

## **FIVE STAR DIAMONDS LTD.**

### **QUARTERLY HIGHLIGHTS – INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE MONTHS & NINE MONTHS ENDED SEPTEMBER 30, 2018**

The following interim Management's Discussion & Analysis ("Interim MD&A") of Five Star Diamonds Ltd. (the "Company" or "Five Star") for the three months and nine months ended September 30, 2018 has been prepared to provide material updates to the business operations, liquidity and capital resources of the Company since its last management's discussion & analysis, being the Management's Discussion & Analysis ("December 2017 MD&A") for the six months ended December 31, 2017. This Interim MD&A does not provide a general update to the December 2017 MD&A, or reflect any non-material events since the date of the December 2017 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 December 2017 MD&A, audited consolidated financial statements of the Company for the six months ended December 31, 2017 and year ended June 30, 2017, together with the notes thereto, and unaudited condensed interim consolidated financial statements of the Company for the nine months ended September 30, 2018, 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. The unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. Accordingly, Information contained herein is presented as of November 29, 2018, 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).

#### **Caution Regarding Forward-Looking Statements**

This Interim MD&A contains certain forward-looking information and forward-looking statements, as defined in applicable securities laws (collectively referred to herein as "forward-looking statements"). These statements relate to future events or the Company's future performance. All statements other than statements of historical fact are forward-looking statements. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "continues", "forecasts", "projects", "predicts", "intends", "anticipates" or "believes", or variations of, or the negatives of, such words and phrases, or state that certain actions, events or results "may", "could", "would", "should", "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those anticipated in such forward-looking statements. The forward-looking statements in this Interim MD&A speak only as of the date of this Interim MD&A or as of the date specified in such statement.

The following table outlines certain significant forward-looking statements contained in this Interim MD&A and provides the material assumptions used to develop such forward-looking statements and material risk factors that could cause actual results to differ materially from the forward-looking statements.

Forward-looking statements	Assumptions	Risk factors
The Company will be able to continue its business activities.	The Company has anticipated all material costs and the operating activities of the Company, and such costs and activities will be consistent with the Company's current expectations; the Company will be able to obtain equity funding when required.	Unforeseen costs to the Company will arise; any particular operating cost increase or decrease from the date of the estimation; and capital markets not being favourable for funding resulting in the Company not being able to obtain financing when required or on acceptable terms.
The Company will be able to carry out anticipated business plans.	The operating activities of the Company for the twelve months ending September 30, 2019, will be consistent with the Company's current expectations.	Sufficient funds not being available; increases in costs; the Company may be unable to retain key personnel; government regulations will change in a negative manner towards exploration activities for junior mining companies.

Inherent in forward-looking statements are risks, uncertainties and other factors beyond the Company's ability to predict or control. Please also make reference to those risk factors referenced in the "Risk Factors" section below. Readers are cautioned that the above chart does not contain an exhaustive list of the factors or assumptions that may affect the forward-looking statements, and that the assumptions underlying such statements may prove to be incorrect. 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 Interim MD&A.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the Company's actual results, performance or achievements to be materially different from any of its future results, performance or achievements expressed or implied by forward-looking statements. All forward-looking statements herein are qualified by this cautionary statement. Accordingly, readers should not place undue reliance on forward-looking statements. The Company undertakes no obligation to update publicly or otherwise revise any forward-looking statements whether as a result of new information or future events or otherwise, except as may be required by law. If the Company does update one or more forward-looking statements, no inference should be drawn that it will make additional updates with respect to those or other forward-looking statements, unless required by law.

### Description of Business

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

The records and registered office of the Company is located at 595 Howe St, Suite 704, Vancouver, British Columbia V6C 2T5. The Company has five 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), 1030301 BC Ltd (incorporated in Canada) and Diamond Blockchain Limited (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 1,343,960 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 Ltd. 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 nine months ended September 30, 2018 to the date of this MD&A, the following corporate activities occurred:

- The Company's Executive Chairman, Matthew Wood has entered into an agreement to acquire an additional 4,270,081 Common Shares of the Company from a former director of the Company at a price of C\$0.20. These shares are currently subject to a TSXV escrow and will remain in escrow following completion of the transfer. The TSXV approved this transfer within escrow during August 2018.
- On August 2, 2018, the Company announced that it is conducting a non-brokered private placement of up to C\$7,500,000 aggregate principal amount of convertible debenture units (the "Convertible Debenture Units") at a price of \$1,000 per Convertible Debenture Unit (the "Offering"). Each Convertible Debenture Unit will consist of: (i) one \$1,000 principal amount of 12% unsecured convertible debenture (a "Convertible Debenture"); and (ii) 500 common share purchase warrants (each, a "Warrant") of the Company. The Company has closed an initial tranche of the Offering with its largest shareholder, R&R Venture Partners ("R&R"), which has subscribed for C\$653,000 principal amount of Debentures.
- On August 2, 2018, the Company announced that it is proposing to settle an aggregate of approximately \$770,000 owing to certain officers and directors of the Company and service providers to the Company through the issuance of an aggregate of approximately 3,850,000 Common Shares of the Company at an implied issue price of C\$0.20 per Common Share.

- On April 25, 2018, the Company issued 1,200,000 options with an exercise price of \$0.30 and an expiry date of April 25, 2023 to employees and consultants of the Company under the Option Plan.
- On April 20, 2018, the Company appointed Ms Jo-Anne Archibald as Company Secretary.
- On April 17, 2018, the Company reached an equity based agreement with a drilling contractor to undertake 5,200 meters of diamond core drilling at the Maravilha and Catalao projects. The Company will issue shares based on an average VWAP price over the previous 30 days before and after completion of the contract in lieu of estimated cash payments of approximately CAD \$700,000 for the drilling services.

## **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 the nine months period as at September 30, 2018 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.

## **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 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 financial statements; and (ii) the unaudited condensed consolidated 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:

- i) 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
- ii) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of unaudited condensed 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.

## Financial Highlights

### Three months ended September 30, 2018 compared to three months ended September 30, 2017

During the three months ended September 30, 2018, the Company incurred a net loss of \$362,076 (three months ended September 30, 2017: \$514,868). The expenses for the three months ended September 30, 2018, include the following material items:

- Accounting, audit and tax fees decreased in the three months ended September 30, 2018, to \$21,219 compared with \$34,901 for the same period in 2017, primarily due to the Company requiring external accounting support services in the prior year.
- Consultant and director fees decreased in the three months ended September 30, 2018, to \$196,675 compared with \$277,246 for the same period in 2017, as the Company stopped accruing most of the directors' fees on August 01, 2018.
- Travel and accommodation costs decreased in the three months ended September 30, 2018, to \$6,759 compared with \$45,833 for the same period in 2017, due to lower travel requirements by management.
- Advertising and marketing decreased in the three months ended September 30, 2018, to \$10,808 compared with \$54,257 expenses for the same period in 2017, primarily due to cost reduction strategies implemented by management.
- Share based payments in the three months ended September 30, 2018, to \$nil compared with \$nil expenses for the same period in 2017, due to share based payments associated with the RTO being recorded in 2017.
- Financing cost in the three months ended September 30, 2018, \$18,851 compared with \$nil expenses for the same period in 2017, due to Convertible debentures issued on August 2, 2018.

### Nine months ended September 30, 2018 compared to nine months ended September 30, 2017

During the nine months ended September 30, 2018, the Company incurred a net loss of \$2,746,513 (nine months ended September 30, 2017: \$6,531,305). The expenses for the nine months ended September 30, 2018, include the following material items:

- Accounting, audit and tax fees decreased in the nine months ended September 30, 2018, to \$90,438 compared with \$148,196 for the same period in 2017, primarily due to the Company requiring external accounting support services in the prior year.
- Consultant and director fees decreased in the nine months ended September 30, 2018, to \$778,199 compared with \$839,167 for the same period in 2017.
- Travel and accommodation costs decreased in the nine months ended September 30, 2018, to \$59,518 compared with \$248,486 for the same period in 2017, due to lower travel requirements by management.
- Advertising and marketing decreased in the nine months ended September 30, 2018, to \$48,757 compared with \$129,801 expenses for the same period in 2017, primarily due to cost reduction strategies implemented by management.
- Share based payments decreased in the nine months ended September 30, 2018, to \$1,392,968 compared with \$2,117,292 expenses for the same period in 2017, due to share based payments associated with the RTO being recorded in 2017.
- Financing cost in the nine months ended September 30, 2018, \$18,851 compared with \$nil expenses for the same period in 2017, due to Convertible debentures issued on August 2, 2018.

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.

As the Company has no revenue, its ability to fund its operations is dependent upon its securing financing through the sale of equity, debt or assets. See "Risk Factors".

### Diamond Project

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

Summary of Completed Activities (Nine months ended September 30, 2018)	(A) Spent (approx.)	Plans for the Projects	(B) Planned Expenditures (approx.)
See note 1 and note 2 below for activities	\$928,123	note 3	\$9.83 million
<b>Subtotals</b>	<b>\$928,123</b>		<b>\$9.83 million</b>
<b>Total (A+B)</b>			<b>\$9.83 million</b>

#### note 1

- From early August to date, the Company has concluded 18 exploration drill holes for a total of 1,267,22 linear-meters for the Catalao Diamond Project. The actual exploration drilling program resulted in the discovery of three new kimberlite pipes, named CAT-11A, CAT-11B and CAT-01K.
- CAT-11A and CAT-11B kimberlite pipes are located approximately 1,000 to 1,100 meters southwest of CATs-01ABC. CAT-11A kimberlite was intersected by drill hole CAT-DDH-18-033 and reported an interval of 23.16 meters of kimberlite. CAT-11B kimberlite was intersected by drill hole CAT-DDH-18-034 and reported an interval of 31.04 meters of kimberlitic rocks.
- CAT-01K kimberlite is located 270 meters southeast of CATs-01ABC and 350 meters south of the planned site for the new DMS plant. This pipe was intersected by drill hole CAT-DDH-18-023, which returned with an interval of 17.15 meters of weathered (saprolite) to semi-weathered (saprock) kimberlitic intrusion.
- As for the Maravilha Diamond Project, the diamond drilling program was concluded on July 20, 2018 and included the completion of 9 (nine) drill holes for a total of 736,33 meters drilled and distributed on 4 (four) drill section approximately 40 meters apart. As a result of the drilling program, 7 (seven) drill holes intersected the M3 kimberlite pipe with widths ranging from 0.3 meters up to 20.18 meters.

#### note 2

The Company had the following land ownership activity in Brazil:

- The Company has 23 diamond kimberlite projects comprising an aggregate of 41 exploration licences and applications across 76,426 hectares.

#### note 3

- The Company intends to continue its program of exploration program at the Jaibaras, Riachão and Maravilha diamond kimberlite projects where early bulk sampling results have encouraged the Company to focus additional resources. Initial bulk sampling, auger drilling and ground magnetics will also commence across the Company's pipeline of kimberlite projects across Brazil. A diamond drilling program has been concluded for Maravilha Diamond Project. An additional diamond drilling program is currently being undertaken on Catalão Diamond Project (\$0.25 million incurred

in the nine months to September 30,2018).

- 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 \$6.72 million in FY 2019 (\$0.06 million incurred in the nine months to September 30,2018).

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, Maravilha, Caiapo and Moana diamond projects. Paulo Ildio de Brito is a consulting geologist of the Company.

### **Cash Flow**

Net cash used in operating activities for the nine months ended September 30, 2018 was \$487,107 (nine months ended September 30, 2017: 589,445 ). Operating activities were affected by payments to suppliers and employees of \$514,674, interest received of \$1,187 and other receipts of \$26,380.

Net cash from financing activities related to convertible debentures were \$653,000 for the nine months ended September 30, 2018 (nine months ended September 30, 2017: \$15,000).

Net cash used in investing activities during the nine months ended September 30, 2018, was \$699,730 (nine months ended September 30, 2017: \$915,026).

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

### **Liquidity and Financial Position**

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, 2018, the Company had 128,927,096 common shares issued and outstanding and 12,870,000 options and 1,343,950 warrants that would raise \$4,564,188 if exercised in full. This is not anticipated in the immediate future. See “Trends” above.

Trade and other payables increased to \$1,620,313 at September 30, 2018, compared to \$762,060 at December 31, 2017, and consist of amounts that are to be extinguished in due course. The Company’s cash and cash equivalents as of September 30, 2018 is not sufficient to pay these liabilities and further fundraising will be required.

At September 30, 2018, the Company had negative working capital of \$1,063,690, compared to positive working capital of \$376,156 at December 31, 2017, a decrease of \$1,439,846 or approximately 383%. The Company had cash and cash equivalents of \$510,051 at September 30, 2018, compared to \$1,043,888 at December 31, 2017, a decrease of \$533,837, or approximately 51%. 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.

The Company has reviewed its discretionary administrative overhead for the following twelve months and anticipates the requirement to be approximately \$1.2 million. In addition, the Company estimates the bulk sampling and work programs at its projects to cost approximately \$9.83 million.

The Company will continue to monitor its working capital requirements closely to ensure the Company meets its commitments and continues to move forward on development. 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.

The following liquidity and financing measures have been undertaken in order to manage the Company working capital and funding requirements.

#### *Debt for Equity Settlement*

In order to assist with cash management, the Company has entered into several arrangements to settle liabilities of the Company with equity issuances.

As announced on April 17, 2018, the Company reached an equity based agreement with a drilling contractor to undertake 5,200 meters of diamond core drilling at the Maravilha and Catalao projects. The Company will issue shares based on an average VWAP price over the previous 30 days before and after completion of the contract in lieu of estimated cash payments of approximately CAD \$700,000 for the drilling services.

The Company announced on August 2, 2018 that it is proposing to settle an aggregate of approximately \$770,000 owing to certain officers and directors of the Company and service providers to the Company through the issuance of an aggregate of approximately 3,850,000 Common Shares of the Company at an implied issue price of C\$0.20 per Common Share.

The amount to be settled includes approximately \$515,000 out of a total of approximately \$850,000 of accrued directors' fees and accrued management and consulting fees owing to the Company's directors and officers, as the case may be. Under the policies of the TSXV, the \$515,000 represents the maximum amount owing to officers and directors that can be settled in shares without first obtaining disinterested shareholder approval.

The Company may in due course seek disinterested shareholder approval to settle the balance of amount owing to its officers and directors, who have agreed to settle such amounts in Common Shares on the same terms.

#### *Additional Financing & Convertible Debenture Units*

As a pre-revenue mining company, the Company expects to raise additional financing to continue its development and meet operational requirements.

As announced on August 2, 2018, the Company is conducting a non-brokered private placement of up to C\$7,500,000 aggregate principal amount of convertible debenture units (the "Convertible Debenture Units") at a price of \$1,000 per Convertible Debenture Unit (the "Offering"). Each Convertible Debenture Unit will consist of: (i) one \$1,000 principal amount of 12% unsecured convertible debenture (a "Convertible Debenture"); and (ii) 500 common share purchase warrants (each, a "Warrant") of the Company.

The Company has closed an initial tranche of the Offering with its largest shareholder, R&R Venture Partners ("R&R"), which has subscribed for C\$653,000 principal amount of Debentures. R&R has also indicated to the Company that it would be prepared to invest an additional, approximately C\$2 million on comparable terms prior to December 31, 2018 if and when the Company achieves certain project milestones.

The Company is in active discussions with institutional and retail investors to complete the Offering in one or more additional tranches over the coming weeks.

The Convertible Debentures will bear interest from the date of closing at 12% per annum, calculated and payable quarterly in arrears on March 31, June 30, September 30 and December 31 in each year, and will mature August 2, 2023 five years following issuance (the "Maturity Date"). Until the earlier (i) the date of Commencement of Commercial Production at the Catalao Project, and (ii) the date that is 24 months from the date of issuance, interest payable on the outstanding principal amount of the

Convertible Debentures shall be capitalized effective on the relevant payment date and the outstanding principal amount of the Debentures shall be increased accordingly.

The Convertible Debentures will be unsecured obligations of the Company and rank pari passu in right of payment of principal and interest with all other Convertible Debentures issued under the Offering. The obligations of the Company under the Convertible Debentures will be jointly and severally guaranteed by the Company's material subsidiaries.

The Convertible Debentures will be convertible at the option of the holder into common shares of the Company (the "Common Shares") at any time prior to the close of business on the Maturity Date at a conversion price of \$0.20 per Common Share (the "Conversion Price"). Each Warrant will be exercisable to acquire one Common Share (a "Warrant Share") at an exercise price of \$0.20 per Warrant Share for a period of 36 months following issuance, subject to customary adjustments in certain events. The Convertible Debentures and the Warrants comprising the Convertible Debenture Units and any Common Shares issuable upon conversion or exercise thereof, as applicable, will be subject to a statutory hold period lasting four months and one day following the date of issuance.

The proceeds of the Offering will be used to fund final construction of the initial oxide portion at the Catalao project and for general corporate purposes. Major equipment is already on site and construction is expected to take 6-8 months from receipt of final funding with production to commence shortly thereafter.

### **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.

Matthew Wood as Chief Executive Officer and Director incurred fees of \$243,898 (September 30, 2017: \$87,578) of which no amounts were paid. Matthew Wood had \$385,105 outstanding in Director fees at September 30, 2018 (December 2017: \$141,207).

Luis Azevedo, Chief Operating Officer incurred fees of \$108,939 (September 30, 2017: \$29,949) of which no amounts were paid. Luis Azevedo had \$185,066 outstanding in Director fees at September 30, 2018 (December 2017: \$76,127).

ATMA Corp Ltd, a company in which Mr Waraich is a director, is a personal services company into which Mr Waraich's Director fees are paid. Mr Waraich was appointed as a Director on September 8, 2017. ATMA Corp Ltd, incurred fees of \$140,510 (September 30, 2017: \$14,725) of which no amounts were paid. ATMA Corp Ltd had \$191,291 outstanding in Consulting and Director fees at September 30, 2018 (December 2017: \$50,781).

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. Mr Rothschild ceased to be a Director on September 8, 2017. Capital M Consultants Limited incurred no fees in the period ending September 30, 2018 (September 30, 2017: \$43,742) and had \$46,790 outstanding at September 30, 2018 (December 2017: \$46,790).

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. Mr McMaster ceased to be a Director on October 1, 2017. Gemstar Investments Limited incurred no fees in the period ending September 30, 2018 (September 30, 2017: \$38,044) Gemstar Investments Limited had \$nil outstanding at September 30, 2018 (December 2017: \$50,522).

Mr Jeremy South was appointed CFO on March 1, 2018. Helston Capital Corp, a company in which Jeremy South is a Director, is a personal services company into which Mr South's Consulting fees are paid. Helston Capital Corp, incurred fees of \$102,365 (September 30, 2017: \$nil) of which no amounts were paid. Helston Capital Corp had \$102,365 outstanding in Consulting fees at September 30, 2018 (December 2017: \$nil).

On February 12, 2018, the Company issued 5,800,000 options in total to directors:

Name	Number	Value \$
Matthew Wood	1,600,000	301,820
Aneel Waraich	1,600,000	301,820
Luis Azevedo	1,600,000	301,820
Max Jahn	600,000	113,182
Nicholas Pike	200,000	37,727
Gizman Abbas	200,000	37,727

On April 20, 2018, the Company issued 1,200,000 options in total to directors:

Name	Number	Value
Jeremy South	1,000,000	188,637
Gizman Abbas	100,000	18,864
Jo-Ann Archibald	100,000	18,864

During the six months June 30, 2017, the Company issued 818,225 shares in total to executives Mr. Matthew Wood, Mr. Brian McMaster and Mr. Luis Azevedo and 60,592 shares to non-executive director Mr. Simon Rothschild. The shares had a value of \$0.228 per share and were issued in full and final satisfaction of amounts owed for executive and director fees.

#### **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 drilling 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".

#### **Risk Factors**

An investment in the securities of the Company is highly speculative and involves numerous and significant risks. Such investment should be undertaken only by investors whose financial resources are sufficient to enable them to assume these risks and who have no need for immediate liquidity in their investment. Prospective investors should carefully consider the risk factors that have affected, and which in the future are reasonably expected to affect, the Company and its financial position. Please refer to the section entitled "Risk Factors" in the Company's December 2017 MD&A for the fiscal year ended December 31, 2017, available on SEDAR at [www.sedar.com](http://www.sedar.com).

#### **Subsequent events**

There have been no material subsequent events to date.