



FIVE STAR DIAMONDS

FIVE STAR DIAMONDS LTD.

(formerly Turquoise Capital Corp.)

Consolidated Financial Statements

June 30, 2017 and 2016

(Expressed in Canadian dollars)

Independent Auditors' Report

To the Shareholders of Five Star Diamonds Limited:

We have audited the accompanying consolidated financial statements of Five Star Diamonds Limited which comprise the consolidated statement of financial position as at June 30, 2017, and the consolidated statements of loss and other comprehensive loss, cash flows and changes in shareholders' equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Five Star Diamonds Limited as at June 30, 2017 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes the existence of material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern.

Other Matter

The consolidated financial statements of Five Star Diamonds Limited as at June 30, 2016 and for the year then ended, were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements dated March 29, 2017.

October 30, 2017
Toronto, Ontario

MNP LLP

Chartered Professional Accountants
Licensed Public Accountants

MNP
LLP

Five Star Diamonds Ltd.
Consolidated Statement of Financial Position
(Expressed in Canadian Dollars)

	Notes	June 30, 2017 \$	June 30, 2016 \$
Assets			
Current assets			
Cash and cash equivalents	5	3,029,431	1,328,172
Trade and other receivables	6	155,884	18,833
Inventory		27,714	28,421
Total current assets		3,213,029	1,375,426
Non-current assets			
Property, plant and equipment	7	2,066,230	2,109,247
Deferred exploration and evaluation expenditures	8	4,128,049	2,606,700
Total non-current assets		6,194,279	4,715,947
Total assets		9,407,308	6,091,373
Liabilities			
Current liabilities			
Trade and other payables	9	664,504	257,027
Borrowings	10	-	-
Total current liabilities		664,504	257,027
Total liabilities		664,504	257,027
Equity			
Share capital	11	17,196,975	8,415,501
Reserves	12	2,075,237	627,999
Retained deficit	13	(10,529,408)	(3,209,154)
Total equity		8,742,804	5,834,346
Total liabilities and equity		9,407,308	6,091,373

The accompanying notes are an integral part of these consolidated financial statements.

Approved and authorised by the Board of Directors on October 30, 2017:



Director
Matthew Wood



Director
Luis Azevedo

Five Star Diamonds Ltd.

Consolidated Statements of Loss and Comprehensive Loss (Expressed in Canadian Dollars)

		Year ended June 30, 2017	Year ended June 30, 2016
	Notes	\$	\$
Revenue			
Interest income		3,434	2,434
Other income		33,975	4,209
Expenses			
Administrative expenses		(36,941)	(51,207)
Public company costs		(19,973)	-
Accounting, audit and tax fees		(177,620)	(218,476)
Legal fees		(270,096)	(212,030)
Consultant and director fees	14	(1,123,437)	(1,013,172)
Depreciation	7	(29,092)	(68,712)
Foreign exchange (loss) / gain		(112,902)	49,229
Reverse takeover transaction cost	15	(2,027,997)	-
Anti-dilution share based payment	16	(425,575)	-
Share based payments	16	(2,117,292)	-
Advertising and marketing		(88,575)	(84,597)
Travel and accommodation		(427,376)	(629,659)
Other expenses		(448,627)	(510,195)
Net loss for the period		(7,268,094)	(2,732,176)
Other comprehensive income, net of income tax			
<i>Items that may be reclassified to profit or loss</i>			
Exchange differences on translation of foreign operations		(209,646)	900,771
Other comprehensive income for the period, net of tax		(209,646)	900,771
Total comprehensive income for the period		(7,477,740)	(1,831,405)
Loss per share			
Basic and diluted	13	(0.070)	(0.031)
Weighted average number of common shares outstanding – basic and diluted	13	104,168,542	87,825,777

The accompanying notes are an integral part of these consolidated financial statements.

Five Star Diamonds Ltd.
Consolidated Statement of Cash Flows
(Expressed in Canadian Dollars)

		Year ended June 30, 2017	Year ended June 30, 2016
	Notes	\$	\$
Cash flows from operating activities			
Payments to suppliers and employees		(2,442,869)	(2,420,096)
Interest received		3,434	2,434
Other receipts		33,975	-
Net cash outflow from operating activities	5	<u>(2,405,460)</u>	<u>(2,417,662)</u>
Cash flows from investing activities			
Payments for property, plant and equipment		(71,396)	(2,012,177)
Proceeds from sale of property, plant and equipment		53,791	-
Cash acquired on reverse takeover transaction	15	2,164,160	-
Exploration and evaluation expenditure		(1,320,922)	(1,633,977)
Net cash outflow from investing activities		<u>825,633</u>	<u>(3,646,154)</u>
Cash flows from financing activities			
Proceeds from issue of shares		3,445,425	4,039,592
Proceeds from exercise of options		5,000	-
Payments for share issue costs		(171,528)	(241,319)
Proceeds from borrowings	10	272,653	-
Repayment of borrowings	10	(272,653)	-
Net cash inflow from financing activities		<u>3,278,897</u>	<u>3,798,723</u>
Net decrease in cash and cash equivalents		1,699,071	(2,265,543)
Cash and cash equivalents at the beginning of the period		1,328,172	3,555,009
Effect of exchange rate fluctuations on cash held		2,188	(38,706)
Cash and cash equivalents at the end of the period	5	<u>3,029,431</u>	<u>1,328,172</u>

The accompanying notes are an integral part of these consolidated financial statements.

Five Star Diamonds Ltd.

Consolidated Statements of Changes in Shareholders' Equity (Expressed in Canadian Dollars)

	Notes	Issued capital \$	Foreign currency translation reserve \$	Share based payments reserve \$	Retained earnings \$	Total equity \$
Balance as at July 1, 2016		8,415,501	627,999	-	(3,209,154)	5,834,346
Loss for the period		-	-	-	(7,268,094)	(7,268,094)
Other comprehensive income, net of income tax		(43,755)	(113,731)	-	(52,160)	(209,646)
Total comprehensive loss for the period		(43,755)	(113,731)	-	(7,320,254)	(7,477,740)
<i>Transactions with owners in their capacity as owners</i>						
Shares issued under public offering	11	5,344,644	-	-	-	5,344,644
Shares issued under reverse takeover	11	1,946,932	-	-	-	1,946,932
Shares issued on exercise of options	11	15,748	-	(10,748)	-	5,000
Shares issued in lieu of debt	11	295,558	-	-	-	295,558
Shares issued to consultants	11	947,042	-	-	-	947,042
Shares issued under anti-dilutive agreement	11	425,575	-	-	-	425,575
Shares issued under placement	11	640,715	-	-	-	640,715
Options issued to employees and consultants	11	-	-	1,300,280	-	1,300,280
Options issued to brokers and advisers	11	-	-	228,443	-	228,443
Revaluation of options issued to directors on reverse takeover	11	-	-	42,994	-	42,994
Share issue costs	11	(790,985)	-	-	-	(790,985)
Balance as at June 30, 2017		17,196,975	514,268	1,560,969	(10,529,408)	8,552,716
Balance as at July 1, 2015		4,461,607	(21,886)	-	(502,055)	3,937,666
Loss for the period		-	-	-	(2,732,176)	(2,732,176)
Other comprehensive income, net of income tax		155,621	649,885	-	25,077	830,583
Total comprehensive loss for the period		155,621	649,885	-	(2,707,099)	(1,901,593)
<i>Transactions with owners in their capacity as owners</i>						
Shares issued during the period	11	4,039,592	-	-	-	4,039,592
Share issue costs	11	(241,319)	-	-	-	(241,319)
Balance as at June 30, 2016		8,415,501	627,999	-	(3,209,154)	5,834,346

The accompanying notes are an integral part of these consolidated financial statements.

Five Star Diamonds Ltd.

Notes to Consolidated Financial Statements

For the Period from July 1, 2016 to June 30, 2017

(Expressed in Canadian Dollars)

1. Nature of Operations and Going Concern

On May 15, 2014, Five Star Diamonds Limited ("FSD BVI"), was incorporated under the laws of the British Virgin Islands. FSD BVI has two subsidiaries; FSD Brazil Limited (incorporated in the British Virgin Islands) and Five Star Mineração Ltda. (incorporated in Brazil) with a focus on the business of mining, mineral and resource exploration and development in Brazil.

On September 9, 2016, FSD BVI signed a definitive merger agreement ("Merger Agreement") with Turquoise Capital Corp. ("Turquoise"), a company listed on the TSX Venture Exchange ("TSX-V") with one subsidiary; 1030301 BC Ltd. The Merger Agreement set out the terms and conditions pursuant to which Turquoise and FSD BVI would complete a transaction resulting in a reverse takeover ("RTO") of Turquoise by the shareholders of FSD BVI and constitute Turquoise's Qualifying Transaction under the TSX Venture Exchange Policy 2.4 – Capital Pool Companies.

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

On April 20, 2017, Turquoise, FSD BVI and FSD Holdings Limited (a wholly owned subsidiary of FSD BVI incorporated on April 4, 2017 under the laws of the British Virgin Islands) finalised the RTO. To complete the Qualifying Transaction, FSD Holdings Limited and FSD BVI merged to form a single entity and the separate corporate existence of the FSD BVI ceased. 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 Turquoise for every share previously held. The resulting merged entity of FSD Holdings Limited became a wholly-owned subsidiary of Turquoise.

Post completion of the Qualifying Transaction, the amalgamated entity changed its name from Turquoise to Five Star Diamonds Ltd. ("the Company"). The Company's common shares commenced trading on the TSX-V under the symbol "STAR" on April 25, 2017. Upon completion of the Transaction, it is intended that the parties of the resulting issuer company focus on the exploration and development of FSD BVI's diamond projects located in Brazil.

The head and registered office of the Company is located at Suite 806, 390 Bay Street, Toronto, Ontario M5H 2Y2. The records of the Company are located at 22 Lindsay Street, Perth WA, 6000.

These consolidated financial statements have been prepared under the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company has incurred ongoing losses and had a cumulative deficit of \$10,752,217 as at June 30, 2017 (2016 - \$3,209,154). The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing, to commence profitable operations in the future, and repay its liabilities arising from normal business operations as they become due. These material uncertainties cast significant doubt upon the Company's ability to continue as a going concern.

2. Statement of Compliance

The Company applies International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

The policies applied in these consolidated financial statements are based on IFRSs issued and outstanding as of October 30, 2017, the date the Board of Directors approved the statements.

Five Star Diamonds Ltd.

Notes to Consolidated Financial Statements

For the Period from July 1, 2016 to June 30, 2017

(Expressed in Canadian Dollars)

3. Significant Accounting Policies

Basis of Preparation

These consolidated financial statements are presented in Canadian dollars. The consolidated financial statements are prepared on the historical cost basis, except for financial instruments that are measured at fair value.

Basis of Consolidation

The consolidated financial statements include the accounts of Five Star Diamonds Ltd and its subsidiaries which it is deemed to control. All intercompany transactions have been eliminated on consolidation.

Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement in with the investee; and
- has the ability to its power to affect its returns.

The Company will reassess whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements listed above. When the Company has less than a majority of the voting rights of an investee, it has the power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights are sufficient to give it power, including,

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties; rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholder meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the period are included in the consolidated statement of comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Changes in the Company's ownership interest in existing subsidiaries

Changes in the Company's ownership interest in subsidiaries that do not result in the Company losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Company's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in subsidiaries. Any difference between the amount paid by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

When the Company loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between:

- The aggregate of the fair value of the consideration received and the fair value of any retained interest; and
- The previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.

All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Company had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit and loss or transferred to another category of equity as specified/permitted by the applicable IASBs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IASB 139, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Five Star Diamonds Ltd.

Notes to Consolidated Financial Statements

For the Period from July 1, 2016 to June 30, 2017

(Expressed in Canadian Dollars)

3. Significant Accounting Policies (continued)

Critical Accounting Estimates and Judgements

Estimates by management represent an integral component of financial statements prepared in conformity with IFRS. The estimates made in these consolidated financial statements reflect management's judgment based on past experiences, present conditions and expectation of future events. Where estimates were made, the reported amounts for assets, liabilities, revenue and expenses may differ from the amounts that would otherwise be reflected if the ultimate outcome of all uncertainties and future events were known at the time these consolidated financial statements were prepared.

Accounts which require management to make material estimates and significant assumptions in determining amounts recorded include recoverability of property rights and evaluation and exploration costs, amortization of equipment, accrued liabilities, provision for environmental remediation and mineral property reclamation liabilities, valuation of equity instruments, deferred tax assets and contingencies.

Significant assumptions about the future that management has made that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual result differ from assumptions made also include management's assumptions in determining the functional currencies of the Company and the Company's subsidiaries, going concern presentation of the consolidated financial statements which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due and valuation, ownership and recoverability of the Company's interest in mineral properties which is contingent on the Company's ability to obtain funding for development of the properties. Management also determined that the Company is still in the exploration and evaluation stage of development.

The Group measures the cost of equity settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. For options the fair value is determined by using the Black Scholes formula taking into account the terms, conditions and probability upon which the instruments were granted. For shares the fair value is determined by reference to the closing price of the shares on the TSX-V at the time of issue.

Functional Currency

The Company's presentation and functional currency is the Canadian dollar. The functional currency, as determined by management, of the Company and 1030301 BC Ltd is Canadian dollars. The functional currency of FSD Holdings Ltd and FSD Brazil Ltd is the United States Dollars and the functional currency of Five Star Mineração Ltda is the Brazilian Real. For the purpose of the consolidated financial statements, the results and financial position are expressed in Canadian dollars.

The prior year comparatives are those of FSD BVI, whose functional currency was USD. For purposes of comparison, the 2016 comparatives have been translated into Canadian dollars.

Foreign Currency Translation

The individual financial records of each group entity are kept in the currency of the primary economic environment in which the entity operates (its functional currency). Transactions in currencies other than the Company's functional currency are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated at the rates on the date of the initial transaction. Exchange differences are recognized in profit and loss in the period in which they arise.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the foreign entities are expressed in Canadian dollars using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising are recognized as a separate component of equity and as a foreign currency translation adjustment in other comprehensive income in the consolidated statements of loss and comprehensive loss.

Five Star Diamonds Ltd.

Notes to Consolidated Financial Statements

For the Period from July 1, 2016 to June 30, 2017

(Expressed in Canadian Dollars)

3. Significant Accounting Policies (continued)

Determination of fair value

Fair value is determined based on the price that would be received to sell an asset or paid to transfer a liability in an arms-length transaction at the measurement date. Fair value is measured using the assumptions when pricing an asset or liability. Fair value is determined by using quoted prices in active markets for identical or similar assets or liabilities. When quoted prices in active markets are not available, fair value is determined using valuation techniques that maximize the use of observable inputs.

When observable valuation inputs are not available, significant judgment is required to determine fair value by assessing the valuation techniques and valuation inputs. The use of alternative valuation techniques or valuation inputs may result in a different fair value.

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments which are measured at fair value by valuation technique:

- Level I: Quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level II: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level III: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial Instruments and Financial Risk

Financial instruments are measured at their fair values on initial recognition. The Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired, fair value through profit and loss, held to maturity, loans and receivables and other financial liabilities. The Company has made the following classification:

- Cash and cash equivalents or term deposits are classified as fair value through profit and loss and are measured at fair value. Gains and losses resulting from the period revaluation are recorded in net loss.
- Trade and other receivables are classified as loans and receivables and are recorded at amortized cost, which upon their initial measurement, is equal to their fair values. Subsequent measurements are recorded at amortized cost using the effective interest rate method.
- Trade and other payables are classified as other financial liabilities and are initially measured at their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

Transaction costs are expensed as incurred for financial instruments classified or designated as held for trading. Transaction costs for financial assets classified as available for sale are added to the value of the instruments at acquisition. Transaction costs related to other financial liabilities are deducted from the value of the instrument at acquisition and taken into net income using the effective interest rate method. If a financial liability is interest free or bears interest at below the market rate, it is recognized at an amount below the settlement price or nominal amount. The financial liability initially recognized at fair value is amortized subsequent to initial recognition using the effective interest rate method.

Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. A financial liability is derecognized when the obligation under the liability is discharged, cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of profit or loss. Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or, realize the asset and settle the liability simultaneously.

Five Star Diamonds Ltd.

Notes to Consolidated Financial Statements

For the Period from July 1, 2016 to June 30, 2017

(Expressed in Canadian Dollars)

3. Significant Accounting Policies (continued)

Cash and Cash Equivalents

Cash and cash equivalents represent cash on hand and at bank. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

Trade and Other Receivables

Trade receivables are measured on initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method, less any allowance for impairment. Trade receivables are generally due for settlement within periods ranging from 15 days to 30 days.

Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less any estimated selling costs. Cost includes those costs incurred in bringing each component of inventory to its present location and condition. All inventory currently held is as a result of exploration activities.

Evaluation and Exploration Costs

Exploration and evaluation expenditures in relation to each separate area of interest are recognised as an exploration and evaluation asset in the year in which they are incurred where the following conditions are satisfied:

- the rights to tenure of the area of interest are current; and
- at least one of the following conditions is also met:
 - the exploration and evaluation expenditures are expected to be recouped through successful development and exploration of the area of interest, or alternatively, by its sale; or
 - exploration and evaluation activities in the area of interest have not at the balance date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are initially measured at cost and include acquisition of rights to explore, studies, exploratory drilling, trenching and sampling and associated activities and an allocation of depreciation and amortised of assets used in exploration and evaluation activities. General and administrative costs are only included in the measurement of exploration and evaluation costs where they are related directly to operational activities in a particular area of interest.

Where a decision has been made to proceed with development in respect of a particular area of interest, the relevant exploration and evaluation asset is tested for impairment and the balance is then reclassified to development.

Five Star Diamonds Ltd.

Notes to Consolidated Financial Statements

For the Period from July 1, 2016 to June 30, 2017

(Expressed in Canadian Dollars)

3. Significant Accounting Policies (continued)

Property, Plant and Equipment

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets as follows:

Plant and equipment	10 years
Motor vehicles	5 years
Computer equipment	5 – 10 years
Furniture and fittings	10 years

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

Impairment

The carrying values of plant and equipment are reviewed for impairment at each balance date, with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to approximate fair value.

An impairment exists when the carrying value of an asset or cash-generating unit exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

For plant and equipment, impairment losses are recognised in the statement of comprehensive income in the cost of sales line item. However, because land and buildings are measured at revalued amounts, impairment losses on land and buildings are treated as a revaluation decrement.

Derecognition and disposal

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

Five Star Diamonds Ltd.

Notes to Consolidated Financial Statements

For the Period from July 1, 2016 to June 30, 2017

(Expressed in Canadian Dollars)

3. Significant Accounting Policies (continued)

Impairment of Non-Financial Assets

The Company assesses the carrying amount of non-financial assets including property rights and evaluation and exploration costs and field and office equipment at each reporting date to determine whether there is any indication of impairment. Internal factors, such as budgets and forecasts, as well as external factors, such as expected future prices, costs and other market factors are also monitored to determine if indications of impairment exist.

An impairment loss is the amount equal to the excess of the carrying amount of the individual asset or the CGU over the recoverable amount. The recoverable amount is the higher of estimated value in use and the estimated fair value less costs of disposal.

Impairment is assessed at the individual asset or cash-generating unit ("CGU") level which is the geographical operating segments of the Company. A CGU is the smallest identifiable group of assets that generates cash inflows largely independent of the cash inflows from other assets or group of assets.

An impairment loss for an individual asset or CGU shall be reversed if there has been a change in estimates used to determine the recoverable amount since the last impairment loss was recognized and is only reversed to the extent that the assets carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Share-based Compensation

The Company has a stock option plan, refer to note 16. Employees (including officers), directors and consultants of the Company receive remuneration in the form of stock options granted under the plan for rendering services to the Company. Stock options granted during the period are accounted for in accordance with the fair value method of accounting for stock-based compensation. The fair value for these options is estimated at the date of grant using the Black-Scholes option pricing model. The Company is also required to estimate the expected future forfeiture rate of options in its calculation of stock-based compensation expense. The cost of options is recognized, together with a corresponding increase in share-based payment reserve, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant options becomes fully entitled to the award (the "vesting date"). The cumulative expense recognized for option grants at each reporting date until the vesting date reflects the portion of the vesting period that passed and is the Company's best estimate of the number of options that will ultimately vest on the vesting date. The Company records compensation expense and credits contributed surplus for all stock options granted which represents the movement in cumulative expense recognized as at the beginning and end of that period. Any consideration received on the exercise of stock options is credited to share capital.

Where the terms of a stock option award are modified, the minimum expense recognized in compensation expense is the expense as if the terms had not been modified. An additional expense is recognized for any modification that increases the total fair value of the option or is otherwise beneficial to the options as measured at the date of modification.

Where an option is cancelled, it is treated as if it had vested on the date of cancellation and any expense not yet recognized for the award is recognized immediately.

If a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Outstanding options are anti-dilutive on earnings per share as the Company is currently generating losses.

Five Star Diamonds Ltd.

Notes to Consolidated Financial Statements

For the Period from July 1, 2016 to June 30, 2017

(Expressed in Canadian Dollars)

3. Significant Accounting Policies (continued)

Income Taxes

Income tax expense consists of current and deferred tax expense. Current and deferred tax are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income.

Current tax is recognized and measured at the amount expected to be recovered from or payable to the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period and includes any adjustment to taxes payable in respect of previous years.

Deferred tax is recognized on any temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable earnings. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized and the liability is settled. The effect of a change in the enacted or substantively enacted tax rates is recognized in net earnings and comprehensive income or in equity depending on the item to which the adjustment relates.

Deferred tax assets are recognized to the extent future recovery is probable. At each reporting period end, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

Revenue Recognition

Revenue is measured at fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

Interest income

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be reliably measured. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that assets' net carrying amount on initial recognition.

Loss per share

Basic loss per share amounts are calculated by dividing net loss available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by evaluating impact of all outstanding stock option grants and warrants are exercised, if dilutive, and the assumed proceeds are used to purchase the Company's common shares at the average market price during the period.

Accounts Payable and Accrued Liabilities

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Company prior to the end of the financial year that are unpaid and arise when the Company becomes obliged to make future payments in respect of the purchase of these goods and services. Trade and other payables are presented as current liabilities unless payment is not due within 12 months.

Issued Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a new business are not included in the cost of acquisition as part of the purchase consideration.

Five Star Diamonds Ltd.

Notes to Consolidated Financial Statements

For the Period from July 1, 2016 to June 30, 2017

(Expressed in Canadian Dollars)

3. Significant Accounting Policies (continued)

Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision makers – being the Board of Directors.

For management purposes, the Company is organised into one main operating segment, which involves exploration for diamonds. All of the Company's activities are interrelated, and discrete financial information is reported to the Board as a single segment.

Accordingly, all significant operating decisions are based upon analysis of the Company as one segment. The financial results from this segment are equivalent to the financial statements of the Company as a whole.

4. Recent Accounting Pronouncements

A number of new standards, amendments to standards and interpretations, are not yet effective for the period ended June 30, 2017, and have not been applied in preparing these consolidated financial statements. The following standards and interpretations have been issued by the IASB and the IFRIC Committees with effective dates relating to the annual accounting periods starting on or after the effective dates as follows:

IFRS 9, Financial Instruments, ("IFRS 9") was issued by the IASB in July 2014 in final form and will replace IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

IFRS 15, revenue from contracts and customers ("IFRS 15") was issued by the IASB on May 28, 2014, and will replace IAS 18, revenue, IAS 11, construction contracts, and related interpretations on revenue. IFRS 15 sets out the requirements for recognizing revenue that apply to all contracts with customers, except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 uses a control based approach to recognize revenue which is a change from the risk and reward approach under the current standard. Companies can elect to use either a full or modified retrospective approach when adopting this standard and it is effective for annual periods beginning on or after January 1, 2018.

IFRS 16, Leases ("IFRS 16") will bring most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. Under IFRS 16 a lessee recognizes a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other nonfinancial assets and depreciated accordingly and the liability accrues interest. This will typically produce a frontloaded expense profile (whereas operating leases under IAS 17, Leases ("IAS 17") would typically have had straight-line expenses) as an assumed linear depreciation of the right-of-use asset and the decreasing interest on the liability will lead to an overall decrease of expense over the reporting period. IFRS 16 supersedes IAS 17 and related interpretations and is effective for periods beginning on or after January 1, 2019, with earlier adoption permitted if IFRS 15, Revenue from Contracts with Customers has also been applied.

Five Star Diamonds Ltd.**Notes to Consolidated Financial Statements****For the Period from July 1, 2016 to June 30, 2017****(Expressed in Canadian Dollars)**

	June 30, 2017 \$	June, 30 2016 \$
5. Cash and Cash Equivalents		
Cash at bank and on hand	3,029,431	1,328,172
Short-term deposits	-	-
	<u>3,029,431</u>	<u>1,328,172</u>

Cash at bank earns interest at floating rates based on daily bank deposit rates.

Reconciliation of profit for the period to net cash flows from operating activities

Net loss for the period	(7,268,094)	(2,732,176)
Depreciation	29,092	68,712
Shared based payments	2,542,867	-
Reverse takeover transaction costs	2,027,997	-
Foreign exchange movement	(216,168)	135,997
(Increase)/decrease in assets:		
Trade and other receivables	(120,132)	79,384
Inventories	707	(28,421)
Increase/(decrease) in liabilities:		
Trade and other payables	598,271	58,842
Net cash from operating activities	<u>(2,405,460)</u>	<u>(2,417,662)</u>

6. Trade and Other Receivables

Advances	20,590	14,294
VAT receivable	37,794	4,286
Prepayments	97,500	-
Other receivables	-	253
	<u>155,884</u>	<u>18,833</u>

Five Star Diamonds Ltd.

Notes to Consolidated Financial Statements

For the Period from July 1, 2016 to June 30, 2017

(Expressed in Canadian Dollars)

7. Property, Plant and Equipment

	Plant and equipment \$	Motor vehicles \$	Computer equipment \$	Furniture and fittings \$	Total \$
<i>Gross carrying amount</i>					
Balance at July 1, 2016	2,114,973	60,446	4,842	4,221	2,184,482
Foreign currency differences	(46,713)	(1,042)	(162)	(192)	(48,109)
Additions	107,072	51,433	926	1,971	161,402
Disposals	-	(61,719)	-	-	(61,719)
Balance at June 30, 2017	2,175,332	49,118	5,606	6,000	2,236,056
<i>Accumulated depreciation and impairment</i>					
Balance at July 1, 2016	(61,453)	(13,096)	(295)	(391)	(75,235)
Foreign currency differences	5,895	696	34	28	6,653
Depreciation expensed or capitalised	(112,596)	(8,229)	(617)	(431)	(121,873)
Disposals	-	20,629	-	-	20,629
Balance at June 30, 2017	(168,154)	-	(878)	(794)	(169,826)
<i>Carrying value</i>					
June 30, 2017	2,007,178	49,118	4,728	5,206	2,066,230
<i>Gross carrying amount</i>					
Balance at July 1, 2015	146,634	62,120	735	-	209,489
Foreign currency differences	242,101	(1,674)	518	550	241,495
Additions	1,726,238	-	3,589	3,671	1,733,498
Balance at June 30, 2016	2,114,973	60,446	4,842	4,221	2,184,482
<i>Accumulated depreciation and impairment</i>					
Balance at July 1, 2015	(25)	(1,035)	(12)	-	(1,072)
Foreign currency differences	(3,860)	(1,513)	(34)	(44)	(5,451)
Depreciation expense	(57,568)	(10,548)	(249)	(347)	(68,712)
Disposals	-	-	-	-	-
Balance at June 30, 2016	(61,453)	(13,096)	(295)	(391)	(75,235)
<i>Carrying value</i>					
June 30, 2016	2,053,520	47,350	4,547	3,830	2,109,247

Plant and equipment includes \$991,863 (2016: \$1,017,177) of a plant which is not yet operational and therefore is not depreciated. During the year, \$92,781 (2016: \$NIL) of depreciation was capitalized to the deferred exploration and evaluation expenditures.

Five Star Diamonds Ltd.

Notes to Consolidated Financial Statements

For the Period from July 1, 2016 to June 30, 2017

(Expressed in Canadian Dollars)

	June, 30 2017 \$	June, 30 2016 \$
8. Deferred Exploration and Evaluation Expenditure		
Costs carried forward in respect of:		
<i>Exploration and evaluation phase – at cost</i>		
Balance at beginning of period	2,606,700	440,192
Expenditure incurred	1,647,035	1,890,608
	<u>4,253,735</u>	<u>2,330,800</u>
Transferred to development expenditure		
Foreign currency differences	(125,686)	275,900
Expenditure written off	-	-
Total exploration and evaluation expenditure	<u>4,128,049</u>	<u>2,606,700</u>

The Company has one material project, the Catalão Diamond Project, located in the State of Goiás, Brazil. The Catalão Diamond Project is comprised of one exploration license of 1,999.42 hectares. Along with the Catalão Diamond Project, The Company has several other projects with a total area of approximately 80,000 hectares.

The Company has entered into a royalty agreement with GRB Grafite do Brasil Mineração Ltda ('GRB') in relation to the assignment of certain claims to the Company by GRB. The Company will pay GRB a net smelter returns royalty of 1.5% in respect of any product extracted, produced, saved and marketed from various mineral claims. The royalty agreement also applies to certain mineral claims that the Company does not currently hold but may hold in the future.

The Company has entered into a royalty agreement with Metal Land Mineração Ltda ('MLML') in relation to the assignment of certain claims to the Company by MLML. The Company will pay MLML a net smelter returns royalty of 1% in respect of any product extracted, produced, saved and marketed from various mineral claims.

On September 14, 2017, the Company relinquished 13 mineral claims 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.

The recoupment of costs carried forward in relation to areas of interest in the exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective areas.

9. Trade and Other Payables

Trade payables (i)	560,592	190,017
Accrued expenses	103,912	67,010
	<u>664,504</u>	<u>257,027</u>

(i) Trade payables are non-interest bearing and are normally settled on 30-day terms.

Five Star Diamonds Ltd.

Notes to Consolidated Financial Statements

For the Period from July 1, 2016 to June 30, 2017

(Expressed in Canadian Dollars)

	June, 30 2017 \$	June, 30 2016 \$
10. Borrowings		
Opening balance	-	-
Borrowings incurred during the year	272,653	-
Borrowings repaid during the year	(272,653)	-
	<u>-</u>	<u>-</u>

On 3 March 2017, the Company's wholly owned subsidiary FSD Brazil Limited entered in to a loan agreement with several third parties for an amount of US\$210,000. The funds were repaid 30 days from the Company listing on the TSX Venture Exchange but no later than 3 months from the loan date.

As part of the loan agreement, the Company agreed to pay in consideration for the loan a royalty of 2.1% on the production from certain mineral claims.

11. Issued Capital

(a) Issued and paid up capital

Ordinary shares fully paid	<u>17,196,975</u>	<u>8,415,501</u>
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	2017		2016	
	Number of shares	\$	Number of shares	\$
(b) Movements in ordinary shares on issue				
Opening Balance	96,612,180	8,415,501	83,811,500	4,461,607
Five Star Diamonds Limited shares on issue at acquisition (note15)	6,489,774	1,946,932	-	-
Shares issued under public offering	17,815,480	5,344,644	-	-
Shares issued on exercise of options*	50,000	15,748	-	-
Shares issued in lieu of debt (note 16(f))	997,078	295,558	-	-
Shares issued to consultants (note 16(b))	3,184,497	947,042	-	-
Shares issued under anti-dilutive agreement (note 16(c))	1,408,087	425,575	-	-
Shares issued under placement**	2,220,000	640,715	12,800,680	4,039,592
Transaction costs on share issue	-	(790,985)	-	(241,319)
Exchange differences on translation of foreign operations	-	(43,755)	-	155,628
	<u>128,777,096</u>	<u>17,196,975</u>	<u>96,612,180</u>	<u>8,415,501</u>

* On June 28, 2017, the Company issued 50,000 at \$0.10 per share upon receipt of \$5,000 on the exercise of options.

** On January 27, 2017, the Company issued 1,220,000 ordinary shares at \$0.30 per share through a closed private placement to raise an aggregate of \$265,280. On July 29, 2016, the Company issued 1,000,000 ordinary shares at €0.208 per share through a private placement to raise an aggregate of €208,000.

Five Star Diamonds Ltd.

Notes to Consolidated Financial Statements

For the Period from July 1, 2016 to June 30, 2017

(Expressed in Canadian Dollars)

11. Issued Capital continued

(c) Ordinary shares

The Company does not have authorised capital nor par value in respect of its issued capital. Ordinary shares have the right to receive dividends as declared and, in the event of a winding up of the Company, to participate in the proceeds from sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or proxy, at a meeting of the Company.

(d) Share options

As at 30 June 2017, there are 6,493,950 unissued ordinary shares under options. The details of the options are as follows:

Number	Exercise Price \$	Expiry Date	Details
5,000,000	\$0.36	01/05/2019	Officer and employee options
150,000	\$0.10	20/04/2018	Options held by former directors
1,343,950	\$0.30	20/04/2019	Broker and adviser options

No option holder has any right under the options to participate in any other share issue of the Company or any other entity.

(e) Capital risk management

The Company's capital comprises share capital and reserves less accumulated losses. As at 30 June 2017, the Company has net assets of \$8,522,716 (2016: \$5,834,346). The Company manages its capital to ensure its ability to continue as a going concern and to optimise returns to its shareholders. The Company has no externally imposed capital requirements. There were no changes during the year. Refer to note 18 for further information on the Company's financial risk management policies.

June, 30	June, 30
2017	2016
\$	\$

12. Reserves

Share based payments reserve	1,560,969	-
Foreign currency translation reserve	514,248	627,999
	2,075,237	627,999

Movements in Reserves:

Share based payment reserve

At beginning of the period	-	-
Options issued to employees and consultants	1,300,280	-
Options issued to brokers and advisers	228,443	-
Revaluation of options issued to directors	42,994	-
Valuation variance on exercise of options	(10,748)	-
Balance at the end of the year	1,560,969	-

Five Star Diamonds Ltd.

Notes to Consolidated Financial Statements

For the Period from July 1, 2016 to June 30, 2017

(Expressed in Canadian Dollars)

	June, 30 2017 \$	June, 30 2016 \$
13. Loss per share		
Loss used in calculating basic and dilutive loss per share	(7,268,094)	(2,732,176)
Weighted average number of ordinary shares used in calculating basic and diluted loss per share:	104,168,542	87,825,777

There are no dilutive shares in 2017 or 2016.

14. Related Party Disclosures

a) Key Management Personnel

Details of the nature and amount of each element of the emolument of each Director and Executive of the Company for the financial year are as follows:

Short term employee benefits (refer to note 16(f) for further detail)	624,497	533,623
Post employment benefits	-	-
Total remuneration	624,497	533,623

Other transactions with Key Management Personnel

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 \$26,455 (2016: \$13,005) outstanding at year end.

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 \$26,233 (2016: \$nil) outstanding at year end.

FFA Legal Ltda, a company in which Mr Azevedo is a director, provided the Company with legal and accounting services in Brazil totaling \$299,515 (2016: \$22,768). No balance (2016: \$176,900) was outstanding at year end.

Luis Azevedo has \$31,160 (2016: \$10,404) outstanding in Director fees at year end.

Matthew Wood had \$106,047 (2016: \$37,109) outstanding in Director fees at year end.

Harvest Minerals Limited, a company in which Mr McMaster is a director, provided the Company with rental services in London totaling \$39,932 (2016: \$nil). \$39,958 (2016: \$nil) was outstanding at year end.

Garrison Capital Limited, a company in which Mr McMaster and Mr Wood are directors, charged the Company for reimbursement of expenses at cost totaling \$1,958 (2016: \$36,921). \$390 (2016: \$400) was outstanding at year end.

ATMACorp Ltd, a company in which Mr Waraich is a director, was issued 984,497 fully paid ordinary shares in satisfaction of corporate advisory services provided. For further details refer to note 16 (b).

Five Star Diamonds Ltd.

Notes to Consolidated Financial Statements

For the Period from July 1, 2016 to June 30, 2017

(Expressed in Canadian Dollars)

14. Related Party Disclosures continued

(b) Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of Five Star Diamonds Ltd and the following subsidiaries:

Name of Entity	Country of Incorporation	Equity Holding	
		2017	2016
FSD Holdings Limited	BVI	100%	-
FSD Brazil Limited	BVI	100%	100%
Five Star Mineração Ltda	Brazil	100%	100%
1030301 BC Ltd	Canada	100%	100%

15. Reverse Takeover

The share capital of each company prior to the RTO was as follows:

	Number	\$ Amount
Turquoise		
Balance, April 20, 2017	6,489,774	447,205
FSD BVI		
Balance, April 20, 2017	104,279,944	8,543,653

On April 20, 2017, FSD BVI and Turquoise completed the Amalgamation whereby former shareholders of each company received one post Amalgamation common share of Five Star Diamonds Limited for each common share of FSD BVI and Turquoise held.

In accordance with IFRS 3, Business Combination, the substance of the transaction is a reverse takeover of a non-operating company. The transaction does not constitute a business combination as Turquoise does not meet the definition of a business under the standard. As a result, the transaction is accounted for as a capital transaction with FSD BVI being identified as the acquirer and the equity consideration being measured at fair value. The resulting consolidated statement of financial position is presented as a continuance of FSD Holdings Limited (refer to note 1 for further detail).

IFRS 2, Share-based Payment, applies to transactions where an entity grants equity instruments and cannot identify specifically some or all of the goods or services received in return. Because FSD BVI would have issued shares with a value in excess of the assets received, the difference is recognised in comprehensive loss as a transaction cost. The amount assigned to the transaction cost of \$2,027,997 is the difference between the fair value of the consideration and the net identifiable assets of Turquoise acquired by FSD BVI and included in the consolidated statements of loss and comprehensive loss.

The fair value of the consideration is determined based on the percentage of ownership the legal parent's shareholders have in the amalgamated entity after the transaction. This represents the fair value of the shares that FSD BVI would have had to issue for the ratio of ownership interest in the combined entity to be the same, if the transaction had taken the legal form of FSD BVI acquiring 100% of the shares in Turquoise. The fair value of the consideration in the RTO is equivalent to the fair value of the 6,489,774 Five Star Diamonds Limited shares controlled by original Turquoise shareholders. The fair value of the shares controlled by original Turquoise shareholders was estimated to be \$1,946,932 based on the fair market value of \$0.30 per share on the date of April 20, 2017.

Five Star Diamonds Ltd.

Notes to Consolidated Financial Statements

For the Period from July 1, 2016 to June 30, 2017

(Expressed in Canadian Dollars)

15. Reverser Takeover continued

Based on the statement of financial position of Turquoise at the time of the RTO, the net assets at estimated fair value that was acquired by the Company was \$(38,071) and the resulting transaction cost charged to the consolidated statements of loss and comprehensive loss are as follows:

	\$ Amount
Consideration	
Shares	1,946,932
Revaluation of options issued to directors	42,994
Total consideration	1,989,926
Identifiable assets and liabilities acquired	
Cash	2,164,160
Trade and other receivables	16,919
Trade and other payables	(64,917)
Subscription receipts	(2,154,234)
Net liabilities acquired	(38,071)
Total transaction cost	2,027,997

Options on issue were revalued on completion of the reverse takeover using the Black Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share and the risk free interest rate for the term of the option. The table below summaries options granted:

Grant Date	Expiry date	Exercise price	Issued as part of RTO	Exercised during the period Number	Forfeited during the period Number	Balance at end of the period Number	Exercisable at end of the period Number
20/04/2017	20/04/2018	\$0.10	200,000	50,000	-	150,000	150,000
Weighted remaining contractual life (years)			1.0	-	-	0.8	0.8
Weighted average exercise price			\$0.10	-	-	\$0.10	\$0.10

The model inputs, not included in the table above, for options granted during the year ended 30 June 2017 included:

- options are granted for no consideration;
- share price at revaluation date was \$0.30;
- expected volatility of 110%;
- expected dividend yield of nil; and
- a risk free interest rate of 0.75%.

Five Star Diamonds Ltd.

Notes to Consolidated Financial Statements

For the Period from July 1, 2016 to June 30, 2017

(Expressed in Canadian Dollars)

16. Share Based Payments

(a) Recognised share based payment transactions

Share based payment transactions recognised as operation expenses in the statement of profit or loss and other comprehensive income or exploration expenditure on the statement of financial position during the year were as follows:

	June, 30 2017 \$	June, 30 2016 \$
<i>Operating expenses</i>		
Share based payments to consultants (refer to note 16 (b))	947,040	-
Share based payments under anti-dilutive agreement (refer to note 16 (c))	425,575	-
Share based payments to employees and consultants (refer to note 16 (d))	1,170,252	-
	<u>2,542,867</u>	<u>-</u>
<i>Deferred exploration and evaluation expenditure</i>		
Share based payments to exploration employees and consultants (refer to note 16 (d))	130,028	-
<i>Fundraising costs</i>		
Share based payments to consultants capitalised against fundraising costs (refer to note 16 (b))	14,801	-
Share based payments to brokers and advisers capitalised against fundraising costs (refer to note 16 (e))	228,443	-
	<u>243,244</u>	<u>-</u>
<i>Trade and other payables</i>		
Share based payments in lieu of debt offset against trade and other payables (refer to note 16 (f))	295,558	-

(b) Share based payments to consultants

On April 13, 2017, the Company issued to ATMACorp Ltd, a company of which Mr Waraich is a director, 842,599 fully paid ordinary shares, Wander Consulting Ltd 900,000 fully paid ordinary shares, Maxit Capital LP 250,000 fully paid ordinary shares and Concept Capital Management Ltd 1,000,000 fully paid ordinary shares in satisfaction of corporate advisory services provided. The fair value of the shares was determined to be \$904,471 by reference to the proposed public offering to be completed as part of the RTO.

On April 20, 2017, the Company issued to ATMACorp Ltd, a company of which Mr. Waraich is a director, 141,898 fully paid ordinary shares in satisfaction of corporate advisory services provided. The fair value of the shares was determined to be \$42,569 by reference to the proposed public offering to be completed as part of the RTO.

On August 24, 2016, the Company issued to Mr. Manvel Bagratyan 50,000 fully paid ordinary shares in satisfaction of placement fees for services provided. The fair value of the shares was determined to be \$14,801 by reference to the proposed public offering to be completed as part of the RTO.

(c) Share based payments under anti-dilutive agreement

On April 13, 2017, the Company issued 1,408,087 fully paid ordinary shares to certain existing shareholders of FSD BVI pursuant to an engagement letter dated May 23, 2016 between CPS Capital Group Pty Ltd and FSD BVI stipulating the holdings of certain shareholders not be diluted upon completion of the RTO. The fair value of the shares was determined to be \$425,575 by reference to the proposed public offering to be completed as part of the RTO.

Five Star Diamonds Ltd.

Notes to Consolidated Financial Statements

For the Period from July 1, 2016 to June 30, 2017

(Expressed in Canadian Dollars)

16. Share Based Payments continued

(d) Share based payments to employees and consultants

The Company has adopted an incentive stock option plan (the "Option Plan"), which provides that the board of directors may from time to time, in its discretion, and in accordance with the Exchange requirements, grant to directors, officers, employees and technical consultants to the Company, non-transferable options to purchase shares. The Option Plan was last approved by the Shareholders at the meeting of the Shareholders on May 29, 2015.

On May 5, 2017, the Company issued 5,000,000 options with an exercise price of \$0.36 and an expiry date of May 5, 2019 to employees and consultants of the Company of which 500,000 were issued to employees and consultants directly involved in exploration activities. The options vested immediately on issue.

The fair value at grant date of options granted of \$1,300,280 was determined using the Black Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share and the risk free interest rate for the term of the option. The table below summaries options granted:

Grant Date	Expiry date	Exercise price	Granted during the year Number	Exercised during the period Number	Forfeited during the period Number	Balance at end of the period Number	Exercisable at end of the period Number
05/05/2017	01/05/2019	\$0.36	5,000,000	-	-	5,000,000	5,000,000
Weighted remaining contractual life (years)			2.0	-	-	1.9	1.9
Weighted average exercise price			\$0.36	-	-	\$0.36	\$0.36

The model inputs, not included in the table above, for options granted during the year ended 30 June 2017 included:

- (f) options are granted for no consideration;
- (g) share price at grant date was \$0.43;
- (h) expected volatility of 110%;
- (i) expected dividend yield of nil; and
- (j) a risk free interest rate of 0.75%.

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16. Share Based Payments continued

(e) Share based payments to brokers and advisers capitalised against fundraising costs

On April 20, 2017, the Company issued 1,343,950 options with an exercise price of \$0.30 and an expiry date of April 20, 2019 to brokers and consultants for services performed in regards to the placement completed by the Company. The options vested immediately on issue.

The fair value at grant date of options granted was determined to be \$228,443 using the Black Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share and the risk free interest rate for the term of the option. The table below summarizes options granted:

Grant Date	Expiry date	Exercise price	Granted during the year Number	Exercised during the period Number	Forfeited during the period Number	Balance at end of the period Number	Exercisable at end of the period Number
20/04/2017	20/04/2019	\$0.30	1,343,950	-	-	1,343,950	1,343,950
Weighted remaining contractual life (years)			2.0	-	-	1.9	1.9
Weighted average exercise price			\$0.30	-	-	\$0.30	\$0.30

The model inputs, not included in the table above, for options granted during the year ended 30 June 2017 included:

- (k) options are granted for no consideration;
- (l) share price at grant date was \$0.30;
- (m) expected volatility of 110%;
- (n) expected dividend yield of nil; and
- (o) a risk free interest rate of 0.75%.

(f) Share based payments in lieu of debt offset against trade and other payables

On February 10, 2017, the Company issued 997,078 fully paid ordinary shares to the following consultants and directors in lieu of amounts owed for their services:

Consultant / Director	Shares Issued
Mr Manvel Bagratyan – Consultant	52,560
Mr Joseph Burke – Consultant	65,701
Mr Simon Rothschild – Director	60,592
Mr Brian McMaster – Director	175,201
Mr Matthew Wood – Director	397,742
Mr Luis Azevedo – Director	245,282

The fair value of the shares was determined to be \$295,558 by reference to the placement to be completed as part of the RTO.

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17. Income Tax

As stated in Note 1, on April 20, 2017, FSD BVI and Turquoise completed the Amalgamation whereby former shareholders of each company received one post Amalgamation common shares of Five Star Diamonds Limited for each common share of FSD BVI and Tuquoise held. The resulting consolidated statement of financial position is presented as a continuance of FSD Holdings Limited, which is subject to a 0% rated income tax regime in the British Virgin Islands. After the Amalgamation, the legal parent is Tuquoise, a Canadian entity which is subject to the combined Canadian federal and provincial statutory income tax rate of 26.5%. Reconciliation of the combined statutory income tax rate of 26.5% (2016 - 0%) to the effective tax rate is as follows:

	June, 30 2017	June, 30 2016
	\$	\$
Net (loss) for the period	(7,268,094)	(2,732,176)
Expected income tax (recovery) expense	(1,926,045)	-
Loss subject to 0% tax rate	816,743	-
Tax rate changes and other adjustments	54,045	-
Non-deductible expenses	375,307	-
Capitalised share issue costs	137,749	-
Change in tax benefits not recognised	544,201	-
Income tax expense	-	-

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

Canadian non-capital losses carried forward	772,860	-
Foreign non-capital losses carried forward	911,530	504,000
Deferred financing costs	666,110	-
Other temporary differences	101,070	29,550
	<u>2,451,570</u>	<u>533,550</u>

Share issue and financing costs will be fully amortised in 2022. The Brazilian subsidiaries have losses carried forward of BRL 2,320,000 (30 June 2016: BRL 1,251,000) which converts to approximately CAD \$911,530 (30 June 2016: CAD \$504,000) which are available to offset against future taxable income. These losses have no expiry date. The remaining deductible temporary differences may be carried forward indefinitely. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

The Company's Canadian non-capital income tax losses expire as follows:

Year	Total
2033	112,480
2034	78,920
2035	98,620
2036	99,060
2037	<u>383,780</u>
	<u>772,900</u>

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18. Financial Instruments and Risk Management

Risks Arising from Financial Instruments and Risk Management

The Company's activities expose it to a variety of financial risks: such as market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Company.

The Company uses various methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks.

Market Risk

Foreign exchange risk

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures. The Company primarily operates in Brazil. Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities denominated in a currency that is not the Company's functional currency. The Company's risk management policy is to review its exposure to non-Canadian dollar forecasts operating costs on a case-by-case basis. The majority of the Company's forecast operating costs are in Brazilian real and Canadian dollars. The risk is measured using sensitivity analysis and cash flow forecasting.

The carrying amount of the Company's foreign currency denominated monetary assets and liabilities are as follows in Canadian dollars:

	As at June 30, 2017				
	BRL in CAD	AUD in CAD	GBP in CAD	USD in CAD	CAD
Cash and cash equivalents	46,478	2,239	-	346,986	2,633,728
Accounts payable & accrued liabilities	107,584	32,134	95,095	307,844	121,847

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19. Financial instruments and risk management (continued)

Sensitivity

Based on the financial instruments held at June 30, 2017, had the Canadian dollar weakened/strengthened by 10% against these foreign currencies with all other variables held constant, the Company's post-tax loss for the period would have been \$613,205 higher/lower as a result of foreign exchange gains/losses on translation of non-Canadian dollar denominated financial instruments as detailed above. The Company's deficit would have been \$613,205 higher/lower had the Canadian dollar weakened/strengthened by 10% as a result of foreign exchange gains/losses on translation of non-Canadian dollar denominated financial instruments.

Cash flow fair value interest rate risk

The Company does not have any variable interest-bearing borrowings for which general rate fluctuations apply. The Company is exposed to interest rate risk to the extent of the funds invested in the Company's bank accounts.

Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Company. Credit risk arises from cash and cash equivalents with banks and financial institutions as well as credit exposures to outstanding receivables.

It is management's opinion that the Company is not exposed to significant credit risk arising from these financial instruments.

Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash at all times, liquid investments and committed credit facilities to meet the Company's commitments as they arise. The Company manages liquidity risk by maintaining adequate cash reserves and by continuously monitoring forecast and actual cash flows.

At June 30, 2017, the Company had net working capital of \$2,548,525. Furthermore, as at June 30, 2017 the long-term debt carried by the Company was nil.

Fair Value Estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. The carrying values of cash and cash equivalents, accounts receivables and payables are assumed to approximate their fair values due to their short-term nature.

Capital Management

The Company defines capital that it manages as its shareholders' equity. The Company's objectives when managing capital are to safeguard its ability to continue as a going concern and provide increased shareholder value. As at June 30, 2017, the total managed capital was \$17,196,975.

The Company achieves its objectives by assessing economic conditions, its plans regarding development of its assets, and its obligations, and utilizing capital markets to raise equity when required.

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19. Subsequent Events

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.