



**Management's Discussion & Analysis**

**September 30, 2018**

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

For the three and nine months ended September 30, 2018

The following discussion and analysis is prepared by Management as of November 8, 2018 and should be read in conjunction with the unaudited condensed interim consolidated financial statements for the period ended September 30, 2018 ("financial statements for the period ended September 30, 2018"), as well as the audited consolidated financial statements and annual MD&A for the year ended December 31, 2017 available on SEDAR at [www.sedar.com](http://www.sedar.com). Star Diamond Corporation ("DIAM", or "the Company") prepared its financial statements for the period ended September 30, 2018 in accordance with International Financial Reporting Standard ("IAS") 34, Interim Financial Reporting using accounting policies consistent with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). All currency amounts are quoted in Canadian Dollars, unless otherwise stated.

### Overview

Star Diamond Corporation is a Canadian natural resource company focused on exploring and developing Saskatchewan's diamond resources. In February 2018, the Company announced that it had changed its name from Shore Gold Inc. to Star Diamond Corporation and its trading symbol on the Toronto Stock Exchange to "DIAM" (see News Release dated February 12, 2018). This new corporate name is in honour of the Star Kimberlite, located in the Fort à la Corne forest of Saskatchewan, Canada. It was the exploration and evaluation work completed on the Star Kimberlite, which demonstrated the significant quality, size and value of the contained diamond populations. These high value diamonds facilitated the consolidation and advancement of the Company's Fort à la Corne area kimberlites, including the Star - Orion South Diamond Project. As a result of the 2017 mineral property consolidation and earn-in agreement (as discussed below), the Company is now in an enhanced position to advance its 100% held Star - Orion South Diamond Project ("Project").

During the second quarter of 2018, the Company announced the positive results of an independent Preliminary Economic Assessment ("PEA") on the Project. The PEA estimates that 66 million carats of diamonds could be recovered in a surface mine over a 38-year Project life, with a Net Present Value ("NPV") (7%) of \$2.0 billion after tax, an Internal Rate of Return ("IRR") of 19% and an after-tax payback period of 3.4 years after the commencement of diamond production (see News Release dated April 16, 2018). The PEA was led by independent mining, processing and design consultants, with support from the Company's technical team. The PEA cash flow model is based on developing two open pits, initially on the Orion South Kimberlite and subsequently on the Star Kimberlite.

The PEA Highlights Include <sup>1</sup>:

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

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

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

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

In June 2017, the Company announced that it had acquired (the "Newmont Acquisition") from Newmont Canada FN Holdings ULC ("Newmont") all of Newmont's participating interest in the Fort à la Corne joint venture (the "FalC JV"), resulting in the Company owning 100% of the Fort à la Corne mineral properties (including the Project), and concurrently entered into an Option to Joint Venture Agreement (the "Option Agreement") with Rio Tinto Exploration Canada Inc. ("RTEC") pursuant to which the Company has granted RTEC an option to earn up to a 60% interest in the Fort à la Corne mineral properties (including the Project) on the terms and conditions contained in the Option Agreement (see News Release dated June 23, 2017). Immediately after the closing of the Newmont Acquisition and issuance of common shares, Newmont held approximately 19.9% of the Company's common shares issued and outstanding on a non-diluted basis.

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

The Saskatchewan Ministry of Environment ("Ministry") recently 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).

During the nine months ended September 30 2018, RTEC, Bauer Maschinen GmbH ("Bauer") and Nuna Logistics Limited finalized contractual arrangements for the manufacture, supply and operation of equipment to be used for the next phase of large diameter bulk sample drilling on the Star Kimberlite (See News Release dated April 12, 2018). RTEC aim to use a Bauer BC 50 Cutter mounted on a Bauer MC 128 Duty-cycle Crane ("Trench Cutter Sampling Rig") to drill and sample to depths of up to 250 metres below surface. Each ten metres of advance down hole aims to excavate some 100 tonnes of kimberlite. Bauer cutter rigs are used around the world for complex engineering projects. Bauer has indicated that this will be the first time in the world that this technology will be used in an active project to reach a depth of 250 meters.

During the quarter, RTEC successfully completed Cutter Soil Mixing ("CSM") drilling at five of the proposed ten bulk sample locations on the Star Kimberlite (See News Release dated October 1, 2018). The CSM drilling program mixes cement grout with the top 20 metres of near-surface sands in order to stabilize the unconsolidated sand overburden for each of the planned bulk sample holes by RTEC. Prior to the commencement of winter shut down of the Trench Cutter Sampling Rig, RTEC commenced drilling of the first bulk sample hole on the Star Kimberlite using the Trench Cutter Sampling Rig. The Trench Cutter bulk sample drilling was successfully initiated to a depth of 37.1 metres below surface (See News Release dated November 1, 2018). The Trench Cutter Sampling Rig successfully excavated the sand and till overburden and returned a substantial proportion of large (up to 80 millimetre) fragments from the till. The encouraging performance of the Trench Cutter Sampling Rig was unfortunately constrained by the commissioning of the desanding plant, which did not operate at design capacity. The design and construction of the desanding plant are being evaluated by RTEC with the intent that the desanding plant will be revised or replaced by the time that the Trench Cutter Sampling Rig program resumes on the first bulk sample hole and RTEC's on-site bulk sample processing plant is commissioned and in spring of 2019.

During the nine months ended September 30 2018, RTEC and Consulmet (Pty) Ltd finalized contractual arrangements for the manufacture and supply of a 30 tonne per hour ("tph") on-site bulk sample plant (See News Release dated May 15, 2018). The bulk sample plant is specifically designed to maximize liberation and recovery of diamonds throughout the -25+0.85 millimetre size range, and minimize diamond breakage, particularly among potential specials (plus 10.8 carat stones) that may be recovered from both the Star and Orion South Kimberlites. The bulk sample plant will use a modern flow-sheet and the latest X-ray transmission ("XRT") sorting technology to ensure any large diamonds present (up to 25 millimetres) are recovered with minimal breakage. A secondary crushing circuit, using a high pressure rolls crusher ("HPRC"), will maximize the liberation of smaller diamonds from the kimberlite. The final components of the bulk sample processing plant have been shipped, by sea, from South Africa, with all containers of bulk sample processing plant equipment scheduled to reach Canada by early December 2018. The Tomra X-Ray Transmission ("XRT") diamond sorter has already been delivered and is currently being stored off-site in heated storage until such time that it will be delivered to site, for incorporation in the plant, in early 2019. Recommencement of the Trench Cutter bulk sampling program on the Star Kimberlite, along with the commissioning of the bulk sample plant, is expected to resume in spring of 2019.

The Company also recently announced that RTEC has commenced a Brownfields exploration program to investigate and prioritise the Fort à la Corne kimberlites other than the Star and Orion South kimberlites (See News Release dated October 25, 2018). While the Star and Orion South kimberlites are the focus of present and future bulk sampling by RTEC, there are some 60 other kimberlites within in the Fort à la Corne diamond district of central Saskatchewan, Canada, on mineral dispositions held 100 percent by the Company.

## Financial Highlights

Select financial information of the Company for the three and nine month periods ended September 30, 2018 and 2017 is summarized as follows:

	Three months ended September 30, 2018 \$	Three months ended September 30, 2017 \$	Nine months ended September 30, 2018 \$	Nine months ended September 30, 2017 \$
<b>Net income (loss) (millions)</b>	(1.0)	(0.6)	(3.5)	41.6
<b>Net income (loss) per share <sup>(1)</sup></b>	(0.00)	(0.00)	(0.01)	0.13
<b>Total assets (millions)</b>	69.4	69.4	69.4	69.4
<b>Total non-current liabilities (millions) <sup>(2)</sup></b>	1.3	1.4	1.3	1.4
<b>Working capital (millions)</b>	1.6	1.7	1.6	1.7

(1) Basic and diluted.

(2) Total non-current liabilities are comprised of environmental rehabilitation provisions (for which the Company has provided letters of credit, backed by short-term securities that are recorded on the Company's financial statements as restricted cash). At September 30, 2018, non-current liabilities also included contingent consideration relating to the Newmont Acquisition. The discounted present value of this contingent consideration at September 30, 2018 was \$0.7 million.

## Results of Operations

For the quarter ended September 30, 2018, the Company recorded a net loss of \$1.0 million or \$0.00 per share (basic and fully diluted) compared to a net loss of \$0.6 million or \$0.00 per share for the same period in

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2017. The loss during the quarters ended September 30, 2018 and 2017 were due to operating costs and exploration and evaluation expenditures incurred by the Company.

### ***Interest and other income***

For the quarters ended September 30, 2018 and 2017 the Company reported interest and other income of \$17 thousand and \$9 thousand respectively. The Company invests excess cash reserves in interest bearing short-term deposits while ensuring funds would be available for cash outflow requirements associated with the Company's exploration and evaluation projects. Other income is measured at the fair value of the consideration received or receivable for goods and services in the normal course of business.

### ***Expenses***

Expenses incurred during the quarter ended September 30, 2018 were \$1.0 million compared to \$0.6 million for the same period in 2017. This increase was primarily due to higher exploration and evaluation expenditures incurred during the quarter ended September 30, 2018 as compared to the same period in 2017.

Exploration and evaluation expenditures incurred during the third quarter of 2018 were \$0.5 million, compared to \$0.5 million being incurred during the quarter ended September 30, 2017. Exploration and evaluation expenditures incurred during the quarters ended September 30, 2018 and 2017 were primarily related to metallurgical investigations and test work for the Project.

Administration, consulting and professional fees, and corporate development expenditures for the quarter ended September 30, 2018 were \$0.5, compared to \$0.1 million during the same period in 2017. This increase was primarily due to higher share-based compensation expenses recognized during the quarter ended September 30, 2018 as well as gains realized on property and equipment during the same period in 2017.

### ***Financing***

During the quarter ended September 30, 2018 the Company issued common shares from treasury as a result of vested restricted share units ("RSUs") and deferred share units ("DSUs") that were redeemed. During the quarter ended September 30, 2017 the Company also issued common shares from treasury as a result of vested RSUs that were redeemed.

During the quarter ended September 30, 2017 the Company issued 2.3 million common shares pursuant to an agreement with a third-party consulting and professional service provider. This agreement allowed for fees to be paid by the Company in cash or the issuance of common shares at a price of approximately \$0.35 per share.

### ***Year to Date***

#### ***Results of operations***

For the nine months ended September 30, 2018, the Company recorded a net loss of \$3.5 million or \$0.01 per share compared to net income of \$41.6 million or \$0.13 per share for the same period in 2017. The loss during the nine months ended September 30, 2018 was primarily due to ongoing operating costs and exploration and evaluation expenditures incurred by the Company exceeding interest and other income

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earned. Net income during the nine months ended September 30, 2017 was due to the partial reversal of previously recorded impairments relating to exploration and evaluation assets (\$44.5 million).

***Interest and other income***

For the nine months ended September 30, 2018 and 2017 the Company reported interest and other income of \$108 thousand and \$25 thousand respectively. The Company invests excess cash reserves in interest bearing short-term deposits while ensuring funds would be available for cash outflow requirements associated with the Company's exploration and evaluation projects. Other income is measured at the fair value of the consideration received or receivable for goods and services in the normal course of business.

***Expenses***

Total operating costs for the nine months ended September 30, 2018 were \$3.7 million compared to \$3.0 million for the nine months ended September 30, 2017. These amounts also include \$1.3 million of share-based payments that was expensed during the nine months ended September 30, 2018 (2017 – \$0.7 million). This increase was primarily due to higher share-based payments expensed during the nine months ended September 30, 2018, offset by lower compensation costs incurred.

Exploration and evaluation expenditures for the nine months ended September 30, 2018 were \$1.7 million compared to \$1.6 million for the same period in 2017. Exploration and evaluation expenditures incurred during the nine months ended September 30, 2018 primarily related to work relating to metallurgical investigations and test work for the Project as well as other costs associated with the PEA. Exploration and evaluation expenditures incurred during the nine months ended September 30, 2017 primarily related to work relating to metallurgical investigations and test work for the Project. Approximately 43 percent (2017 - 43 percent) of the exploration and evaluation expenditures incurred during the nine months ended September 30, 2018 were made up of compensation costs and share-based payments incurred by the Company.

Administration, consulting and professional fees, and corporate development expenditures for the nine months ended September 30, 2018 were \$2.0 million compared to \$1.4 million for the same period in the prior year. This increase was primarily due to higher share-based compensation expenses recognized in 2018 as well as gains realized on property and equipment during the nine months ended September 30, 2017.

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

The Company issued flow-through shares during 2016 and 2017 for a premium over the market value of the shares. The premium over the market value of the shares is recognized as a liability until such time as the Company incurs qualifying expenditures. As the Company incurs qualifying expenditures in 2018, this liability to the investor is satisfied and accordingly the premium received on the initial issue of share capital will be recognized in income. As at September 30, 2018 this premium was \$63 thousand (December 31, 2017 - \$237 thousand).

***Use of proceeds***

During 2017, the Company raised \$1.5 million from flow-through financing activities to be used on exploration and evaluation activities before the end of 2018. The Company expects that exploration and evaluation expenditures to be incurred in 2018 will fulfill its obligations under its flow-through commitments.

Flow-through proceeds raised during 2017	\$ 1.5
Flow-through expenditures incurred to September 30, 2018	1.1
Flow-through expenditures to be incurred by December 31, 2018	<u>\$ 0.4</u>

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The Company expects that the exploration and evaluation expenditures incurred by December 31, 2018 will approximate the \$1.5 million flow-through financing raised during 2017.

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

At September 30, 2018, the Company held 5.8 million shares or 12.9% (December 31, 2017 – 5.8 million shares) of Wescan Goldfields Inc. ("Wescan"), a publicly traded company on the TSX Venture exchange. The Company considers certain judgments and assumptions when assessing whether significant influence exists over its investments. This includes an assessment of the Company's ability to participate in financial and operating policy decisions of the investee. The existence and effect of potential voting rights held by the investor or other entities were also considered. The fair value of this investment, based on the closing trading price at September 30, 2018, was \$290 thousand (December 31, 2017 – \$348 thousand). During the nine months ended September 30, 2018, the Company recognized a \$58 thousand decrease in the carrying value of its investment in Wescan.

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

The carrying value of the Company's Fort à la Corne properties represents the acquisition of minority interests of the Fort à la Corne properties since 2005, net of impairments. The Company performs an assessment of the estimated recoverable amount of these exploration and evaluation assets at each reporting period. As a result of the Newmont Acquisition, the Company performed an assessment of the estimated recoverable amount of the Fort à la Corne mineral properties. Based on this assessment, the recoverable amount of the Fort à la Corne mineral properties was determined to be \$66.3 million, resulting in a reversal of \$44.5 million of previously recorded impairments during the quarter ended June 30, 2017.

***Financing***

During the nine months ended September 30, 2018 the Company issued common shares from treasury as a result of vested RSUs and DSUs that were redeemed, as well as stock options (weighted average exercise price of \$0.16) that were exercised for total cash proceeds of \$0.1 million. During the nine months ended September 30, 2017, the Company issued common shares from treasury as a result of vested RSUs that were redeemed, as well as stock options (weighted average exercise price of \$0.19) and broker warrants (weighted average exercise price of \$0.23) that were exercised for total cash proceeds of \$0.4 million.

During the nine months ended September 30, 2017, in connection with the Option Agreement, RTEC subscribed for units of the Company for a gross subscription amount of \$1.0 million at a price of \$0.18 per unit, with each unit consisting of one common share in the capital of the Company and one common share purchase warrant (see SGF News Release dated June 23, 2017). Each warrant entitles the holder thereof to purchase one common share at a price of \$0.205 for a period of 24 months from the date of issuance. In connection to the Newmont Acquisition, 53.8 million common shares and 1.1 million common share purchase warrants were issued to Newmont. Each warrant entitles Newmont to acquire one additional common share at a price of \$0.349 per share for a period of 45 months from the date of issuance.

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### Summary of Quarterly Results

	2018			2017			2016	
	Qtr 3	Qtr 2	Qtr 1	Qtr 4	Qtr 3	Qtr 2	Qtr 1	Qtr 4
Income <sup>(1)</sup> (\$millions)	0.0	0.1	0.0	0.1	0.0	0.0	0.0	0.0
Net income (loss) <sup>(2)</sup> (\$millions)	(1.0)	(1.8)	(0.7)	(0.8)	(0.5)	43.0	(0.9)	(1.0)
Net income (loss) per share <sup>(3)</sup> (\$)	0.00	0.01	0.00	0.00	0.00	0.13	0.00	(0.00)
Shares outstanding (millions) <sup>(4)</sup>	384.0	383.2	379.9	378.3	361.0	356.4	295.3	294.0

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

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

(3) Basic and diluted.

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

### Related Party Transactions

At September 30, 2018, Messrs. Kenneth E. MacNeill (President and Chief Executive Officer) and George H. Read (Senior Vice President of Exploration and Development), through their respective consulting companies, hold management and consulting contracts with the Company. Messrs. MacNeill and Read's monthly fees during the quarter ended Jun 30, 2018 were \$20 thousand (2017 – \$29 thousand) and \$15 thousand (2017 – \$22 thousand), respectively. These reductions in 2018 are due to voluntary base compensation reductions for the Company's officers, employees and directors.

During the nine-month period ended September 30, 2018, total compensation paid or payable to officers (including amounts paid through companies controlled by Messrs. MacNeill and Read) and to directors of the Company was \$1.4 million (2017 – \$1.2 million). Of these amounts, \$1.0 million (2017 – \$0.9 million) was included in administration expense and \$0.4 million was included in exploration and evaluation expense (2017 – \$0.3 million). Included in these amounts are share-based payment transactions of \$0.9 million (2017 – \$0.5 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 September 30, 2018 the Company had \$1.6 million (December 31, 2017 – \$4.0 million) in cash and cash equivalents and short-term investments. The Company has also supplied \$0.6 million (December 31, 2017 –

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\$0.6 million) of irrevocable standby letters of credit issued by a Canadian chartered bank. The Company backs the letters of credit with investments which have been recorded on the financial statements as restricted cash. The Company does not include restricted cash in its working capital when analyzing its liquidity requirements. As well, at September 30, 2018, the Company is required to spend \$0.4 million on qualifying expenditures by the end of 2018 to fulfill its obligations under its flow-through commitments.

**Capital Resources and Outstanding Share Data**

As at September 30, 2018 the Company had working capital of \$1.6 million compared to \$1.7 million at September 30, 2017. The Company believes it has sufficient liquidity to continue operations until further financing is arranged.

At September 30, 2018 the Company had 384,042,440 common shares, 437,850 DSUs, 5,966,666 RSUs, 10,731,300 options (weighted average exercise price of \$0.20), 16,036,111 warrants (weighted average exercise price of \$0.21) and 519,737 broker warrants (weighted average exercise price of \$0.20) issued and outstanding.

As at November 8, 2018, the Company's issued and outstanding common shares increased to 387,264,677 due to the exercise of warrants and broker warrants (3,019,737 at a weighted average exercise price of \$0.20) and option exercises (202,500 at a weighted average exercise price of \$0.18) since September 30, 2018. DSUs and RSUs remained unchanged from September 30, 2018.

**Financial Instruments**

As at September 30, 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, short-term investments, and restricted cash are held by financial institutions with an A (low) credit rating or are invested in Government of Canada treasury bills which are backed by the Government of Canada. At September 30, 2018, the Company's credit risk relates to its cash and cash equivalents, short-term investments, receivables and restricted cash of \$2.2 million (December 31, 2017 – \$4.8 million).

***Liquidity risk***

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to forecast future cash flows to ensure that it will have sufficient liquidity to meet its obligations when due. To ensure the Company has sufficient cash on hand, the Company prepares annual capital and operating budgets which are regularly monitored and updated as considered necessary. As at September 30, 2018, the Company had working capital of \$1.6 million (excluding restricted cash) and is required to incur a further \$0.4 million of qualifying expenditures before December 31, 2018 as a result of the flow-through share financing in 2017. Given that cash flows from operations are negative, the Company is dependent on additional sources of financing beyond 2018.

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As at September 30, 2018, the Company had guaranteed certain liabilities by issuing \$0.6 million (December 31, 2017 – \$0.6 million) of irrevocable standby letters of credit. The Company backs the letters of credit with investments which have been recorded on the financial statements as restricted cash. The Company does not include restricted cash in its working capital when analyzing its liquidity requirements. The guarantees as at September 30, 2018 relate to environmental rehabilitation provisions.

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

The Company currently does not have sufficient resources to finance operating activities beyond its 2018 fiscal year, conditions which raise material uncertainties which cast significant doubt about the Company's ability to continue as a going concern. At September 30, 2018, the Company had working capital of \$1.6 million, of which \$0.4 million is committed to be spent on qualifying expenditures before December 31, 2018. The ability of the Company to continue as a going concern and fund general and administrative expenses in an orderly manner will require further equity issues or other forms of financings beyond 2018. There is no assurance that the Company will be successful in obtaining required financing at an acceptable cost as and when needed or at all. Failure to obtain additional financing on a timely basis may cause the Company to postpone exploration and/or evaluation plans, forfeit rights in its properties or reduce or terminate its operations. The Company is assessing opportunities to address the issue of liquidity.

**Market risk**

Market risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices. Market prices are comprised of four types of risk: foreign currency risk, interest rate risk, commodity price risk and equity price risk. As at September 30, 2018, the Company does not have significant exposure to any of these market risks. Equity price risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Company is exposed to this risk through its equity holdings. The investment in the common shares of Wescan is monitored by management with decisions on sale taken to the Board level. A 10 percent decrease in the market price of Wescan would result in a \$29 thousand decrease in fair value.

**Critical Accounting Estimates and Judgments**

The financial statements for the period ended September 30, 2018 have been prepared in accordance with IFRS issued by the IASB. The Company's accounting policies are described in Note 4 to the financial statements for the year ended December 31, 2017. Certain of these policies involve critical accounting estimates as they require management to make particularly subjective or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts could be reported under different conditions or using different assumptions. The uncertainties related to these areas could significantly impact the Company's results of operations, financial condition and cash flows.

In preparing the financial statements for the period ended September 30, 2018, significant judgments and estimations have been made by management in applying the Company's accounting policies. In particular,

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the significant areas of judgment and estimation uncertainty considered by management in preparing the consolidated financial statements are: joint control assessments, identification of cash generating units, exploration and evaluation expenditures, reserve and resource estimation, asset valuations and assessments for impairment, estimations for environmental rehabilitation provisions, contingent consideration, share-based payment transactions and recovery of deferred tax assets. These are discussed in more detail in Note 5 of the Company's financial statements for the year ended December 31, 2017.

A critical accounting estimate in determining the Company's financial results relates to the recoverability of the carried amounts of exploration and evaluation assets. Management assesses carrying values of these assets at each reporting date.

### Accounting Changes

#### *Accounting Changes during the nine months ended September 30, 2018*

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

#### IFRS 9 – Financial Instruments

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

#### *Implementation:*

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

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

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

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*Implementation:*

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

IFRS 2 – Share-Based Payments

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

*Implementation:*

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

***Future Accounting Changes***

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

IFRS 16 – Leases

IFRS 16 will replace IAS 17, "Leases" and related interpretations effective for annual periods commencing on or after January 1, 2019. Early application is permitted for companies that also apply IFRS 15. IFRS 16 follows a 'right-of-use' model which will require leases of more than twelve months to be reported on a company's financial statements as assets and liabilities, eliminating the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. The Company does not intend to early adopt IFRS 16 and has not yet fully evaluated the impact of this new standard however the impact is not expected to be material.

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.

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There have been no significant changes in the Company's disclosure controls during the quarter ended September 30, 2018.

**Internal Controls over Financial Reporting Procedures**

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

There have been no significant changes to internal controls over financial reporting during the quarter ended September 30, 2018 that could have materially affected or are reasonably likely to materially affect the Company's internal controls over financial reporting.

**Outlook**

The positive results of the PEA show that the Star and Orion South Kimberlites have the potential to be economically developed as a diamond mine. The recent provincial environmental approval, alongside the previous positive Federal decision, marks a major milestone for the Project. The Company has demonstrated that the proposed Star - Orion South Diamond Project can be successfully constructed and operated. As illustrated by the PEA, the Project can be economically developed and operated while providing direct employment for hundreds of people throughout the construction phase and hundreds of people continuously over its 38 year mine life.

The successful completion of the 2017 consolidation of the Company's Fort à la Corne mineral properties (including the Star - Orion South Diamond Project) and the concurrent earn-in arrangement with RTEC sets the stage for a new phase for the Company. It is the Company's view that Rio Tinto is one of the few companies in the world with the resources and expertise to move forward with a project of the magnitude of the Star - Orion South Diamond Project. The Company is also very pleased to have acquired the remaining portion of the Project from Newmont while continuing to have Newmont as a significant shareholder. While RTEC's work under the Option Agreement between Star Diamond and RTEC involves bulk sampling of the Star and Orion South kimberlites, the additional Brownfields exploration programs by RTEC aims to investigate and prioritise the Company's other kimberlite bodies in the Fort à la Corne diamond district. There are some 60 other kimberlites within in the Fort à la Corne diamond district, on mineral dispositions held 100 percent by the Company.

As of November 8, 2018, the Company had approximately \$2.1 million in cash and cash equivalents and short-term investments (excluding \$0.6 million in restricted cash). A portion of the Company's cash and cash equivalents and short-term investments will be used for 2018 programs (including flow-through

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

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commitments) to further assess, evaluate and advance certain aspects of the Project, as well as for general corporate matters.

**Risks and Uncertainties**

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

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

The principal risks faced by the Company involve: the Company's ability to obtain financing to further the exploration, evaluation and/or development of exploration and evaluation properties in which the Company holds interests; maintaining title to its property claims; obtaining the required permits from various federal, provincial and local governmental authorities; and the ultimate economic feasibility of any future development projects.

The further exploration, evaluation and/or development of exploration and evaluation properties in which the Company holds interests or which the Company acquires may depend upon the Company's ability to obtain financing through equity issues or other forms of financing. 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

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

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permits that will be required for the construction and operation of the proposed Project will be made following a development decision. 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 EIA, will be in compliance with all applicable rules and regulations.

All of the Company's property interests are currently in the exploration stage. The exploration, development and production of precious metals and gems are capital-intensive, subject to the normal risks and capital expenditure requirements associated with mining operations. While the rewards can be substantial if commercial quantities of minerals or gems are found, there can be no assurance that the Company's past or future exploration efforts will be successful, that any production therefrom will be obtained or continued, or that any such production which is attempted will be profitable.

### Technical Information

All technical information in this report has been prepared under the supervision of George Read, Senior Vice President of Exploration and Development, Professional Geoscientist in the Provinces of Saskatchewan and British Columbia and Mark Shimell, Project Manager, Professional Geoscientist in the Province of Saskatchewan, who are the Company's "Qualified Persons" under the definition of NI 43-101.

### Caution regarding Forward-looking Statements

This MD&A contains forward-looking statements as defined by certain securities laws, including the "safe harbour" provisions of Canadian securities legislation and the United States Private Securities Litigation Reform Act of 1995. Forward-looking information is often, but not always, identified by the use of words such as "anticipate", "believe", "expect", "plan", "intend", "forecast", "target", "project", "guidance", "may", "will", "should", "could", "estimate", "predict" or similar words suggesting future outcomes or language suggesting an outlook. In particular, statements regarding the Company's future operations, future exploration and development activities or other development plans constitute forward-looking statements. By their nature, statements referring to mineral reserves, mineral resources, PEA or TFFE constitute forward-looking statements. Forward-looking statements contained or implied in this MD&A include, but are not limited to, disclosure regarding the economics and project parameters presented in the PEA, including, without limitation, IRR, NPV and other costs and economic information, carats of diamonds to be recovered, after-tax payback period, tonnes of kimberlite to be mined, carats per tonne to be recovered (grade), diamond prices, project life, life of mine, capital costs, and length of pre-production period; statements related to mineral resources and/or reserves; statements related to the approval of the development of the Star - Orion South Diamond Project; statements relating to future development of the Star - Orion South Diamond Project and associated timelines; statements with respect to environmental permitting and approvals; the Company's intention to seek additional financing in the ensuing years; statements with respect to metallurgical investigations, assessments and test work; RTEC's and the Company's objectives for the ensuing year, including the timing for revision or replacement of the desanding plant, timing for delivery and construction of the bulk sample processing plant and timing for commencement of the bulk sampling program; as well as the Brownfields programs.

Forward-looking statements are based on the Company's current beliefs as well as assumptions made by and information currently available to it and involve inherent risks and uncertainties, both general and specific. Risks exist that forward-looking statements will not be achieved due to a number of factors including, but not limited to, developments in world diamond markets, changes in diamond valuations, risks relating to fluctuations in the Canadian dollar and other currencies relative to the US dollar, changes in exploration, development or mining plans due to exploration results and changing budget priorities of the Company or its partners, the effects of competition in the markets in which the Company operates, the impact of changes in the laws and regulations regulating mining exploration and development, judicial or regulatory judgments and legal proceedings, operational and infrastructure risks and the additional risks described in the Company's most recently filed Annual Information Form, annual and

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

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interim MD&A, news releases and technical reports. The Company's anticipation of and success in managing the foregoing risks could cause actual results to differ materially from what is anticipated in such forward-looking statements.

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

### **Additional Information**

Additional information related to the Company, including the latest available Annual Information Form, is available on SEDAR at [www.sedar.com](http://www.sedar.com).