



**3rd Quarter Report
2019**

The following discussion and analysis is prepared by Management as of November 7, 2019 and should be read in conjunction with the unaudited condensed interim consolidated financial statements for the period ended September 30, 2019 ("financial statements for the period ended September 30, 2019"), as well as the audited consolidated financial statements and annual MD&A for the year ended December 31, 2018 available on SEDAR at www.sedar.com. Star Diamond Corporation ("DIAM", or "the Company") prepared its financial statements for the period ended September 30, 2019 in accordance with International Financial Reporting Standard ("IAS") 34, Interim Financial Reporting using accounting policies consistent with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). All currency amounts are quoted in Canadian Dollars, unless otherwise stated.

Overview

Star Diamond Corporation is a Canadian natural resource company focused on exploring and developing Saskatchewan's diamond resources. As a result of the 2017 mineral property consolidation and earn-in agreement (as discussed below), the Company is now in an enhanced position to advance its 100% held Star - Orion South Diamond Project ("Project").

During 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 and Technical Report dated May 30, 2018). The PEA was led by independent mining, processing and design consultants, with support from the Company's technical team. The PEA cash flow model is based on developing two open pits, initially on the Orion South Kimberlite and subsequently on the Star Kimberlite.

The PEA Highlights Include ¹:

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

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

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

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

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

In 2017, the Company acquired (the "Newmont Acquisition") from Newmont Canada FN Holdings ULC, a wholly-owned subsidiary of Newmont Mining Corporation ("Newmont", now Newmont Goldcorp Corporation) 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"), a wholly-owned subsidiary of Rio Tinto, pursuant to which the Company 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 (September 30, 2019 – 17.3%). Rio Tinto refers to Star Diamond's mineral dispositions in the Fort à la Corne diamond district as Project FalCon.

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

During the second quarter of 2019, the Company announced that RTEC completed the Cutter Soil Mixing ("CSM") panels at the ten trench cutter bulk sample locations on the Star Kimberlite (See News Release dated May 23, 2019). Utilizing a Bauer Maschinen GmbH ("Bauer") BG 30 rig with a cutter soil mixing attachment, cement is mixed with the top 20 metres of near-surface sands in order to stabilize the unconsolidated sand overburden at the planned bulk sample locations.

The Company recently announced that RTEC have completed the drilling of ten bulk sample holes (trenches) to conclude their program on the Company's Star Kimberlite using the Trench Cutter Sampling Rig (See News Release dated October 8, 2019). The ten holes completed on the Star Kimberlite included a total of 2,351 metres of trench cutter drilling and intersected a total of 1,215.5 metres of kimberlite. Kimberlite was pumped to surface and recovered using a Kimberlite Separation Unit ("KSU"), with samples loaded and stored in cubic metre bulk bags, which total 6,848 in number (estimated by RTEC to be approximately 8,271 wet tonnes).

The Trench Cutter Sampling Rig being utilized by RTEC consists of a Bauer BC 50 Cutter mounted on a Bauer MC 128 Duty-cycle Crane. Cutter rigs by Bauer are used around the world for complex engineering projects. Bauer has indicated that this is the first time in the world that this technology is being used in an active project to sample kimberlite at depths of up to 250 meters. The Trench Cutter Sampling Rig is designed to sample large volumes of kimberlite by excavating a rectangular hole of 3.2 by 1.5 metres. The Trench Cutter Sampling Rig's cutter head has been designed to excavate kimberlite fragments of up to 80 millimetres in diameter, which are then pumped in a slurry to the surface to a KSU. The KSU has been designed to recover kimberlite fragments between 80 and 0.85 millimetres from the Trench Cutter Sampling Rig slurry. The Trench Cutter Sampling Rig and associated KSU have been designed by RTEC to minimize diamond breakage during sample excavation, washing and bagging. This well washed kimberlite material will help ensure optimal performance of RTEC's on-site Bulk Sample Plant ("BSP"), which is now at an advanced stage of construction. This on-site BSP uses 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. Final diamond recovery from the concentrate produced by the on-site BSP is to be conducted by RTEC at a secure off-site facility.

Once construction of the BSP is completed, RTEC intends to commission the BSP using existing Orion South kimberlite that was originally collected by the Corporation from the underground bulk sampling program

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performed in 2009. The use of Orion South material for commissioning the BSP will help ensure that the BSP is operating at its design capacity before the commencement of the processing of the trench cutter samples that were collected from RTEC's 2019 bulk sampling program of the Star Kimberlite.

During the second quarter of 2019, the Company also announced that RTEC completed the sonic and core drilling on the Star and Orion South Kimberlites (see News Releases dated April 15, 2019 and December 11, 2017). The sonic drilling provides 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 bulk sampling of the Orion South Kimberlite with the Trench Cutter Sampling Rig.

During 2019, the Company 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 represent 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 the largest known rough diamonds recovered worldwide, from the 726 carat Jonker to the 3,106 carat Cullinan.

Financial Highlights

Select financial information of the Company for the three and nine month periods ended September 30, 2019 and 2018 is summarized as follows:

	Three months ended September 30, 2019 \$	Three months ended September 30, 2018 \$	Nine months ended September 30, 2019 \$	Nine months ended September 30, 2018 \$
Net loss (millions)	0.8	1.0	3.2	3.5
Net loss per share ⁽¹⁾	0.00	0.00	0.01	0.01
Total assets (millions)	71.2	69.4	71.2	69.4
Total non-current liabilities (millions) ⁽²⁾	1.6	1.3	1.6	1.3
Working capital (millions)	3.4	1.6	3.4	1.6

(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) of \$0.6 million (2018 - \$0.6 million) and a contingent consideration relating to the Newmont Acquisition (the discounted present value of this contingent consideration of \$0.7 million (2018 - \$0.7 million)). Also included at September 30, 2019 is a lease liability of \$0.3 million which relates to the adoption of IFRS 16 in 2019.

Results of Operations

For the quarter ended September 30, 2019, the Company recorded a net loss of \$0.8 million or \$0.00 per share (basic and fully diluted) compared to a net loss of \$1.0 million or \$0.00 per share for the same period in 2018. The losses during the quarters ended September 30, 2019 and 2018 were due to operating costs and exploration and evaluation expenditures incurred by the Company.

Interest and other income

For the quarters ended September 30, 2019 and 2018 the Company reported interest and other income of \$30 thousand and \$17 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 income is measured at the fair value of the consideration received or receivable for goods and services in the normal course of business.

Expenses

Expenses incurred during the quarter ended September 30, 2019 were \$0.8 million compared to \$1.0 million for the same period in 2018. This decrease was primarily due to lower exploration and evaluation expenditures and administration expenses incurred.

Exploration and evaluation expenditures incurred during the third quarter of 2019 were \$0.4 million, compared to \$0.5 million being incurred during the quarter ended September 30, 2018. Exploration and evaluation expenditures incurred during the quarters ended September 30, 2019 and 2018 were primarily related to metallurgical investigations and test work for the Project as well as other costs associated with the Project.

Administration, consulting and professional fees, and corporate development expenditures for the quarter ended September 30, 2019 were \$0.4 million, compared to \$0.5 million during the same period in 2018. This decrease was primarily due to lower administration costs incurred during the quarter ended September 30, 2019 than for the same period in 2018.

Financing

During the quarter ended September 30, 2019 the Company issued common shares from treasury as a result of vested restricted share units ("RSUs") that were redeemed. During the quarter ended September 30, 2018 the Company issued common shares from treasury as a result of vested RSUs and deferred share units ("DSUs") that were redeemed.

Year to Date***Results of operations***

For the nine months ended September 30, 2019, the Company recorded a net loss of \$3.2 million or \$0.01 per share compared to a net loss of \$3.5 million or \$0.01 per share for the same period in 2018. The losses during the nine months ended September 30, 2019 and 2018 were primarily due to ongoing operating costs and exploration and evaluation expenditures incurred by the Company exceeding interest and other income earned.

Interest and other income

For the nine months ended September 30, 2019 and 2018 the Company reported interest and other income of \$65 thousand and \$108 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 income is measured at the fair value of the consideration received or receivable for goods and services in the normal course of business.

Expenses

Total operating costs for the nine months ended September 30, 2019 were \$3.2 million compared to \$3.7 million for the nine months ended September 30, 2018. These amounts also include \$1.2 million of share-

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based payments that was expensed during the nine months ended September 30, 2019 (2018 – \$1.3 million). This decrease was primarily due to lower exploration and evaluation expenditures incurred as well as lower share-based payments expensed during the nine months ended September 30, 2019.

Exploration and evaluation expenditures for the nine months ended September 30, 2019 were \$1.3 million compared to \$1.7 million for the same period in 2018. Exploration and evaluation expenditures incurred during the nine months ended September 30, 2019 primarily related to geological and metallurgical investigations and test work for the Project as well as other costs associated with the Project. Exploration and evaluation expenditures incurred during the nine months ended September 30, 2018 primarily related to work relating to metallurgical investigations and test work for the Project as well as other costs associated with the PEA. Approximately 57 percent (2018 - 43 percent) of the exploration and evaluation expenditures incurred during the nine months ended September 30, 2019 were made up of compensation costs and share-based payments incurred by the Company.

Administration, consulting and professional fees, and corporate development expenditures for the nine months ended September 30, 2019 were \$1.9 million compared to \$2.0 million for the same period in the prior year. This decrease was primarily due to lower professional fees incurred during the nine months ended September 30, 2019.

Premium on flow-through shares

The Company issued flow-through shares during 2017 for a premium over the market value of the shares. The premium over the market value of the shares was recognized as a liability until such time as the Company incurs qualifying expenditures. The premium recognized in income for the nine months ended September 30, 2018 was \$174 thousand. As the Company incurred qualifying expenditures by December 31, 2018, this liability to the investor was satisfied and accordingly the premium received on the initial issue of share capital was recognized in income.

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.

Flow-through proceeds raised during 2018	\$ 1.25
Flow-through expenditures incurred to September 30, 2019	0.95
Flow-through expenditures to be incurred by December 31, 2019	<u>0.30</u>

The Company expects that the exploration and evaluation expenditures incurred by December 31, 2019 will approximate the \$1.25 million flow-through financing raised during 2018.

Investment in Wescan Goldfields Inc.

At September 30, 2019, the Company held 5.8 million shares or 12.9% (December 31, 2018 – 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 September 30, 2019, was \$203 thousand (December 31, 2018 – \$232 thousand).

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Financing

No financing activities occurred during the nine months ended September 30, 2019 and September 30, 2018. During the nine months ended September 30, 2019 the Company issued common shares from treasury as a result of vested RSUs that were redeemed, as well as warrants (weighted average exercise price of \$0.20) and stock options (weighted average exercise price of \$0.18) that were exercised for total cash proceeds of \$2.7 million. During the nine months ended September 30, 2018 the Company issued common shares from treasury as a result of vested RSUs and DSUs that were redeemed, as well as stock options that were exercised (weighted average exercise price of \$0.16) for total cash proceeds of \$0.1 million.

Summary of Quarterly Results

	2019			2018			2017	
	Qtr 3	Qtr 2	Qtr 1	Qtr 4	Qtr 3	Qtr 2	Qtr 1	Qtr 4
Income ⁽¹⁾ (\$millions)	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.1
Net loss ⁽²⁾ (\$millions)	0.8	1.5	0.9	1.1	1.0	1.8	0.7	0.8
Net loss per share ⁽³⁾ (\$)	0.00	0.01	0.00	0.00	0.00	0.01	0.00	0.00
Shares outstanding (millions) ⁽⁴⁾	409.1	407.7	393.3	392.1	384.0	383.2	379.9	378.3

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

(2) Net losses 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. Other changes in shares outstanding were due to shares issued from treasury as a result of warrant, broker warrant and option exercises, DSU redemptions and/or RSU redemptions.

Related Party Transactions

At September 30, 2019, 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 quarter ended September 30, 2019 were \$20 thousand (2018 – \$20 thousand) and \$15 thousand (2018 – \$15 thousand), respectively. During 2018, the Company implemented voluntary base compensation reductions for the Company's officers, employees and directors, which are still in effect as at September 30, 2019.

During the nine-month period ended September 30, 2019, 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 \$1.4 million (2018 – \$1.4 million). Of these amounts, \$1.0 million (2018 – \$1.0 million) was included in administration expense and \$0.4 million was included in exploration and evaluation expense (2018 – \$0.4 million). Included in these amounts are share-based payment transactions of \$0.9 million (2018 – \$0.9 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 and evaluation activities it is invested in a variety of highly rated instruments.

At September 30, 2019 the Company had \$3.3 million (December 31, 2018 – \$2.8 million) in cash and cash equivalents and short-term investments. The Company has also supplied \$0.6 million (December 31, 2018 – \$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 September 30, 2019, the Company is required to spend \$0.3 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 September 30, 2019 the Company had working capital of \$3.4 million compared to \$1.6 million at September 30, 2018. The Company believes it has sufficient liquidity to continue operations until further financing is arranged.

At September 30, 2019 the Company had 409,065,051 common shares, 494,004 DSUs, 2,605,000 RSUs, 18,628,800 options (weighted average exercise price of \$0.20), 1,105,556 warrants (weighted average exercise price of \$0.35) and 240,408 broker warrants (weighted average exercise price of \$0.28) issued and outstanding.

As at November 7, 2019, the Company's issued and outstanding common shares, warrants, broker warrants, options, DSUs and RSUs remained unchanged from September 30, 2019.

Financial Instruments

As at September 30, 2019, 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, 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 September 30, 2019, the Company's credit risk relates to its cash and cash equivalents, short-term investments, receivables and restricted cash of \$4.1 million (December 31, 2018 – \$3.5 million).

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to forecast future cash flows to ensure that it will have sufficient liquidity to meet its obligations when due. To ensure the Company has sufficient cash on hand, the Company prepares annual capital and operating budgets which are regularly monitored and updated as considered necessary. As at September 30, 2019, the Company had working capital of \$3.4 million (excluding

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restricted cash) and is required to incur a further \$0.3 million of qualifying expenditures before December 31, 2019 as a result of the flow-through share financing in 2018. Given that cash flows from operations are negative, the Company is dependent on additional sources of financing.

As at September 30, 2019, the Company had guaranteed certain liabilities by issuing \$0.6 million (December 31, 2018 – \$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 September 30, 2019 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.

At September 30, 2019, the Company had working capital of \$3.4 million, of which \$0.3 million is committed to be spent on qualifying expenditures before December 31, 2019. The ability of the Company to continue as a going concern and fund general and administrative expenses in an orderly manner will require further equity issues or other forms of financings. There is no assurance that the Company will be successful in obtaining required financing at an acceptable cost as and when needed or at all. Failure to obtain additional financing on a timely basis may cause the Company to postpone exploration and/or evaluation plans, forfeit rights in its properties or reduce or terminate its operations. The Company is assessing opportunities to address the issue of liquidity.

Market risk

Market risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices. Market prices are comprised of four types of risk: foreign currency risk, interest rate risk, commodity price risk and equity price risk. As at September 30, 2019, the Company does not have significant exposure to any of these market risks. Equity price risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Company is exposed to this risk through its equity holdings. The investment in the common shares of Wescan is monitored by management with decisions on sale taken to the Board level. A 10 percent decrease in the market price of Wescan would result in a \$20 thousand decrease in fair value.

Critical Accounting Estimates and Judgments

The financial statements for the period ended September 30, 2019 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 period ended September 30, 2019, 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, contingent consideration, 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 the nine months ended September 30, 2019

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 16 – Leases

IFRS 16 replaces IAS 17, "Leases" and related interpretations effective for annual periods commencing on or after January 1, 2019. IFRS 16 follows a 'right-of-use' model which requires most leases to be reported on an entity's financial statements as assets and liabilities, eliminating the former dual accounting model for lessees, which distinguished between on-balance sheet finance leases and off-balance sheet operating leases.

Implementation:

The Company adopted IFRS 16 using the modified retrospective application method, where the 2018 comparatives were not restated and a cumulative catch up adjustment would be recorded on January 1, 2019 for any differences identified. In addition, the Company applied 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 recognized 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 were measured at the amount equal to the lease liability on January 1, 2019, with no impact on retained earnings.

The Company analyzed its contracts to identify whether they are, or contain, a lease arrangement for the application of IFRS 16. This analysis identified contracts that will have an equivalent increase to both the Company's right-of-use assets and lease liabilities. As a result, upon adoption, the Company recognized lease liability and right-of-use assets of approximately \$0.3 million, with no impact on retained earnings.

Future Accounting Changes

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

Disclosure Controls and Procedures

The Company has disclosure controls and procedures in place to provide reasonable assurance that any information required to be disclosed by the Company under securities legislation is recorded, processed,

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

There have been no significant changes in the Company's disclosure controls during the quarter ended September 30, 2019.

Internal Controls over Financial Reporting Procedures

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

There have been no significant changes to internal controls over financial reporting during the quarter ended September 30, 2019 that could have materially affected or are reasonably likely to materially affect the Company's internal controls over financial reporting.

Outlook

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

The successful completion of the 2017 consolidation of the Company's Fort à la Corne mineral properties (including the Star - Orion South Diamond Project) and the concurrent earn-in arrangement with RTEC defined the start of 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 and Fort à la Corne kimberlites. While RTEC's work continues to focus on the bulk sampling of the Star and Orion South kimberlites, Brownfields exploration programs by RTEC also aim 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

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dispositions held 100 percent by the Company. The Company is also very pleased to continue to have Newmont Goldcorp Corporation as a significant shareholder.

As of November 7, 2019, the Company had approximately \$3.2 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 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

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

For the three and nine months ended September 30, 2019

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 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 Ila 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 construction of the bulk sample processing plant and timing for 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

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

For the three and nine months ended September 30, 2019

infrastructure risks and the additional risks described in the Company's most recently filed Annual Information Form, annual and interim MD&A, news releases and technical reports. The Company's anticipation of and success in managing the foregoing risks could cause actual results to differ materially from what is anticipated in such forward-looking statements.

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

Additional Information

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

STAR DIAMOND CORPORATION
Unaudited Condensed Interim Consolidated Financial Statements

For the Three and Nine Months Ended
September 30 2019

Notice to Reader

Management has compiled the unaudited condensed interim consolidated financial statements of Star Diamond Corporation for the three and nine months ended September 30, 2019. The Corporation's external auditors have not reviewed these condensed interim consolidated financial statements.

Star Diamond Corporation
Condensed Consolidated Statements of Financial Position
(unaudited)

(Cdn\$ in thousands)	September 30, 2019	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,298	\$ 2,808
Receivables	153	23
Prepays	81	52
	<u>3,532</u>	<u>2,883</u>
Restricted cash (note 6)	622	622
Investment in Wescan Goldfields Inc. (note 7)	203	232
Property and equipment	529	308
Exploration and evaluation assets (note 8)	66,344	66,344
	<u>\$ 71,230</u>	<u>\$ 70,389</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 139	\$ 267
	<u>139</u>	<u>267</u>
Lease liability (note 5)	270	-
Environmental rehabilitation provision	618	611
Contingent consideration (note 8)	730	730
Shareholders' equity:		
Share capital	841,880	838,014
Warrants	224	560
Broker warrants	13	13
Contributed surplus	33,575	33,210
Accumulated deficit	(806,219)	(803,016)
	<u>69,473</u>	<u>68,781</u>
	<u>\$ 71,230</u>	<u>\$ 70,389</u>

See accompanying notes to consolidated financial statements

Star Diamond Corporation
Condensed Consolidated Statements of Loss and Comprehensive Loss
(unaudited)

(Cdn\$ in thousands, except for share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Income				
Interest and other income	\$ 30	\$ 17	\$ 65	\$ 108
Expenses				
Administration	344	423	1,737	1,797
Consulting and professional fees	29	47	75	194
Corporate development	42	10	111	40
Exploration and evaluation (note 9)	405	472	1,316	1,695
	<u>820</u>	<u>952</u>	<u>3,239</u>	<u>3,726</u>
Loss before the under noted items	(790)	(935)	(3,174)	(3,618)
Flow-through share premium	-	54	-	174
Investment in Wescan Goldfields Inc. (note 7)	-	(116)	(29)	(58)
Net and comprehensive loss for the period	<u>\$ (790)</u>	<u>\$ (997)</u>	<u>\$ (3,203)</u>	<u>\$ (3,502)</u>
Net loss per share				
Basic and diluted	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ (0.01)
Weighted average number of shares outstanding (000's)	407,772	383,482	398,788	381,429

See accompanying notes to consolidated financial statements

Star Diamond Corporation
Condensed Consolidated Statements of Cash Flows
(unaudited)

(Cdn\$ in thousands)	Nine Months Ended September 30,	
	2019	2018
Cash provided by (used in):		
Operations:		
Net loss	\$ (3,203)	\$ (3,502)
Adjustments:		
Depreciation on property and equipment	81	41
Loss (gain) on disposal of property and equipment	8	(4)
Investment in Wescan Goldfields Inc.	29	58
Fair value of share-based payments expensed	1,166	1,274
Unwinding of discount for environmental rehabilitation provision	7	9
Unwinding of discount and changes to lease liability	11	-
Flow-through share premium	-	(174)
Net change in non-cash operating working capital items:		
Receivables	(130)	117
Prepays	(29)	(64)
Accounts payable and accrued liabilities	(128)	(176)
	(2,188)	(2,421)
Investing:		
Proceeds from disposal of property and equipment	-	25
Purchases of property and equipment	-	(108)
	-	(83)
Financing:		
Other issuances (warrants and options)	2,729	80
Lease liability	(51)	-
	2,678	80
Increase (decrease) in cash and cash equivalents	490	(2,424)
Cash and cash equivalents, beginning of period	2,808	4,019
Cash and cash equivalents, end of period	\$ 3,298	\$ 1,595
Cash and cash equivalents consists of:		
Cash	\$ 3,298	\$ 1,595
	\$ 3,298	\$ 1,595

See accompanying notes to consolidated financial statements

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

(Cdn\$ in thousands)	Nine Months Ended September 30,		Year Ended December 31,
	2019	2018	2018
Share capital			
Balance, beginning of period	\$ 838,014	\$ 834,895	\$ 834,895
Shares issued (note 10)	3,866	1,177	3,119
Balance, end of period	<u>\$ 841,880</u>	<u>\$ 836,072</u>	<u>\$ 838,014</u>
Warrants			
Balance, beginning of period	\$ 560	\$ 1,061	\$ 1,061
Exercised	(336)	-	(122)
Expired	-	(379)	(379)
Balance, end of period	<u>\$ 224</u>	<u>\$ 682</u>	<u>\$ 560</u>
Broker warrants			
Balance, beginning of period	\$ 13	\$ 21	\$ 21
Issued	-	-	13
Exercised	-	-	(21)
Balance, end of period	<u>\$ 13</u>	<u>\$ 21</u>	<u>\$ 13</u>
Contributed surplus			
Balance, beginning of period	\$ 33,210	\$ 32,452	\$ 32,452
Share-based payments - options (note 11)	803	195	203
Share-based payments - deferred share units (note 11)	13	65	65
Share-based payments - restricted share units (note 11)	350	1,014	1,227
Options exercised	(136)	(55)	(74)
Restricted share unit redemptions	(665)	(913)	(913)
Deferred share unit redemptions	-	(129)	(129)
Expired warrants	-	379	379
Balance, end of period	<u>\$ 33,575</u>	<u>\$ 33,008</u>	<u>\$ 33,210</u>
Accumulated deficit			
Balance, beginning of period	(803,016)	(798,725)	(798,725)
Impact of adoption of IFRS 9 (note 7)	-	290	290
Loss for the period	(3,203)	(3,502)	(4,581)
Balance, end of period	<u>\$ (806,219)</u>	<u>\$ (801,937)</u>	<u>\$ (803,016)</u>
Accumulated other comprehensive loss			
Balance, beginning of period	\$ -	\$ 290	\$ 290
Impact of adoption of IFRS 9 (note 7)	-	(290)	(290)
Balance, end of period	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total equity	<u>\$ 69,473</u>	<u>\$ 67,846</u>	<u>\$ 68,781</u>

See accompanying notes to consolidated financial statements

STAR DIAMOND CORPORATION

Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2019

(In thousands of Canadian dollars except as otherwise noted)

1. Corporate Information

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

2. Basis of preparation

The condensed interim consolidated financial statements of the Company for the three and nine months ended September 30, 2019 were authorized for issue by the Company’s Audit Committee on November 7, 2019. The condensed interim consolidated financial statements of the Company and all its subsidiaries have been prepared in accordance with International Accounting Standard (“IAS”) 34 *Interim Financial Reporting* and do not include all of the information required for full annual financial statements. The Company’s financial statements have been prepared on a historical cost basis, except as disclosed, using the Company’s functional currency of Canadian dollars.

In preparing the financial statements for the period ended September 30, 2019, 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 consolidated financial statements for the year ended December 31, 2018.

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 September 30, 2019, the Company had working capital of \$3.4 million, of which \$0.3 million is committed to be spent on qualifying exploration expenditures before December 31, 2019, leaving \$3.1 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 issues or other forms of financings. There is no assurance that the Company will be successful in obtaining required financing at an acceptable cost as and when needed or at all. Failure to obtain additional financing on a timely basis may cause the Company to postpone exploration and/or evaluation plans, forfeit rights in its properties or reduce or terminate its operations.

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

4. Summary of significant accounting policies

The accounting policies applied by the Company in these condensed interim consolidated financial statements are the same as those disclosed in note 4 of the Company’s consolidated financial statements for the year ended December 31, 2018, except as noted below. Accordingly, the condensed interim

consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended December 31, 2018.

5. IFRS standards, amendments and interpretations

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

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

i. IFRS 16 – Leases

IFRS 16 replaces IAS 17, “Leases” and related interpretations effective for annual periods commencing on or after January 1, 2019. IFRS 16 follows a ‘right-of-use’ model which requires most leases to be reported on an entity’s financial statements as assets and liabilities, eliminating the former dual accounting model for lessees, which distinguished between on-balance sheet finance leases and off-balance sheet operating leases.

Implementation:

The Company adopted IFRS 16 using the modified retrospective application method, where the 2018 comparatives were not restated and a cumulative catch up adjustment would be recorded on January 1, 2019 for any differences identified. In addition, the Company applied 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 recognized 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 were measured at the amount equal to the lease liability on January 1, 2019, with no impact on retained earnings.

The Company analyzed its contracts to identify whether they are, or contain, a lease arrangement for the application of IFRS 16. This analysis identified contracts that will have an equivalent increase to both the Company’s right-of-use assets and lease liabilities. As a result, upon adoption, the Company recognized lease liability and right-of-use assets of approximately \$310 thousand, with no impact on retained earnings.

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

6. Restricted Cash

At September 30, 2019, the Company has pledged \$622 thousand (December 31, 2018 – \$622 thousand) in short-term investments as security for letters of credit provided, which relate to the provision for decommissioning and rehabilitation. These short-term investments are recorded as restricted cash.

7. Investment in Wescan Goldfields Inc.

At September 30, 2019, the Company held 5,806,634 shares or 12.9% (December 31, 2018 – 5,806,634 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”). The application of IFRS 9 in 2018 resulted an increase of \$290 thousand to accumulated deficit and a corresponding decrease to accumulated other comprehensive income.

At September 30, 2019, the carrying value of this investment was \$203 thousand (December 31, 2018 – \$232 thousand). During the nine months ended September 30, 2019, the Company recognized a \$29 thousand decrease in the carrying value of its investment in Wescan.

8. Exploration and evaluation assets

The Company holds a 100% interest in properties located in the central part of Saskatchewan, Canada ("Fort à la Corne properties"). These properties are accounted for as one cash generating unit. The carrying value of the Fort à la Corne properties represents the acquisition of minority interests of the Fort à la Corne properties since 2005, net of impairments. Based on the 2017 transaction ("Newmont Acquisition") with Newmont Canada FN Holdings ULC ("Newmont"), a wholly-owned subsidiary of Newmont Goldcorp, the Company performed an assessment of the estimated recoverable amount of the Fort à la Corne properties. As a result, the carrying value of the Fort à la Corne properties, including the Company's Star – Orion South Diamond Project ("Project"), was determined to be \$66,344 thousand (2018 - \$66,344 thousand).

As part of the Newmont Acquisition, 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 that reflects current market assessments of the time value of money and probability weighted cash flows. This was determined to be \$730 thousand (2018 - \$730 thousand).

At the time of the Newmont Acquisition, the Company concurrently entered into an Option to Joint Venture Agreement (the "Option Agreement") with Rio Tinto Exploration Canada Inc. ("RTEC"), a wholly-owned subsidiary of Rio Tinto, pursuant to which the Company has granted RTEC an option to earn up to a 60% interest in the Fort à la Corne properties (including the Project) on the terms and conditions contained in the Option Agreement.

9. Exploration and evaluation expense

The Company's exploration and evaluation expense for the nine months ended September 30, is comprised of the following:

	September 30, 2019	September 30, 2018
Fort à la Corne properties		
Depreciation of property and equipment	\$ 6	\$ 24
Exploration and evaluation	915	1,241
Share-based payments	389	424
Buffalo Hills property		
Exploration and evaluation	6	6
Total	\$ 1,316	\$ 1,695

10. Share capital and reserves

Authorized

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

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

Common shares issued and fully paid:

	Common Shares (in thousands)	Amount (in thousands)
Balance – December 31, 2018	392,073	\$ 838,014
Issuance of shares on exercise of warrants	12,430	2,849
Issuance of shares on redemption of restricted share units	3,362	665
Issuance of shares on exercise of options	1,200	352
Balance – September 30, 2019	409,065	\$ 841,880

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. No broker warrants were issued, redeemed or expired during the nine months ended September 30, 2019.

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. Warrant movements (in thousands) during the nine months ended September 30 is as follows:

	Warrants (in thousands)	Average Price	Amount (in thousands)
Balance – December 31, 2018	13,536	\$ 0.21	\$ 560
Exercised	(12,430)	0.20	(336)
Balance – September 30, 2019	1,106	\$ 0.35	\$ 224

11. Share-based payments

(a) Share option plan

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

Option movements (in thousands) during the nine months ended September 30, including weighted average exercise prices, are as follows:

	2019		2018	
	Options	Average Price	Options	Average Price
Outstanding – January 1	10,529	\$ 0.20	10,144	\$ 0.20
Granted	9,700	0.20	1,748	0.19
Exercised	(1,200)	0.18	(500)	0.16
Expired	(400)	0.27	(661)	0.17
Outstanding – September 30	18,629	\$ 0.20	10,731	\$ 0.20
Exercisable – September 30	17,479	\$ 0.20	10,131	\$ 0.20

The options outstanding at September 30, 2019 have an exercise price in the range of \$0.17 to \$0.235 (2018 – \$0.17 to \$0.27) and a weighted average contractual life of 3.2 years (2018 – 2.3 years). The options expire between the dates of February 2020 to June 2024.

The expense related to the Company’s share-based payments as a result of certain options vesting over the period is recognized in the comprehensive statement of loss for the nine months ended September 30 are as follows:

Expense Category included	September 30, 2019	September 30, 2018
Administration	\$ 533	\$ 116
Exploration and evaluation	270	79
Total	\$ 803	\$ 195

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. Option life is estimated based on the average of the vesting period and the contractual life of options granted. The inputs used in the measurement of the fair values at grant date of the share-based payments during the nine months ended September 30 are as follows:

	September 30, 2019	September 30, 2018
Share price at grant date	\$ 0.20	\$ 0.19
Exercise price	\$ 0.20	\$ 0.19
Expected volatility	68.8 – 70.5%	74.2 – 77.9%
Estimated option life	2.5 – 2.8 years	4.0 – 5.0 years
Expected dividends	0 %	0 %
Expected forfeiture rate	0 %	0 %
Risk-free interest rate	1.37 – 1.38%	1.92 – 1.96%
Fair value at grant date	\$ 0.09	\$ 0.11 – 0.12

(b) Deferred share unit plan

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

DSU movements (in thousands) during the nine months ended September 30 are as follows:

	September 30, 2019	September 30, 2018
Outstanding – January 1	438	776
Granted	56	325
Redeemed for common shares from treasury	-	(663)
Outstanding – September 30	494	438

The expense related to the Company’s share-based payments as a result of DSUs vesting over the period is recognized in the comprehensive statement of loss for the nine months ended September 30 are as follows:

Expense category included	September 30, 2019	September 30, 2018
Administration	\$ 13	\$ 65
Total	\$ 13	\$ 65

(c) Performance share unit and restricted share unit plan

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

As of September 30, 2019 no PSUs have been granted. RSU movements (in thousands) during the nine months ended September 30 are as follows:

	September 30, 2019	September 30, 2018
Outstanding – January 1	5,967	2,755
Granted	-	7,815
Redeemed for common shares from treasury	(3,362)	(4,603)
Outstanding – September 30	2,605	5,967

The expense related to the Company's share-based payments as a result of RSUs vesting over the period is recognized in the comprehensive statement of loss for the nine months ended September 30 are as follows:

Expense category included	September 30, 2019	September 30, 2018
Administration	\$ 231	\$ 669
Exploration and evaluation	119	345
Total	\$ 350	\$ 1,014

12. Related party transactions

Related party transactions with key management personnel

The Company pays certain of its key management personnel through companies owned by certain executive officers and directors. Those companies are as follows:

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

Compensation of key management personnel and directors, including payments made or payable to related parties owned by executive officers and directors during the nine months ended September 30, is as follows:

	September 30, 2019	September 30, 2018
Short-term benefits to key management and directors	\$ 141	\$ 160
Consulting and management fees to related companies	323	323
Share based payments	919	949
Total compensation paid to key management personnel and directors	\$ 1,383	\$ 1,432

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

The compensation paid or payable to key management personnel and directors are included in the Company's statement of comprehensive loss during the nine months ended September 30 is as follows:

	September 30, 2019	September 30, 2018
Administration	\$ 1,001	\$ 1,063
Exploration and evaluation	382	369
Total compensation paid to key management personnel and directors	\$ 1,383	\$ 1,432

13. Financial instruments

Fair values have been determined for measurement and/or disclosure purposes based on the fair value hierarchy for financial instruments that require fair value measurement after initial recognition. The classification of each financial instrument is described in note 4 of the Company's consolidated financial statements for the year ended December 31, 2018.

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

All financial instruments measured at fair value are categorized into one of three hierarchy levels as described in note 20 of the Company's consolidated financial statements for the year ended December 31, 2018. These financial instruments include the Company's investment in Wescan (level 1) and the contingent consideration (level 3).

Risk management

Certain financial instruments are exposed to the following financial risks:

(a) Credit risk

Credit risk is the risk of an unexpected loss by the Company if a customer or third-party to a financial instrument fails to meet its contractual obligations. The Company considers this risk to be insignificant as the majority of the Company's cash and cash equivalents, short-term investments, and restricted cash are held by financial institutions with an A (low) credit rating or are invested in Government of Canada treasury bills which are backed by the Government of Canada. At September 30, 2019, the Company's credit risk relates to its cash and cash equivalents, receivables and restricted cash of \$4,073 thousand (December 31, 2018 – \$3,453 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 September 30, 2019, the Company had working capital of \$3.4 million and is required to incur a further \$0.3 million of qualifying expenditures before December 31, 2019 as a result of the flow-through share financing discussed in note 16 of the Company's consolidated financial statements for the year ended December 31, 2018. Given that cash flow from operations are negative, the Company is dependent on additional sources of financing.

As at September 30, 2019, the Company had guaranteed certain liabilities by issuing \$622 thousand (December 31, 2018 – \$622 thousand) of irrevocable standby letters of credit. The Company backs the letters of credit with investments which have been recorded on the financial statements as restricted cash. The Company does not include restricted cash in its working capital when analyzing its liquidity requirements. The guarantees as at September 30, 2019 relate to environmental rehabilitation provisions.

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

(c) Market risk

Market risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices. Market prices are comprised of four types of risk: foreign currency risk, interest rate risk, commodity price risk and equity price risk. As at September 30, 2019, the Company does not have significant exposure to any of these market risks.

CORPORATE INFORMATION

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Greg P. Shyluk – C.F.O.
George H. Read – Senior Vice President Exploration and Development

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Bennett Jones LLP
Calgary, Alberta

Auditors

KPMG LLP
Saskatoon, Saskatchewan

Bank

Canadian Western Bank
Saskatoon, Saskatchewan

Exchange Listing

TSX
409,065,051 common shares issued and outstanding as at November 7, 2019

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