

## **FIVE STAR DIAMONDS LIMITED**

(formerly Turquoise Capital Corp.)

### **QUARTERLY HIGHLIGHTS – INTERIM MANAGEMENT’S DISCUSSION AND ANALYSIS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2017**

The following interim Management’s Discussion & Analysis (“Interim MD&A”) of Five Star Diamonds Limited (the “Company” or “Five Star”) for the three months ended September 30, 2017 has been prepared to provide material updates to the business operations, liquidity and capital resources of the Company since its last annual management’s discussion & analysis, being the Management’s Discussion & Analysis (“Annual MD&A”) for the fiscal year ended June 30, 2017. This Interim MD&A does not provide a general update to the Annual MD&A, or reflect any non-material events since the date of the Annual MD&A.

This Interim MD&A has been prepared in compliance with section 2.2.1 of Form 51-102F1, in accordance with National Instrument 51-102 – Continuous Disclosure Obligations. This discussion should be read in conjunction with the Annual MD&A, audited annual consolidated financial statements of the Company for the years ended June 30, 2017 and June 30, 2016, together with the notes thereto, and unaudited condensed interim consolidated financial statements of the Company for the three months ended September 30, 2017, together with the notes thereto. Results are reported in Canadian dollars, unless otherwise noted. The Company’s unaudited condensed interim consolidated financial statements and the financial information contained in this Interim MD&A are prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board and interpretations of the IFRS Interpretations Committee. Information contained herein is presented as of November 21, 2017, unless otherwise indicated.

For the purposes of preparing this Interim MD&A, management, in conjunction with the Board of Directors (the “Board”), considers the materiality of information. Information is considered material if: (i) such information results in, or would reasonably be expected to result in, a significant change in the market price or value of Five Star common shares; (ii) there is a substantial likelihood that a reasonable investor would consider it important in making an investment decision; or (iii) it would significantly alter the total mix of information available to investors. Management, in conjunction with the Board, evaluates materiality with reference to all relevant circumstances, including potential market sensitivity.

Further information about the Company and its operations can be obtained from the offices of the Company or from [www.sedar.com](http://www.sedar.com).

#### **Forward Looking Statements**

Certain information included in this discussion may constitute forward-looking statements. Readers are cautioned not to put undue reliance on forward-looking statements. These statements relate to future events or the Company’s future performance, business prospects or opportunities. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as “seek”, “anticipate”, “plan”, “continue”, “estimate”, “expect”, “may”, “will”, “project”, “predict”, “potential”, “targeting”, “intend”, “could”, “might”, “should”, “believe” and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Company believes that the expectations reflected in those forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking statements contained into this report should not be unduly relied upon. These statements speak only as of the date of this report. Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in this report. Such statements are based on a number of assumptions which may prove to be incorrect, including, but not limited to, assumptions about general business and economic conditions; the availability of financing for the Company’s operations; and the ability to attract and retain skilled staff.

These forward-looking statements are subject to certain factors, including risks and uncertainties, which could cause actual

results to differ materially from what we currently expect. Actual results may differ materially from those expressed or implied by such forward-looking statements. Factors that could cause actual results to differ materially include, but are not limited to, the risk factors hereinafter. **Investors should not place undue reliance on forward-looking statements as the plans, intentions or expectations upon which they are based might not occur. The Company cautions that the following list of important factors is not exhaustive. Investors and others who base themselves on the Company's forward-looking statements should carefully consider the factors below as well as the uncertainties they represent and the risk they entail. The forward-looking statements contained in this report are expressly qualified by this cautionary statement.** The Company intends to discuss in its quarterly and annual reports referred to as the Company's Interim and Annual MD&A documents, any events and circumstances that occurred during the period to which such document relates that are reasonably likely to cause actual events or circumstances to differ materially from those disclosed in this Interim MD&A.

### **Description of Business**

The Company was incorporated on November 14, 2012 under the Business Corporations Act (British Columbia).

The head office of the Company is located at Suite 806, 390 Bay Street, Toronto, Ontario. The records and registered office of the Company is located at Suite 806, 390 Bay Street, Toronto, Ontario. The Company has four subsidiaries; FSD Holdings Limited (incorporated in the British Virgin Islands), FSD Brazil Limited (incorporated in the British Virgin Islands), Five Star Mineração Ltda. (incorporated in Brazil) and 1030301 BC Ltd (incorporated in Canada).

On September 9, 2016 the Company signed a definitive merger agreement (the "Merger Agreement") with FSD Holdings Limited (formerly Five Star Diamonds Ltd.), a corporation existing under the laws of the British Virgin Islands ("FSD BVI"), which sets out the terms and conditions pursuant to which the Company and FSD BVI were to complete a transaction that will result in a reverse takeover of the Company by the shareholders of FSD BVI (the "Transaction") and constitute the Company's Qualifying Transaction under the TSX Venture Exchange (the "TSXV") Policy 2.4 – Capital Pool Companies. Upon completion of the Transaction, it is the intention of the parties that Five Star company will focus on the exploration and development of FSD BVI's diamond projects located in Brazil.

FSD BVI was incorporated on May 15, 2014 under the laws of the British Virgin Islands with focus on the business of mining, mineral and resource exploration and development in Brazil. Currently, the FSD BVI has one material project, the Catalão Diamond Project, located in the State of Goiás, Brazil. The Catalão Diamond Project is comprised of one exploration licence of 1,999.42 hectares. FSD BVI holds its interest in the Catalão Diamond Project through its Brazilian subsidiary.

On March 3, 2017, the Company received conditional approval from the TSX Venture Exchange for the Qualifying Transaction. Following which the Company submitted its filing statement for the Merger Agreement to the TSX Venture Exchange on March 29, 2017.

On April 20, 2017, the Company, FSD BVI and FSD Holdings Limited (a wholly owned subsidiary of FSD BVI) finalised the Merger Agreement. To complete the merger, FSD Holdings Limited and FSD BVI merged to form a single entity and the separate corporate existence of FSD BVI. FSD Holdings Limited became the owner of all rights and property of the two merged entities and subject to all liabilities, obligations and penalties of the two entities. All of the ordinary shares of FSD BVI outstanding immediately prior to the merger were cancelled and in exchange the holders of the cancelled ordinary shares received one common share in the capital of the Company for every share previously held. An aggregate of 101,287,345 common shares were issued to the former shareholders of FSD BVI. The resulting merged entity of FSD Holdings Limited became a wholly-owned subsidiary of the Company. As a result of the merger, FSD BVI was subsequently struck off.

In connection with the completion of the Transaction, the Company completed a private placement (the "Offering") of 17,815,480 common shares at a price of \$0.30 per share for aggregate gross proceeds of \$5,344,644. In connection with the Offering, the Company provided compensation to registered brokers, registered dealers and other finders comprised of an aggregate of \$403,185 in cash and an aggregate of 1,343,950 non-transferable common share purchase warrants, with each whole warrant entitling holder to acquire one Common Share at a price of \$0.30 per share for a period of two years from the date of issuance. Following completion of the Transaction and the Offering, the Company has 128,777,096 common shares issued and outstanding and securities convertible into an aggregate of 1,543,950 additional common shares.

On closing of the Transaction, the Company changed its name from Turquoise Capital Corp. to Five Star Diamonds Limited and all of the prior directors and officers of the Company resigned and were replaced.

On April 25, 2017 the common shares commenced trading on the TSXV under the new ticker symbol "STAR".

### **Corporate Highlights**

During the 3-month period ended September 30, 2017, the following corporate activities occurred:

- On November 6, 2017, Five Star announced the appointment of Mr. Aneel Waraich as Director and Mr. Carmelo Marrelli as Chief Financial Officer (CFO).
- Executive Director Brian McMaster has stepped down from his role with effect from October 1, 2017 to pursue other business interests.
- On September 11, 2017, Five Star and I. Hennig & Co. Ltd., ("Hennig") the world's leading international diamond broking and consulting group, announced the signing of a co-operation agreement to add value and advance Five Star's diamond projects in Brazil. Five Star has signed an agreement with Hennig to support its development and growth efforts. Hennig has been aiding clients to procure rough diamonds for over 125 years and has worked with the major players at all levels of the value chain. The scope of the agreement covers Five Star's induction into the diamond industry and development of its brand. This strategic cooperation will afford Five Star the ability to enhance its customer relationships and marketing in the broader diamond sector.
- Five Star has decided to change its year-end from June 30 to December 31. The reason for the change is to make Five Star's reporting periods coincide with those of its industry peers.
- July 25, 2017, Five Star issued 100,000 at \$0.10 per share on the exercise of options.

### **Trends**

Management regularly monitors economic conditions and estimates their impact on the Company's investments and incorporates these estimates in both short-term operating and longer-term strategic decisions. During fiscal 2017 and to the date of this MD&A, equity markets in the junior resource sector, particularly the TSXV, have shown a certain level of caution coupled with investors rotating into other sectors, however, companies with good projects continue to access the capital markets to fund their operations. Apart from these factors and the risk factors noted under the heading "Risk Factors" below, management is not aware of any other trends, commitments, events or uncertainties that would have a material effect on the Company's business, financial condition or results of operations.

### **Financial Highlights**

#### **Financial Performance**

During the quarter ended September 30, 2017, the Company incurred a net loss of \$514,868 (2016 - \$647,445). The expenses for the quarter ended September 30, 2017, include the following material items:

- Administrative expenses marginally increased in the three months ended September 30, 2017, to \$11,250 compared with \$10,953 for the same period in 2016. Administrative costs consisted of administrative costs such as telephone charges, insurance, postage, bank charges and office supplies.
- Public company costs increased in the three months ended September 30, 2017, to \$10,215 compared with \$2,403 for the same period in 2016. The increase is due to the Company becoming a reporting issuer on April 20, 2017.
- Accounting, audit and tax fees marginally increased in the three months ended September 30, 2017, to \$34,901 compared with \$33,509 for the same period in 2016, primarily due to the Company requiring external accounting support services.
- Legal fees decreased in the three months ended September 30, 2017, to \$9,413 compared with \$14,303 for the same

period in 2016, primarily due to lower corporate activity requiring external legal support services.

- Travel and accommodation costs decreased in the three months ended September 30, 2017, to \$45,833 compared with \$177,858 for the same period in 2016, primarily due to lower corporate activity requiring travel by management.
- Advertising and marketing increased in the three months ended September 30, 2017, to \$54,257 compared with \$13,031 for the same period in 2016, primarily due to higher costs to increase Five Star's investor profile. These activities were minimal in 2016.
- Other expenses decreased in the three months ended September 30, 2017, to \$70,112 compared with \$139,755 for the same period in 2016, primarily due to lower corporate activity.

Current and Future Plans Related to the Company's 100% owned Jaibaras, Catalão, Riachão, Verissimo and Caiapo diamond projects.

Summary of Completed Activities (Three Months Ended September 30, 2017)	(A) Spent (approx.)	Plans for the Projects	(B) Planned Expenditures (approx.)
See note 1 and note 2 below for activities	\$721,937	note 3	\$7.5 million
<b>Subtotals</b>	<b>\$721,937</b>		<b>\$7.5 million</b>
<b>Total (A+B)</b>			<b>\$8.2 million</b>

**note 1**

- Diamond drilling (Jaibaras Project), including 33 drill holes for a total of 1,038.95 linear metres;
- Extraction and processing of 8 mini-bulk samples (Jaibaras Project). Total of 122 tons;
- Conclusion of ADP design work for the new dense media plant (Catalão Project);
- Caustic fusion and microdiamond analyses (Riachão Project). Total of 2 samples, weighting 195.25 kilograms;
- Ground magnetic survey (Caiapo Project). Total of 147 linear kilometres;
- Auger drilling (Caiapo Project), including 9 auger holes for a total of 72 linear metres;
- Ground magnetic survey (Riachão Project). Total of 28.70 linear kilometres;
- Auger drilling (Riachão Project), including 4 auger holes for a total of 23.80 linear metres;
- Geological mapping (Riachão Project);
- Extraction of 2 mini-bulk samples (Riachão Project). Total of 2.01 tons.

**note 2**

The Company had the following land ownership activity in Brazil:

- Jaibaras Diamond Project increases from 522 hectares to 49,443 hectares;
- In addition to the expanded Jaibaras acquisition the Company has also acquired the Gurupi Diamond Project in

Maranhao State. The Gurupi Project comprises one property with 9,909 hectares;

- An additional 1,850 hectares was acquired across two additional properties of 1,000 hectares each at the Mega Goiás project in Goiás State;
- On September 14, 2017, the Company relinquished 13 mineral rights covering approximately 20,000 hectares. No exploration activities had been conducted in the areas covered by these mineral rights and they did not form a part of any of the Company's advanced projects; and
- The Company has 23 diamond kimberlite projects comprising an aggregate of 67 exploration licences and applications across 165,019 hectares.

### **note 3**

- The Company intends to continue its program of ongoing bulk sampling at the Jaibaras and Riachão diamond kimberlite projects where early results have encouraged the Company to focus additional resources. Initial bulk sampling, auger drilling and ground magnetics will also commence across the companies substantial and enviable pipeline of kimberlite projects across Brazil. This program is estimated at approximately \$3 million.
- The Company is also assessing funding solutions for the development of its Catalão Diamond Project. Final modelling and design work by independent consultants to the Company estimate that this is approximately \$4.5 million.
- Longer term bulk sampling and work programs are subject to further funding.

To date, the Company has not earned any revenues from its mining properties, and is considered to be in the exploration and development stage. The ability to ensure continuing operations is dependent on the discovery of economically recoverable reserves, confirmation of its interest in the underlying mineral claims, and its ability to obtain necessary financing to complete the exploration activities, development and advance to production.

Paulo Ildio de Brito, geologist, is the "qualified person", within the meaning of National Instrument 43,101, who has approved all scientific and technical information disclosed in this Interim MD&A relating to Current and Future Plans Related to the Company's 100% owned Jaibaras, Catalão, Riachão, Verissimo and Caiapo diamond projects. under the heading "Financial Performance". Paulo Ildio de Brito is a consulting geologist of the Company.

### **Cash Flow**

Cash used in operating activities was \$589,445 for the three months ended September 30, 2017. Operating activities were affected by payments to suppliers and employees of \$617,012, interest received of \$1,187 and other receipts of \$26,380.

Financing activities were affected by proceeds from the exercise of stock options of \$15,000.

Investing activities were affected by cash payments for property, plant and equipment in the amount of \$105,331 and exploration and evaluation expenditures in the amount of \$809,695.

The Company believes that additional financing will be required to fund its diamond projects. See "Financial Performance" above.

### **Liquidity and Capital Resources**

The activities of the Company, principally the acquisition and exploration of properties prospective for diamonds, are financed through the completion of equity transactions such as equity offerings and the exercise of stock options. There is no assurance that future equity capital will be available to the Company in the amounts or at the times desired by the Company or on terms that are acceptable to it, if at all. See "Risk Factors" below.

The Company has no operating revenues and therefore must utilize its current cash reserves, funds obtained from the issuance of share capital, exercise of stock options and other financing transactions to maintain its capacity to meet ongoing operating activities. As of September 30, 2017, the Company had 128,877,096 common shares issued and outstanding and 6,393,950

options that would raise \$2,208,185 if exercised in full. This is not anticipated in the immediate future. See "Trends" above.

Trade and other payables decreased to \$435,158 at September 30, 2017, compared to \$664,504 at June 30, 2017, and consist of amounts that are to be extinguished in due course. The Company's cash and cash equivalents as of September 30, 2017 is sufficient to pay these liabilities.

At September 30, 2017, the Company had working capital of \$1,279,681, compared to \$2,548,525 at June 30, 2017, a decrease of \$1,268,844, or approximately 50%. The Company had cash and cash equivalents of \$1,539,962 at September 30 2017, compared to \$3,029,431 at June 30, 2017, a decrease of \$1,489,469, or approximately 49%. The decrease in working capital and cash and cash equivalents can be attributed to the Company's exploration program and operating expenses.

The Company's liquidity risk from financial instruments is minimal as excess cash is held in current bank accounts.

While the Company has no source of revenue, it believes it has sufficient cash resources to meet its discretionary administrative overhead and maintain its mineral investments, depending on future events. The cash balances at September 30, 2017 are sufficient for the sampling programs currently underway. The Company estimates its discretionary administrative overhead for the following twelve months to be approximately \$2.1 million. In addition, the Company estimates the bulk sampling and work programs at its projects to cost approximately \$7.5 million. Based on the rate of expenditure, the Company will likely have to raise capital, if an opportunity arises, in amounts sufficient to fund working capital requirements. The Company will defer payments where possible until the capital is sourced. Although the Company has been successful in raising funds to date, there can be no assurance that adequate funding will be available in the future, or under terms favourable to the Company. See "Risk Factors" below and "Forward Looking Statements" above.

Additional measures have been undertaken or are under consideration to further reduce corporate overhead.

#### **Related Party Transactions**

Related party transactions conducted in the normal course of operations are measured at the exchange value (the amount established and agreed to by the related parties). The terms and conditions of the transactions with key management personnel and their related parties were no more favorable than those available, or which might reasonably be expected to be available, to similar transactions to non-key management personnel related entities on an arm's length basis.

Related parties include members of the board of directors, close family members and enterprises that are controlled by these individuals as well as certain persons performing similar functions.

During the 3 month period ended September 30, 2017, the Company incurred the following amounts for executive compensation arrangements described below:

- Matthew Wood as Chief Executive Officer and Director - \$60,313;
- Brian McMaster, former Chief Financial Officer and Director - \$25,060;
- Luis Azevedo, Chief Operating Officer and Director - \$45,420;
- Aneel Waraich, Director - \$46,579;
- Simon Rothschild, former Director - \$17,509; and
- Joseph Burke, General Manager Marketing - \$37,539.

During the 3 month period ended September 30, 2016, the Company incurred the following amounts for executive compensation arrangements described below:

- Matthew Wood as Chief Executive Officer and Director - \$62,608;
- Brian McMaster, former Chief Financial Officer and Director - \$39,130;
- Luis Azevedo, Chief Operating Officer and Director - \$31,304;
- Simon Rothschild, former Director - \$13,584; and
- Joseph Burke, General Manager Marketing - \$39,130.

#### *Other transactions with Key Management Personnel*

- FFA Legal Ltda, a company in which Mr Azevedo is a director, provided the Company with legal and accounting services in Brazil totalling \$47,640 (2016: \$55,768). No balance (2016: \$nil) was outstanding at September 30, 2017.
- Luis Azevedo has \$29,949 (2016: \$20,879) outstanding in Director fees at September 30, 2017.
- Matthew Wood had \$87,578 (2016: \$41,758) outstanding in Director fees at September 30, 2017.
- Joseph Burke had \$12,479 (2016: \$13,163) outstanding in consulting fees at September 30, 2017.
- ATMA Corp Ltd, a company in which Mr Waraich is a director, is a personal services company into which Mr Waraich's Directors fees are paid. ATMA Corp Ltd had \$14,725 (2016: \$nil) outstanding in Director fees at September 30, 2017.
- Gemstar Investments Limited, a company in which Mr McMaster is a director, is a personal services company into which Mr McMaster's Director fees are paid. Gemstar Investments Limited had \$38,044 (2016: \$13,104) outstanding at September 30, 2017.
- Capital M Consultants Limited, a company in which Mr Rothschild is a director, is a personal services company into which Mr Rothschild's Director fees are paid. Capital M Consultants Limited had \$43,742 (2016: \$4,497) outstanding at September 30, 2017.

#### **Outlook**

Although there can be no assurance that additional funding will be available to the Company, management is of the opinion that the market will be favourable, and hence it may be possible to obtain additional funding for its projects.

Notwithstanding, the Company is mindful that the market could fall with little or no warning. Accordingly, its plans for the near term are to continue its sampling programs at its projects, to monitor market fundamentals, and to ensure that the Company is well positioned to weather any possible resurgence of a market downturn. See "Risk Factors".

#### **Disclosure of Internal Controls**

Management has established processes to provide them with sufficient knowledge to support representations that they have exercised reasonable diligence to ensure that (i) the unaudited condensed consolidated interim financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the unaudited condensed consolidated interim financial statements; and (ii) the unaudited condensed consolidated interim financial statements fairly present in all material respects the financial condition, financial performance and cash flows of the Company, as of the date of and for the periods presented.

In contrast to the certificate required for non-venture issuers under National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"), the Venture Issuer Basic Certificate filed by the Company does not include representations relating to the establishment and maintenance of disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"), as defined in NI 52-109. In particular, the certifying officers filing such certificate are not making any representations relating to the establishment and maintenance of:

- controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
- a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with the issuer's generally accepted accounting principles (IFRS).

The Company's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in such certificate. Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and

annual filings and other reports provided under securities legislation.

### **Risk Factors**

The risk factors associated with the principal business of Five Star are discussed below. Briefly, these relate to the highly speculative nature of the mining industry characterized by the requirement for large capital investment from an early stage and a low probability of finding economic mineral deposits. Due to the nature of Five Star's business and the present stage of exploration and development of the Catalão Diamond Project, Five Star may be subject to significant risks. Readers should carefully consider all such risks set out in the discussion below. Five Star's actual exploration and operating results may be very different from those expected as at the date of this Interim MD&A.

#### *Dependence on Single Mineral Project*

The Catalão Diamond Project is the only advanced property in which Five Star currently holds an interest. As such, the operations of Five Star will be dependent on the Catalão Diamond Project, which may never develop into a commercially viable ore body. Any adverse development affecting the Catalão Diamond Project will have a material adverse effect on the Company's business, prospects, financial performance and results of operations.

#### *Exploration and Development Risk*

Mining operations generally involve a high degree of risk. The Company's operations will be subject to all the hazards and risks normally encountered in the exploration, development and production of diamonds, including unusual and unexpected geologic formations, seismic activity, explosions, rock bursts, cave-ins, flooding, pit wall failure and other conditions involved in drilling and removal of material, any of which could result in damage to, or destruction of, mines and other producing facilities, damage to life or property, environmental damage, delays in mining, monetary losses and possible legal liability.

The exploration for and development of mineral deposits involves significant risks that even a combination of careful evaluation, experience and knowledge may not eliminate. While the discovery of an ore body may result in substantial rewards, few properties that are explored are ultimately developed into producing mines and no assurance can be given that minerals will be discovered in sufficient quantities or having sufficient grade to justify commercial operations or that funds required for development can be obtained on a timely basis. Mineral exploration involves many risks and uncertainties, and success in exploration is dependent on a number of factors, including the quality of management, quality and availability of geological expertise and the availability of exploration capital. Substantial expenditures are required to establish Mineral Resources and Mineral Reserves, complete drilling and to develop processes to extract the minerals, develop mining and processing facilities and suitable infrastructure at any site chosen for mining, and establish commercial operations. Also, substantial expenses may be incurred on exploration projects which are subsequently abandoned due to poor exploration results or the inability to define reserves which can be mined economically. Even if an exploration program is successful and economically recoverable minerals are found, it can take a number of years from the initial phases of drilling and identification of the mineralization until production is possible, during which time the economic feasibility of extraction may change and the minerals that were economically recoverable at the time of discovery cease to be economically recoverable. There can be no assurance that the minerals recovered in small scale tests will be duplicated in large scale tests under on-site conditions or in production scale operations.

The commercial viability of the Catalão Diamond Project and other properties in which the Company has or may acquire an interest in the future depends upon on a number of factors, all of which are beyond the control of the Company, including, but not limited to: the particular attributes of the deposit, such as size, grade and proximity to infrastructure; diamond prices, which are highly cyclical; general and local labour market conditions; the proximity and capacity of milling facilities; local, provincial, federal and international government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals and environmental protection; ongoing costs of production; and availability and cost of additional funding. The exact effect of these factors, either alone or in combination, cannot be accurately predicted and their impact may result in the Company not being able to economically extract minerals from any identified Mineral Resource or Mineral Reserve which, in turn, could have a material and adverse impact on the Company's cash flows, earnings, results of operations and financial condition and prospects. The Company cannot provide any certainty that the exploration or development programs planned by the Company will result in a profitable commercial mining operation in respect of the Catalão Diamond Project or other properties in which the Company may acquire an interest in the future.

### Limited Operating History and Financial Resources

Five Star has a limited operating history and expects that its losses will continue for the foreseeable future. Potential investors should be aware of the difficulties normally encountered by mineral exploration companies and the high rate of failure of such enterprises. The likelihood of success must be considered in light of the problems, expenses, difficulties, complications and delays encountered in connection with the exploration of the mineral properties that the Company plans to undertake. These potential problems include, but are not limited to, unanticipated problems relating to exploration and additional costs and expenses that may exceed current estimates. The expenditures to be made by the Company in the exploration of mineral claims may not result in the discovery of mineral deposits. Problems such as unusual or unexpected formations of rock or land and other conditions are involved in mineral exploration and often result in unsuccessful exploration efforts. If the results of future exploration programs do not reveal viable commercial mineralization, the Company may decide to abandon its claims and acquire new claims for new exploration or cease operations.

There can be no assurance that the Company will ever be profitable in the future. The Company's operating expenses and capital expenditures may increase in subsequent years as needed consultants, personnel and equipment associated with advancing exploration, development and commercial production of the Catalão Diamond Project and any other properties that the Company has or may acquire are added. The amounts and timing of expenditures will depend on the progress of ongoing exploration and development, the results of consultants' analyses and recommendations, the rate at which operating losses are incurred, the execution of any joint venture agreements with strategic partners, and the Company's acquisition of additional properties and other factors, many of which are beyond the Company's control.

### Uncertainty of Resource Estimates

The Mineral Resource estimates in respect of the Catalão Diamond Project are based on limited information acquired through drilling and other sampling. No assurance can be given that the anticipated tonnages and grades will be achieved or that the indicated level of recovery will be realized. The grade of mineralization recovered may differ materially and adversely from the estimated average grades in the resource estimate. Future production could differ dramatically from resource estimates for, among others, the following reasons:

- mineralization or formations could be different from those predicted by drilling, sampling and similar examinations;
- increases in operating mining costs and processing costs could adversely affect Mineral Resources;
- the grade of the Mineral Resources may vary significantly from time to time and there is no assurance that any particular grade may be recovered from the Mineral Resources; and
- declines in the market price of diamonds may render the mining of some or all the Mineral Resources uneconomic.

Any of these factors may require the Company to reduce its Mineral Resource estimates or increase its cost estimates. Short-term factors, such as the need for the additional development of a deposit or the processing of new different grades, may impair the Company's profitability. Should the market price of diamonds fall, the Company could be required to materially write down its investment in mining properties or delay or discontinue production or the development of new projects.

### Mineral Reserves

Five Star has not defined any Mineral Reserves on its concessions at the Catalão Diamond Project and there can be no assurance that any of the concessions under exploration contain commercial quantities of any minerals. Even if commercial quantities of minerals are identified, there can be no assurance that the Company will be able to exploit the resources or, if the Company is able to exploit them, that it will do so on a profitable basis. Substantial expenditures may be required to locate and establish Mineral Reserves, to develop extraction processes and to construct mining and processing facilities at a site, and substantial additional financing may be required. It is impossible to ensure that the exploration or development programs planned by the Company will result in a profitable commercial mining operation. The decision as to whether a property contains a commercial mineral deposit and should be brought into production will depend on the results of exploration programs and/or feasibility studies, and the recommendations of duly qualified engineers and geologists. Several significant factors will be considered, including, but not limited to: (i) the attributes of the deposit, such as size, grade and proximity to infrastructure; (ii) diamond prices, which are highly cyclical; (iii) government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals and environmental

protection; (iv) ongoing costs of production; and (v) availability and cost of additional funding. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Company not receiving an adequate return on invested capital.

#### Operational Risks

Mineral exploration and mining involves many risks, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. These hazards include unusual or unexpected formations, formation pressures, inclement weather conditions, seismic activity, fires, power outages, industrial accidents, flooding, explosions, rock bursts, cave-ins or pit wall failures and other conditions involved in the drilling and removal of material, any of which could result in damage to, or destruction of, mines and other producing facilities, catastrophic damage to property or loss of life, labour disruptions, technological failure of mining methods, equipment failure or the inability to obtain suitable or adequate machinery, equipment or labour. Operations in which the Company will have a direct or indirect interest will be subject to all the hazards and risks normally incidental to exploration, development and production of minerals, any of which could result in damage to or destruction of mines and other producing facilities, damage to life and property, environmental damage and possible legal liability for any or all damage. Although the Company intends to maintain liability insurance in an amount which it considers adequate, the nature of these risks is such that liabilities could exceed policy limits, in which event the Company could incur significant costs that could have a materially adverse effect upon its financial condition.

#### Foreign Operations Risks

The Catalão Diamond Project is located in Brazil. The Company may be subject to governmental, political, economic, and other uncertainties, including, but not limited to, expropriation of property without fair compensation, changes in policies or the personnel administering them, nationalization, currency fluctuations and devaluations, exchange controls and royalty increases, renegotiation or nullification of existing concessions and contracts, changes in taxation policies, economic sanctions and the imposition of specific obligations and the other risks arising out of foreign governmental sovereignty over the areas in which the Company's operations are conducted, as well as risks of loss due to civil strife, acts of war, guerrilla activities, insurrections, the actions of national labour unions, terrorism, extortion and kidnapping. Such instability may require the Company to suspend its operations. Additionally, the perception of political or others exist in Brazil may hinder the Company's ability to access capital in a timely or cost effective manner.

The Company's operations may also be adversely affected by laws and policies of Canada affecting foreign trade, taxation and investment. In the event of a dispute arising in connection with the Company's operations in Brazil, the Company may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons to the jurisdictions of the courts of Canada or enforcing Canadian judgments in such other jurisdictions. The Company may also be hindered or prevented from enforcing its rights with respect to a governmental instrumentality because of the doctrine of sovereign immunity. Accordingly, the Company's exploration, development and exploration activities in Brazil could be substantially affected by factors beyond the Company's control, any of which could have a material adverse effect on the Company. The Company may in the future acquire resource properties and operations outside of Brazil, which expansion may present challenges and risks that the Company has not faced in the past, any of which could adversely affect the results of operations and/or financial condition of the Company.

#### Title to Properties

The Company will not maintain insurance against title. Title on mineral properties and mining rights involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyance history of many mining properties. Five Star has diligently investigated title to its mineral claims; however, this should not be construed as a guarantee of title. The Company will continue to diligently investigate and seek to confirm title to mineral concessions which it holds either directly or through its equity interest in its subsidiaries. The Company cannot give any assurance that title to any of its properties will not be challenged or impugned and cannot guarantee that the Company will have or acquire valid title to these mining properties. The possibility also exists that title to existing properties or future prospective properties may be lost due to an omission in the claim of title, prior activities of the property vendors or changes in Brazilian mining laws or the application thereof which affects the Company's title.

Five Star has obtained a title opinion from Brazilian legal counsel with respect to title to the Catalão Diamond Project held by Five Star but this should not be construed as a guarantee of title. Other parties may dispute title to any of the Company's mineral properties and any of the Company's properties may be subject to prior unregistered agreements or transfers and

title may be affected by undetected encumbrances or defects or governmental actions. The Company will not have all of the surface rights at the Catalão Diamond Project and there is no assurance that these surface rights will be granted or they will be on reasonable terms if granted.

#### Commodity Prices

The profitability of the Company's operations will be dependent upon the market price of mineral commodities. Mineral prices fluctuate widely and are affected by numerous factors beyond the control of the Company. These factors include interest rates, the rate of inflation or deflation, global and regional supply and demand, consumption patterns, forward sales by producers, currency exchange fluctuations, speculative activities and increased production due to improved mining and production methods. Such external economic factors are in turn influenced by changes in international investment patterns, monetary systems and political and economic developments in major diamond-producing countries throughout the world. The prices of mineral commodities have fluctuated widely in recent years. Current and future price declines could cause commercial production to be impracticable.

The Company's future revenues and earnings also could be affected by the prices of other commodities such as fuel and other consumable items, although to a lesser extent than by the price of diamonds. The prices of these commodities are affected by numerous factors beyond the Company's control.

#### Dependence on Future Financings

The Company will require significant capital and operating expenditures in connection with the development of the Catalão Diamond Project and the Company's other projects. There can be no assurance that the Company will be successful in obtaining the required financing as and when needed. Mineral prices, environmental rehabilitation or restitution, revenues, taxes, transportation costs, capital expenditures and operating expenses and geological results are all factors which will have an impact on the amount of additional capital that may be required. To meet such funding requirements, the Company may be required to undertake additional equity financing, which would be dilutive to shareholders. Debt financing, if available, may also involve restrictions on financing and operating activities. There is no assurance that additional financing will be available on terms acceptable to the Company or at all. If the Company is unable to obtain additional financing as needed, it may be required to reduce the scope of its operations or anticipated expansion, and pursue only those development plans that can be funded through cash flows generated from its existing operations.

#### Share Price Volatility

The market price for the Company shares cannot be assured. In recent years, the securities markets in Canada have experienced a high level of price and volume volatility, and the market prices of securities of many companies have experienced wide fluctuations in price that have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. The trading price of the Company has been, and the trading price of the Company shares may continue to be, subject to large fluctuations. For the same reason, the value of any of the Company's securities convertible into, or exchangeable for, Company shares may also fluctuate significantly, which may result in losses to investors. The price of the Company shares will be subject to market trends and conditions generally, notwithstanding any potential success of the Company in creating revenues, cash flows or earnings. Factors that may contribute to volatility in the securities of the Company include macroeconomic developments in North America and globally, and market perceptions of the attractiveness of particular industries. The price of the Company shares is also likely to be significantly affected by short-term changes in diamond prices or in its financial condition or results of operations as reflected in its quarterly earnings reports. Other factors unrelated to the Company's performance that may have an effect on the price of the Company shares include the following: lessening in trading volume and general market interest in the Company's securities may affect an investor's ability to trade significant numbers of Company shares; the size of the Company's public float may limit the ability of some institutions to invest in the Company's securities; and a substantial decline in the price of the Company shares that persists for a significant period of time could cause the Company shares to be delisted from the exchange on which they trade, further reducing market liquidity. The market price for the Company shares may also be affected by the Company's ability to meet or exceed expectations of analysts or investors. Any failure to meet these expectations, even if minor, may have a material adverse effect on the market price of the Company shares.

In the past, following periods of volatility in the market price of a company's securities, shareholders have often instituted class action securities litigation against those companies. Such litigation, if instituted, could result in substantial cost and diversion of management attention and resources, which could materially and adversely harm the Company and its financial position.

#### Government Regulation

The proposed mining, processing, development and mineral exploration activities of the Company are subject to various laws governing environmental protection, natural resources prospecting, development, production, post-closure reclamation, taxes, labour standards and occupational health, mine safety, toxic substances, land use, water use, land claims of local people and other matters. The costs associated with compliance with such laws and regulations are substantial. Although Five Star believes that its mining and processing operations and exploration and development activities are currently carried out in accordance with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be interpreted and applied in a manner which could cause additional expense, capital expenditures, restrictions on or suspension of the Company's operations and delays in the development of the Catalão Diamond Project and other properties in which the Company may acquire an interest. Moreover, governmental authorities and private parties may bring lawsuits based upon damage to property and injury to persons resulting from the environmental, health and safety impacts of the Company's future operations, which could lead to the imposition of substantial fines, penalties and other civil and criminal sanctions. Substantial costs and liabilities, including bonding, reclamation funding, or other requirements for restoring the environment after the closure of mines, will be inherent in the development of the Catalão Diamond Project. There can be no assurance that any such law, regulation, enforcement or private claim, or any changes thereto, will not have a material adverse effect on the Company's business, financial condition or results of operations.

#### Permits and Licenses

The mining and exploration activities of the Company will require permits from various governmental authorities and such operations are, and will be, governed by laws and regulations governing exploration, labour standards, occupational health, waste disposal, toxic substances, land use, environmental protection, safety, mine permitting and other matters. Companies engaged in mining and exploration activities generally experience increased costs and delays as a result of the need to comply with applicable laws, regulations and permits. While Five Star believes that it currently has all permits and licences necessary to carry on activities on the Catalão Diamond Project, a substantial number of additional permits and licenses may be required. The Company anticipates that it will be able to obtain in the future all necessary licenses and permits to carry on the activities which it intends to conduct, and that it intends to comply in all material respects with the terms of such licenses and permits; however, there can be no assurance that all permits that the Company may require for mining and exploration will be obtainable on reasonable terms or on a timely basis, or that such laws and regulations would not have an adverse effect on any project that the Company may undertake. Five Star believes it is in substantial compliance with all material laws and regulations which currently apply to its activities. However, there may be unforeseen environmental liabilities of the Company resulting from exploration and/or mining activities and these may be costly to remedy.

#### Health and Safety Risk

Mining, like many other extractive natural resource industries, is subject to potential risks and liabilities due to accidents that could result in serious injury or death. The impact of such accidents could affect the profitability of the operations, cause an interruption to operations, lead to a loss of licenses, affect the reputation of the Company and its ability to obtain further licenses, damage community relations and reduce the perceived appeal of the Company as an employer. Failure to comply with applicable health and safety laws may result in injunctions, damages, suspension or revocation of licences or permits and the imposition of penalties. There can be no assurance that the Company will be at all times in complete compliance with such laws, regulations and permits, or that the costs of complying with current and future health and safety laws and permits will not adversely affect the Company's business, results of operations, financial condition or prospects. The Company will have rigorous procedures in place to manage health and safety protocols in order to reduce the risk of occurrence and the severity of any accident, and will continually invest time and resources to enhance health and safety at all operations. The Company will have insurance policies in place to cover accidents and will regularly monitor the adequacy of such policies.

### Environmental Matters

The Company's operations will be subject to local laws and regulations regarding environmental matters, the use or abstraction of water, and the discharge of mining wastes and materials. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. The cost of compliance with changes in governmental regulations has the potential to reduce the profitability of operations. Furthermore, any failure to comply fully with all applicable laws and regulations could have significant adverse effects on the Company, including the suspension or cessation of operations. Environmental laws and regulations change frequently, and the implementation of new, or the modification of existing, laws or regulations could harm the Company. The Company cannot predict how agencies or courts in foreign countries will interpret existing laws and regulations or the effect that these adoptions and interpretations may have on the Company's business or financial condition.

The Company may be required to make significant expenditures to comply with governmental laws and regulations. Any significant mining operations will have some environmental impact, including land and habitat impact, arising from the use of land for mining and related activities, and certain impact on water resources near the project sites, resulting from water use, rock disposal and drainage run-off. No assurances can be given that such environmental issues will not have a material adverse effect on the Company's operations in the future. Environmental hazards may exist on the properties in which the Company holds interests which are unknown to Five Star at the present time and which have been caused by previous or existing owners or operators of the properties. While Five Star believes it does not currently have any material unsatisfied environmental obligations, exploration activities may give rise in the future to significant liabilities on the Company's part to the government and third parties and may require the Company to incur substantial costs of remediation.

Failure to comply with applicable laws, regulations and permitting requirements may result in 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. Additionally, the Company does not intend to maintain insurance against environmental risks. As a result, any claims against the Company may result in liabilities the Company will not be able to afford, resulting in the failure of the Company's business. Failure to comply with applicable laws, regulations, and permitting requirements may result in 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.

Parties engaged in mining operations or in the exploration or development of mineral properties may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations. Amendments to current laws, regulations and permits governing operations and activities of mining and exploration companies, or more stringent implementation of existing laws, could have a material adverse impact on the Company and cause increases in exploration expenses or capital expenditures or require abandonment or delays in development of new exploration properties.

### Infrastructure

Mining, processing, development and exploration activities depend, to one degree or another, on adequate infrastructure. Reliable roads, bridges, power sources and water supply are important factors affecting capital and operating costs. Unusual or infrequent weather phenomena, sabotage, government or other interference in the maintenance or provision of such infrastructure could adversely affect the Company's operations, financial condition and results of operations.

### Competition

The mining industry is intensely competitive in all of its phases, and the Company will compete with other exploration companies which have greater financial resources and technical facilities for the acquisition of mineral concessions, claims, leases and other mineral interests as well as for the recruitment and retention of qualified employees and other persons to carry out its mineral exploration and development activities. Recent increases in base and precious metal prices have encouraged increases in mining exploration, development and construction activities, which have resulted in increased demand for, and cost of, exploration, development and construction services and equipment. Increased demand for services and equipment could cause project costs to increase materially, resulting in delays if services or equipment cannot be obtained in a timely manner due to inadequate availability, and increase potential scheduling difficulties and cost increases due to the need to coordinate the availability of services or equipment, any of which could materially increase project

exploration, development or construction costs, result in project delays or both.

#### Acquisitions and Integration

From time to time, the Company may pursue opportunities to acquire additional mining assets and businesses. Any acquisition that the Company may choose to complete may be of a significant size, may change the scale of the Company's business and operations, and may expose the Company to new geographic, political, operating, financial and geological risks. The Company's success in its acquisition activities will depend on its ability to identify suitable acquisition candidates that fit its business strategy, negotiate acceptable terms for any such acquisition, obtain approvals from regulatory authorities in the jurisdiction of the business or property to be acquired, and integrate the acquired operations successfully with those of the Company. Any acquisitions would be accompanied by risks. For example, there may be a significant change in commodity prices after the Company has committed to complete the transaction and established the purchase price or exchange ratio; a material ore body may prove to be below expectations; the Company may have difficulty integrating and assimilating the operations and personnel of any acquired companies, realizing anticipated synergies and maximizing the financial and strategic position of the combined enterprise, and maintaining uniform standards, policies and controls across the organization; the integration of the acquired business or assets may disrupt the Company's ongoing business and its relationships with employees, customers, suppliers and contractors; and, to the extent that the Company makes an acquisition outside of markets in which it has previously operated, the Company may have difficulty conducting and managing operations in a new operating environment.

Acquiring additional business or properties could place increased pressure on the Company's cash flow if such acquisitions involve a cash consideration. In the event that the Company chooses to raise debt capital to finance any such acquisition, the Company's leverage will be increased. If the Company chooses to use equity as consideration for such acquisition, existing shareholders may suffer dilution. Alternatively, the Company may choose to finance any such acquisition with its existing resources. The integration of the Company's existing operations with any acquired business will require significant expenditures of time, attention and funds. Achievement of the benefits expected from consolidation would require the Company to incur significant costs in connection with, among other things, implementing financial and planning systems. The Company may not be able to integrate the operations of a recently acquired business or restructure the Company's previously existing business operations without encountering difficulties and delays. In addition, this integration may require significant attention from the Company's management team, which may detract attention from the Company's day-to-day operations. Over the short-term, difficulties associated with integration could have a material adverse effect on the Company's business. In addition, the acquisition of mineral properties may subject the Company to unforeseen liabilities, including environmental liabilities, which could have a material adverse effect on the Company. There can be no assurance that the Company would be successful in overcoming these risks or any other problems encountered in connection with such acquisitions.

#### Non-Governmental Organization Intervention

The Company's relationship with the communities in which it operates will be critical to ensure the future success of its existing operations and the construction and development of its projects. A number of Non-Governmental Organizations are active in Brazil. These organizations may create or encourage public unrest and anti-mining sentiment among the inhabitants in areas of mineral development. Such organizations have been involved, with financial assistance from other groups, in mobilizing sufficient local anti-mining sentiment to prevent the issuance of required permits for the development of other mineral projects. While the Company is committed to operating in a socially responsible manner, there is no guarantee that the Company's efforts in this respect will mitigate this potential risk.

#### Litigation Risk

All industries, including the mining industry, are subject to legal claims, with and without merit. Defence and settlement costs of legal claims can be substantial, even with respect to claims that have no merit. Due to the inherent uncertainty of the litigation process, the litigation process could take away from management time and effort and the resolution of any particular legal proceeding to which the Company may become subject could have a material effect on the Company's business, prospects, financial position, results of operations or the Company's property development.

#### Key Personnel

Locating and developing mineral deposits depends on a number of factors, not the least of which is the technical skill of the exploration, development and production personnel involved. The success of the Company is largely dependent on the

performance of its key personnel. The Company's success is also largely dependent on its ability to hire and retain other highly qualified personnel. This is particularly true in highly technical businesses such as mineral exploration. The number of persons skilled in acquisition, exploration and development of mining properties is limited and competition for this workforce is intense. As the Company's business activity grows, the Company will require additional key executive, financial, operational, administrative and mining personnel. The Company will compete with numerous other companies for the recruitment and retention of qualified employees and contractors. These individuals are in high demand and the Company may not be able to attract the personnel it needs. Failure to retain key personnel or to attract and retain additional key individuals with necessary skills could have a materially adverse impact upon the Company's business, its operating results as well as its overall financial condition. The Company has not purchased any "key-man" insurance with respect to any of its directors, officers or key employees and has no current plans to do so.

#### Insurance and Uninsured Risk

The business of the Company will be subject to a number of risks and hazards generally, including adverse environmental conditions, industrial accidents, labour disputes, unusual or unexpected geological conditions, ground or slope failures, explosions, rock bursts, cave-ins, natural phenomena such as inclement weather conditions, floods and earthquakes, changes in the regulatory environment and political or social instability. Such occurrences or events could result in damage to mineral properties or production facilities, personal injury or death, environmental damage to properties of the Company or others, delays in mining, monetary losses and possible legal liability.

Although, the Company plans to maintain insurance for protection against certain risks in amounts it considers being reasonable, such insurance may not cover all the potential risks associated with Company's operations. The Company may also decide not to insure against certain risks because of high premiums or other reasons. Moreover, insurance against political risk and risks such as environmental pollution or other hazards as a result of exploration and production is not generally available to the Company or to other companies in the mining industry on acceptable terms. The Company will periodically evaluate the cost and coverage of the insurance against certain risks to determine if it would be appropriate to obtain such insurance. Without such insurance, losses from these events may cause the Company to incur significant costs that could have a material adverse effect upon its financial performance and results of operations.

#### Conflicts of Interest

Certain of the directors and officers of the Company will be engaged in, and will continue to engage in, other business activities on their own behalf and on behalf of other companies (including mineral resource companies) and, as a result of these and other activities, such directors and officers of the Company may become subject to conflicts of interest. In accordance with the BCBCA, directors who have a material interest in any person who is a party to a material contract or a proposed material contract with the Company are required, subject to certain exceptions, to disclose that interest and generally abstain from voting on any resolution to approve the contract. In addition, the directors and the officers are required to act honestly and in good faith with a view to the best interests of the Company. However, in conflict of interest situations, the Company's directors and officers may owe the same duty to another company and will need to balance the competing obligations and liabilities of their actions. Circumstances (including with respect to future corporate opportunities) may arise which are resolved in a manner that is unfavourable to the Company.

#### Institution of Restrictions on Repatriation of Earnings

Currently there are no restrictions on the repatriation from Brazil of earnings to foreign entities and Brazil has never imposed such restrictions. However, there can be no assurance that restrictions on repatriation of earnings from Brazil will not be imposed in the future. Exchange control regulations require that any proceeds in foreign currency originated on exports of goods from Brazil (including minerals) be repatriated to Brazil. However, purchase of foreign currency is allowed through any Brazilian authorized financial entities for purposes of payments to foreign suppliers, repayment of foreign debt, payment of dividends to foreign shareholders and other foreign expenses.

#### Currency Risks

The Company will report its financial results and maintains its accounts in Canadian dollars. The markets for diamonds are principally denominated in United States dollars. The Company's operations in Brazil will make it subject to further foreign currency fluctuations and such fluctuations may materially affect the Company's financial position and results. The Company will be exposed to foreign exchange risk from the exchange rate of the Brazilian Real relative to the Canadian and United

States dollars. Foreign exchange risk is mainly derived from assets and liabilities stated in Brazilian Reais. Management of the Company intends to limit the Company's foreign exchange risk by the acquisition of short-term financial instruments and, when possible, minimize its pesos monetary asset positions.

No Dividends

The Company does not expect to pay dividends on the issued and outstanding Company shares in the foreseeable future. If the Company generates any future earnings such cash resources will be retained to finance further growth and current operations. The board of directors of the Company will determine if and when dividends should be declared and paid in the future based on the financial position of the Company and other factors relevant at that time. Until the Company pays dividends, which it may never do, a shareholder will not be able to receive a return on his or her investment in the Company shares unless such Company shares are sold. In such event, a shareholder may only be able to sell his, her or its Company shares at a price less than the price such shareholder originally paid for them, which could result in a loss of such shareholder's investment.

Enforcement of Civil Liabilities

Substantially all of the assets of the Company will be located outside of Canada and certain of the directors and officers of the Company are or may be resident outside of Canada. As a result, it may be difficult or impossible to enforce judgments granted by a court in Canada against the assets of the Company or the Company's directors and officers residing outside of Canada.