STAR DIAMOND CORPORATION

2nd Quarter Report
2023

Management's Discussion & Analysis

June 30, 2023

The following discussion and analysis is prepared by Management as of August 10, 2023 and should be read in conjunction with the unaudited condensed interim consolidated financial statements of Star Diamond Corporation ("Star Diamond" or the "Company") for the period ended June 30, 2023 ("financial statements for the period ended June 30, 2023"), as well as the audited consolidated financial statements of the Company for the year ended December 31, 2022, in each case available on SEDAR+ at www.sedarplus.ca. The Company prepared its financial statements for the period ended June 30, 2023, 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").

Overview

Star Diamond Corporation is a Canadian natural resource company focused on exploring and developing Saskatchewan's diamond resources. Star Diamond holds, through a joint venture arrangement with Rio Tinto Exploration Canada Inc. ("Rio Tinto Canada", a wholly-owned subsidiary of Rio Tinto plc, "Rio Tinto"), a 25% interest in certain Fort à la Corne kimberlites (including the Star – Orion South Diamond Project, or "Project"). These properties are located in central Saskatchewan, in close proximity to established infrastructure, including paved highways and the electrical power grid, which provide significant advantages for future mine development.

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 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 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

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). These arrangements were intended to ensure that key project milestones, and the certainty associated with them, were to be achieved before Star Diamond had to contribute any additional capital. As part of the December 2021 amended Fort à la Corne joint venture agreement, the participating interests were adjusted to 75% for Rio Tinto Canada and 25% for Star Diamond.

On June 28, 2022, Rio Tinto Canada exercised its voting power at a meeting of the Fort à la Corne joint venture management committee to place the Fort à la Corne properties on care and maintenance through December 31, 2022 (see news release dated June 28, 2022). Rio Tinto Canada also advised that, subject to fulfilling its existing obligations, it did not intend to commit additional capital to the Fort à la Corne properties during 2022 beyond what was necessary for care and maintenance. Rio Tinto Canada also advised the Company that it intended to conduct a near-term review of its alternatives regarding the Fort à la Corne properties, which included its potential exit. During the June 2022 meeting, Rio Tinto Canada stated that it remained pleased with the results of the comprehensive studies and bulk sampling program that had been completed to date at the Project.

On October 21, 2022, Star Diamond announced that Rio Tinto Canada had stated that it intended to fully de-mobilize the leased on-site camp at the Project in early 2023, and that it continues with site care and maintenance activities to fulfill its existing obligations, including certain progressive site cleanup and remediation programs. During the quarter, the personnel camp was fully de-mobilized and the Project was placed on care and maintenance.

While Star Diamond continues to work with Rio Tinto Canada to assess alternatives regarding the Project, these discussions are ongoing and there is no certainty that any agreement will be reached between Star Diamond and Rio Tinto Canada regarding any such potential arrangements.

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

During the year ended December 31, 2022, the Company announced the completion of an independent study into the abundance of Type IIa diamonds in the Trench Cutter diamond parcels recovered from the Early Joli Fou ("EJF") geological units at the Star Kimberlite, as defined by the Star Diamond geological model (see news release dated May 31, 2022). During 2019, Rio Tinto Canada completed the drilling of ten bulk sample holes (trenches) on the Star Kimberlite using a Trench Cutter Sampling Rig. This study confirms that high proportions of Type IIa diamonds are present in the Star Kimberlite. Of note is the high proportion of Type IIa diamonds in the larger size fractions of the EJF of which 53 percent (that is, 8 of the 15) of the largest stones, 4 carats and above, are Type IIa. This study also confirms and augments earlier studies conducted by Star Diamond of Type IIa diamonds at Star (26.5 percent, +11 DTC (0.32 carats) and above) (see news releases dated June 09, 2010, March 4, 2019 and May 2, 2022). Type IIa diamonds are rare and account for less than 2 percent of all natural rough diamonds mined from kimberlites. Many high-value, top colour, large specials (greater than 10.8 carats) are Type IIa diamonds, which include all ten of the largest known rough diamonds recovered worldwide.

Rio Tinto Canada geologists of the 'Orbit' exploration team have, over the past few years, used a spectrum of evaluation techniques to review and prioritize Fort à la Corne kimberlites outside of the Star and Orion South Kimberlites (see news release dated April 13, 2022). This program highlighted the kimberlites of Orion North

(in thousands of Canadian dollars, except as otherwise noted)

(K120, K147, K148) as having significant potential to add to the Project. Orion Centre (K145), Taurus (K150, K118, K122) and K119 stand out in the field as having a number of the attributes sought but require further work to completely evaluate. The evaluation techniques used by the Orbit exploration team to prioritize these Orion North, Orion Centre and Taurus Kimberlites have included: componentry method of core logging; diamond inclusion studies; garnet colour studies; trace element geochemistry; thermobarometry; and microdiamond sampling. These studies highlighted the kimberlites of Orion North (K120, K147, K148) as satisfying Rio Tinto Canada's Ore Grade Width Intercept ("OGWI") requirements and that these kimberlites would require additional evaluation work. Orion Centre (K145), Taurus (K150, K118, K122) and K119 indicated the potential to deliver OGWIs.

During 2022, the Company also announced the completion of an independent study into the abundance of Type IIa diamonds in the diamond parcels recovered from the EJF Geological Units at the Orion North and Taurus Kimberlites (see news release dated May 2, 2022). These diamonds were recovered by Star Diamond between 2006 and 2008 from 48-inch large diameter drilling programs. This study confirms that unusually high proportions of Type IIa diamonds are present in both the Orion North and Taurus Kimberlites. Of particular note is the high proportion of Type IIa diamonds in the Orion North 147/148 EJF (52%) of which 66% of the 24 stones, 3 grainer (0.66 carats) and above, are Type IIa.

Recent activities relating to the Buffalo Hills mineral properties

The Company holds a 50% interest in the exploration and evaluation properties and assets of the Buffalo Hills-JV located in north-central Alberta, Canada. Canterra Minerals Corporation (Canterra") holds the remaining 50% interest and is the operator of the Buffalo Hills-JV.

On February 21, 2023, the Company announced the completion of the diamond valuation from the K6, K14, K91 and K252 kimberlites of the Buffalo Hills-JV.

Diamond valuations and characterizations as shown in the table below were completed by Mr. Nelson Karun, Diamond Specialist, Saskatchewan Research Council ("SRC") Diamond Services, on behalf of Star Diamond.

Kimberlite	Carats	Stones	% Gem Quality	% White Colour	Faint to no Fluorescence	Average US$/Ct Parcel	Model Price (US$/ct)
K6	16.73	86	29.5	70.5	82.9	103.54	**185***
K14	69.32	1,362	17.9	73.8	92.6	54.32	**160**
K91	4.17	103	17.9	54.6	89.7	53.61	**N/A**
K252	12.41	328	22.0	82.1	92.1	72.79	**140***

*Very speculative due to the small sample size

As observed by Mr. Karun, diamonds from these kimberlite bodies exhibit good quality, colour and very low to no fluorescence. All the parcels of diamonds appear to be statistically very similar in terms of their graded characteristics. There is an inadequate sample size for K91 to model the average diamond price. Extremely speculative model prices are given for samples K6 and K252, due to the small parcel size. K14 is a larger parcel size, and a price can be modeled, but should still be used with caution.

The diamond valuation exercise has shown that kimberlites K14 and K6 have elevated modelled diamond prices, US$ 160 per carat and US$ 180 per carat, respectively. The K6 parcel includes three fancy yellow stones, the K14 four fancy yellow and the K252 a fancy orange stone. The two highest value stones, which are both from the K6, are 1.06 carats (US$ 532) and 1.07 carats (US$ 506).

(in thousands of Canadian dollars, except as otherwise noted)

These four kimberlites have diamond parcels with sufficient diamonds to conduct preliminary diamond typing studies. The number and the percentage of Type IIa diamonds for the Buffalo Hills kimberlites studied are documented in the table below and shows that these kimberlites have an anomalously high percentage of Type IIA diamonds.

Diamonds +3 DTC (0.026 carats) to 5 Grainer (1.2 carats)			
	Number of Diamonds Typed	Number of Type IIa Diamonds	Percentage Type IIa Diamonds
K6 +3 (0.026 ct) & above	78	4	5.1
K14 +7 (0.12 ct) & above	126	3	2.4
K91 +3 (0.026 ct) & above	47	3	6.4
K252 +3 (0.026 ct) & above	153	7	4.6

The diamond typing exercise has shown presence of Type IIa diamonds, in elevated proportions, in all four of these Buffalo Hills kimberlites. The diamonds analysed represent a spectrum of diamond sizes from +3 DTC (+0.026 carats) to 5 grainer (1.2 carats).

Type IIa diamonds are very rare and generally account for less than 2 percent of all natural rough diamonds mined world-wide from kimberlite deposits. Only a small number of active diamond mines regularly produce Type IIa diamonds with the most important of these mines being Cullinan Diamond Mine in South Africa, Letseng Diamond Mine in the Kingdom of Lesotho and, more recently, Karowe Diamond Mine in Botswana.

Executive Management Changes

Effective August 1, 2023, the Company announced the appointment of George Read to Senior Vice President Corporate Development and Mark Shimell to Vice President Exploration.

Outlook

Fort à la Corne mineral properties
Star Diamond continues to work with Rio Tinto Canada in assessing alternatives regarding the Project. These discussions remain ongoing and there is no certainty that any agreement will be reached between Star Diamond and Rio Tinto Canada regarding any such potential arrangements. Management believes that the negotiated return of the Project on reasonable terms is critical to its long-term success.

Buffalo Hills mineral properties
Management continues to review the recent results from the diamond valuation and typing analysis. Discussions are ongoing with Canterra to determine possible future work programs and a potential strategic path forward for the property. A more detailed update on activities at the Buffalo Hills-JV will be provided as it becomes available.

(in thousands of Canadian dollars, except as otherwise noted)

Financial Highlights

Selected financial information of the Company for the quarters ended June 30, 2023 and 2022 is summarized as follows:

	Three months ended June 30, 2023 $	Three months ended June 30, 2022 $	Six months ended June 30, 2023 $	Six months ended June 30, 2022 $
Net loss (millions)	**0.9**	**0.7**	**1.2**	**1.5**
Net loss per share (1)	**0.00**	**0.00**	**0.00**	**0.00**
Total assets (millions)	**1.8**	**70.9**	**1.8**	**70.9**
Total non-current liabilities (millions) (2)	**0.2**	**1.0**	**0.2**	**1.0**
Working capital (deficit) (millions)	**0.7**	**2.8**	**0.7**	**2.8**

(1) Basic and diluted.
(2) At June 30, 2023, non-current liabilities totaling $0.2 million were comprised of a lease liability. At June 30, 2022, non-current liabilities totaling $1.0 million were primarily comprised of a contingent consideration of $0.9 million and an environmental rehabilitation provision of $0.1 million.

Results of Operations

For the quarter ended June 30, 2023, the Company recorded a net loss of $0.9 million, or $0.00 per share (basic and fully diluted), compared to a net loss of $0.7 million, or $0.00 per share, for the same period in 2022. The greater net loss was due to a $0.3 million non-cash loss on the fair value re-measurement of the Company's marketable securities offset by a 20% reduction in expenditures.

Interest and other income

For the quarters ended June 30, 2023 and 2022 the Company reported interest and other income of $10 thousand and $5 thousand, respectively. The Company invests excess cash reserves in interest bearing short-term deposits while ensuring funds are available for cash outflow requirements associated with the Company's administration and exploration and evaluation expenditures.

Expenses

Expenses incurred during the quarter ended June 30, 2023 decreased by $0.2 million over the comparable prior period. This result was primarily due to lower administration, and exploration and evaluation expenditures, offset by slightly higher consulting and professional fees, and corporate development expenditures.

Exploration and evaluation expenditures were $0.2 million for the second quarter of 2023 compared to $0.3 million for the quarter ended June 30, 2022. Exploration and evaluation expenditures incurred during the quarters ended June 30, 2023 and 2022 were primarily related to work on metallurgical investigations, test work for the Project and technical and geological labour.

The combined decrease in administration, consulting and professional fees and corporate development expenditures was due to lower executive compensation costs offset by increased audit, legal and marketing costs, period over period.

Year to Date

Results of operations

For the six months ended June 30, 2023, the Company recorded a net loss of $1.2 million or $0.00 per share (basic and fully diluted) compared to a net loss of $1.5 million or $0.00 per share for the same period in 2022. The losses during the six month periods ended June 30, 2023 and 2022 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 six months ended June 30, 2023 and 2022, the Company reported interest and other income of $28 thousand and $7 thousand, respectively. The Company invests excess cash reserves in interest-bearing short-term deposits while ensuring funds will be available for operating costs and cash outflow requirements associated with the Company's exploration and evaluation projects.

Expenses

Total operating costs for the six months ended June 30, 2023 were $1.2 million compared to $1.5 million for the six months ended June 30, 2022. This period over period decrease was primarily due to lower administration and exploration and evaluation expenditures incurred, offset by higher consulting and professional fees, and corporate development costs.

Exploration and evaluation expenditures for the six months ended June 30, 2023 were $0.4 million compared to $0.5 million for the same period in 2022. Exploration and evaluation expenditures incurred during the first half of June 30, 2023 and 2022 related to geological and metallurgical investigations and test work for the Project. Approximately 59 percent of the exploration and evaluation expenditures incurred during the six months ended June 30, 2023 were comprised of compensation costs (2022 – 41 percent).

Administration, consulting and professional fees, and corporate development expenditures for the six months ended June 30, 2023 decreased by 47 thousand, period over period. This result was due to reduced executive compensation, offset by increased audit fees, legal and marketing costs.

Investment in Wescan Goldfields Inc.

At June 30, 2023, the Company held 5.8 million shares or 11.6% (December 31, 2022 – 5.8 million shares or 11.6%) 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 June 30, 2023, was $0.2 million (December 31, 2022– $0.2 million). During the quarter ended June 30, 2023, the Company recognized a $0.3 million decrease 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. Based on these judgments and assumptions, the Company had designated the Company's investment in Wescan as fair value through profit or loss (see note 4 to the financial statements for the year ended December 31, 2022).

(in thousands of Canadian dollars, except as otherwise noted)

Summary of Quarterly Results

	2023		2022				2021	
	Qtr 2	Qtr 1	Qtr 4	Qtr 3	Qtr 2	Qtr 1	Qtr 4	Qtr 3
Income (1) ($millions)	**0.0**	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net loss (2) ($millions)	**0.9**	0.3	66.7	0.5	0.7	0.9	2.5	2.0
Net loss per share (3) ($)	**0.00**	0.00	0.14	0.00	0.00	0.00	0.00	0.00
Shares outstanding (millions) (4)	**476.0**	476.0	476.0	476.0	473.9	455.5	452.8	452.8

(1) Income relates to 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 second quarter of 2022, the Company completed a private placement of 16.7 million common shares. Other changes in shares outstanding were due to shares issued from treasury as a result of stock option and warrant exercises and Restricted Share Unit redemptions.

Related Party Transactions

Key management personnel are persons responsible for planning, directing, and controlling the activities of an entity, and include executive and non-executive directors. Compensation of key management personnel and directors, including payments made or payable to related parties owned by executive officers and directors during the three and six months ended June 30, 2023 and 2022 is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	**2023**	2022
Director fees	**$ 27**	$ 106	**$ 69**	$ 134
Salaries to key management personnel	**28**	38	**54**	75
Consulting and management fees to related companies	**23**	61	**72**	123
Share based payments	**-**	15	**-**	38
Total compensation	**$ 78**	$ 220	**$ 195**	$ 370

At June 30, 2023, Mr. Ewan Mason (Interim Chief Executive Officer) held a management and consulting contract with the Company. Mr. Mason's fees during the six months ended June 30, 2023 were $54 thousand (June 30, 2022 – $122 thousand was paid to MacNeill Brothers Oil and Gas).

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 RSUs 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 June 30, 2023, the Company had $1.0 million (December 31, 2022 – $2.6 million) in cash and cash equivalents and working capital of $0.7 million (December 31, 2022 – $2.0 million). The decrease in working capital was a result of administration and exploration and evaluation expenditures incurred during the quarter. The

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Company believes it has sufficient liquidity to fund administration costs and certain exploration expenditures through to the end of 2023.

Outstanding Common Shares, Options, Warrants, RSUs and DSUs

At June 30, 2023, and the date of this report, the Company had:

	June 30, 2023	Date of this report
Common shares	475,997	476,401
Warrants and broker warrants	17,135	17,135
Stock Options	16,730	16,730
Restricted Share Units	3,323	3,323
Deferred Share Units	1,017	613

A summary of the warrants and broker warrants outstanding and exercisable (thousands) at June 30, 2023 is as follows:

Exercise Price	Number Outstanding	Expiry Date
$0.40	14,322	April 6, 2024
$0.40	2,813	April 21, 2024

The following table summarizes the period's stock options activities (thousands) as follows:

	June 30, 2023		December 31, 2022	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of period	18,478	$0.21	19,742	$0.21
Granted	-	-	200	0.125
Exercised	-	-	(375)	0.19
Expired	(1,748)	0.19	(1,089)	0.20
Outstanding, end of period	16,730	$0.21	18,478	$0.21

A summary of the stock options outstanding and exercisable (thousands) at June 30, 2023, is as follows:

Exercise Price	Number Outstanding	Number Exercisable	Expiry Date
$0.20	9,700	9,700	June 25, 2024
$0.245	200	200	May 28, 2025
$0.225	4,672	4,672	August 18, 2025
$0.215	1,958	1,958	February 1, 2026
$0.125	200	200	August 16, 2027
	16,730	**16,730**	

The following table summarizes the year's Restricted Share Units activities (thousands) as follows:

	June 30 2023	December 31 2022
Outstanding, beginning of period	3,427	4,532
Granted	-	1,000
Redeemed for commons shares from treasury	-	(2,105)
Forfeited	(104)	-
Outstanding, end of period	3,323	3,427

(in thousands of Canadian dollars, except as otherwise noted)

At June 30, 2023, there were 1.0 million DSUs outstanding (December 31, 2022 – 1.0 million DSUs).

Financial Instruments

As of June 30, 2023, 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 all of the Company's cash and cash equivalents are held by financial institutions with a AA credit rating. At June 30, 2023, the Company's credit risk relates to its cash and cash equivalents of $1.0 million (December 31, 2022 – $2.6 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 June 30, 2023, the Company had working capital of $0.7 million and cash of $1.0 million. At June 30, 2023, the Company has trade payables and other lease payments as set out in the following table on an undiscounted basis:

	Up to 3 months
Trade payables and accrued liabilities	$ 458
Lease payments	68
Total	$ 526

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.

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 June 30, 2023, 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 $23 thousand decrease in fair value.

Critical Accounting Estimates and Judgments

The financial statements for the period ended June 30, 2023 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, 2022. 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 June 30, 2023, 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, 2022.

Accounting Changes

Accounting Changes during the period

At the date of authorization of the condensed interim 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

i. IAS 1 – Disclosure of Accounting Policies

The IASB has issued amendments to IAS 1 *Presentation of Financial Statements* which require entities to disclose their "material" accounting policy information rather than their "significant" accounting policies. The amendments explain that accounting policy information is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that the primary users of the financial statements make on the basis of those financial statements. The amendments also clarify that accounting policy information may be material because of its nature, even if the related amounts are immaterial. This amendment is effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted. The extent of the impact of adoption of these amendments has not yet been determined.

ii. IAS 8 Definition of Accounting Estimates

The IASB has issued amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* which introduce a definition of accounting estimates and provide other clarifications to help entities distinguish accounting policies from accounting estimates. Under the amendments, accounting estimates are defined as "monetary amounts in financial statements that are subject to measurement uncertainty". The amendments also emphasize that a change in an accounting estimate that results from new information or new developments is not an error correction, and that changes in an input or a measurement technique used to develop an accounting estimate are considered changes in accounting estimates if those changes in an input or measurement technique are not the result of an error correction. This amendment is effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted. The extent of the impact of adoption of these amendments has not yet been determined.

iii. IAS 1 Classification of Liabilities as Current or Non-Current

The IASB has published *Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)* which clarifies the guidance on whether a liability should be classified as either current or non-current. The amendments:

• clarify that the classification of liabilities as current or non-current should only be based on rights that are in place "at the end of the reporting period";
• clarify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; and
• make clear that settlement includes transfers to the counterparty of cash, equity instruments, other assets or services that result in extinguishment of the liability.

This amendment is effective for annual periods beginning on or after January 1, 2024. Earlier application is permitted. The extent of the impact of adoption of this amendment has not yet been determined.

At the date of authorization of the condensed interim 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.

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 and Chief Financial Officer, 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 June 30, 2023.

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 June 30, 2023, that could have materially affected or are reasonably likely to materially affect the Company's internal controls over financial reporting.

Risks and Uncertainties

Risks and uncertainties related to economic and industry factors are discussed in detail 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 MD&A has been prepared under the supervision of George Read, Senior Vice President Corporate Development, Professional Geoscientist in the Provinces of Saskatchewan and British Columbia and Mark Shimell, Vice President Exploration, Professional Geoscientist in the Province of Saskatchewan and Alberta, 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 regarding Rio Tinto Canada; statements regarding programs previously performed 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 the Company, 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.sedarplus.ca.

Unaudited Condensed Interim Consolidated Financial Statements
June 30, 2023

STAR DIAMOND CORPORATION
Unaudited Condensed Interim Consolidated Financial Statements

For the Three and Six Months Ended
June 30, 2023

Notice to Reader

Management has compiled the unaudited condensed interim consolidated financial statements of Star Diamond Corporation for the three and six months ended June 30, 2023. The Corporation's external auditors have not reviewed these condensed interim consolidated financial statements.

Star Diamond Corporation

Condensed Interim Consolidated Statements of Financial Position

(unaudited)

(Cdn$ in thousands)	**June 30, 2023**	December 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	**$ 1,037**	$ 2,610
Receivables	**22**	18
Prepaids	**192**	50
	1,251	2,678
Investment in Wescan Goldfields Inc. (note 5)	**232**	232
Property and equipment (note 6)	**337**	160
	$ 1,820	$ 3,070
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 458**	$ 678
Current portion of lease liability (note 7)	**68**	39
	526	717
Lease liability (note 7)	**159**	-
Shareholders' equity:		
Share capital (note 8)	**854,938**	854,938
Warrants (note 8)	**1,448**	2,495
Broker warrants (note 8)	**41**	41
Contributed surplus	**35,665**	34,618
Accumulated deficit	**(890,957)**	(889,739)
	1,135	2,353
	$ 1,820	$ 3,070

Going Concern (note 3)

Subsequent event (note 13)

On behalf of the Board:

"Lisa Riley"	"Larry Phillips"
Lisa K. Riley, Audit Chair	Larry E. Phillips, Director

See accompanying notes to these condensed interim consolidated financial statements

Star Diamond Corporation

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

(unaudited)

(Cdn$ in thousands, except for share data)	Three Months Ended June 30, **2023**	Three Months Ended June 30, 2022	Six Months Ended June 30, **2023**	Six Months Ended June 30, 2022
Income				
Interest and other income	**$ 10**	$ 5	**$ 28**	$ 7
Expenses				
Administration	**287**	445	**634**	861
Consulting and professional fees	**81**	(13)	**136**	25
Corporate development	**44**	11	**87**	18
Exploration and evaluation (note 9)	**175**	295	**385**	547
	587	738	**1,242**	1,451
Loss before the under noted items	**(577)**	(733)	**(1,214)**	(1,444)
Unwinding of discount of environmental reclamation provision	**-**	(2)	**-**	(4)
Unwinding of discount of lease liability	**(4)**	(2)	**(4)**	(3)
Contingent consideration	**-**	20	**-**	70
Investment in Wescan Goldfields Inc. (note 5)	**(290)**	58	**-**	(145)
Net and comprehensive loss for the period	**$ (871)**	$ (659)	**$ (1,218)**	$ (1,526)
Net loss per share				
Basic and diluted	**$ (0.00)**	$ (0.00)	**$ (0.00)**	$ (0.00)
Weighted average number of shares outstanding (000's)	**475,997**	471,818	**475,997**	463,290

See accompanying notes to these condensed interim consolidated financial statements

Star Diamond Corporation

Condensed Interim Consolidated Statements of Cash Flows

(unaudited)

(Cdn$ in thousands)	Six Months Ended June 30, 2023	2022
Cash provided by (used in):		
Operations:		
Net loss	**$ (1,218)**	$ (1,526)
Adjustments:		
Depreciation on property and equipment (note 6)	**48**	48
Investment in Wescan Goldfields Inc.	**-**	145
Contingent consideration	**-**	(70)
Fair value of share-based payments expensed	**-**	46
Unwinding of discount and changes to environmental rehabilitation provision	**-**	4
Unwinding of discount and changes to lease liability (note 7)	**4**	3
Net change in non-cash operating working capital items:		
Receivables	**(4)**	86
Prepaids	**(142)**	(103)
Accounts payable and accrued liabilities	**(220)**	(2,615)
	(1,532)	(3,982)
Investing:		
Purchases of property and equipment	**-**	(12)
	-	(12)
Financing:		
Issuances of equity through financings (net of issue costs)	**-**	4,863
Issuances of equity from option, warrant and broker warrant exercises	**-**	901
Lease liability payments (note 7)	**(41)**	(41)
	(41)	5,723
Increase (decrease) in cash and cash equivalents	**(1,573)**	1,729
Cash and cash equivalents, beginning of period	**2,610**	1,265
Cash and cash equivalents, end of period	**$ 1,037**	$ 2,994
Cash and cash equivalents consists of:		
Cash	**$ 187**	$ 2,727
GIC	**850**	267
	$ 1,037	$ 2,994

See accompanying notes to these condensed interim consolidated financial statements

Star Diamond Corporation

Condensed Interim Consolidated Statements of Changes in Equity
(unaudited)

(Cdn$ in thousands)	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022	Year Ended December 31, 2022
Share capital			
Balance, beginning of period	**$ 854,938**	$ 849,973	$ 849,973
Shares issued (net of issue costs) (note 8)	**-**	4,544	4,965
Balance, end of period	**$ 854,938**	$ 854,517	$ 854,938
Warrants			
Balance, beginning of period	**$ 2,495**	$ 1,194	$ 1,194
Issued	**-**	1,449	1,449
Exercised	**-**	(133)	(133)
Expired (note 8)	**(1,047)**	-	(15)
Balance, end of period	**$ 1,448**	$ 2,510	$ 2,495
Broker warrants			
Balance, beginning of period	**$ 41**	$ 96	$ 96
Issued (note 8)	**-**	41	41
Exercised	**-**	(96)	(96)
Balance, end of period	**$ 41**	$ 41	$ 41
Contributed surplus			
Balance, beginning of period	**$ 34,618**	$ 34,901	$ 34,901
Share-based payments - options	**-**	-	14
Share-based payments - restricted share units	**-**	46	150
Options exercised	**-**	(41)	(41)
Restricted share unit redemptions	**-**	-	(421)
Warrants expired (note 8)	**1,047**	-	15
Balance, end of period	**$ 35,665**	$ 34,906	$ 34,618
Accumulated deficit			
Balance, beginning of period	**$ (889,739)**	$ (820,951)	$ (820,951)
Loss for the period	**(1,218)**	(1,526)	(68,788)
Balance, end of period	**$ (890,957)**	$ (822,477)	$ (889,739)
Total Shareholders' equity	**$ 1,135**	$ 69,497	$ 2,353

See accompanying notes to these condensed interim 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 under the symbol "DIAM". The principal activities of the Company are the exploration and development of diamond properties. The Company is located at 600 – 224 4th Avenue South, Saskatoon, Saskatchewan, Canada.

2. Basis of Presentation and Statement of Compliance

(a) Statement of Compliance

These unaudited condensed interim consolidated financial statements (the "Interim Financial Statements") have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting, using accounting policies consistent with International Financial Reporting Standards ("IFRS"). These Interim Financial Statements do not include all the information and disclosures required in the annual consolidated financial statements and should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2022 (the "2022 Annual Financial Statements"), which have been prepared in accordance with IFRS.

The preparation of financial statements in conformity of IFRS also requires management to make estimates and judgments that may have a significant impact on these Interim Financial Statements. Estimates are continuously evaluated and are based on management's experience and expectations of future events that are believed to be reasonable under the circumstances. Actual outcomes may differ from these estimates. The Company's critical accounting estimates and judgments were presented in Note 5 of the 2022 Annual Financial Statements and have been consistently applied in the preparation of these Interim Financial Statements for the three and six months ended June 30, 2023 and 2022.

The accounting policies and methods of application applied by the Company in these Interim Financial Statements are the same as those applied in the Company's 2022 Annual Financial Statements.

These Interim Financial Statements were authorized for issue by the Board of Directors on August 10, 2023.

(b) Basis of Measurement

These Interim Financial Statements have been prepared on the historical cost basis except if otherwise noted. In addition, these financial statements have been prepared using the accrual basis of accounting and are presented in Canadian dollars.

3. Going Concern

These Interim 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 June 30, 2023, the Company had working capital of $0.7 million and cash of $1.0 million. Given that cash flow's from operations are negative, the ability of the Company to continue as a going concern and fund its general and administrative expenses in an orderly manner will require further equity issuances or other forms of financing in 2023.

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 Interim 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. IFRS Standards, Amendments and Interpretations

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

At the date of authorization of these Interim 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 1 – Disclosure of Accounting Policies

The IASB has issued amendments to IAS 1 *Presentation of Financial Statements* which require entities to disclose their "material" accounting policy information rather than their "significant" accounting policies. The amendments explain that accounting policy information is material if omitting, misstating, or obscuring that information could reasonably be expected to influence decisions that the primary users of the financial statements make on the basis of those financial statements. The amendments also clarify that accounting policy information may be material because of its nature, even if the related amounts are immaterial. This amendment is effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted. The extent of the impact of adoption of these amendments has not yet been determined.

ii. IAS 8 Definition of Accounting Estimates

The IASB has issued amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* which introduce a definition of accounting estimates and provide other clarifications to help entities distinguish accounting policies from accounting estimates. Under the amendments, accounting estimates are defined as "monetary amounts in financial statements that are subject to measurement uncertainty". The amendments also emphasize that a change in an accounting estimate that results from new information or new developments is not an error correction, and that changes in an input or a measurement technique used to develop an accounting estimate are considered changes in accounting estimates if those changes in an input or measurement technique are not the result of an error correction. This amendment is effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted. The extent of the impact of adoption of these amendments has not yet been determined.

iii. IAS 1 Classification of Liabilities as Current or Non-Current

The IASB has published *Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)* which clarifies the guidance on whether a liability should be classified as either current or non-current. The amendments:

- clarify that the classification of liabilities as current or non-current should only be based on rights that are in place "at the end of the reporting period";
- clarify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; and
- make clear that settlement includes transfers to the counterparty of cash, equity instruments, other assets or services that result in extinguishment of the liability.

(In thousands of Canadian dollars, except as otherwise noted)

This amendment is effective for annual periods beginning on or after January 1, 2024. Earlier application is permitted. The extent of the impact of adoption of this amendment has not yet been determined.

At the date of authorization of these Interim 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.

5. Investment in Wescan Goldfields Inc.

At June 30, 2023, the Company held 5.8 million shares or 11.59% (December 31, 2022 – 5.8 million shares or 11.59%) 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 June 30, 2023, the carrying value of this investment was $0.2 million (December 31, 2022 – $0.2 million).

6. Property and Equipment

	Buildings, Leases and Leasehold Improvements	Computer Software and Equipment	Furniture and Equipment	Total
Cost				
Balance – December 31, 2021	$ 721	$ 69	$ 434	$ 1,224
Acquisitions	-	12	-	12
Disposals	-	(25)	(5)	(30)
Balance – December 31, 2022	$ 721	$ 56	$ 429	$ 1,206
Acquisitions	225	-	-	225
Balance – June 30, 2023	$ 946	$ 56	$ 429	$ 1,431

	Buildings, Leases and Leasehold Improvements	Computer Software and Equipment	Furniture and Equipment	Total
Accumulated depreciation and impairment				
Balance – December 31, 2021	$ (494)	$ (62)	$ (422)	$ (978)
Charge for the period	(91)	(5)	(2)	(98)
Eliminated on disposals	-	25	5	30
Balance – December 31, 2022	$ (585)	$ (42)	$ (419)	$ (1,046)
Charge for the period	(45)	(2)	(1)	(48)
Balance – June 30, 2023	$ (630)	$ (44)	$ (420)	$ (1,094)

(In thousands of Canadian dollars, except as otherwise noted)

	Buildings, Leases and Leasehold Improvements	Computer Software and Equipment	Furniture and Equipment	Total
Net book value				
Balance – December 31, 2022	$ 136	$ 14	$ 10	$ 160
Balance – June 30, 2023	**$ 316**	**$ 12**	**$ 9**	**$ 337**

7. Lease Liability

In May 2023, the Company renewed its head office lease and recorded an increase to the right-of-use asset and the corresponding lease liability on the effective date of the renewal.

A continuity of the lease liability for the six months ended June 30, 2023, is as follows:

	June 30, 2023	**December 31, 2022**
Lease liability, beginning of period	**$ 39**	$ 117
Additions	**225**	-
	264	117
Lease payments	**(41)**	(82)
Unwinding of discount and changes to lease liability	**4**	4
Total lease liability	**227**	39
Less: current portion	**(68)**	(39)
	$ 159	$ -

The maturity analysis of the undiscounted contractual balances of the lease liability is as follows:

Less than one year	$ 88
Two to three years	175
Total undiscounted lease liability - June 30, 2023	**$ 263**

Total undiscounted lease payments exclude leases that are classified as short-term and leases for low-value assets, which are not recognized as lease liabilities.

8. 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.

(In thousands of Canadian dollars, except as otherwise noted)

	Six Months Ended June 30, 2023		Year Ended December 31, 2022	
	Common Shares	**Amount**	Common Shares	Amount
Outstanding, beginning of period	**475,997**	**$ 854,938**	452,804	$ 849,973
Issuance of share and warrants (net of issue costs (a)	**-**	**-**	16,667	3,236
Issuance of finders fee shares and warrants (b)	**-**	**-**	468	137
Issuance of shares on redemption of restricted share units (c)	**-**	**-**	2,105	421
Issuance of shares on exercise of options (c)	**-**	**-**	375	112
Issuance of shares on exercise of warrants and broker warrants (c)	**-**	**-**	3,578	1,059
Outstanding, end of period	**475,997**	**$ 854,938**	475,997	$ 854,938

(a) Unit financing

During 2022, the Company issued 16.7 million common shares at a price of $0.30 per unit and 16.7 million warrants, exercisable at a price of $0.40 per common share, for gross proceeds of $5.0 million.

(b) Issuance of finders fee shares

During the year ended December 31, 2022, the Company issued 0.5 million common shares pursuant to finders fee agreements relating to the unit financing. The Company also issued 0.5 million broker warrants.

(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 directors, officers, employees and service providers as part of their compensation. The fair value of stock options has been valued using the Black-Scholes option-pricing model while the fair value of RSUs and DSUs is determined based on the five-day volume weighted average trading price of the Company's shares preceding the date of grant. Refer to note 10 for further details on these share-based payment plans.

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:

	Six Months Ended June 30, 2023			Year Ended December 31, 2022		
	Warrants	**Average Price**	**Amount**	Warrants	Average Price	Amount
Outstanding, beginning of period	**30,000**	**$ 0.33**	**$ 2,495**	16,111	$ 0.25	$ 1,194
Issued	**-**	**-**	**-**	16,667	0.40	1,449
Exercised	**-**	**-**	**-**	(2,500)	0.25	(133)
Expired	**(13,333)**	**0.25**	**(1,047)**	(278)	0.25	(15)
Outstanding, end of period	**16,667**	**$ 0.40**	**$ 1,448**	30,000	$ 0.33	$ 2,495

(In thousands of Canadian dollars, except as otherwise noted)

Warrants Outstanding	Exercise Price	Expiry Date
13,960	$ 0.40	April 6, 2024
2,707	$ 0.40	April 21, 2024

At June 30, 2023, the weighted average remaining contractual life of the warrants was 0.78 years.

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:

	Six Months Ended June 30, 2023			Year Ended December 31, 2022		
	Broker Warrants	**Average Price**	**Amount**	Broker Warrants	Average Price	Amount
Outstanding, beginning of period	**468**	**$ 0.40**	**$ 41**	1,078	$ 0.26	$ 96
Issued	**-**	**-**	**-**	468	0.40	41
Exercised	**-**	**-**	**-**	(1,078)	0.19	(96)
Outstanding, end of period	**468**	**$ 0.40**	**$ 41**	468	$ 0.40	$ 41

Broker Warrants Outstanding	Exercise Price	Expiry Date
362	$ 0.40	April 6, 2024
106	$ 0.40	April 21, 2024

At June 30, 2023, the weighted average remaining contractual life of the broker warrants was 0.78 years.

9. Exploration and Evaluation Expense

The Company's exploration and evaluation expense for the three and six months ended June 30, 2023, is comprised of the following:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2023	2022	**2023**	2022
Fort à la Corne properties				
Amortization of tangible assets	**$ 2**	$ 2	**$ 3**	$ 3
Exploration and evaluation	**173**	290	**375**	539
Share-based payments	**-**	3	**-**	5
Buffalo Hills property				
Exploration and evaluation	**-**	-	**7**	-
Total	**$ 175**	$ 295	**$ 385**	$ 547

Exploration and evaluation assets

Fort à la Corne

As of June 30, 2023, 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.

On June 28, 2022, Rio Tinto Canada exercised its voting power at a meeting of the Fort à la Corne joint venture management committee to place the Fort à la Corne properties on care and maintenance through December 31, 2022. Rio Tinto Canada also advised that, subject to fulfilling its existing obligations, it does not intend to commit additional capital to the Fort à la Corne properties during 2022 beyond what is necessary for care and maintenance. Rio Tinto Canada also advised the Company that it intends to conduct a near-term review of its alternatives regarding the Fort à la Corne properties, including its potential exit.

On October 21, 2022, the Company announced that Rio Tinto Canada had stated that it intended to fully de-mobilize the leased on-site camp and that it continues with site care and maintenance activities to fulfill its existing obligations, including certain progressive site cleanup and remediation programs. During the quarter, the personnel camp was fully de-mobilized and the Project was placed on care and maintenance.

The recent actions by Rio Tinto Canada, which are outside the control of the Company, resulted in a high degree of uncertainty over the future of the Project. As a result, during the fourth quarter of 2022, the Company recognized a non-cash after-tax impairment of $66.3 million on its 25% share of the Fort à la Corne asset leaving it fully impaired at December 31, 2022. The carrying value of the Fort à la Corne properties at June 30, 2023 is $nil (December 31, 2022 - $nil). The Company continues to discuss alternatives with Rio Tinto Canada to determine the future of the Project. These discussions are ongoing and there is no certainty that any agreement will be reached between the Company and Rio Tinto Canada.

Buffalo Hills-JV

At June 30, 2023, the Company holds a 50% interest in the exploration and evaluation properties and assets of the Buffalo Hills-JV. Canterra Minerals Corporation ("Canterra") holds the remaining 50% interest. Canterra is the operator of the Buffalo Hills-JV. The carrying value of the Buffalo Hills-JV properties at June 30, 2023 is $nil (December 31, 2022 - $nil).

10. 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 periodically 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.

A summary of stock option activities (in thousands) is as follows:

	Six Months Ended June 30, 2023		Year Ended December 31, 2022	
	Options	**Average Price**	Options	Average Price
Outstanding – beginning of period	**18,478**	**$ 0.21**	19,742	$ 0.21
Granted	**-**	**-**	200	0.125
Exercised	**-**	**-**	(375)	0.19
Expired	**(1,748)**	**0.19**	(1,089)	0.20
Outstanding – end of period	**16,730**	**$ 0.21**	18,478	$ 0.21
Exercisable	**16,730**	**$ 0.21**	18,478	$ 0.21

Excluded from the above table are 2.0 million stock options, issuable to the former President and Chief Executive Officer pursuant to a retirement agreement between MacNeill Brothers Oil and Gas Ltd. and the Company. These options will be granted when permitted by applicable securities law.

A summary of the stock options outstanding and exercisable (thousands) at June 30, 2023, is as follows:

Exercise Price	**Number Outstanding**	**Number Exercisable**	**Expiry Date**
$0.20	9,700	9,700	June 25, 2024
$0.245	200	200	May 28, 2025
$0.225	4,672	4,672	August 18, 2025
$0.215	1,958	1,958	February 1, 2026
$0.125	200	200	August 16, 2027
	16,730	**16,730**	

All outstanding options are fully vested, therefore there is no expense related to the Company's share-based payments over the six months ended June 30, 2023 and 2022.

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 when the deferred share unit is redeemed. When granted DSUs vest immediately. There are 1.0 million DSUs outstanding at June 30, 2023 and December 31, 2022. No DSUs were granted during the six months ended June 30, 2023 and 2022. There was no expense related to the Company's share-based payments as a result of DSUs vesting over the six months ended June 30, 2023 or 2022.

(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 redeemed. RSUs typically vest in three tranches, with all RSUs vesting no later than the third anniversary from the date of grant.

RSU movements (in thousands) during the six months ended June 30, 2023 is as follows:

	June 30, 2023	December 31, 2022
RSUs outstanding – beginning of period	**3,427**	4,532
Granted	**-**	1,000
Redeemed for common shares from treasury	**-**	(2,105)
Forfeited	**(104)**	-
RSUs outstanding – end of period	**3,323**	3,427

All outstanding RSUs have fully vested, therefore there is no expense related to the Company’s share-based payments over the six months ended June 30, 2023 and 2022.

11. 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. Compensation of key management personnel and directors, including payments made or payable to related parties owned by executive officers and directors during the three and six months ended June 30, 2023 and 2022 is as follows:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2023	2022	**2023**	2022
Director fees	**$ 27**	$ 106	**$ 69**	$ 134
Salaries to key management personnel	**28**	38	**54**	75
Consulting and management fees to related companies	**23**	61	**72**	123
Share based payments	**-**	15	**-**	38
Total compensation	**$ 78**	$ 220	**$ 195**	$ 370

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 based on the five-day volume weighted average trading price of the Company’s shares preceding the date of grant.

(In thousands of Canadian dollars, except as otherwise noted)

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 and six months ended June 30, 2023 as Administration expense.

12. 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 2022 Annual Financial Statements for the year ended December 31, 2022.

The carrying amounts for cash and cash equivalents, short-term investments, receivables 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 2022 Annual Financial Statements for the year ended December 31, 2022. These financial instruments include the Company's investment in Wescan (level 1).

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 all of the Company's cash and cash equivalents are held by financial institutions with a AA credit rating. At June 30, 2023, the Company's credit risk relates to its cash and cash equivalents of $1.0 million (December 31, 2022 – $2.6 million).

(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 June 30, 2023, the Company had working capital of $0.7 million and cash of $1.0 million. At June 30, 2023, the Company has trade payables and other lease payments as set out in the following table on an undiscounted basis:

	Up to 3 months
Trade payables and accrued liabilities	$ 458
Lease payments	68
Total	$ 526

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 June 30, 2023, the Company does not have significant exposure to any of these market risks.

13. Subsequent Event

Subsequent to June 30, 2023, the Company issued 0.4 million common shares pursuant to a redemption of outstanding DSU grants by a retired director.

CORPORATE INFORMATION

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Larry E. Phillips
Lisa K. Riley
Marilyn D. Spink

Officers and Advisors
Ewan D. Mason – Interim CEO
Richard Johnson – CFO
George H. Read – Senior Vice President Corporate Development
Mark Shimell – Vice President Exploration

Solicitors
Bennett Jones LLP

Auditors
KPMG LLP

Bank
Bank of Montreal

Exchange Listing
TSX
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