are measured at amortized cost using the effective interest method, less impairment losses.

ii. Non-derivative financial liabilities

The Company classifies non-derivative financial liabilities into financial liabilities at FVPL and financial liabilities at amortized cost.

Financial liabilities at fair value through profit and loss

A financial liability is classified as FVPL upon initial recognition. Financial liabilities designated as FVPL are measured at fair value and changes therein are recognized in profit or loss. Attributable transaction costs are recognized in profit or loss as incurred.

Financial liabilities classified as fair value through profit or loss are comprised of the contingent consideration discussed in note 10.

Financial liabilities at amortized cost

Financial liabilities at amortized cost are recognized initially at fair value net of any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

Financial liabilities at amortized cost are comprised of the Company's accounts payable and accrued liabilities.

Contingent consideration
Contingent consideration is classified as a financial liability or equity and is measured at fair value on the acquisition date. The Company's contingent consideration, as discussed in note 10, is re-measured to fair value at each reporting date, with changes in value included in the statements of income and comprehensive income.

iii. *Impairment*
The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications of significant financial difficulty and where observable data indicate that there is a measurable decrease in the estimated future cash flows.

Under IFRS 9, the Company recognizes a loss allowance using the expected credit loss model on financial assets that are measured at amortized cost. Credit losses are measured at the present value of all cash shortfalls expected. Expected credit losses are discounted at the effective interest rate of the financial asset.

c. Cash and cash equivalents
Cash and cash equivalents include cash, and short-term investments that, upon acquisition, have a term to maturity of three months or less.

d. Short-term investments
Short-term investments include highly liquid interest-bearing investments with maturities between three and twelve months.

e. Property and equipment
Property and equipment is stated at cost less accumulated depreciation and any impairment in value. Such cost includes cost of replacing parts that are eligible for capitalization when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognized in the carrying amount of the property and equipment as a replacement only if it is eligible for capitalization. All other repairs and maintenance are expensed as incurred. Property and equipment costs are tangible.

Depreciation is calculated using the declining balance method except for leases and leasehold improvements, which are depreciated on a straight-line basis over a term equal to the remaining life of the current lease agreement or the estimated useful lives. Annual depreciation rates are as follows:

Automotive equipment	30% to 40%
Buildings, leases and leasehold improvements	10% to 20%
Computer equipment	30%
Computer software	100%
Furniture and equipment	20% to 30%

The carrying value of items of property and equipment is reviewed for impairment at each reporting period or when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists the recoverable amount is estimated and compared to the carrying value. Where the carrying values of an asset exceed its estimated recoverable amount, the asset is considered impaired and is written down to its recoverable amount and the impairment is included in "administration" or "exploration and evaluation" expense in the statements of income and comprehensive income.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset is included in the statements of income and comprehensive income in the year the item is derecognized.

f. Leases

The Company assesses whether a contract is or contains a lease, at inception of a contract. At the commencement date of the lease (the date the underlying asset is available for use) the Company recognizes a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee. Right-of-use assets are measured at cost, less any accumulated depreciation and accumulated impairment losses, and adjusted for any remeasurement of lease liabilities. Cost of right-of-use assets is comprised of the initial measurement amount of the lease liabilities recognized, adjusted for: any lease payments made at or before the commencement date; lease incentives received; initial direct costs incurred; and estimated costs to dismantle or remove the underlying asset. The right-of-use asset is depreciated over the shorter of the lease term and the useful life of the underlying asset. Right-of-use assets are assessed for impairment at each reporting date.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate. The lease liability is subsequently measured by increasing its carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect lease payments made. The carrying amount of a lease liability is remeasured when there is a change in future lease payments or if the company changes its assessment of whether it will exercise a termination, extension or purchase option. The remeasurement amount of the lease liability is recognized as an adjustment to the right-of-use asset.

The Company has elected not to recognize assets and lease liabilities for short-term leases that have a lease term of twelve months or less, and leases of low-value assets. Lease payments associated with these leases are recognized as an expense over the lease term.

g. Exploration and evaluation

i. Pre-permit costs

Pre-permit costs are expensed in the period in which they are incurred. These costs are intangible.

ii. Exploration and evaluation costs

Once the legal right to explore has been established, exploration and evaluation expenditures are expensed as incurred, until the Company concludes that a future economic benefit is more likely than not to be realized through future development and production.

Exploration and evaluation expenditures incurred on permits where a National Instrument ("NI") 43-101 compliant reserve and a final feasibility study have not yet been completed are expensed during this phase and included in "exploration and evaluation" expense in the statements of income and comprehensive income.

Upon the establishment of a NI 43-101 compliant reserve and the completion of a final feasibility study (at which point, the Company considers it probable that economic benefits will be realized) and the Company has made a development decision, the Company capitalizes any further costs incurred with respect to expenses incurred for development of the asset. Exploration and evaluation assets are initially measured at cost and classified as tangible assets.

Once NI 43-101 compliant reserves are established and development is approved by the Company, previously capitalized exploration and evaluation assets that will be transferred to "mine development costs" are tested for impairment on a CGU basis. If the carrying amount exceeds the recoverable amount, the difference is charged to the statements of income and comprehensive income. No amortization of exploration and evaluation assets is charged during the exploration and evaluation phase nor while it is under construction.

Exploration and evaluation assets acquired in a business combination or through purchase of an asset are initially recognized at fair value. These costs are intangible. Each reporting period, the Company assesses cash-generating units ("CGUs") to determine whether an indication of impairment exists, the CGU being the lowest level of integrated assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Where an indicator of impairment exists, an estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the CGU to which the asset belongs. These assets are subsequently stated at cost less accumulated impairment.

Exploration and evaluation assets are assessed for impairment at each reporting period to determine whether facts and circumstances indicate that the carrying amount may exceed its recoverable amount. In circumstances where indicators of impairment exist, an impairment test is required to determine if the carrying amount of the exploration and evaluation asset exceeds its estimated recoverable amount. To the extent this occurs, the asset is assessed for impairment and any impairment is fully provided against the carrying amount, in the financial year in which this is determined.

An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. The carrying amount of the asset or CGU is increased to its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. The reversal of an impairment loss is recognized immediately in the statements of income and comprehensive income.

h. Employment Benefits

i. *Wages and salaries, and annual leave*

Wages, salaries and other compensation are measured on an undiscounted basis and are recognized as the related service is provided. The liability for employee entitlements to wages and salaries represents the amount which the Company has a present obligation to pay resulting from services provided up to the reporting date. A provision exists for annual leave as it is earned and is measured at the amount expected to be paid when it is settled and includes all related costs.

ii. *Short-term benefits*

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

iii. *Termination benefits*

Termination benefits are recognized as an expense when the Company is committed to provide termination benefits in accordance with certain contracts provided to officers of the Company. If benefits are payable for more than 12 months after the reporting date, then those benefits are discounted to their present value.

iv. *Share-based payment transactions*

The grant-date fair value of share-based payment awards granted to employees, officers or directors is recognized as an expense, with a corresponding increase in equity, over the period that the participant unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met.

Total compensation and benefits (including amounts reported in note 17) for the year ended December 31, 2021 was $1,753 thousand (2020 - $1,968 thousand).

	December 31, 2021	December 31, 2020
Wages, salaries and short-term benefits	$ 773	$ 800
Consulting and management fees	414	426
Share-based payments	566	742
Total compensation and benefits paid	$ 1,753	$ 1,968

i. Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect of the time value of money 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 the risks specific to the liability. The unwinding of the discount is recognized in the statements of income and comprehensive income.

Environmental rehabilitation

The Company is required to decommission and rehabilitate exploration and evaluation sites to a condition acceptable to the relevant authorities.

The Company recognizes the fair value of a liability for environmental rehabilitation in the period in which the Company is legally or constructively required to remediate, if a reasonable estimate of fair value can be made, based on an estimated future cash settlement of the environmental rehabilitation obligation, discounted at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. The capitalized environmental rehabilitation cost is amortized on the same basis as the related asset. The liability is adjusted for the accretion of the discounted obligation and any changes in the amount or timing of the underlying future cash flows. Significant judgments and estimates are involved in forming expectations of the amounts and timing of environmental rehabilitation cash flows. Where there is a change in the expected decommissioning and rehabilitation costs, the value of the provision and any related asset are adjusted and the effect is recognized in the statements of income and comprehensive income on a prospective basis over the remaining life of the operation.

The offsetting cost is treated as an "exploration and evaluation" expense until a NI 43-101 reserve has been established and a final feasibility report completed. Once a NI 43-101 reserve has been established and a final feasibility study completed, the estimated cost (on a discounted basis) of any new environmental disturbances are capitalized.

j. Income tax

Income tax expense for the period is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax effect is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets are recognized for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

Deferred tax liabilities and assets are not recognized for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax balances attributable to amounts recognized directly in equity are also recognized directly in equity.

k. Flow-through shares

The Company may finance a portion of its exploration and evaluation activities through the issuance of flow-through shares. Upon the sale of flow-through shares, the Company recognizes a liability for the excess purchase price paid by the investors over the fair value of common shares without the flow-through feature (the “premium”) and records the fair value of the shares in equity. When the expenditures are incurred, the liability is reversed and a deferred tax liability is recorded for the amount of the benefits renounced to the investors. To the extent the Company has unrecognized tax benefits from loss carry forwards or other tax pools in excess of book value, the Company will offset the future income tax liability resulting in the premium being recognized in the statements of income and comprehensive income. When incurred, the Company accounts for taxes applied to unspent flow through proceeds as administration expenses.

l. Share-based payments

The Company measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. The fair value of share-based payments in the form of deferred share units (“DSUs”), performance share units (“PSUs”) and restricted share units (“RSUs”) is determined based on the five-day volume weighted average trading price of the Company’s shares preceding the date of grant and the units that are expected to vest. The Company does not intend to make cash payments and there is no history of the Company making cash payments under these plans and, as such, the DSUs, PSUs and RSUs are accounted for within shareholders’ equity. The fair value of share-based payments in the form of options is determined using the Black-Scholes model. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in note 17.

m. Revenue and interest income

Sales of rough diamonds, if any, are recognized when control transfers to the customer, the amount of sales can be measured reliably and the receipts of future economic benefits are probable. Sales are measured at the fair value of the consideration received or receivable. All of the Company's property interests are currently in the exploration and evaluation stage and therefore do not generate sales revenue.

Interest income is recognized as the interest accrues. Other revenue is measured at the fair value of the consideration received or receivable for goods and services in the normal course of business, net of discounts and other sales-related taxes.

5. Critical accounting judgments and key sources of estimation uncertainty

The preparation of the Company’s consolidated financial statements in conformity with IFRS requires management to make judgments, estimates, and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

The effect of a change in an accounting estimate is recognized prospectively by including it in total comprehensive profit or loss in the year of the change, if the change affects that year only, or in the year of the change and future years, if the change affects both.

Critical judgments in applying accounting policies

a. Identification of CGUs

CGUs are defined as the lowest level of integrated assets for which there are separately identifiable cash flows that are largely independent of cash flows from other assets or groups of assets. The classification of assets into CGUs requires significant judgment and interpretations. Management assesses its CGUs as being an individual mine site that may include multiple ore bodies. This is the lowest level for which cash inflows are largely independent of those of other assets.

b. **Impairment indicators for exploration and evaluation assets**

Management exercises judgment in determining when an indicator of impairment or reversal of impairment exists. In making this determination, Management uses several criteria in its assessment of impairment indicators for exploration and evaluation assets including factors such as the period for which the Company has the right to explore, expected renewals of exploration rights, whether substantive expenditures on further exploration and evaluation resource assets are budgeted, results of exploration and evaluation activities on the exploration and evaluation assets and whether sufficient data exists to indicate that the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

c. **Exploration and evaluation expenditures**

The determination of an NI 43-101 reserve is itself an estimation process that requires varying degrees of uncertainty depending on sub-classification and these estimates which directly impact the point of deferral of exploration and evaluation expenditure. This requires management to make certain estimates and assumptions about future events or circumstances, in particular whether an economically viable extraction operation can be established. Estimates and assumptions made may change if new information becomes available. If, after an expenditure is capitalized, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is written off in the statements of income and comprehensive income in the period when the new information becomes available.

Key sources of estimation uncertainty

The areas of estimation uncertainty considered by management that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements are discussed below:

d. **Reserve and resource estimates**

Reserves are estimates of the amount of ore that can be economically and legally extracted from the Company's mineral properties. The Company estimates its reserves and mineral resources based on information compiled by appropriately qualified persons relating to the geological data on the size, depth and shape of the ore body, and require complex geological judgments to interpret the data. The estimation of recoverable reserves is based upon factors such as estimations of foreign exchange rates, commodity prices, future capital requirements, and production costs along with geological assumptions and judgments made in estimating the size and grade of the ore body. Changes in the reserve or resource estimates may impact upon the carrying value of exploration and evaluation assets, property and equipment, environmental rehabilitation provision, recognition of deferred tax assets, and depreciation and amortization charges.

e. **Impairment of exploration and evaluation assets**

Where an indicator of impairment or reversal of impairment exists, an estimate of the recoverable amount of exploration and evaluation assets is made, which is based on the greater of fair value less cost of disposal and value in use. The determination of the recoverable amount requires the use of estimates and assumptions such as discount rates, future commodity prices, future foreign exchange rates, future royalty rates, recoverable grades, and future capital and operating expenditures. Fair value for exploration and evaluation assets is generally determined as the present value of estimated future cash flows arising from the continued use of the asset. 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 risk specific to the asset. If the Company does not have sufficient information about a particular mineral resource property to meaningfully estimate future cash flows, the fair value is estimated by management through comparison to similar market assets and, where available, industry benchmarks.

f. **Environmental rehabilitation provision**

Environmental rehabilitation provisions have been provided for based on the Company's internal estimates and current regulatory requirements. Assumptions, based on the current economic environment and cash flows, have been made which management believe are a reasonable basis upon which to estimate the future liability. These estimates take into account any material changes to the assumptions that occur when reviewed regularly by management. Significant changes in estimates of restoration standards and techniques may result in changes to provisions. Actual rehabilitation costs will ultimately depend on future market prices for the rehabilitation costs which will reflect the market condition at the time the rehabilitation costs are actually incurred. The final cost of the currently recognized rehabilitation provision may be higher or lower than currently provided for.

g. <u>Contingent Consideration</u>

The application of the Company's accounting policy for contingent consideration requires judgment in determining and measuring the fair value. This requires management to make certain estimates and assumptions about future events or circumstances, including but not limited to assumptions relating to assessing probabilities of the contingent consideration and timing of the contingent payment. Estimates and assumptions made may change if new information becomes available.

h. <u>Share-based payment transactions</u>

The Company measures the cost of equity-settled transactions 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 stock option, volatility and dividend yield and making assumptions about them.

6. Changes in IFRS

a. <u>IFRS standards, amendments and interpretations effective during the period</u>

At the date of authorization of these consolidated financial statements, the IASB has not issued any new standards which became effective for the reporting period that would have a material impact on the Company.

b. <u>IFRS standards issued but not yet effective</u>

i. *<u>IAS 16 – Property, Plant and Equipment</u>*

On May 14, 2020, the IASB issued an amendment to IAS 16 Property, Plant and Equipment to prohibit deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The proceeds from selling such items, and the cost of producing those items are to be recognized in profit and loss. The amendments are effective for annual periods beginning on or after January 1, 2022 with early adoption permitted. The amendment is to be applied retrospectively only to items of property, plant and equipment that are brought to the location and in a condition necessary for them to be capable of operating in the manner intended by management on or after the earliest period presented in the financial statements in the year in which the amendments are first applied. The amendment will not have a material financial impact at the time of adoption.

ii. *<u>IAS 37 – Provisions, Contingent Liabilities and Contingent Assets</u>*

On May 14, 2020, the IASB issued an amendment to IAS 37 Provisions, Contingent Liabilities and Contingent Assets to specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous. The amendment specifies that the cost of fulfilling a contract comprises the costs that relate directly to the contract. Costs that relate directly to the contract can either be incremental costs of fulfilling the contract or an allocation of other costs that relate directly to fulfilling contracts. The amendments are effective for contracts for which the Company has not yet fulfilled all its obligations on or after January 1, 2022 with early adoption permitted. The amendment will not have a material financial impact at the time of adoption.

At the date of authorization of these consolidated financial statements, there are no other IFRSs or IFRIC interpretations that have been issued and are not yet effective that are expected to have a material impact on the Company.

7. Restricted cash

The Company has pledged short-term investments as security for letters of credit for the following matters:

	December 31, 2021	December 31, 2020
Environmental rehabilitation	$ 622	$ 622

These short-term investments are held in guaranteed investment certificates with maturity dates occurring in February 2022 and with interest rates of 0.5%.

8. Investment in Wescan Goldfields Inc.

At December 31, 2021, the Company held 5,807 thousand shares or 12.9% (December 31, 2020 – 5,807 thousand shares) of Wescan Goldfields Inc. ("Wescan"), a publicly traded company on the TSX Venture exchange. The Company considers certain judgments and assumptions when assessing whether significant influence exists over its investments. This includes an assessment of the Company's ability to participate in financial and operating policy decisions of the investee. The existence and effect of potential voting rights held by the investor or other entities were also considered.

IFRS 9 requires all marketable securities to be measured at fair value. Changes in fair value are recognized in profit or loss ("FVPL") based on the Company's accounting policy. At December 31, 2021, the carrying value of this investment was $668 thousand (December 31, 2020 – $377 thousand). During the year ended December 31, 2021, there was a $291 thousand increase in the carrying value of its investment in Wescan.

9. Property and equipment

	Automotive Equipment	Buildings, Leases and Leasehold Improvements (a)	Computer Software and Equipment	Furniture and Equipment	Total
Cost					
Balance – December 31, 2019	$ 31	$ 999	$ 230	$ 3,923	$ 5,183
Acquisitions	-	-	-	-	-
Disposals	(31)	(268)	(130)	(3,484)	(3,913)
Balance – December 31, 2020	$ -	$ 731	$ 100	$ 439	$ 1,270
Acquisitions	-	-	5	-	5
Disposals	-	(10)	(36)	(5)	(51)
Balance – December 31, 2021	$ -	$ 721	$ 69	$ 434	$ 1,224

	Automotive Equipment	Buildings, Leases and Leasehold Improvements (a)	Computer Software and Equipment	Furniture and Equipment	Total
Accumulated depreciation and impairment					
Balance – December 31, 2019	$ (28)	$ (527)	$ (220)	$ (3,903)	$ (4,678)
Charge for the year (including impairments)	(1)	(97)	(2)	(4)	(104)
Eliminated on disposals	29	211	127	3,483	3,850
Balance – December 31, 2020	$ -	$ (413)	$ (95)	$ (424)	$ (932)
Charge for the year					

	Automotive Equipment	Buildings, Leases and Leasehold Improvements (a)	Computer Software and Equipment	Furniture and Equipment	Total
(including impairments)	-	(91)	(3)	(3)	(97)
Eliminated on disposals	-	10	36	5	51
Balance – December 31, 2021	$ -	$ (494)	$ (62)	$ (422)	$ (978)

	Automotive Equipment	Buildings, Leases and Leasehold Improvements (a)	Computer Software and Equipment	Furniture and Equipment	Total
Net book value					
Balance – December 31, 2020	$ -	$ 318	$ 5	$ 15	$ 338
Balance – December 31, 2021	$ -	$ 227	$ 7	$ 12	$ 246

(a) Upon adoption of IFRS 16 – Leases in 2019, the Company recognized a lease liability and associated right-of-use asset. As at December 31, 2021, the carrying value of the right-of-use asset was $103 thousand (2020 - $178 thousand) and the carrying value of the lease liability was $117 thousand (2020 - $192 thousand) including the current portion of the lease liability of $79 thousand (2020 - $75 thousand). During the year ended December 31, 2021, the Company recognized $69 thousand of depreciation (2020 - $63 thousand). The Company also incurred $83 thousand in lease payments (2020 - $76 thousand) and $8 thousand of interest expense (2020 - $11 thousand) relating to the unwinding of the discount of the lease liability. The unwinding of the discount is recognized in the statements of income and comprehensive income.

10. Exploration and evaluation assets

As of December 31, 2021, the Company holds a 25% interest in the Fort à la Corne properties located in the central part of Saskatchewan, Canada (“Fort à la Corne properties”) through a contractual agreement with Rio Tinto Exploration Canada Inc. (“Rio Tinto Canada”). These properties are accounted for as one cash-generating unit. The carrying value of the Fort à la Corne properties represents the acquisition of minority interests of the Fort à la Corne properties since 2005, net of impairments. The carrying value of the Fort à la Corne properties is $66,344 thousand at December 31, 2021 (2020 - $66,344 thousand).

During 2017, the Company acquired (the "Newmont Acquisition") from Newmont Canada FN Holdings ULC ("Newmont") all of Newmont's participating interest in the Fort à la Corne joint venture (the "FalC JV"), resulting in the Company owning 100% of the Fort à la Corne properties, and concurrently entered into an Option to Joint Venture Agreement (the "Option Agreement") with Rio Tinto Canada pursuant to which the Company granted Rio Tinto Canada an option to earn up to a 60% interest in the Fort à la Corne properties on the terms and conditions contained in the Option Agreement. In November 2020, the Company received notice (the “Exercise Notice”) from Rio Tinto Canada advising that Rio Tinto Canada was exercising all four of its options under the Option Agreement. Following a review of the Exercise Notice, the Company notified Rio Tinto Canada that Rio Tinto Canada’s purported exercise in November 2020 of its four options under the Option Agreement did not comply with the terms of the Agreement. The Company commenced legal proceedings against Rio Tinto Canada in relation to Rio Tinto Canada’s purported exercise.

In December 2021, the Company entered into binding agreements with Rio Tinto Canada that comprehensively resolve all disputes between them. As part of these agreements, the Company and Rio Tinto Canada agreed to revised arrangements. Under these new arrangements:

- All expenditures on the Fort à la Corne mineral properties prior to December 31, 2021 will be the sole responsibility of Rio Tinto Canada;
- All expenditures between January 1, 2022 and the public announcement of a decision to develop a diamond mining operation, based upon the completion of a positive feasibility study, will initially be advanced by Rio Tinto Canada. The Company will not be required to begin reimbursing Rio Tinto Canada for the Company's share of these expenditures unless and until commercial production has been achieved. The effect of the foregoing is that the Company will have no obligation to contribute additional investment to the project until a decision to develop the mine is made and publicly announced;
- Once the decision to develop the mine has been made and announced, the Company will have six months to begin contributing the Company's share of the capital costs and expenditures required to build the mine; and
- In exchange for these amendments, the parties have agreed that the participating interests of Rio Tinto Canada and the Company in the agreement have been adjusted to 75% for Rio Tinto Canada and 25% for the Company (from 60% and 40%, respectively, as per the previous Option Agreement).

These arrangements are intended to ensure that key project milestones, and the certainty associated with them, will have been achieved before the Company has to contribute any additional capital.

As part of the Newmont Acquisition, the Company agreed that Newmont will receive a contingent payment in the aggregate amount of $3,200 thousand if a positive decision is made to develop a mine on the Project. The Company, in its sole discretion (subject to regulatory approvals), may satisfy the contingent payment due to Newmont through a cash payment or the issuance of common shares. An estimate of the discounted present value of this contingent consideration was performed by management using a risk-free discount rate of 1.3% (2020 – 0.4%), which reflects current market assessments of the time value of money and probability weighted cash flow estimates. The fair value was determined to be approximately $940 thousand at December 31, 2021 (2020 - $940 thousand). A one percent change in the risk-free discount rate used in assessing the fair value of the contingent consideration would result in a $50 thousand change in fair value. A one percent change in the probability factor applied would result in a $30 thousand change in fair value.

The Company holds approximately 33% interest in the exploration and evaluation properties and assets of the Buffalo Hills-JV. Canterra Minerals Corporation ("Canterra") also holds approximately 33 percent with Ovintiv Canada ULC (formerly Encana Corporation) holding the remaining interest. Canterra is the Operator of the Buffalo Hills-JV. The carrying value of the Buffalo Hills-JV properties is nil at December 31, 2021 (2020 - nil).

11. Exploration and evaluation expenses

The Company's exploration and evaluation expense for the year ended December 31, is comprised of the following:

	December 31, 2021	December 31, 2020
Fort à la Corne properties		
Depreciation of property and equipment	$ 6	$ 7
Exploration and evaluation	2,777	1,659
Revisions to environmental rehabilitation provision (note 12)	140	1
Share-based payments (note 17)	30	208
Total	2,953	1,875
Buffalo Hills property		
Exploration and evaluation	15	6
Total (a)	15	6
Total	$ 2,968	$ 1,881

(a) Buffalo Hills property

The above amount reflects exploration and evaluation expense on the Buffalo Hills Joint Venture ("Buffalo Hills-JV"), the Company holds a 33% interest in the property located in central Alberta, Canada. Canterra Minerals Corporation is the operator of the Buffalo Hills-JV.

12. Environmental rehabilitation provision

	Fort à la Corne properties
Balance – December 31, 2020	$ 407
Settled during the year	(286)
Revisions in estimates and change in discount rates	140
Unwinding of discount	4
Total	265
Less: Estimate of current portion	(169)
Long term portion – December 31, 2021	$ 96

The environmental rehabilitation provision represents the estimated present value of decommissioning and rehabilitation costs relating to exploration and evaluation work conducted on the above properties by the Company. The Company is required to decommission and rehabilitate exploration and evaluation sites to a condition acceptable to the relevant authorities. This includes the future rehabilitation of certain historical drill pads and exploration and evaluation areas. These provisions are based on the Company's internal estimates and external information where available. Assumptions are based on the current economic environment and are believed to be a reasonable basis to estimate the future liability. However, actual rehabilitation costs will ultimately depend upon future market prices for the necessary work required. Furthermore, the timing of the decommissioning and rehabilitation is dependent upon certain factors. These factors include, but are not limited to, further exploration and evaluation work performed on the properties; level of decommissioning and reclamation that may be required by regulators in the future; operating licenses, permits and claims; as well as if and when development of these exploration and evaluation properties takes place in the future. The provision was determined using probabilities and estimates on the timing of the rehabilitation and risk-free discount rate estimate of 1.9% (December 31, 2020 – 0.7%).

The Company estimates its total undiscounted future decommissioning and reclamation costs to be $291 thousand (December 31, 2020 – $444 thousand).

The Company has previously provided letters of credit as security for environmental reclamation provisions, as disclosed in note 7. The Company's decommission and rehabilitating plans and related security is reviewed and accepted by the relevant authorities.

13. Deferred tax assets and liabilities

<u>Reconciliation between expected tax recovery for accounting purposes and actual recovery</u>

The provision for income taxes differs from the amount computed by applying the combined expected federal and provincial income tax rate to earnings before income taxes for the following reasons:

	December 31, 2021	December 31, 2020
Net loss before income taxes	$ (7,689)	$ (6,129)
Combined federal and provincial tax rate	27%	27%
Expected tax expense (recovery)	(2,076)	(1,655)
Increase in taxes resulting from:		
Non-deductible amounts	8	126
Renounced resource pools	848	520
Change in unrecognized deferred tax assets	1,220	1,009
Deferred income tax recovery	$ -	$ -

<u>Unrecognized deferred tax assets</u>

The following deferred tax assets have not been recognized:

	December 31, 2021	December 31, 2020
Deferred tax assets		
Exploration and evaluation	$ 79,308	$ 78,514
Property and equipment	3,203	3,196
Non-capital loss carried forward	16,195	15,784
Capital loss carried forward	595	595
Share issue costs	113	102
Decommissioning and rehabilitation provision	72	110
Contingent consideration	254	254
Revaluation of investments	176	216
Other	433	203
Unrecognized deferred tax assets	$ 100,349	$ 98,974

The potential benefits of these carry-forward non-capital losses, capital losses and deductible temporary differences have not been recognized in these financial statements as it is not considered probable that sufficient future taxable profit will allow the deferred tax assets to be recovered.

Tax losses

As at December 31, 2021, the Company had estimated capital losses for Canadian income tax purposes of $4,404 thousand (December 31, 2020 – $4,404 thousand). These losses do not expire and may be utilized to reduce future capital gains, if any.

As at December 31, 2021, the Company has estimated non-capital losses for Canadian income tax purposes that may be carried forward to reduce taxable income derived in future years. A summary of these tax losses is provided below. These tax losses will expire as follows:

Year of Expiry	Taxable losses (in thousands)
2026	$ 10,203
2027	4,617
2028	5,268
2029	6,695
2030	5,018
2031	4,251
2032	3,955
2033	3,200
2034	1,859
2035	1,910
2036	1,900
2037	1,856
2038	1,655
2039	4,041
2040	2,023
2041	1,525
Total	$ 59,976

The Company also had unrecorded investment tax credits totaling $15.8 million (December 31, 2020 – $15.8 million) relating to pre-production mining expenditures. These investment tax credits begin to expire starting in 2026.

14. Share capital and reserves

Authorized

The authorized share capital of the Company consists of unlimited common shares with no par value.

The common shares of the Company are entitled to dividends pro-rated when declared by the Board of Directors and to one vote per share at meetings of the shareholders of the Company. Upon dissolution or any other distribution of assets, the shareholders are entitled to receive a pro-rata share of such distribution.

Common shares issued and fully paid:

	Common Shares (in thousands)	Amount (in thousands)
Balance – December 31, 2019	428,492	$ 846,887
Issuance of flow-through shares (net of issue costs) (a)	5,556	748
Issuance of shares (b)	976	334
Issuance of shares on exercise of options (e)	3,498	1,160
Issuance of shares on redemption of deferred share units (e)	149	33
Balance – December 31, 2020	438,671	$ 849,162
Issuance of shares (net of issue costs and warrants) (c)	13,333	634
Issuance of finders fee shares (d)	800	176
Balance – December 31, 2021	452,804	$ 849,972

(a) Flow-through share financing

During 2020, the Company issued 5,556 thousand flow-through shares and 2,778 thousand warrants, at a price of $0.18 per unit, for gross proceeds of $1,000 thousand. Due to the global COVID-19 pandemic, the Government of Canada approved legislation to extend the expenditure period for incurring qualifying expenditures (to fulfill obligations under flowthrough financing commitments) by one year ("FT Legislation"). As a result, the shares issued require that the Company make certain qualifying expenditures for tax purposes on or before December 31, 2022 (per the FT Legislation); the deduction of which flows through to the shareholder.

(b) Issuance of shares

During 2020, the Company issued 699 thousand common shares of the Company pursuant to an agreement with a third-party consulting and professional service provider. This agreement allowed for fees to be paid by the Company in cash or the issuance of common shares at a price of approximately $0.415. During 2020, the Company also issued 277 thousand common shares of the Company (relating to 5% of the units issued (note 14 (a)) pursuant to a finder agreement.

(c) Unit financing

During 2021, the Company issued 13,333 thousand common shares and 13,333 thousand warrants (note 14 (e)), at a price of $0.15 per unit, for gross proceeds of $2,000 thousand.

(d) Issuance of finder shares

During 2021, the Company issued 800 thousand common shares of the Company (relating to 6% of the units issued (note 14 (c)) pursuant to a finder agreement. The Company also issued 800 thousand warrants (note 14 (e)).

(e) Nature and purpose of equity reserves

Share-based payments reserve

The share-based payments reserve is recognized within contributed surplus and is used to recognize the fair value of equity-settled share-based payment transactions provided to employees, including key management personnel, as part of their remuneration. The fair value of stock options has been valued using the Black-Scholes option-pricing model. The fair value of share-based payments in the form of RSUs and DSUs was determined based on the five-day volume weighted average trading price of the Company's shares preceding the date of grant. The fair value of these securities is added to the share-based payments reserve over the vesting period of the securities. Upon exercise, the corresponding fair value related to the security is removed from the share-based payments reserve and added to share capital. Refer to note 17 for further details on these share-based payment plans.

Broker warrants reserve

On certain issues of common shares, the Company issued broker warrants as partial consideration to the agent for services associated with the share issuance. Each broker warrant entitles the agent to acquire one common share of the Company for a period of 12 to 24 months after closing. The broker warrant reserve is used to recognize the fair value of outstanding warrants. If the broker warrant is exercised or expires the fair value is transferred to share capital or contributed surplus, respectively. A summary of the outstanding broker warrants is as follows:

	Broker Warrants (in thousands)	Average Price	Expiry Date	Amount (in thousands)
Balance - December 31, 2020	1,188	$ 0.31		$ 176
Issued (a)	800	0.19	January 21, 2023	77
Expired	(910)	0.35		(157)
Balance - December 31, 2021	1,078	$ 0.26		$ 96

(a) During 2021, 800 thousand broker warrants were issued pursuant to a finder agreement in connection to a share financing. Each broker warrant entitles the holder thereof to purchase one Common Share at a price of $0.19 for a period of 24 months from the date of issuance. The broker warrants issued were fair valued at $77 thousand. The fair value was determined using the Black-Scholes pricing model with the following assumptions: a volatility factor of 73.0%, risk-free rate of return of 0.17%, expected dividend of 0%, and expected term of 24 months.

Warrant reserve

On certain issues of common shares, the Company has issued warrants with the common shares entitling the holder to acquire additional common shares of the Company. The warrant reserve is used to recognize the fair value of outstanding warrants. If the warrant is exercised or expires the fair value is transferred to share capital or contributed surplus, respectively. A summary of the outstanding warrants is as follows:

	Warrants (in thousands)	Average Price	Expiry Date	Amount (in thousands)
Balance - December 31, 2020	3,883	$ 0.28		$ 371
Issued (a)	13,333	0.25	January 21, 2023	1,047
Expired	(1,105)	0.35		(224)
Balance - December 31, 2021	16,111	$ 0.25		$ 1,194

(a) During 2021, 13,333 thousand warrants were issued in connection to a share financing. Each warrant entitles the holder thereof to purchase one common share at a price of $0.25 for a period of 24 months from the date of issuance. The warrants issued were fair valued at $1,047 thousand. The fair value was determined using the Black-Scholes pricing model with the following assumptions: a volatility factor of 73.0%, risk-free rate of return of 0.17%, expected dividend of 0%, and expected term of 24 months.

15. Earnings per share

The calculation of income (loss) per share amounts is based on the following:

	December 31, 2021	December 31, 2020
Numerator:		
Net loss applicable to common shares	$ 7,689	$ 6,129
Denominator:		
Common shares outstanding at January 1 (in thousands)	438,671	428,492
Weighted average effect of issuances (in thousands)	13,320	2,015
Weighted average common shares outstanding at December 31 – basic and diluted (in thousands)	451,991	430,507
Basic and diluted loss per common share (a)	$ 0.02	$ 0.01

(a) Excluded from the calculation of diluted loss per common share are the effects of outstanding share-based payments, warrants or broker warrants, as the effect on basic loss per share would be anti-dilutive.

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

16. Share-based payments

(a) Share option plan

The Company has established a share option plan whereby options may be granted to directors, officers, employees and service providers to purchase common shares of the Company. Options granted have an exercise price of not less than the closing price quoted on the Toronto Stock Exchange for the common shares of the Company on the trading day prior to the date on which the option is granted. Certain options vest immediately while others vest six to twelve months after grant date and all options granted under the plan expire five years from the date of the grant of the options. All options are to be settled by physical delivery of shares. These common shares would be issued from the same 10% rolling pool as the common shares issued under the Company's Deferred Share Unit Plan and the Company's Performance Share Unit and Restricted Share Unit Plan.

The expense related to the Company's share option plan is recognized in the statements of income and comprehensive income for the year ended December 31, as presented as follows:

Expense category included	December 31, 2021	December 31, 2020
Administration	$ 191	$ 321
Exploration and evaluation	5	156
Total	$ 196	$ 477

Option movements (in thousands) during the years ended December 31 including weighted average exercise prices are as follows:

	2021		2020	
	Options	Average Price	Options	Average Price
Outstanding – January 1	19,861	$ 0.20	18,554	$ 0.20
Granted	1,958	0.22	4,872	0.23
Exercised	-	-	(3,498)	0.20
Expired	(2,077)	0.20	(67)	0.18
Outstanding – December 31	19,742	$ 0.21	19,861	$ 0.21
Exercisable – December 31	19,742	$ 0.21	19,359	$ 0.20

The grant date fair value of stock options issued under the plan is estimated using the Black-Scholes option-pricing model. Expected volatility is estimated by considering historic average share price volatility. The option life is estimated based on the weighted average historical life of options that have been granted by the Company. The inputs used in the measurement of the fair values at grant date of the share-based payments during the year are as follows:

	December 31, 2021	December 31, 2020
Share price at grant date	$ 0.215	$ 0.225 – 0.245
Exercise price	$ 0.215	$ 0.225 – 0.245
Expected volatility	74.3%	72.4 – 73.0%
Estimated option life	2.5 years	2.5 – 2.8 years
Expected dividends	0 %	0 %
Expected forfeiture rate	0 %	0 %
Risk-free interest rate	0.17%	0.29 – 0.30%
Fair value at grant date	$ 0.10	$ 0.10 – 0.11

For options outstanding and exercisable at December 31, 2021 (in thousands), the range of exercise prices; weighted average exercise price and the weighted average remaining contractual life is as follows:

	Outstanding			Exercisable	
Option Price Per Share	Options December 31, 2021	Weighted Average Exercise Price	Weighted Average Remaining Life	Options December 31, 2021	Weighted Average Exercise Price
$ 0.00 – 0.19	2,912	$ 0.19	0.9 years	2,912	$ 0.19
$ 0.20 – 0.25	16,830	0.21	3.0 years	16,830	0.21
	19,742	$ 0.21	2.7 years	19,742	$ 0.21

(b) Deferred share unit plan

The Company has established a deferred share unit plan (the "DSU Plan"), which provides for the grant of DSUs to eligible directors of the Company. The DSU Plan provides for settlement to eligible directors through cash payment or the issuance of common shares. The form of settlement is at the option of the Company. The Company does not intend to make cash payments and there is no history of the Company making cash payments under the DSU plan and, as such, the DSUs are accounted for within shareholders' equity. These common shares would be issued from the same 10% rolling pool as the common shares issued under the Company's Performance Share Unit and Restricted Share Unit Plan and the Company's Share Option Plan. As these DSUs are expected to be settled with equity, an amount equal to the stock-based compensation expense is initially credited to contributed surplus and transferred to share capital if and when the deferred share unit is redeemed. DSUs vest immediately.

DSU movements (in thousands) during the year ended December 31 are as follows:

	December 31, 2021	December 31, 2020
DSUs outstanding – January 1	537	506
Granted	480	180
Redeemed for common shares from treasury	-	(149)
DSUs outstanding – December 31	1,017	537

The weighted average fair value of the DSUs granted during 2021 was $0.27 per DSU (2020 - $0.25).

The expense related to the Company's share-based payments as a result of DSUs vesting over the period is recognized in the statements of income (loss) and comprehensive income (loss) for the year ended December 31, as presented as follows:

Expense category included	December 31, 2021	December 31, 2020
Administration	$ 130	$ 45
Total	$ 130	$ 45

(c) Performance share unit and restricted share unit plan

The Company has established a performance share unit and restricted share unit plan (the "Unit Plan"), which provides for the grant of PSUs and RSUs to eligible officers and employees of the Company. The Unit Plan provides for settlement through cash payment or the issuance of common shares. The form of settlement is at the option of the Company. The Company does not intend to make cash payments and there is no history of the Company making cash payments under the Unit plan and, as such, the PSUs and RSUs are accounted for within shareholders' equity. These common shares would be issued from the same 10% rolling pool as the common shares issued under the Company's Deferred Share Unit Plan and the Company's Share Option Plan. As PSUs and RSUs are expected to be settled with equity, an amount equal to compensation expense is initially credited to contributed surplus, recognized over the term of the vesting period, and transferred to share capital if and when the units are exercised. RSUs vest in three tranches, with all RSUs vesting no later than the third anniversary from the date of grant.

As of December 31, 2021, no PSUs have been granted. RSU movements (in thousands) during the year ended December 31 are as follows:

	December 31, 2021	December 31, 2020
RSUs outstanding – January 1	3,881	2,605
Granted	651	1,676
Forfeited prior to vesting	-	(400)
RSUs outstanding – December 31	4,532	3,881

The weighted average fair value of the RSUs granted during 2021 was $0.22 per RSU (2020 - $0.25). The expense related to the Company's share-based payments as a result of RSUs vesting over the period is recognized in the statements of income (loss) and comprehensive income (loss) for the year ended December 31, as presented as follows:

Expense category included	December 31, 2021	December 31, 2020
Administration	$ 215	$ 168
Exploration and evaluation	25	52
Total	$ 240	$ 220

17. Related party transactions

Related party transactions with key management personnel

Key management personnel are persons responsible for planning, directing, and controlling the activities of an entity, and include executive and non-executive directors. The Company pays certain of its current key management personnel through MacNeill Brothers Oil and Gas Ltd., a company owned by certain executive officers and directors.

Compensation of key management personnel, including payments to related parties owned by executive officers and directors, is as follows:

	December 31, 2021	December 31, 2020
Short-term benefits to officers and directors	$ 343	$ 268
Consulting and management fees to related companies	245	384
Share-based payments	409	584
Total compensation paid to key management personnel	$ 997	$ 1,236

The amounts disclosed in the table above are the amounts recognized as an expense during the reporting period related to key management personnel. The above transactions were in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The fair value of share-based payments in the form of options was determined using the Black-Scholes model. The fair value of share-based payments in the form of RSUs and DSUs was determined based on the five-day volume weighted average trading price of the Company's shares preceding the date of grant.

The compensation paid to key management personnel is included in the Company's statements of income (loss) and comprehensive income (loss) as follows:

	December 31, 2021	December 31, 2020
Administration	$ 997	$ 985
Exploration and evaluation	-	251
Total compensation paid to key management personnel	$ 997	$ 1,236

18. Financial instruments

Fair values have been determined for measurement and/or disclosure purposes based on the fair value hierarchy for financial instruments that require fair value measurement after initial recognition. The classification of each financial instrument is described in note 4.

The carrying amounts for cash and cash equivalents, short-term investments, receivables, restricted cash and trade payables approximate their fair value due to the short-term nature of these instruments. These financial instruments are carried at amortized cost.

Fair value hierarchy

All financial instruments measured at fair value are categorized into one of three hierarchy levels as described below. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities:

Level 1 – Values based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities;

Level 2 – Values based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability; and

Level 3 – Values based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

Fair value of investment in Wescan

The disclosure of the fair value and carrying value of the investment in Wescan (note 8) is based on quoted prices and is therefore considered to be level 1, consistent with the prior year.

Fair value of contingent consideration

The disclosure of the fair value of the contingent consideration (note 10) is based on valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement and is therefore considered to be level 3.

There have been no transfers between levels during the year.

Risk management

Certain financial instruments are exposed to the following financial risks:

(a) Credit risk

Credit risk is the risk of an unexpected loss by the Company if a customer or third-party to a financial instrument fails to meet its contractual obligations. The Company considers this risk to be insignificant as the majority of the Company's cash and cash equivalents, and restricted cash are held by financial institutions with an A (low) credit rating or are invested in Government of Canada treasury bills which are backed by the Government of Canada. At December 31, 2021, the Company's credit risk relates to its cash and cash equivalents, receivables and restricted cash of $2,036 thousand (December 31, 2020 – $5,538 thousand).

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to forecast future cash flows to ensure that it will have sufficient liquidity to meet its obligations when due. To ensure the Company has sufficient cash on hand, the Company prepares annual capital and operating budgets which are regularly monitored and updated as considered necessary. As at December 31, 2021, the Company had a working capital deficit of $1.6 million and cash of $1.3 million (excluding restricted cash) and is required to incur a further $1.0 million of qualifying expenditures as a result of a flow-through share financings. The FT Legislation extended the expenditure period for incurring qualifying expenditures (to fulfill obligations under flow-through financing commitments) by one year. As a result, as at December 31, 2021, $1.0 million of qualifying expenditures would need to be incurred by December 31, 2022. In addition, as at December 31, 2021, the Company is committed to trade payables and other lease payments as set out in the following table on an undiscounted basis:

	Up to 3 months	Between 3 months and 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
Trade payables and accrued liabilities	$ 2,839	$ -	$ -	$ -	$ -	$ 2,839
Lease payments	21	62	40	-	-	123
Total	$ 2,860	$ 62	$ 40	$ -	$ -	$ 2,962

Excluded from this table is the contingent consideration as discussed in note 10. An estimate of the discounted present value of this contingent consideration was determined to be $940 thousand at December 31, 2021 (2020 - $940 thousand). The ultimate settlement and timing of payment, if any, is currently not determined.

As at December 31, 2021, the Company had guaranteed certain liabilities by issuing $622 thousand (December 31, 2020 - $622 thousand) of irrevocable standby letters of credit. The Company backs the letters of credit with investments which have been recorded on the financial statements as restricted cash (note 7). The Company does not include restricted cash in its working capital when analyzing its liquidity requirements. These guarantees relate to environmental rehabilitation provisions.

The further exploration, evaluation and/or development of exploration and evaluation properties in which the Company holds interests or which the Company acquires may depend upon the Company's ability to obtain financing through equity issues or other forms of financing. Although the Company has been successful in the past in obtaining financing, there can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favorable. Failure to obtain additional financing could result in delay or indefinite postponement of further exploration, evaluation and/or development of its projects with the possible loss of such properties.

(c) Market risk

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

Foreign currency risk:
Foreign currency risk is the risk that a variation in exchange rates between the Canadian dollar and US dollar or other foreign currencies will affect the Company's operations and financial results. The Company does not have significant exposure to foreign exchange rate fluctuation since it is currently not producing.

Commodity price risk:
Commodity price risk is the risk that a variation in commodity price will affect the Company's operations and financial results. The Company does not have significant exposure to commodity price fluctuations since transactions and balances in foreign currencies are minimal, if any.

Interest rate risk:
Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company does not have any borrowings. Interest rate risk is limited to potential decreases on the interest rate offered on cash and cash equivalents, short-term investments and restricted cash held with chartered Canadian financial institutions. The Company considers this risk to be immaterial.

Equity price risk:
Equity price risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Company is exposed to this risk through its equity holdings. The investment in the common shares of Wescan is monitored by management with recommendations on sale taken to the Board level. A 10 percent decrease in the market price of Wescan would result in a $67 thousand decrease in fair value.

19. Capital management

The Company manages its common shares and equity reserves as capital.

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to explore and develop its exploration and evaluation properties, so that it can provide returns to shareholders.

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary. The annual budgets are approved by the Board of Directors.

In order to maximize ongoing exploration and evaluation efforts, the Company does not pay dividends. The Company's investment policy is to invest its cash in highly rated liquid short-term interest-bearing investments with an initial term to maturity of twelve months or less.

The Company is not subject to externally imposed capital requirements, except as disclosed.