



Management's Discussion & Analysis

September 30, 2021

The following discussion and analysis is prepared by Management as of November 10, 2021 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, 2021 ("financial statements for the period ended September 30, 2021"), as well as the audited consolidated financial statements of the Company for the year ended December 31, 2020, in each case available on SEDAR at www.sedar.com. The Company prepared its financial statements for the period ended September 30, 2021 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 in Canadian dollars, unless otherwise stated.

Overview

Star Diamond is a Canadian natural resource company focused on exploring and developing Saskatchewan's diamond resources. The Company is focused on advancing 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 Mine ² ("LOM");
- The Base Case scenario (Model diamond price) has an NPV (7%) of \$3.3 billion and an IRR of 22% before taxes and royalties, and an after-taxes and royalties NPV (7%) of \$2.0 billion with an IRR of 19%;
- The Case 1 scenario (High Model diamond price) has an NPV (7%) of \$5.4 billion for an IRR of 32% before taxes and royalties;
- Pre-production capital cost of \$1.41 billion with a total capital cost of \$1.87 billion (including direct, indirect costs and contingency) over the LOM and an initial capital cost payback period of 3.4 years.

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

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

During 2018, the Saskatchewan Ministry of Environment ("Ministry") approved the 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 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 its participating interest in the Fort à la Corne joint venture, resulting in the Company owning 100% of the Fort à la Corne mineral properties (including the Project). The Company also concurrently announced that it had entered into an Option to Joint Venture Agreement (the "Option Agreement") with Rio Tinto Exploration Canada Inc. ("Rio Tinto"), a wholly-owned subsidiary of Rio Tinto plc, pursuant to which the Company granted to Rio Tinto 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% (15.6% at September 30, 2021) of the Company's common shares issued and outstanding on a non-diluted basis.

In November 2019, Star Diamond received notice from Rio Tinto advising that Rio Tinto 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 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 (Judicial Centre of Saskatoon) (the "Court") against Rio Tinto (the "Legal Proceedings") in relation to Rio Tinto's purported exercise of its options under the Option Agreement (see News Release dated March 5, 2020).

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

During 2019, the Company announced that Rio Tinto completed the drilling of ten bulk sample holes (trenches) on the Company's Star Kimberlite using the Trench Cutter Sampling Rig. These ten trench cutter holes 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 prior to the completion of the ten trench cutter holes, Rio Tinto established a storage area where 6,848 bulk sample bags were stored by Rio Tinto on-site until the BSP was fully constructed and commissioned.

During the second quarter of 2020, the Company announced that Rio Tinto had commenced the processing of bulk samples from Rio Tinto's trench cutter program on the Star Kimberlite (see News Release dated April 23, 2020). The mineral concentrates produced by the BSP were shipped by Rio Tinto to an off-site facility for diamond recovery and reporting of such recovery to Star Diamond and Rio Tinto.

The initial results from the ten trench cutter holes have now been reported by Star Diamond.

During February 2021, Rio Tinto provided written notice to Star Diamond that Rio Tinto had successfully completed its ten-trench cutter hole bulk sample program (see News Release dated February 22, 2021). Rio Tinto also confirmed to Star Diamond that this bulk sample program had met Rio Tinto's objective of improving confidence in the diamond grade of the Project. In response, Star Diamond notified Rio Tinto that completion of a comprehensive diamond breakage study and certain other work remained outstanding.

The initial results from the ten reported trenches continue to validate the grades outlined in the PEA that was based upon Star Diamond's own prior underground bulk sampling and large diameter drilling programs. The recovery of larger diamonds from Rio Tinto's bulk sample program, including larger Type IIa diamonds, also

continues to strengthen the expectation for recovery of large, high value diamonds in a future producing diamond mine.

During the first quarter of 2021, the Company announced that Rio Tinto had commenced an eight-hole geotechnical drilling program on and in proximity to the Orion North Kimberlite (see News Release dated January 19, 2021). The drill rigs utilized were capable of sonic drilling to obtain representative samples of the glacial overburden and core drilling for the underlying kimberlite or host rock sediments. Star Diamond has been advised that the aim of this drilling is to investigate the geotechnical properties of the overburden, kimberlite and host rock sediments, with this information to be used for future open pit design. Parts of the Orion North Kimberlite have shallower overburden than the Star and Orion South Kimberlites.

Activities relating to the Legal Proceedings

Star Diamond continues to vigorously pursue the Legal Proceedings, and is committed to taking all actions necessary to protect the interests of Star Diamond and its shareholders.

Pleadings in the Legal Proceedings have been completed. During March 2021, Rio Tinto and Star Diamond each delivered their respective affidavits of documents to the other. The other principal pre-trial steps that remain to be completed include oral questioning and the exchange of expert reports. Once the pre-trial steps are completed, Star Diamond expects that the Court will schedule a pre-trial conference and set a date for trial.

On July 26, 2021, Rio Tinto purported to hold a meeting of the management committee of the joint venture that Rio Tinto claims was previously formed between Star Diamond and Rio Tinto. At that meeting, representatives of Rio Tinto purported to unilaterally approve a proposed joint venture budget for the period from June 2021 to March 2022 of \$17.8 million, and to add to that budget an aggregate of \$64.4 million allegedly spent by Rio Tinto during 2019, 2020 and the first five months of 2021.

As previously disclosed by Star Diamond, it believes that no joint venture has been formed because Rio Tinto's November 2019 purported exercise of its options under the Option Agreement did not comply with that agreement. Accordingly, Star Diamond believes that the July 26, 2021 purported meeting of the management committee was not valid. Further, Star Diamond believes that, even if a joint venture had been validly formed, which as stated Star Diamond does not believe is the case, the relevant agreements do not allow Rio Tinto to include in the joint venture budget, or otherwise recover from Star Diamond, much of the \$64.4 million allegedly spent by Rio Tinto during 2019, 2020 and the first five months of 2021.

Star Diamond expects that these issues will form part of the Legal Proceedings. To the extent that Star Diamond does not fund its portion of joint venture expenditures in circumstances where it is required to do so, Star Diamond's interest in such joint venture may be diluted.

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

For the three and nine months ended September 30, 2021

Financial Highlights

Select financial information of the Company for the three and nine-month periods ended September 30, 2021 and 2020 is summarized as follows:

	Three months ended September 30, 2021 \$	Three months ended September 30, 2020 \$	Nine months ended September 30, 2021 \$	Nine months ended September 30, 2020 \$
Net loss (millions)	2.0	1.7	5.2	4.2
Net loss per share ⁽¹⁾	0.00	0.00	0.01	0.01
Total assets (millions)	70.2	73.1	70.2	73.1
Total non-current liabilities (millions) ⁽²⁾	1.1	1.5	1.1	1.5
Working capital (millions)	1.1	5.0	1.1	5.0

(1) Basic and diluted.

(2) Non-current liabilities are comprised of a contingent consideration relating to the Newmont Acquisition of approximately \$0.9 million (September 30, 2020 - \$0.7 million); an environmental rehabilitation provision of \$0.1 million (September 30, 2020 - \$0.6 million); and a lease liability of \$0.1 million (September 30, 2020 - \$0.2 million). The Company has provided letters of credit for the environmental reclamation provision, backed by short-term securities, that are recorded on the Company's financial statements as restricted cash.

Results of Operations

For the quarter ended September 30, 2021, the Company recorded a net loss of \$2.0 million or \$0.00 per share (basic and fully diluted) compared to a net loss of \$1.7 million or \$0.00 per share for the same period in 2020. The losses during these quarters were due to operating costs and exploration and evaluation expenditures incurred by the Company exceeding interest income earned on cash and cash equivalents.

Interest and other income

For the quarters ended September 30, 2021 and 2020 the Company reported interest and other income of \$22 thousand and \$22 thousand respectively. The Company invests excess cash reserves in interest-bearing short-term deposits while ensuring funds would be available for cash outflow requirements associated with the Company's exploration and evaluation projects. Other revenue is measured at the fair value of the consideration received or receivable for goods and services in the normal course of business.

Expenses

Expenses incurred during the quarter ended September 30, 2021 were \$1.9 million compared to \$1.8 million for the same period in 2020. This increase was primarily due to higher exploration and evaluation expenditures incurred.

Exploration and evaluation expenditures were \$1.2 million for the third quarter of 2021 compared to \$0.6 million for the quarter ended September 30, 2020. Exploration and evaluation expenditures incurred during the quarters ended September 30, 2021 and 2020 were primarily related to work on metallurgical investigations and test work as well as other costs associated with the Project.

Administration, consulting and professional fees, and corporate development expenditures for the quarter ended September 30, 2021 were \$0.7 million, compared to \$1.2 million from the same period in 2020. This decrease was primarily due to lower share-based payments and professional expenditures incurred.

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

For the three and nine months ended September 30, 2021

Financing

No financing activities occurred during the quarters ended September 30, 2021 and September 30, 2020. 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.

Year to Date

Results of operations

For the nine months ended September 30, 2021, the Company recorded a net loss of \$5.2 million or \$0.01 per share compared to a net loss of \$4.2 million or \$0.01 per share for the same period in 2020. The loss during the nine month periods ended September 30, 2021 and 2020 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, 2021 and 2020 the Company reported interest and other income of \$36 thousand and \$72 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, 2021 were \$5.2 million compared to \$4.4 million for the nine months ended September 30, 2020. This increase was primarily due to higher exploration and evaluation expenditures and consulting and professional expenditures incurred, offset by lower share-based payments expensed. Share-based payments that were expensed during the nine months ended September 30, 2021 were \$451 thousand (2020 – \$623 thousand).

Exploration and evaluation expenditures for the nine months ended September 30, 2021 were \$2.3 million compared to \$1.2 million for the same period in 2020. Exploration and evaluation expenditures incurred during the nine months ended September 30, 2021 and 2020 primarily related to geological and metallurgical investigations and test work for the Project as well as other costs associated with the Project. Approximately 16 percent (2020 – 48 percent) of the exploration and evaluation expenditures incurred during the nine months ended September 30, 2021 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, 2021 were \$2.9 million compared to \$3.2 million for the same period in the prior year. This decrease was primarily due to lower professional fees incurred during the nine months ended September 30, 2021.

Use of flow-through proceeds

	<u>\$millions</u>
Flow-through proceeds raised during 2019 ⁽¹⁾	5.1
Flow-through eligible expenditures incurred to September 30, 2021	4.6
Remaining flow-through eligible expenditures to be incurred ⁽²⁾	0.5
Additional flow-through proceeds raised during 2020 ⁽³⁾	1.0
Flow-through eligible expenditures to be incurred	<u>1.5</u>

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

(2) Due to the global COVID-19 pandemic, the Government of Canada enacted legislation ("FT Legislation") 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, 2021 of approximately \$0.5 million are to be incurred by December 31, 2021 (rather than by December 31, 2020). The Company continues to monitor for other COVID-19 related proposals, to assess the impact these may have on the Company's flow-through commitments.

(3) During 2020, the Company raised \$1.0 million from flow-through financing activities to be used on exploration and evaluation activities before the end of 2022 (based on the FT Legislation discussed above).

The Company expects that exploration and evaluation expenditures to be incurred will fulfill its obligations under its flow-through commitments.

Investment in Wescan Goldfields Inc.

At September 30, 2021, the Company held 5.8 million shares or 12.9% (December 31, 2020 – 5.8 million shares or 12.9%) of Wescan Goldfields Inc. ("Wescan"), a publicly traded company on the TSX Venture Exchange. The fair value of this investment, based on the closing trading price at September 30, 2021, was \$377 thousand (December 31, 2020– \$377 thousand).

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.

Financing

During the nine months ended September 30, 2021, the Company completed a \$2.0 million private placement of 13.3 million common shares. No financing activities occurred during the nine months ended September 30, 2020. 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.

Summary of Quarterly Results

	2021			2020			2019	
	Qtr 3	Qtr 2	Qtr 1	Qtr 4	Qtr 3	Qtr 2	Qtr 1	Qtr 4
Income ⁽¹⁾ (\$millions)	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0
Net loss ⁽²⁾ (\$millions)	2.0	2.1	1.1	2.0	1.7	1.5	1.0	0.9
Net loss per share ⁽³⁾ (\$)	0.00	0.01	0.00	0.00	0.01	0.00	0.00	0.00
Shares outstanding (millions) ⁽⁴⁾	452.8	452.8	452.8	438.7	432.8	429.3	429.1	428.5

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

(2) Net losses relate to expenditures incurred by the Company exceeding income earned.

(3) Basic and diluted.

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

For the three and nine months ended September 30, 2021

- (4) *During the first quarter of 2021, the Company completed a private placement of 13.3 million common shares. In relation to this private placement, the Company also issued 0.8 million common shares. During the fourth quarter of 2020, the Company completed a private placement of 5.6 million flow-through shares. In relation to this private placement, the Company also issued 0.3 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 Deferred Share Unit ("DSU") redemptions or Restricted Share Unit ("RSU") redemptions.*

Related Party Transactions

At September 30, 2021, Mr. Kenneth E. MacNeill (President and Chief Executive Officer), through his consulting company, held a management and consulting contract with the Company. Mr. MacNeill's monthly fees during the quarter ended September 30, 2021 were \$20 thousand (2020 – \$20 thousand). During the fourth quarter of 2020, the Company announced that Mr. George Read had assumed the consultancy title of Senior Technical Advisor to the Company (see News Release dated October 14, 2020). Mr. Read continues to fully support the Company with his considerable expertise and continues to prepare technical information for the Company as a "Qualified Person" under the definition of NI 43-101. Mr. Read's previous monthly fees as Senior Vice President of Exploration and Development (paid through a company controlled by Mr. Read) was \$15 thousand.

During the nine-month period ended September 30, 2021, total compensation paid or payable to officers (including amounts paid through a company controlled by Mr. MacNeill) and to directors of the Company was \$743 thousand (2020 – \$1,048 thousand). Of these amounts, \$743 thousand (2020 – \$797 thousand) was included in administration expense and \$0 was included in exploration and evaluation expense (2020 – \$251 thousand). Included in these amounts are share-based payment transactions of \$315 thousand (2020 – \$521 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 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 cash is required to fund exploration, evaluation and/or development activities it is invested in a variety of highly rated instruments.

At September 30, 2021 the Company had \$2.3 million (December 31, 2020 – \$4.8 million) in cash and cash equivalents. The Company has also supplied \$0.6 million (December 31, 2020 – \$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, 2021, the Company is required to spend \$1.5 million on qualifying expenditures to fulfill its obligations under its flow-through commitments. Due to the global COVID-19 pandemic, the Government of Canada enacted legislation to extend the expenditure period for incurring qualifying expenditures (to fulfill obligations under flow-through financing commitments). The Company continues to monitor for other COVID-19 related proposals to assess the impact these may have on the Company and the Company's flow-through commitments.

Capital Resources and Outstanding Share Data

At September 30, 2021 the Company had 452,804,364 common shares that were issued and outstanding, as well as 743,600 DSUs, 4,531,600 RSUs, 21,641,700 options (weighted average exercise price of \$0.21), 16,111,112 warrants (weighted average exercise price of \$0.25) and 1,987,842 broker warrants (weighted average exercise price of \$0.26) issued and outstanding.

As of November 10, 2021, the Company's issued and outstanding common shares, options, DSUs, RSUs, warrants and broker warrants remained unchanged from September 30, 2021.

Financial Instruments

As of September 30, 2021, 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, 2021, the Company's credit risk relates to its cash and cash equivalents, receivables and restricted cash of \$3.1 million (December 31, 2020 – \$5.5 million).

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to forecast future cash flows to help assess whether it will have sufficient liquidity to meet its obligations when due. To assist with this process, the Company prepares annual capital and operating budgets which are regularly monitored and updated as considered necessary. As of September 30, 2021, the Company had working capital of \$1.1 million and cash of \$2.3 million (excluding restricted cash) and is required to incur \$1.5 million of qualifying expenditures as a result of previous flow-through share financings. As a result of the FT Legislation, as at September 30, 2021, \$0.5 million of qualifying expenditures is to be incurred by December 31, 2021 and \$1.0 million of qualifying expenditures is to be incurred by December 31, 2022.

As of September 30, 2021, the Company had guaranteed certain liabilities by issuing \$0.6 million (December 31, 2020 – \$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 of September 30, 2021 related to environmental rehabilitation provisions. The Company has also recorded a contingent consideration, as described in note 10 to the financial statements for the year ended December 31, 2020 for which the discounted present value was determined to be \$0.9 million (December 31, 2020 - \$0.9 million). In addition, at September 30, 2021, the Company has recorded a lease liability of \$0.1 million (December 31, 2020 - \$0.2 million).

The Company may pursue options to finance the further exploration, evaluation and/or development of the 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. Further, to the extent that Star Diamond is unable to obtain additional financing in circumstances where a joint venture has been formed with Rio Tinto and Star Diamond is required to fund its portion of any joint venture expenditures, Star Diamond's interest in that joint venture may be diluted.

The Company is aware, in making its going concern assessment, of material uncertainties related to events and conditions that cast significant doubt upon the Company's ability to continue as a going concern. 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 the near and longer term. In March 2020, the World Health Organization declared a global pandemic related to the novel coronavirus known as COVID-19. The duration and magnitude of the impact on the economy and equity markets are not known at this time. An extended disruption to equity markets may affect the Company's ability to obtain additional financing. 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 of September 30, 2021, 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 \$38 thousand decrease in fair value.

Critical Accounting Estimates and Judgments

The financial statements for the period ended September 30, 2021 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, 2020. 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, 2021, significant judgments and estimations have been made by management in applying the Company's accounting policies. In particular, the significant areas of judgment and estimation uncertainty considered by management in preparing the consolidated financial statements are: identification of cash generating units, exploration and evaluation expenditures, legal proceedings, reserve and resource estimation, asset valuations and impairment of exploration and evaluation assets, estimations for environmental rehabilitation provisions, share-based payment transactions and estimation of contingent consideration payable. These are discussed in more detail in Note 5 of the Company's financial statements for the year ended December 31, 2020.

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 monitors these assets for indications

of impairment at each reporting date. Where impairment indicators exist, management will estimate the recoverable amount of these assets in comparison to the carrying values.

Accounting Changes

Accounting Changes during the period

At the date of authorization of these consolidated financial statements, the IASB has not issued any new standards which became effective for the reporting period that would have a material impact on the Company.

IFRS standards issued but not yet effective

IAS 16 – Property, Plant and Equipment

On May 14, 2020, the IASB issued an amendment to IAS 16 Property, Plant and Equipment to prohibit deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The proceeds from selling such items, and the cost of producing those items are to be recognized in profit and loss. The amendments are effective for annual periods beginning on or after January 1, 2022 with early adoption permitted. The amendment is to be applied retrospectively only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the earliest period presented in the financial statements in the year in which the amendments are first applied. The Company is currently assessing the financial impact of the amendment and expects to apply the amendment at the effective date.

IAS 37 – Provisions, Contingent Liabilities and Contingent Assets

On May 14, 2020, the IASB issued an amendment to IAS 37 Provisions, Contingent Liabilities and Contingent Assets to specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous. The amendment specifies that the cost of fulfilling a contract comprises the costs that relate directly to the contract. Costs that relate directly to the contract can either be incremental costs of fulfilling the contract or an allocation of other costs that relate directly to fulfilling contracts. The amendments are effective for contracts for which the Company has not yet fulfilled all its obligations on or after January 1, 2022 with early adoption permitted. The Company is currently assessing the financial impact of the amendment and expects to apply the amendment at the effective date.

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, 2021.

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, 2021 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 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 Project) 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. The Company is also very pleased to continue to have Newmont Corporation as a significant shareholder.

As of November 10, 2021, the Company had approximately \$1.7 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.

Notwithstanding the work that has been and continues to be undertaken by Rio Tinto in relation to the Project, and prior statements made by Rio Tinto and its affiliates in relation to the Project, there can be no assurance that Rio Tinto will seek to further invest in the Project or seek to develop the Project into an operating mine, nor regarding what further studies, analyses, criteria or conditions Rio Tinto may consider relevant to its assessment of whether to do so.

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 include, without limitation: 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; changes in exploration, development or mining plans due to exploration results and changing budget priorities of Rio Tinto or the Company; the Legal Proceedings commenced by the Company against Rio Tinto including the counterclaim of Rio Tinto against the Company; the Company 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 impact of the COVID-19 pandemic; and the effectiveness of the extraction and diamond recovery methodologies used by Rio Tinto.

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, have its ownership interest in properties diluted or reduce or terminate its operations. Further, to the extent that Star Diamond is unable to obtain additional financing in circumstances where a joint venture has been formed with Rio Tinto and Star Diamond is required to fund its portion of any joint venture expenditures, Star Diamond's interest in that joint venture may be diluted. 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 communications with governmental authorities to attempt 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 had commenced Legal Proceedings against Rio Tinto in relation to Rio Tinto's purported exercise of the options under the Option Agreement. As part of its Counterclaim, Rio Tinto has alleged, among other things, breach of contract by Star Diamond. 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 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 Rio Tinto/Star Diamond Joint Venture 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 ultimately its operations. The Company's operations (including those of Rio Tinto) 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 or the PEA 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; statements regarding the processing and analysis of, and reporting of results from, the bulk samples previously collected by Rio Tinto and the timeline for doing so; statements related to diamond breakage and diamond breakage assessments; statements related to the joint venture that Rio Tinto claims has been formed with Star Diamond, funding obligations of Star Diamond under that joint venture and the consequences of Star Diamond not meeting any of such funding obligations; 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 need for and intention to seek additional financing; statements with respect to metallurgical investigations, assessments and test work including diamond breakage studies; 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 or the Company, the nature and outcome of studies, analyses, criteria or conditions that Rio Tinto may consider relevant to its assessment of whether to seek to further invest in the Project or seek to develop the Project into an operating mine, the effects of competition in the markets in which the Company operates, risks related to the Legal Proceedings including regarding the Court's interpretation of relevant agreements, the counterclaim of Rio Tinto against the Company and any future legal proceedings, the impact of the COVID-19 pandemic, risks related to the operation of the BSP and the processing methods being used by Rio Tinto and the effectiveness thereof, risks related to diamond breakage and cost overruns and other consequences arising from Rio Tinto's extraction and diamond recovery methodologies, risks related to the Company's need for additional financing and the Company's ability to raise that financing, the impact of changes in the laws and regulations regulating mining exploration and development, judicial or regulatory judgments and legal proceedings, operational and infrastructure risks and the additional risks described in the Company's most recently filed Annual Information Form, annual and interim MD&A, news releases and technical reports. The Company's anticipation of and success in managing the foregoing risks could cause actual results to differ materially from what is anticipated in such forward-looking statements.

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

Additional Information

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