



FIVE STAR DIAMONDS

FIVE STAR DIAMONDS LTD.

Condensed Consolidated Interim Financial Statements For the Three and Nine Months Ended September 30, 2018

(Expressed in Canadian dollars)

(Unaudited)

NOTICE OF NO AUDITOR REVIEW

The accompanying unaudited condensed consolidated financial statements of Five Star Diamonds Ltd., (the "Company") for the period ended September 30, 2018, have been prepared by, and are the responsibility of, the Company's management.

The Company's independent auditor has not performed a review of these unaudited condensed consolidated financial statements.

Five Star Diamonds Ltd.

Condensed Consolidated Statement of Financial Position (Expressed in Canadian Dollars) (Unaudited)

		September 30, 2018	December 31, 2017
	Notes	\$	\$
Assets			
Current assets			
Cash and cash equivalents	4	510,051	1,043,888
Trade and other receivables	5	24,096	67,589
Inventory		22,476	26,739
Total current assets		556,623	1,138,216
Non-current assets			
Property, plant and equipment	6	1,602,230	2,003,161
Deferred exploration and evaluation expenditures	7	5,147,434	5,058,960
Total non-current assets		6,749,664	7,062,121
Total assets		7,306,287	8,200,337
Liabilities			
Current liabilities			
Trade and other payables	8	1,620,313	762,060
Total current liabilities		1,620,313	762,060
Non current Liability			
Long term Convertible debenture	9	571,319	-
Total non current liabilities		571,319	-
Total liabilities		2,191,632	762,060
Equity			
Share capital	10	17,244,221	17,244,221
Reserves	12	2,183,101	1,760,210
Retained deficit		(14,312,667)	(11,566,154)
Total equity		5,114,655	7,438,277
Total liabilities and equity		7,306,287	8,200,337

The accompanying notes to the unaudited condensed consolidated financial statements are an integral part of these statements.

Nature of Operations and Going Concern (note 1)

Approved and authorised by the Board of Directors on November 29, 2018:

Director
Matthew Wood

Director
Luis Azevedo

Five Star Diamonds Ltd.

Condensed Consolidated Statements of Loss and Comprehensive Loss

(Expressed in Canadian Dollars)

(Unaudited)

	Notes	Three months ended		Nine months ended	
		September 30		September 30	
		2018	2017	2018	2017
		\$	\$	\$	\$
Revenue					
Interest income		101	1,187	848	1,940
Other income		578	26,380	3,035	46,448
Expenses					
Administrative expenses		(3,854)	(11,250)	(19,843)	(28,364)
Public company costs		(424)	(10,215)	(31,694)	(24,217)
Accounting, audit and tax fees		(21,219)	(34,901)	(90,438)	(148,196)
Legal fees		(10,716)	(9,413)	(34,116)	(207,328)
Consultant and director fees		(196,675)	(277,246)	(778,199)	(839,167)
Depreciation	7	(19,491)	(26,940)	(32,868)	5,648
Financing cost	9	(18,851)	-	(18,851)	-
Foreign exchange loss		(8,886)	(2,268)	(14,069)	(86,887)
Advertising and marketing		(10,808)	(54,257)	(48,757)	(129,801)
Travel and accommodation		(6,759)	(45,833)	(59,518)	(248,486)
Other expenses		(65,072)	(70,112)	(229,075)	(302,031)
Anti-dilution share based payment		-	-	-	(425,575)
Reverse takeover transaction cost		-	-	-	(2,027,997)
Share based payments		-	-	(1,392,968)	(2,117,292)
Net loss for the period		(362,076)	(514,868)	(2,746,513)	(6,531,305)
Other comprehensive loss, net of income tax					
<i>Items that may be reclassified to profit or loss</i>					
Exchange differences on translation of foreign operations		(970,078)	(16,345)	(970,078)	(419,644)
Other comprehensive loss for the period, net of tax		(970,078)	(16,345)	(970,078)	(419,644)
Net Loss and comprehensive loss for the period		(1,332,154)	(531,213)	(3,716,591)	(6,950,949)
Basic and diluted net loss per share					
Weighted average number of common shares outstanding – basic and diluted		128,927,096	136,070,113	128,927,096	136,070,113

The accompanying notes to the unaudited condensed consolidated interim financial statements are an integral part of these statements.

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

	Notes	Nine months ended September 30, 2018	Nine months ended September 30, 2017
		\$	\$
Operating activities			
Adjustments for:			
Net loss for the period		(2,746,513)	(514,868)
Depreciation		32,868	26,940
Share based payments		1,392,968	-
Financing cost		18,851	
Foreign exchange movement		(58,789)	44,774
Changes in non-cash working capital items			
Trade and other receivables		10,993	8,849
Inventories		4,262	(126)
Trade and other payables		858,253	(155,014)
Net cash from operating activities		(487,107)	(589,445)
Investing activities			
Proceeds from sale of property, plant and equipment		-	(105,331)
Exploration and evaluation expenditure		(699,730)	(809,695)
Net cash outflow from investing activities		(699,730)	(915,026)
Financing activities			
Proceeds from convertible debenture	9	653,000	-
Proceeds from exercise of options	11	-	15,000
Payments for share issue costs		-	-
Net cash inflow from financing activities		653,000	15,000
Net decrease in cash and cash equivalents		(533,837)	(1,489,471)
Cash and cash equivalents at the beginning of the period		1,043,888	3,029,431
Effect of exchange rate fluctuations on cash held		-	2
Cash and cash equivalents at the end of the period		510,051	1,539,962

The accompanying notes to the unaudited condensed consolidated interim financial statements are an integral part of these statements.

Five Star Diamonds Ltd.

Condensed Consolidated Statements of Changes in Shareholders' Equity

(Expressed in Canadian Dollars)

(Unaudited)

	Notes	Issued capital \$	Foreign currency translation reserve \$	Share based payments reserve \$	Deficit \$	Total equity \$
Balance as at January 1, 2018		17,244,221	231,487	1,528,723	(11,566,153)	7,438,278
Loss for the period		-	-	-	(2,746,513)	(2,746,513)
Other comprehensive income, net of income tax		-	(970,078)	-	-	(970,078)
Total comprehensive loss for the period		-	(970,078)	-	(2,746,513)	(3,716,591)
<i>Transactions with owners in their capacity as owners</i>						
Options Issued during the period	11	-	-	1,392,968	-	1,392,968
Balance as at September 30, 2018		17,244,221	(738,591)	2,921,691	(14,312,666)	5,114,655
Balance as at January 1, 2017		8,415,501	821,652	-	(4,460,811)	4,776,342
Loss for the period		-	-	-	(6,531,305)	(6,531,305)
Other comprehensive income, net of income tax		(43,755)	(323,729)	-	(52,160)	(419,644)
Total comprehensive loss for the period		(43,755)	(323,729)	-	(6,583,465)	(6,950,949)
<i>Transactions with owners in their capacity as owners</i>						
Shares issued during the period	11	9,616,214	-	1,560,969	-	11,177,183
Share issue costs		(790,985)	-	-	-	(790,985)
Balance as at September 30, 2017		17,196,975	497,923	1,560,969	(11,044,276)	8,221,591

The accompanying notes to the unaudited condensed consolidated financial statements are an integral part of these statements.

Five Star Diamonds Ltd.

**Notes to Condensed Consolidated Financial Statements
For the three months ended September 30, 2018
(Expressed in Canadian Dollars)
(Unaudited)**

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 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 registered office of the Company is located at 595 Howe St, Suite 704, Vancouver, British Columbia V6C 2T5. The records of the Company are located at 360 Jornalista Ricardo Marinho Avenue, Barra da Tijuca, Brazil.

These unaudited condensed consolidated interim 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 \$14,312,667 as at September 30, 2018 (December 31, 2017 - \$11,566,154). 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"). These unaudited condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. Accordingly, they do not include all of the information required for full annual financial statements required by IFRS as issued by the IASB.

The policies applied in these unaudited condensed consolidated financial statements are based on IFRSs issued and outstanding as of November 21, 2018, the date the Board of Directors approved the statements. The same accounting policies and methods of computation are followed in these unaudited condensed consolidated financial statements as compared with the most recent annual financial statements as at and for the six months ended December 31, 2017 except as noted below in note 3.

Five Star Diamonds Ltd.

Notes to Condensed Consolidated Financial Statements

For the three months ended September 30, 2018

(Expressed in Canadian Dollars)

(Unaudited)

2. Statement of Compliance (continued)

Any subsequent changes to IFRS that are given effect in the Company's audited financial statements for the year ending December 31, 2018 could result in restatement of these unaudited condensed consolidated financial statements.

Change in Financial Year End Date

In order to ensure the Company's reporting period coincide with those of its industry peers, the Company elected to change its year-end from June 30th to December 31st. As a result, the current financial year of the Company in these unaudited interim statements is the 12 months from January 1, 2018 to December 31, 2018 and the previous financial year is the 6 month period from July 1, 2017 to December 31, 2017.

3. Changes in Accounting Policies

IFRS 9 Financial Instruments

Effective January 1, 2018, the Company adopted IFRS 9. In July 2014, the IASB issued the final publication of the IFRS 9 standard, which supersedes IAS 39, Financial Instruments: recognition and measurement (IAS 39). IFRS 9 includes revised guidance on the classification and measurement of financial instruments, new guidance for measuring impairment on financial assets, and new hedge accounting guidance. The Company has adopted IFRS 9 on a retrospective basis, however, this guidance had no impact to the Company's consolidated financial statements.

Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 contains the primary measurement categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVTOCI) and fair value through profit and loss (FVTPL).

The new hedge accounting guidance had no impact on the Company's consolidated financial statements.

Below is a summary showing the classification and measurement bases of our financial instruments as at January 1, 2018 as a result of adopting IFRS 9 (along with comparison to IAS 39).

Classification	IAS 39	IFRS 9
Cash	FVTPL	FVTPL
Trade and other receivables	Loans and receivables (amortized cost)	Amortized cost
Trade and other payables	Other financial liabilities (amortized cost)	Amortized cost

As a result of the adoption of IFRS 9, the accounting policy for financial instruments as disclosed in the Company's December 31, 2017 consolidated financial statements has been updated as follows:

Financial assets

Financial assets are classified as either financial assets at fair value through profit or loss, amortized cost, or fair value through other comprehensive income. The Company determines the classification of its financial assets at initial recognition.

Five Star Diamonds Ltd.

Notes to Condensed Consolidated Financial Statements

For the three months ended September 30, 2018

(Expressed in Canadian Dollars)

(Unaudited)

3. Changes in Accounting Policies (continued)

i. Financial assets recorded at fair value through profit or loss ("FVTPL")

Financial assets are classified as fair value through profit or loss if they do not meet the criteria of amortized cost or fair value through other comprehensive income. Gains or losses on these items are recognized in profit or loss. The Company's cash is classified as financial assets measured at FVTPL.

IFRS 9 Financial Instruments (Continued)

ii. Amortized cost

Financial assets are classified as measured at amortized cost if both of the following criteria are met and the financial assets are not designated as at fair value through profit and loss: 1) the object of the Company's business model for these financial assets is to collect their contractual cash flows; and 2) the asset's contractual cash flows represent "solely payments of principal and interest".

The Company's Trade and other receivables are classified as financial assets measured at amortized cost.

Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or at amortized cost. The Company determines the classification of its financial liabilities at initial recognition.

i. Amortized cost

Financial liabilities are classified as measured at amortized cost unless they fall into one of the following categories: financial liabilities at fair value through profit or loss, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition, financial guarantee contracts, commitments to provide a loan at a below-market interest rate, or contingent consideration recognized by an acquirer in a business combination. The Company's Trade and other payables do not fall into any of the exemptions and are therefore classified as measured at amortized cost.

The Company's trade and other payables are classified as financial liabilities measured at amortized cost.

ii. Financial liabilities recorded fair value through profit or loss ("FVTPL")

Financial liabilities are classified as fair value through profit or loss if they fall into one of the five exemptions detailed above.

Transaction costs

Transaction costs associated with financial instruments, carried at fair value through profit or loss, are expensed as incurred, while transaction costs associated with all other financial instruments are included in the initial carrying amount of the asset or the liability.

Subsequent measurement

Instruments classified as FVTPL are measured at fair value with unrealized gains and losses recognized in profit or loss. Instruments classified as amortized cost are measured at amortized cost using the effective interest rate method. Instruments classified as FVOCI are measured at fair value with unrealized gains and losses recognized in other comprehensive income.

Five Star Diamonds Ltd.

Notes to Condensed Consolidated Financial Statements
For the three months ended September 30, 2018
(Expressed in Canadian Dollars)
(Unaudited)

3. Changes in Accounting Policies (continued)

Derecognition

The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled, or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

IFRS 9 Financial Instruments (Continued)

Expected Credit Loss Impairment Model

IFRS 9 introduced a single expected credit loss impairment model, which is based on changes in credit quality since initial application. The adoption of the expected credit loss impairment model had no impact on the Company's financial statements.

The carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

IFRS 15 Revenue from Contracts with Customers

On May 28, 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers ("IFRS 15"). The new standard is effective for the Company on January 1, 2018. Earlier application is permitted. IFRS 15 will replace IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programs, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers, and SIC 31 Revenue – Barter Transactions Involving Advertising Services. On April 12, 2016, the IASB issued Clarifications to IFRS 15, Revenue from Contracts with Customers, which is effective at the same time as IFRS 15.

The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs. The clarifications to IFRS 15 provide additional guidance with respect to the five-step analysis, transition, and the application of the Standard to licenses of intellectual property. The adoption of IFRS 15 had no impact on the Company's financial statements.

Future Accounting Pronouncements

On June 7, 2017, the IASB issued IFRIC Interpretation 23 Uncertainty over Income Tax Treatments. The Interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Interpretation is applicable for annual periods beginning on or after January 1, 2019. Earlier application is permitted. The Company intends to adopt the Interpretation in its financial statements for the annual period beginning on January 1, 2019. The Company does not expect the Interpretation to have a material impact on the consolidated financial statements.

On January 13, 2016, the IASB issued IFRS 16 Leases. The new standard is effective for annual periods beginning on or after January 1, 2019. IFRS 16 will replace IAS 17 Leases. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. IFRS 16 substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. The Company intends to adopt IFRS 16 in its financial statements for the period beginning on January 1, 2019. The Company is evaluating the impact of adoption and expects to report more detailed information in its consolidated financial statements as the effective date approaches.

Five Star Diamonds Ltd.**Notes to Condensed Consolidated Financial Statements****For the three months ended September 30, 2018****(Expressed in Canadian Dollars)****(Unaudited)**

	September 30, 2018	December, 31 2017
	\$	\$
4. Cash and Cash Equivalents		
Cash at bank and on hand	510,051	1,043,888
	<u>510,051</u>	<u>1,043,888</u>

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

	September 30, 2018	December, 31 2017
	\$	\$
5. Trade and Other Receivables		
Advances	8,455	21,290
VAT receivable	15,641	13,799
Other receivables	-	32,500
	<u>24,096</u>	<u>67,589</u>

Five Star Diamonds Ltd.

Notes to Condensed Consolidated Financial Statements

For the three months ended September 30, 2018

(Expressed in Canadian Dollars)

(Unaudited)

6. Property, Plant and Equipment

	Plant and equipment \$	Motor vehicles \$	Computer equipment \$	Furniture and fittings \$	Total \$
<i>Gross carrying amount</i>					
Balance at January 1, 2018	2,163,326	47,390	5,408	5,788	2,221,912
Foreign currency differences	(326,184)	(47,390)	(862)	(923)	(375,359)
Additions	-	-	-	-	-
Balance at September 30, 2018	1,837,142	-	4,546	4,865	1,846,553
<i>Accumulated depreciation and impairment</i>					
Balance at January 1, 2018	(210,877)	(5,529)	(1,324)	(1,022)	(218,752)
Foreign currency differences	64,600	5,529	211	163	70,503
Depreciation expensed or capitalised	(95,245)	-	(466)	(365)	(96,076)
Balance at September 30, 2018	(241,522)	-	(1,579)	(1,224)	(234,325)
<i>Carrying value</i>					
September 30, 2018	1,595,620	-	2,967	3,641	1,602,228
<i>Gross carrying amount</i>					
Balance at July 1, 2017	2,175,332	49,118	5,606	6,000	2,236,056
Foreign currency differences	(72,236)	(1,728)	(198)	(212)	(74,374)
Additions	60,230	-	-	-	60,230
Disposals	-	-	-	-	-
Balance at December 31, 2017	2,163,326	47,390	5,408	5,788	2,221,912
<i>Accumulated depreciation and impairment</i>					
Balance at July 1, 2017	(168,154)	-	(878)	(794)	(169,826)
Foreign currency differences	7,349	232	53	39	7,673
Depreciation expensed or capitalised	(50,072)	(5,761)	(499)	(267)	(56,599)
Disposals	-	-	-	-	-
Balance at December 31, 2017	(210,877)	(5,529)	(1,324)	(1,022)	(218,752)
<i>Carrying value</i>					
December 31, 2017	1,952,449	41,861	4,084	4,766	2,003,160

Plant, equipment and motor vehicles includes \$865,842 (December 31, 2017: \$956,971) of a plant which is not yet operational and therefore is not depreciated. During the period, \$63,254 (nine months ended December 31, 2017: \$42,649) was capitalised to the deferred exploration and evaluation expenditures.

Five Star Diamonds Ltd.**Notes to Condensed Consolidated Financial Statements****For the three months ended September 30, 2018****(Expressed in Canadian Dollars)****(Unaudited)**

	September 30, 2018	December 31, 2017
	\$	\$
7. Deferred Exploration and Evaluation Expenditure		
Costs carried forward in respect of:		
<i>Exploration and evaluation phase – at cost</i>		
Balance at beginning of period	5,058,960	4,128,049
Expenditure incurred	928,123	1,111,901
	<u>5,987,083</u>	<u>5,239,950</u>
Transferred to development expenditure		
Foreign currency differences	(839,649)	(180,990)
Expenditure written off	-	-
Total exploration and evaluation expenditure	<u>5,147,434</u>	<u>5,058,960</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 76,426 hectares. During the period, 18 immaterial licenses were relinquished totaling 33,617 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.

The Company agreed to pay a royalty of 2.1% on the production from certain mineral claims in consideration for a loan provided to the Company in March 2017 by several third parties.

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.

	September 30, 2018	December 31, 2017
	\$	\$
8. Trade and Other Payables		
Trade payables (i)	1,148,009	511,103
Accrued expenses	472,304	250,957
	<u>1,620,313</u>	<u>762,060</u>

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

Five Star Diamonds Ltd.

Notes to Condensed Consolidated Financial Statements

For the three months ended September 30, 2018

(Expressed in Canadian Dollars)

(Unaudited)

9. Convertible Debentures

As announced on August 2, 2018, the Company is conducting a non-brokered private placement of up to \$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 \$653,000 principal amount of Debentures. R&R has also indicated to the Company that it would be prepared to invest an additional, approximately \$2 million on comparable terms prior to December 31, 2018 if and when the Company achieves certain project milestones.

Convertible debenture bears interest on the outstanding principal amount from the date hereof until the Maturity Date at a rate of 12% per annum (in each case calculated on the basis of a 365-day year; 366 days in a leap year) calculated and payable quarterly in arrears on March 31, June 30, September 30 and December 31 in each year, with the first interest payment due September 30, 2018.

	September 30, 2018	December 31, 2017
	\$	\$
10. Issued Capital		
(a) Issued and paid up capital		
Ordinary shares fully paid	<u>17,244,221</u>	<u>17,244,221</u>

	Number of common shares	Amount \$
Balance, December 31, 2016	96,612,180	8,415,501
Five Star Diamonds Limited shares on issue at acquisition	6,489,774	1,946,932
Shares issued under public offering	(i) 17,815,480	5,344,644
Shares issued on exercise of options	(ii) 150,000	47,245
Shares issued in lieu of debt	997,078	295,558
Shares issued to consultants	3,184,497	947,042
Shares issued under anti-dilutive agreement	1,408,087	425,575
Shares issued under placement	2,220,000	640,715
Transaction costs on share issue	-	(790,985)
Exchange differences	-	(43,755)
Balance, September 30, 2017	128,877,096	17,228,472
Balance, December 31, 2017	128,927,096	17,244,221
Balance, September 30, 2018	128,927,096	17,244,221

Five Star Diamonds Ltd.

Notes to Condensed Consolidated Financial Statements
For the three months ended September 30, 2018
(Expressed in Canadian Dollars)
(Unaudited)

10. Issued Capital (continued)

- (i) On April 25, 2017, the Company completed a private placement (the "Offering") of 17,815,480 common shares at a price of \$0.30 per share for aggregate gross proceeds of \$5,344,644. In connection with the Offering, the Company provided compensation to registered brokers, registered dealers and other finders comprised of an aggregate of \$403,185 in cash and an aggregate of 1,343,950 non-transferable common share purchase warrants, with each whole warrant entitling holder to acquire one Common share at a price of \$0.30 per share for a period of two years from the date of issuance.
- (ii) On June 28, 2017, the Company issued 50,000 at \$0.10 per share upon receipt of \$5,000 on the exercise of options at value of \$15,748. On July 25, 2017, the Company issued 100,000 shares at \$0.10 per share upon receipt of \$10,000 on the exercise of options at a value of \$31,497.

(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.

11. Share Options

The following table reflects the continuity of stock options for the period ended September 30, 2018:

	Number of Stock Options	Weighted Average Exercise Price \$	Weighted Average Remaining Contractual Life (years)
Balance – September 30, 2017	6,393,950	0.36	1.37
Balance – December 31, 2017	5,000,000	0.36	1.34
Issued – February 12, 2018	6,670,000	0.36	4.37
Issued – April 25, 2018	1,200,000	0.36	4.57
Balance – September 30, 2018	12,870,000	0.36	2.92

As at September 30, 2018, there are 12,870,000 unissued ordinary shares under options. The details of the options are as follows:

Number of Options Outstanding	Exercise Price \$	Expiry Date	Remaining Contractual Life (years)	Number of Options Vested	Grant Date Fair Value \$
5,000,000	\$0.36	05/05/2019	0.59	5,000,000	1,300,280
6,670,000	\$0.36	12/02/2023	4.37	6,670,000	1,258,211
1,200,000	\$0.36	25/04/2023	4.57	1,200,000	134,758

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11. Share Options (continued)

The fair value at grant date of options granted of \$1,258,211 on February 12, 2018 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:

	Three months ended September 30, 2018
Share Price	\$0.240
Risk-free interest rate	1.98%
Dividend Yield	0%
Volatility	114.3%
Expected Life	5 years

The fair value at grant date of options granted of \$134,758 on April 25, 2018 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:

	Three months ended September 30, 2018
Share Price	\$0.155
Risk-free interest rate	2.12%
Dividend Yield	0%
Volatility	111.6%
Expected Life	5 years

Option pricing models require the use of highly subjective estimates and assumptions including the expected stock price volatility. Volatility is calculated as the variation of the Company's share price over a look back period equal to the expected life of the option at issuance. Changes in the underlying assumptions can materially affect the fair value estimates.

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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 period are as follows:

	September 30, 2018 \$	December 31, 2017 \$
Short term employee benefits	404,532	327,838
Post employment benefits	-	-
Total remuneration	404,532	327,838

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).

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14. Related Party Disclosure (continued)

Other transactions with Key Management Personnel

FFA Legal Ltd, a company in which Mr Azevedo is a director, provided the Company with legal and accounting services in Brazil totaling \$185,951 (September 30, 2017: \$47,640) of which consultant fees are paid. \$159,386 (December 2017: \$58,072) was outstanding at September 30, 2018.

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

Other transactions with Key Management Personnel (continued)

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

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

During the three months ended September 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.

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	
		Mar 2018	Dec 2017
FSD Holdings Limited	BVI	100%	100%
FSD Brazil Limited	BVI	100%	100%
Five Star Mineração Ltda	Brazil	100%	100%
1030301 BC Ltd	Canada	100%	100%
Diamond Blockchain Limited	Canada	100%	0%

On February 13, 2018, the Company incorporated a wholly owned Canadian domiciled subsidiary called Diamond Blockchain Limited.

Five Star Diamonds Ltd.

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(Expressed in Canadian Dollars)

(Unaudited)

15. Subsequent Events

There has not been any matter or circumstance that has arisen after balance date that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.