



**Management's Discussion & Analysis**

**December 31, 2018**

## MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")

For the year ended December 31, 2018

The following discussion and analysis is prepared by Management as of March 28, 2019 and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2018 ("financial statements for the year ended December 31, 2018") available on SEDAR at www.sedar.com. Star Diamond Corporation ("DIAM", "Star Diamond", or "the Company") prepared its financial statements for the year ended December 31, 2018 in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). All currency amounts are quoted in Canadian Dollars, unless otherwise stated.

### Overview

Star Diamond Corporation is a Canadian natural resource company focused on exploring and developing Saskatchewan's diamond resources. This corporate name is in honour of the Star Kimberlite, located in the Fort à la Corne forest of Saskatchewan, Canada. It was the exploration and evaluation work completed on the Star Kimberlite which demonstrated the significant quality, size and value of the contained diamond populations. These high value diamonds facilitated the consolidation and advancement of the Company's Fort à la Corne area kimberlites, including the Star - Orion South Diamond Project. 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 its 100% held Star - Orion South Diamond Project ("Project").

During the second quarter of 2018, the Company announced the positive results of an independent Preliminary Economic Assessment ("PEA") on the Project. The PEA estimates 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). 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 include <sup>1</sup>:

- Total potential plant feed of 470 million tonnes at a weighted average grade of 14 carats per hundred tonnes ("cph<sup>t</sup>"), containing 66 million carats over the 34 year Life of Mine <sup>2</sup> ("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.

<sup>1</sup> 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.

<sup>2</sup> 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 the quarter ended December 31, 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 they have conducted a thorough environmental assessment for the Project,

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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 Canada FN Holdings ULC ("Newmont") all of Newmont's participating interest in the Fort à la Corne joint venture (the "FaLC JV"), resulting in the Company owning 100% of the Fort à la Corne mineral properties (including the Project), and concurrently entered into an Option to Joint Venture Agreement (the "Option Agreement") with Rio Tinto Exploration Canada Inc. ("RTEC") pursuant to which the Company has granted RTEC an option to earn up to a 60% interest in the 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% of the Company's common shares issued and outstanding on a non-diluted basis.

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

During 2018, RTEC, Bauer Maschinen GmbH ("Bauer") and Nuna Logistics Limited finalized contractual arrangements for the manufacture, supply and operation of equipment to be used for bulk sampling of the Star and Orion South Kimberlites. RTEC aim to use a Bauer BC 50 Cutter mounted on a Bauer MC 128 Duty-cycle Crane ("Trench Cutter Sampling Rig") to drill and sample to depths of up to 250 metres below surface (See News Release dated April 12, 2018). Each ten metres of advance down hole aims to excavate some 100 tonnes of kimberlite. Bauer cutter rigs are used around the world for complex engineering projects. Bauer has indicated that this will be the first time in the world that this technology will be used in an active project to reach a depth of 250 meters.

During 2018, RTEC and Consulmet (Pty) Ltd finalized contractual arrangements for the manufacture and supply of a 30 tonne per hour on-site bulk sample plant (See News Release dated May 15, 2018). The bulk sample plant has been specifically designed to maximize liberation and recovery of diamonds throughout the -25+0.85 millimetre size range, and minimize diamond breakage, particularly among potential specials (plus 10.8 carat diamonds) that may be recovered from both the Star and Orion South Kimberlites. The bulk sample plant will use a modern flow-sheet and the latest X-ray transmission ("XRT") sorting technology to ensure any large diamonds present (up to 25 millimetres) are recovered with minimal breakage. A secondary crushing circuit, using a high pressure rolls crusher ("HPRC"), will maximize the liberation of smaller diamonds from the kimberlite.

During 2018, RTEC successfully completed panels at five of the proposed ten bulk sample locations on the Star Kimberlite, using the Cutter Soil Mixing ("CSM") drilling rig (See News Release dated October 1, 2018). The CSM drilling program mixes cement grout with the top 20 metres of near-surface sands in order to stabilize the unconsolidated sand overburden at each of RTEC's planned bulk sampling locations.

Prior to the commencement of winter shut down of the Trench Cutter Sampling Rig, RTEC commenced drilling of the first bulk sample hole on the Star Kimberlite using the Trench Cutter Sampling Rig. The Trench Cutter bulk sample drilling was successfully initiated to a depth of 37.1 metres below surface (See News

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Release dated November 1, 2018). The Trench Cutter Sampling Rig successfully excavated the sand and till overburden and returned a substantial proportion of large (up to 80 millimetre) fragments from the till. The encouraging performance of the Trench Cutter Sampling Rig was unfortunately constrained by the commissioning of the desanding plant, which did not operate at design capacity. The design and construction of the desanding plant are being evaluated by RTEC with the intent that the desanding plant will be revised or replaced by the time that the Trench Cutter Sampling Rig program resumes on the first bulk sample hole and RTEC's on-site bulk sample processing plant is commissioned in 2019.

The Company recently announced that RTEC has commenced the sonic and core drilling of up to 25 pilot holes each, on the Orion South Kimberlite (see News Release dated January 24, 2019). This sonic drilling is to provide a detailed log of the overburden stratigraphy above the kimberlite, while the core holes are being drilled to generate detailed logs of the kimberlite geology at each locality in preparation for RTEC's proposed bulk sampling of the Orion South kimberlite with the Trench Cutter Sampling Rig.

RTEC is also performing Brownfields exploration programs to investigate and prioritise the Company's Fort à la Corne kimberlites outside of the Star and Orion South kimberlites (see News Releases October 25, 2018 and November 9, 2018). While the Star and Orion South kimberlites are the focus of the planned bulk sampling by RTEC, respectively, there are some 60 other kimberlites within in the Fort à la Corne diamond district, on mineral dispositions held 100 percent by the Company. Star Diamond and other companies have previously completed extensive exploration on these Fort à la Corne kimberlites, including geophysical surveys, pattern core drilling, large diameter drilling and micro- and macrodiamond analyses, which resulted in the documentation of geological models for a number of these bodies. RTEC have indicated to the Company that the aim of RTEC's Brownfields programs is to reinvestigate these other kimberlites to assess and prioritise them for future exploration and evaluation work. Programs include detailed core logging, indicator mineral abundance and composition studies, and studies of diamond results, in addition to an airborne geophysical survey of the Fort à la Corne diamond district, spaced at 200 metres. Magnetic field data and Light Detection and Ranging or Laser Altimeter Survey ("LiDAR") data was collected concurrent with the airborne gravity gradiometry ("AGG") data, producing a set of gravity field, magnetic field and topographic data over the surveyed area.

A Brownfields core drilling program was also conducted by RTEC in late 2018. RTEC geologists are responsible for the supervision of the drilling program and Star Diamond and RTEC geologists will conduct subsequent detailed core logging. During 2018, RTEC completed twelve holes and 2,454 metres of drilling, on three kimberlites: K602 (6 holes), K606 (4 holes) and K176 (2 holes). RTEC have indicated that the Brownfields core drilling program recommenced in January 2019 with a program of over 20 core holes on kimberlites located on farmland to the south and within the Fort à la Corne Forest.

The Company recently announced the results of a study into the abundance of Type IIa diamonds in the diamond parcels recovered from the Star and Orion South Kimberlites (see News Release dated March 4, 2019). This study confirmed that unusually high proportions of Type IIa diamonds are present in both the Star (26.5 percent) and the Orion South (12.5 percent) kimberlites. The diamonds analysed in this study represented a spectrum of diamond sizes from +11 DTC (+0.32 carats) through all of the large stones, up to diamonds of nearly 50 carats. Type IIa diamonds are very rare and account for approximately less than two percent of all natural rough diamonds mined from kimberlites. Type IIa diamonds usually have anhedral crystal shape and exhibit a range of elongated, distorted or irregular morphologies. Most importantly, many high-value, top colour, large specials (greater than 10.8 carats) are Type IIa diamonds, which include all ten of

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the largest known rough diamonds recovered worldwide, from the 726 carat Jonker to the 3,106 carat Cullinan.

### Selected Annual Information

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

|   | 2018<br>\$ | 2017<br>\$ | 2016<br>\$ |
|---|------------|------------|------------|
| Interest and other income (millions)                    | 0.1        | 0.1        | 0.0        |
| Net income (loss) (millions)                            | (4.6)      | 40.8       | (5.4)      |
| Net income (loss) per share <sup>(1)</sup>              | (0.01)     | 0.12       | (0.02)     |
| Total assets (millions)                                 | 70.4       | 71.9       | 4.7        |
| Total non-current liabilities (millions) <sup>(2)</sup> | 1.3        | 1.3        | 0.6        |
| Working capital (millions)                              | 2.6        | 3.9        | 2.9        |

(1) Basic and diluted.

(2) Total non-current liabilities are comprised of environmental rehabilitation provisions (for which the Company has provided letters of credit, backed by short-term securities that are recorded on the Company's financial statements as restricted cash). At December 31, 2018 and December 31, 2017, non-current liabilities also included contingent consideration relating to the Newmont Acquisition. The discounted present value of this contingent consideration at December 31, 2018 was \$0.7 million (2017 - \$0.7 million).

### Results of Operations

For the year ended December 31, 2018, the Company recorded a net loss of \$4.6 million or \$0.01 per share (basic and fully diluted) compared to net income of \$40.8 million or \$0.12 per share in 2017. The loss during 2018 was primarily due to ongoing operating costs and exploration and evaluation expenditures incurred by the Company exceeding interest and other income earned. Net income during 2017 was due to the partial reversal of previously recorded impairments relating to the Company's Fort à la Corne mineral properties (\$44.5 million).

#### Interest and other income

For the years ended December 31, 2018 and 2017 the Company reported interest and other income of \$124 thousand and \$139 thousand respectively. The Company invests excess cash reserves in interest bearing short-term deposits while ensuring funds would be available for cash outflow requirements associated with the Company's exploration and evaluation projects. Other revenue is measured at the fair value of the consideration received or receivable for goods and services in the normal course of business.

#### Expenses

Expenses incurred during the year ended December 31, 2018 were \$4.8 million compared to \$4.0 million in 2017. These amounts also include \$1.5 million of share-based payments that was expensed during the year ended December 31, 2018 (2017 – \$0.7 million). This increase was primarily due to higher share-based payments expensed during 2018, offset by lower compensation costs incurred.

Exploration and evaluation expenditures were \$2.2 million for the year ended December 31, 2018 compared to \$2.1 million for the same period in 2017. Exploration and evaluation expenditures incurred during 2018 primarily related to metallurgical investigations and test work for the Project as well as other costs associated with the PEA. Exploration and evaluation expenditures incurred during the year ended December 31, 2017

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primarily related to metallurgical investigations and test work for the Project. Approximately 41 percent, or \$0.9 million (2017 – \$0.9 million), of the exploration and evaluation expenditures were made up of compensation costs, including share-based payments, incurred by the Company.

Administration, consulting and professional fees and corporate development expenditures were \$2.6 million. This \$0.7 million increase from the same period in 2017 was primarily due to higher non-cash share-based payments, lower gains on property and equipment disposals as well as higher corporate development related expenditures incurred during the year. Approximately \$1.6 million (2017 – \$1.4 million) of administration, consulting and professional fees and corporate development expenditures were made up of compensation costs, including share-based payments of \$1.0 million (2017 – \$0.5 million), incurred by the Company.

### ***Premium on flow-through shares***

The Company previously issued flow-through shares for a premium over the market value of the shares. The premium over the market value of the shares is recognized as a liability until such time as the Company incurs qualifying expenditures. As the Company incurs qualifying expenditures, this liability to the investor is satisfied and accordingly the premium received on the initial issue of share capital will be recognized in income. During 2018, the premium recognized in income was \$0.2 million (2017 – \$0.2 million).

### ***Use of proceeds***

During 2018, the Company raised \$1.25 million from flow-through financing activities to be used on exploration and evaluation activities before the end of 2019. The Company expects that exploration and evaluation expenditures to be incurred in 2019 will fulfill its obligations under its flow-through commitments.

During 2017, the Company raised \$1.5 million from flow-through financing activities to be used on exploration and evaluation activities before the end of 2018. The Company has fulfilled this obligation as of December 31, 2018.

### ***Reversal of prior impairments to exploration and evaluation assets***

As a result of the Newmont Acquisition, the Company performed an assessment of the estimated recoverable amount of the Fort à la Corne mineral properties. Based on this assessment, the recoverable amount of the Fort à la Corne mineral properties was determined to be \$66.3 million (2017 – \$66.3 million). This assessment resulted in a reversal of \$44.5 million of previously recorded impairments during the year ended December 31, 2017.

### ***Investment in Wescan Goldfields Inc.***

At December 31, 2018, the Company held 5.8 million shares or 12.9% (December 31, 2017 – 5.8 million shares) of Wescan Goldfields Inc. ("Wescan"), a publicly traded company on the TSX Venture exchange. The Company considers certain judgments and assumptions when assessing whether significant influence exists over its investments. This includes an assessment of the Company's ability to participate in financial and operating policy decisions of the investee. The existence and effect of potential voting rights held by the investor or other entities were also considered. The fair value of this investment, based on the closing trading price at December 31, 2018, was \$232 thousand (December 31, 2017 – \$348 thousand).

### ***Financing***

During the fourth quarter of 2018 the Company completed a \$1.25 million private placement of 4.8 million flow-through common shares. Gross proceeds from the flow-through common shares will be used to incur qualifying expenditures prior to December 31, 2019. In addition, 0.7 million options (weighted average

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exercise price of \$0.17) and 3.0 million broker warrants and warrants (weighted average exercise price of \$0.20) were exercised during the year ended December 31, 2018 for total cash proceeds of \$0.7 million. During the year ended December 31, 2018 the Company also issued common shares from treasury as a result of option exercises and vested restricted share units ("RSUs") and deferred share units ("DSUs") that were redeemed by the Company.

During 2017, in connection to the Newmont Acquisition, 53.8 million common shares and 1.1 million common share purchase warrants were issued to Newmont. Each warrant entitles Newmont to acquire one additional common share at a price of \$0.349 per share for a period of 45 months from the date of issuance. In connection with the Option Agreement, RTEC subscribed for 5.6 million units of the Company for a gross subscription amount of \$1.0 million at a price of \$0.18 per unit, with each unit consisting of one common share in the capital of the Company and one common share purchase warrant. Each warrant entitles the holder thereof to purchase one Common Share at a price of \$0.205 for a period of 24 months from the date of issuance.

During 2017 the Company also completed a \$3.0 million private placement of 7.9 million flow-through common shares and 9.4 million Units. Each Unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holder thereof to purchase one common share at a price of \$0.20 for a period of 18 months from the date of issuance. Gross proceeds of \$1.5 million from the flow-through common shares were used to incur qualifying expenditures by December 31, 2018. In addition, 0.2 million options (weighted average exercise price of \$0.19) and 1.5 million broker warrants (weighted average exercise price of \$0.23) were exercised during the year ended December 31, 2017 for total cash proceeds of \$0.4 million. During the year ended December 31, 2017 the Company also issued 2.3 million common shares pursuant to an agreement with a third-party consulting and professional service provider. During 2017 the Company also issued common shares from treasury as a result of option exercises and vested restricted share units ("RSUs") and deferred share units ("DSUs") that were redeemed by the Company.

**Summary of Quarterly Results**

|  | 2018         |       |        |       | 2017  |       |       |       |
|--|--------------|-------|--------|-------|-------|-------|-------|-------|
|  | Qtr 4        | Qtr 3 | Qtr 2  | Qtr 1 | Qtr 4 | Qtr 3 | Qtr 2 | Qtr 1 |
| <b>Income</b> <sup>(1)</sup> (\$millions)              | <b>0.0</b>   | 0.0   | 0.1    | 0.0   | 0.1   | 0.0   | 0.0   | 0.0   |
| <b>Net income (loss)</b> <sup>(2)</sup> (\$millions)   | <b>(1.1)</b> | (1.0) | (1.8)  | (0.7) | (0.8) | (0.6) | 43.0  | (0.8) |
| <b>Net income (loss) per share</b> <sup>(3)</sup> (\$) | <b>0.00</b>  | 0.00  | (0.01) | 0.00  | 0.00  | 0.00  | 0.12  | 0.00  |
| <b>Shares outstanding</b> (millions) <sup>(4)</sup>    | <b>392.1</b> | 384.0 | 383.2  | 379.9 | 378.3 | 361.0 | 356.4 | 295.3 |

(1) Income relates to revenue for services provided as well as interest earned on the Company's cash and short-term investments.

(2) Net income during the second quarter of 2017 was due to the reversal of previously recorded impairments to exploration and evaluation assets. Net losses for other periods relate to expenditures incurred by the Company exceeding income earned.

(3) Basic and diluted.

(4) During the fourth quarter of 2018, the Company completed a private placement of 4.8 million shares of the Company. During the fourth quarter of 2017, the Company completed a private placement of 17.3 million shares of the Company. During the third quarter of 2017, the Company issued 2.3 million common shares issued from treasury pursuant to an agreement with a third-party consulting and professional service provider. During the second quarter of 2017, 59.3 million shares of the Company were issued as a result of the Newmont Acquisition and Option Agreement. Other changes in shares outstanding were due to shares issued from treasury as a result of warrant, broker warrant and option exercises, vested DSU redemptions or RSU redemptions.

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***Fourth quarter results***

For the quarter ended December 31, 2018, the Company recorded a net loss of \$1.1 million or \$0.00 per share compared to a net loss of \$0.8 million or \$0.00 per share for the same period in 2017. These losses were primarily due to operating costs and exploration and evaluation expenditures incurred by the Company.

Expenses incurred during the quarter ended December 31, 2018 were \$1.1 million compared to \$1.0 million for the same period in 2017.

Exploration and evaluation expenditures incurred during the quarter ended December 31, 2018 were \$0.6 million, compared to \$0.5 million during the same period in 2017. Exploration and evaluation expenditures incurred during the quarters ended December 31, 2018 and 2017 were primarily related to metallurgical investigations and test work for the Project.

In addition, administration, consulting and professional fees, and corporate development expenditures for the quarters ended December 31, 2018 and 2017 were \$0.5 million.

During the fourth quarter of 2018, the Company announced the successful completion of a bought deal private placement for gross proceeds of \$1.25 million. During the fourth quarter of 2017, the Company announced the successful completion of a private placement for gross proceeds of \$3.0 million.

**Related Party Transactions**

At December 31, 2018, Messrs. Kenneth E. MacNeill (President and Chief Executive Officer) and George H. Read (Senior Vice President of Exploration and Development), through their respective consulting companies, hold management and consulting contracts with the Company. Messrs. MacNeill and Read's monthly fees during the year ended December 31, 2018 were \$20 thousand (2017 – \$29 thousand) and \$15 thousand (2017 – \$22 thousand), respectively. These reductions are due to voluntary base compensation reductions implemented in January of 2018 for the Company's officers, employees and directors.

Total compensation paid or payable to officers (including amounts paid through companies controlled by Messrs. MacNeill and Read) and to directors of the Company was \$1.8 million (2017 – \$1.6 million). Of these amounts, \$1.3 million (2017 – \$1.2 million) was included in administration expense and \$0.5 million was included in exploration and evaluation expense (2017 – \$0.4 million). Included in these amounts are share-based payment transactions of \$1.1 million (2017 – \$0.6 million).

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

**Liquidity**

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



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At December 31, 2018 the Company had \$2.8 million (2017 – \$4.0 million) in cash and cash equivalents. The Company has also supplied \$0.6 million (2017 – \$0.6 million) of irrevocable standby letters of credit issued by a Canadian chartered bank. The Company backs the letters of credit with investments which have been recorded on the financial statements as restricted cash. The Company does not include restricted cash in its working capital when analyzing its liquidity requirements. As well, at December 31, 2018, the Company is required to spend \$1.2 million on qualifying expenditures by the end of 2019 to fulfill its obligations under its flow-through commitments.

**Capital Resources and Outstanding Share Data**

As at December 31, 2018 the Company had working capital of \$2.6 million compared to \$3.9 million at December 31, 2017. The Company believes it has sufficient liquidity to continue operations until further financing is arranged.

At December 31, 2018 the Company had 392,072,830 common shares issued, 437,850 DSUs, 5,966,666 RSUs, 10,528,800 options (weighted average exercise price of \$0.20), 13,536,111 warrants (weighted average exercise price of \$0.21) and 240,408 broker warrants (weighted average exercise price of \$0.28).

As at March 28, 2019, the Company's issued and outstanding common shares increased by 1,200,000 from that of December 31, 2018 to 393,272,830, due to the exercise of options (weighed average price of \$0.18). As at March 28, 2019, options outstanding were 9,328,800 (weighted average exercise price of \$0.20). As at March 28, 2019, RSUs, DSUs, broker warrants and warrants remained unchanged from December 31, 2018.

**Financial Instruments**

As at December 31, 2018, the fair values of all of the Company's financial instruments approximates their carrying values. Certain financial instruments are exposed to the following financial risks:

***Credit risk***

Credit risk is the risk of an unexpected loss by the Company if a customer or third-party to a financial instrument fails to meet its contractual obligations. The Company considers this risk to be insignificant as the majority of the Company's cash and cash equivalents, and restricted cash are held by financial institutions with an A (low) credit rating or are invested in Government of Canada treasury bills which are backed by the Government of Canada. At December 31, 2018, the Company's credit risk relates to its cash and cash equivalents, receivables and restricted cash of \$3.5 million (December 31, 2017 – \$4.8 million).

***Liquidity risk***

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to forecast future cash flows to ensure that it will have sufficient liquidity to meet its obligations when due. To ensure the Company has sufficient cash on hand, the Company prepares annual capital and operating budgets which are regularly monitored and updated as considered necessary. As at December 31, 2018, the Company had working capital of \$2.6 million (excluding restricted cash) and is required to incur \$1.2 million of qualifying expenditures before December 31, 2019 as a result of the flow-through share financing in 2018. Given that cash flow from operations are negative, the Company is dependent on additional sources of financing beyond 2019.

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As at December 31, 2018, the Company is committed to trade payables and other operating leases as set out in the following table on an undiscounted basis:

| (millions)                             | Up to 3<br>months | Between<br>3 months and<br>12 months | Between<br>1 and 2 years | Between<br>2 and 5 years | Over<br>5 years | Total         |
|--|-------------------|--------------------------------------|--------------------------|--------------------------|-----------------|---------------|
| Trade payables and accrued liabilities | \$ 0.3            | \$ -                                 | \$ -                     | \$ -                     | \$ -            | \$ 0.3        |
| Operating leases                       | -                 | 0.1                                  | 0.1                      | -                        | -               | 0.2           |
| <b>Total</b>                           | <b>\$ 0.3</b>     | <b>\$ 0.1</b>                        | <b>\$ 0.1</b>            | <b>\$ -</b>              | <b>\$ -</b>     | <b>\$ 0.5</b> |

Excluded from this table is the contingent consideration as described in note 10 to the financial statements for the year ended December 31, 2018. An estimate of the discounted present value of this contingent consideration was determined to be \$730 thousand at December 31, 2018 (2017 - \$730 thousand).

As at December 31, 2018, the Company had guaranteed certain liabilities by issuing \$0.6 million (December 31, 2017 – \$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 at December 31, 2018 relate to environmental rehabilitation provisions.

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 currently does not have sufficient resources to finance operating activities beyond its 2019 fiscal year, conditions which raise material uncertainties which cast significant doubt about the Company's ability to continue as a going concern. At December 31, 2018, the Company had working capital of \$2.6 million, of which \$1.2 million is committed to be spent on qualifying expenditures before December 31, 2019, leaving \$1.4 million to finance operating activities through its 2019 fiscal year. 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 beyond 2019. 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.

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### Foreign currency risk:

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

### Commodity price risk:

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

### Interest rate risk:

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

### Equity price risk:

Equity price risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Company is exposed to this risk through its equity holdings. The investment in the common shares of Wescan is monitored by management with recommendations on 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 year ended December 31, 2018 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, 2018. Certain of these policies involve critical accounting estimates as they require management to make particularly subjective or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts could be reported under different conditions or using different assumptions. The uncertainties related to these areas could significantly impact the Company's results of operations, financial condition and cash flows.

In preparing the financial statements for the year ended December 31, 2018, 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: joint control assessments, identification of cash generating units, exploration and evaluation expenditures, reserve and resource estimation, asset valuations and assessments for impairment, estimations for environmental rehabilitation provisions, share-based payment transactions and recovery of deferred tax assets. These are discussed in more detail in Note 5 of the Company's financial statements for the year ended December 31, 2018.

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 assesses carrying values of these assets at each reporting date.

## Accounting Changes

### *Accounting Changes during 2018*

At the date of authorization of these consolidated financial statements, the IASB has issued the following new standards which became effective for the reporting period.

#### IFRS 9 – Financial Instruments

On July 24, 2015 the IASB issued the final version of IFRS 9, bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39, "Financial Instruments: Recognition and Measurement", and all previous versions of IFRS 9. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. IFRS 9 requires financial assets to be classified into three measurement categories: those measured at fair value through profit and loss ("FVPL"), those measured at fair value through other comprehensive income ("FVOCI") and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

#### *Implementation:*

Financial assets designated as available-for-sale at December 31, 2017 were comprised of the Company's investment in Wescan Goldfields Inc. ("Wescan"). IFRS 9 requires all equity investments to be measured at fair value. The default approach is for all changes in fair value to be recognized in profit or loss ("FVPL"). However, for equity investments that are not held for trading, entities can make an irrevocable election at initial recognition to classify the instruments as FVOCI, with all subsequent changes in fair value being recognized in other comprehensive income. This election is available for each separate investment. The Company did not make this election. The impact as a result of the application of IFRS 9 is an increase of \$290 thousand to accumulated deficit and a corresponding decrease to accumulated other comprehensive income.

#### IFRS 15 – Revenue from contracts with customers

IFRS 15 will replace IAS 11, "Construction Contracts" and IAS 18, "Revenue" and related interpretations effective for annual periods commencing on or after January 1, 2018. IFRS 15 introduces a new single revenue recognition model for contracts with customers and two approaches to recognizing revenue: at a point in time or over time.

#### *Implementation:*

All of the Company's property interests are currently in the exploration and evaluation stage and therefore do not generate sales revenue. The adoption of IFRS 15 did not have a material impact on the consolidated financial statements.

#### IFRS 2 – Share-Based Payments

In June 2016, the IASB issued amendments to IFRS 2. These amendments clarify how to account for certain share-based payment transactions, including accounting for cash-settled share-based payment transactions; accounting for share-based payment transactions with net settlement features; and accounting for modifications of share-based payment transactions from cash-settled to equity. IFRS 2 amendments are effective for annual periods beginning on or after January 1, 2018.

#### *Implementation:*

The amendments to IFRS 2 did not have a material impact on the consolidated financial statements.

**MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")**

For the year ended December 31, 2018

***Future Accounting Changes***

At the date of authorization of these consolidated financial statements, the IASB has issued the following new standard which is not yet effective for the relevant reporting periods.

**IFRS 16 – Leases**

IFRS 16 will replace IAS 17, "Leases" and related interpretations effective for annual periods commencing on or after January 1, 2019. Early application is permitted for companies that also apply IFRS 15. IFRS 16 follows a 'right-of-use' model which will require most leases to be reported on a company's financial statements as assets and liabilities, eliminating the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases.

***Implementation in 2019:***

The Company plans on adopting IFRS 16 using the modified retrospective application method, where the 2018 comparatives are not restated and a cumulative catch up adjustment is recorded on January 1, 2019 for any differences identified. In addition, the Company will apply the recognition exemptions in IFRS 16 for 'low value' leases and leases that end within twelve months of the date of initial application, and account for them as low value and short-term leases, respectively. On adoption of IFRS 16, the Company will recognize lease liabilities in relation to leases under the principles of the new standard measured at the present value of the remaining lease payments, discounted using the interest rate implicit in the lease or the Company's incremental borrowing rate as at January 1, 2019. The associated right-of-use assets will be measured at the amount equal to the lease liability on January 1, 2019 with no impact on retained earnings.

The Company has analyzed its contracts to identify whether they are or contain a lease arrangement for the application of IFRS 16. This analysis has identified contracts that will have an equivalent increase to both the Company's right-of-use assets and lease liabilities. The Company anticipates that the lease liability and right-of-use assets expected to be recognized upon adoption will be approximately \$311 thousand, with no impact on retained earnings. The actual impacts of adopting IFRS 16 at January 1, 2019 may change as the new accounting policies are subject to change until the Company presents its first financial statements that include the date of initial application.

There are no other 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

## MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")

For the year ended December 31, 2018

required to be disclosed is recorded, processed, summarized and reported within the time periods specified in securities legislation.

As at the end of the period covered by this MD&A and accompanying consolidated financial statements, the CEO and the CFO have reviewed and evaluated the design and effectiveness of the Company's disclosure controls and procedures. Based on that evaluation, the CEO and the CFO have concluded that the Company's disclosure controls and procedures were effective as at December 31, 2018.

There have been no significant changes in the Company's disclosure controls during the year ended December 31, 2018.

### Internal Controls over Financial Reporting Procedures

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

Management, including the CEO and the CFO, assessed the effectiveness of the Company's internal controls over financial reporting as at December 31, 2018. In making its assessment, management, including the CEO and the CFO, used the criteria set forth in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concluded that the Company's internal controls over financial reporting were effective as at December 31, 2018.

There have been no significant changes to internal controls over financial reporting during the year ended December 31, 2018 that could have materially affected or are reasonably likely to materially affect the Company's internal controls over financial reporting.

### Outlook

The positive results of the 2018 PEA show that the Star and Orion South Kimberlites have the potential to be economically developed as a diamond mine. The recent provincial environmental approval, alongside the previous positive federal decision, marks a major milestone for the Project. As illustrated by the PEA, the Company has shown 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 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 RTEC sets

## MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")

For the year ended December 31, 2018

the stage for a new phase for the Company. It is the Company's view that Rio Tinto is one of the few companies in the world with the resources and expertise to move forward with a project of the magnitude of the Star - Orion South Diamond Project. The Company is also very pleased to have acquired the remaining portion of the Project from Newmont while continuing to have Newmont as a significant shareholder. RTEC's work focuses on the bulk sampling of the Star and Orion South kimberlites. In addition, Brownfields exploration programs by RTEC aims to investigate and prioritise the Company's other kimberlite bodies in the Fort à la Corne diamond district. There are some 60 other kimberlites within the Fort à la Corne diamond district, on mineral dispositions held 100 percent by the Company.

As of March 28, 2019, the Company had approximately \$2.3 million in cash and cash equivalents (excluding \$0.6 million in restricted cash). A portion of the Company's cash and cash equivalents will be used for 2019 programs (including flow-through commitments) to further assess, evaluate and advance certain aspects of the Project, as well as for general corporate matters.

### 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.

#### ***Risks Associated With a Non-Producing Company***

The principal risks faced by the Company involve: 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; maintaining title to its property claims; obtaining the required permits from various federal, provincial and local governmental authorities; and the ultimate economic feasibility of any future development projects.

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 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

## MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")

For the year ended December 31, 2018

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 constant communications with governmental authorities to ensure that the Company is or, in the case of the Environmental Impact Assessment ("EIA"), 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.

### Technical Information

All technical information in this report has been prepared under the supervision of George Read, Senior Vice President of Exploration and Development, 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, PEA or TFFE constitute forward-looking statements. Forward-looking statements contained or implied in this MD&A include, but are not limited to, 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



## MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")

For the year ended December 31, 2018

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Company's intention to seek additional financing in the ensuing years; statements with respect to metallurgical investigations, assessments and test work; 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; RTEC's and the Company's objectives for the ensuing year, including the timing for revision or replacement of the desanding plant, timing for delivery and construction of the bulk sample processing plant and timing for recommencement of the bulk sampling program; as well as the Brownfields programs.

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 or its partners, the effects of competition in the markets in which the Company operates, 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](http://www.sedar.com).



**Consolidated Financial Statements  
December 31, 2018**

## **Management's Responsibility for Consolidated Financial Statements**

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

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

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

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

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

"Ken MacNeill"

Ken MacNeill  
President and Chief Executive Officer

"Greg Shyluk"

Greg Shyluk  
Chief Financial Officer

Saskatoon, Saskatchewan  
March 28, 2019



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

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Star Diamond Corporation

### ***Opinion***

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

- the consolidated statements of financial position as at December 31, 2018 and December 31, 2017
- the consolidated statements of income (loss) and comprehensive income (loss) for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

### ***Basis for Opinion***

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

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

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



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

We draw attention to Note 3 in the financial statements, which indicates that the Entity requires additional funding to finance its operating activities beyond its 2019 fiscal year.

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

Our opinion is not modified in respect of this matter.

### ***Other Information***

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

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

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

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

We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

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



## ***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

*KPMG LLP*

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Chartered Professional Accountants

The engagement partner on the audit resulting in this auditors' report is Deborah Lynne Grenier.

Saskatoon, Canada

March 28, 2019

**Star Diamond Corporation**  
**Consolidated Statements of Financial Position**

| (Cdn\$ in thousands)                             | December 31,<br>2018  | December 31,<br>2017 |
|--|-----------------------|----------------------|
| <b>Assets</b>                                    |                       |                      |
| Current assets:                                  |                       |                      |
| Cash and cash equivalents                        | \$ 2,808              | \$ 4,019             |
| Receivables                                      | 23                    | 149                  |
| Prepays  | 52                    | 64                   |
|  | 2,883                 | 4,232                |
| Restricted cash (note 7)                         | 622                   | 622                  |
| Investment in Wescan Goldfields Inc. (note 8)    | 232                   | 348                  |
| Property and equipment (note 9)                  | 308                   | 347                  |
| Exploration and evaluation assets (note 10)      | 66,344                | 66,344               |
|  | \$ 70,389             | \$ 71,893            |
| <b>Liabilities and Shareholders' Equity</b>      |                       |                      |
| Current liabilities:                             |                       |                      |
| Accounts payable and accrued liabilities         | \$ 267                | \$ 333               |
|  | 267                   | 333                  |
| Premium on flow-through shares (note 12)         | -                     | 237                  |
| Environmental rehabilitation provision (note 13) | 611                   | 599                  |
| Contingent consideration (note 10)               | 730                   | 730                  |
| Shareholders' equity:                            |                       |                      |
| Share capital (note 16)                          | 838,014               | 834,895              |
| Warrants (note 16)                               | 560                   | 1,061                |
| Broker warrants (note 16)                        | 13                    | 21                   |
| Contributed surplus                              | 33,210                | 32,452               |
| Accumulated deficit                              | (803,016)             | (798,725)            |
| Accumulated other comprehensive income           | -                     | 290                  |
|  | 68,781                | 69,994               |
|  | \$ 70,389             | \$ 71,893            |
| Going Concern (note 3)                           |                       |                      |
| Commitments (note 20(b))                         |                       |                      |
| On behalf of the Board:                          |                       |                      |
| "Harvey J. Bay"                                  | "Ewan D. Mason"       |                      |
| Harvey J. Bay                                    | Ewan D. Mason         |                      |
| Chairman of the Audit Committee                  | Chairman of the Board |                      |

See accompanying notes to consolidated financial statements



**Star Diamond Corporation**  
**Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)**  
**For the years ended December 31**

(Cdn\$ in thousands, except for share data)

|  | 2018       | 2017      |
|--|------------|-----------|
| <b>Income</b>  |            |           |
| Interest and other income  | \$ 124     | \$ 139    |
| <b>Expenses</b>  |            |           |
| Administration   | 2,260      | 1,576     |
| Consulting and professional fees   | 238        | 313       |
| Corporate development  | 78         | 38        |
| Exploration and evaluation (note 11)   | 2,250      | 2,123     |
|  | 4,826      | 4,050     |
| <b>Loss before the under noted items</b>                                       | (4,702)    | (3,911)   |
| Flow-through share premium (note 12)   | 237        | 179       |
| Reversal of impairment to exploration and evaluation assets (note 10)          | -          | 44,482    |
| Investment in Wescan Goldfields Inc. (note 8)                                  | (116)      | -         |
| <b>Net income (loss) before income taxes</b>                                   | (4,581)    | 40,750    |
| Income tax   | -          | -         |
| <b>Net income (loss)</b>   | \$ (4,581) | \$ 40,750 |
| <b>Other comprehensive income (loss) in the year</b>                           |            |           |
| Unrealized gains (losses) on available-for-sale financial instruments (note 8) | -          | 290       |
| <b>Other comprehensive income (loss) for the year</b>                          | -          | 290       |
| <b>Total comprehensive income (loss) for the year</b>                          | \$ (4,581) | \$ 41,040 |
| <b>Net income (loss) per share</b>   |            |           |
| Basic and diluted (note 17)  | \$ (0.01)  | \$ 0.12   |
| <b>Weighted average number of shares outstanding (000's)</b>                   | 382,784    | 329,779   |

See accompanying notes to consolidated financial statements

**Star Diamond Corporation**  
**Consolidated Statements of Cash Flows**  
**For the years ended December 31**

(Cdn\$ in thousands)

|   | 2018            | 2017            |
|---|-----------------|-----------------|
| <b>Cash provided by (used in):</b>  |                 |                 |
| <b>Operations:</b>  |                 |                 |
| Net income (loss)   | \$ (4,581)      | \$ 40,750       |
| Adjustments:  |                 |                 |
| Depreciation on property and equipment                                      | 126             | 79              |
| Gain on disposal of property and equipment                                  | (4)             | (491)           |
| Investment in Wescan Goldfields Inc.  | 116             | -               |
| Reversal of prior impairment to exploration and evaluation assets           | -               | (44,482)        |
| Fair value of share-based payments expensed                                 | 1,495           | 745             |
| Unwinding of discount and changes to environmental rehabilitation provision | 12              | (16)            |
| Flow-through share premium  | (237)           | (179)           |
| Net change in non-cash operating working capital items:                     |                 |                 |
| Receivables   | 126             | (123)           |
| Prepays   | 12              | (2)             |
| Accounts payable and accrued liabilities                                    | (66)            | 73              |
|   | <u>(3,001)</u>  | <u>(3,646)</u>  |
| <b>Investing:</b>   |                 |                 |
| Proceeds relating to property and equipment                                 | 25              | 498             |
| Purchases of property and equipment   | (108)           | -               |
| Short-term investments  | -               | 251             |
| Restricted cash   | -               | 404             |
| Exploration and evaluation assets   | -               | (496)           |
|   | <u>(83)</u>     | <u>657</u>      |
| <b>Financing:</b>   |                 |                 |
| Issuances of equity through financings (net of issue costs)                 | 1,152           | 3,800           |
| Other issuances (options, warrants and broker warrants)                     | 721             | 379             |
|   | <u>1,873</u>    | <u>4,179</u>    |
| <b>Increase (decrease) in cash and cash equivalents</b>                     | <b>(1,211)</b>  | <b>1,190</b>    |
| <b>Cash and cash equivalents, beginning of year</b>                         | <b>4,019</b>    | <b>2,829</b>    |
| <b>Cash and cash equivalents, end of year</b>                               | <b>\$ 2,808</b> | <b>\$ 4,019</b> |
| <b>Cash and cash equivalents consists of:</b>                               |                 |                 |
| Cash  | \$ 2,808        | \$ 4,019        |
| Treasury bills  | -               | -               |
|   | <u>\$ 2,808</u> | <u>\$ 4,019</u> |

See accompanying notes to consolidated financial statements

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

| (Cdn\$ in thousands)   | 2018                | 2017                |
|--|---------------------|---------------------|
| <b>Share capital (note 16)</b>   |                     |                     |
| Balance, beginning of year   | \$ 834,895          | \$ 810,190          |
| Shares issued  | 3,119               | 24,705              |
| Balance, end of year   | <u>\$ 838,014</u>   | <u>\$ 834,895</u>   |
| <b>Warrants (note 16)</b>  |                     |                     |
| Balance, beginning of year   | \$ 1,061            | \$ 379              |
| Issued   | -                   | 682                 |
| Exercised  | (122)               | -                   |
| Expired  | (379)               | -                   |
| Balance, end of year   | <u>\$ 560</u>       | <u>\$ 1,061</u>     |
| <b>Broker warrants (note 16)</b>   |                     |                     |
| Balance, beginning of year   | \$ 21               | \$ 84               |
| Issued   | 13                  | 21                  |
| Exercised  | (21)                | -                   |
| Expired  | -                   | (84)                |
| Balance, end of year   | <u>\$ 13</u>        | <u>\$ 21</u>        |
| <b>Contributed surplus</b>   |                     |                     |
| Balance, beginning of year   | \$ 32,452           | \$ 32,441           |
| Share-based payments - options (note 18)                                       | 203                 | 181                 |
| Share-based payments - deferred share units (note 18)                          | 65                  | 50                  |
| Share-based payments - restricted share units (note 18)                        | 1,227               | 514                 |
| Options exercised (note 16)  | (74)                | (26)                |
| Restricted share unit redemptions (note 16)                                    | (913)               | (683)               |
| Deferred share unit redemptions (note 16)                                      | (129)               | (25)                |
| Expired warrants   | 379                 | -                   |
| Balance, end of year   | <u>\$ 33,210</u>    | <u>\$ 32,452</u>    |
| <b>Accumulated deficit</b>   |                     |                     |
| Balance, beginning of year   | \$ (798,725)        | \$ (839,475)        |
| Impact of adoption of IFRS 9 (note 6)  | 290                 | -                   |
| Income (loss) for the period   | (4,581)             | 40,750              |
| Balance, end of year   | <u>\$ (803,016)</u> | <u>\$ (798,725)</u> |
| <b>Accumulated other comprehensive income</b>                                  |                     |                     |
| Balance, beginning of year   | \$ 290              | \$ -                |
| Impact of adoption of IFRS 9 (note 6)  | (290)               | -                   |
| Unrealized gains (losses) on available-for-sale financial instruments (note 8) | -                   | 290                 |
| Balance, end of year   | <u>\$ -</u>         | <u>\$ 290</u>       |
| <b>Total shareholders' equity</b>  | <u>\$ 68,781</u>    | <u>\$ 69,994</u>    |

See accompanying notes to consolidated financial statements

# STAR DIAMOND CORPORATION

Notes to the Consolidated Financial Statements  
For the year ended December 31, 2018  
(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. On February 6, 2018, the Company amended its articles of incorporation to change its corporate name from Shore Gold Inc. to Star Diamond Corporation. The principal activities of the Company are the exploration, development and production of diamonds. The Company is located at 600 – 224 4<sup>th</sup> Avenue South, Saskatoon, Saskatchewan, Canada.

## 2. Basis of preparation

The consolidated financial statements of the Company for the year ended December 31, 2018 were authorized for issue by the Company's Board on March 28, 2019. The consolidated financial statements of the Company and all its subsidiaries have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). The Company's financial statements have been prepared on a historical cost basis, except as disclosed, using the Company's functional currency of Canadian dollars.

## 3. Going concern

These financial statements are prepared on the assumption that the Company will continue as a going concern and realize its assets and discharge its liabilities and commitments in the normal course of business. Management is aware, in making its going concern assessment, of material uncertainties related to events and conditions that cast significant doubt upon the Company's ability to continue as a going concern. At December 31, 2018, the Company had working capital of \$2.6 million, of which \$1.2 million is committed to be spent on qualifying expenditures before December 31, 2019, leaving \$1.4 million to finance operating activities through its 2019 fiscal year. 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 beyond 2019 (note 20). There is no assurance that the Company will be successful in obtaining required financing at an acceptable cost as and when needed or at all. Failure to obtain additional financing on a timely basis may cause the Company to postpone exploration and/or evaluation plans, forfeit rights in its properties or reduce or terminate its operations.

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

## 4. Summary of significant accounting policies

The Company's principal accounting policies are outlined below:

### a. Basis of consolidation

#### i. Subsidiaries

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

ii. Interests in joint operations and other contractual arrangements

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

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

When the Company, acting as an operator, receives reimbursement of direct and indirect costs recharged to the other venturers such recharges represent reimbursement of costs that the operator incurred as an agent for the arrangement.

**b. Financial instruments**

i. Non-derivative financial assets

The Company adopted IFRS 9 Financial Instruments, on January 1, 2018. The new standard includes three classifications for financial assets; measurement at fair value through profit or loss, measurement at fair value through comprehensive income and measurement at amortized cost.

Financial assets at fair value through profit or loss

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

Financial assets at fair value through comprehensive income

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

Financial assets measured at amortized cost

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

ii. Non-derivative financial liabilities

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

Financial liabilities at fair value through profit and loss

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

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

Financial liabilities at amortized cost

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

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

iii. Impairment

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

Under IFRS 9, the Company recognizes a loss allowance using the expected credit loss model on financial assets that are measured at amortized cost. The adoption of the expected credit loss impairment model under IFRS 9 had no impact on the carrying amounts of financial assets on the transition date or at year end.

c. Cash and cash equivalents

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

d. Short-term investments

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

e. Property and equipment

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

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

|                         |            |
|-------------------------|------------|
| Automotive equipment    | 30% to 40% |
| Building                | 10% to 17% |
| Computer equipment      | 30%        |
| Computer software       | 100%       |
| Furniture and equipment | 20% to 30% |

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

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

**f. Exploration and evaluation**

*i. Pre-permit costs*

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

*ii. Exploration and evaluation costs*

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

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

Upon the establishment of a NI 43-101 compliant reserve and the completion of a final feasibility study (at which point, the Company considers it probable that economic benefits will be realized), the Company capitalizes any further costs incurred for the particular permit to exploration and evaluation assets up to the point when a development decision is made.

Once NI 43-101 compliant reserves are established and development is approved by the Company, previously capitalized exploration and evaluation assets that will be transferred to “mine development costs” are tested for impairment on a cash generating unit basis (“CGU”). If facts and circumstances suggest that the carrying amount exceeds the recoverable amount, the capitalized expenditure which is not expected to be recovered is charged to the statements of income and comprehensive income. No amortization of exploration and evaluation assets is charged during the exploration and evaluation phase nor while it is under construction.

Exploration and evaluation assets acquired in a business combination or through purchase of an asset are initially recognized at fair value. These costs are intangible. The Company assesses each CGU annually to determine whether an indication of impairment exists. Where an indicator of impairment exists a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. These assets are subsequently stated at cost less accumulated impairment.

**g. Employee Benefits**

*i. Wages and salaries, and annual leave*

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

*ii. Short-term employee benefits*

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

*iii. Termination benefits*

Termination benefits are recognized as an expense when the Company is committed to provide termination benefits in accordance with certain contracts provided to officers of the Company. If

benefits are payable for more than 12 months after the reporting date, then those benefits are discounted to their present value.

iv. Share-based payment transactions

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

h. Provisions and contingent consideration

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized in the statements of income and comprehensive income.

Environmental rehabilitation

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

The expected cost of any decommissioning or rehabilitation program is recognized as a liability when the related environmental disturbance occurs. The offsetting cost is treated as an “exploration and evaluation” expense until a NI 43-101 reserve has been established and a final feasibility report completed. Once a NI 43-101 reserve has been established and a final feasibility study completed, the estimated cost (on a discounted basis) of any new environmental disturbances are capitalized. Where there is a change in the expected decommissioning and rehabilitation costs, the value of the provision and any related asset are adjusted and the effect is recognized in the statements of income and comprehensive income on a prospective basis over the remaining life of the operation.

Contingent consideration

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

i. Income tax

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

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

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

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



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

**j. Flow-through shares**

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

**k. Share-based payments**

The Company measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. The fair value of share-based payments in the form of deferred share units (“DSUs”), performance share units (“PSUs”) and restricted share units (“RSUs”) is determined based on the five-day volume weighted average trading price of the Company’s shares preceding the date of grant and the units that are expected to vest. The Company does not intend to make cash payments and there is no history of the Company making cash payments under these plans and, as such, the DSUs, PSUs and RSUs are accounted for within shareholders’ equity. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in note 18.

**l. Revenue and interest income**

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

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

**5. Critical accounting judgments and key sources of estimation uncertainty**

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

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

**Critical judgments in applying accounting policies**

**a. Joint control**

Judgment is required to determine when the Company has joint control over an arrangement. This requires an assessment of the capital and operating activities of the projects it undertakes with partners and when the decisions in relation to those activities require unanimous consent.

**b. Identification of CGUs**

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

The Company holds a 100% interest in the Star and Orion South properties located in the Fort à la Corne area of central Saskatchewan, Canada. The Company is currently pursuing options to finance the further exploration, evaluation and/or development of the Star – Orion South project. As a result, the Fort à la Corne area properties are accounted for as one CGU.

**c. Exploration and evaluation expenditures**

The application of the Company's accounting policy for exploration and evaluation expenditure to determine when the Company continues to expense exploration and evaluation expenditures or begin to capitalize these expenditures requires judgment in determining whether it is likely that future economic benefits are likely either from future exploitation or sale. The determination of an NI 43-101 reserve is itself an estimation process that requires varying degrees of uncertainty depending on sub-classification and these estimates which directly impact the point of deferral of exploration and evaluation expenditure. This requires management to make certain estimates and assumptions about future events or circumstances, in particular whether an economically viable extraction operation can be established. Estimates and assumptions made may change if new information becomes available. If, after an expenditure is capitalized, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is written off in the statements of income and comprehensive income in the period when the new information becomes available.

**Key sources of estimation uncertainty**

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

**a. Reserve and resource estimates**

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

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

The impairment assessments, including reversal of impairments, for exploration and evaluation assets require the use of estimates and assumptions such as discount rates, future commodity prices, future foreign exchange rates, future royalty rates, recoverable grades, and future capital and operating expenditures. Fair value for exploration and evaluation assets is generally determined as the present value of estimated future cash flows arising from the continued use of the asset. Cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset. Management exercises judgment in determining when an indicator of impairment or reversal of impairment exists and when determining the recoverable amount of exploration and evaluation assets.

**c. Environmental rehabilitation provision**

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

**d. Share-based payment transactions**

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

**e. Recovery of deferred tax assets**

Judgment is required in determining whether deferred tax assets are recognized on the statement of financial position. Deferred tax assets, including those arising from unutilized tax losses, require management to assess the likelihood that the Company will generate taxable earnings in future periods, in order to utilize recognized deferred tax assets. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded (if any) could be impacted.

Additionally, future changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future periods.

**6. Changes in IFRS**

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

At the date of authorization of these consolidated financial statements, the IASB has issued the following new standards which became effective for the reporting period.

**i. IFRS 9 – Financial Instruments**

On July 24, 2015 the IASB issued the final version of IFRS 9, bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39, "Financial Instruments: Recognition and Measurement", and all previous versions of IFRS 9. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. IFRS 9 requires financial assets to be classified into three measurement categories: those measured at FVPL, those measured at FVOCI and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

*Implementation:*

Financial assets previously designated as available-for-sale at December 31, 2017 were comprised of the Company's investment in Wescan Goldfields Inc. ("Wescan"). IFRS 9 requires all equity investments to be measured at fair value. The default approach is for all changes in fair value to be recognized in profit or loss (FVPL). However, for equity investments that are not held for trading, entities can make an irrevocable election at initial recognition to classify the instruments as FVOCI, with all subsequent changes in fair value being recognized in other comprehensive income. This election is available for each separate investment. The Company did not make this election. The impact as a result of the application

of IFRS 9 is an increase of \$290 thousand to accumulated deficit and a corresponding decrease to accumulated other comprehensive income.

The following table shows the classification under IAS 39 and the new classification under IFRS 9:

| <b>Financial assets/liabilities</b>      | <b>Classification under IAS 39</b> | <b>Classification under IFRS 9</b> |
|--|------------------------------------|------------------------------------|
| Cash and cash equivalents                | Held-to-maturity                   | Amortized cost                     |
| Accounts receivable                      | Loans and receivables              | Amortized cost                     |
| Investment in Wescan Goldfields Inc.     | Available-for-sale                 | FVPL                               |
| Accounts payable and accrued liabilities | Amortized cost                     | Amortized cost                     |
| Contingent liability                     | Other financial liabilities        | FVPL                               |

*ii. IFRS 15 – Revenue from contracts with customers*

IFRS 15 replaces IAS 11, “Construction Contracts” and IAS 18, “Revenue” and related interpretations effective for annual periods commencing on or after January 1, 2018. IFRS 15 introduces a new single revenue recognition model for contracts with customers and two approaches to recognizing revenue: at a point in time or over time.

*Implementation:*

All of the Company's property interests are currently in the exploration and evaluation stage and therefore do not generate sales revenue. The adoption of IFRS 15 did not have a material impact on the consolidated financial statements.

*iii. IFRS 2 – Share-Based Payments*

In June 2016, the IASB issued amendments to IFRS 2. These amendments clarify how to account for certain share-based payment transactions, including accounting for cash-settled share-based payment transactions; accounting for share-based payment transactions with net settlement features; and accounting for modifications of share-based payment transactions from cash-settled to equity. IFRS 2 amendments are effective for annual periods beginning on or after January 1, 2018.

*Implementation:*

The amendments to IFRS 2 did not have a material impact on the consolidated financial statements.

**b. IFRS standards issued but not yet effective**

At the date of authorization of these consolidated financial statements, the IASB has issued the following new standard which is not yet effective for the relevant reporting periods.

*i. IFRS 16 – Leases*

IFRS 16 will replace IAS 17, “Leases” and related interpretations effective for annual periods commencing on or after January 1, 2019. Early application is permitted for companies that also apply IFRS 15. IFRS 16 follows a ‘right-of-use’ model which will require most leases to be reported on a company’s financial statements as assets and liabilities, eliminating the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases.

*Implementation in 2019:*

The Company plans on adopting IFRS 16 using the modified retrospective application method, where the 2018 comparatives are not restated and a cumulative catch up adjustment is recorded on January 1, 2019 for any differences identified. In addition, the Company will apply the recognition exemptions in IFRS 16 for ‘low value’ leases and leases that end within twelve months of the date of initial application, and account for them as low value and short-term leases, respectively. On adoption of IFRS 16, the Company will recognize lease liabilities in relation to leases under the principles of the new standard measured at the present value of the remaining lease payments, discounted using the interest rate implicit in the lease or the Company’s incremental borrowing rate as at January 1, 2019. The associated right-of-use assets will be measured at the amount equal to the lease liability on January 1, 2019 with no impact on retained earnings.

The Company has analyzed its contracts to identify whether they are, or contain, a lease arrangement for the application of IFRS 16. This analysis has identified contracts that will have an equivalent increase to both the Company's right-of-use assets and lease liabilities. The Company anticipates that the lease liability and right-of-use assets expected to be recognized upon adoption will be approximately \$311 thousand, with no impact on retained earnings. The actual impacts of adopting IFRS 16 at January 1, 2019 may change as the new accounting policies are subject to change until the Company presents its first financial statements that include the date of initial application.

There are no other IFRSs or IFRIC interpretations that have been issued and are not yet effective that are expected to have a material impact on the Company.

## 7. Restricted cash

The Company has pledged \$622 thousand (December 31, 2017 – \$622 thousand) in short-term investments as security for letters of credit for the following matters:

|                              | December 31,<br>2018 | December 31,<br>2017 |
|------------------------------|----------------------|----------------------|
| Environmental rehabilitation | \$ 622               | \$ 622               |
| <b>Total</b>                 | <b>\$ 622</b>        | <b>\$ 622</b>        |

These short-term investments are held in guaranteed investment certificates with maturity dates occurring in January and May 2019 and with interest rates of 2.13% - 2.20%. The Company's share of restricted cash that relates to the Buffalo Hills Joint Venture ("Buffalo Hills JV") is \$0 (December 31, 2017 – \$0).

## 8. Investment in Wescan Goldfields Inc.

At December 31, 2018, the Company held 5,807 thousand shares or 12.9% (December 31, 2017 – 5,807 thousand shares) of Wescan Goldfields Inc. ("Wescan"), a publicly traded company on the TSX Venture exchange. The Company considers certain judgments and assumptions when assessing whether significant influence exists over its investments. This includes an assessment of the Company's ability to participate in financial and operating policy decisions of the investee. The existence and effect of potential voting rights held by the investor or other entities were also considered.

IFRS 9 requires all 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. The impact as a result of the application of IFRS 9 as at January 1, 2018, as disclosed in note 6, was an increase of \$290 thousand to accumulated deficit and a corresponding decrease to accumulated other comprehensive income.

At December 31, 2018, the carrying value of this investment was \$232 thousand (December 31, 2017 – \$348 thousand). During the year ended December 31, 2018, there was a \$116 thousand decrease in the carrying value of its investment in Wescan.

## 9. Property and equipment

|  | Automotive<br>Equipment | Buildings<br>and<br>Leasehold<br>Improvements | Computer<br>Software<br>and<br>Equipment | Furniture<br>and<br>Equipment | Total      |
|--|-------------------------|---|--|-------------------------------|------------|
| <b>Cost</b>                                    |                         |   |  |                               |            |
| Balance – December 31, 2016                    | \$ 54                   | \$ 1,531                                      | \$ 847                                   | \$ 5,123                      | \$ 7,555   |
| Acquisitions                                   | -                       | 11  | -  | -                             | 11         |
| Disposals                                      | -                       | -   | (432)                                    | (235)                         | (667)      |
| Balance – December 31, 2017                    | \$ 54                   | \$ 1,542                                      | \$ 415                                   | \$ 4,888                      | \$ 6,899   |
| Acquisitions                                   | -                       | 95  | 4  | 9                             | 108        |
| Disposals                                      | -                       | (413)   | (191)                                    | (314)                         | (918)      |
| Balance – December 31, 2018                    | \$ 54                   | \$ 1,224                                      | \$ 228                                   | \$ 4,583                      | \$ 6,089   |
| <b>Accumulated depreciation</b>                |                         |   |  |                               |            |
| Balance – December 31, 2016                    | \$ (43)                 | \$ (1,273)                                    | \$ (823)                                 | \$ (4,995)                    | \$ (7,134) |
| Charge for the year<br>(including impairments) | (4)                     | (30)  | (7)                                      | (38)                          | (79)       |
| Eliminated on disposals                        | -                       | -   | 432                                      | 229                           | 661        |
| Balance – December 31, 2017                    | \$ (47)                 | \$ (1,303)                                    | \$ (398)                                 | \$ (4,804)                    | \$ (6,552) |
| Charge for the year<br>(including impairments) | (2)                     | (68)  | (5)                                      | (51)                          | (126)      |
| Eliminated on disposals                        | -                       | 413   | 187                                      | 297                           | 897        |
| Balance – December 31, 2018                    | \$ (49)                 | (958)   | \$ (216)                                 | \$ (4,558)                    | \$ (5,781) |
| <b>Net book value</b>                          |                         |   |  |                               |            |
| Balance – December 31, 2017                    | \$ 7                    | \$ 239  | \$ 17                                    | \$ 84                         | \$ 347     |
| Balance – December 31, 2018                    | \$ 5                    | \$ 266  | \$ 12                                    | \$ 25                         | \$ 308     |

## 10. Exploration and evaluation assets

Exploration and evaluation assets are made up of the following:

|   | Fort à la Corne<br>properties (a) |
|---|-----------------------------------|
| Balance – December 31, 2016                       | \$ -                              |
| Newmont Acquisition – June 22, 2017               | 21,862                            |
| Partial reversal of prior impairments             | 44,482                            |
| Balance – December 31, 2017 and December 31, 2018 | \$ 66,344                         |

### (a) Fort à la Corne properties

As of December 31, 2018, the Company holds a 100% interest in the Fort à la Corne properties located in the central part of Saskatchewan, Canada. These properties are accounted for as one CGU.

During 2017, the Company acquired (the "Newmont Acquisition") from Newmont Canada FN Holdings ULC ("Newmont") all of Newmont's participating interest in the Fort à la Corne joint venture (the "FaIC 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. ("RTEC") pursuant to which the Company has granted RTEC 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. The Newmont Acquisition was completed pursuant to a Participating Interest Purchase Agreement effective as of June 22, 2017 between the Company, its wholly owned subsidiary, Kensington Resources Ltd. ("Kensington"), and Newmont whereby Newmont sold its entire interest in the FaC JV to the Company in consideration for 53,764 thousand common shares of the Company, 1,105 thousand common share purchase warrants and a contingent payment as described below. As additional consideration for Newmont's interest in the FaC JV, the Company has agreed to grant Newmont a participation right to subscribe for and purchase such number of common shares in order to maintain its proportionate interest in the share capital of the Company; Newmont may exercise this right each time the Company undertakes financing (subject to certain exemptions) at the same price and terms as the financing. Prior to the completion of the Newmont Acquisition, the Company held a 69 percent interest in the FaC JV and Newmont had a 31 percent interest. Immediately after the closing of the Newmont Acquisition and issuance of common shares, Newmont held approximately 19.9% of the Company's common shares issued and outstanding on a non-diluted basis. Following the Newmont Acquisition, Kensington transferred its interest in the FaC JV to the Company and thereafter, the FaC JV was terminated.

The Company has also agreed that Newmont will receive a contingent payment in the aggregate amount of \$3,200 thousand if a positive decision is made to develop a mine on the Project. The Company, in its sole discretion (subject to regulatory approvals), may satisfy the contingent payment due to Newmont through a cash payment or the issuance of common shares. An estimate of the discounted present value of this contingent consideration was performed by management using a risk-free discount rate of 1.9% (2017 – 1.2%), which reflects current market assessments of the time value of money and probability weighted cash flows. This was determined to be approximately \$730 thousand at December 31, 2018 (2017 - \$730 thousand).

The carrying value of the Fort à la Corne properties represents the acquisition of minority interests of the Fort à la Corne properties since 2005, net of impairments. The decline in the Company's share price during 2011 resulted in the Company's market capitalization at December 31, 2011 being substantially less than the carrying value of the Company's net assets. Due to the existence of this indicator of impairment, the Company was required to assess the exploration and evaluation assets for impairment by comparing the carrying value of these assets to estimated discounted future cash flows. Due to the uncertainty surrounding project financing, the Company was unable to determine a reliable weighted average cost of capital to perform this assessment. As a result, the Company wrote down the carrying value of the Fort à la Corne properties to nil at December 31, 2011. Based on the transaction with Newmont, the Company performed an assessment of the estimated recoverable amount of the Fort à la Corne properties in 2017 and 2018. As a result, the carrying value of the Fort à la Corne properties was determined to be \$66,344 thousand at December 31, 2018 (2017 - \$66,344 thousand).

## 11. Exploration and evaluation expenses

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

|   | December 31,<br>2018 | December 31,<br>2017 |
|---|----------------------|----------------------|
| Fort à la Corne properties                          |                      |                      |
| Acquisition and staking                             | \$ -                 | \$ -                 |
| Depreciation of property and equipment              | 101                  | 60                   |
| Exploration and evaluation                          | 1,641                | 1,876                |
| Revisions to environmental rehabilitation provision | -                    | (25)                 |
| Share-based payments                                | 502                  | 206                  |
| Total   | 2,244                | 2,117                |
| Buffalo Hills property                              |                      |                      |
| Exploration and evaluation                          | 6                    | 6                    |
| Total (a)   | 6                    | 6                    |
| Total   | \$ 2,250             | \$ 2,123             |

### (a) Buffalo Hills property

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

## 12. Premium on flow-through shares

The Company, when issuing flow-through shares, will receive a premium over the market value of the shares as the Company is allowing the investor the deduction on its expenses incurred on qualifying expenditures. As the Company incurs the qualifying expenditures, the liability to the investor is satisfied and accordingly the premium received on the initial issue of share capital is recognized in income. A summary of the activity related to the premium on flow-through shares is as follows:

|                                 | Premium on<br>flow-through shares |
|---------------------------------|-----------------------------------|
| Balance – December 31, 2017 (a) | \$ 237                            |
| Premium recognized in income    | (237)                             |
| Balance – December 31, 2018     | \$ -                              |

(a) In December 2017, the Company issued flow-through shares for gross proceeds of \$1,500 thousand. The premium was determined to be \$237 thousand. In December 2018, the Company issued flow-through shares for gross proceeds of \$1,250 thousand. The premium was determined to be \$0.

## 13. Environmental rehabilitation provision

|   | Fort à la Corne<br>properties |
|---|-------------------------------|
| Balance – December 31, 2017                       | \$ 599                        |
| Revisions in estimate and change in discount rate | -                             |
| Unwinding of discount                             | 12                            |
| Long term portion – December 31, 2018             | \$ 611                        |

The environmental rehabilitation provision represents the Company's share of the present value of decommissioning and rehabilitation costs related to exploration and evaluation work conducted on the above properties by the Company to date. The Company expects to rehabilitate certain historical drill pads and exploration and evaluation areas over the next five years. These provisions have been created based on the Company's internal estimates. Assumptions are based on the current economic environment and are believed to be a reasonable basis to estimate the future liability. However, actual rehabilitation costs will ultimately depend upon future market prices for the necessary work required. Furthermore, the timing of



the decommissioning and rehabilitation is dependent upon certain factors. These factors include, but are not limited to, further exploration and evaluation work performed on the properties; level of decommissioning and reclamation may be required by regulators in the future; as well as if and when development of these exploration and evaluation properties takes place in the future. The provision was determined using a discount rate of 1.9% (December 31, 2017 – 1.9%). The Company estimates its total undiscounted future decommissioning and reclamation costs to be \$665 thousand (December 31, 2017 – \$665 thousand).

The Company's share of the environmental rehabilitation provision for the Buffalo Hills-JV is \$0 (December 31, 2017 – \$0).

The Company provides letters of credit as security for these provisions as disclosed in note 7.

#### 14. Other contractual arrangements

During 2017, the Company entered into an Option Agreement with RTEC pursuant to which the Company has granted RTEC 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 discussed in note 10. As at December 31, 2018, the Company owns 100% of the Fort à la Corne properties.

The Company holds approximately 33% interest in the exploration and evaluation properties and assets of the Buffalo Hills-JV. Canterra Minerals Corporation ("Canterra") also holds approximately 33 percent with EnCana Corporation holding the remaining interest. Canterra is the Operator of the Buffalo Hills-JV. The Buffalo Hills-JV is governed by the Buffalo Hills and Joint Venture Lands Joint Venture Agreement dated January 29, 2002 and amended August 2, 2006 ("Buffalo Hills-JV Agreement"). Based on the structure of the Buffalo Hills-JV Agreement and current ownership of the Buffalo Hills-JV, joint control does not exist. As a result, the Company's interest in the Buffalo Hills-JV is accounted for by recognizing its portion of assets, liabilities, revenue and expenses in accordance with other relevant standards. Information regarding the Company's share of these assets, liabilities, revenues and expenses can be found in the following notes: restricted cash – note 7, property and equipment – note 9, exploration and evaluation assets – note 10, exploration and evaluation expenses – note 11, and current and long-term portion of the environmental rehabilitation provision – note 13. Other than the liabilities disclosed in the above referenced notes, the Company does not have any other commitments through jointly controlled operations or other contractual arrangements.

#### 15. Deferred tax assets and liabilities

##### Reconciliation between expected tax recovery for accounting purposes and actual recovery

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

|  | December 31,<br>2018 | December 31,<br>2017 |
|--|----------------------|----------------------|
| Net income (loss) before income taxes      | \$ (4,581)           | \$ 40,750            |
| Combined federal and provincial tax rate   | 27%                  | 27%                  |
| Expected tax expense (recovery)            | (1,237)              | 11,003               |
| Increase in taxes resulting from:          |                      |                      |
| Non-deductible amounts                     | 425                  | 206                  |
| Renounced resource pools                   | 408                  | 524                  |
| Flow-through premium                       | (64)                 | (48)                 |
| Change in unrecognized deferred tax assets | 468                  | (11,685)             |
| Deferred income tax recovery               | \$ -                 | \$ -                 |

### Unrecognized deferred tax assets

The following deferred tax assets have not been recognized:

|  | December 31,<br>2016 | Change<br>related to<br>income | Change<br>related to<br>equity | December 31,<br>2017 |
|--|----------------------|--------------------------------|--------------------------------|----------------------|
| Deferred tax assets                          |                      |                                |                                |                      |
| Exploration and evaluation                   | \$ 89,902            | \$ (12,199)                    | \$ -                           | \$ 77,703            |
| Property and equipment                       | 3,232                | (111)                          | -                              | 3,121                |
| Non-capital loss carried forward             | 13,192               | 504                            | -                              | 13,696               |
| Capital loss carried forward                 | 595                  | -                              | -                              | 595                  |
| Share issue costs                            | 166                  | (72)                           | 54                             | 148                  |
| Decommissioning and rehabilitation provision | 166                  | (4)                            | -                              | 162                  |
| Contingent consideration                     | -                    | 197                            | -                              | 197                  |
| Revaluation of investments                   | 260                  | -                              | (40)                           | 220                  |
| Unrecognized deferred tax<br>assets          | \$ 107,513           | \$ (11,685)                    | \$ 14                          | \$ 95,842            |

|  | December 31,<br>2017 | Change<br>related to<br>income | Change<br>related to<br>equity | December 31,<br>2018 |
|--|----------------------|--------------------------------|--------------------------------|----------------------|
| Deferred tax assets                          |                      |                                |                                |                      |
| Exploration and evaluation                   | \$ 77,703            | \$ 46                          | \$ -                           | \$ 77,749            |
| Property and equipment                       | 3,121                | 33                             | -                              | 3,154                |
| Non-capital loss carried forward             | 13,696               | 447                            | -                              | 14,143               |
| Capital loss carried forward                 | 595                  | -                              | -                              | 595                  |
| Share issue costs                            | 148                  | (77)                           | 27                             | 98                   |
| Decommissioning and rehabilitation provision | 162                  | 3                              | -                              | 165                  |
| Contingent consideration                     | 197                  | -                              | -                              | 197                  |
| Revaluation of investments                   | 220                  | 16                             | -                              | 236                  |
| Unrecognized deferred tax<br>assets          | \$ 95,842            | \$ 468                         | \$ 27                          | \$ 96,337            |

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

### Tax losses

As at December 31, 2018, the Company had estimated capital losses for Canadian income tax purposes of \$4,404 thousand (December 31, 2017 – \$4,404 thousand). These losses do not expire and may be utilized to reduce future capital gains, if any.

As at December 31, 2018, the Company has estimated non-capital losses for Canadian income tax purposes that may be carried forward to reduce taxable income derived in future years. A summary of these tax losses is provided below. These tax losses will expire as follows:

| Year of Expiry | Taxable losses<br>(in thousands) |
|----------------|----------------------------------|
| 2026           | \$ 10,203                        |
| 2027           | 4,617                            |
| 2028           | 5,268                            |
| 2029           | 6,695                            |
| 2030           | 5,018                            |
| 2031           | 4,251                            |
| 2032           | 3,955                            |
| 2033           | 3,200                            |
| 2034           | 1,859                            |
| 2035           | 1,910                            |
| 2036           | 1,900                            |
| 2037           | 1,856                            |
| 2038           | 1,655                            |
| <b>Total</b>   | <b>\$ 52,387</b>                 |

The Company also had unrecorded investment tax credits totaling \$15.8 million (December 31, 2017 – \$15.8 million) relating to pre-production mining expenditures. These investment tax credits begin to expire starting in 2026.

## 16. 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<br>(in thousands) | Amount<br>(in thousands) |
|---|---------------------------------|--------------------------|
| Balance – December 31, 2016   | 293,961                         | \$ 810,190               |
| Issuance of shares (net of issue costs) (a)                           | 53,764                          | 19,583                   |
| Issuance of flow-through shares (net of issue costs) (b)              | 5,556                           | 991                      |
| Issuance of shares (net of issue costs) (c)                           | 2,267                           | 792                      |
| Issuance of flow-through shares (net of issue costs) (d)              | 7,895                           | 1,199                    |
| Issuance of share (net of issue costs and fair value of warrants) (e) | 9,375                           | 943                      |
| Issuance of shares on exercise of options (g)                         | 226                             | 68                       |
| Issuance of shares on redemption of restricted share units (g)        | 3,615                           | 683                      |
| Issuance of shares on redemption of deferred share units (g)          | 128                             | 25                       |
| Issuance of shares on exercise of broker warrants (g)                 | 1,489                           | 421                      |
| Balance – December 31, 2017   | 378,276                         | \$ 834,895               |
| Issuance of flow-through shares (net of issue costs) (f)              | 4,808                           | 1,139                    |
| Issuance of shares on exercise of options (g)                         | 703                             | 191                      |
| Issuance of shares on redemption of restricted share units (g)        | 4,603                           | 913                      |
| Issuance of shares on redemption of deferred share units (g)          | 663                             | 129                      |
| Issuance of shares on exercise of warrants and broker warrants (g)    | 3,020                           | 747                      |
| Balance – December 31, 2018   | 392,073                         | \$ 838,014               |

(a) Issuance of shares

During 2017, Newmont sold its entire interest in the FaIC JV to the Company (as described in note 8) in consideration for 53,764 thousand common shares of the Company and 1,105 thousand common share purchase warrants.

(b) Issuance of shares

During 2017, in connection with the Option Agreement (as described in note 8), RTEC agreed to subscribe for 5,556 thousand Units at a price of \$0.18 per Unit, for aggregate gross proceeds of \$1,000 thousand. Each Unit consisted of one common share and one common share purchase warrant.

(c) Issuance of shares

During 2017 the Company issued 2,267 thousand common shares of the Company pursuant to an agreement with a third-party consulting and professional service provider. This agreement allowed for a fee of \$800 thousand to be paid by the Company in cash or the issuance of common shares at a price of approximately \$0.35 per share.

(d) Flow-through share financing

During 2017, the Company issued 7,895 thousand flow-through shares at a price of \$0.19 per common share, for gross proceeds of \$1,500 thousand. The shares issued require that the Company make certain qualifying expenditures for tax purposes on or before December 31, 2018; the deduction of which flows through to the shareholder. The Company sold the flow-through shares for a premium over the market value of the Company's common shares. Accordingly, \$237 thousand of the gross proceeds was allocated as a premium on flow-through shares and the remainder was recorded in share capital.

(e) Issuance of shares

During 2017 the Company completed a private placement of 9,375 thousand Units at a price of \$0.16 per Unit, for aggregate gross proceeds of \$1,500 thousand. Each Unit consisted of one common share and one Common Share purchase warrant.

(f) Flow-through share financing

During 2018, the Company issued 4,808 thousand flow-through shares at a price of \$0.26 per common share, for gross proceeds of \$1,250 thousand. The shares issued require that the Company make certain qualifying expenditures for tax purposes on or before December 31, 2019; the deduction of which flows through to the shareholder.

(g) Nature and purpose of equity reserves

Share-based payments reserve

The share-based payments reserve is recognized within contributed surplus and is used to recognize the fair value of equity-settled share-based payment transactions provided to employees, including key management personnel, as part of their remuneration. The fair value of stock options has been valued using the Black-Scholes option-pricing model. The fair value of share-based payments in the form of RSUs and DSUs was determined based on the five-day volume weighted average trading price of the Company's shares preceding the date of grant. The fair value of these securities is added to the share-based payments reserve over the vesting period of the securities. Upon exercise, the corresponding fair value related to the security is removed from the share-based payments reserve and added to share capital. Refer to note 18 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<br>Warrants<br>(in thousands) | Average<br>Price | Expiry<br>Date    | Amount<br>(in thousands) |
|-----------------------------|--------------------------------------|------------------|-------------------|--------------------------|
| Balance - December 31, 2017 | 520                                  | \$ 0.20          |                   | \$ 21                    |
| Issued (a)                  | 240                                  | 0.28             | December 19, 2019 | 13                       |
| Exercised                   | (520)                                | 0.20             |                   | (21)                     |
| Balance - December 31, 2018 | 240                                  | \$ 0.28          |                   | \$ 13                    |

- (a) Each broker warrant entitles the holder thereof to purchase one Common Share at a price of \$0.28 for a period of 12 months from the date of issuance. The broker warrants issued in 2018 were fair valued at \$13 thousand. The fair value was determined using the Black-Scholes pricing model with the following assumptions: a volatility factor of 71.65%, risk-free rate of return of 1.89%, expected dividend of 0%, and expected term of 12 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<br>(in thousands) | Average<br>Price | Amount<br>(in thousands) |
|---------------------------------|----------------------------|------------------|--------------------------|
| Balance – December 31, 2017     | 23,536                     | \$ 0.22          | \$ 1,061                 |
| Exercised                       | (2,500)                    | 0.20             | (122)                    |
| Expired                         | (7,500)                    | 0.25             | (379)                    |
| Balance – December 31, 2018 (a) | 13,536                     | \$ 0.21          | \$ 560                   |

- (a) Warrants outstanding at December 31, 2018 have a weighted average remaining life of 0.6 years.

#### **17. Earnings per share**

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

|   | December 31,<br>2018 | December 31,<br>2017 |
|---|----------------------|----------------------|
| Numerator:  |                      |                      |
| Net income (loss) applicable to common shares         | \$ (4,581)           | \$ 40,750            |
| Denominator:  |                      |                      |
| Common shares outstanding at January 1 (in thousands) | 378,276              | 293,961              |
| Weighted average effect of issuances (in thousands)   | 4,508                | 35,818               |
| Weighted average common shares outstanding at         |                      |                      |
| December 31 – basic (in thousands)                    | 382,784              | 329,779              |
| Weighted average common shares outstanding at         |                      |                      |
| December 31 – diluted (in thousands)                  | 382,784              | 331,866              |
| Basic and diluted income (loss) per common share (a)  | \$ (0.01)            | \$ 0.12              |

- (a) Excluded from the calculation of diluted loss per common share are the effects of outstanding share-based payments, as the effect on basic loss per share would be anti-dilutive in 2018.

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

## 18. Share-based payments

### (a) Share option plan

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

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

| Expense category included  | December 31,<br>2018 | December 31,<br>2017 |
|----------------------------|----------------------|----------------------|
| Administration             | \$ 119               | \$ 156               |
| Exploration and evaluation | 84                   | 25                   |
| <b>Total</b>               | <b>\$ 203</b>        | <b>\$ 181</b>        |

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

|                                  | 2018          |                  | 2017          |                  |
|----------------------------------|---------------|------------------|---------------|------------------|
|                                  | Options       | Average<br>Price | Options       | Average<br>Price |
| Outstanding – January 1          | 10,144        | \$ 0.20          | 9,203         | \$ 0.20          |
| Granted                          | 1,748         | 0.19             | 1,527         | 0.20             |
| Exercised                        | (703)         | 0.17             | (226)         | 0.19             |
| Expired                          | (660)         | 0.17             | (360)         | 0.26             |
| <b>Outstanding – December 31</b> | <b>10,529</b> | <b>\$ 0.20</b>   | <b>10,144</b> | <b>\$ 0.20</b>   |
| <b>Exercisable – December 31</b> | <b>10,229</b> | <b>\$ 0.20</b>   | <b>9,957</b>  | <b>\$ 0.20</b>   |

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

|                                 | December 31,<br>2018  | December 31,<br>2017  |
|---------------------------------|-----------------------|-----------------------|
| Share price at grant date       | \$ 0.19               | \$ 0.19 – 0.235       |
| Exercise price                  | \$ 0.19               | \$ 0.19 – 0.235       |
| Expected volatility             | 74.2 – 77.9%          | 75.5 – 78.0%          |
| Option life                     | 5 years               | 5 years               |
| Expected dividends              | 0 %                   | 0 %                   |
| Expected forfeiture rate        | 0 %                   | 0 %                   |
| Risk-free interest rate         | 1.92 – 1.96%          | 0.89 – 1.66%          |
| <b>Fair value at grant date</b> | <b>\$ 0.11 – 0.12</b> | <b>\$ 0.11 – 0.15</b> |

For options outstanding and exercisable at December 31, 2018 (in thousands), the range of exercise prices; weighted average exercise price and the weighted average remaining contractual life is as follows:

| Option Price<br>Per Share | Outstanding                     |  |  | Exercisable                     |  |
|---------------------------|---------------------------------|--|--|---------------------------------|--|
|                           | Options<br>December 31,<br>2018 | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Life | Options<br>December 31,<br>2018 | Weighted<br>Average<br>Exercise<br>Price |
| \$ 0.00 – 0.20            | 6,854                           | \$ 0.19                                  | 2.5 years                                | 6,554                           | \$ 0.19                                  |
| \$ 0.20 – 0.30            | 3,675                           | 0.22                                     | 1.2 years                                | 3,675                           | 0.22                                     |
|                           | 10,529                          | \$ 0.20                                  | 2.0 years                                | 10,229                          | \$ 0.20                                  |

(b) Deferred share unit plan

The Company has established a deferred share unit plan (the "DSU Plan"), which provides for the grant of DSUs to eligible directors of the Company. The 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.

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

|  | December 31,<br>2018 | December 31,<br>2017 |
|--|----------------------|----------------------|
| DSUs outstanding – January 1             | 776                  | 641                  |
| Granted                                  | 325                  | 263                  |
| Redeemed for common shares from treasury | (663)                | (128)                |
| DSUs outstanding – December 31           | 438                  | 776                  |

The fair value of the DSUs granted during 2018 was \$0.20 per DSU (2017 - \$0.19).

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

| Expense category included | December 31,<br>2018 | December 31,<br>2017 |
|---------------------------|----------------------|----------------------|
| Administration            | \$ 65                | \$ 50                |
| Total                     | \$ 65                | \$ 50                |

(c) Performance share unit and restricted share unit plan

The Company has established a performance share unit and restricted share unit plan (the "Unit Plan"), which provides for the grant of PSUs and RSUs to eligible officers and employees of the Company. 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.

As of December 31, 2018, no PSUs have been granted. RSU movements (in thousands) during the year ended December 31 are as follows:

|  | December 31,<br>2018 | December 31,<br>2017 |
|--|----------------------|----------------------|
| RSUs outstanding – January 1             | 2,755                | 4,100                |
| Granted                                  | 7,815                | 2,270                |
| Redeemed for common shares from treasury | (4,603)              | (3,615)              |
| <b>RSUs outstanding – December 31</b>    | <b>5,967</b>         | <b>2,755</b>         |

The fair value of the RSUs issued is determined on the grant date as follows:

|                                     | December 31,<br>2018 | December 31,<br>2017 |
|-------------------------------------|----------------------|----------------------|
| Weighted average RSU vesting period | 1.0 years            | 1.0 years            |
| Expected dividends                  | 0 %                  | 0 %                  |
| Expected forfeiture rate            | 0 %                  | 0 %                  |
| Fair value at grant date            | \$ 0.20              | \$ 0.19              |

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

| Expense category included  | December 31,<br>2018 | December 31,<br>2017 |
|----------------------------|----------------------|----------------------|
| Administration             | \$ 809               | \$ 333               |
| Exploration and evaluation | 418                  | 181                  |
| <b>Total</b>               | <b>\$ 1,227</b>      | <b>\$ 514</b>        |

## 19. Related party transactions

### Related party transactions with key management personnel

Key management personnel are persons responsible for planning, directing, and controlling the activities of an entity, and include executive and non-executive directors. The Company pays certain of its current key management personnel through companies owned by certain executive officers and directors. Those companies are as follows:

MacNeill Brothers Oil and Gas Ltd.  
George Read Consulting Inc.

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

|  | December 31,<br>2018 | December 31,<br>2017 |
|--|----------------------|----------------------|
| Short-term benefits to officers and directors              | \$ 211               | \$ 339               |
| Consulting and management fees to related companies        | 430                  | 614                  |
| Share-based payments                                       | 1,109                | 615                  |
| <b>Total compensation paid to key management personnel</b> | <b>\$ 1,750</b>      | <b>\$ 1,568</b>      |

The amounts disclosed in the table above are the amounts recognized as an expense during the reporting period related to key management personnel. The above transactions were in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established



and agreed to by the related parties. The fair value of share-based payments in the form of options was determined using the Black-Scholes model. The fair value of share-based payments in the form of RSUs and DSUs was determined based on the five-day volume weighted average trading price of the Company's shares preceding the date of grant.

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

|   | December 31,<br>2018 | December 31,<br>2017 |
|---|----------------------|----------------------|
| Administration                                      | \$ 1,294             | \$ 1,154             |
| Exploration and evaluation                          | 456                  | 414                  |
| Total compensation paid to key management personnel | \$ 1,750             | \$ 1,568             |

## 20. Financial instruments

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

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

### Fair value hierarchy

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

- Level 1 – Values based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities;
- Level 2 – Values based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability; and
- Level 3 – Values based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

### Fair value of investment in Wescan

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

### Fair value of contingent consideration

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

### 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 December 31, 2018, the Company's credit risk

relates to its cash and cash equivalents, receivables and restricted cash of \$3,453 thousand (December 31, 2017 – \$4,790 thousand).

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to forecast future cash flows to ensure that it will have sufficient liquidity to meet its obligations when due. To ensure the Company has sufficient cash on hand, the Company prepares annual capital and operating budgets which are regularly monitored and updated as considered necessary. As at December 31, 2018, the Company had working capital of \$2.6 million. The Company is required to incur \$1.2 million of qualifying expenditures before December 31, 2019 as a result of the flow-through share financing discussed in note 16. Given that cash flow from operations are negative, the Company is dependent on additional sources of financing beyond 2019.

As at December 31, 2018, the Company is committed to trade payables and other operating leases as set out in the following table on an undiscounted basis:

|   | Up to 3<br>months | Between<br>3 months<br>and 12<br>months | Between<br>1 and 2<br>years | Between<br>2 and 5<br>years | Over<br>5 years | Total         |
|---|-------------------|---|-----------------------------|-----------------------------|-----------------|---------------|
| Trade payables and<br>accrued liabilities | \$ 267            | \$ -                                    | \$ -                        | \$ -                        | \$ -            | \$ 267        |
| Operating leases                          | 33                | 99                                      | 66                          | -                           | -               | 198           |
| <b>Total</b>                              | <b>\$ 300</b>     | <b>\$ 99</b>                            | <b>\$ 66</b>                | <b>\$ -</b>                 | <b>\$ -</b>     | <b>\$ 465</b> |

Excluded from this table is the contingent consideration as discussed in note 10. An estimate of the discounted present value of this contingent consideration was determined to be \$730 thousand at December 31, 2018 (2017 - \$730 thousand).

As at December 31, 2018, the Company had guaranteed certain liabilities by issuing \$622 thousand (December 31, 2017 - \$622 thousand) of irrevocable standby letters of credit. The Company backs the letters of credit with investments which have been recorded on the financial statements as restricted cash (note 7). The Company does not include restricted cash in its working capital when analyzing its liquidity requirements. The majority of the 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.

The Company currently does not have sufficient resources to finance operating activities beyond its 2019 fiscal year, conditions which raise material uncertainties which cast significant doubt about the Company's ability to continue as a going concern. The Company is assessing opportunities to address the issue of liquidity.

(c) Market risk

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

*Foreign currency risk:*

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

*Commodity price risk:*

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

*Interest rate risk:*

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

*Equity price risk:*

Equity price risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Company is exposed to this risk through its equity holdings. The investment in the common shares of Wescan is monitored by management with recommendations on 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.

## **21. Capital management**

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

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

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

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

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