



FIVE STAR DIAMONDS

FIVE STAR DIAMONDS LTD.

Condensed Consolidated Financial Statements For the three and nine months ended September 30, 2019

(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, 2019, 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, 2019	December 31, 2018
	Notes	\$	\$
Assets			
Current assets			
Cash and cash equivalents	4	10,539	206,895
Trade and other receivables	5	111	22,890
Inventory		26,347	24,795
Total current assets		36,997	254,580
Non-current assets			
Property, plant and equipment	6	1,191,805	1,718,336
Deferred exploration and evaluation expenditures	7	6,067,742	6,102,916
Total non-current assets		7,259,547	7,821,252
Total assets		7,296,544	8,075,832
Liabilities			
Current liabilities			
Trade and other payables	8	934,992	772,347
Total current liabilities		934,992	772,347
Non-current liability			
Convertible debenture	9	596,946	521,269
Long term loan		26,190	-
Total non-current liabilities		623,136	521,269
Total liabilities		1,558,128	1,293,616
Equity			
Share capital	10	17,436,099	17,436,099
Reserves	13	3,419,536	3,288,654
Retained deficit		(15,117,219)	(13,942,537)
Total equity		5,738,416	6,782,216
Total liabilities and equity		7,296,544	8,075,832

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, 2019:

Director
Matthew Wood

Director
Luis Azevedo

Five Star Diamonds Ltd.**Condensed Consolidated Statements of Loss and Comprehensive Loss****(Expressed in Canadian Dollars)****(Unaudited)**

	Three months ended		Nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
	\$	\$	\$	\$
Revenue				
Interest income	-	101	93	848
Other income	(9)	578	123	3,035
Expenses				
Administrative expenses	(1,785)	(3,854)	(6,289)	(19,843)
Public company costs	(781)	(424)	(24,732)	(31,694)
Accounting, audit and tax fees	(45,232)	(21,219)	(136,456)	(90,438)
Legal fees	(3,056)	(10,716)	(27,197)	(34,116)
Consultant and director fees (Note 15)	(20,475)	(196,675)	(61,425)	(778,199)
Depreciation	(7,126)	(19,491)	(20,228)	(32,868)
Financing cost	(27,443)	(18,851)	(78,688)	(18,851)
Foreign exchange loss	(52)	(8,886)	(4,771)	(14,069)
Advertising and marketing	(1,181)	(10,808)	(6,159)	(48,757)
Travel and accommodation	(182)	(6,759)	(182)	(59,518)
Other expenses	(119)	(65,072)	(4,943)	(229,075)
Anti-dilution share based payment	-	-	-	-
Reverse takeover transaction cost	-	-	-	-
Share based payments	-	-	-	(1,392,968)
Loss on disposal of plant and equipment	(783)	-	(437,647)	-
Net loss for the period	(108,224)	(362,076)	(808,501)	(2,746,513)
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	365,385	(970,078)	130,881	(970,078)
Other comprehensive income for the period, net of tax	365,385	(970,078)	130,881	(970,078)
Total comprehensive income for the period	257,161	(1,332,154)	(677,620)	(3,716,591)
Loss per share				
Basic and diluted (Note 14)	(0.0008)	(0.0028)	(0.0063)	(0.0213)
Weighted average number of common shares outstanding – basic and diluted	129,032,235	128,927,096	129,032,235	128,927,096

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, 2019 \$	Nine months ended September 30, 2018 \$
Operating activities			
Adjustments for:			
Net loss for the period		(808,501)	(2,746,513)
Depreciation		20,228	32,868
Share based payments		-	1,392,968
Financing cost		78,688	18,851
Foreign exchange movement		(78,740)	(58,789)
(Profit)/Loss on the sale of non-current assets		437,647	-
Changes in non-cash working capital items			
Trade and other receivables		22,779	10,993
Inventories		(1,552)	4,262
Trade and other payables		162,645	858,253
Net cash outflow from operating activities		(166,806)	(487,107)
Cash flows from investing activities			
Proceeds from the sale of plant and equipment (Note 6)		36,794	-
Exploration and evaluation expenditure		(87,762)	(699,730)
Net cash outflow from investing activities		(50,968)	(699,730)
Cash Flows from Financing Activities			
Proceeds from convertible debenture		-	653,000
Proceeds from borrowings		26,190	-
Net Cash Flows from Financing Activities		26,190	653,000
Net decrease in cash and cash equivalents		(191,584)	(533,837)
Cash and cash equivalents at the beginning of the period		206,895	1,043,888
Effect of exchange rate fluctuations on cash held		(4,772)	-
Cash and cash equivalents at the end of the period		10,539	510,051

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 \$	Retained earnings \$	Total equity \$
Balance as at January 1, 2019		17,436,099	(236,648)	3,525,302	(13,942,537)	6,782,216
Loss for the period		-	-	-	(808,501)	(808,501)
Other comprehensive income, net of income tax		-	130,882	-	(366,181)	(235,299)
Total comprehensive loss for the period		-	130,882	-	(1,174,682)	(1,043,800)
Balance as at September 30, 2019		17,436,099	(105,766)	3,525,302	(15,117,219)	5,738,416
Balance as at January 1, 2018		17,244,221	231,487	1,528,723	(11,566,154)	7,438,277
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	(14,312,667)	5,114,654

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 nine months ended September 30, 2019

(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 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 \$15,117,219 as at September 30, 2019 (September 30, 2018: \$13,942,537). 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 29, 2019 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 twelve months ended December 31, 2018 except as noted below in note 3. 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.

Five Star Diamonds Ltd.

Notes to Condensed Consolidated Financial Statements

For the nine months ended September 30, 2019

(Expressed in Canadian Dollars)

(Unaudited)

3. Significant Accounting Policies

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 consolidated financial statements.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

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 has adopted the Interpretation in its financial statements for the annual period beginning on January 1, 2019. The adoption of this standard has no material impact on the consolidated financial statements.

IFRS 16 Leases

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 has adopted IFRS 16 in its financial statements for the period beginning on January 1, 2019. The adoption of IFRS 16 has no impact on the on the consolidated financial statements.

4. Cash and Cash Equivalents

	September 30, 2019	December 31, 2018
	\$	\$
Cash at bank and on hand	10,539	206,895
	<u>10,539</u>	<u>206,895</u>

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

On April 1, 2018, the Company established an operating line of credit for up to R\$300,000, which carries an interest rate of prime plus 13.45%. This facility is covered by a General Security Agreement and standard operating covenants. The Company has not utilized the operating line as of December 31, 2018. The facility expired on January 10, 2019.

Five Star Diamonds Ltd.

Notes to Condensed Consolidated Financial Statements
For the nine months ended September 30, 2019
(Expressed in Canadian Dollars)
(Unaudited)

5. Trade and Other Receivables

	September 30, 2019	December 31, 2018
	\$	\$
Advances	103	5,637
VAT receivable	8	17,253
Other receivables	-	-
	111	22,890

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, 2019	1,997,486	-	4,986	5,394	2,007,866
Foreign currency differences	(22,902)	-	(129)	(195)	(23,226)
Disposals	(671,779)	-	-	-	(671,779)
Balance at September 30, 2019	1,302,805	-	4,857	5,199	1,312,861
<i>Accumulated depreciation and impairment</i>					
Balance at January 1, 2019	(286,133)	-	(1,786)	(1,611)	(289,530)
Depreciation expensed or capitalised	(27,609)	-	(564)	(217)	(28,390)
Disposals	196,864	-	-	-	196,864
Balance at September 30, 2019	(116,878)	-	(2,350)	(1,828)	(121,056)
<i>Carrying value</i>					
September 30, 2019	1,185,927	-	2,507	3,371	1,191,805
<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	(106,086)	(3,453)	(422)	(394)	(110,355)
Disposals	(59,754)	(43,937)	-	-	(103,691)
Balance at December 31, 2018	1,997,486	-	4,986	5,394	2,007,866
<i>Accumulated depreciation and impairment</i>					
Balance at January 1, 2018	(210,877)	(5,529)	(1,324)	(1,022)	(218,752)
Foreign currency differences	5,033	328	82	107	5,550
Depreciation expensed or capitalised	(96,962)	(4,458)	(545)	(695)	(102,660)
Disposals	16,673	9,659	-	-	26,332
Balance at December 31, 2018	(286,133)	-	(1,787)	(1,610)	(289,530)
<i>Carrying value</i>					
December 31, 2018	1,711,353	-	3,199	3,784	1,718,336

Plant, equipment and motor vehicles includes \$364,242 (twelve months ended December 31, 2018: \$887,241) of a plant which is not yet operational and therefore is not depreciated. During the period, \$27,609 (twelve months ended December 31, 2018: \$102,660) was capitalised to the deferred exploration and evaluation expenditures. During the period, the Company has disposed its plant and equipment with net book value of \$431,540 for \$37,759, resulting in loss on disposal of plant and equipment of \$437,647.

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Notes to Condensed Consolidated Financial Statements

For the nine months ended September 30, 2019

(Expressed in Canadian Dollars)

(Unaudited)

7. Deferred Exploration and Evaluation Expenditure	September 30,	December 31,
	2019	2018
	\$	\$
Costs carried forward in respect of:		
Exploration and evaluation phase – at cost		
Balance at beginning of period	6,102,916	5,058,960
Expenditure incurred	138,360	1,120,128
	<u>6,241,276</u>	<u>6,179,088</u>
Transferred to development expenditure		
Foreign currency differences	(173,534)	43,754
Expenditure written off	-	(119,926)
Total exploration and evaluation expenditure	6,067,742	6,102,916

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.

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 of the Projects Rosario, Angico, Conquista, Caiapo, Coromandel, Alfel, Bacuri, Concord, Joana and Romaria. 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 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.

8. Trade and Other Payables

	September 30,	December 31,
	2019	2018
	\$	\$
Trade payables (i)	461,122	282,899
Accrued expenses	161,288	176,866
Shares yet to be issued	312,582	312,582
	<u>934,992</u>	<u>772,347</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 nine months ended September 30, 2019

(Expressed in Canadian Dollars)

(Unaudited)

9. Convertible Debentures

In August 2018, the Company completed non-brokered private placement of 653 convertible debenture units (the "Convertible Debenture Units") for \$653,000 at a price of \$1,000 per Convertible Debenture Unit with its largest shareholder, R&R Venture Partners ("R&R"), (the "Offering"). Each Convertible Debenture Unit consisted 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 proceeds of the Convertible Debenture Units were used in the drilling program at Catalao and for working capital.

The Convertible Debentures 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 (the "Maturity Date"). Until the earlier of (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 are 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 are convertible at the option of the holder into 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 for a period of 36 months following issuance, subject to customary adjustments in certain events.

The convertible debentures were determined to be compound instruments, comprising liability, conversion feature, and warrants. As the debentures are convertible into common shares, the liability and equity components are presented separately. The initial carrying amount of the financial liability was determined by discounting the stream of future payments of interest and principal at a market interest rate of 20%. Using the residual method, the carrying amount of the conversion feature and the warrants issued that were measured at fair value using the Black Scholes model is the difference between the principal amount and the initial carrying value of the financial liability. The equity component, and warrants are recorded in reserves on the statement of financial position.

The debentures, net of the equity components and issue costs are accreted using the effective interest rate method over the term of the debentures, such that the carrying amount of the financial liability will equal the principal balance at maturity.

	Proceeds \$	Debt component \$	Equity component conversion option \$	Equity component warrants \$
Balance, January 1, 2018	-	-	-	-
Issue of convertible debt, net of tax and transaction costs	653,000	482,830	151,281	11,613
Accretion and unpaid interest	-	38,439	-	-
Conversion	-	-	-	-
Balance, December 31, 2018	653,000	521,269	151,281	11,613
Accretion and unpaid interest	-	75,677	-	-
Balance, September 30, 2019	653,000	596,946	151,281	11,613

Five Star Diamonds Ltd.

Notes to Condensed Consolidated Financial Statements
For the nine months ended September 30, 2019
(Expressed in Canadian Dollars)
(Unaudited)

10. Issued Capital

	September 30, 2019	December 31, 2018
	\$	\$
(a) Issued and paid up capital		
Ordinary shares fully paid	17,436,099	17,436,099
	Number of common shares	Amount
		\$
Balance, January 1, 2018	128,927,096	17,244,221
Shares issued to settle debt (c)	3,837,556	191,878
Balance, December 31, 2018	132,764,652	17,436,099
Balance, September 30, 2019	132,764,652	17,436,099

(b) 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.

(c) Shares issued to settle debt

On December 21, 2018, the Company issued 3,837,556 fully paid ordinary shares to the following consultants and directors in lieu of amounts owed for their services:

Consultant / Director	Shares Issued
Mr Matthew Wood – Director	1,373,248
FFA Legal - Consultant	796,932
ATMA Capital Markets - Consultant	595,505
Mr Luis Azevedo – Director	576,128
Helston Capital Corp. - Consultant	314,616
Mr Manvel Bagratyan – Consultant	143,770
Wanderer Consulting - Consultant	37,357
Total shares issued	3,837,556

Five Star Diamonds Ltd.

Notes to Condensed Consolidated Financial Statements
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(Expressed in Canadian Dollars)
(Unaudited)

11. Share Options

The following table reflects the continuity of stock options for the period ended September 30, 2019:

	Number of Stock Options	Weighted Average Exercise Price \$	Weighted Average Remaining Contractual Life (years)
Balance – January 1, 2018	5,000,000	0.36	1.34
Issued – February 12, 2018	6,670,000	0.30	3.62
Issued – April 25, 2018	1,200,000	0.30	3.82
Balance – December 31, 2018	12,870,000	0.32	2.18
Balance – September 30, 2019	12,870,000	0.32	2.18

As at September 30, 2019, 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	-	5,000,000	1,300,280
6,670,000	\$0.30	12/02/2023	3.37	6,670,000	1,258,211
1,200,000	\$0.30	25/04/2023	3.37	1,200,000	134,758

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. The following weighted average assumptions were used: share price - \$0.24; dividend yield - 0%; expected volatility (based on historical price data of similar companies) - 114.3%; risk-free interest rate - 1.98%; and an expected life - 5 years. The options vested immediately and \$1,258,211 was expensed in the consolidated statement of income (loss) as at year ended December 31, 2018.

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. The following weighted average assumptions were used: share price - \$0.155; dividend yield - 0%; expected volatility (based on historical price data of similar companies) - 112%; risk-free interest rate - 2.12%; and an expected life - 5 years. The options vested immediately and \$134,758 was expensed in the consolidated statement of income (loss) as at year ended December 31, 2018.

Option pricing models require the use of highly subjective estimates and assumptions including the expected stock price volatility. Changes in the underlying assumptions can materially affect the fair value estimates.

Five Star Diamonds Ltd.

Notes to Condensed Consolidated Financial Statements
For the nine months ended September 30, 2019
(Expressed in Canadian Dollars)
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12. Warrants

The following table reflects the continuity of warrants for the period ended September 30, 2019:

	Number of Warrants	Weighted Average Exercise Price \$	Weighted Average Remaining Contractual Life (years)
Balance – December 31, 2017	1,343,960	0.30	-
Issued – August 2, 2018	326,500	0.04	2.09
Balance – December 31, 2018	1,670,460	0.28	0.41
Balance – September 30, 2019	1,670,460	0.28	0.41

There were no Warrants issued or exercised during the nine months ended September 30, 2019.

As at September 30, 2019 there are 1,670,460 warrants outstanding as follows:

Number of Options Outstanding	Exercise Price \$	Expiry Date	Remaining Contractual Life (years)	Number of Warrants Vested	Grant Date Fair Value \$
1,343,960	\$0.30	20/04/2019	-	1,343,950	228,443
326,500	\$0.20	02/08/2021	2.09	326,500	11,613

13. Reserves

	September 30, 2019	December 31, 2018
	\$	\$
Share based payments reserve	3,525,302	3,525,302
Foreign currency translation reserve	(105,767)	(236,648)
	3,419,536	3,288,654

14. Net Loss per Common Share

	September 30, 2019	December 31, 2018
	\$	\$
Loss used in calculating basic and dilutive loss per share	(808,501)	(2,384,437)
Weighted average number of ordinary shares used in calculating basic and diluted loss per share:	129,032,235	129,032,235

Five Star Diamonds Ltd.

Notes to Condensed Consolidated Financial Statements

For the nine months ended September 30, 2019

(Expressed in Canadian Dollars)

(Unaudited)

15. 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, 2019 \$	December 31, 2018 \$
Short term employee benefits	47,775	1,578,000
Total remuneration	<u>47,775</u>	<u>1,578,000</u>

Mr. Matthew Wood as Chief Executive Officer and Director incurred fees of \$nil (September 30, 2018: \$115,070). On December 21, 2018 Mathew Wood signed a Subscription and Debt Settlement Agreement according to which he has agreed to subscribe for 1,373,248 common shares of the Corporation at a subscription price of \$0.20 per Share having an issue price of \$274,649.60 in indebtedness owed to the Creditor by the Corporation. The outstanding amount of \$110,455 is still to be subscribed in 2019.

Mr. Luis Azevedo, Chief Operating Officer incurred fees of \$nil (September 30, 2018: \$93,158). On December 21, 2018 Mr. Luis Azevedo signed a Subscription and Debt Settlement Agreement according to which he has agreed to subscribe for 576,128 common shares of the Corporation at a subscription price of \$0.20 per Share having an issue price of \$115,226 in indebtedness owed to the Creditor by the Corporation. The outstanding amount of \$69,841 is still to be subscribed in 2019.

ATMA Corp Ltd, a company in which Mr. Aneel Waraich is a director, is a personal services company into which Mr. Waraich's Director fees are paid. ATMA Corp Ltd, incurred fees of \$nil (September 30, 2018: \$115,454). On Dec 21, 2018, Mr. Waraich signed a Subscription and Debt Settlement Agreement according to which he has agreed to subscribe for 595,505 common shares of the Corporation at a subscription price of \$0.20 per Share having an issue price of \$119,101 in indebtedness owed to the Creditor by the Corporation. The outstanding amount of \$72,190 is still to be subscribed in 2019.

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, 2019 (September 30, 2018: \$8,900) and had \$8,900 outstanding at September 30, 2019.

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 \$47,775 (September 30, 2018: \$101,062) of which \$13,650 was paid. On December 21, 2018 Jeremy South signed a Subscription and Debt Settlement Agreement according to which he has agreed to subscribe for 314,616 common shares of the Corporation at a subscription price of \$0.20 per share having an issue price of \$62,923 in indebtedness owed to the Creditor by the Corporation. The outstanding amount of \$38,139 is still to be subscribed in 2019.

Five Star Diamonds Ltd.

Notes to Condensed Consolidated Financial Statements

For the nine months ended September 30, 2019

(Expressed in Canadian Dollars)

(Unaudited)

15. Related Party Disclosure (continued)

a) Key Management Personnel (continued)

Other transactions with Key Management Personnel

FFA Legal Ltda, a company in which Mr Azevedo is a director, provided the Company with legal and accounting services in Brazil totaling \$29,859 (September 30, 2018: \$194,467). \$29,859 (December 31, 2018: \$nil) was outstanding at September 30, 2019.

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 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

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	
		Jun-19	Dec-18
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%	100%

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

Five Star Diamonds Ltd.

Notes to Condensed Consolidated Financial Statements

For the nine months ended September 30, 2019

(Expressed in Canadian Dollars)

(Unaudited)

16. Subsequent Events

Copper Porphyry Projects in Mongolia

On November 4, 2019, the Company announced that it has entered into agreements to acquire a 100% interest in below two highly prospective porphyry copper projects in southern Mongolia through a combination of work programs, deferred cash payments and the issuing of STAR shares.

150 square kilometer Baruun Tal Copper Project located in the World Class South Gobi Porphyry Copper Province. The Company is currently compiling past exploration results returned a best result with the aim of immediately commencing for the planning of a substantial ground magnetic program and IP geophysical survey to highlight targets for drilling in early 2020.

2,773 hectare Bayan Undur Copper Project located in Bayankhongor Province, which comprises four granted mining licenses. The Company will undertake a thorough review of the considerable volume of past exploration including drilling, geochemistry and geophysics with the aim of identifying new drill targets for 2020.

Completion of the acquisitions is subject to approval of the TSX Venture Exchange. Finders fees and certain transaction costs will be payable in both acquisitions.

Private Placement

The Company is proposing to complete a non-brokered private placement of a minimum of 10,000,000 and a maximum of 20,000,000 units of the Company at an offering price of \$0.05 per unit for minimum gross proceeds of \$500,000 and maximum gross proceeds of \$1,000,000. Each unit will be comprised of one common share of the Company and one common share purchase warrant with each warrant exercisable for one common shares at a price of \$0.10 per share for a period of 12 months from closing.

Debt Settlement

The Company has intention to settle amounts owing to certain officers, directors and service providers of the Company and certain outstanding debt of the Company through the issuance of common shares of the Company at an implied issue price of \$0.05 to \$0.10 per common share.