



Management's Discussion & Analysis

September 30, 2020

The following discussion and analysis is prepared by Management as of November 12, 2020 and should be read in conjunction with the unaudited condensed interim consolidated financial statements of Star Diamond Corporation ("Star Diamond" or the "Company") for the period ended September 30, 2020 ("financial statements for the period ended September 30, 2020"), as well as the audited consolidated financial statements for the year ended December 31, 2019, in each case available on SEDAR at www.sedar.com. The Company prepared its financial statements for the period ended September 30, 2020 in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting using accounting policies consistent with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). 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 in a 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 estimated that 66 million carats of diamonds could be recovered in a surface mine over a 38-year Project life, with a Net Present Value ("NPV") (7%) of \$2.0 billion after tax, an Internal Rate of Return ("IRR") of 19% and an after-tax payback period of 3.4 years after the commencement of diamond production (see News Release dated April 16, 2018 and Technical Report dated May 30, 2018). The PEA was led by independent mining, processing and design consultants, with support from the Company's technical team. The PEA cash flow model is based on developing two open pits, initially on the Orion South Kimberlite and subsequently on the Star Kimberlite.

The PEA Highlights Included:¹

- Total potential plant feed of 470 million tonnes at a weighted average grade of 14 carats per hundred tonnes ("cpht"), containing 66 million carats over the 34 year Life of Mine² ("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 it had conducted a thorough environmental assessment for the Project, including a detailed environmental impact statement, and carried out in-depth consultation prior to the decision to approve the Project. This included fulfilling the Province's duty to consult with local First Nations and Métis communities. The Canadian Environmental Assessment Agency previously announced a positive Environmental Assessment Decision for the proposed Project by the federal Environment Minister (see News Release dated December 3, 2014).

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 "FaC 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. ("Rio Tinto Canada"), a wholly-owned subsidiary of Rio Tinto, pursuant to which the Company granted to Rio Tinto Canada 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% (16.3% at September 30, 2020) of the Company's common shares issued and outstanding on a non-diluted basis.

In November 2019, Star Diamond received notice from Rio Tinto Canada advising that Rio Tinto Canada was purporting to exercise all four of its options under the Option Agreement (see News Release dated November 15, 2019). In February 2020, the Company notified Rio Tinto Canada that its purported exercise of its four options under the Option Agreement did not comply with the terms of the Option Agreement (see News Release dated February 18, 2020). In March 2020, the Company announced that it had commenced legal proceedings in the Court of Queen's Bench for Saskatchewan against Rio Tinto Canada (the "Legal Proceedings") in relation to Rio Tinto Canada's purported exercise of its options under the Option Agreement (see News Release dated March 5, 2020).

As one step in the Legal Proceedings, the Company brought an interim injunction application seeking, among other things, to restrain Rio Tinto Canada from calling any meeting of the management committee under the Rio Tinto Canada/Star Diamond joint venture agreement (the "JV Agreement") until certain conditions were satisfied (see News Release dated June 2, 2020). Rio Tinto Canada agreed, as part of its response to the injunction application, that Rio Tinto Canada would not call and/or conduct any meeting of the management committee under the JV Agreement for a period of 120 days following Rio Tinto Canada completing the processing, diamond recovery and reporting of all diamond results on the samples previously taken from the 10 cutter holes completed on the Star Kimberlite by Rio Tinto Canada during 2019. Relying on Rio Tinto Canada's commitment during the hearing of the injunction application that this represented an undertaking of Rio Tinto Canada to the Court, the Court ultimately determined, after taking account of the balance of convenience between Star Diamond and Rio Tinto Canada, that an interim injunction would not be granted, which would have extended the prohibition on Rio Tinto Canada calling and/or conducting a meeting of the management committee until a further five cutter holes on the Orion South Kimberlite were drilled and fully reported on, as had been requested by Star Diamond. In the result, Rio Tinto Canada will be prohibited from calling and/or conducting any meeting of the management committee under the JV Agreement for a period of 120 days following Rio Tinto Canada completing the processing, diamond recovery and reporting of all diamond results on the samples previously taken from the 10 cutter holes completed during 2019 (see News Release dated August 11, 2020).

Star Diamond continues to vigorously pursue the Legal Proceedings, and is committed to taking all actions necessary to protect Star Diamond and its shareholders from the practices and conduct of Rio Tinto Canada including if necessary by seeking to remove Rio Tinto Canada from the Project. The Court has not yet established a timetable for the hearing on the merits in the Legal Proceedings or the various pre-trial steps that will precede it.

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

During 2019, the Company announced that Rio Tinto Canada completed the drilling of ten bulk sample holes (trenches) on the Company's Star Kimberlite using the Trench Cutter Sampling Rig. 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 the surface and recovered using a Kimberlite Separation Unit, with samples loaded and stored in cubic metre bulk bags. As the on-site bulk sample plant (the "BSP") was not constructed or commissioned by Rio Tinto Canada prior to the completion of the ten Star kimberlite trench cutter holes, Rio Tinto Canada established a storage area where 6,848 bulk sample bags were stored by Rio Tinto Canada on-site until the BSP was fully constructed and commissioned.

During the second quarter of 2020, the Company announced that Rio Tinto Canada had commenced the processing of bulk samples from Rio Tinto Canada's trench cutter program on the Star Kimberlite (see News Release dated April 23, 2020). The mineral concentrates produced by the BSP are being shipped by Rio Tinto Canada to an off-site facility for final diamond recovery and reporting of such recovery to Star Diamond and Rio Tinto Canada. To date, kimberlite material from nine trenches (19FALCT001, 19FALCT004, 19FALCT003, 19FALCT010, 19FALCT008, 19FALCT009, 19FALCT005, 19FALCT002 and 19FALCT007) has been processed by Rio Tinto Canada through the BSP. The initial results from the first four bulk sample trenches have been previously disclosed by Star Diamond (see News Releases dated August 4, 2020, August 20, 2020, September 21, 2020 and October 14, 2020).

The average diamond grades from the initial results of these first four trenches are similar to historical diamond grade results from the underground bulk sampling and large diameter drilling ("LDD") completed on the Star Kimberlite between 2004 and 2009. These results are also similar to the overall weighted average grade reported in the Project's PEA. However, as previously disclosed by Star Diamond, the Company believes that Rio Tinto Canada's extraction and diamond recovery methodologies, including its use of unproven civil engineering trenching technologies to conduct bulk sampling of Kimberlite, is causing undue diamond breakage, resulting in significant unnecessary cost overruns and materially damaging Star Diamond's interest in the Project. Comprehensive diamond breakage studies are required to assess the nature, extent and potential causes of the diamond breakage, and the possibility that larger diamonds would have been recovered absent such breakage.

During the second quarter of 2020, the Company also announced that Rio Tinto Canada provided the Company with microdiamond results from the PQ3 (83 millimetre) core hole 120FB001, which Rio Tinto Canada drilled in November of 2019 (see News Release dated May 11, 2020). This hole was drilled on the Company's K120 Kimberlite, which forms part of the Orion North kimberlite cluster. The Company noted that the microdiamond results provided to Star Diamond contained two macrodiamonds, the largest weighing 0.552 carats. This 0.552 carat diamond fragment has been broken from a larger stone. The occurrence of a 0.552 carat diamond in a microdiamond sample is anomalous and speaks to the potential for a coarse diamond size frequency distribution and also supports previous evaluation work conducted by Star Diamond on the Orion North Kimberlites. The results from Rio Tinto Canada's drill program also highlights the evaluation potential of the extensive volumes of kimberlite that are outside of the Project.

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

For the three and nine months ended September 30, 2020

Financial Highlights

Select financial information of the Company for the three and nine-month periods ended September 30, 2020 and 2019 is summarized as follows:

	Three months ended September 30, 2020 \$	Three months ended September 30, 2019 \$	Nine months ended September 30, 2020 \$	Nine months ended September 30, 2019 \$
Net loss (millions)	1.7	0.8	4.2	3.2
Net loss per share ⁽¹⁾	0.00	0.00	0.01	0.01
Total assets (millions)	73.1	71.2	73.1	71.2
Total non-current liabilities (millions) ⁽²⁾	1.5	1.6	1.5	1.6
Working capital (millions)	5.0	3.4	5.0	3.4

(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). Non-current liabilities also included contingent consideration relating to the Newmont Acquisition of \$0.7 million (2019 - \$0.7 million). Also included is a lease liability of \$0.2 million (2019 - \$0.3 million) which relates to the adoption of IFRS 16 in 2019.

Results of Operations

For the quarter ended September 30, 2020, the Company recorded a net loss of \$1.7 million or \$0.00 per share (basic and fully diluted) compared to a net loss of \$0.8 million or \$0.00 per share for the same period in 2019. The losses during these quarters were due to operating costs and exploration and evaluation expenditures incurred by the Company exceeding interest and other income earned on cash and cash equivalents.

Interest and other income

For the quarters ended September 30, 2020 and 2019 the Company reported interest and other income of \$22 thousand and \$30 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, 2020 were \$1.8 million compared to \$0.8 million for the same period in 2019. Expenses incurred during the quarter ended September 30, 2020 include \$0.6 million of share-based payments that were expensed during the quarter ended September 30, 2020 (2019 – \$0.1 million).

Exploration and evaluation expenditures incurred during the third quarter of 2020 were \$0.6 million, compared to \$0.4 million incurred during the quarter ended September 30, 2019. Exploration and evaluation expenditures incurred during the quarter ended September 30, 2020 and 2019 were primarily related to work relating to geological and metallurgical investigations and test work for the Project as well as other costs associated with the Project.

Administration, consulting and professional fees, and corporate development expenditures for the quarter ended September 30, 2020 increased to \$1.2 million from \$0.4 million during the same period in 2019. This increase was primarily due to higher professional fees incurred and share-based payments expensed during the quarter ended September 30, 2020.

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

For the three and nine months ended September 30, 2020

Financing

No financing activities occurred during the quarters ended September 30, 2020 and September 30, 2019. During the quarter ended September 30, 2020, the Company issued 2.8 million common shares from treasury as a result of stock options that were exercised (weighted average exercise price of \$0.21) as well as 0.7 million common shares pursuant to an agreement with a third-party consulting and professional service provider. During the quarter ended September 30, 2019 the Company issued common shares from treasury as a result of vested restricted share units ("RSUs") that were redeemed.

Year to Date

Results of operations

For the nine months ended September 30, 2020, the Company recorded a net loss of \$4.2 million or \$0.01 per share compared to a net loss of \$3.2 million or \$0.01 per share for the same period in 2019. The loss during the nine month periods ended September 30, 2020 and 2019 were primarily due to ongoing operating costs and exploration and evaluation expenditures incurred by the Company exceeding interest and other income earned.

Interest and other income

For the nine months ended September 30, 2020 and 2019 the Company reported interest and other income of \$72 thousand and \$65 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, 2020 were \$4.4 million compared to \$3.2 million for the nine months ended September 30, 2019. This increase was primarily due to higher consulting and professional expenditures, offset by lower share-based payments expensed as well as lower exploration and evaluation expenditures incurred during the nine months ended September 30, 2020. Share-based payments that were expensed during the nine months ended September 30, 2020 were \$0.6 million compared to \$1.2 million for the same period in 2019.

Exploration and evaluation expenditures for the nine months ended September 30, 2020 were \$1.1 million compared to \$1.3 million for the same period in 2019. Exploration and evaluation expenditures incurred during the nine months ended September 30, 2020 and 2019 primarily related to geological and metallurgical investigations and test work for the Project as well as other costs associated with the Project. Approximately 48 percent (2019 – 57 percent) of the exploration and evaluation expenditures incurred during the nine months ended September 30, 2020 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, 2020 were \$3.3 million compared to \$1.9 million for the same period in the prior year. This increase was primarily due to higher professional fees incurred during the nine months ended September 30, 2020, offset by lower share-based payments expensed.

Use of proceeds

During 2019, the Company raised \$5.1 million from flow-through financing activities to be used on exploration and evaluation activities.

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For the three and nine months ended September 30, 2020

	\$millions
Flow-through proceeds raised during 2019	5.1
Flow-through eligible expenditures incurred to September 30, 2020	1.0
Flow-through eligible expenditures to be incurred ⁽¹⁾	<u>4.1</u>

(1) Due to the global COVID-19 pandemic, the Government of Canada recently announced a proposal to extend the expenditure period for incurring qualifying expenditures (to fulfill obligations under flow-through financing commitments) by one year. As a result, the remaining expenditures at September 30, 2020 of approximately \$4.1 million are to be incurred by December 31, 2021 rather than by December 31, 2020. The Company is monitoring this proposal and the impact this proposal, and any other COVID-19 related proposals, may have on the Company's 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 fulfilled this obligation as of December 31, 2019.

Investment in Wescan Goldfields Inc.

At September 30, 2020, the Company held 5.8 million shares or 12.9% (December 31, 2019 – 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, 2020, was \$435 thousand (December 31, 2019 – \$232 thousand). As a result, during the nine months ended September 30, 2020, the Company recognized a \$203 thousand increase (2019 – \$29 decrease) in the carrying value of its investment in Wescan.

Financing

No financing activities occurred during the nine months ended September 30, 2020 and September 30, 2019. During the nine months ended September 30, 2020 the Company issued 0.1 million common shares from treasury as a result of DSUs that were redeemed, 3.5 million common shares from treasury as a result of stock options that were exercised (weighted average exercise price of \$0.21) and 0.7 million common shares pursuant to an agreement with a third-party consulting and professional service provider. During the nine months ended September 30, 2019 the Company issued common shares from treasury as a result of vested RSUs that were redeemed, as well as warrants (weighted average exercise price of \$0.20) and stock options (weighted average exercise price of \$0.18) that were exercised for total cash proceeds of \$2.7 million.

Summary of Quarterly Results

	2020			2019			2018	
	Qtr 3	Qtr 2	Qtr 1	Qtr 4	Qtr 3	Qtr 2	Qtr 1	Qtr 4
Income ⁽¹⁾ (\$millions)	0.0	0.0	0.1	0.0	0.1	0.0	0.0	0.0
Net loss ⁽²⁾ (\$millions)	1.7	1.5	1.0	0.9	0.8	1.5	0.9	1.1
Net loss per share ⁽³⁾ (\$)	0.00	0.01	0.00	0.00	0.00	0.01	0.00	0.00
Shares outstanding (millions) ⁽⁴⁾	432.8	429.3	429.1	428.5	409.1	407.7	393.3	392.1

(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 third quarter of 2019, the Company issued 0.7 million common shares issued from treasury pursuant to an agreement with a third-party consulting and professional service provider. 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. 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

As at September 30, 2020, Messrs. Kenneth E. MacNeill (President and Chief Executive Officer) and George H. Read (Senior Vice President of Exploration and Development), through their respective consulting companies, hold management and consulting contracts with the Company. Messrs. MacNeill and Read's monthly fees during the quarter ended September 30, 2020 were \$20 thousand (2019 – \$20 thousand) and \$15 thousand (2019 – \$15 thousand), respectively.

During the nine-month period ended September 30, 2020, 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 \$1,048 thousand (2019 – \$1,383 thousand). Of these amounts, \$797 thousand (2019 – \$1,001 thousand) was included in administration expense and \$251 thousand was included in exploration and evaluation expense (2019 – \$382 thousand). Included in these amounts are share-based payment transactions of \$521 thousand (2019 – \$919 thousand).

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 common shares preceding the date of grant.

The Company recently announced that Mr. Read has assumed the title of Senior Technical Advisor to the Company (see News Release dated October 14, 2020). Mr. Read will continue to fully support the Company with his considerable expertise and will continue to prepare technical information for the Company as a "Qualified Person" under the definition of NI 43-101.

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, 2020, the Company had \$5.2 million (December 31, 2019 – \$7.9 million) in cash and cash equivalents and short-term investments. The Company has also supplied \$0.6 million (December 31, 2019 – \$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, 2020, the Company is required to spend \$4.1 million on qualifying expenditures to fulfill its obligations under its flow-through commitments. Due to the global COVID-19 pandemic, the Government of Canada recently announced a proposal to extend the expenditure period for incurring qualifying expenditures (to fulfill obligations under flow-through financing commitments) by one year. As a result, qualifying expenditures are to be incurred by December 31, 2021 rather than by December 31, 2020. The Company is monitoring this proposal and the impact this proposal, and any other COVID-19 related proposals, may have on the Company and the Company's flow-through commitments.

Capital Resources and Outstanding Share Data

As at September 30, 2020, the Company had working capital of \$5.0 million compared to \$7.7 million at December 31, 2019 and \$3.4 million at September 30, 2019. The ability of the Company to continue as a going

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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. The Company is assessing opportunities to address this.

At September 30, 2020, the Company had 432,837,696 common shares, 536,600 DSUs, 3,880,600 RSUs, 19,860,700 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) issued and outstanding.

As at November 12, 2020, the Company's issued and outstanding common shares, DSUs, RSUs, options, warrants and broker warrants remained unchanged from September 30, 2020.

Financial Instruments

As at September 30, 2020, 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 September 30, 2020, the Company's credit risk relates to its cash and cash equivalents, receivables and restricted cash of \$5.8 million (December 31, 2019 – \$8.6 million).

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to forecast future cash flows to ensure that it will have sufficient liquidity to meet its obligations when due. To ensure the Company has sufficient cash on hand, the Company prepares annual capital and operating budgets which are regularly monitored and updated as considered necessary. As at September 30, 2020, the Company had working capital of \$5.0 million (excluding restricted cash) and is required to incur a further \$4.1 million of qualifying expenditures as a result of a flow-through share financing in 2019. Given that cash flow from operations is negative, the Company is dependent on additional sources of financing in 2020 and beyond.

As at September 30, 2020, the Company had guaranteed certain liabilities by issuing \$0.6 million (December 31, 2019 – \$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. These guarantees relate to environmental rehabilitation provisions. The Company has recorded a contingent consideration, as described in note 10 to the financial statements for the year ended December 31, 2019 for which the discounted present value was determined to be \$0.7 million (2019 – \$0.7 million). In addition, at September 30, 2020, the Company has recorded a lease liability of \$0.2 million (2019 – \$0.3 million).

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 about the Company's ability to continue as a going concern. At September 30, 2020, the Company had working capital of \$5.0 million, of which \$4.1 million is committed to be spent on qualifying expenditures as a result of the flow-through share financing in 2019. The ability of the Company to continue as a going concern and fund general and administrative expenses in an orderly manner will require further equity 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. As at September 30, 2020, 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 \$43 thousand decrease in fair value.

Critical Accounting Estimates and Judgments

The financial statements for the period ended September 30, 2020 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 period ended September 30, 2020, significant judgments and estimations have been made by management in applying the Company's accounting policies. In particular, the significant areas of judgment and estimation uncertainty considered by management in preparing the consolidated financial statements are: joint control assessments, identification of cash generating units, exploration and evaluation expenditures, reserve and resource estimation, asset valuations and assessments for impairment, estimations for environmental rehabilitation provisions, contingent consideration, share-based payment transactions and recovery of deferred tax assets. These are discussed in more detail in Note 5 of the Company's financial statements for the year ended December 31, 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 the period

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. There was no significant impact from the adoption of these amendments.

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

Disclosure Controls and Procedures

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

There have been no significant changes in the Company's disclosure controls during the quarter ended September 30, 2020.

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, 2020 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 independent PEA show 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 Rio Tinto Canada 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 November 12, 2020, the Company had approximately \$4.6 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 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.

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; the ultimate economic feasibility of any future development projects; the Legal Proceedings commenced by the Company against Rio Tinto Canada; the impact of the COVID-19 pandemic; and the operation of the trench cutter, BSP and the processing methods being used by Rio Tinto Canada and the effectiveness thereof.

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, 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.

In March 2020, the Company announced that it commenced the Legal Proceedings against Rio Tinto Canada in relation to Rio Tinto Canada's purported exercise of the options under the Option Agreement. All litigation is subject to inherent risks and uncertainties, and it is not possible to predict with certainty the duration of the Legal Proceedings or their final outcome. The Legal Proceedings could negatively impact and delay the exploration and operational activities being conducted by Rio Tinto Canada at the Fort à la Corne mineral properties (including the Project). An unfavourable outcome in connection with the Legal Proceedings could adversely affect the Company's business, results of operations, ability to obtain future financing, reputation and have a material adverse impact on the Company's liquidity and financial results and the ability of the Company to meet its obligations under the JV Agreement with respect to the Project, if and when such joint venture is determined to have been validly formed, which could result in, among other things, dilution of the Company's interest in the Project.

A local epidemic or a major global pandemic (e.g. COVID-19) could have a material adverse impact on the Company's ability to operate due to worker absences, supply chain disruptions, information technology system constraints, government interventions, market volatility and overall economic uncertainty. There can be no assurance that a local epidemic or a major global pandemic will not impact the Company's personnel and

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For the three and nine months ended September 30, 2020

ultimately its operations. The Company's operations (including those of Rio Tinto Canada) depend on uninterrupted supply of key consumables, equipment and components, which may be impacted by matters outside of the Company's control or ability to mitigate. These conditions may include global events such as the COVID-19 pandemic which may impact our operations.

For more information on these and other risks and uncertainties, see the risks described in the Company's most recently filed Annual Information Form, annual MD&A, news releases and technical reports.

Technical Information

All technical information in this report has been prepared under the supervision of George Read, Senior Technical Advisor, 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, statements relating to the Company's ability to continue as a going concern; statements related to the Legal Proceedings commenced by the Company against Rio Tinto Canada; statements regarding the processing and analysis of, and reporting of results from, the bulk samples previously collected by Rio Tinto Canada and the timeline for doing so; statements related to diamond breakage; 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 and/or ability to seek additional financing to address the Company's liquidity and capital needs, including the financing of the exploration, evaluation and/or development of the Project; statements with respect to metallurgical investigations, assessments and test work; and the potential proportion of Type IIa diamonds in the Star and Orion South kimberlites and the potential for the recovery of large high quality diamonds.

These forward-looking statements are based on the Company's current beliefs as well as assumptions made by and information currently available to it and involve inherent risks and uncertainties, both general and specific. Risks exist that forward-looking statements will not be achieved due to a number of factors including, but not limited to, developments in world diamond markets, changes in diamond valuations, risks relating to fluctuations in the Canadian dollar and other currencies relative to the US dollar, changes in exploration, development or mining plans due to exploration results and changing budget priorities of Rio Tinto Canada or the Company, the effects of competition in the markets in which the Company operates, risks related to the Legal Proceedings commenced by the Company against Rio Tinto Canada, the impact of the COVID-19 pandemic, risks related to the operation of the BSP and the processing methods being used by Rio Tinto Canada and the effectiveness thereof, , risks related to diamond breakage and cost overruns and other consequences arising from Rio Tinto Canada's extraction and diamond recovery methodologies, the impact of changes in the laws and regulations regulating mining exploration and development, judicial or regulatory judgments and legal proceedings, operational and infrastructure risks and the additional risks described in the Company's most recently filed Annual Information Form, annual and interim MD&A, news releases and technical reports. The Company's anticipation of and success in managing the foregoing risks could cause actual results to differ materially from what is anticipated in such forward-looking statements.

Although the Company considers the assumptions contained in forward-looking statements to be reasonable based on information currently available to it, those assumptions may prove to be incorrect. When making decisions with respect to the Company, investors and others should not place undue reliance on these statements and should carefully consider the foregoing factors and other

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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.