STAR DIAMOND CORPORATION

1st Quarter Report
2021

The following discussion and analysis is prepared by Management as of May 11, 2021 and should be read in conjunction with the unaudited condensed interim consolidated financial statements of Star Diamond Corporation ("DIAM", or the "Company") for the period ended March 31, 2021 ("financial statements for the period ended March 31, 2021"), as well as the audited consolidated financial statements of the Company for the year ended December 31, 2020, in each case available on SEDAR at www.sedar.com. The Company prepared its financial statements for the period ended March 31, 2021 in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting using accounting policies consistent with the 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 2017 mineral property consolidation and earn-in agreement (as discussed below), the Company is now in an enhanced position to advance 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).

Consolidation of the Fort à la Corne mineral properties (including the Project) and Option to Joint Venture

In June 2017, the Company announced that it had acquired (the "Newmont Acquisition") from Newmont Corporation ("Newmont") all of its participating interest in the 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, pursuant to which the Company granted to 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 and issuance of common shares, Newmont held approximately 19.9% (15.6% at March 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 February 2020, the Company notified Rio Tinto Canada that its purported exercise of its four options under the Option Agreement did not comply with the terms of the Option Agreement (see News Release dated February 18, 2020). In March 2020, the Company announced that it had commenced legal proceedings in the Court of Queen's Bench for Saskatchewan (Judicial Centre of Saskatoon) (the "Court") against Rio Tinto Canada (the "Legal Proceedings") in relation to Rio Tinto Canada's purported exercise of its options under the Option Agreement (see News Release dated March 5, 2020).

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. As the on-site bulk sample plant (the "BSP") was not constructed or commissioned by Rio Tinto Canada prior to the completion of the ten trench cutter holes, Rio Tinto Canada established a storage area where 6,848 bulk sample bags were stored by Rio Tinto Canada on-site until the BSP was fully constructed and commissioned.

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 BSP 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 initial results from the ten trench cutter holes have now been reported by Star Diamond.

During February 2021, Rio Tinto Canada provided written notice to Star Diamond that Rio Tinto Canada had successfully completed the ten-trench cutter hole bulk sample program excavated by Rio Tinto Canada in 2019 at the Project (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. As well, Rio Tinto Canada stated that it had completed the processing, diamond recovery and reporting of all diamond results on the ten trench cutter holes. In response, Star Diamond notified Rio Tinto Canada that completion of a comprehensive diamond breakage study and certain other work remains outstanding. Star Diamond also notified Rio Tinto Canada that, until the comprehensive diamond breakage study and that other work are completed, the processing, diamond recovery and reporting of all diamond results from the ten cutter hole bulk sample program will not be complete. Rio Tinto Canada has previously assured Star Diamond that a comprehensive diamond breakage study would be completed by Rio Tinto Canada as part of the bulk sample program.

The initial results from the 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. However, as previously disclosed by Star Diamond, the Company believes that Rio Tinto Canada's extraction and diamond recovery methodologies, including its use of unproven civil engineering trenching technologies to conduct bulk sampling of Kimberlite, caused undue diamond breakage, resulted in significant unnecessary cost overruns and materially damaged Star Diamond's interest in the Project. Comprehensive diamond breakage studies are required to assess the nature, extent and potential causes of the diamond breakage, and the possibility that larger diamonds would have been recovered absent such breakage.

During January 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 has been advised that the aim of this drilling is to investigate the geotechnical properties of the overburden, kimberlite and host rock sediments, with this information to be used for future open pit design. Parts of the Orion North Kimberlite have shallower overburden (of approximately 95 metres) than both the Star and Orion South Kimberlite.

Activities relating to the Legal Proceedings

Star Diamond continues to vigorously pursue the Legal Proceedings, and is committed to taking all actions necessary to protect Star Diamond and its shareholders from the practices and conduct of Rio Tinto Canada.

Pleadings in the Legal Proceedings have been completed, with Star Diamond's delivery of its Second Amended Statement of Claim in December 2020, Rio Tinto Canada's delivery of its Second Amended Statement of Defence and Counterclaim in December 2020, and Star Diamond's delivery of its Reply and Defence to the Counterclaim in January 2021.

During March 2021, Rio Tinto Canada and Star Diamond each delivered their respective affidavits of documents to the other. Star Diamond expects that the parties will agree to a timetable for the completion of the other principal pre-trial steps, including oral questioning and the exchange of expert reports, which Star Diamond hopes will be completed during 2021. Once the pre-trial steps are completed, Star Diamond expects that the Court will schedule a pre-trial conference and set a date for trial. Star Diamond does not expect that the trial will occur in 2021.

As previously disclosed by Star Diamond, Rio Tinto Canada provided an undertaking (the "Undertaking") to the Court, which was referred to in an August 10, 2020 decision of the Court in connection with the Legal Proceedings. The Undertaking is binding on Rio Tinto Canada.

As the Undertaking is described by the Court in its August 10, 2020 decision, Rio Tinto Canada agreed that it would not call and/or conduct any meeting of the management committee under the joint venture agreement (the "Joint Venture Agreement") between Star Diamond and Rio Tinto Canada for a period of 120 days following Rio Tinto Canada completing the processing, diamond recovery and reporting of all diamond results on the samples previously taken from the ten bulk sample trenches excavated by Rio Tinto Canada in 2019.

Consistent with the Undertaking, Star Diamond has advised Rio Tinto Canada that, until all processing, diamond recovery and reporting of all diamond results from the ten cutter hole bulk sample program is completed, including the comprehensive diamond breakage study, the 120-day period under the Undertaking cannot begin to run. Notwithstanding that the comprehensive diamond breakage study has not been completed, Rio Tinto Canada advised Star Diamond on February 8, 2021 that the 120-day period commenced on that date, and that Rio Tinto Canada intends to call a management committee meeting under the Joint Venture Agreement once the 120-day period has elapsed. Rio Tinto Canada claims the completion of the comprehensive diamond breakage study that it previously said would be undertaken is not required by the Undertaking it has given.

Star Diamond has sought an Order of the Court in respect of the Undertaking, and a hearing of this issue is scheduled for June 4, 2021.

Financial Highlights

Selected financial information of the Company for the quarters ended March 31, 2021 and 2020 is summarized as follows:

	Three months ended March 31, 2021 $	Three months ended March 31, 2020 $
Net loss (millions)	1.1	1.0
Net loss per share (1)	0.00	0.00
Total assets (millions)	73.4	75.0
Total non-current liabilities (millions) (2)	1.2	1.5
Working capital (millions)	4.8	6.8

(1) Basic and diluted.

(2) Non-current liabilities are comprised of a contingent consideration relating to the Newmont Acquisition of approximately $0.9 million (March 31, 2020 - $0.7 million); environmental rehabilitation provisions of $0.2 million (March 31, 2020 - $0.6 million); and a lease liability of $0.1 million (March 31, 2020 - $0.2 million). The Company has provided letters of credit for environmental reclamation provisions, backed by short-term securities, that are recorded on the Company's financial statements as restricted cash.

Results of Operations

For the quarter ended March 31, 2021, the Company recorded a net loss of $1.1 million or $0.00 per share (basic and fully diluted) compared to a net loss of $1.0 million or $0.00 per share for the same period in 2020. The losses during these quarters were due to operating costs and exploration and evaluation expenditures incurred by the Company exceeding interest income earned on cash and cash equivalents.

Interest and other income

For the quarters ended March 31, 2021 and 2020 the Company reported interest and other income of $8 thousand and $31 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 quarter ended March 31, 2021 were $1.4 million compared to $1.1 million for the same period in 2020. This increase was primarily due to higher administrative expenditures incurred from share-based payments expensed during the quarter ended March 31, 2021 of $0.3 million (2020 – $0.0 million).

Exploration and evaluation expenditures were $0.4 million for the first quarter of 2021 compared to $0.2 million for the quarter ended March 31, 2020. Exploration and evaluation expenditures incurred during the quarters ended March 31, 2021 and 2020 were primarily related to work on metallurgical investigations and test work for the Project.

Administration, consulting and professional fees, and corporate development expenditures for the quarter ended March 31, 2021 increased by $0.1 million from the same period in 2020 to $1.0 million. This increase was primarily due to higher share-based payments expensed during the quarter, offset by lower corporate consulting and professional expenditures incurred.

Use of flow-through proceeds

	$millions
Flow-through proceeds raised during 2019 (1)	5.1
Flow-through eligible expenditures incurred to March 31, 2021	2.4
Remaining flow-through eligible expenditures to be incurred (2)	2.7
Additional flow-through proceeds raised during 2020 (3)	1.0
Flow-through eligible expenditures to be incurred	3.7

(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 has announced draft legislation ("FT Legislation") to extend the expenditure period for incurring qualifying expenditures (to fulfill obligations under flow-through financing commitments) by one year. As a result, the remaining expenditures at March 31, 2021 of approximately $2.7 million are to be incurred by December 31, 2021 rather than by December 31, 2020. The Company is monitoring this legislation and the impact this proposal, and any other COVID-19 related proposals, may have on the Company's flow-through commitments.*
(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 2021 (or 2022 based on the FT Legislation discussed above).*

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

Investment in Wescan Goldfields Inc.

At March 31, 2021, the Company held 5.8 million shares or 12.9% (December 31, 2020 – 5.8 million shares or 12.9%) of Wescan Goldfields Inc. ("Wescan"), a publicly traded company on the TSX Venture Exchange. The fair value of this investment, based on the closing trading price at March 31, 2021, was $667 thousand (December 31, 2020– $377 thousand). As a result, during the quarter ended March 31, 2021, the Company recognized a $290 thousand increase in the carrying value of its investment in Wescan.

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.

Financing

During quarter ended March 31, 2021, the Company completed a $2.0 million private placement of 13.3 million common shares. No financing activities occurred during the quarter ended March 31, 2020. During the quarter ended March 31, 2020 the Company issued common shares from treasury as a result of option exercises.

Summary of Quarterly Results

	2021	2020				2019		
	Qtr 1	**Qtr 4**	**Qtr 3**	**Qtr 2**	**Qtr 1**	**Qtr 4**	**Qtr 3**	**Qtr 2**
Income (1) ($millions)	**0.0**	0.0	0.0	0.0	0.1	0.0	0.1	0.0
Net loss (2) ($millions)	**1.1**	2.0	1.6	1.5	1.0	0.9	0.8	1.5
Net loss per share (3) ($)	**0.00**	0.00	0.01	0.00	0.00	0.00	0.00	0.01
Shares outstanding (millions) (4)	**452.8**	438.7	432.8	429.3	429.1	428.5	409.1	407.7

(1) Income relates to revenue for services provided as well as interest earned on the Company's cash and cash equivalents.
(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. During the third quarter of 2020, the Company issued 0.7 million common shares from treasury pursuant to an agreement with a third-party consulting and professional service provider. During the fourth quarter of 2019, the Company completed a private placement of 18.2 million flow-through shares. In relation to this private placement, the Company also issued 0.9 million common shares. Other changes in shares outstanding were due to shares issued from treasury as a result of warrant, broker warrant and option exercises, vested Deferred Share Unit ("DSU") redemptions or Restricted Share Unit ("RSU") redemptions.

Related Party Transactions

At March 31, 2021, Mr. Kenneth E. MacNeill (President and Chief Executive Officer), through his consulting company, held a management and consulting contract with the Company. Mr. MacNeill's monthly fees during the quarter ended March 31, 2021 were $20 thousand (2020 – $20 thousand). During the fourth quarter of 2020, the Company announced that Mr. George Read had assumed the consultancy title of Senior Technical Advisor to the Company (see News Release dated October 14, 2020). Mr. Read will continue to fully support the Company with his considerable expertise and will continue to prepare technical information for the Company as a "Qualified Person" under the definition of NI 43-101. During the quarter ended March 31, 2021, Mr. Read's monthly fees as Senior Vice President of Exploration and Development (paid through a company controlled by Mr. Read) was $15 thousand.

During the three-month period ended March 31, 2021, total compensation paid or payable to officers (including amounts paid through a company controlled by Mr. MacNeill) and to directors of the Company was $418 thousand (2020 – $181 thousand). Of these amounts, $418 thousand (2020 – $135 thousand) was included in administration expense and $0 was included in exploration and evaluation expense (2020 – $46 thousand). Included in these amounts are share-based payment transactions of $273 thousand (2020 – $0 thousand).

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 March 31, 2021 the Company had $5.1 million (December 31, 2020 – $4.8 million) in cash and cash equivalents. The Company has also supplied $0.6 million (December 31, 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 March 31, 2021, the Company is required to spend $3.7 million on qualifying expenditures to fulfill its obligations under its flow-through commitments. Due to the global COVID-19 pandemic, the Government of Canada has announced legislation to extend the expenditure period for incurring qualifying expenditures (to fulfill obligations under flow-through financing commitments). The Company is monitoring this legislation and the impact this and any other COVID-19 related proposals may have on the Company and the Company's flow-through commitments.

Capital Resources and Outstanding Share Data

As of March 31, 2021 the Company had working capital of $4.8 million compared to $4.0 million at December 31, 2020. The Company believes it has sufficient liquidity to continue operations until further financing is arranged.

At March 31, 2021 the Company had 452,804,364 common shares that were issued and outstanding, as well as 743,600 DSUs, 4,531,600 RSUs, 21,641,700 options (weighted average exercise price of $0.21), 16,111,112 warrants (weighted average exercise price of $0.25) and 1,987,842 broker warrants (weighted average exercise price of $0.25) issued and outstanding.

As of May 11, 2021, the Company's issued and outstanding common shares, options, DSUs, RSUs, warrants and broker warrants remained unchanged from March 31, 2021.

Financial Instruments

As of March 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 March 31, 2021, the Company's credit risk relates to its cash and cash equivalents, receivables and restricted cash of $5.8 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 of March 31, 2021, the Company had working capital of $4.8 million and cash of $5.1 million (excluding restricted cash) and is required to incur a further $3.7 million of qualifying expenditures as a result of the flow-through share financings completed in 2019 and 2020. Given that cash flow from operations is negative, the Company is dependent on additional sources of financing in 2021 and beyond.

As of March 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. 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 guarantees as of March 31, 2021 related to environmental rehabilitation provisions. The Company has also recorded a contingent consideration, as described in note 10 to the financial statements for the year ended December 31, 2020 for which the discounted present value was determined to be $0.9 million (December 31, 2020 - $0.9 million). In addition, at March 31, 2021, the Company has recorded a lease liability of $0.2 million (December 31, 2020 - $0.2 million).

The Company may pursue options to finance the further exploration, evaluation and/or development of the Star - Orion South project 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 March 31, 2021, the Company had working capital of $4.8 million and cash of $5.1 million (excluding $0.6 million of restricted cash), of which $3.7 million is committed to be spent on qualifying expenditures. 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 2021 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. As of March 31, 2021, the Company does not have significant exposure to any of these market risks. 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 decisions 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.

Critical Accounting Estimates and Judgments

The financial statements for the period ended March 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, 2020. 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 period ended March 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, legal proceedings, 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, 2020.

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 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.

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 Company is currently assessing the financial impact of the amendment and expects to apply the amendment at the effective date.

<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 Company is currently assessing the financial impact of the amendment and expects to apply the amendment at the effective date.

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.

There have been no significant changes in the Company's disclosure controls during the quarter ended March 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 Chief Executive Officer and the Chief Financial Officer and effected by the Company's board of directors, have designed the Company's internal controls over financial reporting as of the end of the period covered by these filings 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.

There have been no significant changes to internal controls over financial reporting during the quarter ended March 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 Star - Orion South Diamond 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 Company's Fort à la Corne mineral properties (including the Star - Orion South Diamond Project) and the concurrent earn-in arrangement with Rio Tinto Canada defined the start of a new phase for the Company. There are some 60 other kimberlites within the Company's Fort à la Corne diamond district, on mineral dispositions held 100 percent by the Company. The Company is also very pleased to continue to have Newmont Corporation as a significant shareholder.

As of May 11, 2021, the Company had approximately $4.8 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.

Notwithstanding the work that has been and continues to be undertaken by Rio Tinto Canada in relation to the Project, and prior statements made by Rio Tinto Canada and its affiliates in relation to the Project, there can be no assurance that Rio Tinto Canada will seek to further invest in 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.

Risks and Uncertainties

The Company attempts to mitigate risks by identifying, assessing, reporting and managing risks of significance. The following are risks relating to the business of the Company. This information is a summary only of risks currently facing the Company based on its stage of development. Additional risks and uncertainties not presently known may also impact the Company's operations. Management's view on risks facing the Company will evolve as the Company's stage of development progresses.

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; the Legal Proceedings commenced by the Company against Rio Tinto Canada including the counterclaim of Rio Tinto Canada against the Company; the Company maintaining title to its property claims; 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 recovery 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 properties or joint operations, 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 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. Management maintains a database to monitor the status of the Company's claims to ensure all claims are in good standing.

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. To the best of the Company's knowledge, it is operating in compliance with all applicable rules and regulations. 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 Canada and Transport Canada. The Company utilizes qualified individuals, service providers and external consultants and maintains communications with governmental authorities to attempt to ensure that the Company is or, in the case of the Environmental Impact Assessment, will be in compliance with all applicable rules and regulations.

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.

In March 2020, the Company announced that it had commenced the Legal Proceedings against Rio Tinto Canada in relation to Rio Tinto Canada's purported exercise of the options under the Option Agreement. As part of its Counterclaim, Rio Tinto Canada has alleged, among other things, breach of contract by Star Diamond. All litigation is subject to inherent risks and uncertainties, and it is not possible to predict with certainty the duration of the Legal Proceedings or their final outcome. The Legal Proceedings could negatively impact and delay the exploration and operational activities being conducted by Rio Tinto Canada at the Fort à la Corne mineral properties (including the Project). An unfavourable outcome in connection with the Legal Proceedings could adversely affect the Company's business, results of operations, ability to obtain future financing, reputation and have a material adverse impact on the Company's liquidity and financial results and the ability of the Company to meet its obligations under Rio Tinto Canada/Star Diamond Joint Venture Agreement with respect to the Project, if and when such joint venture is determined to have been validly formed, which could result in, among other things, dilution of the Company's interest in the Project.

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, annual MD&A, news releases and technical reports.

Technical Information

All technical information in this report 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 the definition of 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 related to the Legal Proceedings; statements regarding the processing and analysis of, and reporting of results from, the bulk samples previously collected by Rio Tinto Canada and the timeline for doing so; statements related to diamond breakage and other actions to complete the processing, diamond recovery and reporting of all diamond results on the samples previously taken from the ten bulk sample trenches excavated by Rio Tinto Canada in 2019; statements related to Star Diamond's intention to enforce the Undertaking; 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 investigations, assessments and test work including diamond breakage studies; and 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, risks related to the Legal Proceedings including regarding the counterclaim of Rio Tinto Canada against the Company and any future legal proceedings to enforce the Undertaking, the impact of the COVID-19 pandemic, risks related to the operation of the BSP and the processing methods being used by Rio Tinto Canada and the effectiveness thereof, , risks related to diamond breakage and cost overruns and other consequences arising from Rio Tinto Canada's extraction and diamond recovery methodologies, 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 management 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 law, 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.

STAR DIAMOND CORPORATION
Unaudited Condensed Interim Consolidated Financial Statements

For the Three Months Ended
March 31, 2021

Notice to Reader

Management has compiled the unaudited condensed interim consolidated financial statements of Star Diamond Corporation for the three months ended March 31, 2021. The Corporation's external auditors have not reviewed these condensed interim consolidated financial statements.

Star Diamond Corporation

Condensed Consolidated Statements of Financial Position

(unaudited)

(Cdn$ in thousands)	March 31, 2021	December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	$ 5,085	$ 4,774
Receivables	50	142
Prepaids	271	36
	5,406	4,952
Restricted cash (note 6)	622	622
Investment in Wescan Goldfields Inc. (note 7)	667	377
Property and equipment	319	338
Exploration and evaluation assets (note 8)	66,344	66,344
	$ 73,358	$ 72,633
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 305	$ 693
Current portion of lease liability	76	75
Current portion of environmental rehabilitation provision	192	192
	573	960
Lease liability	97	117
Environmental rehabilitation provision	216	215
Contingent consideration	940	940
Shareholders' equity:		
Share capital	849,972	849,162
Warrants	1,194	371
Broker warrants	253	176
Contributed surplus	34,490	33,954
Accumulated deficit	(814,377)	(813,262)
	71,532	70,401
	$ 73,358	$ 72,633

Star Diamond Corporation

Condensed Consolidated Statements of Loss and Comprehensive Loss

(unaudited)

(Cdn$ in thousands, except for share data)	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
Income		
Interest and other income	$ 8	$ 31
Expenses		
Administration	707	389
Consulting and professional fees	271	439
Corporate development	20	43
Exploration and evaluation (note 9)	412	229
	1,410	1,100
Loss before the under noted items	(1,402)	(1,069)
Unwinding of discount of environmental reclamation provision	(1)	(1)
Unwinding of discount of lease liability	(2)	(2)
Investment in Wescan Goldfields Inc. (note 7)	290	87
Net and comprehensive loss for the period	$ (1,115)	$ (985)
Net loss per share		
Basic and diluted	$ (0.00)	$ (0.00)
Weighted average number of shares outstanding (000's)	449,507	428,975

See accompanying notes to consolidated financial statements

Star Diamond Corporation

Condensed Consolidated Statements of Cash Flows

(unaudited)

(Cdn$ in thousands)	Three Months Ended March 31, 2021	2020
Cash provided by (used in):		
Operations:		
Net loss	$ (1,115)	$ (985)
Adjustments:		
Depreciation on property and equipment	24	26
Loss (gain) on disposal of property and equipment	-	3
Investment in Wescan Goldfields Inc.	(290)	(87)
Fair value of share-based payments expensed	312	-
Unwinding of discount and changes to environmental rehabilitation provision	1	1
Unwinding of discount and changes to lease liability	2	2
Net change in non-cash operating working capital items:		
Receivables	92	(2)
Prepaids	(235)	(151)
Accounts payable and accrued liabilities	(388)	91
	(1,597)	(1,102)
Investing:		
Purchases of property and equipment	(5)	-
	(5)	-
Financing:		
Issuances of equity through financings (net of issue costs)	1,758	-
Issuances of equity from option, warrant and broker warrant exercised	176	129
Lease liability payments	(21)	(17)
	1,913	112
Increase (decrease) in cash and cash equivalents	311	(990)
Cash and cash equivalents, beginning of period	4,774	7,948
Cash and cash equivalents, end of period	$ 5,085	$ 6,958
Cash and cash equivalents consists of:		
Cash	$ 5,085	$ 6,958
Treasury bills	-	-
	$ 5,085	$ 6,958

See accompanying notes to consolidated financial statements

Star Diamond Corporation
Condensed Consolidated Statements of Changes in Equity
(unaudited)

(Cdn$ in thousands)	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020	Year Ended December 31, 2020
Share capital			
Balance, beginning of period	$ 849,162	$ 846,887	$ 846,887
Shares issued (note 10)	810	208	2,275
Balance, end of period	$ 849,972	$ 847,095	$ 849,162
Warrants			
Balance, beginning of period	$ 371	$ 224	$ 224
Issued	1,047	-	147
Expired	(224)	-	-
Balance, end of period	$ 1,194	$ 224	$ 371
Broker warrants			
Balance, beginning of period	$ 176	$ 157	$ 157
Issued	77	-	19
Balance, end of period	$ 253	$ 157	$ 176
Contributed surplus			
Balance, beginning of period	$ 33,954	$ 33,685	$ 33,685
Share-based payments - options (note 11)	196	-	477
Share-based payments - deferred share units (note 11)	46	-	45
Share-based payments - restricted share units (note 11)	70	-	220
Options exercised (note 11)	-	(79)	(440)
Warrants epired	224	-	-
Deferred share unit redemptions	-	-	(33)
Balance, end of period	$ 34,490	$ 33,606	$ 33,954
Accumulated deficit			
Balance, beginning of period	$ (813,262)	$ (807,133)	$ (807,133)
Loss for the period	(1,115)	(985)	(6,129)
Balance, end of period	$ (814,377)	$ (808,118)	$ (813,262)
Total shareholders' equity	$ 71,532	$ 72,964	$ 70,401

See accompanying notes to consolidated financial statements

STAR DIAMOND CORPORATION

Notes to the Condensed Interim Consolidated Financial Statements
For the three months ended March 31, 2021
(In thousands of Canadian dollars except as otherwise noted)

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 condensed interim consolidated financial statements of the Company for the three months ended March 31, 2021 were authorized for issue by the Company's Audit Committee on May 11, 2021. The condensed interim consolidated financial statements of the Company and all its subsidiaries have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting* and do not include all of the information required for full annual financial statements. 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.

In preparing the financial statements for the period ended March 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 assessments for impairment, estimations for environmental rehabilitation provisions, contingent consideration and share-based payment transactions. These are discussed in more detail in note 5 of the Company's consolidated financial statements for the year ended December 31, 2020.

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 March 31, 2021, the Company had working capital of $4.8 million and cash of $5.0 million (excluding restricted cash), of which $3.7 million is committed to be spent on qualifying expenditures to satisfy flow-through share requirements. Given that cashflows 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 issuances or other forms of financings in 2021 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.

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 accounting policies applied by the Company in these condensed interim consolidated financial statements are the same as those disclosed in note 4 of the Company's consolidated financial statements for the year ended December 31, 2020, except as noted below. Accordingly, the condensed interim consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended December 31, 2020.

5. IFRS standards, amendments and interpretations

a. New IFRS standards, amendments and interpretations effective during the period

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. New IFRS standards issued but not yet effective

i. IAS 16 – Property, Plant and Equipment

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 Company is currently assessing the financial impact of the amendment and expects to apply the amendment at the effective date.

ii. IAS 37 – Provisions, contingent Liabilities and Contingent Assets

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 Company is currently assessing the financial impact of the amendment and expects to apply the amendment at the effective date.

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

6. Restricted Cash

At March 31, 2021, the Company has pledged $622 thousand (December 31, 2020 – $622 thousand) in short-term investments as security for letters of credit provided, which relate to the provision for decommissioning and rehabilitation. These short-term investments are recorded as restricted cash.

7. Investment in Wescan Goldfields Inc.

At March 31, 2021, the Company held 5,807 thousand shares or 12.9% (December 31, 2020 – 5,807 thousand shares or 12.9%) 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 equity investments 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 March 31, 2021, the carrying value of this investment was $667 thousand (December 31, 2020 – $377 thousand). During the quarter ended March 31, 2021, the Company recognized a $290 thousand increase in the carrying value of its investment in Wescan.

8. Exploration and evaluation assets

As of March 31, 2021, the Company holds a 100% interest in the Fort à la Corne properties located in the central part of Saskatchewan, Canada ("Fort à la Corne properties"). 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. As a result, the carrying value of the Fort à la Corne properties, including the Company's Star - Orion South Diamond Project ("Project"), is determined to be $66,344 thousand (December 31, 2020 - $66,344 thousand).

During 2017, the Company acquired (the "Newmont Acquisition") from Newmont Corporation ("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 Exploration Canada Inc. ("Rio Tinto Canada") pursuant to which the Company has 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 2019, 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 2019 of its four options under the Option Agreement did not comply with the terms of the Agreement. The Company has commenced legal proceedings against Rio Tinto Canada in relation to Rio Tinto Canada's purported exercise. As at March 31, 2021 management's assessment of the purported exercise remains unchanged. Management exercises judgment in making this assessment.

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 determined to be $940 thousand (December 31, 2020 - $940 thousand).

9. Exploration and evaluation expense

The Company's exploration and evaluation expense for the three months ended March 31, is comprised of the following:

	March 31, 2021	March 31, 2020
Fort à la Corne properties		
Amortization of tangible assets	$ 1	$ 2
Exploration and evaluation	395	227
Share-based payments	16	-
Total	$ 412	$ 229

10. 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, 2020	438,671	$ 849,162
Issuance of shares (net of issue costs and warrants) (a)	13,333	634
Issuance of finders fee shares (b)	800	176
Balance – March 31, 2021	452,804	$ 849,972

(a) Unit financing

During the quarter ended March 31, 2021, the Company issued 13,333 thousand common shares for gross proceeds of $2,000 thousand.

(b) Issuance of finder shares

During the quarter ended March 31, 2021, the Company issued 800 thousand common shares pursuant to a finder agreement.

(c) 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. Refer to note 11 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
Balance - March 31, 2021	1,988	$ 0.26		$ 253

(a) During the quarter ended March 31, 2021, 800 thousand broker warrants were issued pursuant to a finder agreement in connection to the flow-through 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	Amount (in thousands)
Balance – December 31, 2020	3,883	$ 0.28	$ 371
Issued (a)	13,333	0.25	1,047
Expired	(1,105)	0.35	(224)
Balance – March 31, 2021	16,111	$ 0.25	$ 1,194

(a) During the quarter ended March 31, 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.

11. 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.

Option movements (in thousands) during the three months ended March 31, including weighted average exercise prices, are as follows:

	2021		2020	
	Options	Average Price	Options	Average Price
Outstanding – January 1	19,861	$ 0.21	18,554	$ 0.20
Granted	1,958	0.215	-	-
Exercised	-	-	(639)	0.20
Expired	(177)	0.20	-	-
Outstanding – March 31	21,642	$ 0.21	17,915	$ 0.20
Exercisable – March 31	21,642	$ 0.21	17,915	$ 0.20

Options outstanding at March 31, 2021 are 21,642 thousand (2020 – 17,915 thousand). The options outstanding at March 31, 2021 have an exercise price in the range of $0.19 to $0.245 (2020 – $0.17 to $0.235) and a weighted average contractual life of 3.1 years (2020 – 2.9 years).

The expense related to the Company's share-based payments as a result of certain options vesting over the period is recognized in the comprehensive statement of loss for the three months ended March 31, is as follows:

Expense Category included	March 31, 2021	March 31, 2020
Administration	$ 191	$ -
Exploration and evaluation	5	-
Total	$ 196	$ -

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.

(b) Deferred share unit plan

The Company has established a deferred share unit plan (the "DSU Plan"), which provides for the grant of deferred share units (“DSUs”) to eligible directors of the Company. The DSUs provide for the cash payment of certain amounts, or the issuance of common shares, to eligible directors. 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. DSUs outstanding at March 31, 2021 are 744 thousand (2020 – 506 thousand). During the quarter ended March 31, 2021, 207 thousand DSUs were granted (2020 – nil). The expense related to the Company’s share-based payments as a result of DSUs vesting over the three months ended March 31, 2021 was $46 thousand (2020 - $0).

(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 performance share units (“PSUs”) and restricted share units (“RSUs”) to eligible officers and employees of the Company. Upon redemption, the vested PSUs and/or the RSUs provide for the cash payment of certain amounts, or the issuance of common shares, to the participants. 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.

During the quarter ended March 31, 2021, 651 thousand RSUs were granted (2020 – nil). RSUs outstanding at March 31, 2021 are 4,532 thousand (2020 – 2,605 thousand).

The expense related to the Company’s share-based payments as a result of RSUs vesting over the period is recognized in the comprehensive statement of loss for quarter ended March 31, is as follows:

Expense category included	March 31, 2021	March 31, 2020
Administration	$ 59	$ -
Exploration and evaluation	11	-
Total	$ 70	$ -

12. Related party transactions

Related party transactions with key management personnel

The Company pays certain of its key management personnel through companies owned by certain executive officers and directors. During the three months ended March 31, 2021, those companies were as follows:

MacNeill Brothers Oil and Gas Ltd.

Compensation of key management personnel and directors, including payments made or payable to related parties owned by executive officers and directors during the three months ended March 31, 2021 is as follows:

	March 31, 2021	March 31, 2020
Short-term benefits to key management and directors	$ 84	$ 74
Consulting and management fees to related companies	61	107
Share based payments	273	-
Total compensation paid to key management personnel and directors	$ 418	$ 181

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 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 common shares preceding the date of grant. During the quarter ended March 31, 2020, compensation to Mr. George Read, as an executive officer to the Company, was paid through a company controlled by Mr. Read (George Read Consulting Inc.). During the fourth quarter of 2020, the Company announced that Mr. Read had assumed the title of Senior Technical Advisor to the Company. Mr. Read will continue to fully support the Company with his considerable expertise and will continue to prepare technical information for the Company as a "Qualified Person" under the definition of NI 43-101.

The compensation paid or payable to key management personnel and directors is included in the Company's statement of loss and comprehensive loss during the three months ended March 31 is as follows:

	March 31, 2021	March 31, 2020
Administration	$ 418	$ 135
Exploration and evaluation	-	46
Total compensation paid to key management personnel and directors	$ 418	$ 181

13. 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 of the Company's consolidated financial statements for the year ended December 31, 2020.

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 costs.

All financial instruments measured at fair value are categorized into one of three hierarchy levels as described in note 19 of the Company's consolidated financial statements for the year ended December 31, 2020. These financial instruments include the Company's investment in Wescan (level 1) and the contingent consideration (level 3).

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, short-term investments, 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 March 31, 2021, the Company's credit risk relates to its cash and cash equivalents, receivables and restricted cash of $5,757 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 March 31, 2021, the Company had working capital of $4.8 million and cash of $5.0 million (excluding restricted cash) and is required to incur $3.7 million of qualifying expenditures as a result of flow-through share financings. Due to the global COVID-19 pandemic, the Government of Canada published draft legislation in December 2020 to extend the expenditure period for incurring qualifying expenditures (to fulfill obligations under flowthrough financing commitments) by one year ("FT Legislation"). The recently proposed FT Legislation would extend the expenditure period for incurring qualifying expenditures (to fulfill obligations under flow-through financing commitments) by one year. As a result, as at March 31, 2021, $2.7 million of qualifying expenditures would need to be incurred by December 31, 2021 and $1.0 million of qualifying expenditures would need to be incurred by December 31, 2022. The Company is monitoring this proposed legislation and any other COVID-19 related proposals, to assess the impact these may have on the Company and the Company's flow-through commitments. Should the proposed FT Legislation not be enacted, the Company may be exposed to additional liabilities that may be incurred to indemnify shareholders.

As at March 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. 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. As at March 31, 2021, the Company does not have significant exposure to any of these market risks.

CORPORATE INFORMATION

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Bennett Jones LLP

Auditors
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Bank
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Exchange Listing
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