



FIVE STAR DIAMONDS

FIVE STAR DIAMONDS LIMITED

**Consolidated Financial Statements
For the Twelve Months Ended December 31, 2018,
the Six Months Ended December 31, 2017 and the
Twelve Months ended June 30, 2017**

(Expressed in Canadian dollars)

Independent Auditor's Report

To the Shareholders of Five Star Diamonds Limited:

Opinion

We have audited the consolidated financial statements of Five Star Diamonds Limited and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018, December 31, 2017 and June 30, 2017, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the year ended December 31, 2018, for the six months ended December 31, 2017, for the year ended June 30, 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018, December 31, 2017, and June 30, 2017, and its consolidated financial performance and its consolidated cash flows for the year ended December 31, 2018, for the six months ended December 31, 2017, and for the year ended June 30, 2017 in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company has incurred ongoing losses and had a cumulative deficit of \$13,942,537 as at December 31, 2018. As stated in Note 1, these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Marufur Raza.

Toronto, Ontario
May 1, 2019

MNP LLP

Chartered Professional Accountants
Licensed Public Accountants

MNP

Five Star Diamonds Limited
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

As at		December 31, 2018	December 31, 2017	June 30, 2017
	Notes	\$	\$	\$
Assets				
Current assets				
Cash and cash equivalents	4	206,895	1,043,888	3,029,431
Other receivables and other assets	5	22,890	67,589	155,884
Inventory		24,795	26,739	27,714
Total current assets		254,580	1,138,216	3,213,029
Non-current assets				
Property, plant and equipment	6	1,718,336	2,003,161	2,066,230
Deferred exploration and evaluation expenditures	7	6,102,916	5,058,960	4,128,049
Total non-current assets		7,821,252	7,062,121	6,194,279
Total assets		8,075,832	8,200,337	9,407,308
Liabilities				
Current liabilities				
Trade and other payables	8	772,347	762,060	664,504
Total current liabilities		772,347	762,060	664,504
Non-current liability				
Convertible debenture	9	521,269	-	-
Total non-current liabilities		521,269	-	-
Total liabilities		1,293,616	762,060	664,504
Equity				
Share capital	10	17,436,099	17,244,221	17,196,975
Reserves	13	3,288,655	1,760,210	2,075,237
Deficit		(13,942,537)	(11,566,154)	(10,529,408)
Total equity		6,782,216	7,438,277	8,742,804
Total liabilities and equity		8,075,832	8,200,337	9,407,308

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

Going Concern (note 1)

Approved and authorized by the Board of Directors on May 1, 2019:

Director
Matthew Wood

Director
Luis Azevedo

Five Star Diamonds Limited

Consolidated Statements of Loss and Comprehensive Loss

(Expressed in Canadian Dollars)

	Notes	12 months ended December 31, 2018	6 months ended December 31, 2017	12 months ended June 30, 2017
		\$	\$	\$
Revenue				
Interest income		747	2,212	3,434
Other income		2,515	28,222	33,975
		<u>3,262</u>	<u>30,434</u>	<u>37,409</u>
Expenses				
Administrative expenses		(22,196)	(66,353)	(36,941)
Public company costs		(42,293)	(21,909)	(19,973)
Accounting, audit and tax fees		(140,060)	(90,441)	(177,620)
Legal fees		(208,175)	(33,085)	(270,096)
Consultant and director fees	15	(718,384)	(509,885)	(1,123,437)
Depreciation	6	(26,828)	(13,950)	(29,092)
Financing cost	9	(39,115)	-	-
Foreign exchange (gain) loss		2,873	(5,277)	(112,902)
Reverse takeover transaction	16	-	-	(2,027,997)
Anti-dilution share based payment	17	-	-	(425,575)
Share based payments	11, 17	(1,392,968)	-	(2,117,292)
Advertising and marketing		(82,784)	(97,264)	(88,575)
Travel and accommodation		(71,974)	(63,375)	(427,376)
Other expenses		(137,429)	(165,638)	(448,627)
Gain from debt settlement	16(c)	575,633	-	-
Impairment loss	7	(119,926)	-	-
Operating loss for the period		<u>(2,420,365)</u>	<u>(1,036,743)</u>	<u>(7,268,094)</u>
Deferred income tax recovery	18	43,981	-	-
Net loss for the period		<u>(2,376,384)</u>	<u>(1,036,743)</u>	<u>(7,268,094)</u>
Other comprehensive loss, net of income tax				
Exchange differences on translation of foreign operations		(468,135)	(282,781)	(209,646)
Net Loss and comprehensive loss for the period		<u>(2,888,500)</u>	<u>(1,319,524)</u>	<u>(7,477,740)</u>
Basic and diluted net loss per share	14	(0.018)	(0.008)	(0.070)
Weighted average number of common shares outstanding – basic and diluted	14	129,032,235	128,888,603	104,168,542

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

Five Star Diamonds Limited
Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

	Notes	12 months ended December 31, 2018 \$	6 months ended December 31, 2017 \$	12 months ended June 30, 2017 \$
Operating activities				
Net loss for the period		(2,420,365)	(1,036,743)	(7,268,094)
Items not involving cash:				
Depreciation		26,828	13,950	29,092
Financing cost	9	39,115	-	-
Foreign exchange movement		478,802	(73,526)	(144,799)
Gain from debt settlement	16(c)	(575,633)	-	-
Gain on disposal of property, plant and equipment		(6,460)	-	-
Impairment loss	7	119,925	-	-
Reverse takeover transaction		-	-	2,027,997
Anti-dilution share based payment		-	-	425,575
Share based compensation	11, 17	1,392,968	-	2,117,292
Changes in non-cash working capital items				
Inventory		1,944	975	-
Trade and other receivables		44,699	88,295	-
Trade and other payables		10,287	97,556	407,477
Net cash inflow/(outflow) from operating activities		(887,891)	(909,493)	(2,405,460)
Investing activities				
Proceeds on sale of property, plant and equipment		84,359	-	53,791
Payments for property, plant and equipment		-	(122,571)	(71,396)
Cash acquired on reverse takeover transaction		-	-	2,164,160
Exploration and evaluation expenditure		(679,184)	(968,479)	(1,320,922)
Net cash outflow from investing activities		(594,825)	(1,091,050)	825,633
Financing activities				
Proceeds from issue of shares		-	-	3,445,425
Proceeds from exercise of options		-	15,000	5,000
Payments for share issue cost		-	-	(171,528)
Proceeds from borrowings		-	-	272,653
Repayment of borrowings		-	-	(272,653)
Proceeds from convertible debenture, net of costs	9	645,723	-	-
Net cash inflow from financing activities		645,723	15,000	3,278,897
Net decrease in cash and cash equivalents		(836,993)	(1,985,543)	1,699,071
Cash and cash equivalents at the beginning of the period		1,043,888	3,029,431	1,328,172
Effect of exchange rate fluctuations on cash held		-	-	2,188
Cash and cash equivalents at the end of the period		206,895	1,043,888	3,029,431

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

Five Star Diamonds Limited

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

	Notes	Number of common shares	Issued capital \$	Reserves \$	Foreign currency translation reserve \$	Deficit \$	Total equity \$
Balance as at January 1, 2018		128,927,096	17,244,221	1,528,723	231,487	(11,566,153)	7,438,277
Shares issued to settle debt	10	3,837,556	191,878	-	-	-	191,878
Shares to be issued	13	-	-	484,698	-	-	484,698
Stock options issued	11, 17	-	-	1,392,969	-	-	1,392,969
Conversion feature on convertible debt	9	-	-	151,281	-	-	151,281
Warrants issued on convertible debt	9	-	-	11,613	-	-	11,613
Income tax expense arising on accretion on convertible debt	18	-	-	(43,981)	-	-	(43,981)
Loss for the period		-	-	-	-	(2,376,384)	(2,376,384)
Other comprehensive income, net of income tax		-	-	-	(468,135)	-	(468,135)
Balance as at December 31, 2018		132,764,652	17,436,099	3,525,303	(236,648)	(13,942,537)	6,782,216
Balance as at July 1, 2017		128,777,096	17,196,975	1,560,969	514,268	(10,529,408)	8,742,804
Share issued on exercise of options	11	150,000	47,246	(32,246)	-	-	15,000
Loss for the period		-	-	-	-	(1,036,743)	(1,036,743)
Other comprehensive income, net of income tax		-	-	-	(282,781)	-	(282,781)
Balance as at December 31, 2017		128,927,096	17,244,221	1,528,723	231,487	(11,566,153)	7,438,277

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

Five Star Diamonds Limited

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

	Notes	Number of common shares	Issued capital \$	Reserves \$	Foreign currency translation reserve \$	Deficit \$	Total equity \$
Balance as at July 1, 2016		96,612,180	8,415,501	-	627,999	(3,209,154)	5,834,346
Shares issued under public offering	10	6,489,774	5,344,644	-	-	-	5,344,644
Shares issued under reverse takeover	10	17,815,480	1,946,932	-	-	-	1,946,932
Shares issued on exercise options	11	50,000	15,748	(10,748)	-	-	5,000
Shares issued in lieu of debt	17	997,078	295,558	-	-	-	295,558
Shares issued to consultants	17	3,184,497	947,042	-	-	-	947,042
Shares issued under anti-dilutive agreement	17	1,408,087	425,575	-	-	-	425,575
Shares issued under placement	10	2,220,000	640,715	-	-	-	640,715
Options issued to employees and consultants	11	-	-	1,300,280	-	-	1,300,280
Options issued to brokers and advisors	11	-	-	228,443	-	-	228,443
Revaluation of options issued to directors on reverse takeover	10	-	-	42,994	-	-	42,994
Share issue costs	10	-	(790,985)	-	-	-	(790,985)
Loss for the period		-	-	-	-	(7,268,094)	(7,268,094)
Other comprehensive income, net of income tax		-	(43,755)	-	(113,731)	(52,160)	(209,646)
Balance as at June 30, 2017		128,777,096	17,196,975	1,560,969	514,268	(10,529,408)	8,742,804

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

Five Star Diamonds Limited

Notes to Consolidated Financial Statements

For the twelve months ended December 31, 2018, the six months ended

December 31, 2017 and the twelve months ended June 30, 2017

(Expressed in Canadian Dollars)

1. Nature of Operations and Going Concern

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

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

On March 3, 2017, Turquoise received conditional approval from the TSX-V for the Qualifying Transaction. Following which Turquoise submitted its filing statement for the Merger Agreement to the TSX-V on March 29, 2017. On April 20, 2017, Turquoise, FSD BVI and FSD Holdings Limited (a wholly owned subsidiary of Turquoise incorporated on April 4, 2017 under the laws of the British Virgin Islands) finalized the RTO. To complete the Qualifying Transaction, FSD Holdings Limited and FSD BVI merged to form a single entity and the separate corporate existence of the FSD BVI ceased. FSD Holdings Limited became the owner of all rights and property of the two merged entities and subject to all liabilities, obligations and penalties of the two entities. All of the ordinary shares of FSD BVI outstanding immediately prior to the merger were cancelled and in exchange the holders of the cancelled ordinary shares received one common share in the capital of Turquoise for every share previously held. The resulting merged entity of FSD Holdings Limited became a wholly-owned subsidiary of Turquoise.

Post completion of the Qualifying Transaction, Turquoise changed its name to Five Star Diamonds Limited ("the Company"). The Company's common shares commenced trading on the TSX-V under the symbol "STAR" on April 25, 2017. Upon completion of the Transaction, the Company has focused on the exploration and development of its diamond projects located in Brazil.

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

These consolidated financial statements have been prepared under the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company has incurred ongoing losses and had a cumulative deficit of \$13,986,518 as at December 31, 2018 (December 31, 2017 - \$11,566,153; June 30, 2017: \$10,529,408). These material uncertainties cast significant doubt upon the Company's ability to continue as a going concern. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing, to commence profitable operations in the future, and repay its liabilities arising from normal business operations as they become due. These consolidated financial statements do not reflect any adjustments, which could be material, that may be necessary if the Company is unable to continue as a going concern.

2. Statement of Compliance

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

The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of May 1, 2019, the date the Board of Directors approved the statements.

Five Star Diamonds Limited

Notes to Consolidated Financial Statements

For the twelve months ended December 31, 2018, the six months ended December 31, 2017 and the twelve months ended June 30, 2017

(Expressed in Canadian Dollars)

3. Significant Accounting Policies

Basis of Preparation

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

Change in Financial Year End Date

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

Basis of Consolidation

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

Control is achieved when the Company:

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

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

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

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

Changes in the Company's ownership interest in existing subsidiaries

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

Five Star Diamonds Limited

Notes to Consolidated Financial Statements

For the twelve months ended December 31, 2018, the six months ended

December 31, 2017 and the twelve months ended June 30, 2017

(Expressed in Canadian Dollars)

3. Significant Accounting Policies (continued)

Changes in the Company's ownership interest in existing subsidiaries (continued)

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

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

All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Company had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit and loss or transferred to another category of equity as specified/permitted by the applicable IASBs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IASB 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Critical Accounting Estimates and Judgements

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

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

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

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

Five Star Diamonds Limited

Notes to Consolidated Financial Statements

For the twelve months ended December 31, 2018, the six months ended

December 31, 2017 and the twelve months ended June 30, 2017

(Expressed in Canadian Dollars)

3. Significant Accounting Policies (continued)

Functional Currency

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

Foreign Currency Translation

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

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

Determination of Fair Value

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

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

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

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

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

Five Star Diamonds Limited

Notes to Consolidated Financial Statements

For the twelve months ended December 31, 2018, the six months ended

December 31, 2017 and the twelve months ended June 30, 2017

(Expressed in Canadian Dollars)

3. Significant Accounting Policies (continued)

Financial Instruments

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

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

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

Classification	IAS 39	IFRS 9
Cash and cash equivalents	Loans and receivables	FVTPL
Other receivables and other assets	Loans and receivables	Amortized cost
Trade and other payables	Amortized cost	Amortized cost
Convertible debenture	Amortized cost	Amortized cost

As a result of the adoption of IFRS 9, the accounting policy for financial instruments as disclosed in the Company's December 31, 2018 consolidated financial statements has been updated as follows:

Financial assets

Financial assets are classified as either financial assets at FVTPL, amortized cost, or FVTOCI. The Company determines the classification of its financial assets at initial recognition.

i. Financial assets recorded at FVTPL

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

ii. Amortized cost

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

Financial liabilities are classified as either financial liabilities at FVTPL or at amortized cost. The Company determines the classification of its financial liabilities at initial recognition.

Five Star Diamonds Limited

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December 31, 2017 and the twelve months ended June 30, 2017
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3. Significant Accounting Policies (continued)

Financial Assets (continued)

iii. Amortized cost

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

iv. Financial liabilities recorded FVTPL

Financial liabilities are classified as FVTPL if they fall into one of the five exemptions detailed above.

Transaction costs

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

Subsequent measurement

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

Derecognition

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

Expected credit loss impairment model

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

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due. The Company considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Company in full or when the financial asset is more than 90 days past due.

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

Five Star Diamonds Limited

Notes to Consolidated Financial Statements

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December 31, 2017 and the twelve months ended June 30, 2017

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3. Significant Accounting Policies (continued)

Cash and Cash Equivalents

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

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

Other Receivables and Other Assets

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

Inventories

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

Evaluation and Exploration Costs

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

- the rights to tenure of the area of interest are current; and
- at least one of the following conditions is also met:

The exploration and evaluation expenditures are expected to be recouped through successful development and exploration of the area of interest, or alternatively, by its sale; or exploration and evaluation activities in the area of interest have not at the balance date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing. Exploration and evaluation assets are initially measured at cost and include acquisition of rights to explore, studies, exploratory drilling, trenching and sampling and associated activities and an allocation of depreciation and amortized of assets used in exploration and evaluation activities. General and administrative costs are only included in the measurement of exploration and evaluation costs where they are related directly to operational activities in a particular area of interest.

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

Property, Plant and Equipment

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

Five Star Diamonds Limited

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3. Significant Accounting Policies (continued)

Property, Plant and Equipment (continued)

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

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

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

Impairment

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

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

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

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

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

Derecognition and disposal

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

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

Impairment of Non-Financial Assets

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

Five Star Diamonds Limited

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3. Significant Accounting Policies (continued)

Impairment of Non-Financial Assets (continued)

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

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

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

Share-Based Compensation

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

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

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

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

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

Five Star Diamonds Limited

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3. Significant Accounting Policies (continued)

Income Taxes

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

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

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

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

Revenue Recognition

Revenue is measured at fair value of the consideration received or receivable. Revenue is recognized to the extent that it is probable that the economic benefits will flow to the company and the revenue can be measured reliably.

Interest income

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

Loss per Share

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

Accounts Payable and Accrued Liabilities

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

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3. Significant Accounting Policies (continued)

Issued Capital

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

Segment Reporting

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

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

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

Convertible Debenture

Compound financial instruments issued by the Company are comprised of convertible debt that can be converted to share capital at the option of the holder. The liability component of a compound financial instrument is recognized initially at the fair value which is equal to the net present value of future cash flows applying an interest rate at the date of issue of a similar liability that does not have an equity convertible option. The equity component is recognized initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest rate method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition. Interest, dividends, losses and gains relating to the financial liability are recognized in the consolidated statement of comprehensive loss.

Adopted Accounting Policies

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 adoption of IFRS 9 did not have a material impact on the consolidated financial statements.

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3. Significant Accounting Policies (continued)

Adopted Accounting Policies (continued)

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 currently has no revenue generated from operations. The adoption of IFRS 15 did not have a material impact 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.

4. Cash and Cash Equivalents

	December 31, 2018 \$	December 31, 2017 \$	June 30, 2017 \$
Cash at bank and on hand	206,895	1,043,888	3,029,431
	206,895	1,043,888	3,029,431

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

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

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5. Other Receivables and Other Assets

	December 31, 2018 \$	December 31, 2017 \$	June 30, 2017 \$
Advances	5,637	21,290	20,590
VAT receivable	17,253	13,799	37,794
Prepayments	-	32,500	97,500
	22,890	67,589	155,884

6. Property, Plant and Equipment

	Plant and equipment \$	Motor vehicles \$	Computer equipment \$	Furniture and fittings \$	Total \$
<i>Gross carrying amount</i>					
Balance at January 1, 2018	2,163,326	47,390	5,408	5,788	2,221,912
Foreign currency differences	(106,086)	(3,458)	(422)	(394)	(110,355)
Disposals	(59,754)	(43,937)	-	-	(103,691)
Balance at December 31, 2018	1,997,486	-	4,986	5,394	2,007,866
<i>Accumulated depreciation and impairment</i>					
Balance at January 1, 2018	(210,877)	(5,529)	(1,324)	(1,022)	(218,752)
Foreign currency differences	5,033	328	82	106	5,550
Depreciation expensed or capitalized	(96,962)	(4,458)	(545)	(695)	(102,660)
Disposals	16,673	9,659	-	-	26,332
Balance at December 31, 2018	(286,133)	-	(1,786)	(1,611)	(289,531)
<i>Carrying value</i>					
December 31, 2018	1,711,349	-	3,200	3,783	1,718,336
<i>Gross carrying amount</i>					
Balance at July 1, 2017	2,175,332	49,118	5,606	6,000	2,236,056
Foreign currency differences	(72,236)	(1,728)	(198)	(212)]	(74,374)
Additions	60,230	-	-	-	60,230
Balance at December 31, 2017	2,163,326	47,390	5,408	5,788	2,221,912

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Notes to Consolidated Financial Statements

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6. Property, Plant and Equipment (continued)

	Plant and equipment \$	Motor vehicles \$	Computer equipment \$	Furniture and fittings \$	Total \$
Accumulated depreciation and impairment					
Balance at July 1, 2017	(168,154)	-	(878)	(794)	(169,826)
Foreign currency differences	7,350	232	53	39	7,674
Depreciation expensed or capitalized	(50,072)	(5,761)	(499)	(267)	(56,599)
Balance at December 31, 2017	(210,877)	(5,529)	(1,324)	(1,022)	(218,751)
Carrying value					
December 31, 2017	1,952,449	41,861	4,084	4,766	2,003,161
<i>Gross carrying amount</i>					
Balance at July 1, 2016	2,114,973	60,446	4,842	4,221	2,184,482
Foreign currency differences	(46,713)	(1,042)	(162)	(192)	(48,109)
Additions	107,072	51,433	926	1,971	161,402
Disposals	-	(61,719)	-	-	(61,719)
Balance at June 30, 2017	2,175,332	49,118	5,606	6,000	2,236,056
Accumulated depreciation and impairment					
Balance at July 1, 2016	(61,453)	(13,096)	(295)	(391)	(75,235)
Foreign currency differences	5,895	696	34	28	6,653
Depreciation expensed or capitalized	(112,596)	(8,229)	(617)	(431)	(121,873)
Disposals	-	20,629	-	-	20,629
Balance at June 30, 2017	(168,154)	-	(878)	(794)	(169,826)
Carrying value					
June 30, 2017	2,007,178	49,118	4,728	5,206	2,066,230

Plant and equipment as at June 30, 2017 includes \$991,863 of a plant which is not yet operational and therefore is not depreciated. During the year ended June 30, 2017, \$92,781 of depreciation was capitalized to the deferred exploration and evaluation expenditures. Plant, equipment and motor vehicles as at December 31, 2018 includes \$887,241 (December 31, 2017: \$956,971) of a plant which is not yet operational and therefore is not depreciated. During the year ended December 31, 2018, \$75,832 (December 31, 2017: \$42,649) of depreciation was capitalised to the deferred exploration and evaluation expenditures.

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7. Deferred Exploration and Evaluation Expenditure

<i>Costs carried forward in respect of:</i>	December 31, 2018	December 31, 2017	December 31, 2017
<i>Exploration and evaluation phase – at cost</i>	\$	\$	\$
Balance at beginning of period	5,058,960	4,128,049	2,606,700
Expenditure incurred	1,120,128	1,111,901	1,647,035
	6,179,088	5,239,950	4,253,735
Transferred to development expenditure			
Foreign currency differences	43,754	(180,990)	(125,686)
Expenditure written off	(119,926)	-	-
Total exploration and evaluation expenditure	6,102,916	5,058,960	4,128,049

The Company has one material project, the Catalão Diamond Project, located in the State of Goiás, Brazil. The Catalão Diamond Project is comprised of one exploration license of 1,999.42 hectares.

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

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

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

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

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8. Trade and Other Payables

	December 31, 2018	December 31, 2017	June 30, 2017
	\$	\$	\$
Trade payables (i)	282,898	511,103	560,592
Accrued expenses	176,866	250,957	103,912
Shares yet to be Issued	312,582	-	-
	772,347	762,060	664,504

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

9. Convertible Debentures

In August 2018, the Company completed non-brokered private placement of 653 convertible debenture units (the "Convertible Debenture Units") for \$653,000 at a price of \$1,000 per Convertible Debenture Unit with its largest shareholder, R&R Venture Partners ("R&R"), (the "Offering"). Each Convertible Debenture Unit consisted of: (i) one \$1,000 principal amount of 12% unsecured convertible debenture (a "Convertible Debenture"); and (ii) 500 Common Share purchase warrants (each, a "Warrant") of the Company.

The proceeds of the Convertible Debenture Units were used in the drilling program at Catalao and for working capital.

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

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

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

The Convertible Debentures are convertible at the option of the holder into Common Shares at any time prior to the close of business on the Maturity Date at a conversion price of \$0.20 per Common Share (the "Conversion Price"). Each Warrant will be exercisable to acquire one Common Share (a "Warrant Share") at an exercise price of \$0.20 per Warrant for a period of 36 months following issuance, subject to customary adjustments in certain events.

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

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9. Convertible Debentures (continued)

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

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

10. Issued Capital

(a) Issued and paid up capital

	December 31, 2018 \$	December 31, 2017 \$	June 30, 2017 \$
Ordinary shares fully paid	17,436,099	17,244,221	17,196,975

(b) Common share issued

	Number of common shares	Amount \$
Balance, July 1, 2016	96,612,180	8,415,501
Five Star Diamonds Limited shares on issue at acquisition (note 16)	6,489,774	1,946,932
Shares issued under public offering	17,815,480	5,344,644
Shares issued on exercise options	50,000	15,748
Shares issued in lieu of debt (note 17(f))	997,078	295,558
Shares issued to consultants (note 17(b))	3,184,497	947,042
Shares issued under anti-dilutive agreement (note 17(e))	1,408,087	425,575
Shares issued under placement	2,220,000	640,715
Transaction costs on share issue	-	(790,985)
Exchange differences on translation of foreign operations	-	(43,755)
Balance, July 1, 2017	128,777,096	17,196,975
Shares issued on exercise of options (note 11)	150,000	47,246
Balance, December 31, 2017	128,927,096	17,244,221
Shares issued to settle debt (note 16 (c))	3,837,556	191,878
Balance, December 31, 2018	132,764,652	17,436,099

Five Star Diamonds Limited

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10. Issued Capital (continued)

(c) Common shares

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

(d) Capital risk management

The Company's capital comprises share capital and reserves less accumulated losses. As at 31 December 2018, the Company has net assets of \$6,782,216 (December 31, 2017: \$7,438,277; June 30, 2017: \$8,742,804). The Company manages its capital to ensure its ability to continue as a going concern and to optimize returns to its shareholders. The Company has no externally imposed capital requirements. There were no changes during the year. Refer to note 19 for further information on the Company's financial risk management policies.

11. Share Options

The following table reflects the continuity of stock options for the period ended December 31, 2018:

	Number of Stock Options	Weighted Average Exercise Price \$	Weighted Average Remaining Contractual Life (years)
Balance – July 1, 2017	5,150,000	0.35	1.81
Exercised – July 25, 2017	(50,000)	0.1	0.22
Exercised – October 3, 2017	(100,000)	0.1	0.45
Balance – December 31, 2017	5,000,000	0.36	1.34
Issued – February 12, 2018	6,670,000	0.3	4.12
Issued – April 25, 2018	1,200,000	0.3	4.32
Balance – December 31, 2018	12,870,000	0.32	2.67

As at December 31, 2018, there are 12,870,000 unissued common shares under options. The details of the options are as follows:

Number of Options Outstanding	Exercise Price \$	Expiry Date	Remaining Contractual Life (years)	Number of Options Vested	Grant Date Fair Value \$
5,000,000	\$0.36	05/05/2019	0.34	5,000,000	1,300,280
6,670,000	\$0.30	12/02/2023	4.12	6,670,000	1,258,211
1,200,000	\$0.30	25/04/2023	4.32	1,200,000	134,758

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(Expressed in Canadian Dollars)

11. Share Options (continued)

The fair value at grant date of options granted of \$1,258,211 on February 12, 2018 was determined using the Black Scholes option pricing model. The following weighted average assumptions were used: share price - \$0.24; dividend yield - 0%; expected volatility (based on historical price data of similar companies) - 114.3%; risk-free interest rate - 1.98%; and an expected life - 5 years. The options vested immediately and \$1,258,211 was expensed in the consolidated statement of income (loss) as at year ended December 31, 2018.

The fair value at grant date of options granted of \$134,758 on April 25, 2018 was determined using the Black Scholes option pricing model. The following weighted average assumptions were used: share price - \$0.155; dividend yield - 0%; expected volatility (based on historical price data of similar companies) - 112%; risk-free interest rate - 2.12%; and an expected life - 5 years. The options vested immediately and \$134,758 was expensed in the consolidated statement of income (loss) as at year ended December 31, 2018.

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

12. Warrants

The following table reflects the continuity of warrants for the period ended December 31, 2018:

	Number of Warrants	Weighted Average Exercise Price \$	Weighted Average Remaining Contractual Life (years)
Balance – July 1, 2017	1,343,960	0.30	1.81
Balance – December 31, 2017	1,343,960	0.30	1.30
Issued – August 2, 2018	326,500	0.04	0.51
Balance – December 31, 2018	1,670,460	0.28	0.75

There were 326,500 warrants issued during the year ending December 31, 2018. See Note 9.

As at December 31, 2018, there are 1,670,460 warrants outstanding as follows:

Number of Warrants Outstanding	Exercise Price \$	Expiry Date	Remaining Contractual Life (years)	Number of Warrants Vested	Grant Date Fair Value \$
1,343,960	\$0.30	20/04/2019	0.3	1,343,960	228,443
326,500	\$0.20	02/08/2021	2.59	326,500	11,613

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13. Reserves

	December 31, 2018 \$	December 31, 2017 \$	June 30, 2017 \$
Share based payments reserve	3,569,284	1,528,723	1,560,969
Foreign currency translation reserve	(236,648)	231,487	514,248
	3,332,636	1,760,210	2,075,237
Movements in Reserves:	12 months ended December 31, 2018	6 months ended December 31, 2017	12 months ended June 30, 2017
<i>Share based payment reserve</i>			
At beginning of the period	1,528,723	1,560,969	-
Share options issued to employees and consultants	1,392,969	-	1,300,280
Share options issued to brokers and advisors	-	-	228,443
Conversion feature on convertible debt	151,281	-	-
Warrants issued on convertible debt	11,613	-	-
Shares yet to be issued for services	484,698	-	-
Revaluation of options issued to directors	-	-	42,944
Valuation variance on exercise of options	-	(32,246)	(10,748)
Balance at the end of the period	3,569,284	1,528,723	1,560,969

14. Net Loss per Common Share

	12 months ended December 31, 2018 \$	6 months ended December 31, 2017 \$	12 months ended June 30, 2017 \$
Loss used in calculating basic and dilutive loss per share	(2,420,365)	(1,036,743)	(7,268,094)
Weighted average number of common shares used in calculating basic and diluted loss per share:	129,032,235	128,888,603	104,168,542

There are no dilutive shares in 2017 and as at December 31, 2018.

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15. Related Party Disclosures

a) Key Management Personnel

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

	December 31, 2018 \$	December 31, 2017 \$	June 30, 2017 \$
Short term employee benefits	1,578,000	327,838	624,497
Total remuneration	1,578,000	327,838	624,497

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 year 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.

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15. Related Party Disclosures (continued)

a) Key Management Personnel (continued)

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 totaling \$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.

Other transactions with Key Management Personnel

FFA Legal Ltd, a company in which Mr. Azevedo is a director, provided the Company with legal and accounting services in Brazil totaling \$128,482 (December 31, 2017: \$141,211; June 30, 2017: \$299,515) of which consultant fees are paid. \$nil was outstanding at December 31, 2018 (December 31, 2017: \$nil; July 30, 2017: \$nil).

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

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

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

Name	Number	Value
Jeremy South	1,000,000	\$ 112,298
Jo-Anne Archibald	100,000	\$ 11,230
Gizman Abbas	100,000	\$ 11,230

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15. Related Party Disclosures (continued)

b) Subsidiaries

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

Name of Entity	Country of Incorporation	Equity Holding	
		Dec-18	Dec-17
FSD Holdings Limited	BVI	100%	100%
FSD Brazil Limited	BVI	100%	100%
Five Star Mineração Ltda	Brazil	100%	100%
1030301 BC Ltd	Canada	100%	100%
Diamond Blockchain Limited	Canada	100%	0%

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

16. Reverse Takeover

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

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

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

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

IFRS 2, Share-based Payment, applies to transactions where an entity grants equity instruments and cannot identify specifically

some or all of the goods or services received in return. Because FSD BVI would have issued shares with a value in excess of the assets received, the difference is recognized in comprehensive loss as a transaction cost. The amount assigned to the transaction cost of \$2,027,997 is the difference between the fair value of the consideration and the net identifiable assets of Turquoise acquired by FSD BVI and included in the consolidated statements of loss and comprehensive loss.

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16. Reverse Takeover (continued)

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

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

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

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

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

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16. Reverse Takeover (continued)

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

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

17. Share Based Payments

(a) Recognized share based payment transactions

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

	December 31, 2018	December 31, 2017	June 30, 2017
	\$	\$	\$
<i>Operating expenses</i>			
Share based payments to consultants (refer to note 17 (b))			947,040
Share based payments under anti-dilutive agreement (refer to note 17 (e))			425,575
Share based payments to employees and consultants (refer to note 17 (c))	1,392,968	-	1,170,252
	1,392,968	-	2,542,867
<i>Deferred exploration and evaluation expenditure</i>			
Share based payments to exploration employees and consultants (refer to note 17 (c))	-	-	130,028
	-	-	130,028
<i>Fundraising costs</i>			
Share based payments to consultants capitalised against fundraising costs (refer to note 17 (b))	-	-	14,801
Share based payments to brokers and advisors capitalised against fundraising costs (refer to note 17 (d))	-	-	228,443
	-	-	243,244
<i>Trade and other payables</i>			
Share based payments to settle debt (refer to note 17 (f))	191,878	-	295,558
	191,878	-	295,558

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17. Share Based Payments (continued)

(b) Share based payments to consultants

On April 13, 2017, the Company issued to ATMACorp Ltd, a company of which Mr. Waraich is a director, 842,599 fully paid ordinary shares, Wander Consulting Ltd 900,000 fully paid ordinary shares, Maxit Capital LP 250,000 fully paid ordinary shares and Concept Capital Management Ltd 1,000,000 fully paid ordinary shares in satisfaction of

corporate advisory services provided. The fair value of the shares was determined to be \$904,471 by reference to the proposed public offering to be completed as part of the RTO.

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

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

(c) Share based payments to employees and consultants

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

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

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

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. See note 11. 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. See note 11. The options vested immediately on issue.

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

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17. Share Based Payments (continued)

(c) Share based payments to employees and consultants (continued)

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

(a) options are granted for no consideration;

(b) share price at revaluation date was \$0.43;

(c) expected volatility of 110%;

(d) expected dividend yield of nil; and

(e) a risk free interest rate of 0.75%.

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

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

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

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

(e) Share based payments under anti-dilutive agreement

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

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17. Share Based Payments (continued)

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

On February 10, 2017, the Company issued 997,078 fully paid ordinary shares and 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	December 21, 2018	February 10, 2017
	Shares Issued	
ATMA Capital Markets - Consultant	595,505	-
Mr. Manvel Bagratyan – Consultant	143,770	52,560
Mr. Joseph Burke - Consultant		65,701
Helston Capital Corp. - Consultant	314,616	-
Wanderer Consulting - Consultant	37,357	
Mr. Simon Rothschild – Director	-	60,592
Mr. Brian McMaster – Director	-	175,201
Mr. Matthew Wood – Director	1,373,248	397,742
Mr. Luis Azevedo – Director	576,128	245,282
FFA Legal - Consultant	796,932	-

The fair value of the shares was determined to be \$191,878 by being the value of the Trade Payables converted to equity. The value of the debt settled totaled \$767,571 and the Company recorded a gain of \$575,633. See Note 15.

18. Income Tax

The legal parent of the consolidated group is Five Star Diamonds Limited, a Canadian entity which is subject to the combined Canadian federal and provincial statutory income tax rate of 27%. Reconciliation of the combined statutory income tax rate of 27% (December 31, 2017 – 26%) to the effective tax rate is as follows:

	December, 31 2018	December, 31 2017	June, 30 2017
	\$	\$	\$
Net loss for the period	(2,420,365)	(1,036,743)	(7,268,094)
Expected income tax (recovery) expense	(653,500)	(269,550)	(1,926,045)
Difference in foreign tax rate	-	(9,270)	-
Loss subject to 0% tax rate	(51,487)	4,750	816,743
Tax rate changes and other adjustments	505,927	11,660	52,045
Non-deductible expenses	-	-	375,307
Other – Prior period adjustment	-	35,020	-
Capitalized share issue costs	-	-	137,749
Change in tax benefits not recognized	155,079	227,390	544,201
Income tax expense/ (recovery)	(43,981)	-	-

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For the twelve months ended December 31, 2018, the six months ended

December 31, 2017 and the twelve months ended June 30, 2017

(Expressed in Canadian Dollars)

18. Income Tax (continued)

	December, 31	December, 31	June, 30
	2018	2017	2017

The Company's income tax expense / (recovery) is allocated as follows:

Current tax expense / (recovery)	-	-	-
Deferred tax expense / (recovery)	(43,981)	-	-

Deferred Tax

The following table summarizes the components of deferred tax:

Deferred Tax Asset			
Non-capital losses carried forward	56,658	-	-
Deferred Tax Liabilities			
Property, plant and equipment	(14,199)	-	-
Convertible debenture	(42,459)	-	-
Net Deferred Tax Asset	-	-	-

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the

Movement in net deferred tax liabilities:

	December 31,	December 31,	June 30,
	2018	2017	2017
	\$	\$	\$
Balance at the beginning of the year	-	-	-
Recognized in profit/loss	(43,981)	-	-
Recognized in OCI	-	-	-
Recognized in equity	43,981	-	-
Balance at the end of the year	-	-	-

Unrecognized deferred tax assets

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

Canadian non-capital losses carried forward	1,879,060	1,669,350	772,860
Foreign non-capital losses carried forward	1,343,280	1,049,040	911,530
Deferred financing costs	445,530	595,150	666,110
Other temporary differences	119,930	22,390	101,070

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18. Income Tax (continued)

Share issue and financing costs will be fully amortized in 2021. The remaining deductible temporary differences may be carried forward indefinitely. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilize the benefits therefrom.

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

Year	Total
2037	1,373,230
2038	715,680
	<u>2,088,910</u>

19. Financial Instruments

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

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

Market Risk

Foreign exchange risk

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

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

	As at 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)

	As at December 31, 2017				
	BRL in CAD	AUD in CAD	GBP in CAD	USD in CAD	CAD
Cash and cash equivalents	67,166	69,914	-	6,635	900,174
Accounts payable & accrued liabilities	(128,554)	(13,690)	(46,790)	(444,532)	(128,494)

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For the twelve months ended December 31, 2018, the six months ended

December 31, 2017 and the twelve months ended June 30, 2017

(Expressed in Canadian Dollars)

19. Financial Instruments (continued)

Market Risk (continued)

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

Sensitivity

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.

Cash flow fair value interest rate risk

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

Credit Risk

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

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

Liquidity Risk

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

At December 31, 2018, the Company had negative net working capital of \$517,767 (December 31, 2017: Positive net working capital of \$376,156; June 30, 2017: 2,548,525). Furthermore, as at December 31, 2018 the long-term debt carried by the Company was \$521,269.

Fair Value Estimation

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

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19. Financial Instruments (continued)

Capital Management

The Company defines capital that it manages as its shareholders' equity. The Company's objectives when managing capital are to safeguard its ability to continue as a going concern and provide increased shareholder value. As at December 31, 2018, the total managed capital was \$17,436,099.

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

20. Subsequent Events

On March 20, 2019 Five Star Diamonds Limited (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 company, the results of those operations, or the state of affairs of the Company in future financial years.