



**Unaudited Condensed Interim  
Consolidated Financial Statements  
September 30, 2022**

**STAR DIAMOND CORPORATION**  
**Unaudited Condensed Interim Consolidated Financial Statements**

**For the Three and Nine Months Ended**  
**September 30, 2022**

Notice to Reader

Management has compiled the unaudited condensed interim consolidated financial statements of Star Diamond Corporation for the three and nine months ended September 30, 2022. The Corporation's external auditors have not reviewed these condensed interim consolidated financial statements.

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

| (Cdn\$ in thousands)  | September 30,<br>2022 | December 31,<br>2021 |
|---|-----------------------|----------------------|
| <b>Assets</b>   |                       |                      |
| Current assets:   |                       |                      |
| Cash and cash equivalents   | \$ 3,129              | \$ 1,265             |
| Receivables   | 20                    | 149                  |
| Prepays   | 116                   | 80                   |
|   | <u>3,265</u>          | <u>1,494</u>         |
| Restricted cash (note 6)  | -                     | 622                  |
| Investment in Wescan Goldfields Inc. (note 7)                       | 232                   | 668                  |
| Property and equipment  | 185                   | 246                  |
| Exploration and evaluation assets (note 8)                          | 66,344                | 66,344               |
|   | <u>\$ 70,026</u>      | <u>\$ 69,374</u>     |
| <b>Liabilities and Shareholders' Equity</b>                         |                       |                      |
| Current liabilities:  |                       |                      |
| Accounts payable and accrued liabilities                            | \$ 116                | \$ 2,839             |
| Current portion of lease liability                                  | 59                    | 79                   |
| Current portion of environmental rehabilitation provision (note 10) | -                     | 169                  |
|   | <u>175</u>            | <u>3,087</u>         |
| Lease liability   | -                     | 38                   |
| Environmental rehabilitation provision (note 10)                    | -                     | 96                   |
| Contingent consideration  | 870                   | 940                  |
| Shareholders' equity:   |                       |                      |
| Share capital   | 854,938               | 849,973              |
| Warrants  | 2,510                 | 1,194                |
| Broker warrants   | 41                    | 96                   |
| Contributed surplus   | 34,510                | 34,901               |
| Accumulated deficit   | (823,018)             | (820,951)            |
|   | <u>68,981</u>         | <u>65,213</u>        |
|   | <u>\$ 70,026</u>      | <u>\$ 69,374</u>     |

See accompanying notes to consolidated financial statements

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

| (Cdn\$ in thousands, except for share data)                  | Three Months Ended<br>September 30, |                | Nine Months Ended<br>September 30, |                |
|--|-------------------------------------|----------------|------------------------------------|----------------|
|  | 2022                                | 2021           | 2022                               | 2021           |
| <b>Income</b>  |                                     |                |                                    |                |
| Interest and other income                                    | \$ 16                               | \$ 22          | \$ 23                              | \$ 36          |
| <b>Expenses</b>  |                                     |                |                                    |                |
| Administration   | 317                                 | 362            | 1,178                              | 1,470          |
| Consulting and professional fees                             | 23                                  | 318            | 48                                 | 1,345          |
| Corporate development  | 7                                   | 19             | 25                                 | 48             |
| Exploration and evaluation (note 9)                          | (82)                                | 1,225          | 465                                | 2,323          |
|  | <u>265</u>                          | <u>1,924</u>   | <u>1,716</u>                       | <u>5,186</u>   |
| <b>Loss before the under noted items</b>                     | (249)                               | (1,902)        | (1,693)                            | (5,150)        |
| Unwinding of discount of environmental reclamation provision | -                                   | -              | (4)                                | (3)            |
| Unwinding of discount of lease liability                     | (1)                                 | (1)            | (4)                                | (6)            |
| Contingent consideration (note 8)                            | -                                   | -              | 70                                 | -              |
| Investment in Wescan Goldfields Inc. (note 7)                | (291)                               | (116)          | (436)                              | -              |
| <b>Net and comprehensive loss for the period</b>             | <u>(541)</u>                        | <u>(2,019)</u> | <u>(2,067)</u>                     | <u>(5,159)</u> |
| <b>Net loss per share</b>                                    |                                     |                |                                    |                |
| Basic and diluted  | \$ (0.00)                           | \$ (0.00)      | \$ (0.00)                          | \$ (0.01)      |
| <b>Weighted average number of shares outstanding (000's)</b> | 474,418                             | 452,804        | 467,040                            | 451,717        |

See accompanying notes to consolidated financial statements

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

| (Cdn\$ in thousands)  | Nine Months Ended<br>September 30, |                 |
|---|------------------------------------|-----------------|
|   | 2022                               | 2021            |
| <b>Cash provided by (used in):</b>  |                                    |                 |
| <b>Operations:</b>  |                                    |                 |
| Net loss  | \$ (2,067)                         | \$ (5,159)      |
| Adjustments:  |                                    |                 |
| Depreciation on property and equipment                                      | 73                                 | 72              |
| Loss (gain) on disposal of property and equipment                           | -                                  | 1               |
| Investment in Wescan Goldfields Inc.  | 436                                | -               |
| Contingent payment for mineral property acquisition                         | (70)                               | -               |
| Fair value of share-based payments expensed                                 | 71                                 | 451             |
| Unwinding of discount and changes to environmental rehabilitation provision | (265)                              | (283)           |
| Unwinding of discount and changes to lease liability                        | 4                                  | 7               |
| Net change in non-cash operating working capital items:                     |                                    |                 |
| Receivables   | 129                                | 7               |
| Prepays   | (36)                               | (111)           |
| Accounts payable and accrued liabilities                                    | (2,723)                            | 710             |
|   | <u>(4,448)</u>                     | <u>(4,305)</u>  |
| <b>Investing:</b>   |                                    |                 |
| Purchases of property and equipment   | (12)                               | (5)             |
| Restricted cash   | 622                                | -               |
|   | <u>610</u>                         | <u>(5)</u>      |
| <b>Financing:</b>   |                                    |                 |
| Issuances of equity through financings (net of issue costs)                 | 4,863                              | 1,758           |
| Issuances of equity from option, warrant and broker warrant exercised       | 901                                | 176             |
| Lease liability   | (62)                               | (62)            |
|   | <u>5,702</u>                       | <u>1,872</u>    |
| <b>Increase (decrease) in cash and cash equivalents</b>                     | <b>1,864</b>                       | <b>(2,438)</b>  |
| <b>Cash and cash equivalents, beginning of period</b>                       | <b>1,265</b>                       | <b>4,774</b>    |
| <b>Cash and cash equivalents, end of period</b>                             | <b>\$ 3,129</b>                    | <b>\$ 2,336</b> |
| <b>Cash and cash equivalents consists of:</b>                               |                                    |                 |
| Cash  | \$ 3,129                           | \$ 2,336        |
| Treasury bills  | -                                  | -               |
|   | <u>\$ 3,129</u>                    | <u>\$ 2,336</u> |

See accompanying notes to consolidated financial statements

**Star Diamond Corporation**  
**Condensed Consolidated Statements of Changes in Equity**

(unaudited)

| (Cdn\$ in thousands)                                    | Nine Months Ended<br>September 30, |                     | Year Ended<br>December 31, |
|---|------------------------------------|---------------------|----------------------------|
|   | 2022                               | 2021                | 2021                       |
| <b>Share capital (note 11)</b>                          |                                    |                     |                            |
| Balance, beginning of period                            | \$ 849,973                         | \$ 849,162          | \$ 849,162                 |
| Shares issued (net of issue costs)                      | 4,965                              | 810                 | 811                        |
| Balance, end of period                                  | <u>\$ 854,938</u>                  | <u>\$ 849,972</u>   | <u>\$ 849,973</u>          |
| <b>Warrants (note 11)</b>                               |                                    |                     |                            |
| Balance, beginning of period                            | \$ 1,194                           | \$ 371              | \$ 371                     |
| Issued  | 1,449                              | 1,047               | 1,047                      |
| Exercised   | (133)                              | -                   | -                          |
| Expired   | -                                  | (224)               | (224)                      |
| Balance, end of period                                  | <u>\$ 2,510</u>                    | <u>\$ 1,194</u>     | <u>\$ 1,194</u>            |
| <b>Broker warrants (note 11)</b>                        |                                    |                     |                            |
| Balance, beginning of period                            | \$ 96                              | \$ 176              | \$ 176                     |
| Issued  | 41                                 | 77                  | 77                         |
| Exercised   | (96)                               | -                   | -                          |
| Expired   | -                                  | -                   | (157)                      |
| Balance, end of period                                  | <u>\$ 41</u>                       | <u>\$ 253</u>       | <u>\$ 96</u>               |
| <b>Contributed surplus</b>                              |                                    |                     |                            |
| Balance, beginning of period                            | \$ 34,901                          | \$ 33,954           | \$ 33,954                  |
| Share-based payments - options (note 12)                | 14                                 | 196                 | 196                        |
| Share-based payments - deferred share units (note 12)   | -                                  | 46                  | 130                        |
| Share-based payments - restricted share units (note 12) | 57                                 | 209                 | 240                        |
| Options exercised (note 12)                             | (41)                               | -                   | -                          |
| Restricted share unit redemptions (note 12)             | (421)                              | -                   | -                          |
| Warrants expired  | -                                  | 224                 | 381                        |
| Balance, end of period                                  | <u>\$ 34,510</u>                   | <u>\$ 34,629</u>    | <u>\$ 34,901</u>           |
| <b>Accumulated deficit</b>                              |                                    |                     |                            |
| Balance, beginning of period                            | \$ (820,951)                       | \$ (813,262)        | \$ (813,262)               |
| Loss for the period                                     | (2,067)                            | (5,159)             | (7,689)                    |
| Balance, end of period                                  | <u>\$ (823,018)</u>                | <u>\$ (818,421)</u> | <u>\$ (820,951)</u>        |
| <b>Total shareholders' equity</b>                       | <u>\$ 68,981</u>                   | <u>\$ 67,627</u>    | <u>\$ 65,213</u>           |

See accompanying notes to consolidated financial statements

# STAR DIAMOND CORPORATION

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2022

(In thousands of Canadian dollars except as otherwise noted)

### 1. Corporate Information

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

### 2. Basis of preparation

The condensed interim consolidated financial statements of the Company for the three and nine months ended September 30, 2022 were authorized for issue by the Company’s Audit Committee on November 9, 2022. The condensed interim consolidated financial statements of the Company and all its subsidiaries have been prepared in accordance with International Accounting Standard (“IAS”) 34 *Interim Financial Reporting* and do not include all of the information required for full annual financial statements. The Company’s financial statements have been prepared on a historical cost basis, except as disclosed, using the Company’s functional currency of Canadian dollars.

In preparing the financial statements for the period ended September 30, 2022, significant judgments and estimations have been made by management in applying the Company’s accounting policies. In particular, the significant areas of judgment and estimation uncertainty considered by management in preparing the consolidated financial statements are: identification of cash generating units, exploration and evaluation expenditures, reserve and resource estimation, asset valuations and impairment of exploration and evaluation assets, estimations for environmental rehabilitation provisions, share-based payment transactions and estimation of contingent consideration. These are discussed in more detail in note 5 of the Company’s consolidated financial statements for the year ended December 31, 2021.

### 3. Going Concern

These financial statements are prepared on the assumption that the Company will continue as a going concern and realize its assets and discharge its liabilities and commitments in the normal course of business. Management is aware, in making its going concern assessment, of material uncertainties related to events and conditions that cast significant doubt upon the Company’s ability to continue as a going concern. At September 30, 2022, the Company had working capital of \$3.1 million and cash of \$3.1 million of which \$0.2 million is committed to be spent on qualifying expenditures to satisfy flow-through share requirements. Given that cashflows from operations are negative, the ability of the Company to continue as a going concern and fund general and administrative expenses in an orderly manner will require further equity issues or other forms of financings beyond 2022.

There is no assurance that the Company will be successful in obtaining required financing at an acceptable cost as and when needed or at all. Failure to obtain additional financing on a timely basis may cause the Company to postpone exploration and/or evaluation plans, forfeit rights in its properties or reduce or terminate its operations.

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

### 4. Summary of significant accounting policies

The accounting policies applied by the Company in these condensed interim consolidated financial statements are the same as those disclosed in note 4 of the Company’s consolidated financial statements for the year ended December 31, 2021, except as noted below. Accordingly, the condensed interim consolidated financial

statements should be read in conjunction with the consolidated financial statements for the year ended December 31, 2021.

## 5. IFRS standards, amendments and interpretations

### a. New IFRS standards, amendments and interpretations effective during the period

#### i. 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 amendment did not have a material financial impact at the time of adoption.

#### ii. 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 amendment did not have a material financial impact at the time of adoption.

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

### b. New IFRS standards issued but not yet effective

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

## 6. Restricted Cash

During the quarter ended September 30, 2022, the Company received a notice from the Ministry of Environment releasing and cancelling letters of credit previously held by the Ministry for environmental rehabilitation (note 10). As a result, at September 30, 2022, the Company had \$0 thousand (December 31, 2021 – \$622 thousand) in short-term investments held as security for letters of credit.

## 7. Investment in Wescan Goldfields Inc.

At September 30, 2022, the Company held 5,807 thousand shares or 11.6% (December 31, 2021 – 5,807 thousand shares or 12.9%) of Wescan Goldfields Inc. (“Wescan”), a publicly traded company on the TSX Venture exchange. The Company considers certain judgments and assumptions when assessing whether significant influence exists over its investments. This includes an assessment of the Company’s ability to participate in financial and operating policy decisions of the investee. The existence and effect of potential voting rights held by the investor or other entities were also considered.

IFRS 9 requires all marketable securities to be measured at fair value. Changes in fair value are recognized in profit or loss (“FVPL”) based on the Company’s accounting policy. At September 30, 2022, the carrying value

of this investment was \$232 thousand (December 31, 2021 – \$668 thousand). During the nine months ended September 30, 2022, the Company recognized a \$436 thousand decrease in the carrying value of its investment in Wescan.

## 8. Exploration and evaluation assets

As of September 30, 2022, the Company holds a 25% interest in the Fort à la Corne properties located in the central part of Saskatchewan, Canada (“Fort à la Corne properties”) through a contractual agreement with Rio Tinto Exploration Canada Inc. (“Rio Tinto Canada”). These properties are accounted for as one cash-generating unit. The carrying value of the Fort à la Corne properties represents the acquisition of minority interests of the Fort à la Corne properties since 2005, net of impairments. The carrying value of the Fort à la Corne properties is \$66,344 thousand at September 30, 2022 (December 31, 2021 - \$66,344 thousand).

As part of the acquisition of Newmont Canada FN Holdings ULC’s (“Newmont”) participating interest in the Fort à la Corne properties in 2017, the Company agreed that Newmont will receive a contingent payment in the aggregate amount of \$3,200 thousand if a positive decision is made to develop a mine on the project. The Company, in its sole discretion (subject to regulatory approvals), may satisfy the contingent payment due to Newmont through a cash payment or the issuance of common shares. An estimate of the discounted present value of this contingent consideration was performed by management using a risk-free discount rate of 3.3% (December 31, 2021 – 1.3%), which reflects current market assessments of the time value of money and probability weighted cash flow estimates. The fair value was determined to be approximately \$870 thousand at September 30, 2022 (December 31, 2021 - \$940 thousand).

On June 28, 2022 Rio Tinto Canada exercised its voting power at a meeting of the Fort à la Corne joint venture management committee to place the Fort à la Corne properties on care and maintenance through December 31, 2022. Rio Tinto Canada also advised that, subject to fulfilling its existing obligations, it does not intend to commit additional capital to the Fort à la Corne properties during 2022 beyond what is necessary for care and maintenance. Rio Tinto Canada also advised the Company that it intends to conduct a near-term review of its alternatives regarding the Fort à la Corne properties, including its potential exit.

Pursuant to a quitclaim, surrender and assignment of interest agreement dated May 11, 2022, the Company acquired an additional joint venture interest of approximately 17% in the Buffalo Hills-JV. As a result, at September 30, 2022 the Company holds 50% (December 31, 2021 - 33%) interest in the exploration and evaluation properties and assets of the Buffalo Hills-JV. Canterra Minerals Corporation (“Canterra”) holds the remaining 50% interest. Canterra is the Operator of the Buffalo Hills-JV. The carrying value of the Buffalo Hills-JV properties at September 30, 2022 is nil (December 31, 2021 - nil).

## 9. Exploration and evaluation expense

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

|   | September 30,<br>2022 | September 30,<br>2021 |
|---|-----------------------|-----------------------|
| Fort à la Corne properties                                    |                       |                       |
| Amortization of tangible assets                               | \$ 4                  | \$ 4                  |
| Exploration and evaluation                                    | 719                   | 2,285                 |
| Revisions to environmental rehabilitation provision (note 10) | (269)                 | -                     |
| Share-based payments  | 6                     | 28                    |
| Buffalo Hills property  |                       |                       |
| Exploration and evaluation                                    | 5                     | 6                     |
| <b>Total</b>  | <b>\$ 465</b>         | <b>\$ 2,323</b>       |

## 10. Environmental reclamation provision

|  | Fort à la Corne<br>properties |
|--|-------------------------------|
| Balance – December 31, 2021            | \$ 265                        |
| Revisions in estimates (a)             | (269)                         |
| Unwinding of discount                  | 4                             |
| Balance – September 30, 2022           | -                             |
| Less: Estimate of current portion      | -                             |
| Long term portion – September 30, 2022 | \$ -                          |

The environmental rehabilitation provision represents the estimated present value of decommissioning and rehabilitation costs relating to exploration and evaluation work conducted on the above properties by the Company. The Company was previously required to decommission and rehabilitate exploration and evaluation sites to a condition acceptable to the relevant authorities. Provisions were based on the Company's internal estimates and external information where available.

- (a) During the quarter ended September 30, 2022 the Company was released from decommissioning and rehabilitation obligations on the above properties. The Company had also previously provided letters of credit as security for environmental reclamation provisions, as disclosed in note 6.

## 11. Share capital and reserves

### Authorized

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

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

Common shares issued and fully paid:

|  | Common Shares<br>(in thousands) | Amount<br>(in thousands) |
|--|---------------------------------|--------------------------|
| Balance – December 31, 2021  | 452,804                         | \$ 849,973               |
| Issuance of shares and warrants (net of issue costs) (a)           | 16,667                          | 3,236                    |
| Issuance of finder shares and warrants (b)                         | 468                             | 137                      |
| Issuance of shares on redemption of restricted share units (c)     | 2,105                           | 421                      |
| Issuance of shares on exercise of options (c)                      | 375                             | 112                      |
| Issuance of shares on exercise of warrants and broker warrants (c) | 3,578                           | 1,059                    |
| Balance – September 30, 2022                                       | 475,997                         | \$ 854,938               |

### (a) Unit financing

During the quarter ended June 30, 2022, the Company issued 16,667 thousand common shares and 16,667 thousand warrants (note 11(c)), at a price of \$0.30 per unit, for gross proceeds of \$5,000 thousand.

### (b) Issuance of finder shares

During the quarter ended June 30, 2022, the Company issued 468 thousand common shares pursuant to finder agreements relating to the unit financing. The Company also issued 468 thousand broker warrants (note 11(c)).

### (c) Nature and purpose of equity reserves

#### Share-based payments reserve

The share-based payments reserve is recognized within contributed surplus and is used to recognize the fair value of equity-settled share-based payment transactions provided to directors, officers and employees,

including key management personnel, as part of their remuneration. The fair value of stock options has been valued using the Black-Scholes option-pricing model. Refer to note 12 for further details on these share-based payment plans.

Broker warrants reserve

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

|                              | Broker<br>Warrants<br>(in thousands) | Average<br>Price | Amount<br>(in thousands) |
|------------------------------|--------------------------------------|------------------|--------------------------|
| Balance - December 31, 2021  | 1,078                                | \$ 0.26          | \$ 96                    |
| Issued (a)                   | 468                                  | 0.40             | 41                       |
| Exercised                    | (1,078)                              | 0.26             | (96)                     |
| Balance – September 30, 2022 | 468                                  | \$ 0.40          | \$ 41                    |

- (a) During the quarter ended June 30, 2022, 468 thousand broker warrants were issued pursuant to finder agreements in connection to the unit financing. Each broker warrant entitles the holder thereof to purchase one Common Share at a price of \$0.40 for a period of 24 months from the date of issuance. The broker warrants issued were fair valued at \$41 thousand. The fair values were determined using the Black-Scholes pricing model with the following assumptions: a volatility factor of 69.8-69.9%, risk-free rate of return of 2.37-2.63%, expected dividend of 0%, and expected term of 24 months.

Warrant reserve

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

|                              | Warrants<br>(in thousands) | Average<br>Price | Amount<br>(in thousands) |
|------------------------------|----------------------------|------------------|--------------------------|
| Balance – December 31, 2021  | 16,111                     | \$ 0.25          | \$ 1,194                 |
| Issued (a)                   | 16,667                     | 0.40             | 1,449                    |
| Exercised                    | (2,500)                    | 0.25             | (133)                    |
| Balance – September 30, 2022 | 30,278                     | \$ 0.33          | \$ 2,510                 |

- (a) During the quarter ended June 30, 2022, 16,667 thousand warrants were issued in connection to a share financing. Each warrant entitles the holder thereof to purchase one common share at a price of \$0.40 for a period of 24 months from the date of issuance. The warrants issued were fair valued at \$1,449 thousand. The fair values were determined using the Black-Scholes pricing model with the following assumptions: a volatility factor of 69.8-69.9%, risk-free rate of return of 2.37-2.63%, expected dividend of 0%, and expected term of 24 months.

**12. Share-based payments**

(a) Share option plan

The Company has established a share option plan whereby options may be granted to directors, officers, employees and service providers to purchase common shares of the Company. Options granted have an exercise price of not less than the closing price quoted on the Toronto Stock Exchange for the common shares of the Company on the trading day prior to the date on which the option is granted. Certain options vest immediately while others vest six to twelve months after grant date and all options granted under the plan

expire five years from the date of the grant of the options. All options are to be settled by physical delivery of shares. These common shares would be issued from the same 10% rolling pool as the common shares issued under the Company's Deferred Share Unit Plan and the Company's Performance Share Unit and Restricted Share Unit Plan.

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

|                            | 2022    |               | 2021    |               |
|----------------------------|---------|---------------|---------|---------------|
|                            | Options | Average Price | Options | Average Price |
| Outstanding – January 1    | 19,742  | \$ 0.21       | 19,861  | \$ 0.21       |
| Granted                    | 200     | 0.125         | 1,958   | 0.215         |
| Exercised                  | (375)   | 0.19          | -       | -             |
| Expired                    | (1,089) | 0.20          | (177)   | 0.20          |
| Outstanding – September 30 | 18,478  | \$ 0.21       | 21,642  | \$ 0.21       |
| Exercisable – September 30 | 18,478  | \$ 0.21       | 21,642  | \$ 0.21       |

Options outstanding at September 30, 2022 have an exercise price in the range of \$0.19 to \$0.245 (2021 – \$0.19 to \$0.245) and a weighted average contractual life of 2.1 years (2021 – 2.7 years). The expense related to the Company's share-based payments as a result of certain options vesting over the period is recognized in the comprehensive statement of loss for the nine months ended September 30, is as follows:

| Expense Category included  | September 30, 2022 | September 30, 2021 |
|----------------------------|--------------------|--------------------|
| Administration             | \$ 14              | \$ 191             |
| Exploration and evaluation | -                  | 5                  |
| Total                      | \$ 14              | \$ 196             |

The grant date fair value of stock options issued under the plan is estimated using the Black-Scholes option-pricing model. Expected volatility is estimated by considering historic average share price volatility. The option life is estimated based on the weighted average historical life of options that have been granted by the Company. The inputs used in the measurement of the fair values at grant date of the share-based payments during the nine months ended September 30 are as follows:

|                           | September 30, 2022 | September 30, 2021 |
|---------------------------|--------------------|--------------------|
| Share price at grant date | \$ 0.125           | \$ 0.215           |
| Exercise price            | \$ 0.125           | \$ 0.215           |
| Expected volatility       | 89.8%              | 74.3%              |
| Estimated option life     | 2.5 years          | 2.5 years          |
| Expected dividends        | 0 %                | 0 %                |
| Expected forfeiture rate  | 0 %                | 0 %                |
| Risk-free interest rate   | 3.27 %             | 0.17 %             |
| Fair value at grant date  | \$ 0.07            | \$ 0.10            |

(b) Deferred share unit plan

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

surplus and transferred to share capital if and when the DSU is redeemed. DSUs vest immediately. DSUs outstanding at September 30, 2022 are 1,017 thousand (2021 – 744 thousand).

During the nine months ended September 30, 2022, no DSUs were granted (2021 – 207 thousand). The expense related to the Company’s share-based payments as a result of DSUs vesting over the nine months ended September 30, 2022 was nil (2021 - \$46).

(c) Performance share unit and restricted share unit plan

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

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

|  | September 30,<br>2022 | September 30,<br>2021 |
|--|-----------------------|-----------------------|
| RSUs outstanding – January 1           | 4,532                 | 3,881                 |
| Granted                                | -                     | 651                   |
| Redeemed                               | (2,105)               | -                     |
| <b>RSUs outstanding – September 30</b> | <b>2,427</b>          | <b>4,532</b>          |

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

| Expense category included  | September 30,<br>2022 | September 30,<br>2021 |
|----------------------------|-----------------------|-----------------------|
| Administration             | \$ 51                 | \$ 186                |
| Exploration and evaluation | 6                     | 23                    |
| <b>Total</b>               | <b>\$ 57</b>          | <b>\$ 209</b>         |

**13. Related party transactions**

**Related party transactions with key management personnel**

Key management personnel are persons responsible for planning, directing, and controlling the activities of an entity, and include executive and non-executive directors. The Company pays certain of its current key management personnel through MacNeill Brothers Oil and Gas Ltd., a company owned by certain executive officers and directors.

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

|  | September 30,<br>2022 | September 30,<br>2021 |
|--|-----------------------|-----------------------|
| Short-term benefits to key management and directors                      | \$ 274                | \$ 244                |
| Consulting and management fees to related companies                      | 184                   | 184                   |
| Share based payments   | 60                    | 315                   |
| <b>Total compensation paid to key management personnel and directors</b> | <b>\$ 518</b>         | <b>\$ 743</b>         |

The amounts disclosed in the table above are the amounts recognized as an expense during the reporting period related to key management personnel. The above transactions were in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The fair value of share-based payments 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 compensation paid or payable to key management personnel and directors is included in the Company's statement of loss and comprehensive loss during the nine months ended September 30 is as follows:

|  | September 30,<br>2022 | September 30,<br>2021 |
|--|-----------------------|-----------------------|
| Administration   | \$ 518                | \$ 743                |
| Exploration and evaluation   | -                     | -                     |
| <b>Total compensation paid to key management personnel and directors</b> | <b>\$ 518</b>         | <b>\$ 743</b>         |

#### 14. Financial instruments

Fair values have been determined for measurement and/or disclosure purposes based on the fair value hierarchy for financial instruments that require fair value measurement after initial recognition. The classification of each financial instrument is described in note 4 of the Company's consolidated financial statements for the year ended December 31, 2021.

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

All financial instruments measured at fair value are categorized into one of three hierarchy levels as described in note 20 of the Company's consolidated financial statements for the year ended December 31, 2021. These financial instruments include the Company's investment in Wescan (level 1) and the contingent consideration (level 3).

##### Risk management

Certain financial instruments are exposed to the following financial risks:

##### (a) Credit risk

Credit risk is the risk of an unexpected loss by the Company if a customer or third-party to a financial instrument fails to meet its contractual obligations. The Company considers this risk to be insignificant as the majority of the Company's cash and cash equivalents are held by financial institutions with a low risk credit rating or are invested in Government of Canada treasury bills which are backed by the Government of Canada. As at September 30, 2022, the Company's credit risk relates to its cash and cash equivalents, receivables and restricted cash of \$3,149 thousand (December 31, 2021 – \$2,036 thousand).

##### (b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to forecast future cash flows to ensure that it will have sufficient liquidity to meet its obligations when due. To ensure the Company has sufficient cash on hand, the Company prepares annual capital and operating budgets which are regularly monitored and updated as considered necessary. As at September 30 2022, the Company had working capital of \$3.1 million and is required to incur \$0.2 million of qualifying expenditures by December 31, 2022 as a result of flow-through share financings.

The Company had previously guaranteed certain liabilities by issuing irrevocable standby letters of credit (December 31, 2021 – \$622 thousand). These guarantees were related to environmental rehabilitation provisions. The Company backed the letters of credit with investments which were recorded on the financial statements as restricted cash. The Company does not include restricted cash in its working capital when

analyzing its liquidity requirements. During the quarter ended September 30, 2022 these letters of credit of \$622 thousand were cancelled by the Ministry and the amounts previously presented as restricted cash are now included in cash and cash equivalents and working capital as at September 30, 2022.

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

(c) Market risk

Market risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices. Market prices are comprised of four types of risk: foreign currency risk, interest rate risk, commodity price risk and equity price risk. As at September 30, 2022, the Company does not have significant exposure to any of these market risks.