

FIVE STAR DIAMONDS LIMITED

(formerly Turquoise Capital Corp.)

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2018

The following Management's Discussion & Analysis ("MD&A") of the financial condition and results of the operations of Five Star Diamonds Ltd. (the "Company" or "Five Star") constitutes management's review of the factors that affected the Company's financial and operating performance for the twelve months ended December 31, 2018. This MD&A was written to comply with the requirements of National Instrument 51-102 – Continuous Disclosure Obligations. This discussion should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2018, six months ended December 31, 2017 and twelve months ended June 30, 2017, together with the notes thereto. Results are reported in Canadian dollars, unless otherwise noted. The Company's consolidated financial statements and the financial information contained in this MD&A are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC"). Information contained herein is presented as of May 1, 2019, unless otherwise indicated.

For the purposes of preparing this 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 ("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.

Caution Regarding Forward-Looking Statements

This 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 December 31, 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.

Company Overview and Overall Performance

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). The Company's common shares are listed in the TSX Venture Exchange ("TSXV") under the trading symbol "STAR".

The Company is involved in the acquisition, exploration, evaluation and development of mineral properties with a particular focus on diamond properties in Brazil. The Company's principal property and only material property is 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. The Company also owns five other diamond projects, all of which are located in Brazil.

For the twelve months ended December 31, 2018, the Company incurred a net loss of \$2,376,385 (December 31, 2017: \$1,036,743; June 30, 2017: \$7,268,094). The variance between the periods is due primarily due to share based payments and consultant expenses.

At December 31, 2018, the Company had cash and cash equivalents of \$206,895 (December 31, 2017: \$1,043,888; June 30, 2017: \$3,029,431). Working capital at December 31, 2018 was -\$517,767 (December 31, 2017: \$376,157; June 30, 2017: \$2,548,525). The Company's main source of financing has been derived from issuance of convertible notes. Further funding will be required to commence profitable operations in the future and repay its liabilities arising from normal business operations as they fall due.

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".

2018 Corporate Highlights

During the twelve months ended December 31, 2018 to the date of this MD&A, the following corporate activities occurred:

- On January 22, 2018, Five Star announced the appointment of Mr. Max Jahn as a Director. Mr. Jahn is the Managing Director of Investment Fund R&R Venture Partners, one of the Company's longest standing shareholders and its single largest shareholder.

- On February 12, 2018, the Company issued 6,670,000 options with an exercise price of \$0.30 and an expiry date of February 12, 2023 to employees and consultants of the Company under the Option Plan.
- On March 1, 2018, Five Star announced the resignation of Mr. Carmelo Marrelli as Chief Financial Officer (CFO) and appointment of Mr. Jeremy South as CFO.
- 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 \$700,000 for the drilling services.
- 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 August 2, 2018, the Company announced that it 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.
- 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 \$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 November 27, 2018 the Company announced that it has received approval from the OTC Market Group Inc. to commence trading on the OTCQB Venture Market under the OTCQB ticker symbol "FVVSF".
- On December 21, 2018 the Company announced that it has completed its debt settlement transaction as previously announced on August 2, 2018. The Company settled an aggregate amount of \$767,511 of debt owing to certain officers, directors and service providers to the Company through the issuance of 3,837,556 Common Shares of at a deemed issuance price of \$0.20 per Common Share. The amount settled includes \$479,842 in accrued directors' fees and accrued management and consulting fees owing to the Company's directors and officers, as the case may be.

Current Year Corporate Highlights

- On March 20, 2019 Five Star Diamonds Ltd (the Company) entered into a binding letter of intent for a transaction in which Spirit Banner II Capital Corp (TSX.V: SBCC.P) ("Spirit Banner II" or the "Corporation") will acquire all of Five Star's diamond projects in Brazil and Five Star will continue as a royalty and stream company (the "Proposed Transaction"). The proposed transaction is expected to involve the acquisition by Spirit Banner II of all of the issued and outstanding shares of FSD Brazil Ltd., all of which are owned by Five Star Holdings Ltd (a direct wholly-owned subsidiary of the Company), in exchange for an aggregate of 100,000,000 Spirit Banner II Shares (the "Consideration Shares"), \$250,000 in cash, a 3% net smelter returns royalty over the Catalao Project and a 1.5% net smelter returns royalty over all other diamond projects acquired. It is currently planned that the Consideration Shares will be subsequently distributed on a *pro rata* basis to the shareholders of the Company. The Company's outstanding securities exercisable or exchangeable for, or convertible into, or other rights to acquire Common Shares of the Company will be adjusted according to their terms to reflect the distribution of the Consideration Shares to the Company's shareholders.

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 twelve months ended December 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.

Selected Consolidated Annual Information

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.

The Company is providing the following selected information with respect to the Company's financial statements for the twelve months ending December 31, 2018, six months ending December 31, 2017 and twelve months ending June 30, 2017. The financial statements for these periods were prepared in accordance with IFRS and are expressed in Canadian dollars.

	Twelve Months Ended December 31, 2018	Six Months Ended December 31, 2017	Twelve Months Ended June 30, 2017
	Audited	Audited	Audited
Total Revenue	-	-	-
Operating Expenses	(2,423,627)	(1,067,177)	(7,305,503)
Other Income	578,895	30,434	37,409
Net Loss	(2,376,384)	(1,036,743)	(7,268,094)
Net Loss per share (basic and fully diluted)	(0.018)	(0.008)	(0.070)

	As at December 31, 2018	As at December 31, 2017	As at June 30, 2017
	Audited	Audited	Audited
Current Assets	254,580	1,138,216	3,213,029
Total Assets	8,075,832	8,200,337	9,407,308
Total Liabilities	1,293,616	762,060	664,504
Working Capital	(517,767)	376,157	2,548,525
Shareholders' Equity	6,782,216	7,438,277	8,742,804

Results of Operations

Twelve months ended December 31, 2018, compared with six months ended December 31, 2017, twelve months ended June 30, 2017

The Company's net loss totalled \$2,376,384 for the twelve months ended December 31, 2018, with basic and diluted loss per share of \$0.018. This compares with a net loss of \$1,036,743 with basic and diluted loss per share of \$0.008 for the six months ended December 31, 2017 and a net loss of \$7,268,094 with basic and diluted loss per share of \$0.070 for the twelve months ended June 30, 2017. The variance between the periods is primarily due to:

- The Company incurred an expense of \$718,384 for consulting and director fees during the twelve months ended December 31, 2018, compared to an expense of \$509,885 during the six months ended December 31, 2017 and an expense of \$1,123,437 during the twelve months ended June 30, 2017 for managing the affairs of Five Star.
- Share based payments of \$1,392,968 during the twelve months ended December 31, 2018, compared to nil expenses during the six months ended December 31, 2017 and \$2,542,867 expenses during the twelve months ended June 30, 2017.
- All other expenses related to general working capital expenditures.

Description of expenses	Twelve Months Ended	Six Months Ended	Twelve Months Ended
	December 31, 2018	December 31, 2017	June 30, 2017
	\$	\$	\$
Professional fees -Consultants	720,586	264,738	747,231
Professional fees – Share Based Payments	1,392,968	-	947,040
Management compensation	346,034	509,885	1,123,437
Shareholder and investor relations	82,784	97,264	88,575
Shareholder – Anti Dilution shares	-	-	425,575
Reporting issuer costs	42,293	21,909	19,973
Financing cost	39,115	-	-
Office and general	253,169	168,512	742,423
Bank charges	2,386	2,282	13,000
Salaries and benefits – share based	-	2,587	1,170,252
Reverse takeover transaction	-	-	2,027,997
Impairment loss	119,926	-	-
Other income and gain on debt settlement	(578,895)	(30,434)	(37,409)
Deferred income tax recovery	(43,981)	-	-
Total	2,376,384	1,036,743	7,268,094

The Company owns a 100% interest in six diamond projects, all of which are located in Brazil - Jaibaras, Catalão, Riachão, Maravilha, Verissimo and Alecrim. The Company's principal project and only material project is the Catalão Project.

Catalão Project

The Catalão Diamond Project is located in the State of Goiás, Brazil and is comprised of one exploration licence of 1,999.42 hectares.

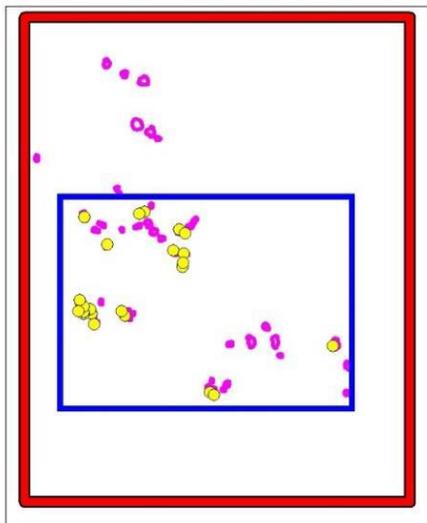
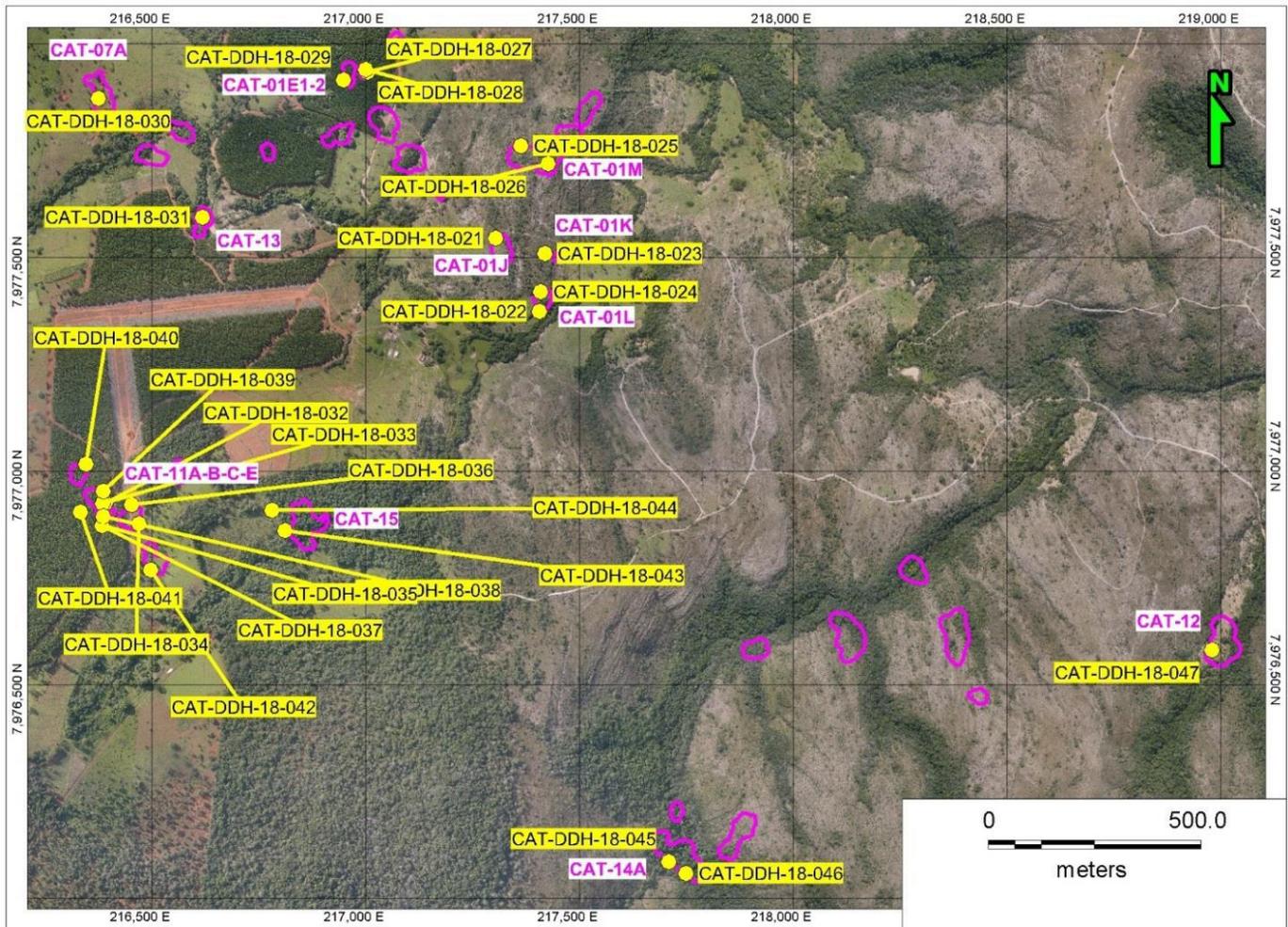
From early August 2018 to date, the Company completed 18 exploration drill holes for a total of 1,267.22 linear-meters for the Catalao Project. The exploration drilling program resulted in the discovery of three new kimberlite pipes, named CAT-11A, CAT-11B and CAT-01K.

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.

In 2018 a diamond drilling program was developed to evaluate the potential of magnetic anomalies mainly selected based on positive results obtained during the previous auger drilling evaluation phase. A total of 15 magnetic targets (CAT-01E1, CAT-01E2, CAT-01J, CAT-01K, CAT-01L, CAT-01M, CAT-07A, CAT-11A, CAT-11B, CAT-11C, CAT-11E, CAT-12, CAT-13, CAT-14A e CAT-15) were tested and the drilling program comprised 2,472.35 linear meters distributed along 27 drill holes.

Two (2) drill holes were drilled vertically and the remainder holes were inclined with dips ranging from 60 to 65 in respect with the surface level. The deepest hole reached 131.35 meters and the shallowest stopped at 30.45 meters. All holes were drilled with a HQ (63.5 mm). This drilling program was carried out from August 2018 to November 2018 and was undertaken by Geosol Geologia e Sondagens S.A. Shown below is a map location with all the drill holes and intersected kimberlitic rocks. Holes intersected more than one kimberlite interval, locally producing a composite intersection with different wides.



- Drill hole
- Magnetic Anomaly
- Detailed Area
- Mineral property

Maravilha Project

The Maravilha Project is located in the state of Minas Gerais and is comprised of 1 Exploration Licence and 1 application for Exploration Licence, covering a total area of 209.16 hectares.

During 2018, the Company completed a one ton bulk sample resulting in a total of 658 macro and microdiamonds, total weight achieved 0.63 carats. The Company also completed a 125.55 linear kilometres ground magnetic survey, auger drilling of 54 auger holes for a total of 393.20 linear metres and soil sampling and analyses of 810 soil samples.

Diamond drilling (Maravilha Project) comprising 8 drill holes for a total of 556.91 linear-meters.

The Company also completed a diamond drilling program on July 20, 2018. The program comprised nine (9) drill holes for a total of 736,33 meters drilled and distributed on four (4) drill section approximately 40 meters apart. Seven (7) drill holes intersected the M3 kimberlite pipe with widths ranging from 0.3 meters up to 20.18 meters.

Riachão Project

The Riachão project is located in the state of Piauí. The Riachão kimberlite is part of the Gilbúes Kimberlite Province, which also includes the famous Redondão kimberlite (the first diamond-bearing kimberlite discovered in Brazil). The project comprises one exploration license covering an area of 1,278.13 hectares.

In 2018, the Company completed a caustic fusion and microdiamond analyses at the Riachão Project with a total of 9 samples, weighting 9.13 tons. The results are pending.

Outlook

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.

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 MD&A. Paulo Ildio de Brito is a consulting geologist of the Company.

Exploration and Evaluation Expenses

The following summarizes the exploration and evaluation expenses incurred by the Company for each of its projects during the twelve months period ended December 31, 2018, for the six months period ended December 31, 2017 and for the twelve months period ended June 30, 2017.

	Twelve Months Ended December 31, 2018	Six Months Ended December 31, 2017	Twelve Months Ended June 30, 2017
	\$	\$	\$
JAIBARAS PROJECT			
Property acquisition costs	2,447	14,898	2,880
General and geology	8,742	332,731	77,235
Geochemistry and geophysics	-	18,329	-
Administration	61,880	41,391	20,323
Activity during the period	73,069	407,349	100,438
CATALAO PROJECT			
Property acquisition costs	39,277	10,480	184,655
General and geology	474,889	294,518	811,386
Geochemistry and geophysics	3,323	325	179
Administration	245,615	169,430	439,714
Activity during the period	763,104	474,753	1,435,934

	Twelve Months Ended December 31, 2018	Six Months Ended December 31, 2017	Twelve Months Ended June 30, 2017
	\$	\$	\$
MARAVILHA PROJECT			
Property acquisition costs	-	-	-
General and geology	83,427	3,756	3,075
Geochemistry and geophysics	99,262	-	-
Administration	21,034	2,964	602
Activity during the period	203,723	6,720	3,677
ALECRIM PROJECT			
Property acquisition costs	-	-	-
General and geology	-	-	41,232
Geochemistry and geophysics	-	-	-
Administration	2,256	2,530	7,456
Activity during the period	2,256	2,530	48,688
VERISSIMO PROJECT			
Property acquisition costs	-	-	1,029
General and geology	9,109	-	590
Geochemistry and geophysics	23,720	26,748	-
Administration	-	7,944	15,616
Activity during the period	32,829	34,692	17,235
MEGA GOIAS PROJECT			
Property acquisition costs	-	-	-
General and geology	-	2,094	-
Geochemistry and geophysics	-	-	-
Administration	578	37,559	36,687
Impairment loss	(578)	-	-
Activity during the period	-	39,653	36,687
RIACHAO PROJECT			
Property acquisition costs	3,243	792	-
General and geology	6,384	28,568	4,638
Geochemistry and geophysics	17,024	57,879	-
Administration	2,122	20,511	3,395
Activity during the period	28,773	107,749	8,033

	Twelve Months Ended December 31, 2018	Six Months Ended December 31, 2017	Twelve Months Ended June 30, 2017
	\$	\$	\$
CAIAPO PROJECT			
Property acquisition costs	-	-	-
General and geology	9,668	29,863	(6,895)
Geochemistry and geophysics	-	-	-
Administration	6,128	8,592	2,755
Impairment loss	(15,796)	-	-
Activity during the period	-	38,455	(4,141)
TOTAL FOR ALL PROJECTS			
Property acquisition costs	44,968	26,169	188,564
General and geology	592,218	691,530	931,259
Geochemistry and geophysics	143,328	103,280	179
Administration	339,613	290,922	526,548
Impairment loss	(16,374)	-	-
Activity during the period – TOTAL	1,103,754	1,111,901	1,646,551

Selected Quarterly Information & Financial Performance

Three Months Ended	Total Assets (\$)	Total Revenue (\$)	Profit or (Loss)	
			Total (\$)	Basic and Diluted Income (Loss) Per Share ⁽⁹⁾ (\$)
December 31, 2018	8,075,832 ⁽¹⁰⁾	-	119,149 ⁽¹⁾	(0.002)
September 30, 2018	7,306,287 ⁽¹¹⁾	-	(362,076) ⁽²⁾	(0.004)
June 30, 2018	7,198,350 ⁽¹¹⁾	-	(622,618) ⁽³⁾	(0.005)
March 31, 2018	8,171,696 ⁽¹¹⁾	-	(1,761,819) ⁽⁴⁾	(0.014)
December 31, 2017	8,200,337 ⁽¹⁰⁾	-	(522,175) ⁽⁵⁾	(0.004)
September 30, 2017	8,656,748 ⁽¹¹⁾	-	(514,568) ⁽⁶⁾	(0.004)
June 30, 2017	9,407,308 ⁽¹⁰⁾	-	(5,515,373) ⁽⁷⁾	(0.055)
March 31, 2017	5,828,015 ⁽¹¹⁾	-	(501,065) ⁽⁸⁾	(0.005)

Notes:

- (1) Net gain of \$119,149 resulted from professional fees of \$119,781, management compensation of \$44,085, shareholder and investor relations expenses of \$34,027, other office and general costs of \$138,666, impairment loss of \$119,925 and gain on debt settlement of \$575,633.
- (2) Net loss of \$362,076 resulted from professional fees of \$91,953, management compensation of \$196,675, shareholder and investor relations expenses of \$10,808 and other office and general costs of \$62,640.
- (3) Net loss of \$622,618 resulted from professional fees of \$99,097, management compensation of \$324,028, shareholder and investor relations expenses of \$2,131, share based payments of 134,758, and other office and general costs of \$62,605.
- (4) Net loss of \$1,761,819 resulted from professional fees of \$115,377, management compensation of \$252,999, share based payments of 1,258,211, shareholder and investor relations costs of 35,818 and other office and general costs of \$99,414.
- (5) Net loss of \$522,175 resulted from professional fees of \$172,785, management compensation of \$232,638, shareholder and investor relations expenses of \$43,008 and other office and general costs of \$73,744.

- (6) Net loss of \$514,568 resulted from professional fees of \$91,953, management compensation of \$277,246, shareholder and investor relations expenses of \$54,257 and other office and general costs of \$91,112.
- (7) Net loss of \$5,515,373 resulted from professional fees of \$366,903, management compensation of \$333,723, shareholder and investor relations expenses of \$75,544, other office and general costs of \$168,339, reverse takeover costs of \$2,027,997 and share based payments of \$2,542,867.
- (8) Net loss of \$501,065 resulted from professional fees of \$97,203, management compensation of \$228,198 and other office and general costs of \$175,664.
- (9) Per share amounts are rounded to the nearest cent, therefore aggregating quarterly amounts may not reconcile to year-to-date per share amounts.
- (10) Audited.
- (11) Unaudited.

Liquidity and Capital Resources

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

The Company has no operating revenues and therefore must utilize its current cash reserves, funds obtained from the issuance of share capital, exercise of stock options and other financing transactions to maintain its capacity to meet ongoing operating activities. As of December 31, 2018, the Company had 132,764,652 Common Shares issued outstanding and 12,870,000 options and 1,670,460 warrants that would raise \$4,586,129 if exercised in full. This is not anticipated in the immediate future. See "Trends" above.

Trade and other payables increased to \$772,347 at December 31, 2018, compared to \$762,060 at December 31, 2017 and \$664,504, and consist of amounts that are to be extinguished in due course. The Company's cash and cash equivalents as of December 31, 2018 are not sufficient to pay these liabilities and further fundraising will be required.

At December 31, 2018, the Company had negative working capital of \$517,767, compared to positive working capital of \$376,156 at December 31, 2017 and \$2,548,525 a decrease of \$893,923 and \$3,066,292. The Company had cash and cash equivalents of \$206,895 at December 31, 2018, compared to \$1,043,888 at December 31, 2017 and \$3,029,431, a decrease of \$836,993 and \$2,822,536. 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 \$480,000.

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 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 \$484,698 for the drilling services. The completion of the contract was on November 27th, 2018.

The Company announced on December 21, 2018 that it has settled an aggregate of \$767,511 of debt owing to certain officers and directors of the Company and service providers to the Company through the issuance of an aggregate of approximately 3,837,556 Common Shares of the Company ("Common Shares") at a deemed issuance price of \$0.20 per Common Share.

The amount settled includes \$479,842 in accrued directors' fees and accrued management and consulting fees owing to the Company's directors and officers, as the case may be.

The Company is choosing to settle the outstanding indebtedness through the issuance of the Common Shares as the Company will require cash for working capital and continuing operations.

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.

The participation by the insiders in the Debt Settlement is considered a "related party transaction" as defined under Multilateral Instrument 61-101 ("MI 61-101"). The transaction is exempt from the formal valuation and minority shareholder approval requirements under MI 61-101 on the basis that the Debt Settlement with related parties constitutes the distribution of securities of the Company for cash consideration of less than \$2.5 million. Neither the Company nor, to the knowledge of the Company after reasonable inquiry, the related parties, has knowledge of any material information concerning the Company or its securities that has not been generally disclosed. The debt settlement with each related party was unanimously approved by the Company's independent directors.

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.

In August 2018, the Company completed non-brokered private placement of 653 convertible debenture units (the "Convertible Debenture Units") 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 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 (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 Share for a period of 36 months following issuance, subject to customary adjustments in certain events.

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 favourable 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.

Mr. Matthew Wood as Chief Executive Officer and Director incurred fees of \$243,898 (December 31, 2017: \$141,207; June 30, 2017: \$106,047). On Dec 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.

Garrison Capital Limited, a company in which Mr. Brian McMaster and Mr. Matthew Wood are directors, charged the Company for reimbursement of expenses at cost totaling \$nil (December 31, 2017: \$nil; June 30, 2017: \$1,958). \$nil (December 31, 2017: \$nil; June 30, 2017: \$390) was outstanding at year end.

Mr. Luis Azevedo, Chief Operating Officer incurred fees of \$108,939 (December 31, 2017: \$76,127; June 30, 2017: \$31,160). 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, was issued 984,497 fully paid ordinary shares in satisfaction of corporate advisory services provided in the period twelve months ended June 30, 2017. For further details refer to note 17 (b). Mr. Aneel Waraich was appointed as a Director on September 8, 2017. ATMA Corp Ltd, incurred fees of \$140,510 (December 31, 2017: \$50,781). 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 December 31, 2018 (December 31, 2017: \$46,790; June 30, 2017: \$26,233) and had \$46,790 outstanding at December 31, 2018.

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 December 31, 2018 (December 31, 2017: \$50,522; June 30, 2017: \$26,455) Gemstar Investments Limited had \$nil outstanding at December 31, 2018 (December 31, 2017: \$50,522; June 30, 2017: \$26,455). Harvest Minerals Limited, a company in which Mr. Brian McMaster is a director, provided the Company with rental services in London totalling \$nil (December 31, 2017: \$nil; June 30, 2017: \$39,932;). \$nil (December 31, 2017: \$nil; June 30, 2017: \$39,932) was outstanding at year end 2018.

Mr. Jeremy South was appointed CFO on March 1, 2018. Helston Capital Corp, a company in which Mr. Jeremy South is a Director, is a personal services company into which Mr. Jeremy South's Consulting fees are paid. Helston Capital Corp, incurred fees of \$151,301 (December 31, 2017: \$nil; June 30, 2017: \$nil). 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 \$62,923.20 in indebtedness owed to the Creditor by the Corporation. The outstanding amount of \$38,139.20 is still to be subscribed in 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	112,298
Gizman Abbas	100,000	11,230
Jo-Ann Archibald	100,000	11,230

During the twelve months ended 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.

On February 12, 2018, the Company issued 6,670,000 options with an exercise price of \$0.30 and an expiry date of February 12, 2023, to employees and consultants of the Company. The options vested immediately on issue. 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. The options vested immediately on issue.

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

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

Recent Accounting Pronouncements

A number of new standards, amendments to standards and interpretations, are effective for the period ended December 31, 2018, and have been applied in preparing these consolidated financial statements. The following standards and interpretations have been issued by the IASB and the IFRIC Committees with effective dates relating to the annual accounting periods starting on or after the effective dates as follows:

IFRS 9, Financial Instruments, ("IFRS 9") was issued by the IASB in July 2014 in final form and will replace IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company does not expect the adoption of this standard to have a material effect on the consolidated Financial Statements.

IFRS 15, revenue from contracts and customers ("IFRS 15") was issued by the IASB on May 28, 2014, and will replace IAS 18, revenue, IAS 11, construction contracts, and related interpretations on revenue. IFRS 15 sets out the requirements for recognizing revenue that apply to all contracts with customers, except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 uses a control based approach to recognize revenue which is a change from the risk and reward approach under the current standard. Companies can elect to use either a full or modified retrospective approach when adopting this standard and it is effective for annual periods beginning on or after January 1, 2018. The Company does not expect the adoption of this standard to have a material effect on the consolidated Financial Statements.

Future Accounting Pronouncements

A number of new standards, amendments to standards and interpretations, are not yet effective for the period ended December 31, 2018, and have not been applied in preparing these consolidated financial statements. The following standards and interpretations have been issued by the IASB and the IFRIC Committees with effective dates relating to the annual accounting periods starting on or after the effective dates as follows:

IFRS 16, Leases ("IFRS 16") will bring most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. Under IFRS 16 a lessee recognizes a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other nonfinancial assets and depreciated accordingly and the liability accrues interest. This will typically produce a frontloaded expense profile (whereas operating leases under IAS 17, Leases ("IAS 17") would typically have had straight-line expenses) as an assumed linear depreciation of the right-of-use asset and the decreasing interest on the liability will lead to an overall decrease of expense over the reporting period. IFRS 16 supersedes IAS 17 and related interpretations and is effective for periods beginning on or after January 1, 2019, with earlier adoption permitted if IFRS 15, Revenue from Contracts with Customers has also been applied. The Company does not expect the adoption of this standard to have a material effect on the consolidated entity.

Financial Instruments

Fair Values

All financial instruments measured at fair value are categorized into one of three hierarchy levels, described below, for disclosure purposes. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities:

- Level 1 – Values based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities;
- Level 2 – Values based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability; and
- Level 3 – Values based on prices or valuation techniques that require inputs that are both unobservable and significant to the over fair value measurement.

The carrying value of amounts receivable, and other accounts payable and accrued liabilities approximate their fair values because of short period to maturity of these instruments.

Cash and cash equivalents are classified as held for trading and are therefore recorded at fair value. At December 31, 2018 and 2017, June 30, 2017 and 2016, the Company's cash and cash equivalents are classified as Level 1 within the fair value hierarchy.

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Five Star's exposure to credit risk is on its cash held with financial institutions and amounts receivable. The carrying amount of cash represents the maximum credit exposure.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Group currently has no operational revenue streams. Operational cash flow represents the ongoing appraisal and testing of the group's projects, assessing exploration progress and administration costs. The Group manages its liquidity requirements by the use of both short-term and long-term cash flow forecasts. The Group's policy to ensure facilities are available as required is to issue equity share capital and form strategic alliances in accordance with long-term cash flow forecasts. The Group currently has no undrawn committed facilities as at December 31, 2018. The Group actively manages its working finance to ensure the Group has sufficient funds for operations and planned expansion.

The Group's financial liabilities are primarily trade payables and operational costs. All amounts are due for payment in accordance with agreed settlement terms with suppliers or statutory deadlines and all within one year.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not exposed to interest rate risk.

Foreign exchange risk

Foreign exchange risk is the risk that fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. The Company has exposure to US dollars, Australian dollars, Great British Pounds, Canadian dollars and Brazilian Reais that are

subject to fluctuations as a result of exchange rate variations to the extent that transactions are made in this currency. The Company does not hedge its foreign exchange risk.

The Company's financial instruments held in foreign currencies were:

	As at December 31, 2018				
	BRL in CAD	AUD in CAD	GBP in CAD	USD in CAD	CAD
Cash and cash equivalents	19,957	1,196	-	175,005	10,737
Accounts payable & accrued liabilities	(27,598)	-	-	(27,075)	(717,694)

Based on the financial instruments held at December 31, 2018, had the Canadian dollar weakened/strengthened by 10% against these foreign currencies with all other variables held constant, the Company's post-tax loss for the period would have been \$14,149 higher/lower as a result of foreign exchange gains/losses on translation of non-Canadian dollar denominated financial instruments as detailed above. The Company's deficit would have been \$14,149 higher/lower had the Canadian dollar weakened/strengthened by 10% as a result of foreign exchange gains/losses on translation of non-Canadian dollar denominated financial instruments.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements as at December 31, 2018.

Outstanding Share Data

The following table summarizes the outstanding share capital as of December 31, 2018:

	Number of shares issued or issuable
Common shares	132,764,652
Stock options (exercisable until May 5, 2019 at \$0.36 per share)	5,000,000
Stock options (exercisable until February 12, 2023 at \$0.30 per share)	6,670,000
Stock options (exercisable until April 25, 2023 at \$0.30 per share)	1,200,000
Agent Warrants (exercisable until April 20, 2019 at \$0.30 per share)	1,343,950
Agent Warrants (exercisable until August 02, 2021 at \$0.20 per share)	326,500

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".

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 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 consolidated financial statements; and (ii) the 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.

Risk Factors

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

Dependence on Single Mineral Project

The Catalão Diamond Project is the only advanced property in which Five Star currently holds an interest. As such, the operations of Five Star will be dependent on the Catalão Diamond Project, which may never develop into a commercially viable ore body. Any adverse development affecting the Catalão Diamond Project will have a material adverse effect on the Company’s business, prospects, financial performance and results of operations. Exploration and Development Risk Mining operations generally involve a high degree of risk. The Company’s operations will be subject to all the hazards and risks normally encountered in the exploration, development and production of diamonds, including unusual and unexpected geologic formations, seismic activity, explosions, rock bursts, cave-ins, flooding, pit wall failure and other conditions involved in drilling and removal of material, any of which could result in damage to, or destruction of, mines and other producing facilities, damage to life or property, environmental damage, delays in mining, monetary losses and possible legal liability.

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

The commercial viability of the Catalão Diamond Project and other properties in which the Company has or may acquire an interest in the future depends upon on a number of factors, all of which are beyond the control of the Company, including, but not limited to: the particular attributes of the deposit, such as size, grade and proximity to infrastructure; diamond prices, which

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

Limited Operating History and Financial Resources

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

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

Uncertainty of Resource Estimates

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

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

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

Mineral Reserves

Five Star has not defined any Mineral Reserves on its concessions at the Catalão Diamond Project and there can be no assurance that any of the concessions under exploration contain commercial quantities of any minerals. Even if commercial quantities of minerals are identified, there can be no assurance that the Company will be able to exploit the resources or, if the Company is able to exploit them, that it will do so on a profitable basis. Substantial expenditures may be required to locate and establish Mineral Reserves, to develop extraction processes and to construct mining and processing facilities at a site, and substantial additional financing may be required. It is impossible to ensure that the exploration or development programs planned by the

Company will result in a profitable commercial mining operation. The decision as to whether a property contains a commercial mineral deposit and should be brought into production will depend on the results of exploration programs and/or feasibility studies, and the recommendations of duly qualified engineers and geologists. Several significant factors will be considered, including, but not limited to: (i) the attributes of the deposit, such as size, grade and proximity to infrastructure; (ii) diamond prices, which are highly cyclical; (iii) government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals and environmental protection; (iv) ongoing costs of production; and (v) availability and cost of additional funding. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Company not receiving an adequate return on invested capital.

Operational Risks

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

Foreign Operations Risks

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

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

Title to Properties

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

vendors or changes in Brazilian mining laws or the application thereof which affects the Company's title.

Five Star has obtained a title opinion from Brazilian legal counsel with respect to title to the Catalão Diamond Project held by Five Star but this should not be construed as a guarantee of title. Other parties may dispute title to any of the Company's mineral properties and any of the Company's properties may be subject to prior unregistered agreements or transfers and title may be affected by undetected encumbrances or defects or governmental actions. The Company will not have all of the surface rights at the Catalão Diamond Project and there is no assurance that these surface rights will be granted or they will be on reasonable terms if granted.

Commodity Prices

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

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

Dependence on Future Financings

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

Share Price Volatility

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

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

Government Regulation

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

Permits and Licenses

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

Health and Safety Risk

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

Environmental Matters

The Company's operations will be subject to local laws and regulations regarding environmental matters, the use or abstraction of water, and the discharge of mining wastes and materials. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and

employees. The cost of compliance with changes in governmental regulations has the potential to reduce the profitability of operations. Furthermore, any failure to comply fully with all applicable laws and regulations could have significant adverse effects on the Company, including the suspension or cessation of operations. Environmental laws and regulations change frequently, and the implementation of new, or the modification of existing, laws or regulations could harm the Company. The Company cannot predict how agencies or courts in foreign countries will interpret existing laws and regulations or the effect that these adoptions and interpretations may have on the Company's business or financial condition.

The Company may be required to make significant expenditures to comply with governmental laws and regulations. Any significant mining operations will have some environmental impact, including land and habitat impact, arising from the use of land for mining and related activities, and certain impact on water resources near the project sites, resulting from water use, rock disposal and drainage run-off. No assurances can be given that such environmental issues will not have a material adverse effect on the Company's operations in the future. Environmental hazards may exist on the properties in which the Company - 19 - holds interests which are unknown to Five Star at the present time and which have been caused by previous or existing owners or operators of the properties. While Five Star believes it does not currently have any material unsatisfied environmental obligations, exploration activities may give rise in the future to significant liabilities on the Company's part to the government and third parties and may require the Company to incur substantial costs of remediation.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Additionally, the Company does not intend to maintain insurance against environmental risks. As a result, any claims against the Company may result in liabilities the Company will not be able to afford, resulting in the failure of the Company's business. Failure to comply with applicable laws, regulations, and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions.

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

Infrastructure

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

Competition

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

Acquisitions and Integration

From time to time, the Company may pursue opportunities to acquire additional mining assets and businesses. Any acquisition that the Company may choose to complete may be of a significant size, may change the scale of the Company's business and

operations, and may expose the Company to new geographic, political, operating, financial and geological risks. The Company's success in its acquisition activities will depend on its ability to identify suitable acquisition candidates that fit its business strategy, negotiate acceptable terms for any such acquisition, obtain approvals from regulatory authorities in the jurisdiction of the business or property to be acquired, and integrate the acquired operations successfully with those of the Company. Any acquisitions would be accompanied by risks. For example, there may be a significant change in commodity prices after the Company has committed to complete the transaction and established the purchase price or exchange ratio; a material ore body may prove to be below expectations; the Company may have difficulty integrating and assimilating the operations and - 20 - personnel of any acquired companies, realizing anticipated synergies and maximizing the financial and strategic position of the combined enterprise, and maintaining uniform standards, policies and controls across the organization; the integration of the acquired business or assets may disrupt the Company's ongoing business and its relationships with employees, customers, suppliers and contractors; and, to the extent that the Company makes an acquisition outside of markets in which it has previously operated, the Company may have difficulty conducting and managing operations in a new operating environment.

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

Non-Governmental Organization Intervention

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

Litigation Risk

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

Key Personnel

Locating and developing mineral deposits depends on a number of factors, not the least of which is the technical skill of the exploration, development and production personnel involved. The success of the Company is largely dependent on the performance of its key personnel. The Company's success is also largely dependent on its ability to hire and retain other highly qualified personnel. This is particularly true in highly technical businesses such as mineral exploration. The number of persons skilled in acquisition, exploration and development of mining properties is limited and competition for this workforce is intense. As the Company's business activity grows, the Company will require additional key executive, financial, operational, administrative and mining personnel. The Company will compete with numerous other companies for the recruitment and retention of qualified employees and contractors. These individuals are in high demand and the Company may not be able to attract the personnel it needs. Failure to retain key personnel or to attract and retain additional key individuals with necessary

skills could have a materially adverse impact upon the Company's business, its operating results as well as its overall financial condition. The Company has not purchased any "key-man" insurance with respect to any of its directors, officers or key - 21 - employees and has no current plans to do so.

Insurance and Uninsured Risk

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

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

Conflicts of Interest

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

Institution of Restrictions on Repatriation of Earnings

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

Currency Risks

The Company will report its financial results and maintains its accounts in Canadian dollars. The markets for diamonds are principally denominated in United States dollars. The Company's operations in Brazil will make it subject to further foreign currency fluctuations and such fluctuations may materially affect the Company's financial position and results. The Company will be exposed to foreign exchange risk from the exchange rate of the Brazilian Real relative to the Canadian and United States dollars. Foreign exchange risk is mainly derived from assets and liabilities stated in Brazilian Reals. Management of the Company intends to limit the Company's foreign exchange risk by the acquisition of short-term financial instruments and, when possible, minimize its pesos monetary asset positions.

No Dividends

The Company does not expect to pay dividends on the issued and outstanding Company shares in the foreseeable future. If the Company generates any future earnings such cash resources will be retained to finance further growth and current operations. The board of directors of the Company will determine if and when dividends should be declared and paid in the future based on

the financial position of the Company and other factors relevant at that time. Until the Company pays dividends, which it may never do, a shareholder will not be able to receive a return on his or her investment in the Company shares unless such Company shares are sold. In such event, a shareholder may only be able to sell his, her or its Company shares at a price less than the price such shareholder originally paid for them, which could result in a loss of such shareholder's investment.

Enforcement of Civil Liabilities

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

Subsequent events

On March 20, 2019 Five Star Diamonds Ltd (the Company) entered into a binding letter of intent for a transaction in which Spirit Banner II Capital Corp (TSX.V: SBCC.P) ("Spirit Banner II" or the "Corporation") will acquire all of Five Star's diamond projects in Brazil and Five Star will continue as a royalty and stream company (the "Proposed Transaction"). The proposed transaction is expected to involve the acquisition by Spirit Banner II of all of the issued and outstanding shares of FSD Brazil Ltd., all of which are owned by Five Star Holdings Ltd (a direct wholly-owned subsidiary of the Company), in exchange for an aggregate of 100,000,000 Spirit Banner II Shares (the "Consideration Shares"), \$250,000 in cash, a 3% net smelter returns royalty over the Catalao Project and a 1.5% net smelter returns royalty over all other diamond projects acquired. It is currently planned that the Consideration Shares will be subsequently distributed on a pro rate basis to the shareholders of the Company. The Company's outstanding securities exercisable or exchangeable for, or convertible into, or other rights to acquire Common Shares of the Company will be adjusted according to their terms to reflect the distribution of the Consideration Shares to the Company's shareholders.

Other than those disclosed above, 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.

Additional Information

Further information about the Company and its operations can be obtained from the offices of the Company at 595 Howe St, Suite 704, Vancouver, British Columbia V6C 2T5 or from the Company's website at www.fivestardiamonds.net.