Management's Discussion & Analysis

December 31, 2019

The following discussion and analysis is prepared by Management as of March 26, 2020 and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2019 ("financial statements for the year ended December 31, 2019") 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, 2019 in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). All currency amounts are quoted in Canadian Dollars, unless otherwise stated.

Overview

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

During 2018, the Company announced the positive results of an independent Preliminary Economic Assessment ("PEA") on the Project. The PEA 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 ("cpht"), containing 66 million carats over the 34 year Life of Mine [2.] ("LOM");
- The Base Case scenario (Model diamond price) has an NPV (7%) of $3.3 billion and an IRR of 22% before taxes and royalties, and an after-taxes and royalties NPV (7%) of $2.0 billion with an IRR of 19%;
- The Case 1 scenario (High Model diamond price) has an NPV (7%) of $5.4 billion for an IRR of 32% before taxes and royalties;
- Pre-production capital cost of $1.41 billion with a total capital cost of $1.87 billion (including direct, indirect costs and contingency) over the LOM and an initial capital cost payback period of 3.4 years.

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

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

During 2018, the Saskatchewan Ministry of Environment ("Ministry") approved the Company's Star - Orion South Diamond Project (See News Release dated October 25, 2018). The Ministry indicated that 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 June 2017, the Company announced that it had acquired (the "Newmont Acquisition") from Newmont Corporation ("Newmont") all of Newmont's participating interest in the Fort à la Corne joint venture (the "FalC JV"), resulting in the Company owning 100% of the Fort à la Corne 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 Company's Fort à la Corne mineral properties (including the Project) on the terms and conditions contained in the Option Agreement (see News Release dated June 23, 2017). Immediately after the closing of the Newmont Acquisition and issuance of common shares, Newmont held approximately 19.9% (16.5% at December 31, 2019) of the Company's common shares issued and outstanding on a non-diluted basis.

In November 2019, Star Diamond received notice (the "Exercise Notice") from RTEC advising that RTEC was exercising all four of its options under the Option Agreement (see News Release dated November 15, 2019). The Company has formed a Special Committee of non-management directors to review and consider the Exercise Notice, including whether the options have been validly exercised by RTEC, to oversee the Company's dealings with RTEC including in relation to the Exercise Notice and to consider the Company's alternatives in the context of the Exercise Notice. In February 2020, the Company notified RTEC that its purported Exercise Notice in November 2019 of its four options under the Option Agreement did not comply with the terms of the Agreement (see News Release dated February 18, 2020).

While Star Diamond has not to date been provided with any meaningful data from RTEC's operations at the Project, Star Diamond believes that RTEC's continuing actions and conduct in relation to the Project are consistent with a belief by Rio Tinto that the Project warrants significant continued investment. Star Diamond believes that RTEC has expended significant funds at the Project to date, and that RTEC intends to continue doing so during 2020.

Star Diamond is committed to taking all actions necessary to ensure that the interests of the Company, its shareholders and its many Saskatchewan-based and other stakeholders are protected in connection with the Project, including by enforcing all of Star Diamond's rights under the Agreement. The Company recently announced that it has commenced legal proceedings in the Court of Queen's Bench for Saskatchewan (Judicial Centre of Regina) against RTEC in relation to RTEC's purported exercise (see News Release dated March 5, 2020).

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

During 2019, the Company announced 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.

During 2019, the Company announced that RTEC completed the drilling of ten bulk sample holes (trenches) 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 in cubic metre bulk bags, which total 6,848 in number (estimated by RTEC to be approximately 8,271 wet tonnes). As the on-site Bulk Sample Plant ("BSP") was not constructed or commissioned prior to the completion of the ten Star kimberlite trench cutter holes, the resulting 6,848 sample bags are being stored by RTEC until the on-site BSP is fully constructed and commissioned.

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. At each bulk sampling trench cutter hole location, the surface was first stabilized (See News Release dated May 23, 2019). Cement is mixed with the top 20 metres of near-surface sands in order to stabilize the unconsolidated sand overburden.

The Trench Cutter Sampling Rig excavates a rectangular hole of 3.2 by 1.5 metres. Bauer and RTEC have indicated that the Trench Cutter Sampling Rig's cutter head was designed to excavate kimberlite fragments of up to 80 millimetres in diameter, which are then pumped in a slurry to the surface to the KSU. The KSU was 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 was designed to minimize diamond breakage during sample excavation, washing and bagging.

The trench cutter samples that were collected from RTEC's 2019 bulk sampling program of the Star Kimberlite is to be processed by RTEC following the construction and commissioning of the BSP. Final diamond recovery from the concentrates produced by the BSP is to be conducted at a secure off-site facility.

During the second quarter of 2019, the Company announced that RTEC completed sonic and core drilling on the Orion South Kimberlite (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 were drilled to generate detailed logs of the kimberlite geology at each locality in preparation for RTEC's anticipated bulk sampling of the Orion South Kimberlite using the Trench Cutter Sampling Rig.

Selected Annual Information

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

	2019 $	2018 $	2017 $
Interest and other income (millions)	**0.1**	**0.1**	**0.1**
Net income (loss) (millions) [(1)]	**(4.1)**	**(4.6)**	**40.8**
Net income (loss) per share [(2)]	**(0.01)**	**(0.01)**	**0.12**
Total assets (millions)	**75.7**	**70.4**	**71.9**
Total non-current liabilities (millions) [(3)]	**1.6**	**1.3**	**1.3**
Working capital (millions)	**7.7**	**2.6**	**3.9**

(1) 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).

(2) Basic and diluted.

(3) Total non-current liabilities are comprised of environmental rehabilitation provisions (for which the Company has provided letters of credit, backed by short-term securities that are recorded on the Company's financial statements as restricted cash). Non-current liabilities also included contingent consideration relating to the Newmont Acquisition. The discounted present value of this contingent consideration at December 31, 2019 was $0.7 million (2018 and 2017 - $0.7 million). Also included at December 31, 2019 is a lease liability of $0.2 million which relates to the adoption of IFRS 16 in 2019.

Results of Operations

For the year ended December 31, 2019, the Company recorded a net loss of $4.1 million or $0.01 per share (basic and fully diluted) compared to a net loss of $4.6 million or $0.01 per share in 2018. The losses during 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 years ended December 31, 2019 and 2018 the Company reported interest and other income of $90 thousand and $124 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, 2019 were $4.2 million compared to $4.8 million in 2018. These amounts also include $1.3 million of share-based payments that was expensed during the year ended December 31, 2019 (2018 – $1.5 million). The decrease in expenses was primarily due to lower exploration and evaluation expenditures incurred as well as lower share-based payments expensed during 2019.

Exploration and evaluation expenditures were $1.7 million for the year ended December 31, 2019 compared to $2.2 million for the same period in 2018. Exploration and evaluation expenditures incurred during 2019 and 2018 primarily related to metallurgical investigations and test work for the Project as well as other costs associated with the Project. Approximately 55 percent, or $0.9 million (2018 – $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 $2.5 million, compared to $2.6 in 2018. This $0.1 million decrease from the same period in 2018 was primarily due to lower non-cash share-based payments, offset by higher corporate development related expenditures incurred during the year. Approximately $1.4 million (2018 – $1.6 million) of administration, consulting and professional fees and corporate development expenditures were made up of compensation costs, including share-based payments of $0.9 million (2018 – $1.0 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 was recognized as a liability until such time as the Company incurs qualifying expenditures. As the Company incurred qualifying expenditures, this liability to the investor was satisfied and accordingly the premium received on the initial issue of share capital was recognized in income. During the previous year ended December 31, 2018, the premium recognized in income was $0.2 million.

Use of proceeds

During 2019, the Company raised $5.1 million from flow-through financing activities to be used on exploration and evaluation activities before the end of 2020. The Company expects that exploration and evaluation expenditures to be incurred in 2020 will fulfill its obligations under its flow-through commitments.

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 has fulfilled this obligation as of December 31, 2019.

Investment in Wescan Goldfields Inc.

At December 31, 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 December 31, 2019, was $232 thousand (December 31, 2018 – $232 thousand).

Financing

During 2019 the Company completed a $5.1 million private placement of 18.2 million flow-through common shares. Gross proceeds from the flow-through common shares will be used to incur qualifying expenditures prior to December 31, 2020 (see News Release dated December 5, 2019). In addition, during the year ended December 31, 2019, 2.3 million options (weighted average exercise price of $0.18) and 12.7 million broker warrants and warrants (weighted average exercise price of $0.20) were exercised for total cash proceeds of $2.8 million. During the year ended December 31, 2019 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 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 were used to incur qualifying expenditures prior to December 31, 2019. In addition, 0.7 million options (weighted average 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 RSUs and DSUs that were redeemed by the Company.

Summary of Quarterly Results

	2019				2018			
	Qtr 4	**Qtr 3**	**Qtr 2**	**Qtr 1**	**Qtr 4**	**Qtr 3**	**Qtr 2**	**Qtr 1**
Income (1) ($millions)	**0.0**	0.1	0.0	0.0	0.0	0.0	0.1	0.0
Net loss (2) ($millions)	**0.9**	0.8	1.5	0.9	1.1	1.0	1.8	0.7
Net loss per share (3) ($)	**0.00**	0.00	0.01	0.00	0.00	0.00	0.01	0.00
Shares outstanding (millions) (4)	**428.5**	409.1	407.7	393.3	392.1	384.0	383.2	379.9

(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 2019, the Company completed a private placement of 18.2 million shares. In relation to this private placement, the Company also issued 0.9 million common shares. During the fourth quarter of 2018, the Company completed a private placement of 4.8 million shares. 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.

Fourth quarter results

For the quarter ended December 31, 2019, the Company recorded a net loss of $0.9 million or $0.00 per share compared to a net loss of $1.1 million or $0.00 per share for the same period in 2018. 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, 2019 were $0.9 million compared to $1.1 million for the same period in 2018.

Exploration and evaluation expenditures incurred during the quarter ended December 31, 2019 were $0.4 million, compared to $0.6 million during the same period in 2018. Exploration and evaluation expenditures incurred during the quarters ended December 31, 2019 and 2018 were primarily related to metallurgical investigations and test work for the Project as well as other costs associated with the Project.

In addition, administration, consulting and professional fees, and corporate development expenditures for the quarters ended December 31, 2019 and 2018 were $0.5 million.

During the fourth quarter of 2019, the Company announced the successful completion of a private placement for gross proceeds of $5.1 million. During the fourth quarter of 2018, the Company announced the successful completion of a private placement for gross proceeds of $1.25 million.

Related Party Transactions

At December 31, 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 year ended December 31, 2019 were $20 thousand (2018 – $20 thousand) and $15 thousand (2018 – $15 thousand), respectively. During 2018, the Company implemented voluntary base compensation reductions for all of the Company's officers, employees and directors, which are still in effect as at December 31, 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 $1.6 million (2018 – $1.8 million). Of these amounts, $1.2 million (2018 – $1.3 million) was included in administration expense and $0.4 million was included in exploration and evaluation expense (2018 – $0.5 million). Included in these amounts are share-based payment transactions of $1.0 million (2018 – $1.1 million).

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

Liquidity

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

At December 31, 2019 the Company had $7.9 million (2018 – $2.8 million) in cash and cash equivalents. The Company has also supplied $0.6 million (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 December 31, 2019, the Company is required to spend $5.1 million on qualifying expenditures by the end of 2020 to fulfill its obligations under its flow-through commitments.

Capital Resources and Outstanding Share Data

As at December 31, 2019 the Company had working capital of $7.7 million compared to $2.6 million at December 31, 2018. The Company believes it has sufficient liquidity to continue operations until further financing is arranged.

At December 31, 2019 the Company had 428,491,797 common shares issued, 506,004 DSUs, 2,605,000 RSUs, 18,553,800 options (weighted average exercise price of $0.20), 1,105,556 warrants (weighted average exercise price of $0.35) and 910,064 broker warrants (weighted average exercise price of $0.35).

As at March 26, 2020, the Company's issued and outstanding common shares increased by 638,900 from that of December 31, 2019 to 429,130,697, due to the exercise of options (weighed average price of $0.20). As at March 26, 2020, options outstanding were 17,914,900 (weighted average exercise price of $0.20). As at March 26, 2020, RSUs, DSUs, broker warrants and warrants remained unchanged from December 31, 2019.

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, 2019, the Company's credit risk relates to its cash and cash equivalents, receivables and restricted cash of $8.6 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 December 31, 2019, the Company had working capital of $7.7 million (excluding restricted cash) and is required to incur $5.1 million of qualifying expenditures before December 31, 2020 as a result of the flow-through share financing in 2019. Given that cash flow from operations are negative, the Company is dependent on additional sources of financing beyond 2020.

As at December 31, 2019, the Company is committed to trade payables and other operating leases as set out in the following table on an undiscounted basis:

(millions)	Up to 3 months	Between 3 months and 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
Trade payables and accrued liabilities	$ 0.3	$ -	$ -	$ -	$ -	**$ 0.3**
Lease payments	-	0.1	0.2	-	-	**0.3**
Total	**$ 0.3**	**$ 0.1**	**$ 0.2**	**$ -**	**$ -**	**$ 0.6**

Excluded from this table is the contingent consideration as described in note 10 to the financial statements for the year ended December 31, 2019. An estimate of the discounted present value of this contingent consideration was determined to be $730 thousand at December 31, 2019 (2018 - $730 thousand).

As at December 31, 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 December 31, 2019 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 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, 2019, the Company had working capital of $7.7 million, of which $5.1 million is committed to be spent on qualifying expenditures before December 31, 2020. The Company is uncertain whether the remaining $2.6 million will be sufficient to finance operating activities through its 2020 fiscal year and beyond. The ability of the Company to continue as a going concern and fund general and administrative

expenses in an orderly manner will require further equity issuances or other forms of financings in 2020 and beyond. There is no assurance that the Company will be successful in obtaining required financing at an acceptable cost as and when needed or at all. Failure to obtain additional financing on a timely basis may cause the Company to postpone exploration and/or evaluation plans, forfeit rights in its properties or reduce or terminate its operations. The Company is assessing opportunities to address the issue of liquidity.

Market risk

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

Foreign currency risk:

Foreign currency risk is the risk that a variation in exchange rates between the Canadian dollar and US dollar or other foreign currencies will affect the Company's operations and financial results. The Company does not have significant exposure to foreign exchange rate fluctuation since 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, 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, 2019. 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, 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: 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 estimation of contingent consideration payable. These are discussed in more detail in Note 5 of the Company's financial statements for the year ended December 31, 2019.

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 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.

<u>IFRS 16 – Leases</u>
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

<u>IAS 1 – Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors</u>
In October 2018, the IASB issued amendments to IAS 1 – Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of "material" across the standards and to clarify certain aspects of the definition. The objective of this amendment is to improve disclosure effectiveness in the financial statements by improving the understanding of the existing requirements rather than to significantly impact an entity's materiality judgments. The amendments apply prospectively to annual periods beginning on or after January 1, 2020, with earlier application permitted. The Company does not expect any significant impact from the adoption of these amendments.

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 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, 2019.

There have been no significant changes in the Company's disclosure controls during the year ended December 31, 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 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, 2019. 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, 2019.

There have been no significant changes to internal controls over financial reporting during the year ended December 31, 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. There are some 60 other kimberlites within the Company's Fort à la Corne diamond district, on mineral dispositions held 100 percent by the Company. The Company is also very pleased to continue to have Newmont Corporation as a significant shareholder.

As of March 26, 2020, the Company had approximately $7.2 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 2020 programs (including remaining flow-through commitments) to further assess, evaluate and advance certain aspects of the Company's mineral properties, as well as for general corporate matters.

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 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, the Company's intentions with respect to its dealings with RTEC, including in relation to RTEC's purported exercise of the Options and the related issues Star Diamond has raised with RTEC; 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 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 construction and commissioning of the bulk sample processing plant, timing and scope of potential bulk sampling programs; 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.

Consolidated Financial Statements
December 31, 2019

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"	"Greg Shyluk"
Ken MacNeill	Greg Shyluk
President and Chief Executive Officer	Chief Financial Officer

Saskatoon, Saskatchewan
March 26, 2020

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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, 2019 and December 31, 2018
- 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, 2019 and December 31, 2018, 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.

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.

Material Uncertainty Related to Going Concern

We draw attention to Note 3 in the financial statements, which indicates that Star Diamond Corporation will require additional funding to finance its operating activities through its 2020 fiscal year and beyond.

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

Our opinion is not modified in respect of this matter.

Other Information

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

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

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

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

We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), 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

The engagement partner on the audit resulting in this auditors' report is Lisa Dunville.

Saskatoon, Canada

March 26, 2020

Star Diamond Corporation

Consolidated Statements of Financial Position

(Cdn$ in thousands)	December 31, 2019	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	$ 7,948	$ 2,808
Receivables	33	23
Prepaids	50	52
	8,031	2,883
Restricted cash (note 7)	622	622
Investment in Wescan Goldfields Inc. (note 8)	232	232
Property and equipment (note 9)	505	308
Exploration and evaluation assets (note 10)	66,344	66,344
	$ 75,734	$ 70,389
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities (note 19(b))	$ 288	$ 267
Current portion of lease liability (note 6)	64	-
	352	267
Lease liability (note 6)	193	-
Environmental rehabilitation provision (note 12)	639	611
Contingent consideration (note 10)	730	730
Shareholders' equity:		
Share capital (note 15)	846,887	838,014
Warrants (note 15)	224	560
Broker warrants (note 15)	157	13
Contributed surplus	33,685	33,210
Accumulated deficit	(807,133)	(803,016)
	73,820	68,781
	$ 75,734	$ 70,389

Going Concern (note 3)

Commitments (note 19(b))

On behalf of the Board:

"Harvey J. Bay"
Harvey J. Bay
Chairman of the Audit Committee

"Ewan D. Mason"
Ewan D. Mason
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)	2019	2018
Income		
Interest and other income	$ 90	$ 124
Expenses		
Administration	2,103	2,248
Consulting and professional fees	189	238
Corporate development	160	78
Exploration and evaluation (note 11)	1,712	2,250
	4,164	4,814
Loss before the under noted items	(4,074)	(4,690)
Unwinding of discount of environmental reclamation provision	(28)	(12)
Unwinding of discount of lease liability	(15)	-
Flow-through share premium	-	237
Investment in Wescan Goldfields Inc. (note 8)	-	(116)
Net loss before income taxes	(4,117)	(4,581)
Income tax	-	-
Net loss	$ (4,117)	$ (4,581)
Total comprehensive loss for the year	$ (4,117)	$ (4,581)
Net loss per share		
Basic and diluted (note 16)	$ (0.01)	$ (0.01)
Weighted average number of shares outstanding (000's)	402,808	382,784

See accompanying notes to consolidated financial statements

Star Diamond Corporation

Consolidated Statements of Cash Flows

For the years ended December 31

(Cdn$ in thousands)	2019	2018
Cash provided by (used in):		
Operations:		
Net loss	$ (4,117)	$ (4,581)
Adjustments:		
Depreciation on property and equipment	108	126
Loss (gain) on disposal of property and equipment	8	(4)
Investment in Wescan Goldfields Inc.	-	116
Share-based payments expensed	1,285	1,495
Unwinding of discount and changes to environmental rehabilitation provision	28	12
Unwinding of discount and changes to lease liability	15	-
Flow-through share premium	-	(237)
Net change in non-cash operating working capital items:		
Receivables	(10)	126
Prepaids	2	12
Accounts payable and accrued liabilities	21	(66)
	(2,660)	(3,001)
Investing:		
Proceeds from disposal of property and equipment	-	25
Purchases of property and equipment	(2)	(108)
	(2)	(83)
Financing:		
Issuances of equity through financings (net of issue costs)	5,059	1,152
Issuances of equity from option, warrant and broker warrant exercises	2,812	721
Lease liability payments	(69)	-
	7,802	1,873
Increase (decrease) in cash and cash equivalents	5,140	(1,211)
Cash and cash equivalents, beginning of year	2,808	4,019
Cash and cash equivalents, end of year	$ 7,948	$ 2,808
Cash and cash equivalents consists of:		
Cash	$ 7,948	$ 2,808
	$ 7,948	$ 2,808

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)		2019		2018
Share capital (note 15)				
Balance, beginning of year	$	838,014	$	834,895
Shares issued (net of issue costs)		8,873		3,119
Balance, end of year	$	846,887	$	838,014
Warrants (note 15)				
Balance, beginning of year	$	560	$	1,061
Exercised		(336)		(122)
Expired		-		(379)
Balance, end of year	$	224	$	560
Broker warrants (note 15)				
Balance, beginning of year	$	13	$	21
Issued		157		13
Exercised		(13)		(21)
Balance, end of year	$	157	$	13
Contributed surplus				
Balance, beginning of year	$	33,210	$	32,452
Share-based payments - options (note 17)		853		203
Share-based payments - deferred share units (note 17)		17		65
Share-based payments - restricted share units (note 17)		415		1,227
Options exercised (note 17)		(145)		(74)
Restricted share unit redemptions (note 15)		(665)		(913)
Deferred share unit redemptions		-		(129)
Expired warrants		-		379
Balance, end of year	$	33,685	$	33,210
Accumulated deficit				
Balance, beginning of year	$	(803,016)	$	(798,725)
Impact of adoption of IFRS 9 (note 8)		-		290
Loss for the period		(4,117)		(4,581)
Balance, end of year	$	(807,133)	$	(803,016)
Accumulated other comprehensive income				
Balance, beginning of year	$	-	$	290
Impact of adoption of IFRS 9 (note 8)		-		(290)
Balance, end of year	$	-	$	-
Total shareholders' equity	$	73,820	$	68,781

See accompanying notes to consolidated financial statements

1. Corporate information

Star Diamond Corporation (the “Company”) was incorporated under the *Canada Business Corporations Act* on April 29, 1985 and its shares are publicly traded on the Toronto Stock Exchange. 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 4th Avenue South, Saskatoon, Saskatchewan, Canada.

2. Basis of preparation

The consolidated financial statements of the Company for the year ended December 31, 2019 were authorized for issue by the Company’s Board on March 26, 2020. 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, 2019, the Company had working capital of $7.7 million, of which $5.1 million is committed to be spent on qualifying expenditures for flow-through shares before December 31, 2020. The Company is uncertain whether the remaining $2.6 million will be sufficient to finance operating activities through its 2020 fiscal year and beyond. The ability of the Company to continue as a going concern and fund general and administrative expenses in an orderly manner will require further equity issuances or other forms of financings in 2020 and beyond (note 19). There is no assurance that the Company will be successful in obtaining required financing at an acceptable cost as and when needed or at all. Failure to obtain additional financing on a timely basis may cause the Company to postpone exploration and/or evaluation plans, forfeit rights in its properties or reduce or terminate its operations.

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

4. Summary of significant accounting policies

The Company’s principal accounting policies are outlined below:

a. Basis of consolidation

i. Subsidiaries

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

ii. *Interests in joint operations and other contractual arrangements*

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

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

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

The Company's joint operations consist of the Buffalo Hills Joint Venture, in which the Company holds a 33% interest.

b. Financial instruments

i. *Non-derivative financial assets*

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

Financial assets at fair value through profit or loss

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

Financial assets at fair value through comprehensive income

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

Financial assets measured at amortized cost

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

ii. *Non-derivative financial liabilities*

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

Financial liabilities at fair value through profit and loss

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

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

Financial liabilities at amortized cost

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

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

Contingent consideration

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

iii. *Impairment*

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

Under IFRS 9, the Company recognizes a loss allowance using the expected credit loss model on financial assets that are measured at amortized cost. 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 leases and leasehold improvements, which are depreciated on a straight-line basis over a term equal to the remaining life of the current lease agreement or the estimated useful lives. Annual depreciation rates are as follows:

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

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

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

f. <u>Leases</u>

Leases effective January 1, 2019

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

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

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

g. <u>Exploration and evaluation</u>

i. <u>Pre-permit costs</u>

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

ii. <u>Exploration and evaluation costs</u>

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

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

Upon the establishment of a NI 43-101 compliant reserve and the completion of a final feasibility study (at which point, the Company considers it probable that economic benefits will be realized) and the

Company has made a development decision, the Company capitalizes any further costs incurred with respect to expenses incurred for development of the asset.

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 the carrying amount exceeds the recoverable amount, the difference is charged to the statements of income and comprehensive income. No amortization of exploration and evaluation assets is charged during the exploration and evaluation phase nor while it is under construction.

Exploration and evaluation assets acquired in a business combination or through purchase of an asset are initially recognized at fair value. These costs are intangible. 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.

h. Employment Benefits

i. *Wages and salaries, and annual leave*

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

ii. *Short-term benefits*

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

iii. *Termination benefits*

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

iv. *Share-based payment transactions*

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

Total employment benefits (including amounts reported in note 18) for the year ended December 31, 2019 was $2,364 thousand (2018 - $2,541 thousand).

	December 31, 2019	December 31, 2018
Wages, salaries and short-term benefits	$ 649	$ 616
Consulting and management fees to related companies	430	430
Share-based payments	1,285	1,495
Total compensation paid to key management personnel	$ 2,364	$ 2,541

i. Provisions

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

Environmental rehabilitation

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

The 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.

j. Income tax

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

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

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

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

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

k. Flow-through shares

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

l. Share-based payments

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

m. Revenue and interest income

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

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

5. Critical accounting judgments and key sources of estimation uncertainty

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

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

Critical judgments in applying accounting policies

a. Identification of CGUs

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

The Company has assessed that, as of December 31, 2019, it holds a 100% interest in the Star and Orion South properties located in the Fort à la Corne area of central Saskatchewan, Canada (see note 10). The Company is currently pursuing options to finance the further exploration, evaluation and/or development of the Star – Orion South Diamond Project. As a result, the Fort à la Corne area properties are accounted for as one CGU.

b. Exploration and evaluation expenditures

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

of expenditure is unlikely, the amount capitalized is written off in the statements of income and comprehensive income in the period when the new information becomes available.

Key sources of estimation uncertainty

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

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, cash flows have been made which management believe are a reasonable basis upon which to estimate the future liability. These estimates take into account any material changes to the assumptions that occur when reviewed regularly by management. 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.

c. Contingent Consideration

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

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.

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 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 will require most leases to be reported on an entity's financial statements as assets and liabilities, eliminating the former dual accounting model for lessees, which distinguishes 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. As a result, upon adoption, the Company recognized lease liability and right-of-use assets of approximately $311 thousand, with no impact on retained earnings. As the interest rate implicit in the lease was not readily determinable, the Company assessed the incremental borrowing rate at January 1, 2019 to be 5%.

As at December 31, 2019, the carrying value of the right-of-use asset was $241 thousand (note 9) and the carrying value of the lease liability was $257 thousand (including the current portion of the lease liability of $64 thousand). During the year ended December 31, 2019, the company recognized $70 thousand of depreciation. The Company also recognized $69 thousand in lease payments and $15 thousand of interest expense relating to the unwinding of the discount of the lease liability. The unwinding of the discount is recognized in the statements of income and comprehensive income.

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. *IAS 1 – Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors*

In October 2018, the IASB issued amendments to IAS 1 – Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of "material" across the standards and to clarify certain aspects of the definition. The objective of this amendment is to improve disclosure effectiveness in the financial statements by improving the understanding of the existing requirements rather than to significantly impact an entity's materiality judgments. The amendments apply prospectively to annual periods beginning on or after January 1, 2020, with earlier application permitted. The Company does not expect any significant impact from the adoption of these amendments.

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

7. Restricted cash

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

	December 31, 2019	December 31, 2018
Environmental rehabilitation	$ 622	$ 622

These short-term investments are held in guaranteed investment certificates with maturity dates occurring in February 2020 and with interest rates of 1.87% - 1.89%.

8. Investment in Wescan Goldfields Inc.

At December 31, 2019, the Company held 5,807 thousand shares or 12.9% (December 31, 2018 – 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, was an increase of $290 thousand to accumulated deficit and a corresponding decrease to accumulated other comprehensive income.

At December 31, 2019, the carrying value of this investment was $232 thousand (December 31, 2018 – $232 thousand).

9. Property and equipment

	Automotive Equipment	Buildings, Leases and Leasehold Improvements	Computer Software and Equipment	Furniture and Equipment	Total
Cost					
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
Acquisitions	-	-	2	-	2
IFRS-16 (note 6)	-	311	-	-	311
Disposals	(23)	(536)	-	(660)	(1,219)
Balance – December 31, 2019	$ 31	$ 999	$ 230	$ 3,923	$ 5,183

	Automotive Equipment	Buildings, Leases and Leasehold Improvements	Computer Software and Equipment	Furniture and Equipment	Total
Accumulated depreciation and impairment					
Balance – December 31, 2017	$ (47)	$ (1,303)	$ (398)	$ (4,804)	$ (6,552)
Charge for the year (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)
Charge for the year (including impairments)	(1)	(98)	(4)	(5)	(108)
Eliminated on disposals	22	529	-	660	1,211
Balance – December 31, 2019	$ (28)	$ (527)	$ (220)	$ (3,903)	$ (4,678)

	Automotive Equipment	Buildings, Leases and Leasehold Improvements	Computer Software and Equipment	Furniture and Equipment	Total
Net book value					
Balance – December 31, 2018	$ 5	$ 266	$ 12	$ 25	$ 308
Balance – December 31, 2019	$ 3	$ 472	$ 10	$ 20	$ 505

10. Exploration and evaluation assets

Exploration and evaluation assets are made up of the following:

	December 31, 2019	December 31, 2018
Fort à la Corne properties	$ 66,344	$ 66,344

As of December 31, 2019, 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.

The carrying value of the Fort à la Corne properties represents the acquisition of minority interests of the Fort à la Corne properties since 2005, net of impairments. As a result, the carrying value of the Fort à la Corne properties is determined to be $66,344 thousand at December 31, 2019 (2018 - $66,344 thousand).

During 2017, the Company acquired (the "Newmont Acquisition") from Newmont Canada FN Holdings ULC ("Newmont") all of Newmont's participating interest in the Fort à la Corne joint venture (the "FalC JV"), resulting in the Company owning 100% of the Fort à la Corne properties, and concurrently entered into an Option to Joint Venture Agreement (the "Option Agreement") with Rio Tinto 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.

In November 2019, the Company received notice (the “Exercise Notice”) from RTEC advising that RTEC was exercising all four of its options under the Option Agreement. Following a review of the Exercise Notice, the Company notified RTEC that RTEC’s purported exercise in November 2019 of its four options under the Option Agreement did not comply with the terms of the Agreement. The Company recently commenced legal proceedings against RTEC in relation to RTEC’s purported exercise.

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 1.7% (2018 – 1.9%), 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, 2019 (2018 - $730 thousand). A 1.0% change in the risk-free discount rate used in assessing the fair value of the contingent consideration would result in a $40 thousand change in fair value.

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, 2019	December 31, 2018
Fort à la Corne properties		
Depreciation of property and equipment	$ 9	$ 101
Exploration and evaluation	1,236	1,641
Revisions to environmental rehabilitation provision (note 12)	19	-
Share-based payments (note 17)	442	502
Total	1,706	2,244
Buffalo Hills property		
Exploration and evaluation	6	6
Total (a)	6	6
Total	$ 1,712	$ 2,250

(a) Buffalo Hills property

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

12. Environmental rehabilitation provision

	Fort à la Corne properties
Balance – December 31, 2018	$ 611
Revisions in estimate and change in discount rate	19
Unwinding of discount	9
Long term portion – December 31, 2019	$ 639

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 a five year period. 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 1.7% (December 31, 2018 – 1.9%). The Company estimates its total undiscounted future decommissioning and reclamation costs to be $665 thousand (December 31, 2018 – $665 thousand).

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

13. Other contractual arrangements

During 2017, the Company entered into an Option Agreement with RTEC pursuant to which the Company 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, 2019, the Company has assessed that it owns 100% of the Fort à la Corne properties (see note 10).

The Company holds approximately 33% interest in the exploration and evaluation properties and assets of the Buffalo Hills-JV. Canterra Minerals Corporation ("Canterra") also holds approximately 33 percent with Ovintiv Canada ULC (formerly Encana Corporation) holding the remaining interest. Canterra is the Operator of the Buffalo Hills-JV. The 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 the undivided 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: exploration and evaluation expenses – note 11. The Company does not have any other commitments through jointly controlled operations or other contractual arrangements.

14. 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, 2019	December 31, 2018
Net loss before income taxes	$ (4,117)	$ (4,581)
Combined federal and provincial tax rate	27%	27%
Expected tax expense (recovery)	(1,112)	(1,237)
Increase in taxes resulting from:		
Non-deductible amounts	355	425
Renounced resource pools	343	408
Flow-through premium	-	(64)
Change in unrecognized deferred tax assets	414	468
Deferred income tax recovery	$ -	$ -

Unrecognized deferred tax assets

The following deferred tax assets have not been recognized:

	December 31, 2017	Change related to income	Change related to equity	December 31, 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 assets	$ 95,842	$ 468	$ 27	$ 96,337

	December 31, 2018	Change related to income	Change related to equity	December 31, 2019
Deferred tax assets				
Exploration and evaluation	$ 77,749	$ -	$ -	$ 77,749
Property and equipment	3,154	15	-	3,169
Non-capital loss carried forward	14,143	461	-	14,604
Capital loss carried forward	595	-	-	595
Share issue costs	98	(70)	101	129
Decommissioning and rehabilitation provision	165	8	-	173
Contingent consideration	197	-	-	197
Revaluation of investments	236	-	-	236
Unrecognized deferred tax assets	$ 96,337	$ 414	$ 101	$ 96,852

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, 2019, the Company had estimated capital losses for Canadian income tax purposes of $4,404 thousand (December 31, 2018 – $4,404 thousand). These losses do not expire and may be utilized to reduce future capital gains, if any.

As at December 31, 2019, the Company has estimated non-capital losses for Canadian income tax purposes that may be carried forward to reduce taxable income derived in future years. A summary of these tax losses is provided below. These tax losses will expire as follows:

Year of Expiry	Taxable losses (in thousands)
2026	$ 10,203
2027	4,617
2028	5,268
2029	6,695
2030	5,018
2031	4,251
2032	3,955
2033	3,200
2034	1,859
2035	1,910
2036	1,900
2037	1,856
2038	1,655
2039	1,704
Total	$ 54,091

The Company also had unrecorded investment tax credits totaling $15.8 million (December 31, 2018 – $15.8 million) relating to pre-production mining expenditures. These investment tax credits begin to expire starting in 2026.

15. 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, 2017	378,276	$ 834,895
Issuance of flow-through shares (net of issue costs) (a)	4,808	1,139
Issuance of shares on exercise of options (d)	703	191
Issuance of shares on redemption of restricted share units (d)	4,603	913
Issuance of shares on redemption of deferred share units (d)	663	129
Issuance of shares on exercise of warrants and broker warrants (d)	3,020	747
Balance – December 31, 2018	392,073	$ 838,014
Issuance of flow-through shares (net of issue costs) (b)	18,201	4,564
Issuance of finder shares (c)	910	337
Issuance of shares on exercise of options (d)	1,275	377
Issuance of shares on redemption of restricted share units (d)	3,362	665
Issuance of shares on exercise of warrants and broker warrants (d)	12,671	2,930
Balance – December 31, 2019	428,492	$ 846,887

(a) 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. The Company has fulfilled this obligation as of December 31, 2019.

In December 2017, the Company issued flow-through shares for gross proceeds of $1,500 thousand. The premium was determined to be $237 thousand. As the Company incurred the qualifying expenditures, the liability to the investor was satisfied and accordingly the premium received on the initial issue of share capital was recognized in income during 2018.

(b) Flow-through share financing

During 2019, the Company issued 18,201 thousand flow-through shares at a price of $0.28 per common share, for gross proceeds of $5,096 thousand. The shares issued will require that the Company make certain qualifying expenditures for tax purposes on or before December 31, 2020; the deduction of which flows through to the shareholder.

(c) Issuance of shares

During 2019, the Company issued 910 thousand common shares at a price of $0.35 per common share of the Company pursuant to a finder agreement. This agreement allowed for fees to be paid by the Company in cash or the issuance of common shares.

(d) Nature and purpose of equity reserves

Share-based payments reserve

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

Broker warrants reserve

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

	Broker Warrants (in thousands)	Average Price	Expiry Date	Amount (in thousands)
Balance - December 31, 2018	240	$ 0.28		$ 13
Issued (a)	910	0.35	December 4, 2021	157
Exercised	(240)	0.28		(13)
Balance - December 31, 2019	910	$ 0.35		$ 157

(a) During 2019, 910 thousand broker warrants were issued pursuant to a finder agreement in connection to the flow-through share financing. Each broker warrant entitles the holder thereof to purchase one Common Share at a price of $0.35 for a period of 24 months from the date of issuance. The broker warrants issued in 2019 were fair valued at $156 thousand. The fair value was determined using the Black-Scholes pricing model with the following assumptions: a volatility factor of 69.9%, risk-free rate of return of 1.63%, expected dividend of 0%, and expected term of 24 months.

Warrant reserve

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

	Warrants (in thousands)	Average Price	Amount (in thousands)
Balance – December 31, 2018	13,536	$ 0.21	$ 560
Exercised	(12,431)	0.20	(336)
Balance – December 31, 2019 (a)	1,105	$ 0.35	$ 224

(a) Warrants outstanding at December 31, 2019 have a weighted average remaining life of 1.2 years.

16. Earnings per share

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

	December 31, 2019	December 31, 2018
Numerator:		
Net loss applicable to common shares	$ (4,117)	$ (4,581)
Denominator:		
Common shares outstanding at January 1 (in thousands)	392,073	378,276
Weighted average effect of issuances (in thousands)	10,735	4,508
Weighted average common shares outstanding at December 31 – basic (in thousands)	402,808	382,784
Weighted average common shares outstanding at December 31 – diluted (in thousands)	402,808	382,784
Basic and diluted loss per common share (a)	$ (0.01)	$ (0.01)

(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.

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.

17. 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, 2019	December 31, 2018
Administration	$ 552	$ 119
Exploration and evaluation	301	84
Total	$ 853	$ 203

Option movements (in thousands) during the years ended December 31 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	(1,275)	0.18	(703)	0.17
Expired	(400)	0.27	(660)	0.17
Outstanding – December 31	18,554	$ 0.20	10,529	$ 0.20
Exercisable – December 31	18,554	$ 0.20	10,229	$ 0.20

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

	December 31, 2019	December 31, 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	5 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

For options outstanding and exercisable at December 31, 2019 (in thousands), the range of exercise prices; weighted average exercise price and the weighted average remaining contractual life is as follows:

	Outstanding			Exercisable	
Option Price Per Share	Options December 31, 2019	Weighted Average Exercise Price	Weighted Average Remaining Life	Options December 31, 2019	Weighted Average Exercise Price
$ 0.00 – 0.20	15,354	$ 0.20	3.6 years	15,354	$ 0.20
$ 0.20 – 0.30	3,200	0.21	0.4 years	3,200	0.21
	18,554	$ 0.20	3.0 years	18,554	$ 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, 2019	December 31, 2018
DSUs outstanding – January 1	438	776
Granted	68	325
Redeemed for common shares from treasury	-	(663)
DSUs outstanding – December 31	506	438

The weighted average fair value of the DSUs granted during 2019 was $0.25 per DSU (2018 - $0.20).

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

Expense category included	December 31, 2019	December 31, 2018
Administration	$ 17	$ 65
Total	$ 17	$ 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 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, 2019, no PSUs have been granted. RSU movements (in thousands) during the year ended December 31 are as follows:

	December 31, 2019	December 31, 2018
RSUs outstanding – January 1	5,967	2,755
Granted	-	7,815
Redeemed for common shares from treasury	(3,362)	(4,603)
RSUs outstanding – December 31	2,605	5,967

No RSUs were issued during 2019.The expense related to the Company's share-based payments as a result of RSUs vesting over the period is recognized in the statements of income (loss) and comprehensive income (loss) for the year ended December 31, as presented as follows:

Expense category included	December 31, 2019	December 31, 2018
Administration	$ 274	$ 809
Exploration and evaluation	141	418
Total	$ 415	$ 1,227

18. 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, 2019	December 31, 2018
Short-term benefits to officers and directors	$ 188	$ 211
Consulting and management fees to related companies	430	430
Share-based payments	972	1,109
Total compensation paid to key management personnel	$ 1,590	$ 1,750

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

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

	December 31, 2019	December 31, 2018
Administration	$ 1,150	$ 1,294
Exploration and evaluation	440	456
Total compensation paid to key management personnel	$ 1,590	$ 1,750

19. 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, 2019, the Company's credit risk relates to its cash and cash equivalents, receivables and restricted cash of $8,603 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 December 31, 2019, the Company had working capital of $7.7 million. The Company is required to incur $5.1 million of qualifying expenditures before December 31, 2020 as a result of the flow-through share financing discussed in note 15. Given that cash flow from operations is negative, the Company is dependent on additional sources of financing beyond 2020.

As at December 31, 2019, the Company is committed to trade payables and other lease payments as set out in the following table on an undiscounted basis:

	Up to 3 months	Between 3 months and 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
Trade payables and accrued liabilities	$ 289	$ -	$ -	$ -	$ -	$ 289
Lease payments	17	59	166	39	-	281
Total	$ 306	$ 59	$ 166	$ 39	$ -	$ 570

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, 2019 (2018 - $730 thousand).

As at December 31, 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 (note 7). The Company does not include restricted cash in its working capital when analyzing its liquidity requirements. These guarantees relate to environmental rehabilitation provisions.

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

(c) Market risk

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

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

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

20. Capital management

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

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

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

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

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