

**FIVE STAR DIAMONDS LIMITED**  
(formerly Turquoise Capital Corp.)

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

The following Management's Discussion & Analysis ("MD&A") of Five Star Diamonds Limited (the "Company" or "Five Star") for the year ended December 31, 2019 constitutes management's review of the factors that affected the Company's financial and operating performance for the year ended December 31, 2019.

This MD&A has been prepared in compliance with section 2.2.1 of Form 51-102F1, in accordance with National Instrument 51-102 – Continuous Disclosure Obligations. This discussion should be read in conjunction with the year ended December 31, 2018 MD&A, audited consolidated financial statements of the Company for the year ended December 31, 2019 and 2018, together with the notes thereto. Results are reported in Canadian dollars, unless otherwise noted. The Company's consolidated financial statements and the financial information contained in this MD&A are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and interpretations of the IFRS Interpretations Committee ("IFRIC"). Information contained herein is presented as of June 5, 2020, unless otherwise indicated.

For the purposes of preparing this MD&A, management, in conjunction with the Board of Directors (the "Board"), considers the materiality of information. Information is considered material if: (i) such information results in, or would reasonably be expected to result in, a significant change in the market price or value of Five Star common shares; (ii) there is a substantial likelihood that a reasonable investor would consider it important in making an investment decision; or (iii) it would significantly alter the total mix of information available to investors. Management, in conjunction with the Board, evaluates materiality with reference to all relevant circumstances, including potential market sensitivity.

Further information about the Company and its operations can be obtained from the offices of the Company or from [www.sedar.com](http://www.sedar.com).

**Caution Regarding Forward-Looking Statements**

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

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

Forward-looking statements	Assumptions	Risk factors
The Company will be able to continue its business activities.	The Company has anticipated all material costs and the operating activities of the Company, and such costs and activities will be consistent with the Company's current expectations; the Company will be able to obtain equity funding when required.	Unforeseen costs to the Company will arise; any particular operating cost increase or decrease from the date of the estimation; and capital markets not being favourable for funding resulting in the Company not being able to obtain financing when required or on acceptable terms.
The Company will be able to carry out anticipated business plans.	The operating activities of the Company for the year ending December 31, 2019, will be consistent with the Company's current expectations.	Sufficient funds not being available; increases in costs; the Company may be unable to retain key personnel; government regulations will change in a negative manner towards exploration activities for junior mining companies.

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

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

### Description of Business

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

The records and registered office of the Company is located at 595 Howe St, Suite 704, Vancouver, British Columbia V6C 2T5. The Company has five subsidiaries; FSD Holdings Limited (incorporated in the British Virgin Islands), FSD Brazil Limited (incorporated in the British Virgin Islands), Five Star Mineração Ltda. (incorporated in Brazil), 1030301 BC Ltd (incorporated in Canada) and Diamond Blockchain Limited (incorporated in Canada).

On September 9, 2016 the Company signed a definitive merger agreement (the "Merger Agreement") with FSD Holdings Limited (formerly Five Star Diamonds Limited), a corporation existing under the laws of the British Virgin Islands ("FSD BVI"), which sets out the terms and conditions pursuant to which the Company and FSD BVI were to complete a transaction that will result in a reverse takeover of the Company by the shareholders of FSD BVI (the "Transaction") and constitute the Company's Qualifying Transaction under the TSX Venture Exchange (the "TSXV") Policy 2.4 – Capital Pool Companies. Upon completion of the Transaction, it is the intention of the parties that Five Star company will focus on the exploration and development of FSD BVI's diamond projects located in Brazil.

FSD BVI was incorporated on May 15, 2014 under the laws of the British Virgin Islands with focus on the business of mining, mineral and resource exploration and development in Brazil. Currently, FSD BVI has one material project, the Catalão Diamond Project, located in the State of Goiás, Brazil. The Catalão Diamond Project is comprised of one exploration licence of 1,999.42 hectares. FSD BVI holds its interest in the Catalão Diamond Project through its Brazilian subsidiary.

On March 3, 2017, the Company received conditional approval from the TSX Venture Exchange for the Qualifying Transaction. Following which the Company submitted its filing statement for the Merger Agreement to the TSX Venture Exchange on March 29, 2017.

On April 20, 2017, the Company, FSD BVI and FSD Holdings Limited (a wholly owned subsidiary of FSD BVI) finalised the Merger Agreement. To complete the merger, FSD Holdings Limited and FSD BVI merged to form a single entity and the separate corporate existence of FSD BVI. FSD Holdings Limited became the owner of all rights and property of the two merged entities and subject to all liabilities, obligations and penalties of the two entities. All of the ordinary shares of FSD BVI outstanding immediately prior to the merger were cancelled and in exchange the holders of the cancelled ordinary shares received one common share in the capital of the Company for every share previously held. An aggregate of 101,287,345 common shares were issued to the former shareholders of FSD BVI. The resulting merged entity of FSD Holdings Limited became a wholly-owned subsidiary of the Company. As a result of the merger, FSD BVI was subsequently struck off.

In connection with the completion of the Transaction, the Company completed a private placement (the "Offering") of 17,815,480 common shares at a price of \$0.30 per share for aggregate gross proceeds of \$5,344,644. In connection with the Offering, the Company provided compensation to registered brokers, registered dealers and other finders comprised of an aggregate of \$403,185 in cash and an aggregate of 1,343,960 non-transferable common share purchase warrants, with each whole warrant entitling holder to acquire one Common Share at a price of \$0.30 per share for a period of two years from the date of issuance. Following completion of the Transaction and the Offering, the Company has 128,777,096 common shares issued and outstanding and securities convertible into an aggregate of 1,543,950 additional common shares.

On closing of the Transaction, the Company changed its name from Turquoise Capital Corp. to Five Star Diamonds Limited and all of the prior directors and officers of the Company resigned and were replaced.

On April 25, 2017 the common shares commenced trading on the TSXV under the new ticker symbol "STAR".

### **Corporate Highlights**

During the year ended December 31, 2019 to the date of this MD&A, the following corporate activities occurred:

On March 25, 2019, the Company announced that it has entered into a binding letter of intent between the Company and Spirit Banner II Capital Corp. ("SB2") to complete a proposed transaction whereby SB2 would acquire the Company's diamond projects in Brazil.

On September 26, 2019, the Company announced that both parties (SB2 and the Company) had been unable to negotiate the terms of a definitive agreement satisfactory to both parties and consequently have mutually decided to terminate the Letter of intent and abandon the Transaction.

On August 27, 2019, the Company announced that the Company has appointed Ms. Solongo Gunsendorj to the Company's Board as a Director and resignation of Mr. Aneel Waraich and Mr. Nicolas Pike from the Board of Directors. On November 4, 2019 Jeremy South was appointed to the Board.

On November 4, 2019, the Company announced that it has entered into agreements to acquire a 100% interest in below two highly prospective porphyry copper projects in southern. Due to COVID-19 the completion of these acquisitions has been delayed.

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

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

Completion of the acquisitions is subject to approval of the TSX Venture Exchange.

On December 5, 2019 the Company announced that Board of Directors of the Company had approved a proposed name change of the Company to "Aranjin Resources Ltd". The name change is expected to take effect in June 2020.

On February 26, 2020, the Company has announced that it has issued Common Shares in payment of drilling services provided to the Company pursuant to a drilling for shares arrangement previously announced on April 17, 2018. The Company settled an aggregate amount of \$484,698 owing to the drilling contractor for drilling completed on the Company's Brazilian diamond properties through the issuance of 9,693,960 Common Shares at a deemed issuance price of \$0.05 per Common Share, all in accordance with the drilling contract entered into between the Company and the drilling contractor.

On June 3, 2020 the Company announced a non-brokered private placement of up to 66,666,666 units of the Company at an offering price of \$0.015 per unit for gross proceeds of up to \$1,000,000. Each unit will be comprised of one common share of the Company and one common share purchase warrant with each warrant exercisable for one common shares at a price of \$0.05 per share for a period of 12 months from closing. The proceeds from the offering will be used for exploration activities on the Company's mineral projects and for general working capital purposes.

## **Trends**

Management regularly monitors economic conditions and estimates their impact on the Company's investments and incorporates these estimates in both short-term operating and longer-term strategic decisions. During the year ended December 31, 2019 and to the date of this MD&A, equity markets in the junior resource sector, particularly the TSXV, have been very difficult and this was compounded by the COVID-19 pandemic. However, companies with good projects continue to access the capital markets to fund their operations.

Apart from these factors and the risk factors noted under the heading "Risk Factors" below, management is not aware of any other trends, commitments, events or uncertainties that would have a material effect on the Company's business, financial condition or results of operations.

## **Diamond Projects**

The Company owns a 100% interest in five diamond projects, all of which are located in Brazil - Catalão, Riachão, Maravilha, Jaibaras and Alecrim. The Company's principal project is the Catalão Project. There was no drilling activity at any of the projects in the year ended December 31, 2019.

## **Financial Highlights**

The following tables set forth selected audited consolidated financial information of the Company as at and for the periods indicated. This financial information is derived from, and should be read in conjunction with, the consolidated financial statements of the Company for the years ended December 31, 2019 and 2018 and the notes thereto. Financial information presented below is prepared in accordance with accounting policies in accordance with IFRS unless otherwise stated.

**Balance sheet review**

	As at	
	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Total Assets	\$1,170,897	\$8,075,832
Cash	\$10,391	\$206,895
Current Liabilities	\$1,045,316	\$772,346
Total Liabilities	\$1,672,267	\$1,293,615
Shareholders' Equity	(501,370)	6,782,217

On December 31, 2019, the Company's total assets were \$1,170,897 (December 31, 2018: \$8,075,832), comprising of cash of \$10,391 (December 31, 2018: \$206,895). Key movements on the balance sheet are as follows:

- The decrease in assets resulted from the write down of Deferred exploration and evaluation expenditures based on impairment test conducted by management.
- The Company's total assets included other receivables of \$9 (December 31, 2018: \$22,890) which related to tax receivables. Inventory on hand was \$25,081 (December 31, 2018: \$24,795).
- Total liabilities of \$1,672,267 as at December 31, 2019 increased from \$1,293,615 as at December 31, 2018 due to normal business activities.

**Income statement review**

	<u>Three months ended</u>		<u>Twelve months ended</u>	
	<u>December 31, 2019</u>	<u>December 31, 2018</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Net Loss	(\$5,948,423)	\$370,129	(\$6,756,924)	(\$2,376,384)

**Year ended December 31, 2019 compared to year ended December 31, 2018****Three months ended December 31, 2019 compared to three months ended December 31, 2018**

During the three months ended December 31, 2019, the Company incurred a net loss of \$5,948,423 (three months ended December 31, 2018: net income of \$370,129). The expenses for the three months ended December 31, 2019, include the following material items:

- Legal fees decreased in the three months ended December 31, 2019, to \$10,092 compared with \$174,059 for the same period in 2018, primarily due to less business activity.
- Share based payments decreased in the three months ended December 31, 2019, to \$nil compared with \$1,392,968 for the same period in 2018.
- Financing costs increased in the three months ended December 31, 2019, to \$26,994 compared with \$20,264 expenses for the same period in 2018, due to accrued interest expense for convertible debentures.
- During the three months ended December 31, 2019, the Company has written off the deferred exploration and evaluation expenses of \$5,830,102 due to result from the impairment test conducted by management.

**Twelve months ended December 31, 2019 compared to twelve months ended December 31, 2018**

During the twelve months ended December 31, 2019, the Company incurred a net loss of \$6,756,924 (twelve months ended December 31, 2018: \$2,376,384). The expenses for the year ended December 31, 2019, include the following material items:

- Legal fees decreased in the twelve months ended December 31, 2019, to \$37,289 compared with \$208,175 for the same

period in 2018, due to the Company had less activity during fiscal year 2019.

- Consultant and director fees decreased in the twelve months ended December 31, 2019, to \$81,900 compared with \$718,384 for the same period in 2018, as the Company had less activity during fiscal year 2019.
- Financing costs increased in the twelve months ended December 31, 2019, to \$105,682 compared with \$39,115 expenses for the same period in 2018, due to accrued interest expense for Convertible debentures.
- Share based payments decreased in the twelve months ended December 31, 2019, to \$nil compared with \$1,392,968 for the same period in 2018.
- Advertising and marketing costs decreased in the twelve months ended December 31, 2019, to \$8,070 compared with \$82,784 expenses for the same period in 2018, due to overall operation was limited in 2019.
- Travel and accommodation expenses decreased in the twelve months ended December 31, 2019, to \$181 compared with \$71,974 expenses for the same period in 2018, due to there was limited business activity in 2019.
- Other expenses decreased in the twelve months ended December 31, 2019, to \$5,350 compared with \$137,429 expenses for the same period in 2018, due to there was limited business activity in 2019.
- In 2019, the Company has written off the deferred exploration and evaluation expenses of \$5,830,102 due to result from the impairment test conducted by management.
- During the twelve months ended December 31, 2019, the Company had gain on debt settlement of \$nil compared to gain on debt settlement of \$575,633 to employees and consultants' fees during the twelve months ended December 31, 2018.

### **Cash Flow**

Net cash used in operating activities for the year ended December 31, 2019 was \$101,207 (year ended December 31, 2018: \$887,891). Operating activities were affected by payments to suppliers and employees of \$101,419, interest received of \$93 and other receipts of \$119.

Net cash used in investing activities during the year ended December 31, 2019, was \$111,417 (year ended December 31, 2018: \$594,825).

Net cash from financing activities were \$16,120 for the year ended December 31, 2019 (year ended December 31, 2018: \$645,723).

The Company believes that additional financing will be required to fund its projects.

### **Liquidity and Financial Position**

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

The Company has no operating revenues and therefore must utilize its current cash reserves, funds obtained from the issuance of share capital, exercise of stock options and other financing transactions to maintain its capacity to meet ongoing operating activities. As of December 31, 2019, the Company had 132,764,652 common shares issued and outstanding and 5,970,000 options and 326,500 warrants that would raise \$1,856,300 if exercised in full. This is not anticipated in the immediate future. See "Trends" above.

Trade and other payables increased to \$1,029,196 at December 31, 2019, compared to \$772,346 at December 31, 2018, and consist of amounts that are to be extinguished or exchanged for shares in due course. The Company's cash and cash equivalents as of December 31, 2019 is not sufficient to pay these liabilities and further fundraising will be required.

At December 31, 2019, the Company had negative working capital of \$1,009,835, compared to a negative working capital of \$517,767 at December 31, 2018, a decrease of \$492,068 or approximately 95%. The Company had cash and cash equivalents of \$10,391 at December 31, 2019, compared to \$206,895 at December 31, 2018, a decrease of \$196,504, or approximately 95%. The decrease in working capital and cash and cash equivalents can be attributed to the Company's exploration program and operating expenses.

The Company's liquidity risk from financial instruments is minimal as excess cash is held in current bank accounts.

The Company has reviewed its discretionary administrative overhead for the following twelve months and anticipates the requirement to be approximately \$0.5 million. In addition, the Company estimates the bulk sampling and work programs at its projects to cost approximately \$1 million.

The Company will continue to monitor its working capital requirements closely to ensure the Company meets its commitments and continues to move forward on development. Although the Company has been successful in raising funds to date, there can be no assurance that adequate funding will be available in the future, or under terms favourable to the Company. See "Risk Factors" below and "Forward Looking Statements" above.

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

#### *Debt for Equity Settlement*

As at reporting date, the Company has intention to settle further residual amounts owing to certain officers, directors and service providers of the Company and certain outstanding debt of the Company through the issuance of common shares of the Company.

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

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

On February 26, 2020 the Company announced that it has issued Common Shares in payment of drilling services provided to the Company pursuant to a drilling for shares arrangement previously announced on April 17, 2018. The Company settled an aggregate amount of \$484,698 owing to the drilling contractor for drilling completed on the Company's Brazilian diamond properties through the issuance of 9,693,960 Common Shares at a deemed issuance price of \$0.05 per Common Share, all in accordance with the drilling contract entered into between the Company and the drilling contractor.

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

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

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

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

The Convertible Debentures are convertible at the option of the holder into Common Shares at any time prior to the close of - 9 - business on the Maturity Date at a conversion price of \$0.20 per Common Share (the "Conversion Price"). Each Warrant will be

exercisable to acquire one Common Share (a "Warrant Share") at an exercise price of \$0.20 per Warrant Share for a period of 36 months following issuance, subject to customary adjustments in certain events.

### **Related Party Transactions**

Related party transactions conducted in the normal course of operations are measured at the exchange value (the amount established and agreed to by the related parties). The terms and conditions of the transactions with key management personnel and their related parties were no more favourable than those available, or which might reasonably be expected to be available, to similar transactions to non-key management personnel related entities on an arm's length basis.

Related parties include members of the board of directors, close family members and enterprises that are controlled by these individuals as well as certain persons performing similar functions.

Mr. Matthew Wood as Chief Executive Officer and Director incurred fees of \$nil (December 31, 2018: \$243,898). On December 21, 2018 Matthew 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 as at year ended December 31, 2019 (December 31, 2018 : \$nil)

Mr. Luis Azevedo, Chief Operating Officer incurred fees of \$nil (December 31, 2018: \$108,939). 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 as at year ended December 31, 2019 (December 31, 2018 : \$nil). . As at December 31, 2019, \$16,120 of loan was due to Mr. Azevedo and was recorded as a short term loan payable. The loan is repayable one year from the date of the receipt of the loan, bearing interest of 5% per annum. During the year, the Company sold \$8,751 of its exploration and evaluation assets to Mr. Azevedo.

ATMA Corp Ltd, a company in which Mr. Waraich is a director, is a personal services company into which Mr. Waraich's Director fees are paid. Mr. Waraich was appointed as a Director on September 8, 2017. ATMA Corp Ltd, incurred fees of \$nil (December 31, 2018: \$140,510). 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 as at year ended December 31, 2019. Mr. Waraich resigned from Board of Directors on August 19, 2019.

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. South's Consulting fees are paid. Helston Capital Corp, incurred fees of \$81,900 (December 31, 2018: \$151,301) of which \$13,650 was paid and \$68,250 was outstanding as at December 31, 2019. On December 21, 2018 Jeremy South signed a Subscription and Debt Settlement Agreement according to which he has agreed to subscribe for 314,616 common shares of the Corporation at a subscription price of \$0.20 per Share having an issue price of \$62,923 in indebtedness owed to the Creditor by the Corporation. The outstanding amount of \$38,139 is still to be subscribed as at December 31, 2019.

FFA Legal Ltda, a company in which Mr. Azevedo is a director, provided the Company with legal and accounting services in Brazil totaling \$123,420 (December 31, 2018: \$128,482) and the Company had outstanding accruals of \$107,792 to FFA Legal Ltda as at December 31, 2019.

On February 12, 2018, the Company issued 5,800,000 options in total to directors. During 2019, Mr. Aneel Waraich and Mr. Nicolas Pike resigned from the Board. As at December 31, 2019, there were 4,000,000 options outstanding:

<b>Name</b>	<b>Number</b>	<b>Value</b>
Matthew Wood	1,600,000	\$301,820
Luis Azevedo	1,600,000	\$301,820
Max Jahn	600,000	\$113,182
Gizman Abbas	200,000	\$37,727

On April 20, 2018, the Company issued 1,100,000 options in total to directors and officers. As at December 31, 2019, there were 1,100,000 options outstanding:

<b>Name</b>	<b>Number</b>	<b>Value</b>
Jeremy South	1,000,000	\$188,637
Gizman Abbas	100,000	\$18,864

### **Recent Accounting Pronouncements**

On January 13, 2016, the IASB issued IFRS 16 Leases. The new standard is effective for annual periods beginning on or after January 1, 2019. IFRS 16 is replacing IAS 17 Leases. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. IFRS 16 substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. The Company has adopted IFRS 16 in its financial statements for the period beginning on January 1, 2019. Adoption of this standard have no material effect on the Company's consolidated Financial Statements.

### **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.

## Functional Currency

The Company's presentation and functional currency is the Canadian dollar. The functional currency, as determined by management, of the Company, Diamond Blockchain 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.

## Financial Instruments and Financial risk

Below is a summary showing the classification and measurement bases of the Company's financial instruments.

<b>Classification</b>	<b>IFRS 9</b>
Cash	FVTPL
Trade and other payables	Amortized cost
Convertible debentures	Amortized cost
Loan liability	Amortized cost

## Financial assets

Financial assets are classified as either financial assets at FVTPL, amortized cost, or fair value through other comprehensive income. 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 fair value through other comprehensive income. Gains or losses on these items are recognized in profit or loss. The Company's cash is classified as financial assets measured at FVTPL.

ii. Investments recorded at fair value through other comprehensive income (FVOCI)

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to measure the investment at FVOCI whereby changes in the investment's fair value (realized and unrealized) will be recognized permanently in OCI with no reclassification to profit or loss. The election is made on an investment-by-investment basis

iii. Amortized cost

Financial assets are classified as measured at amortized cost if both of the following criteria are met and the financial assets are not designated as at fair value through profit and loss: 1) the objective 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".

**Financial liabilities**

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

i. Amortized cost

Financial liabilities are classified as measured at amortized cost unless they fall into one of the following categories: financial liabilities at 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.

ii. Financial liabilities recorded fair value through profit or loss ("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 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 or losses recognized in profit or loss. Instruments classified as amortized cost are measured at amortized cost using the effective interest rate method. Instruments classified as FVOCI are measured at fair value with unrealized gains or 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 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.

#### *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, 2019, the Company had negative net working capital of \$1,009,835 (December 31, 2018: \$517,767). Furthermore, as at December 31, 2019 the long-term debt carried by the Company was \$626,951.

#### *Interest rate risk*

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

#### *Foreign exchange risk*

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:

	<b>As at December 31, 2019</b>				
	BRL in CAD	AUD in CAD	GBP in CAD	USD in CAD	CAD
Cash and cash equivalents	1,781	871	-	2,426	5,314
Accounts payable & accrued liabilities	103,022	-	-	25,796	916,090
	<b>As at December 31, 2018</b>				
	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

#### *Sensitivity*

Based on the financial instruments held at December 31, 2019, had the Canadian dollar weakened/strengthened by 10% against these foreign currencies with all other variables held constant, the Company's net loss would have been \$12,374 higher/lower as a result of foreign exchange gains/losses on translation of non-Canadian dollar denominated financial instruments as detailed above.

#### *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. The Company's exposure to this risk is not significant.

#### **Outlook**

The Company is committed to advancing its mineral interests in Mongolia and Brazil in combination with partners. It is particularly excited about the recently acquired copper assets in Mongolia and it plans exploration activity in the summer of 2020. The Company is continuing discussions with partners for the diamond assets in a very difficult market environment.

Although there can be no assurance that additional funding will be available to the Company, management is of the opinion that the market will be favourable, and hence it may be possible to obtain additional funding for its projects.

Notwithstanding, the Company is mindful that the market could fall with little or no warning. Accordingly, its plans for the near term are to recommence drilling programs at its projects, to monitor market fundamentals, and to ensure that the Company is well positioned to weather any possible resurgence of a market downturn. See "Risk Factors".

#### **Risk Factors**

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

#### **Disclosure of Internal Controls**

Management has established processes to provide them with sufficient knowledge to support representations that they have exercised reasonable diligence to ensure that (i) the consolidated financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the consolidated financial statements; and (ii) the consolidated financial statements fairly present in all material respects the financial condition, financial performance and cash flows of the Company, as of the date of and for the periods presented.

In contrast to the certificate required for non-venture issuers under National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"), the Venture Issuer Basic Certificate filed by the Company does not include representations relating to the establishment and maintenance of disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"), as defined in NI 52-109. In particular, the certifying officers filing such certificate are not making any representations relating to the establishment and maintenance of:

- i) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
- ii) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with the issuer's generally accepted accounting principles (IFRS).

The Company's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in such certificate. Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

### **Subsequent events**

On February 26, 2020 the Company announced that it issued Common Shares in payment of drilling services provided to the Company pursuant to a drilling for shares arrangement previously announced on April 17, 2018. The Company settled an aggregate amount of \$484,698 owing to the drilling contractor for drilling completed on the Company's Brazilian diamond properties through the issuance of 9,693,960 Common Shares at a deemed issuance price of \$0.05 per Common Share, all in accordance with the drilling contract entered into between the Company and the drilling contractor. The Common Shares are subject to a four month and one day statutory hold period from the date of issuance.

On June 3, 2020 the Company announced a non-brokered private placement of up to 66,666,666 units of the Company at an offering price of \$0.015 per unit for gross proceeds of up to \$1,000,000. Each unit will be comprised of one common share of the Company and one common share purchase warrant with each warrant exercisable for one common shares at a price of \$0.05 per share for a period of 12 months from closing. The proceeds from the offering will be used for exploration activities on the Company's mineral projects and for general working capital purposes.

Subsequent to year-end, there was a global outbreak of COVID-19 (coronavirus), which has had a significant impact on businesses through the restrictions put in place by the Canadian, Brazilian and Mongolian governments regarding travel, business operations and isolation/quarantine orders. At this time, it is unknown the extent of the impact the COVID- 19 outbreak may have on the Company as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put, in place by Canada, Mongolia, Brazil and other countries to fight the virus. While the extent of the impact is unknown, we anticipate this outbreak may cause issues which may negatively impact the Company's business and financial condition.