

# **TURQUOISE CAPITAL CORP.**

## **FILING STATEMENT**

**IN RESPECT OF THE QUALIFYING TRANSACTION INVOLVING THE ACQUISITION BY TURQUOISE CAPITAL CORP.  
OF ALL THE ISSUED AND OUTSTANDING ORDINARY SHARES OF  
FIVE STAR DIAMONDS LTD.**

Dated as of March 29, 2017

*Neither the TSX Venture Exchange Inc. nor any securities regulatory authority has in any way passed upon the merits of the Qualifying Transaction described in this Filing Statement*

**FILING STATEMENT  
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## GLOSSARY

**“Advisor Compensation Shares”** means the Resulting Issuer Shares to be issued to ATMACORP Ltd. pursuant to the Financial Advisory Agreement;

**“Affiliate”** means a Company that is affiliated with another Company as described below. A Company is an “Affiliate” of another Company if:

- (a) one of them is the subsidiary of the other, or
- (b) each of them is controlled by the same Person. A Company is “controlled” by a Person if:
  - (i) voting securities of the Company are held, other than by way of security only, by or for the benefit of that Person, and
  - (ii) the voting securities, if voted, entitle the Person to elect a majority of the directors of the Company. A Person beneficially owns securities that are beneficially owned by:
    - (1) a Company controlled by that Person, or
    - (2) an Affiliate of that Person or an Affiliate of any Company controlled by that Person;

**“Anti-Dilution Shares”** means the Five Star Shares to be issued immediately prior to the Closing to certain Five Star Shareholders pursuant to anti-dilution provisions contained in the CPS Engagement Letter;

**“Arm’s Length Transaction”** means a transaction which is not a Non-Arm’s Length Transaction;

**“Associate”** when used to indicate a relationship with a person or company, means

- (a) an issuer of which the person or Company beneficially owns or controls, directly or indirectly, voting securities entitling him to more than 10% of the voting rights attached to outstanding securities of the issuer,
- (b) any partner of the person or Company,
- (c) any trust or estate in which the person or Company has a substantial beneficial interest or in respect of which a person or company serves as trustee or in a similar capacity,
- (d) in the case of a person, a relative of that person, including
  - (i) that person’s spouse or child, or
  - (ii) any relative of the person or of his spouse who has the same residence as that person;

but

where the TSXV determines that two persons shall, or shall not, be deemed to be associates with respect to a Member firm (as defined by the TSXV’s policies), Member corporation or holding company of a Member corporation, then such determination shall be determinative of their relationships in the application of Rule D with respect to that Member firm, Member corporation or holding company;

**"BCBCA"** means the *Business Corporations Act* (British Columbia), including the regulations promulgated thereunder, as amended;

**"BVI Act"** means the *BVI Business Corporations Act, 2004*, including the regulations promulgated thereunder, as amended;

**"Catalao Diamond Project"** means Five Star's diamond project consisting of the Catalao exploration licence located in the State of Gaião, Brazil, as further described in the Technical Report;

**"Closing"** means the Completion of the Proposed Qualified Transaction;

**"Company"** unless specifically indicated otherwise, means a corporation, incorporated association or organization, body corporate, partnership, trust, association or other entity other than an individual;

**"Completion of the Proposed Qualifying Transaction"** means the issuance of the Final Bulletin by the TSXV;

**"Control Person"** means any person or company that holds or is one of a combination of persons or companies that holds a sufficient number of any of the securities of an issuer so as to affect materially the control of that issuer, or that holds more than 20% of the outstanding voting securities of an issuer except where there is evidence showing that the holder of those securities does not materially affect the control of the issuer;

**"CPC"** means a corporation:

- (a) that has been incorporated or organized in a jurisdiction in Canada;
- (b) that has filed and obtained a receipt for a preliminary CPC prospectus from one or more of the securities regulatory authorities in compliance with the TSXV Policy 2.4; and
- (c) in regard to which the Completion of the Qualifying Transaction has not yet occurred;

**"CPC IPO"** means Turquoise's initial public offering of 3,012,000 Turquoise Shares at \$0.10 per Turquoise Share, which was completed on June 28, 2013;

**"CPC Escrow Agreement"** means the amended and restated escrow agreement dated March 21, 2013 among Turquoise, the Escrow Agent and certain shareholders of Turquoise with respect to 2,000,000 Turquoise;

**"CPS Engagement Letter"** means the engagement letter dated May 23, 2016 between CPS Capital Group Pty Ltd and Five Star;

**"Effective Date"** means the date of Closing, expected to be on or about April 12, 2017;

**"Exchange Ratio"** means the exchange of Five Star Shares in exchange for Resulting Issuer Shares on the basis of one (1) Resulting Issuer Share for every one (1) Five Star Share;

**"Filing Statement"** means this filing statement of Turquoise, including the Schedules attached hereto;

**"Final Bulletin"** means the Bulletin evidencing final TSXV acceptance of the Proposed Qualifying Transaction that is to be issued following the Closing and the submission of all required documentation;

**"Financial Advisory Agreement"** means the financial advisory agreement dated July 5, 2016 between Five Star and ATMACorp Ltd.;

**“Five Star”** means Five Star Diamonds Ltd., a corporation incorporated pursuant to the BVI Act and the company which is to be acquired by Turquoise pursuant to the Proposed Qualifying Transaction;

**“Five Star Board”** means the board of directors of Five Star;

**“Five Star Notice”** means the notice of meeting prepared in connection with the Five Star Shareholder Approval;

**“Five Star Shareholder Approval”** means the written consent resolution signed by at least 50% of the Five Star Shareholders approving the Merger;

**“Five Star Shareholders”** means the holders from time to time of Five Star Shares;

**“Five Star Shares”** means the ordinary shares in the capital of Five Star, as constituted on the date hereof;

**“IFRS”** means the International Financial Reporting Standards as adopted by the International Accounting Standards Board;

**“Insider”** if used in relation to Turquoise, means:

- (a) director or senior officer of Turquoise;
- (b) a director or senior officer of the Company that is an Insider or subsidiary of Turquoise;
- (c) a Person that beneficially owns or controls, directly or indirectly, Voting Shares carrying more than 10% of the voting rights attached to all outstanding Voting Shares of Turquoise; or
- (d) Turquoise itself if it holds any of its own securities;

**“Maximum Financing”** means the offering of Turquoise Shares under the TCC Private Placement maximum for aggregate gross proceeds of \$8,000,000;

**“Minimum Financing”** means the offering of Turquoise Shares under the TCC Private Placement for minimum aggregate gross proceeds of \$4,000,000;

**“Merger”** means the statutory merger of Subco and Five Star pursuant to section 181 of the BVI Act on the terms and conditions set forth in the Merger Agreement;

**“Merger Agreement”** means the merger agreement dated September 9, 2016 among Turquoise and Five Star providing for, among other things, the Proposed Qualifying Transaction;

**“Name Change”** means the change of Turquoise’s name to “Five Star Diamonds Ltd.”, or such other name as is acceptable to Five Star and the Director under the BCBCA;

**“NI 43-101”** means National Instrument 43-101 – *Standards of Disclosure for Mineral Projects*;

**“Non-Arm’s Length Party”** means in relation to a Company, a promoter, officer, director, other Insider or Control Person of that Company (including an Issuer) and any Associates or Affiliates of any of such Persons. In relation to an individual, means any Associate of the individual or any Company of which the individual is a promoter, officer, director, Insider or Control Person;

**“Non-Arm’s Length Qualifying Transaction”** means a proposed Qualifying Transaction where the same party or parties or their respective Associates or Affiliates are Control Persons in both the CPC and in relation to the Significant Assets which are to be the subject of the proposed Qualifying Transaction;

**“Person”** means a Company or individual;

**“Principal”** has the meaning ascribed thereto in the TSXV Corporate Finance Manual;

**“Promoter”** has the meaning ascribed thereto in the *Securities Act* (British Columbia);

**“Proposed Qualifying Transaction”** means the Qualifying Transaction pursuant to which Subco and Five Star will be merged and Turquoise will acquire all the issued and outstanding Five Star Shares in accordance with the terms and conditions of the Merger Agreement and as more particularly described in this Filing Statement;

**“QT Escrow Agreement”** means the Exchange Form 5D Tier 1 Escrow Agreement to be entered into in connection with the Closing between the Resulting Issuer, the Escrow Agent and certain Principals of the Resulting Issuer, as more particularly described in this Filing Statement;

**“QT Escrow Shares”** means the Resulting Issuer Shares subject to Value Security or Surplus Security escrow in accordance with the QT Escrow Agreement;

**“Qualifying Transaction”** or **“QT”** means a transaction where a CPC acquires Significant Assets other than cash, by way of purchase, amalgamation, merger or arrangement with another company or by other means. Turquoise intends that the Proposed Qualifying Transaction constitute its Qualifying Transaction;

**“Related Party Transaction”** means a transaction involving Non-Arm’s Length Parties, or other circumstances exist which, in the opinion of the TSXV, may compromise the independence of Turquoise with respect to the Proposed Qualifying Transaction;

**“Resulting Issuer”** means Turquoise Capital Corp. as it exists upon Completion of the Proposed Qualifying Transaction, to be renamed “Five Star Diamonds Ltd.”;

**“Resulting Issuer Finder Warrants”** means the Turquoise Finder Warrants after completion of the Proposed Qualifying Transaction;

**“Resulting Issuer Options”** means options entitling their holders to purchase Resulting Issuer Shares under the Resulting Issuer Stock Option Plan;

**“Resulting Issuer Shares”** means the common shares in the capital of the Resulting Issuer;

**“Significant Assets”** means one or more assets or businesses which, when purchased, optioned or otherwise acquired by Turquoise, together with any other concurrent transactions, would result in Turquoise meeting the initial listing requirements of the TSXV;

**“Stock Option Plan”** means the stock option plan as adopted by Turquoise and which will be assumed by the Resulting Issuer upon Completion of the Proposed Qualifying Transaction;

**“Subco”** means a wholly-owned subsidiary of Turquoise to be incorporated pursuant to the BVI Act;

**“Subco Shares”** means ordinary shares in the capital of Subco;

**“TCC Private Placement”** means the private placement of a minimum of 13,333,333 and a maximum of 26,666,666 Turquoise Shares at a price of \$0.30 per Turquoise Share for minimum gross proceeds of \$4,000,000 and maximum gross proceeds of \$8,000,000 to be completed on or about the Closing Date of the Qualifying Transaction;

**“Technical Report”** means the NI 43-101 compliant technical report with respect to the Catalao Diamond Project dated effective December 31, 2016 and entitled “Catalao Diamond Project – Goias State, Brazil - NI 43-101 Technical Report”, prepared for Five Star by Mining One Pty Ltd.;

**“TSXV”** means the TSX Venture Exchange;

**“TSXV Corporate Finance Manual”** means the Corporate Finance Manual of the TSXV;

**“TSXV Policy 2.4”** means TSXV Policy 2.4 – *Capital Pool Companies* of the TSXV Corporate Finance Manual;

**“Turquoise”** or **“Issuer”** means Turquoise Capital Corp., a corporation incorporated pursuant to the BCBCA;

**“Turquoise Finder Warrants”** means the broker warrants granted to certain finders to acquire Turquoise Shares equal to 8% of the number of Turquoise Shares issued pursuant to the TCC Private Placement, with each Turquoise Finder Warrant being exercisable for one Turquoise Share for a period of 24 months from the date of issuance at a price of \$0.30 per Turquoise Share;

**“Turquoise Options”** means stock options to acquire Turquoise Shares pursuant to the Stock Option Plan;

**“Turquoise Seed Private Placement”** means together the private placements of an aggregate 2,000,000 Turquoise Shares at a price of \$0.05 per Turquoise Share for aggregate gross proceeds of \$100,000, completed on November 29, 2012 and December 14, 2012;

**“Turquoise Shareholders”** means the holders from time to time of Turquoise Shares;

**“Turquoise Shares”** means common shares in the capital of Turquoise, as constituted on the date hereof; and

**“Voting Shares”** means a security of Turquoise that:

- (a) is not a debt security; and
- (b) carries a voting right either under all circumstances or under some circumstances that have occurred and are continuing.

## GLOSSARY OF GEOLOGICAL, TECHNICAL AND MINERAL TERMS

**“Alkaline rocks”** means those with an excess of alkali metals (Na<sub>2</sub>O + K<sub>2</sub>O) over silica. Subsets of alkaline rocks are potassic or ultrapotassic, such as kimberlites and lamproites.

**“Allocthonous”** A allochthon, or an allochthonous block, is a large block of rock which has been moved from its original site of formation, usually by low angle thrust faulting.

**“Alluvial”** means sedimentary material deposited by rivers. It is usually most extensively developed in the lower part of the course of a river, forming floodplains and deltas, but may be deposited at any point where the river overflows its banks or where the velocity of a river reduces.

**“Amphibolite”** means a rock composed largely or dominantly of minerals of the amphibole group. The term has been applied to rocks of either igneous or metamorphic origin. In metamorphic rocks amphibolite defines rocks exposed to medium degree of metamorphism.

**“Carat”** or **“ct”** means a standard weight unit for diamonds with 1 carat equivalent to 0.2 grams.

**“Carbonatite”** means igneous rocks that consist largely of the carbonate minerals calcite and dolomite; they sometimes also contain rare-earth ore minerals, niobium ore minerals, and copper sulphide ore minerals.

**“Caustic fusion”** means the process in which kimberlite samples are dissolved in molten caustic soda in stainless steel fusion pots heated in kilns to 500-600 degrees centigrade. The molten mix is poured onto 0.105 mm screens and the residue is washed and treated with acids leaving a small concentrate that is picked for diamonds.

**“Clinopyroxene”** means monoclinic crystal system pyroxenes.

**“Colluvial”** means soil and rock debris that accumulate at the base of a slope by mass wasting or sheet erosion. It generally includes angular fragments, not sorted according to size, and may contain slabs of bedrock that dip back toward the slope, indicating both their place of origin and that slumping was the process of transportation.

**“Country rock”** means regional rock or group of rocks in which kimberlites (and other igneous rocks) intrudes.

**“Craton”** means the stable interior portion of a continent characteristically composed of ancient crystalline basement rock.

**“Diamantiferous”** means diamond bearing rock.

**“Diatreme”** means a volcanic pipe formed by gaseous explosions. When magma rises up through the Earth's crust, the water vapour, from the magma or from the host rock, causes rapid expansion of heated water vapour and volcanic gases leading to a series of explosions. Diatremes breach the Earth's surface and produce a steep inverted cone shape.

**“DIM”** means diamond indicator minerals that are commonly used to evaluate if the kimberlite occurred within the diamond stability field. The most common DIM are G10 and G9 pyrope garnet and Cr-diopside.

**“Dyke”** means a planar, vertical to sub-vertical body emplacement associated with intrusive magmas.

**“Facies”** means the rock characteristic defined by its composition, internal geometry (texture) and formation environment

**“Fluvial”** means physical interaction of flowing water and the natural channels of rivers and streams.

**“Ga.”** means a billion years.

**“Grade”** means the measure of concentration of a substance or economic mineral within a mineralised rock. Diamond grades in kimberlites and sediments are expressed as carats per hundred tonnes (cpht).

**“Harzburgite”** means an ultrabasic igneous rock dominated by essential olivine and orthopyroxene with or without small amounts of clinopyroxene. Accessory minerals include plagioclase, spinel, garnet, ilmenite, chromite and magnetite. Harzburgites are a peridotite and a major component of the upper mantle where they form as residues of partial melting of lherzolite

**“Hypabyssal”** means igneous magmas solidified at near the surface where lower temperatures result in a more rapid cooling process; these rocks tend to have aphanitic matrix.

**“Indicated Mineral Resource”** means that part of a Mineral Resource for which quantity, grade or quality, densities, shape and physical characteristics are estimated with sufficient confidence to allow the application of Modifying Factors in sufficient detail to support mine planning and evaluation of the economic viability of the deposit. Geological evidence is derived from adequately detailed and reliable exploration, sampling and testing and is sufficient to assume geological and grade or quality continuity between points of observation. An Indicated Mineral Resource has a lower level of confidence than that applying to a Measured Mineral Resource and may only be converted to a Probable Mineral Reserve.

**“Inferred Mineral Resource”** means that part of a Mineral Resource for which quantity and grade or quality are estimated on the basis of limited geological evidence and sampling. Geological evidence is sufficient to imply but not verify geological and grade or quality continuity. An Inferred Resource has a lower level of confidence than that applying to an Indicated Mineral Resource and must not be converted to a Mineral Reserve. It is reasonably expected that the majority of Inferred Mineral Resources could be upgraded to Indicated Mineral Resources with continued exploration.

**“KIM”** means kimberlite indicator mineral. An assemblage of minerals that are particularly to kimberlites composed by cr-pyrope, cr-diopside, cr-spinel, mg-ilmenite, mg-olivine and pyrope-almandine garnet. These minerals are used as pathfinders for kimberlite intrusions in stream sediments sampling.

**“Kimberlite”** means a porphyritic ultrapotassic, ultrabasic igneous rock dominated by olivine, phlogopite, diopside, ilmenite and pyrope garnet in a groundmass of olivine, phlogopite, serpentine, calcite, chlorite, magnetite, apatite and perovskite. Phenocryst phases in kimberlites are usually rounded and partially altered, many are xenocrysts liberated from mantle xenoliths and wall-rocks. Kimberlites can contain diamond and abundant mantle xenoliths.

**“Lamproite”** means a porphyritic ultrapotassic igneous rock dominated by phlogopite, richterite, olivine, diopside, leucite, sanidine. Any one of these essential minerals may dominate. The presence of other abundant minerals such as plagioclase, melilite, kalsilite, and nepheline preclude the name lamproite. Diamond can occur in lamproites.

**“Laterite”** means a soil layer that is rich in iron oxide and derived from a wide variety of rocks weathering under strongly oxidizing and leaching conditions. It forms in tropical and subtropical regions where the climate is humid.

**“Lherzolite”** means an ultrabasic igneous rock dominated by essential olivine and clinopyroxene and orthopyroxene in equal proportions. Accessory minerals include plagioclase, spinel, garnet, ilmenite, chromite and magnetite. Lherzolites are a peridotite and the main component of the upper mantle.

**“Lithosphere”** means the rigid, rocky outer layer of the Earth, consisting of the crust and the solid outermost layer of the upper mantle. It extends to a depth of about 100 km.

**“Ma.”** means a million years.

**“Measured Mineral Resource”** means that part of a Mineral Resource for which quantity, grade or quality, densities, shape, and physical characteristics are estimated with confidence sufficient to allow the application of Modifying Factors to support detailed mine planning and final evaluation of the economic viability of the deposit. Geological evidence is derived from detailed and reliable exploration, sampling and testing and is sufficient to confirm geological and grade or quality continuity between points of observation. A Measured Mineral Resource has a higher level of confidence than that applying to either an Indicated Mineral Resource or an Inferred Mineral Resource. It may be converted to a Proved Mineral Reserve or to a Probable Mineral Reserve.

**“Metaconglomerates”** means sedimentary conglomerate modified by metamorphic processes.

**“Metamorphic grade”** means a measurement of metamorphic intensity affecting rocks when exposed to different ranges of pressure and temperature on earth crust.

**“Metamorphism”** means mineralogical and structural adjustments of solid rocks to physical and chemical conditions differing from those under which the rocks originally formed. Changes produced by surface conditions such as compaction are usually excluded. The most important agents of metamorphism include temperature, pressure, and fluids.

**“Metasedimentary”** means sedimentary rocks modified by metamorphic processes.

**“Metasomatism”** means the process of simultaneous solution and deposition whereby one mineral replaces another.

**“Microdiamond”** means diamonds with major axis smaller than 0.5mm.

**“Mineral Reserve”** means the economically mineable part of a Measured and/or Indicated Mineral Resource. It includes diluting materials and allowances for losses, which may occur when the material is mined or extracted and is defined by studies at Pre-Feasibility or Feasibility level as appropriate that include application of Modifying Factors. Such studies demonstrate that, at the time of reporting, extraction could reasonably be justified.

**“Mineral Resource”** means a concentration or occurrence of solid material of economic interest in or on the Earth’s crust in such form, grade or quality and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade or quality, continuity and other geological characteristics of a Mineral Resource are known, estimated or interpreted from specific geological evidence and knowledge, including sampling. Mineral Resources are subdivided, in order of increasing geological confidence, into Inferred, Indicated and Measured categories. Portions of a mineral deposit that do not have reasonable prospects for eventual economic extraction must not be included in a Mineral Resource.

**“Neoproterozoic”** means the Neoproterozoic is the terminal era of the Proterozoic eon (or informally, the Precambrian) extending from about 1,000 million years ago (Ma) at the end of the Mesoproterozoic to 542 Ma at the beginning of the Cambrian of the Paleozoic era. It is one of three major divisions (eras) of the Proterozoic in the geologic time scale.

**“Peridotite”** means a coarse-grained, dark-coloured, heavy, intrusive igneous rock that contains at least 10 percent olivine, other iron- and magnesia-rich minerals (generally pyroxenes), and not more than 10 percent feldspar.

**“Phanerozoic”** means the Phanerozoic eon is the interval of geologic time spanning from the appearance of abundant, macroscopic, hard-shelled fossils, roughly 542 million years ago to the present time.

**“Phenocryst”** means the relatively large crystals in a porphyritic rock that occur as separate entities set in a groundmass or matrix of much finer-grained crystalline material or glass. Quite commonly in many volcanic rocks, phenocrysts are aggregated.

**“Placers”** means natural concentrations of heavy minerals caused by the effect of gravity on moving particles. When heavy, stable minerals are freed from their matrix by weathering processes, they are slowly washed downslope into streams that quickly winnow the lighter matrix. Thus the heavy minerals become concentrated in stream, beach, and lag (residual) gravels and constitute workable ore deposits. Ancient regions where this process occurred are described as Paleoplacers.

**“Pipes”** means kimberlite intrusions (colloquial).

**“Probable Mineral Reserve”** means the economically mineable part of an Indicated, and in some circumstances, a Measured Mineral Resource. The confidence in the Modifying Factors applying to a Probable Mineral Reserve is lower than that applying to a Proved Mineral Reserve.

**“Proved Mineral Reserve”** means the economically mineable part of a Measured Mineral Resource. A Proved Mineral Reserve implies a high degree of confidence in the Modifying Factors.

**“Proterozoic”** means the interval of geologic time of nearly 2 billion years extending from about 2500 million years (Ma) to about 542 Ma. The Proterozoic eon is framed at its earliest boundary by the end of the Archean eon and at its more recent boundary by the start of the Phanerozoic eon.

**“Quartzite”** means sandstone that has been converted into a solid quartz rock due to metamorphic processes.

**“REE”** means rare earth elements.

**“Saprolite”** means soil and rock fragments derived from the weathering of the underlying bedrock, sometimes described as regolith.

**“Tailings”** means residual material from a mining operation after the removal of the substance or substances of interest.

**“Tectonism”** means large-scale deformation of Earth’s crust by natural processes, which leads to the formation of continents and ocean basins, mountain systems, plateaus, rift valleys, and other features by mechanisms such as plate tectonics, volcanic loading, or folding.

**“Turbidite”** means a type of sedimentary rock composed of layered particles that grade upward from coarser to finer sizes and are thought to have originated from ancient turbidity currents in the oceans. They are integral components of sedimentary deep-sea fans adjacent to the base of continental slopes, and they are also found below the major river deltas of the world where they build features called abyssal cones.

**“Xenolith”** means any type of rock fragments in igneous rocks that were formed outside the body of rock in which they occur.

**“Xenocryst”** means mineral crystals in igneous rocks that were formed outside the body of rock in which they occur.

**“X-ray fluorescence”** means the emission of electromagnetic radiation, usually visible light, caused by excitation of atoms in a material, which then reemit almost immediately. The initial excitation is caused by absorption of energy from incident X-ray radiation. This property is present in almost all diamonds and it is used by the Flowsort equipment to separate diamonds from the final concentrate.

## METRIC EQUIVALENTS

For ease of reference, the following conversion factors are provided:

Imperial Measure	Metric Unit	Metric Unit	Imperial Measure
2.47 acres	1 hectare (ha)	0.4047 hectares (ha)	1 acre
3.28 feet (ft)	1 metre (m)	0.3048 metres (m)	1 foot (ft)
0.62 miles	1 kilometer (Km)	1.609 kilometers (Km)	1 mile
0.032 troy ounces	1 gram (g)	31.1 grams (g)	1 troy ounce
2.205 pounds (lb)	1 kilogram (kg)	0.454 kilograms (kg)	1 pound (lb)
1.102 short tons	1 tonne (t)	0.907 tonnes (t)	1 short ton
0.029 troy ounces/ton	1 gram/tonne (g/t)	34.28 grams/tonne (g/t)	1 troy ounce/ton

## **CURRENCY PRESENTATION AND EXCHANGE RATE INFORMATION**

This Filing Statement contains references to the Canadian dollar, the US dollar and the Brazilian Real. All dollar amounts referenced, unless otherwise indicated, are expressed in Canadian dollars. US dollars are referred to as “US dollars” or “US\$” and Brazilian Reals are referred to as “Brazilian Reals” or “R\$”. As at March 28, 2017, the noon buying rate as reported by the Bank of Canada was US\$1.00 = CDN\$1.3363 or CDN\$1.00 = US\$0.7483 and R\$1.00 = CDN\$0.4267 or CDN\$1.00 = R\$2.3435.

## **SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS**

Certain statements in this Filing Statement and the schedules attached hereto are forward looking statements which may include, but are not limited to, statements with respect to: the future financial or operating performance of Five Star and its projects; the estimation of mineral resources; the market conditions, business strategy, corporate plans, objectives and goals; the estimates of the timing, cost, nature and results of exploration activities; the projected development of the Catalao Diamond Project and other properties of the Resulting Issuer; exploration expenditures and other expenses for specific exploration and development; the use of capital, the availability of additional capital, the requirements for additional capital and the timing of such requirements; government regulation of mining operations; exploration, mining, developmental and environmental risks; the completion, timing and expected effects of the Proposed Qualifying Transaction and the benefits anticipated to be received by Turquoise, Five Star and/or the Resulting Issuer from such transactions; title disputes or claims; the value of the currencies in which Turquoise, Five Star and/or the Resulting Issuer incur or will or plan to incur expenditures, including the Canadian dollar, the United States dollar and the Brazilian reais; the impact of competition for mineral projects; limitations of insurance coverage; and the timing and possible outcome of regulatory matters.

Often, but not always, forward-looking statements can be identified by the use of words such as “plans”, “expects”, “is expected”, “budget”, “scheduled”, “estimates”, “forecasts”, “projects”, “intends”, “anticipates”, or “believes” or variations (including negative variations) of such words and phrases, or statements that certain actions, events or results “may”, “could”, “would”, “might” or “will” be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties, assumptions and other factors that may cause the actual results, performance or achievements of Five Star or the Resulting Issuer, as applicable, to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, but are not limited to, the factors discussed in the section entitled “Risk Factors” in this Filing Statement. Although Turquoise and Five Star have attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended.

Although Turquoise and Five Star believe that the expectations represented in such forward-looking statements are reasonable, there can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. The forward-looking statements contained in this Filing Statement are expressly qualified by this cautionary statement and by the risk factors described in the Filing Statement under the heading “Risk Factors”. The forward-looking statements contained herein are made as of the date of this Filing Statement and Turquoise, Five Star and the Resulting Issuer disclaim any obligation to update any forward-looking statements, whether as a result of new information, future events or results or otherwise, except where required by applicable securities laws.

## **INFORMATION CONCERNING FIVE STAR**

The information contained or referred to in this Filing Statement relating to Five Star has been furnished by Five Star. In preparing this Filing Statement, Turquoise has relied upon Five Star to ensure that the Filing Statement contains full, true and plain disclosure of all material facts relating to Five Star. Although Turquoise has no

knowledge that would indicate that any statements contained herein concerning Five Star are untrue or incomplete, neither Turquoise nor any of its respective directors or officers assumes any responsibility for the accuracy or completeness of such information or for any failure by Five Star to ensure disclosure of events or facts that may have occurred which may affect the significance or accuracy of any such information.

## SUMMARY OF FILING STATEMENT

***The following is a summary of information relating to Turquoise, Five Star and the Resulting Issuer (assuming Completion of the Proposed Qualifying Transaction), and should be read together with the more detailed information and financial data and statements contained elsewhere in this Filing Statement.*** Capitalized terms used in this summary, and not defined in this summary, will have the meaning provided in the Glossary or elsewhere in this Filing Statement. No person is authorized to give any information or to make any representation not contained in this Filing Statement and, if given or made, such information or representation should not be relied upon as having been authorized. This Filing Statement does not constitute an offer to sell, or a solicitation of an offer to purchase, any securities, by any person in any jurisdiction in which such an offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such an offer or solicitation. **Neither delivery of this Filing Statement nor any distribution of the securities referred to in this Filing Statement shall, under any circumstances, create an implication that there has been no change in the information set forth herein since the date of this Filing Statement.**

Any material change reports (excluding confidential reports), comparative interim financial statements, comparative annual financial statements and the auditors' report thereon, information circulars, annual information forms and business acquisition reports filed by Turquoise with the securities commissions or similar authorities in the provinces of Alberta, British Columbia and Ontario subsequent to the date of this Filing Statement and prior to the Completion of the Proposed Qualifying Transaction, shall be deemed to be incorporated by reference in this Filing Statement.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purposes of this Filing Statement to the extent that a statement contained herein or in any other subsequently filed document which also is, or is deemed to be, incorporated by reference herein modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Filing Statement.

### **Summary of the Proposed Qualifying Transaction**

On September 9, 2016, Turquoise and Five Star entered into a definitive merger agreement (the "**Merger Agreement**") in respect of the Proposed Qualifying Transaction, as described in a news release dated September 12, 2016. Pursuant to the terms of the Merger Agreement, Turquoise will acquire all the issued and outstanding Five Star Shares through the three-cornered merger of Five Star with Subco, a wholly-owned subsidiary of Turquoise. Holders of Five Star Shares will receive Resulting Issuer Shares in exchange for their Five Star Shares on the basis of the Exchange Ratio.

The Proposed Qualifying Transaction will constitute Turquoise's Qualifying Transaction pursuant to TSXV Policy 2.4, and will constitute a reverse take-over of the Resulting Issuer inasmuch as the former Five Star Shareholders will own (on a non-diluted basis) approximately 93.9% of the outstanding Resulting Issuer Shares immediately after the Closing (but without giving effect to the issuance of securities pursuant to the TCC Private Placement and the issuance of the Anti-Dilution Shares). See "Part IV – Information Concerning the Resulting Issuer".

In accordance with the Merger Agreement and subject to regulatory approval, Turquoise proposes to change its name to "Five Star Diamonds Ltd." The Name Change will take effect by the filing of articles of amendment on or prior to the date of Closing, pending completion of the all the conditions set forth in the Merger Agreement.

Turquoise has 6,489,774 Turquoise Shares outstanding, as well as 200,000 Turquoise Options exercisable at a price of \$0.10 per Turquoise Share until July 3, 2018 (subject to early expiry in accordance with their term as described below).

It is expected that the Resulting Issuer will have 122,694,924 Resulting Issuer Shares outstanding (assuming the Minimum Financing) and 136,361,590 Resulting Issuer Shares outstanding (assuming the Maximum Financing) immediately upon the Completion of the Proposed Qualifying Transaction and after giving effect to the TCC Private Placement and the issuance of the Advisor Compensation Shares (but without giving effect to the issuance of the Anti-Dilution Shares). See "Part IV – Information Concerning the Resulting Issuer –Fully Diluted Share Capital of the Resulting Issuer".

The Completion of the Proposed Qualifying Transaction is subject to the approval of the TSXV. The Completion of the Proposed Qualifying Transaction is also subject to certain other additional conditions precedent, including, but not limited to: (i) the absence of any material change or change in a material fact which might reasonably be expected to have a material adverse effect on the financial and operational conditions or the assets of each of the parties to the Merger Agreement; and (ii) certain other conditions typical in a transaction of this nature.

#### **Arm's Length Qualifying Transaction**

The proposed Transaction is not a Non-Arm's Length Qualifying Transaction.

#### **TCC Private Placement**

At the Closing, Turquoise will complete a private placement of a minimum of 13,333,333 and a maximum of 26,666,666 Turquoise Shares at a price of \$0.30 per Turquoise Share for minimum gross proceeds of \$4,000,000 and maximum gross proceeds of \$8,000,000. In connection with the TCC Private Placement, Turquoise will pay finder's fees of 8% in cash and 8% in Turquoise Finder Warrants to various registered brokers as consideration for assisting Turquoise in completing the offering.

#### **Effect of the Transaction**

Following completion of the Proposed Qualifying Transaction, it is expected that:

- (a) Turquoise will have acquired all the issued and outstanding Five Star Shares on the basis of the Exchange Ratio;
- (b) Five Star will have merged with Subco and the merged company will become a wholly-owned subsidiary of Turquoise;
- (c) the Resulting Issuer will carry on the business theretofor carried on by Five Star;
- (d) there will be an aggregate of 122,694,924 Resulting Issuer Shares outstanding (assuming the Minimum Financing and the issuance of the Advisor Compensation Shares but without giving effect to the issuance of the Anti-Dilution Shares) and 136,361,590 Resulting Issuer Shares outstanding (assuming the Maximum Financing and the issuance of the Advisor Compensation Shares but without giving effect to the issuance of the Anti-Dilution Shares) issued and outstanding;
- (e) the following convertible securities will be issued and outstanding:
  - (i) 200,000 Resulting Issuer Options, each exercisable to acquire one Resulting Issuer Share at a price of \$0.10 per Resulting Issuer Share in respect of the Turquoise Options outstanding prior to the Proposed Qualifying Transaction;

- (ii) 1,066,666 Resulting Issuer Finder Warrants (assuming the Minimum Financing) and 2,133,333 Resulting Issuer Finder Warrants (assuming the Maximum Financing), each exercisable to acquire one Resulting Issuer Share at \$0.30 per Resulting Issuer Share;
- (f) former Five Star Shareholders will hold an aggregate of 99,879,258 Resulting Issuer Shares representing approximately 81.4% of the outstanding Resulting Issuer Shares (on a non-diluted basis assuming the Minimum Financing but without giving effect to the issuance of the Anti-Dilution Shares) and 73.2% of the outstanding Resulting Issuer Shares (on a non-diluted basis assuming the Maximum Financing but without giving effect to the issuance of the Anti-Dilution Shares);
- (g) existing shareholders of Turquoise will hold an aggregate of 6,489,774 Resulting Issuer Shares 5.3% of the outstanding Resulting Issuer Shares (on a non-diluted basis assuming the Minimum Financing but without giving effect to the issuance of the Anti-Dilution Shares) and 4.8% of the outstanding Resulting Issuer Shares (on a non-diluted basis assuming the Maximum Financing but without giving effect to the issuance of the Anti-Dilution Shares); and
- (h) the board of directors of the Resulting Issuer will be comprised of: Matthew Wood, Luís Azevedo, Brian McMaster, Gizman Abbas, Simon Rothschild and Nicholas Pike. In addition, it is expected that Matthew Wood will serve as President and Chief Executive Officer and Brian McMaster will serve as Chief Financial Officer and Corporate Secretary of the Resulting Issuer.

#### **Parties to the Merger**

##### ***Turquoise Capital Corp.***

Turquoise is a “capital pool company” formed in accordance with TSXV Policy 2.4, and, at present, Turquoise does not own any material assets other than cash. To date, Turquoise has not conducted any active business operations. Since its incorporation, the principal activities of Turquoise have consisted of the financing of Turquoise through its initial public offering, the initial listing of the Turquoise Shares on the TSXV, the identification of potential acquisitions, the negotiation of the Merger Agreement and efforts to implement the Proposed Qualifying Transaction. See “Part II – Information Concerning Turquoise – General Development of the Business”.

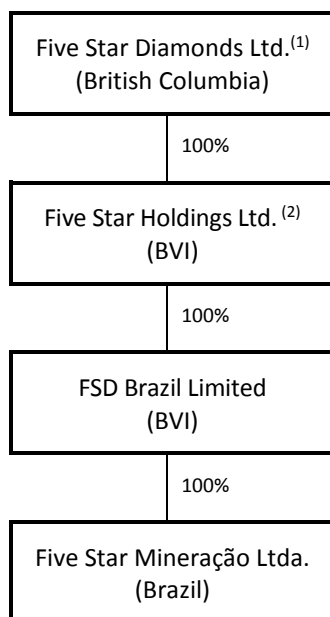
##### ***Five Star Diamonds Ltd.***

Five Star is a corporation incorporated under the BVI Act on May 15, 2014. The registered office of Five Star is located at 2<sup>nd</sup> Floor, Abbott Building, Waterfront Drive, Road Town, Tortola, British Virgin Islands.

Five Star is a privately-held exploration and development company focused on the business of mining, mineral and resource exploration and development in Brazil. Five Star has the following subsidiaries: FSD Brazil Limited (“**FSDB**”) and Five Star Mineração Ltda. (“**FSML**”). Five Star holds 100% of the outstanding shares of FSDB, and FSDB holds 100% of the outstanding quotas of FSML.

Five Star is a private company and none of its securities have been traded or are listed for trading on any stock exchange. See “Part III – Information Concerning Five Star – Prior Sales”.

After the closing of the Qualifying Transaction, the corporate structure will be as follows:



Notes:

1. Currently Turquoise Capital Corp.
2. Currently Five Star Diamonds Ltd.
3. FSD Brazil Limited owns 14,095,578 of the issued and outstanding Quotas of Five Star Mineração Ltda. Five Star Holdings Ltd. (currently Five Star Diamonds Ltd.) own one (1) Quota of Five Star Mineração Ltda. in order to comply with the requirement under Brazilian law to have two (2) quota holders.

**Interests of Insiders**

The following is a summary of the interests of any Insider, Promoter or Control Person of Turquoise, Five Star and the Resulting Issuer and their respective Associates and Affiliates (before and after giving effect to the Proposed Qualifying Transaction and the TCC Private Placement), including any consideration that such individual may receive if the Proposed Qualifying Transaction Proceeds.

<b>Insiders, Promoter, Control Person</b>	<b>Position</b>	<b>Number Turquoise Shares and/or Five Star Shares as at the Date of the Filing Statement<sup>(1)</sup></b>	<b>Resulting Issuer Shares upon Completion of the Proposed Qualifying Transaction and Minimum Financing<sup>(2)</sup></b>	<b>Resulting Issuer Shares upon Completion of the Proposed Qualifying Transaction and Maximum Financing<sup>(2)</sup></b>
Peter Hinam <sup>(3)</sup> <i>Vancouver, BC</i>	Current Chief Executive Officer, Director and Promoter of Turquoise	340,740 Turquoise Shares (5.24%)	340,740 Resulting Issuer Shares (0.28%)	340,740 Resulting Issuer Shares (0.25%)
Devon Brown <i>Vancouver, BC</i>	Current Chief Financial Officer, Corporate Secretary and Director of Turquoise	203,703 Turquoise Shares (3.24%)	203,703 Resulting Issuer Shares (0.17%)	203,703 Resulting Issuer Shares (0.15%)
John da Costa <sup>(4)</sup> <i>Vancouver, BC</i>	Current Director of Turquoise	250,000 Turquoise Shares (3.85%)	250,000 Resulting Issuer Shares (0.20%)	250,000 Resulting Issuer Shares (0.18%)
Timothy Hamilton <sup>(5)</sup> <i>Vancouver, BC</i>	Current Director of Turquoise	448,703 Turquoise Shares (6.91%)	448,703 Resulting Issuer Shares (0.37%)	448,703 Resulting Issuer Shares (0.33%)
Ryan Simmonds <sup>(6)</sup>	Current Director of	479,296 Turquoise	479,296 Resulting Issuer	479,296 Resulting Issuer

<b>Insiders, Promoter, Control Person</b>	<b>Position</b>	<b>Number Turquoise Shares and/or Five Star Shares as at the Date of the Filing Statement<sup>(1)</sup></b>	<b>Resulting Issuer Shares upon Completion of the Proposed Qualifying Transaction and Minimum Financing<sup>(2)</sup></b>	<b>Resulting Issuer Shares upon Completion of the Proposed Qualifying Transaction and Maximum Financing<sup>(2)</sup></b>
	Turquoise	Shares (7.39%)	Shares (0.39%)	Shares (0.35%)
Greg Bell <i>Vancouver, BC</i>	Current Director of Turquoise	55,000 Turquoise Shares (0.85%)	55,000 Resulting Issuer Shares (0.04%)	55,000 Resulting Issuer Shares (0.04%)
Matthew Wood <sup>(7)</sup> <i>Ulaanbaatar, Mongolia</i>	Current President, Chief Executive Officer and Director of Five Star; Proposed President, Chief Executive Officer and Director of the Resulting Issuer	2,474,742 Five Star Shares (2.48%)	2,474,742 Resulting Issuer Shares (2.02%)	2,474,742 Resulting Issuer Shares (1.81%)
Brian McMaster <i>London, UK</i>	Current Chief Financial Officer and Director of Five Star; Proposed Chief Financial Officer and Director of the Resulting Issuer	10,675,201 Five Star Shares (10.69%)	10,675,201 Resulting Issuer Shares (8.70%)	10,675,201 Resulting Issuer Shares (7.83%)
Luís Azevedo <i>Rio de Janeiro, Brazil</i>	Current Director of Five Star; Proposed Director of the Resulting Issuer	10,445,282 Five Star Shares (10.46%)	10,445,282 Resulting Issuer Shares (8.51%)	10,445,282 Resulting Issuer Shares (7.66%)
Gizman Abbas <i>New York, NY</i>	Current Director of Five Star; Proposed Director of the Resulting Issuer	Nil	Nil	Nil
Simon Rothschild <i>Oxfordshire, UK</i>	Current Director of Five Star; Proposed Director of the Resulting Issuer	60,592 Five Star Shares (0.05%)	60,592 Resulting Issuer Shares (0.05%)	60,592 Resulting Issuer Shares (0.04%)
Nicholas Pike <i>Issigeac, France</i>	Current Director of Five Star; Proposed Director of the Resulting Issuer	Nil	Nil	Nil
R&R Venture Partners II LLC <i>New York, New York</i>	N/A	32,500,000 Five Star Shares (32.54%)	32,500,000 Resulting Issuer Shares (26.49%)	32,500,000 Resulting Issuer Shares (23.83%)

**Notes:**

1. As of the date hereof, there are 6,489,774 Turquoise Shares outstanding and 99,879,258 Five Star Shares outstanding.
2. Upon completion of the TCC Private Placement and the Proposed Qualifying Transaction, it is expected there will be 122,694,924 Resulting Issuer Shares outstanding (assuming the Minimum Financing and the issuance of the Advisor Compensation Shares but without giving effect to the issuance of the Anti-Dilution Shares) and 136,361,590 Resulting Issuer Shares outstanding (assuming the Maximum Financing and the issuance of the Advisor Compensation Shares but without giving effect to the issuance of the Anti-Dilution Shares) issued and outstanding.
3. Mr. Hinam also holds Turquoise Options to purchase 50,000 Turquoise Shares. Such options were granted on July 3, 2013 and have an exercise price of \$0.10. In accordance with TSXV Policy 2.4, these Turquoise Options will expire the later of twelve (12) months following Completion of the Proposed Qualifying Transaction and ninety (90) days after Mr. Hinam ceases to be a director, officer, employee or consultant of the Resulting Issuer.
4. Mr. de Costa also holds Turquoise Options to purchase 50,000 Turquoise Shares. Such options were granted on July 3, 2013 and have an exercise price of \$0.10. In accordance with TSXV Policy 2.4, these Turquoise Options will expire the later of twelve (12) months following Completion of the Proposed Qualifying Transaction and ninety (90) days after Mr. da Costa ceases to be a director, officer, employee or consultant of the Resulting Issuer.
5. Mr. Hamilton also holds Turquoise Options to purchase 50,000 Turquoise Shares. Such options were granted on July 3, 2013 and have an exercise price of \$0.10. In accordance with TSXV Policy 2.4, these Turquoise Options will expire the later of twelve (12) months following Completion of the Proposed Qualifying Transaction and ninety (90) days after Mr. Hamilton ceases to be a director, officer, employee or consultant of the Resulting Issuer.

6. Mr. Simmonds also holds Turquoise Options to purchase 50,000 Turquoise Shares. Such options were granted on July 3, 2013 and have an exercise price of \$0.10. In accordance with TSXV Policy 2.4, these Turquoise Options will expire the later of twelve (12) months following Completion of the Proposed Qualifying Transaction and ninety (90) days after Mr. Simmonds ceases to be a director, officer, employee or consultant of the Resulting Issuer.
7. Byambaa Zolzaya, the spouse of Matthew Wood, owns 8,654,000 or approximately 8.66% of the total issued and outstanding Five Star Shares. Upon Completion of the Proposed Qualifying Transaction (assuming the issuance of the Advisor Compensation Shares but without giving effect to the issuance of the Anti-Dilution Shares) she will own approximately 7.00%, in the case of the Minimum Financing, and 6.35%, in the case of the Maximum Financing, of the issued and outstanding Resulting Issuer Shares.

## Available Funds and Principal Purposes

### *Funds Available*

Turquoise and Five Star anticipate that immediately following Closing of the Proposed Qualifying Transaction, the Resulting Issuer will have available funds of approximately \$3,502,361 (assuming the Minimum Financing) and \$7,182,361 (assuming the Maximum Financing), based on estimated working capital as at January 31, 2017 of \$17,361 (after giving effect to the settlement by Five Star on February 10, 2017 of US\$277,641 in current liabilities through the issuance of Five Star Shares at a price of \$0.30 per share) and the net proceeds to be received from the TCC Private Placement.

### *Principal Purposes of Funds*

The principal purposes of the available funds will be as follows:

<u>Principal Use of Funds</u>	<u>Amount (Minimum Financing)</u>	<u>Amount (Maximum Financing)</u>
Exploration work on Catalao Diamond Project	\$1,429,000	\$1,429,000
General working capital and administrative costs	\$1,881,000	\$1,881,000
Unallocated working capital	\$192,361	\$3,872,361
<b>TOTAL</b>	<u>\$3,502,361</u>	<u>\$7,182,361</u>

See "Part IV – Information Concerning the Resulting Issuer – Available Funds and Principal Purposes".

### **Selected *Pro Forma* Consolidated Financial Information**

The following table summarizes selected pro forma financial information for the Resulting Issuer (as at August 31, 2016), after giving effect to the Proposed Qualifying Transaction, and should be read in conjunction with the *pro forma* financial statements of the Resulting Issuer attached hereto as Schedule "D".

<b>Pro Forma Balance Sheet</b>	<b>Turquoise as at August 31, 2016 (C\$)</b>	<b>Five Star as at December 31, 2016 (US\$)</b>	<b>Five Star as at December 31, 2016 (C\$)<sup>(1)</sup></b>	<b>Pro Forma Adjustments</b>	<b>Resulting Issuer Pro Forma (C\$)</b>
Current Assets	\$94,870	\$397,955	\$521,321	\$4,222,123	\$4,838,314
Total Assets	\$94,870	\$4,449,982	\$5,829,477	\$4,222,123	\$10,146,470
Current Liabilities	\$86,325	\$727,264	\$952,716	-	\$1,039,041
Total Liabilities	\$86,325	\$727,264	\$952,716	-	\$1,039,041
Total Shareholders' Equity	\$8,545	\$3,722,718	\$4,876,761	\$3,557,000	\$9,107,429

Notes:

1. Based on a US\$/C\$ exchange rate of 1.31.

See "Part IV – Information Concerning the Resulting Issuer – Pro Forma Consolidated Capital".

### **Listing and Share Price on the TSXV**

The Turquoise Shares were listed on the TSXV on July 3, 2013 under the symbol "TQC.P". The Turquoise Shares were delisted from the main board of the TSXV on June 2, 2016 and commenced trading on the NEX board of the TSXV under the symbol "TQC.H". Trading in Turquoise Shares is currently halted pending Completion of the Proposed Qualifying Transaction. The closing price of the Turquoise Shares on September 17, 2014, being the last day on which the Turquoise Shares traded prior to the announcement of the Proposed Qualifying Transaction on September 12, 2016, was \$0.09 per Turquoise Share. The Five Star Shares are not traded publicly and there is no public market for the securities of Five Star.

### **Summary of Relationship or Other Arrangement between Turquoise and Five Star**

Other than the Proposed Qualifying Transaction and as otherwise disclosed herein, there is no relationship or other arrangement between Turquoise and Five Star.

### **Sponsorship**

Sponsorship of a Qualifying Transaction of a CPC is required by the TSXV unless exempt in accordance with TSXV Policy 2.4. Canaccord Genuity Corp. has been engaged to act as sponsor for the Proposed Qualifying Transaction.

### **Details of Any Conflict of Interest**

Other than as disclosed herein, neither the management of Turquoise nor Five Star is aware of any material conflicts of interest arising out of the Proposed Qualifying Transaction.

The directors and officers of Turquoise are aware of the existence of laws governing accountability of directors and officers for corporate opportunity and the laws requiring disclosure by directors and officers of conflicts of interest. Turquoise will rely upon such laws in respect of any such conflict of interest or in respect of any breach of duty by any of its directors or officers. All such conflicts are required to be disclosed by such directors or officers in accordance with the BCBCA and the directors of Turquoise are required to govern themselves in respect thereof to the best of their ability in accordance with the obligations imposed upon them by law.

Certain of Turquoise's directors are also directors, officers or shareholders of other companies that are engaged in the business of acquiring, developing and exploiting natural resource properties. Such associations may give rise to conflicts of interest from time to time.

### **Interests of Experts**

No person or company, whose profession or business gives authority to a statement made by the person or company and who is named as having prepared or certified a part of this Filing Statement or as having prepared or certified a report or valuation described or included in this Filing Statement, holds any beneficial interest, directly or indirectly, in any property of Turquoise, Five Star or the Resulting Issuer or of an Associate or Affiliate of Turquoise, Five Star or the Resulting Issuer and no such person is expected to be elected, appointed or employed as a director, senior officer or employee of Turquoise, Five Star or the Resulting Issuer or of an Associate or Affiliate of Turquoise, Five Star or the Resulting Issuer and no such person is a Promoter of Turquoise, Five Star or the Resulting Issuer or an Associate or Affiliate of Turquoise, Five Star or the Resulting Issuer.

Dale Matheson Carr-Hilton LaBonte LLP has informed Turquoise that they are independent with respect to Turquoise within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of British Columbia.

### **Risk Factors**

An investment in Turquoise Shares or Resulting Issuer Shares (both before and after Completion of the Proposed Qualifying Transaction) should be considered highly speculative and involves a high degree of risk. Material risk factors affecting the Resulting Issuer include the following: risks related to the global financial and economic conditions, Five Star's limited operating history, exploration, development and production risks, operational risks, risks associated with permits and licenses, acquisition and integration risks, funding and future financing risks, risks associated with stringent regulatory requirements, environmental risks, insurance risks, industry competition risks, litigation risks, risk of reliance on key employees, risks associated with recruiting and retaining qualified personnel, fluctuations of the market price of common shares and other usual risks associated with an investment in a business at an early stage of development. The mining industry is intensely competitive and the Resulting Issuer must compete in all aspects of its operations with a number of other entities that have greater technical ability, financial resources and access to markets. For a more detailed description of these and other risk factors affecting the Resulting Issuer, see "Risk Factors" below.

### **TSXV Conditional Approval**

The TSXV has conditionally accepted the Proposed Qualifying Transaction subject to Turquoise fulfilling all of the requirements of the TSXV on or before June 2, 2017. Such conditional listing approval is subject to a number of standard conditions as well as receipt of final approval from the TSXV.

## RISK FACTORS

### **AN INVESTMENT IN SECURITIES OF THE RESULTING ISSUER IS HIGHLY SPECULATIVE AND INVOLVES A HIGH DEGREE OF RISK AND SHOULD ONLY BE MADE BY INVESTORS WHO CAN AFFORD TO LOSE THEIR ENTIRE INVESTMENT.**

Prior to making an investment decision, investors should consider the investment risks set forth below and those described elsewhere in this document, which are in addition to the usual risks associated with an investment in a business at an early stage of development. The directors of Turquoise and Five Star consider the risks set forth below to be the most significant, but do not consider them to be all of the risks associated with an investment in securities of Turquoise, Five Star or the Resulting Issuer. If any of these risks materialize into actual events or circumstances or other possible additional risks and uncertainties of which the directors are currently unaware or which they consider not to be material in connection with the Resulting Issuer's business, actually occur, the Resulting Issuer's assets, liabilities, financial condition, results of operations (including future results of operations), business and business prospects, are likely to be materially and adversely affected. In such circumstances, the price of the Resulting Issuer's securities could decline and investors may lose all or part of their investment.

#### ***Risk Factors Relating to Turquoise***

##### *The Proposed Qualifying Transaction may not be completed*

The completion of the transactions contemplated by the Merger Agreement is subject to certain conditions, including (a) obtaining all necessary regulatory approvals and other transactions comprising part of the Proposed Qualifying Transaction, (b) the approval by the Five Star shareholders of the Merger, and (c) other customary conditions. There can be no assurance that all of the necessary regulatory and shareholder approvals will be obtained. If the transactions contemplated by the Merger Agreement are not completed for these reasons or for any other reasons, Turquoise will have incurred significant costs associated with the failed implementation of the Proposed Qualifying Transaction.

Furthermore, Turquoise has only limited funds with which to identify and evaluate potential Qualifying Transactions and there can be no assurance that Turquoise will be able to identify a suitable Qualifying Transaction in future. Even if a proposed Qualifying Transaction is identified in the future, the completion of such other Qualifying Transaction will be subject to a number of conditions including acceptance by the TSXV and, in the case of a Non-Arm's Length Qualifying Transaction, approval of the majority of the minority shareholders.

##### *Limited Operating History and History of Losses*

Turquoise has not commenced commercial operations and has no assets other than cash. Turquoise has no history of earnings and will not generate earnings or pay dividends until at least after the completion of a Qualifying Transaction. Until completion of a Qualifying Transaction, Turquoise is not permitted to carry on any business other than the identification and evaluation of potential transactions.

##### *Dilution*

The Proposed Qualifying Transaction will be financed all or in part by the issuance of additional securities of Turquoise and this will result in further dilution to the current Turquoise Shareholders, which dilution may be significant and which may also result in a change of control of Turquoise.

##### *Management and Conflicts of Interest*

The ability of Turquoise to successfully complete a Qualifying Transaction is dependent on the performance of its current directors and officers, who only devote a portion of their time to the business and affairs of Turquoise and are, or will be, engaged in other projects or businesses. The current directors, officers and Promoters of Turquoise also serve as directors and/or officers of other companies which may compete with Turquoise in its search for the businesses or assets targeted in order to complete a Qualifying Transaction. Accordingly, situations may arise where the directors, officers and promoters of Turquoise are in a position of conflict with Turquoise.

### ***Risk Factors Relating to the Resulting Issuer***

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

#### ***Dependence on Single Mineral Project***

The Catalao Diamond Project is the only advanced property in which Five Star currently holds an interest. As such, the operations of the Resulting Issuer will be dependent on the Catalao Diamond Project, which may never develop into a commercially viable ore body. Any adverse development affecting the Catalao Diamond Project will have a material adverse effect on the Resulting Issuer's business, prospects, financial performance and results of operations.

#### ***Exploration and Development Risk***

Mining operations generally involve a high degree of risk. The Resulting Issuer's operations will be subject to all the hazards and risks normally encountered in the exploration, development and production of diamonds, including unusual and unexpected geologic formations, seismic activity, explosions, rock bursts, cave-ins, flooding, pit wall failure and other conditions involved in drilling and removal of material, any of which could result in damage to, or destruction of, mines and other producing facilities, damage to life or property, environmental damage, delays in mining, monetary losses and possible legal liability.

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

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

### *Limited Operating History and Financial Resources*

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

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

### *Uncertainty of Resource Estimates*

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

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

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

### *Mineral Reserves*

Five Star has not defined any Mineral Reserves on its concessions at the Catalao Diamond Project and there can be no assurance that any of the concessions under exploration contain commercial quantities of any minerals. Even if commercial quantities of minerals are identified, there can be no assurance that the Resulting Issuer will be able to exploit the resources or, if the Resulting Issuer is able to exploit them, that it will do so on a profitable basis. Substantial expenditures may be required to locate and establish Mineral Reserves, to develop extraction processes and to construct mining and processing facilities at a site, and substantial additional financing may be required. It is impossible to ensure that the exploration or development programs planned by the Resulting Issuer will result in a profitable commercial mining operation. The decision as to whether a property contains a commercial mineral deposit and should be brought into production will depend on the results of exploration programs and/or feasibility studies, and the recommendations of

duly qualified engineers and geologists. Several significant factors will be considered, including, but not limited to: (i) the attributes of the deposit, such as size, grade and proximity to infrastructure; (ii) diamond prices, which are highly cyclical; (iii) government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals and environmental protection; (iv) ongoing costs of production; and (v) availability and cost of additional funding. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Resulting Issuer not receiving an adequate return on invested capital.

#### *Operational Risks*

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

#### *Foreign Operations Risks*

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

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

#### *Title to Properties*

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

omission in the claim of title, prior activities of the property vendors or changes in Brazilian mining laws or the application thereof which affects the Resulting Issuer's title.

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

#### *Commodity Prices*

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

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

#### *Dependence on Future Financings*

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

#### *Share Price Volatility*

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

be affected by the Resulting Issuer's ability to meet or exceed expectations of analysts or investors. Any failure to meet these expectations, even if minor, may have a material adverse effect on the market price of the Resulting Issuer Shares.

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

#### *Government Regulation*

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

#### *Permits and Licenses*

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

#### *Health and Safety Risk*

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

### *Environmental Matters*

The Resulting Issuer's operations will be subject to local laws and regulations regarding environmental matters, the use or abstraction of water, and the discharge of mining wastes and materials. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. The cost of compliance with changes in governmental regulations has the potential to reduce the profitability of operations. Furthermore, any failure to comply fully with all applicable laws and regulations could have significant adverse effects on the Resulting Issuer, including the suspension or cessation of operations. Environmental laws and regulations change frequently, and the implementation of new, or the modification of existing, laws or regulations could harm the Resulting Issuer. The Resulting Issuer cannot predict how agencies or courts in foreign countries will interpret existing laws and regulations or the effect that these adoptions and interpretations may have on the Resulting Issuer's business or financial condition.

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

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

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

### *Infrastructure*

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

### *Competition*

The mining industry is intensely competitive in all of its phases, and the Resulting Issuer will compete with other exploration companies which have greater financial resources and technical facilities for the acquisition of mineral concessions, claims, leases and other mineral interests as well as for the recruitment and retention of qualified employees and other persons to carry out its mineral exploration and development activities. Recent increases in base and precious metal prices have encouraged increases in mining exploration, development and construction activities, which have resulted in increased demand for, and cost of, exploration, development and construction services and equipment. Increased demand for services and equipment could cause project costs to increase materially, resulting in delays if

services or equipment cannot be obtained in a timely manner due to inadequate availability, and increase potential scheduling difficulties and cost increases due to the need to coordinate the availability of services or equipment, any of which could materially increase project exploration, development or construction costs, result in project delays or both.

#### *Acquisitions and Integration*

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

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

#### *Non-Governmental Organization Intervention*

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

#### *Litigation Risk*

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

### *Key Personnel*

Locating and developing mineral deposits depends on a number of factors, not the least of which is the technical skill of the exploration, development and production personnel involved. The success of the Resulting Issuer is largely dependent on the performance of its key personnel. The Resulting Issuer's success is also largely dependent on its ability to hire and retain other highly qualified personnel. This is particularly true in highly technical businesses such as mineral exploration. The number of persons skilled in acquisition, exploration and development of mining properties is limited and competition for this workforce is intense. As the Resulting Issuer's business activity grows, the Resulting Issuer will require additional key executive, financial, operational, administrative and mining personnel. The Resulting Issuer will compete with numerous other companies for the recruitment and retention of qualified employees and contractors. These individuals are in high demand and the Resulting Issuer may not be able to attract the personnel it needs. Failure to retain key personnel or to attract and retain additional key individuals with necessary skills could have a materially adverse impact upon the Resulting Issuer's business, its operating results as well as its overall financial condition. The Resulting Issuer has not purchased any "key-man" insurance with respect to any of its directors, officers or key employees and has no current plans to do so.

### *Insurance and Uninsured Risk*

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

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

### *Conflicts of Interest*

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

### *Institution of Restrictions on Repatriation of Earnings*

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

### *Currency Risks*

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

### *No Dividends*

The Resulting Issuer does not expect to pay dividends on the issued and outstanding Resulting Issuer Shares upon Completion of the Proposed Transaction or in the foreseeable future. If the Resulting Issuer generates any future earnings such cash resources will be retained to finance further growth and current operations. The board of directors of the Resulting Issuer will determine if and when dividends should be declared and paid in the future based on the financial position of the Resulting Issuer and other factors relevant at that time. Until the Resulting Issuer pays dividends, which it may never do, a shareholder will not be able to receive a return on his or her investment in the Resulting Issuer Shares unless such Resulting Issuer Shares are sold. In such event, a shareholder may only be able to sell his, her or its Resulting Issuer Shares at a price less than the price such shareholder originally paid for them, which could result in a loss of such shareholder's investment.

### *Enforcement of Civil Liabilities*

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

## **PART I – THE TRANSACTION**

### **Details of the Transaction**

As announced in a press release dated September 12, 2016, Turquoise and Five Star entered into a Merger Agreement on September 9, 2016 pursuant to which Turquoise will acquire all of the outstanding securities of Five Star in exchange for the issuance of securities of the Resulting Issuer. The Proposed Qualifying Transaction will constitute Turquoise's Qualifying Transaction pursuant to TSXV Policy 2.4.

### ***The Merger***

Turquoise has entered into the Merger Agreement with Five Star and Subco pursuant to which Turquoise will acquire all of the issued and outstanding Five Star Shares by way of a three-cornered amalgamation pursuant to section 181 of the BVI Act. Pursuant to the Merger Agreement, (i) Turquoise will acquire all of the issued and outstanding Five Star Shares; (ii) Five Star will merge into Subco and continue as a wholly-owned subsidiary of Turquoise; and (iii) holders of Five Star Shares will receive Resulting Issuer Shares in exchange for their Five Star Shares on the basis of the Exchange Ratio.

Although the Proposed Qualifying Transaction will result in Five Star becoming a wholly-owned subsidiary of Turquoise, the Proposed Qualifying Transaction will constitute a reverse takeover of Turquoise inasmuch as the former Five Star Shareholders will own a substantial majority of the Resulting Issuer Shares. Upon completion of the Proposed Qualifying Transaction, the current business of Five Star will be the business of the Resulting Issuer. See "Part III – Information Concerning Five Star – Narrative Description of Business".

Upon Completion of the Proposed Qualifying Transaction, Five Star Shareholders will hold an aggregate of 99,879,258 Resulting Issuer Shares representing approximately 81.4% of the outstanding Resulting Issuer Shares (on a non-diluted basis assuming the Minimum Financing but without giving effect to the issuance of the Anti-Dilution Shares) and 73.2% of the outstanding Resulting Issuer Shares (on a non-diluted basis assuming the Maximum Financing but without giving effect to the issuance of the Anti-Dilution Shares) and the existing shareholders of Turquoise will hold an aggregate of 6,489,774 Resulting Issuer Shares 5.3% of the outstanding Resulting Issuer Shares (on a non-diluted basis assuming the Minimum Financing but without giving effect to the issuance of the Anti-Dilution Shares) and 4.8% of the outstanding Resulting

Issuer Shares (on a non-diluted basis assuming the Maximum Financing but without giving effect to the issuance of the Anti-Dilution Shares). Accordingly, the Proposed Qualifying Transaction will constitute a “reverse take-over” for accounting purposes.

The Completion of the Proposed Qualifying Transaction is subject to the approval of the TSXV and the approval of the TSX for the listing of the Resulting Issuer Shares. The Completion of the Proposed Qualifying Transaction is also subject to certain other additional conditions precedent, including, but not limited to: (i) the absence of any material change or change in a material fact which might reasonably be expected to have a material adverse effect on the financial and operational conditions or the assets of each of the parties to the Merger Agreement; and (ii) certain other conditions typical in a transaction of this nature.

An aggregate of 64,809,817 Resulting Issuer Shares to be issued to the Principals of the Resulting Issuer pursuant to the Proposed Qualifying Transaction will be placed in TSXV surplus share escrow and will be released on terms to be set out in the QT Escrow Agreement among the Escrow Agent and such securityholders. In addition, an aggregate of additional 10,000,000 Resulting Issuer Shares issued to former Five Star Shareholders who are not Principals of the Resulting Issuer will be subject to seed share resale restrictions of the TSXV. For information pertaining to the terms of the escrow and seed share resale restrictions, see “Part IV – Information Concerning the Resulting Issuer – Escrowed Securities”.

The Completion of the Proposed Qualifying Transaction will take place on the Effective Date.

### ***TCC Private Placement***

At the Closing, Turquoise will complete a private placement of a minimum of 13,333,333 and a maximum of 26,666,666 Turquoise Shares at a price of \$0.30 per Turquoise Share for minimum gross proceeds of \$4,000,000 and maximum gross proceeds of \$8,000,000. In connection with the TCC Private Placement, Turquoise will pay finder’s fees of 8% in cash and 8% in Turquoise Finder Warrants to various registered brokers as consideration for assisting Turquoise in completing the offering.

### **Effect of the Transaction**

Following Completion of the Proposed Qualifying Transaction, it is expected that:

- (a) Turquoise will have acquired all the issued and outstanding Five Star Shares on the basis of the Exchange Ratio;
- (b) Five Star will have merged with Subco and the merged company will become a wholly-owned subsidiary of Turquoise;
- (c) the Resulting Issuer will carry on the business theretofore carried on by Five Star;
- (d) there will be an aggregate of 122,694,924 Resulting Issuer Shares outstanding (assuming the Minimum Financing and the issuance of the Advisor Compensation Shares but without giving effect to the issuance of the Anti-Dilution Shares) and 136,361,590 Resulting Issuer Shares outstanding (assuming the Maximum Financing and the issuance of the Advisor Compensation Shares but without giving effect to the issuance of the Anti-Dilution Shares) issued and outstanding;
- (e) the following convertible securities will be issued and outstanding:
  - (i) 200,000 Resulting Issuer Options, each exercisable to acquire one Resulting Issuer Share at a price of \$0.10 per Resulting Issuer Share in respect of the Turquoise Options outstanding prior to the Proposed Qualifying Transaction;
  - (ii) 1,066,666 Resulting Issuer Finder Warrants (assuming the Minimum Financing) and 2,133,333 Resulting Issuer Finder Warrants (assuming the Maximum Financing), each exercisable to acquire one Resulting Issuer Share at \$0.30 per Resulting Issuer Share;
- (f) former Five Star Shareholders will hold an aggregate of 99,879,258 Resulting Issuer Shares representing approximately 81.4% of the outstanding Resulting Issuer Shares (on a non-diluted basis assuming the Minimum Financing but without giving effect to the issuance of the Anti-Dilution Shares) and 73.2% of

the outstanding Resulting Issuer Shares (on a non-diluted basis assuming the Maximum Financing but without giving effect to the issuance of the Anti-Dilution Shares);

- (g) existing shareholders of Turquoise will hold an aggregate of 6,489,774 Resulting Issuer Shares 5.3% of the outstanding Resulting Issuer Shares (on a non-diluted basis assuming the Minimum Financing but without giving effect to the issuance of the Anti-Dilution Shares) and 4.8% of the outstanding Resulting Issuer Shares (on a non-diluted basis assuming the Maximum Financing but without giving effect to the issuance of the Anti-Dilution Shares); and
- (h) the board of directors of the Resulting Issuer will be comprised of: Matthew Wood, Luís Azevedo, Brian McMaster, Gizman Abbas, Simon Rothschild and Nicholas Pike. In addition, it is expected that Matthew Wood will serve as President and Chief Executive Officer and Brian McMaster will serve as Chief Financial Officer and Corporate Secretary of the Resulting Issuer.

### **Background of the Transaction**

On June 27, 2013, Turquoise completed its initial public offering. As a CPC, Turquoise has no assets other than cash and has not carried on active business or commercial operations. Under the policies of the TSXV, the activities of Turquoise are limited to identifying and evaluating assets or businesses which, when acquired, would qualify Turquoise for listing as a Tier 1 or Tier 2 issuer on the TSXV.

On April 1, 2015, Turquoise entered into a Business Combination Agreement with respect to a proposed transaction with Vigil Technologies Inc. On July 13, 2016, Turquoise announced the termination of its arrangement agreement with Vigil, and that it would continue to actively identify and evaluate alternative opportunities for completing its Qualifying Transaction on a timely basis.

In August 2016, Turquoise began discussions with the directors and management of Five Star about a possible business combination among the parties. On September 9, 2016, Turquoise and Five Star entered into the Merger Agreement. Pursuant to the Merger Agreement and subject to the receipt of all requisite approvals, Turquoise will acquire all the issued and outstanding Five Star Shares in exchange for the issuance of Resulting Issuer Shares in accordance with the Exchange Ratio, and Five Star will be merged with Subco and continue as a wholly-owned subsidiary of Turquoise.

On or about November 25, 2016, Five Star mailed to its shareholders the materials in connection with the Five Star Shareholder Approval.

Effective on or about December 6, 2016, the Five Star shareholders provided the Five Star Shareholder Approval.

### **Reasons for the Transaction**

Turquoise was formed as a CPC and has been engaged in the business of identifying and evaluating properties or businesses with a view to completing a Qualifying Transaction. The Proposed Qualifying Transaction will constitute a Qualifying Transaction for Turquoise for the purposes of TSXV Policy 2.4.

Five Star is a privately-held exploration and development company focused on the business of mining, mineral and resource exploration and development in Brazil. The Proposed Qualifying Transaction allows Five Star to provide the potential for liquidity to its existing shareholders and gain access to the capital markets.

The terms of the Proposed Qualifying Transaction were established through arm's length negotiations between the board of directors and management of each of Turquoise and Five Star. The Proposed Qualifying Transaction is not a Non-Arm's Length Qualifying Transaction.

### **Merger Agreement**

The Merger will become effective on the Effective Date, subject to the satisfaction of the applicable conditions.

The principal features of the Merger Agreement and the Merger may be summarized as follows:

- all Five Star Shares held by shareholders who have exercised a right of dissent pursuant to section 190 of the BVI Act will be deemed to have been cancelled and the holders of such Five Star Shares will cease to have any rights as Five Star Shareholders other than the right to be paid the fair value of their Five Star Shares;
- Five Star and Subco will merge and continue as one corporation under the provisions of the BVI Act and, as a result, the property and liabilities of Subco and Five Star will become the property and liabilities of the merged company (“**Mergco**”);
- each Five Star Share shall be cancelled and the holder thereof shall receive that number of Resulting Issuer Shares as is equal to the number of Five Star Shares held by such Five Star Shareholder immediately prior to the Effective Time multiplied by the Exchange Ratio;
- as consideration for the issuance of Resulting Issuer Shares in connection with the Merger, Subco shall issue to the Resulting Issuer one Mergco Share for each Resulting Issuer Share so issued.

### ***Representations, Warranties and Covenants***

The Merger Agreement contains certain customary representations and warranties of each of Turquoise and Five Star relating to, among other things, their respective organization, capitalization, qualification, operations, compliance with laws and regulations and other matters, including their authority to enter into the Merger Agreement and to consummate the Proposed Qualifying Transaction. Pursuant to the Merger Agreement, the parties have agreed to advise each other of material changes. Further, the parties have agreed to use their commercially reasonable efforts to obtain all regulatory and other consents, waivers and approvals required for the consummation of the Proposed Qualifying Transaction.

In addition, pursuant to the Merger Agreement, each of the parties has covenanted, among other things, until the completion of the Proposed Qualifying Transaction, to maintain their respective businesses and not take certain actions outside the ordinary course.

### ***Conditions of the Transaction***

The Merger Agreement contains several conditions precedent to the obligations of Turquoise and Five Star thereunder. Unless all such conditions are satisfied or waived by the party or parties for whose benefit such conditions exist, to the extent they may be capable of waiver, the Proposed Qualifying Transaction will not proceed. There is no assurance that the conditions will be satisfied or waived on a timely basis, or at all. The conditions to the Proposed Qualifying Transaction becoming effective are set out in the Merger Agreement, and certain conditions are summarized below.

#### ***Conditions to Obligations of Turquoise***

The obligations of Turquoise and Turquoise Subco to complete the Proposed Qualifying Transaction are subject to the fulfillment of the following conditions at or prior to the Effective Date:

- Five Star shall have performed in all material respects the obligations to be performed by it under the Merger Agreement on or before the Effective Date, except to the extent any such failure results from a breach of the Merger Agreement by Turquoise, and a certificate of a senior officer of Five Star dated the Effective Date to that effect will have been delivered to Turquoise, such certificate to be in form and substance satisfactory to Turquoise, acting reasonably;
- the representations and warranties of Five Star set forth in the Merger Agreement shall be true and correct in all material respects on and as of the Effective Date (as if made on and as of such date) except as affected by the transactions contemplated or permitted by the Merger Agreement and except to the extent that any such representation or warranty is made as of a specified date, in which case such representation or warranty shall have been true and correct as of such date, and a certificate of a senior officer of Five Star dated the Effective Date to that effect will have been delivered to Turquoise, such certificate to be in form and substance satisfactory to Turquoise, acting reasonably;
- Turquoise shall have received for each of Five Star and the Five Star Subsidiaries: (i) a copy of the constating documents of Five Star and the Five Star Subsidiaries, (ii) a copy of the records of all corporate action taken to authorize the execution, delivery and performance of the Merger Agreement by Five Star, and (iii) an incumbency

certificate, dated the Effective Date, giving the name and bearing a specimen signature of each individual who shall be authorized to sign, in the name and on behalf of Five Star, the Merger Agreement and any other documents necessary to complete the transactions contemplated hereby; in each case certified by senior officer of Five Star and each Five Star Subsidiary, as the case may be, to be true and complete as of the Effective Date;

- Turquoise shall have received a certificate or the equivalent, dated not more than three days prior to the Effective Date, of the jurisdiction of incorporation of each of Five Star and the Five Star Subsidiaries as to the corporate good standing thereof;
- no judgment or order shall have been issued by any Governmental Authority, no action, suit, or proceeding shall have been taken by any Person, and no law, regulation or policy shall have been proposed, enacted, or promulgated or applied, which could reasonably be expected to enjoin, prohibit or impose material limitations or conditions on the completion of the Merger; or that, if the Merger was completed, could reasonably be expected to be materially adverse to Turquoise and its Subsidiaries, taken as whole;
- the Five Star Shareholder approval shall have been obtained;
- receipt of all required third party and regulatory approvals and consents and compliance with all applicable regulatory requirements and conditions, including without limitation, the approval of the TSXV to the Merger, if required;
- all documents to be entered into in order to give effect to the Merger shall be in form and substance satisfactory to Turquoise, acting reasonably;
- since the date hereof, there shall not have been any change, condition, event or occurrence that, individually or in the aggregate, has been, or could reasonably be expected to be, materially adverse to the Five Star Group; and
- Turquoise will have received one or more legal opinions addressed to Turquoise and dated as of the Effective Date regarding title to the Catalao Diamond Project.

#### *Conditions to Obligations of Five Star*

The obligations of Five Star to complete the Proposed Qualifying Transaction are subject to the fulfillment of the following conditions at or prior to the Effective Date:

- Turquoise shall have performed in all material respects the obligations to be performed by it under the Merger Agreement on or before the Effective Date, except to the extent any such failure results from a breach of the Merger Agreement by Five Star, and a certificate of a senior officer of Turquoise dated the Effective Date to that effect will have been delivered to Five Star, such certificate to be in form and substance satisfactory to Five Star, acting reasonably;
- the representations and warranties of Turquoise set forth in the Merger Agreement shall be true and correct in all material respects on and as of the Effective Date (as if made on and as of such date) except as affected by the transactions contemplated or permitted by the Merger Agreement and except to the extent that any such representation or warranty is made as of a specified date, in which case such representation or warranty shall have been true and correct as of such date, and a certificate of a senior officer of Turquoise dated the Effective Date to that effect will have been delivered to Five Star, such certificate to be in form and substance satisfactory to Five Star, acting reasonably;
- Subco shall (i) be duly incorporated under the BVI Act and validly existing, (ii) have issued share capital of 100 ordinary shares, all of which are owned by Turquoise and unencumbered and no other Person shall have any right to acquire any securities of Subco; (iii) not have carried on any activities other than as required in connection with the Merger; and (iv) have taken all actions required to complete the Merger;
- Five Star shall have received for each of Turquoise and the Subco: (i) a copy of the constating documents of Turquoise and the Subco, (ii) a copy of the records of all corporate action taken to authorize the execution, delivery and performance of the Merger Agreement by Turquoise and Subco, and (iii) an incumbency certificate, dated the Effective Date, giving the name and bearing a specimen signature of each individual who shall be authorized to sign, in the name and on behalf of Turquoise and Subco, the Merger Agreement and any other documents necessary to

complete the transactions contemplated hereby; in each case certified by senior officer of Turquoise or Subco, as the case may be, to be true and complete as of the Effective Date;

- Five Star shall have received a certificate or the equivalent, dated not more than three days prior to the Effective Date, of the jurisdiction of incorporation of each of Turquoise and Subco as to the corporate good standing thereof.
- no judgment or order shall have been issued by any Governmental Authority, no action, suit or proceeding shall have been taken by any Person, and no law, regulation or policy shall have been proposed, enacted, or promulgated or applied, which could reasonably be expected to have the effect to cease trade in any of the securities of Turquoise or enjoin, prohibit or impose material limitations or conditions on the completion of the Merger, or that, if the Merger was completed, could reasonably be expected to be materially adverse to Turquoise and its Subsidiaries, taken as whole;
- the Merger, as proposed or with any amendment acceptable to Five Star, and the other transactions contemplated by the Merger Agreement, shall have been approved by the holders of Turquoise Subco Shares pursuant to the Turquoise Subco Consent Resolution and by holders of the Five Star Shares pursuant to the Five Star Consent Resolution;
- Five Star Shareholders representing more than 5% of the Five Star Shares issued and outstanding will not have exercised any applicable dissent rights with respect to the Merger;
- Turquoise shall have completed the TCC Private Placement;
- receipt of all required third party and regulatory approvals and consents and compliance with all applicable regulatory requirements and conditions, including without limitation, the approval of the TSXV to the Merger, if required, and the conditional approval of the TSX to list the Resulting Issuer Shares on the TSX following Closing, subject only to the satisfaction of normal listing conditions;
- all documents to be entered into in order to give effect to the Merger shall be in form and substance satisfactory to Five Star, acting reasonably;
- all agreements, understandings, commitments and other obligations to which Turquoise is a party (other than the Merger Agreement and agreements with the transfer agent and such other agreements related to the Merger) or otherwise bound shall have been terminated and evidence of such termination shall have been provided to Five Star;
- Turquoise shall not have carried on any business and there shall not have been any change, condition, event or occurrence that, individually or in the aggregate, has been, or could reasonably be expected to be, materially adverse to Turquoise;
- Turquoise shall have no Subsidiaries (other than Subco) or material assets, other than cash in the amount of at least \$10,000 plus the net proceeds of the TCC Private Placement, and shall have no liabilities (whether accrued, absolute, contingent or otherwise), other than liabilities approved by Five Star; and
- all of the officers and directors of Turquoise shall have resigned in favour of nominees of Five Star and shall have executed full, final and unconditional releases in favour of Turquoise in form and substance satisfactory to Five Star.

#### ***Termination of Agreement***

The Merger Agreement may be terminated at any time by Five Star prior to the Effective Date:

- with the written agreement of TCC;
- if the Merger has not been completed by December 31, 2016, or such later date as Turquoise and Five Star may agree;
- if it becomes apparent that one or more of the conditions for the benefit of Five Star in the Merger Agreement cannot be satisfied and will not be waived by Five Star prior to December 31, 2016; or

- if (i) Turquoise have not complied in all material respects with their respective covenants or obligations under the Merger Agreement or (ii) any representation or warranty of Turquoise set out in the Merger Agreement shall have been at the date hereof untrue or incorrect or shall have become untrue or incorrect in a material respect at any time prior to the Effective Time (except for those expressly stated to speak at or as of any earlier time) and such untrue or incorrect representation or warranty is not curable or, if curable, is not cured by the earlier of such date which is five (5) Business Days from the date of notice of such breach and the Effective Time, except for any untrue or incorrect representations or warranties which, individually or in the aggregate, would not, or would not reasonably be expected to, have an effect on Turquoise that would be materially adverse.

The Merger Agreement may be terminated at any time by Turquoise prior to the Effective Date:

- with the written agreement of Five Star;
- if the Merger has not been completed by December 31, 2016, or such later date as Turquoise and Five Star may agree;
- if it becomes apparent that one or more of the conditions for the benefit of Turquoise in the Merger Agreement cannot be satisfied and will not be waived by TCC prior to the December 31, 2016; or
- if (i) Five has not complied in all material respects with its covenants or obligations under the merger Agreement or (ii) any representation or warranty of Five set out in the Merger Agreement shall have been at the date hereof untrue or incorrect or shall have become untrue or incorrect in a material respect at any time prior to the Effective Time (except for those expressly stated to speak at or as of any earlier time) and such untrue or incorrect representation or warranty is not curable or, if curable, is not cured by the earlier of such date which is five (5) Business Days from the date of notice of such breach and the Effective Time, except for any untrue or incorrect representations or warranties which, individually or in the aggregate, would not, or would not reasonably be expected to, have an effect on Five Star that would be materially adverse.

## **Procedure for the Proposed Qualifying Transaction to Become Effective**

### ***Five Star Shareholder Approval***

As a condition of the Proposed Qualifying Transaction, the Five Star Shareholders were required to approve the Merger. Such approval was obtained effective on or about December 6, 2016.

### ***TSXV Approval***

The Completion of the Proposed Qualifying Transaction is subject to the approval of the TSXV.

The Resulting Issuer will be considered to have completed the Proposed Qualifying Transaction on the date that the TSXV issues the Final TSXV Bulletin, which is expected to be on or about the fifth Business Day after the Closing, provided that all required documentation is filed with the TSXV. TSXV Policy 2.4 regarding CPCs shall cease to apply after the Completion of the Proposed Qualifying Transaction, except for any escrow resale restrictions, which will continue in full force and effect.

The TSXV has conditionally accepted the Proposed Qualifying Transaction subject to Turquoise fulfilling all of the requirements of the TSXV on or before June 2, 2017. Such conditional listing approval is subject to a number of standard conditions as well as receipt of final approval from the TSXV.

## **PART II - INFORMATION CONCERNING TURQUOISE**

### **Corporate Structure**

#### ***Name and Incorporation***

Turquoise was incorporated by a Certificate of Incorporation issued pursuant to the provisions of the BCBCA on November 14, 2012 under the name "Turquoise Capital Corp.". The head office of Turquoise is located at Suite 810, 789 West Pender Street, Vancouver, BC V6C 1H2. The registered office of Turquoise is located at Suite 704, 595 Howe Street, Vancouver, BC V6C 2T5. Turquoise is a reporting issuer in Ontario, Alberta and British Columbia.

The principal business of Turquoise has been the identification and evaluation of assets or businesses with a view to completing a Qualifying Transaction. Turquoise has not commenced commercial operations and has no assets other than cash.

The directors of Turquoise are Peter Hinam (Chairman, Chief Executive Officer and a Director), Devon Brown (Chief Financial Officer, Secretary and a Director), John da Costa (Director), Timothy Hamilton (Director) and Greg Ball (Director).

## **General Development of the Business**

### ***History***

Turquoise was formed as a CPC under TSXV Policy 2.4. Since becoming a CPC, the principal business of Turquoise has been to identify and evaluate opportunities for the acquisition of an interest in assets or businesses for the completion of a Qualifying Transaction and, once identified and evaluated, to negotiate an acquisition or participation subject to receipt of shareholder approval, where required, and acceptance for filing by the TSXV.

On January 18, 2011, Turquoise completed the Turquoise Seed Private Placement by issuing to the current directors and officers of Turquoise, on a prospectus exempt basis, an aggregate of 2,600,000 Turquoise Shares at a price of \$0.05 per Turquoise Share for aggregate gross proceeds of \$100,000. The proceeds of the Turquoise Seed Private Placement were added to the funds available to Turquoise for identifying and evaluating assets or businesses and for general administrative purposes until the completion of a Qualifying Transaction.

On June 27, 2013, Turquoise completed its initial public offering of 3,012,000 Common Shares at a price of \$0.10 per share for gross proceeds of \$301,200. Mackie Research Capital Corporation (“**Mackie**”) acted as agent for the CPC IPO. Turquoise paid to Mackie a cash commission equal to 10% of the proceeds and granted to Mackie and the sub-agents non-transferable options to purchase 301,200 Common Shares at a price of \$0.10 per share until June 27, 2015. Mackie also received a corporate finance fee. Turquoise’s Common Shares were listed on the Exchange under the symbol “TQC.P” on June 27, 2013 and commenced trading on July 3, 2013.

Turquoise does not have any subsidiaries other than Subco.

On April 1, 2015, Turquoise entered into a Business Combination Agreement with respect to a proposed transaction with Vigil Technologies Inc. On July 13, 2016, Turquoise announced the termination of its arrangement agreement with Vigil, and that it would continue to actively identify and evaluate alternative opportunities for the purpose of completing its Qualifying Transaction on a timely basis.

On May 31, 2016, Turquoise announced that it was moving its listing to the NEX branch of the TSXV as it had not completed its qualifying transaction within the required time period. In connection with the move, half of the 2,000,000 seed shares of Turquoise issued at \$0.05 were cancelled. Turquoise’s trading symbol was changed from TQC.P to TQC.H.

On September 8, 2016, Turquoise issued 2,477,777 common shares at a price of \$0.0675 per shares for gross proceeds of \$167,250. The proceeds of the offering were used for identifying business acquisitions as well as for general working capital purposes.

On September 9, 2016, Turquoise and Five Star entered into the Merger Agreement. Pursuant to the Merger Agreement and subject to the receipt of all requisite approvals, Turquoise will acquire all the issued and outstanding Five Star Shares in exchange for the issuance of Resulting Issuer Shares in accordance with the Exchange Ratio, and Five Star will be merged with Subco and continue as a wholly-owned subsidiary of Turquoise. Five Star is at arm’s-length to Turquoise and the Merger Agreement was negotiated at arm’s-length between Five Star and Turquoise.

## **Selected Consolidated Financial Information and Management’s Discussion and Analysis**

Since incorporation, Turquoise has incurred costs in carrying out its initial public offering, in seeking, evaluating and negotiating potential qualifying transactions, and in meeting the disclosure obligations imposed upon it as a reporting issuer listed for trading on the TSXV. The following table sets forth selected historical financial information for Turquoise which has been derived from the audited consolidated financial statements of Turquoise for the years ended November 30, 2015 and 2011, and the unaudited condensed interim consolidated financial statements for the nine months ended

August 31, 2016. Such information should be read in conjunction with the Turquoise Financial Statements included elsewhere in this Filing Statement including those financial statements attached hereto as Schedule "A".

	Nine month period ended August 31, 2016	Year ended November 30, 2015
Total Income	-	-
Total Expenses	\$41,904	\$188,880
Total Assets	\$94,870	\$15,659
Total Liabilities	\$86,325	\$60,460
Shareholders' Equity	\$8,545	(\$44,801)

Turquoise's management's discussion and analysis ("**MD&A**") for the interim period ended August 31, 2016 is attached hereto as Schedule "B".

Certain information included in Turquoise's MD&A is forward-looking and based upon assumptions and anticipated results that are subject to uncertainties. Should one or more of these uncertainties materialize or should the underlying assumptions prove incorrect, actual results may vary significantly from those expected. See "*Forward-Looking Statements*" for further details.

## Description of the Securities

### *Description of Turquoise Shares*

The authorized share capital of Turquoise consists of an unlimited number of one class of shares without nominal or par value designated as "common shares" (referred to in this Filing Statement as "**Turquoise Shares**"). The holders of the Common Shares are entitled to receive notice of and to attend and vote at all meetings of the shareholders of Turquoise and each Common Share shall confer the right to one vote in person or by proxy at all meetings of the shareholders of Turquoise. The holders of the Common Shares, subject to the prior rights, if any, of any other class of shares of Turquoise, are entitled to receive such dividends in any financial year as the board of directors of Turquoise may by resolution determine. In the event of the liquidation, dissolution or winding-up of Turquoise, whether voluntary or involuntary, the holders of the Common Shares are entitled to receive, subject to the prior rights, if any, of the holders of any other class of shares of Turquoise, the remaining property and assets of Turquoise. The Common Shares do not carry any pre-emptive, subscription, redemption or conversion rights, nor do they contain any sinking or purchase fund provisions.

Turquoise currently has 6,489,774 Turquoise Shares outstanding and 200,000 Turquoise Options exercisable at a price of \$0.10 per Turquoise Share until July 3, 2018.

### Stock Option Plan

Turquoise has adopted an incentive stock option plan (the "**Option Plan**") which provides that the board of directors of Turquoise may from time to time, in its discretion, and in accordance with the Exchange requirements, grant to directors, officers, employees and technical consultants to Turquoise, non-transferable options to purchase Common Shares, provided that the number of Common Shares reserved for issuance will not exceed 10% of the issued and outstanding Common Shares at closing of the initial public offering until the completion of the Qualifying Transaction and thereafter 10% of the issued and outstanding Common Shares at the time of a grant. In connection with the foregoing, the number of Common Shares reserved for issuance to any individual director or officer will not exceed five percent (5%) of the issued and outstanding Common Shares and the number of Common Shares reserved for issuance to all technical consultants will not exceed two percent (2%) of the issued and outstanding Common Shares. Options may be exercised after the greater of 12 months after completion of the Qualifying Transaction and 90 days following cessation of the optionee's position with Turquoise, provided that if the cessation of office, directorship, or technical consulting arrangement was reason of death, the option may be exercised within a maximum period of one year after such death, subject to the expiry date of such option. Subject to earlier termination, all options granted under the Option Plan will expire not later than the date that is ten years from the date of the grant. Any Common Shares acquired pursuant to the exercise of options prior to completion of the Qualifying Transaction, must be deposited in escrow and will be subject to escrow until the Final

Exchange Bulletin is issued. In setting the exercise price for stock options, the Board considers options granted to executive officers and directors with comparable companies as well as ensuring that the exercise price complies with the rules of the Exchange.

The following table sets out all Turquoise Options granted by Turquoise:

Name	Turquoise Shares under Reserved Under Turquoise Options <sup>(1)</sup>	Exercise price per Turquoise Share <sup>(1)</sup>	Expiry Date
Peter Hinam	50,000	\$0.10	July 3, 2018 <sup>(2)</sup>
John da Costa	50,000	\$0.10	July 3, 2018 <sup>(3)</sup>
Timothy Hamilton	50,000	\$0.10	July 3, 2018 <sup>(2)</sup>
Ryan Simmonds	50,000	\$0.10	July 3, 2018 <sup>(2)</sup>
<b>Total:</b>	<b>200,000</b>		

Notes:

1. The exercise price of such Turquoise Options was determined by the board of directors of Turquoise, in accordance with the policies of TSXV.
2. In accordance with TSXV Policy 2.4, Turquoise Options granted to any person that does not continue as a director, officer, employee or consultant of the Resulting Issuer have a maximum term of the later of twelve (12) months after Completion of the Proposed Qualifying Transaction and ninety (90) days after the optionee ceases to be a director, officer, employee or consultant of the Resulting Issuer. None of the current directors of Turquoise will be directors of the Resulting Issuer, and as such, options held by these persons will expire twelve (12) months after Completion of the Proposed Qualifying Transaction.

### Prior Sales

Since the date of incorporation of Turquoise, Turquoise Shares have been issued as follows:

Date	Number of Turquoise Shares	Issue Price Per Turquoise Share (C\$)	Aggregate Issue Price (C\$)	Consideration Received
November 14, 2012	1 <sup>(1)</sup>	\$1.00	\$1.00	Cash
November 29, 2012	1,500,000 <sup>(2)</sup>	\$0.05	\$75,000	Cash
December 14, 2012	500,000 <sup>(2)</sup>	\$0.05	\$25,000	Cash
June 27, 2013	3,012,000 <sup>(3)</sup>	\$0.10	\$301,200	Cash
September 8, 2016	2,477,777	\$0.0675	\$167,250	Cash

Notes:

1. The incorporator's share was repurchased by Turquoise on November 29, 2012.
2. These shares were issued to Insiders and are escrowed. See "Part III – Information Concerning the Resulting Issuer – Escrowed Securities". 1,000,000 of these shares were cancelled in connection with Turquoise's transfer to NEX.
3. Of these shares, a total of 26,000 shares were issued to Insiders and are escrowed. See "Part III – Information Concerning the Resulting Issuer – Escrowed Securities".

### Stock Exchange Price

The Turquoise Shares are listed for trading on the TSXV under the symbol "TQC.H". Trading of the Turquoise Shares was halted on September 17, 2014 in connection with the announcement by Turquoise of the proposed Qualifying Transaction with Vigil and have remained halted since that date. On September 16, 2015, the last trading day prior to the trading halt, the closing price was \$0.09.

### Arm's-Length Qualifying Transaction

The acquisition by Turquoise of all of the issued and outstanding Five Star Shares is not a Related Party Transaction for the purposes of TSXV policies and Multilateral Instrument 61-101 – Protection of Minority Security Holders in Special Transactions and is not a Non-Arm's Length Qualifying Transaction pursuant to the policies of the TSXV. As a result, approval of the Merger by Turquoise's shareholders is not required under the TSXV policies as a condition to the completion of the Proposed Qualifying Transaction.

## Legal Proceedings

There are no material pending legal proceedings to which Turquoise is a party or of which any of its property is the subject matter nor are any such proceedings known to Turquoise to be contemplated.

## Promoter

Peter Hinam may be considered to be a Promoter of Turquoise in that he took the initiative in founding and organizing Turquoise. Mr. Hinam and his Associates and Affiliates hold an aggregate of 340,740 Turquoise Shares representing 5.24% of the Turquoise Shares. Mr. Hinam also holds Turquoise Options to acquire an additional 50,000 Turquoise Shares at a price of \$0.10 per Turquoise Share.

## Auditor, Transfer Agent and Registrar

The auditor of Turquoise is Dale Matheson Carr-Hilton LaBonte LLP, whose principal office is located at Suite 1500, 1140 West Pender Street, Vancouver, BC V6E 4G1.

The transfer agent and registrar for the Turquoise Shares is Computershare Trust Company of Canada, whose principal office is located at 2<sup>nd</sup> Floor, 510 Burrard Street, Vancouver, BC V6C 3B9.

## Material Contracts

Since incorporation, the only material contracts entered into by Turquoise, other than contracts entered into in the ordinary course of business, are as follows:

- (a) Registered and Records Office Agreement dated November 14, 2012 between Turquoise and Camlex Management Inc.;
- (b) Registrar and Transfer Agent Agreement dated December 17, 2012 between turquoise and Olympia Trust Company;
- (c) Stock Option Plan dated December 21, 2012. See *"Part I – Information Concerning Turquoise – Stock Option Plan"*;
- (d) CPC Escrow Agreement dated for reference as of march 21, 2013 among Turquoise, Olympia Trust Company and certain shareholders of Turquoise. See *"Part III – Information Concerning the Resulting Issuer – Escrowed Securities"*;
- (e) Business Combination Agreement dated April 1, 2015 between Turquoise, Vigil and Subco. See *"Part I – Information Concerning Turquoise – General Development of Business"*; and
- (f) Termination Agreement dated July 13, 2016 among Turquoise, Vigil and Subco. See *"Part I – Information Concerning Turquoise – General Development of Business"*;
- (g) Merger Agreement;
- (h) Engagement Letter dated November 14, 2016 among Canaccord Genuity Corp., Turquoise and Five Star; and
- (i) QT Escrow Agreement to be entered into prior to listing among Computershare Trust Company of Canada, the resulting issuer and the Principals. See *"Part III – Information Concerning the Resulting Issuer – Escrowed Securities"*.

Copies of the material contracts described above may be inspected at the registered office of Turquoise located at the offices of Northwest Law Group, solicitors of Turquoise, at Suite 704, 595 Howe Street, Vancouver, BC, during normal business hours until the date of the closing of the Transaction and for a period of 30 days thereafter.

## PART III - INFORMATION CONCERNING FIVE STAR

### Corporate Structure

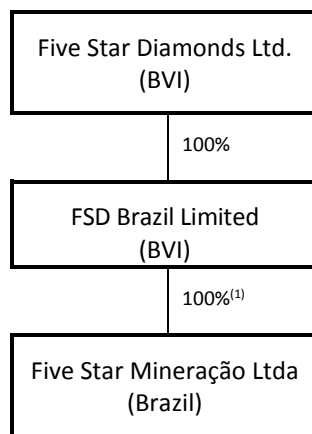
#### ***Name and Incorporation***

Five Star Diamonds Ltd. (referred to as “**Five Star**” in this Filing Statement) is a corporation existing under the laws of the British Virgin Islands and was incorporated on May 15, 2014.

The registered office of Five Star is located at 2<sup>nd</sup> Floor, Abbott Building, Waterfront Drive, Road Town, Tortola, British Virgin Islands.

#### ***Intercorporate Relationships***

As of the date of this Filing Statement, Five Star has the following subsidiaries: FSDB and FSML. The following diagram sets forth the relationship between Five Star and its subsidiaries, including the jurisdiction of incorporation of each such entity:



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#### Notes:

1. FSD Brazil Limited owns 14,095,578 of the issued and outstanding Quotas of Five Star Mineração Ltda. Five Star Holdings Ltd. (currently Five Star Diamonds Ltd.) own one (1) Quota of Five Star Mineração Ltda. in order to comply with the requirement under Brazilian law to have two (2) quota holders.

### General Development of the Business

#### ***History***

Five Star is a private company focused on the business of mining, mineral and resource exploration and development in Brazil. Currently, Five Star has only one material project, the Catalao Diamond Project, located in the State of Goiás, Brazil. The Catalao Diamond Project is comprised of 1 exploration licence of 1.949.42 hectares. Five Star holds its interest in the Catalao Diamond Project through its subsidiary, FSML.

For further details on the Catalao Diamond Project, please see “*Information Concerning Five Star – Narrative Description of Business – Description of the Catalao Diamond Project*”.

Since its incorporation on May 15, 2014, Five Star has issued an aggregate of 99,879,258 Five Star Shares pursuant to private placements, as consideration for acquisitions or in satisfaction of option payments under acquisition agreements, and as consideration to its directors, officers and employees for services rendered.

In September 2014, Five Star acquired the outstanding voting shares of Five Star Mineração Ltda. for aggregate consideration of US\$20,363. Five Star Mineração Ltda. was an existing shell company acquired to be the Brazilian subsidiary of Five Star for the purpose of holding mineral rights in Brazil.

On 14 November 2014, Five Star Mineração Ltda. acquired 100% of the Catalao Diamond Project, which is comprised of one exploration license (No. 861.467/2012), for consideration of 9,000,000 ordinary shares in Five Star and the appointment of Mr Kenneth Johnson as a Director to the Board of Directors of Five Star. The shares were issued at a par value of US\$0.005 for a total value of value US\$45,000.

## **Brazilian Mineral Rights Regime**

### **Overview**

Mining activities in Brazil are primarily regulated by the Mining Code of 1967 and the Mining Code Regulation (the “**Regulation**”) of 1968.

In Brazil, mineral resources are the property of the Federal Government. The ores and other mineral resources constitute property distinct from surface property. Exploration and mining activities can be executed by private entities through an authorization or a concession granted by the Federal Government, thereby offering to the concessionaire the guarantee of ownership of the mining product.

The Mining Code and its Regulation provide for the rights related to mineral resources, the legal regimes for their exploration and development, and also establish the norms on government inspection of the mineral industry. Furthermore, the Code and its Regulation establish, among other things, the concept and classification of mines, exploration, mining, surface owner rights, sanctions, and cancellation.

The Departamento Nacional de Produção Mineral (“**DNPM**”) regulates the Brazilian regime.

Pursuant to the provisions set out in the Mining Code and the Regulation, the exploration and development regimes of the mineral substances in Brazil relevant to the Company are:

- (a) Concession Regime: This system entails the operations aimed at the industrial development of the deposit, from the extraction of the mineral substance to its processing. Work under the concession regime depends upon an ordinance of the Executive Secretary to the Ministry of Mines and Energy (MME);
- (b) Authorization Regime: This system refers to the work required for the definition of the deposit, its evaluation and the feasibility of economic development. Work under the authorization regime depends upon the issuance of a mineral exploration permit granted by the Director of the DNPM.

The authorization and concession regimes are applied to organized and large size mining ventures, respectively aiming at: (i) the exploration work, in the first stage; and (ii) the economic development of the deposit (mining), in the second stage.

### **Exploration Phase**

Under Brazilian law, mineral exploration means the performance of the work required for defining and evaluating the deposit, and determining the feasibility of its economic exploitation.

#### *Application Process and Priority Rights*

Once an application has been made in relation to an area considered “free”, the applicant is granted priority in obtaining title to that area.

The area will be considered free when:

- (a) the area is not bound to any other exploration permit, permit registration, mining concession, mine manifest, aerial geological recognizance permission, or any extraction registration by the federal, state and municipal agencies of the direct administration or by independent governmental agencies;
- (b) the area is not the object of a previous application for an exploration permit, or in cases where
- (c) there is a previous application, such previous application was dismissed;

- (d) the area is not the object of a previous permit registration request, or if tied to a permit, the registration of such permit will be requested within 30 days of its issuance date;
- (e) the area is not the object of a previous extraction registration request filed by any federal, state and municipal agencies or by independent agencies;
- (f) the area is not tied to a request for renewal of an exploration permit, presented in time and which is pending approval;
- (g) the area is not tied to an exploration permit with a final report which is presented in time and pending approval; and
- (h) the area is not bound to an exploration permit with a final report approved and the legal right to request the mining concession still in force.

#### *Duration and Renewal*

Mineral exploration permits are valid and legally in force for a minimum of one year and a maximum of three years from the date of issuance. A permit can be successively renewed at the discretion of the DNPM, upon the request of the titleholder. Exploration permits are valid for two years in the cases of prospecting of mineral substances indicated in (ii) above. For the exploration of other substances, permits are valid for three years.

In order to renew a permit, the DNPM takes into consideration the development of the work performed to date. The request for renewal of the permit must be presented 60 days prior to the expiration date of the original permit or the previous renewed permit. As to the renewal request, a report must be presented of the work already carried out, indicating the results achieved, as well as reasons justifying continued work. The renewal of the permit does not depend on the publication of a new permit, but only on the publication of the decision to renew.

#### *Renewal Report*

The report must be prepared under the technical responsibility of a legally qualified professional and contain various information including the quality of the mineral substance and definition of the deposit, reports on industrialization assays, a demonstration of the economic feasibility of the deposit and information for the calculation of the reserve, such as the density, area, volume and content.

The final exploration report must conclude the feasibility or non-feasibility of the exploitation development, or for the non-existence of the deposit. The holder of an exploration permit who does not present a final report within the date established by the regulations will be fined. Nevertheless, the exemption from presentation of the report is permitted in certain cases of permit relinquishment by the titleholder. The DNPM must confirm the relinquishment, provided it happened in one of the two following either (i) at any time, if the titleholder has not been successful at entering the area, despite all the efforts made, including judicial means; or (ii) before one-third (1/3) of the term of duration of the exploration permit has expired.

#### *Titleholder obligations*

The titleholder of an exploration permit shall be obliged to:

- (a) perform work only within the area specified in the authorization;
- (b) respect the rights of third parties, indemnifying them for damage and losses caused;
- (c) communicate to the DNPM the discovery of any mineral substance not included in the authorization;
- (d) remove the substances extracted from the area of the permit for analysis and industrial experiments only with prior authorization of the DNPM and in accordance with the applicable environmental legislation;
- (e) start the work within 60 days of the date of the publication of the permit in the Official Gazette of the Federal Executive or as from the judicial ingress in the area to be explored;

- (f) not interrupt the work without justification for more than three consecutive months or for more than 120 non-consecutive days;
- (g) compensate the surface owner or possessor for the occupation of the land and for damage or loss caused by the work; and
- (h) present a final prospecting report.

As well as the fee to be paid for obtaining the mineral exploration permit, the titleholder must also pay to the DNPM an annual fee per hectare. The fee depends on the substance being explored, the location and size of the area, as well as other conditions.

#### *Titleholder rights*

The titleholder of an exploration permit may undertake the required work and necessary auxiliary services, as well as work on land of private or public domain included in the area indicated on the exploration title. The titleholder is assured the right of free passage on the private property, including the soil and subsoil in the title area, as well as in neighbouring areas, for performance of the respective work. The titleholder of a set of exploration permits for the same mineral substance in neighbouring or close areas is entitled and authorized to present a single research plan and final report, involving and covering the whole set.

#### *Transferability*

The mineral exploration permit is a title that can be assigned, totally or partially, to anyone who is in condition to execute the work under such permit in accordance with the applicable legislation. The transfer of the permit must be communicated to the DNPM for approval and registration. It will only be legally valid after such procedure is complete.

#### *Sanctions*

Failure to comply with the obligations derived from exploration permits, depending on the seriousness of the infraction, may result a warning, fine or forfeiture imposed by the DNPM.

#### *Utilization Bill*

It is possible to extract mineral substances before the mining concession is granted, by means of a Utilization Bill. Extraction may only occur if the interested party has obtained a proper environmental license, and has entered into an agreement with the surface owner as to the extraction work.

#### *Security of tenure*

After the completion of prospecting work in accordance with the legal provisions and after the approval of the final report by the DNPM, the titleholder shall have the exclusive right to request a mining concession for the area. In this case, the concession can only be refused if the mining work is considered harmful to the public or compromises interests that are more relevant than industrial exploitation.

After the filing of the application for the mining concession and after the approval of the mine's development plan by the DNPM, the mining concession cannot be refused by the Government. Once the mining concession has been granted and all the legal requirements and provisions duly observed, the concession cannot be cancelled.

### ***Mining Concession***

#### *Application*

Application for a mining concession is made by the holder of an exploration permit. The application must contain details of:

- (a) the development plan; and
- (b) finance to conduct the development.

The concession will not be granted if mining is considered harmful to the public or if the Government considers that it compromises interests which are more relevant than industrial exploitation. In the latter case, the holder of the exploration permit is entitled to be indemnified by the Government for the expenses incurred with prospecting work, if the final report has been approved.

#### *Requirements*

The mining concession shall only be granted when:

- (a) the area has already been prospected and mining is considered technically and economically feasible by the DNPM;
- (b) the respective final prospecting report has already been presented and approved by the DNPM;
- (c) the mining area to be exploited has been considered technically and economically feasible by the DNPM and adequate for the extraction and processing of the deposits, duly observing the limits of the area indicated in the exploration permit; and
- (d) the competent environmental agency has issued the corresponding environmental license.

#### *Area size*

The applicant must specify the size of the area required for mining within the area granted for exploration. The DNPM has the unconditional authority and power to establish the size of the mining area.

#### *Duration*

Brazilian mineral legislation does not establish the duration of mining concessions. The concessions remain in force until the complete exhaustion of the deposit.

#### *Transferability*

The mining concessions are personal titles. They can be assigned, totally or partially, and are granted by the Executive Secretary to the Ministry of Mines and Energy to companies that wish to operate in mineral business activities

#### *Rights*

The holder of a mining concession:

- (a) has the exclusive right to execute the mining work for the mineral substances specified and indicated in the concession title and within the authorized area. However, if another substance is found in the authorized area, the titleholder may request an addendum to the concession, so that the new substance is also included in the concession;
- (b) has the right to temporarily suspend mining work;
- (c) may obtain easements on the property where the mine is located, as well as on bordering and neighbouring properties, with prior indemnification; and
- (d) may divide the concession into 2 or more distinct concessions, provided that it is not harmful for the development of the deposit.

#### *Obligations*

The titleholder of the mining concession has the following obligations:

- (a) to start the mining work as per the development plan, within six months from the date of the publication of the concession in the Official Gazette of the Republic;

- (b) to execute the work in accordance with the development plan approved by the DNPM;
- (c) to extract solely the substances indicated in the concession;
- (d) to communicate to the DNPM the discovery of a mineral substance not included in the concession title;
- (e) to carry out the work in accordance with regulatory norms;
- (f) to offer the management of the work to a duly qualified professional;
- (g) not to make it difficult nor impossible to use and exploit the deposit in the future;
- (h) to be responsible for the damage and loss caused to third parties, resulting from the mining work;
- (i) to promote and improve safe and healthy lodgings at the location;
- (j) to avoid deviation of water and to drain the amount that can cause harm and loss to neighbours;
- (k) to avoid air or water pollution resulting from the mining work;
- (l) to protect and preserve the water sources, as well as to use them according to the technical instructions and requirements when dealing with mineral water deposits;
- (m) to observe and comply with all the provisions of the inspection entities;
- (n) not to interrupt the mineral activities without notice to the DNPM;
- (o) to keep the mine in good condition when temporarily suspending the mining work;
- (p) to restore the areas degraded by the mining work; and
- (q) advise of the discovery of radioactive minerals.

### *Sanctions*

Failure to comply with requirements may result in warnings, fines or forfeiture being imposed by the DNPM. Forfeiture must be preceded by an administrative proceeding. A request for reconsideration can be made to the Executive Secretary to the Ministry of Mines and Energy against the decisions of the Ministry of Mines and Energy or to the courts.

### **Compensation and Royalties**

#### *Exploration Phase compensation*

The holder of a mineral exploration permit must pay the surface owner or the squatter of the area subject to the mineral exploration permit rent for occupation of the land and compensation for any damage and loss caused or that may be caused as a result of the exploration work.

The payment cannot exceed the maximum net income from the area occupied for exploration.

Compensation for damage caused cannot exceed the assessed value of the property actually occupied. However, in the event the damages caused by the exploration activities should turn the land impracticable for agricultural or breeding activities, compensation may reach the assessed value of the property.

The holder of a mineral exploration permit and the surface owner or the squatter, as applicable, can reach an agreement to determine the values for rent and occupation. If there is no agreement a judicial procedure may be claimed to determine the values.

### *Mining Phase compensation*

With regard to the concession and licensing regimes, the landowner is assured the right to participate in the results of the mining work. The value of such participation has been set at 50 percent on the total amount due and payable to the states, municipalities and the Federal District, as royalties for the exploitation of the mineral resources. Therefore, the value is calculated on the net income from the sale of the mineral product obtained after the last stage of processing and before its industrialization. Payment to the surface owner of the percentage in the mining results must be done on a monthly basis pledged separately from the property. The surface owner, however, may waive such participation, and can assign or pledge the right of receiving installments in the future.

### *Royalties*

The Federal Constitution has established that the states, municipalities, Federal District and the bodies of the direct administration of the Union (such as the DNPM) are entitled to a percentage of the results of exploitation of mineral resources, or, alternatively, to receive royalties ("**financial compensation**") for said exploitation.

The level of financial compensation has been set at a maximum of 3 per cent. on the net income from the sale proceeds of the mineral product obtained after the last stage of processing and before its industrialization.

When assessing the net sales, certain deductions are permitted including various taxes, Social Security Financing Contributions, contributions to the Profit Participation Program and insurance and freight charges.

The following different participation levels have been established for the mineral substances:

- (a) aluminium, manganese, salt-gem and potassium ores – 3 per cent.;
- (b) iron, fertilizers, coal and other mineral substances – 2 per cent.;
- (c) precious coloured stones and gems that can be polished, carbonized stones and precious
- (d) metals – 0.2 per cent.; and
- (e) gold – 1 per cent.

The Financial compensation is divided as follows:

- (a) 23 per cent. to the states (or the Federal District) where mining activities are performed;
- (b) 65 per cent. to the municipality where mining activities are performed; and
- (c) 12 per cent. to DNPM.

### ***Environmental legislation***

The Brazilian Federal Constitution reserves a special chapter on environmental protection. The federal, state and municipal governments and also the government of the Federal District of Brazil are empowered and obliged to defend and protect the environment.

Law No. 9605 of February 12, 1998, defines environmental crimes and infractions, as well as establishes liability and applicable sanctions. The main features of such law are:

- (a) the establishment of high monetary penalties;
- (b) the extension of liability for environmental damage to directors, auditors, managers and attorneys-in fact; and
- (c) the disregard of the legal entity by a Court of Law whenever it is an obstacle to payment of environmental damages, if agents of the company were aware of criminal conduct and did not attempt to hinder it.

Brazilian environment legislation provides that any mineral activity shall be subject to:

- (a) licensing;
- (b) environment impact assessment; and
- (c) restoration of degraded areas.

Companies which carry on activities considered as potentially polluting or utilizing natural resources, such as mining, shall be registered with the Brazilian Environmental and Renewable Natural Resources Institute.

A preliminary environmental license must be obtained prior to the planning stage. An Environmental Impact Assessment (“**EIA**”) must be executed, and the respective Environmental Impact Report (“**RIMA**”) must also be produced at this time. The EIA/RIMA must be submitted for approval by the competent environmental agency, together with a plan for recovery of degraded areas.

At the development stage, the installation license may only be obtained after an Environmental Control Plan (“**PCA**”) is presented to the competent environmental agency.

At the mining stage, another license must be obtained, namely the operation license. It is issued by the competent environmental agency after the satisfactory implementation of the PCA.

### **Narrative Description of the Business**

Five Star’s business is diamond development, focused on acquiring and developing advanced staged diamond projects in Brazil. Since it was established in May 2014, it has pursued an accelerated growth strategy and aims to be one of the first producers of diamonds from kimberlite deposits in Brazil. Five Star is focused on the development of sustainable kimberlite pipes and is not involved in alluvial diamond mining with its associated environmental issues. Five Star works closely with local, state and federal authorities in Brazil to foster an open, transparent and legal diamond industry in Brazil.

The material project of Five Star is the 100%-owned advanced stage Catalão Diamond Project.

The Catalão Diamond Project, located in the famous Coromandel diamond district of Goiás State, Brazil, comprises one exploration licence covering 1,999.42 hectares. In addition, Five Star has submitted applications for three exploration licences over proximate areas covering a total of 5,998.37 hectares. A pilot plant has been constructed at Catalão and commissioned, and an initial mining and pilot processing program has been completed at three diamond bearing kimberlite pipes. A feasibility study is currently underway to evaluate the fresh rock zone with completion of the study scheduled for the end of the second quarter of 2018.

In addition to owning one of the only kimberlite processing plants operating in Brazil today, Five Star now controls a dominant position in the Brazilian diamond sector. Along with the Catalão Diamond Project, Five Star has 21 other projects comprising an aggregate of 72 exploration licences and applications covering a total area of approximately 120,000 hectares. All of Five Star’s projects are 100% owned. A total of 15 diamond bearing kimberlite pipes have already been identified and sampled and a further 87 kimberlite pipes are to be tested across the Five Star’s projects.

Five Star retained Mining One Pty. Ltd. to prepare the technical report entitled “*Catalao Diamond Project – Goiás State, Brazil*” dated December 31, 2016 (the “**Technical Report**”) in accordance with NI 43-101. The Technical Report provides the basis for the information on the Catalao Diamond Project, as described below. A copy of the Technical Report will be filed on SEDAR in accordance with NI 43-101 and made available for inspection at the head office of the Resulting Issuer.

### **Description of the Catalao Diamond Project**

Substantially all of the information in this section is summarized or extracted from the Technical Report. Portions of the following information are based on assumptions, qualifications and procedures which are not fully described herein but which are described in the Technical Report. Reference should be made to the full text of the Technical Report, which is incorporated by reference herein. A copy of the Technical Report has been filed on SEDAR at [www.sedar.com](http://www.sedar.com), and may also be obtained from Five Star upon request.

## **1. Property Description and Location**

The Catalao Diamond Project is 100%-owned by Five Star Mineração Ltda., a wholly owned subsidiary of Five Star Diamonds Limited and holds one Exploration License totalling 1,999.42 hectares. The project is located near the southeast border of Goiás State in the central region of Brazil, approximately 330 kilometres south of Brasília, the Federal District, and 275 kilometres southeast of Goiânia, the capital of Goiás State.

## **2. Accessibility, Climate, Local Resources, Infrastructure and Physiography**

The Catalao property is located 17 km west from the town of Ouvidor and 28 km southwest from the town of Catalao. Catalao has a population of 95,000 with good infrastructure, including hotels, banks, hospitals, post office, telephone, ADSL internet and a diverse commerce. The mining industry is prominent in the region with several known deposits of phosphate, niobium, titanium, REE and aggregates (sand, gravel and clay). Currently there are two active phosphate mines and one active niobium mine, operated by Vale and Anglo American, respectively.

Brazil's production from natural resources and oil & gas reached US\$25.6 billion in 2014. Brazil is the world largest producer of niobium and iron ore, the second largest producer of tantalum, and the third largest producer of aluminium, graphite and manganese.

The property is located in Goiás State, in the central region of Brazil, close to the border with Minas Gerais State. All access to the property from Goiania and/or Brasília is made by paved roads in excellent condition to the town of Ouvidor. The access from Ouvidor to the property is by 22 km of gravel road in very good condition. Regular commercial flights are available daily to the airports of Brasília, Goiânia and Uberlândia City in Minas Gerais State, which is located 100 km south of the Catalao Project.

The property is located in the Alto Paranaíba region within a geomorphological unit known as the "Planalto de Cristalina-Patrocínio" (Cristalina Patrocínio Plateau) which is characterized by flat topography with planed surfaces generally coinciding with the arrangement of layers, reworked by surface erosion. The relief is smooth with hills ranging in elevation from 800 to 850 metres. The narrow valley floors range from 650 to 750 meters in elevation. The property area is dissected by a well-developed drainage network composed of tributaries of the Paranaíba River.

The climate is warm temperate with dry winters and hot summers, with temperatures ranging from 19°C to 38°C. Average annual rainfall is 1,480 mm concentrated in the period from October to March. Savannah vegetation or "Cerrado" is typical of the region but river banks are usually covered by thick vegetation known locally as "Mata Ciliar" or "Eyebrow Forest". Soil coverage in the project area is shallow, exhibiting a thin A-Horizon and a clay-rich B-Horizon as a result of the weathering of the schist rocks.

During the wet season, torrential rains are common, most often during the late afternoon to evening. The high humidity and temperatures that rarely get below 25°C can make for uncomfortable nights. The winter in contrast has cool nights. There is no air conditioning or heating equipment available for most public places of business or homes.

## **3. History**

Between 1970 and 2000, the region was explored for kimberlite (primary diamond) by two major companies.

### **1. 1970-1996 - De Beers**

In 1970, De Beers (operating through their Brazilian subsidiary Sopemi) started an extensive exploration programme in the Tres Ranchos-Catalao region encouraged by the presences of diamonds and associated Kimberlite Indicator Minerals (KIMs). Abundant kimberlites (approximately 800 intrusions), dykes and pipes and ultramafic related intrusions were discovered by De Beers during the exploration effort that continued for over a decade.

De Beers abandoned the region in 1982 but returned in 1992 to implement a second exploration campaign. An airborne magnetic survey was flown, covering approximately 75,000 linear kilometres, including the Catalao property and part of the Tres Ranchos kimberlite field, followed by ground geophysics (Mag and VLF), surface bulk sampling and extensive drilling. In 1996, De Beers terminated the exploration in the Catalao-Tres Ranchos region.

It seems likely that De Beers heard about the quality of diamonds being recovered in the Catalao alluvial operation and prospecting from these alluvial workings resulted in the discovery of the Catalao kimberlite, which outcrops in a small drainage not far from there.

Additional and more detailed information about De Beers exploration work on the Catalao property has not been found. Most of the information related to De Beers' exploration is only summarized in a few academic papers about the Tres Ranchos 4 pipe (e.g. Carvalho and Leonardos, 1997).

## *II. 1998-2000 – Rio Tinto*

Early in 1998, Rio Tinto (“RTZ”) commenced an exploration programme over the Catalao property with a special focus on the so-called Catalao-01 pipe, which was retrospectively separated into CAT-01A, CAT-01B and CAT-01C pipes.

During the 3-year period on the Catalao property, RTZ developed the following main exploration activities;

- Ground magnetic survey;
- Heliborne MAG/VTEM survey;
- Soil geochemistry;
- Drilling;
- Mini-bulk sampling and,
- Mineral chemistry Ground Magnetic Survey:

Rio Tinto completed a ground magnetic survey in 1998 over Catalao-01 area. The grid size was 550 x 550 m with 50 m line spacing and 10 m between readings on each line. A total of 6,250 linear-metres were surveyed. Two small dipole anomalies were identified, and were thought to represent either an extension of the Catalao-01 intrusion, or small separate new pipes.

### Heliborne MAG/VTEM Survey

In 2000, Rio Tinto contracted Megafiscia/Scintrex to execute a heliborne geophysical survey over the Catalao property. The survey acquired magnetic (mag single sensor) and frequency domain electromagnetic (EM) data with the objective to generate geophysical targets for diamond exploration. A total of 468 linear km were flown, covering an area of ~35km<sup>2</sup>. The survey lines were oriented in a north-south direction with a line separation of 100 m (with some 50 m infills), east-west ties at 500 m, and at an altitude of 60 m. Magnetic data was acquired by a Caesium magnetometer with 0.001 nT resolution and installed in a stinger assembly attached to the EM sensor. EM data was collected by means of an Aeroquest Impulse HEM system with 6 frequencies and multicoil geometry and towed by a 40 m external cable. The nominal terrain clearance for both EM and mag sensors was 20 m.

After receiving the final survey data, Rio Tinto examined the data and selected 26 anomalies located totally or partially within the Catalao property for follow-up by ground prospecting. Targets selected had profiles which suggested they were pipe-like in geometry, however some tabular, elongated, dyke-like signatures were also included.

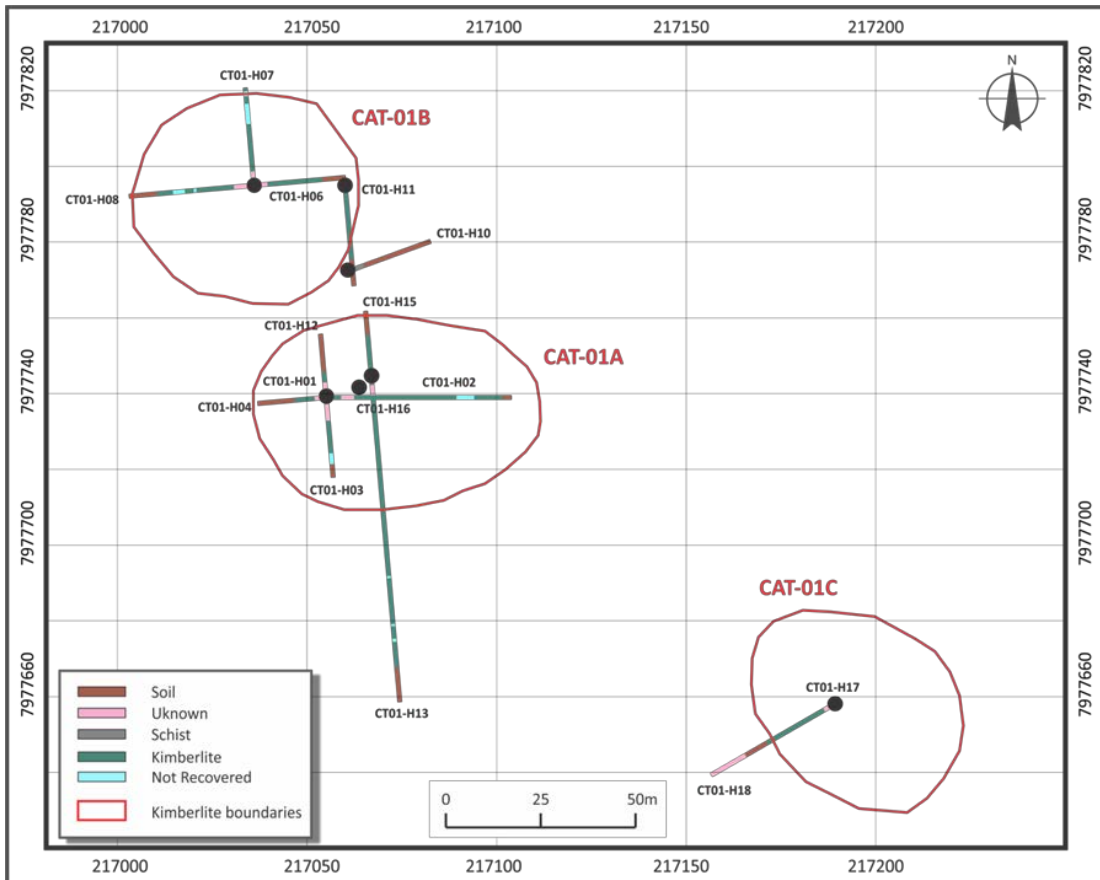
### *Drilling*

In 2000, Rio Tinto completed a diamond drilling programme, focused on the Catalao-01 pipes with the main objective to delineate the extent of the individual pipes and collect volumetric samples for microdiamond analysis (MiDA). Eighteen HQ drill holes, totalling 1,118.8m, were collared on the property, utilizing a JKS Boyles diamond core drill rig. Summary drill hole logs indicate that all holes intersected kimberlite, although not all penetrated solid rock and some holes terminated within saprolitic kimberlite material. Drill hole collars are included on the next table.

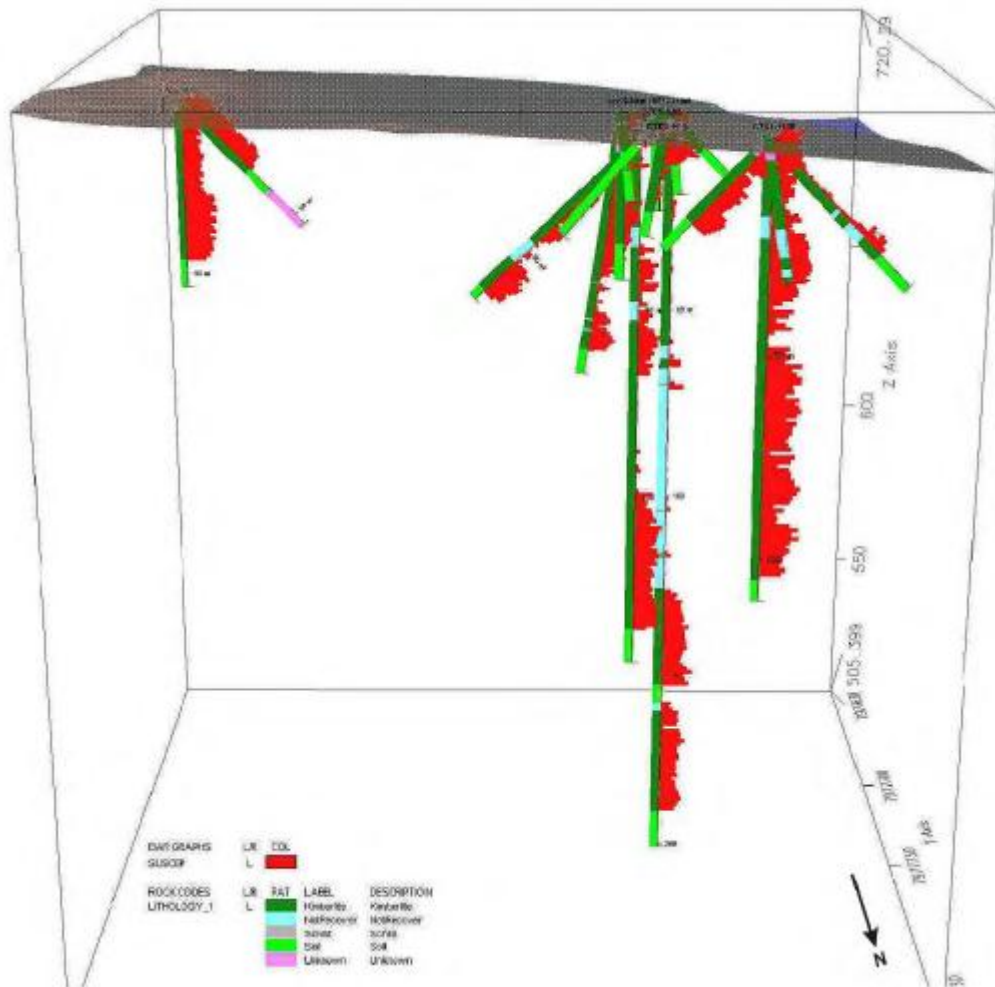
### Drill Collar Locations at Catalao

Drill Hole	UTM (E)	UTM (N)	Elevation (m)	Depth (m)	AZIMUTH	DIP
CT01H01	217055	7977739	706.4	201.0	0	90
CT01H02	217055	7977739	706.4	68.1	90	44
CT01H03	217055	7977739	706.4	30.5	175	46
CT01H04	217055	7977739	706.4	26.0	265	46
CT01H05	217036	7977795	708.7	110.5	0	90
CT01H06	217036	7977795	708.7	34.7	85	46
CT01H07	217036	7977795	708.7	37.3	355	46
CT01H08	217036	7977795	708.7	47.7	265	46
CT01H09	217060	7977772	708.7	20.6	265	90
CT01H10	217060	7977772	708.7	34.7	70	46
CT01H11	217060	7977795	708.7	38.3	175	46
CT01H12	217055	7977739	706.4	24.2	355	46
CT01H13	217067	7977744	706.9	123.5	175	46
CT01H14	217067	7977744	706.9	41.8	0	90
CT01H15	217067	7977744	706.9	25.8	355	46
CT01H16	217063	7977741	706.7	146.1	0	90
CT01H17	217189	7977658	697.7	54.0	0	90
CT01H18	217189	7977658	697.7	54.0	240	46

The following figure shows the drill hole traces and the different lithotypes projected into a horizontal plan Red areas represent the outlines of the kimberlite bodies interpreted by Rio Tinto.



The following figure represent a 3D model of the drilling programme showing Drill Hole Traces, Lithology and Downhole Magnetic Susceptibility (red bars) in E-W Orientation.



There is some degree of ambiguity in the Rio Tinto logs (i.e., large intervals were logged as unknown, not recovered, or soil at the end of drill holes) without further clarification. Moreover, the texture and genetic classification of the kimberlite intersected remains unclear.

### Mini-bulk Sampling

#### *Near-Surface Samples*

In 1998, Rio Tinto collected an aggregate 3,578.98 kg of near-surface mini-bulk samples which were processed by caustic fusion at Rio Tinto's laboratory in Brasilia.

Samples RCL001 and RCL002 consisted predominantly of saprolitic kimberlite, were collected from an old De Beers surface pit in Catalao-01A and had a combined weight of 734.62 kg. A lower cut-off sieve size of 0.125mm was used for diamond recovery in the processing circuit.

Samples JRCTR146 and JRCTR147 consisted of saprolitic kimberlite obtained by auger from Catalão-01A and had a combined weight of 2844.36kg. A lower cut-off sieve size of 0.5 mm was used for diamond recovery in the processing circuit.

A total of 52 diamonds with a combined weight of 0.85 carats were recovered, including 16 commercial sized stones. The table below summarizes the caustic fusion results for the Catalão-01 near-surface samples.

### Catalao-01 Surface Pit Sample Microdiamond Results

Sample ID	Weight Dry (kg)	Lithology (1,2)	◆Count	Carat Weight	Sieve Size (mm square mesh)										
					Size Cut Off	0.125 - 0.150	0.150 - 0.212	0.212 - 0.300	0.300 - 0.425	0.425 - 0.600	0.600 - 0.850	0.850 - 1.18	1.18 - 1.70	1.70 - 2.36	>2.36
JRCTR 146	2,374.75	SAP	25	0.717	0.500	-	-	-	-	5	8	2	7	2	1
JRCTR147	469.61	SAP	6	0.047	0.500	-	-	-	-	0	4	1	1	0	0
RCL001	139.20	SAP+ TKB	12	0.007	0.125	4	0	4	2	2	0	0	0	0	0
RCL002	595.42	SAP	9	0.077	0.125	1	0	0	0	5	1	1	1	0	0
<b>TOTAL</b>	<b>3,578.98</b>		<b>52</b>	<b>0.85</b>	-	<b>5</b>	<b>0</b>	<b>4</b>	<b>2</b>	<b>12</b>	<b>13</b>	<b>4</b>	<b>9</b>	<b>2</b>	<b>1</b>

- 1 Lithology as reported by Rio Tinto
- 2 SAP=Saprolitic Kimberlite; TKB=Tuffisitic Kimberlite Breccia

The largest and most meaningful sample collected to date on the Catalao Project is from CAT1A (JRCTR146) comprising of 2,374.74kg. This returned a total of 25 macro diamonds (+0.5mm) for a total of 0.717 carats. Sample JRCTR147 recovered 6 macro diamonds.

#### *Drilling Samples*

A mini-bulk sample totalling 5,014.04 kg was collected by Rio Tinto during the delineation diamond drilling programme carried out in 2000. Fifty-three samples were collected from half- sawn HQ drill core from 15 of the 18 holes completed. Weathered and unweathered kimberlite was tested and often combined in the same sample. Sample sizes ranged from ~6 kg to >230kg, where smaller samples consisted predominantly of highly weathered saprolitic kimberlite with a very low specific gravity (1.5 g/~cm<sup>3</sup> versus ~2.7 g/cm<sup>3</sup> for unweathered TKB kimberlite). The practice of combining saprolite material and unweathered kimberlite does not allow consideration of grade differences as a result of density changes from weathered to fresh kimberlite. As such they should be treated separately.

The sample was processed by caustic fusion at Rio Tinto's facility in Brasilia and a lower cut- off sieve size of 0.125 mm was used for diamond recovery in the process circuit. A total of 98, 39 and 8 diamonds were recovered for Catalão-1A, 1B and 1C respectively as show in the following three tables.

**Microdiamond results on Catalao-01A Half-Sawn HQ Drill Core Mini-bulk Sample**

Sample ID	Weight Dry (kg)	Lithology 1,2	∅ Count	Sieve Size (mm square mesh)											
				Size Cut Off	0.125 - 0.150	0.150 - 0.212	0.212 - 0.300	0.300 - 0.425	0.425 - 0.600	0.600 - 0.850	0.850 - 1.18	1.18 - 1.70	1.70 - 2.36	>2.36	
OW-CT01-H01-R03	6.27	Saprolite		0.125											
OW-CT01-H01-R04	55.56	Saprolite	2	0.125	1				1						
OW-CT01-H01-R05	78.22	TKB	1	0.125					1						
OW-CT01-H01-R05a	72.00	TKB	2	0.212						2					
OW-CT01-H01-R06	76.44	TKB	1	0.125			1								
OW-CT01-H01-R06a	67.00	TKB		0.212											
OW-CT01-H01-R07	18.82	TKB		0.125											
OW-CT01-H01-R08	76.60	TKB	2	0.125				1	1						
OW-CT01-H01-R08a	48.00	TKB	1	0.212							1				
OW-CT01-H01-R09	88.92	TKB	1	0.125	1										
OW-CT01-H01-R10	101.94	TKB	2	0.125				1		1					
OW-CT01-H01-R11	79.33	TKB	1	0.125			1								
OW-CT01-H01-R11a	29.00	TKB		0.212											
OW-CT01-H01-R12	73.53	TKB	3	0.125				1	1	1					
OW-CT01-H01-R13	85.00	TKB	1	0.125					1						
OW-CT01-H01-R14	31.43	Saprolite	2	0.125				1	1						

OW-CT01-H02-R16	53.72	Saprolite	1	0.125					1				
OW-CT01-H02-R17	77.35	Saprolite,TKB	2	0.125			1	1					
OW-CT01-H02-R18	203.50	TKB	6	0.125	2				1	1	1	1	
OW-CT01-H03-R15	55.31	Saprolite,TKB	2	0.125	1		1						
OW-CT01-H12-R01	13.29	Saprolite,TKB		0.125									
OW-CT01-H13-R32	64.27	Saprolite	2	0.125			1				1		
OW-CT01-H13-R33	130.00	Saprolite,TKB		0.125									
OW-CT01-H13-R34	176.00	Saprolite,TKB	3	0.125			1	1				1	
OW-CT01-H13-R35	172.00	Saprolite,TKB	5	0.125	1		3				1		
OW-CT01-H13-R36	174.00	Saprolite,TKB	7	0.125	1		3	2	1				
OW-CT01-H13-R37	95.00	Saprolite,TKB	2	0.125			1	1					
OW-CT01-H14-R29	69.76	Saprolite,TKB	4	0.125	3		1						
OW-CT01-H14-R30	45.68	TKB	3	0.125	1						2		
OW-CT01-H15-R02	49.00	Saprolite	2	0.125			1			1			
OW-CT01-H15-R02 (2)	66.29	Saprolite		0.125									
OW-CT01-H15-R02 (3)	59.43	Saprolite		0.125									
OW-CT01-H16-R38	66.18	Saprolite	2	0.125			1	1					
OW-CT01-H16-R39	120.00	Saprolite,TKB	1	0.125			1						
OW-CT01-H16-R40	155.00	TKB	6	0.125	3			2		1			
OW-CT01-H16-R41	170.00	TKB	3	0.125	1		1		1				

OW-CT01-H16-R42	166.00	TKB	1	0.125								1	
OW-CT01-H16-R43	177.50	TKB	24	0.125	7		8	4	2			3	
OW-CT01-H16-R44	149.00	TKB	3	0.125	2		1						
<b>TOTAL</b>	<b>3,496.34</b>		<b>98</b>	<b>-</b>	<b>24</b>		<b>27</b>	<b>14</b>	<b>14</b>	<b>7</b>	<b>6</b>	<b>5</b>	<b>1</b>

- 1- Lithology as reported by Rio Tinto  
2- TKB=Tuffisitic Kimberlite Breccia

**Microdiamond results on Catalao-01B Half-Sawn HQ Drill Core Mini-bulk Sample**

Sample ID	Weight Dry (kg)	Lithology 1, 2	◇ Count	Sieve Size (mm square mesh)											
				Size Cut Off	0.125 - 0.150	0.150 - 0.212	0.212 - 0.300	0.300 - 0.425	0.425 - 0.600	0.600 - 0.850	0.850 - 1.18	1.18 - 1.70	1.70 - 2.36	>2.36	
OW-CT01-H05-R19	73.41	Saprolite	4	0.125	3							1			
OW-CT01-H05-R20	125.50	TKB	3	0.125	1		1				1				
OW-CT01-H05-R21	174.00	TKB	3	0.125					3						
OW-CT01-H05-R22	195.20	TKB	9	0.125	3		2	2		2					
OW-CT01-H05-R23	233.50	TKB	5	0.125			2	2				1			
OW-CT01-H06-R24	70.00	Saprolite,TKB	1	0.125					1						
OW-CT01-H07-R25	52.97	Saprolite	5	0.125	1		1	2	1						
OW-CT01-H07-R26	65.25	TKB	1	0.125						1					
OW-CT01-H08-R27	67.38	Saprolite,TKB		0.125											
OW-CT01-H08-R28	72.39	TKB	3	0.125	1			2							
OW-CT01-H11-R31	77.82	Saprolite,TKB	5	0.125	1		1	2	1						
<b>TOTAL</b>	<b>1,207.42</b>		<b>39</b>	<b>-</b>	<b>10</b>		<b>7</b>	<b>10</b>	<b>6</b>	<b>4</b>	<b>2</b>	<b>0</b>	<b>0</b>		

- 1- Lithology as reported by Rio Tinto
- 2- TKB=Tuffisitic Kimberlite Breccia

**Microdiamond results on Catalao-01C Half-Sawn HQ Drill Core Mini-bulk Sample**

Sample ID	Weight Dry (kg)	Lithology 1, 2	◇ Count	Sieve Size (mm square mesh)											
				Size Cut Off	0.125 - 0.150	0.150 - 0.212	0.212 - 0.300	0.300 - 0.425	0.425 - 0.600	0.600 - 0.850	0.850 - 1.18	1.18 - 1.70	1.70 - 2.36	>2.36	
OW-CT01-H17-R46	96.00	Saprolite,TKB	2	0.125			1		1						
OW-CT01-H17-R47	183.00	TKB	6	0.125	2		2			1		1			
OW-CT01-H18-R45	157.00	Saprolite,TKB		0.125											
<b>TOTAL</b>	<b>436.00</b>		<b>8</b>	<b>0.125</b>	<b>2</b>		<b>3</b>		<b>1</b>	<b>1</b>		<b>1</b>			

- 1- Lithology as reported by Rio Tinto
- 2- SAP=Saprolitic Kimberlite; TKB=Tuffisitic Kimberlite Breccia

A description conducted by Rio Tinto on the diamond recovered from drill core mini-bulk sample is included in the table below:

HOLE_ID	Pipe	Rio Tinto Diamond Descriptions
OW-CT01-H01-R03	Catalao-01*	None
OW-CT01-H01-R04	Catalao-01*	01 gr(>0.425mm): white, dodec/irregular,frosted, none inclusions; 01 gr(>0.125mm): white, chipped, none inclusion.
OW-CT01-H01-R05	Catalao-01*	01 gr: white, irregular/chipped, none inclusions, roll relief(?).
OW-CT01-H01-R05a	Catalao-01*	>0.600mm: 01 gr white, dodec./irreg., none incl., frosted, striations; 01 gr light brown, irreg./aggregate, many incl., frosted.
OW-CT01-H01-R06	Catalao-01*	diamond: 01 grain brown light, dodec./irregular, none inclusions, frosted
OW-CT01-H01-R06a	Catalao-01*	None
OW-CT01-H01-R07	Catalao-01*	None
OW-CT01-H01-R08	Catalao-01*	diamond: 01 grain, >0.425mm, brown light, irregular, few inclusions; 01 grain, >0.300mm, white, dodec., few inclusions, shiny, dissolution lamellar
OW-CT01-H01-R08a	Catalao-01*	>1.00mm: light brown, dodec., many inclusions, frosted.
OW-CT01-H01-R09	Catalao-01*	01 gr: white, irregular, few inclusions, shiny
OW-CT01-H01-R10	Catalao-01*	01 dia >0.600mm, white, eud., irregular, many inclusions; 01 dia >0.300mm, white, irregular, many inclusions.
OW-CT01-H01-R11	Catalao-01*	color: white; shape: irregular; inclusions: many
OW-CT01-H01-R11a	Catalao-01*	None
OW-CT01-H01-R12	Catalao-01*	>0.600mm: white, dodec., none inclusions, trigons; >0.425mm: grey, irregular, many inclusions, frosted; >0.300mm: white, irregular/macle, few inclusions
OW-CT01-H01-R13	Catalao-01*	color: grey light; shape: dodec./irregular; inclusions: many
OW-CT01-H01-R14	Catalao-01*	dia: 02 grs (>0.425mm, white, chipped, none inclusions; >0.300mm, white, dodec., few inclusions).
OW-CT01-H02-R16	Catalao-01*	diamond: 01 grain, >0.425mm, white(opaco), eudral, few inclusions.
OW-CT01-H02-R17	Catalao-01*	diamond: 02 grains(01 gr, >0.300mm, green, irregular, none inclusions; 01 gr, >0.212mm, white, chipped, none inclusions).
OW-CT01-H02-R18	Catalao-01*	>1.18mm: brown/grey, cub, frost., few incl. >0.850mm: white, macle, frost., many incl. >0.600mm: white, dod./planar, none incl, diss.lamenar. >0.425mm: brown light, macle/chip., few incl. >0.125mm: white, dod., irreg./chip., none incl.
OW-CT01-H03-R15	Catalao-01*	dia: 02 grs (>0.300mm, grey light, dodec., none inclusions; >0.125mm: white(opaco), irregular, none inclusions).
OW-CT01-H05-R19	Catalao-01b	diamond: 04 grains(01 gr, >0.850mm, white, frosted, dodec., none inclusions; 03 grs, >0.125mm, white, chipped, none inclusions).
OW-CT01-H05-R20	Catalao-01b	>0.600mm: white, irregular, few inclusions, frosted. >0.212mm: brown light, dod./planar, few incl., frosted. >0.125mm: brown, irreg., many incl.
OW-CT01-H05-R21	Catalao-01b	01 dia: brown light, dod./irreg., none incl., frosted. 01 dia: brown light, dod./irreg., few incl., frosted. 01 dia: white, macle/irreg., none incl., frosted.
OW-CT01-H05-R22	Catalao-01b	>0.600mm: white, brown light, dodec., irreg/chip., none incl, frosted; >0.300mm: white, irreg./chip., none incl., frosted; >0.212mm: white, chip., none incl.; >0.125mm: white, chip., none incl.

OW-CT01-H05-R23	Catalao-01b	>1.0mm: light grey, dod./macle/frosted, many incl.; >0.300mm: brown, irreg., many incl.; >0.212mm: white/brown, irreg./chip., few incl.
OW-CT01-H06-R24	Catalao-01b	color: light brown; shape: dodec./irregular/frosted; inclusions: few.
OW-CT01-H07-R25	Catalao-01b	>0.425mm: white, dod./chip./frosted, none incl.; >0.300mm: white, dod./chip., few incl.; >0.212mm: grey, cub, none incl.; >0.125mm: white, chip., none incl.
OW-CT01-H07-R26	Catalao-01b	color: white; shape: dodec./flat/frosted; inclusions: none.
OW-CT01-H08-R27	Catalao-01b	None
OW-CT01-H08-R28	Catalao-01b	>0.300mm: 01 gr white, dod., frosted, none incl., 01 gr brown, irreg., frosted many incl.; >0.125mm: white, irreg., none incl.
OW-CT01-H11-R31	Catalao-01b	>0.425mm: white, dod./chip., many incl., frosted; >0.300mm: light brown, dod., few/none incl., frosted; >0.212mm: white, flat/dod., none incl., frosted; >0.125mm: light brown, chip.
OW-CT01-H12-R01	Catalao-01*	None
OW-CT01-H13-R32	Catalao-01*	>1.0mm: white, dod., none incl., frosted; >0.212mm: white, irregular, none incl., frosted.
OW-CT01-H13-R33	Catalao-01*	None
OW-CT01-H13-R34	Catalao-01*	>1.70: white, macle/chip., none incl., frosted; >0.425: light grey, cub/irreg., few incl., frosted; >0.212: white, irreg., none incl.
OW-CT01-H13-R35	Catalao-01*	>0.850mm: white, oct/step layered, none inclusions; >0.212mm: white/brown, irreg., few/none inclusions; >0.125mm: white, irreg./chip., few inclusions
OW-CT01-H13-R36	Catalao-01*	>0.425mm: white, dod., frosted, none incl.; >0.300mm: white, irreg./oct(1), irreg.(1), frosted, none incl.; >0.212mm: white, oct(1), irreg.(1), chip.(1), none incl.; >0.125mm: milk, irreg., none incl.
OW-CT01-H13-R37	Catalao-01*	>0.425mm: milk, irreg., none inclusions; >0.212mm: grey light, irreg., few inclusions
OW-CT01-H14-R29	Catalao-01*	>0.212mm and >0.125mm: white, chipped.
OW-CT01-H14-R30	Catalao-01*	>1.0mm: white, oct., none incl., step layered; >0.850mm: light, brown, irreg., none incl., step layered; >0.125mm: white, chipped.
OW-CT01-H15-R02 (3)	Catalao-01*	None
OW-CT01-H15-R02 (2)	Catalao-01*	None
OW-CT01-H15-R02	Catalao-01*	>0.600mm: white, irreg., none incl., dissol.; >0.212mm: white, chipped.
OW-CT01-H16-R38	Catalao-01*	>0.300mm:light brown,dodec/chipped, many inclusions; >0.212mm:light brown, irreg/chipped, many inclusions.
OW-CT01-H16-R39	Catalao-01*	grey light, irregular, few inclusions.
OW-CT01-H16-R40	Catalao-01*	>0.600mm: white, irreg., none incl.; >0.300mm: white, chip., none incl.; >0.125mm: white, chip., none incl.
OW-CT01-H16-R41	Catalao-01*	>0.425mm: white, chip., few incl.; >0.212mm: brown light, irreg., few incl.; >0.125mm: white, dod/irreg., few incl., frosted.
OW-CT01-H16-R42	Catalao-01*	>1.18mm: light brown, aggregate, none inclusions, dissol.lamelar, quadrons.
OW-CT01-H16-R43	Catalao-01*	>1.18: 02 gr oct, white, none incl., dissol.lam., 01 gr oct/macle, white, few incl.; >0.425: white, irreg./chip., none incl.; >0.300, >0.212, >0.125: white, chipped.
OW-CT01-H16-R44	Catalao-01*	>0.212mm: white, irreg./flat, none inclus., frosted; >0.125mm: white, chipped, none inclus.
OW-CT01-H17-R46	Catalao-01c	>0.425mm: white, irreg., none incl., frosted, etch channel; >0.212mm: white, irreg./chip., none incl.

OW-CT01-H17-R47	Catalao-01c	>1.18mm: white, irreg., dod, few incl.; >0.60mm: white, dod., few incl.; <0.300mm: grey, grey light, irreg., few/many incl.
OW-CT01-H18-R45	Catalao-01c	None

For comparative purposes it can be seen that the microdiamond recoveries show 2.8 st/100kg, 3.2 st/100kg and 1.8 st/100kg for each of Catalao-01A, -01B and -01C respectively.

### Mineral Chemistry

Rio Tinto conducted mineral chemistry analysis on garnet grains from three different types of samples and sites, as indicated below:

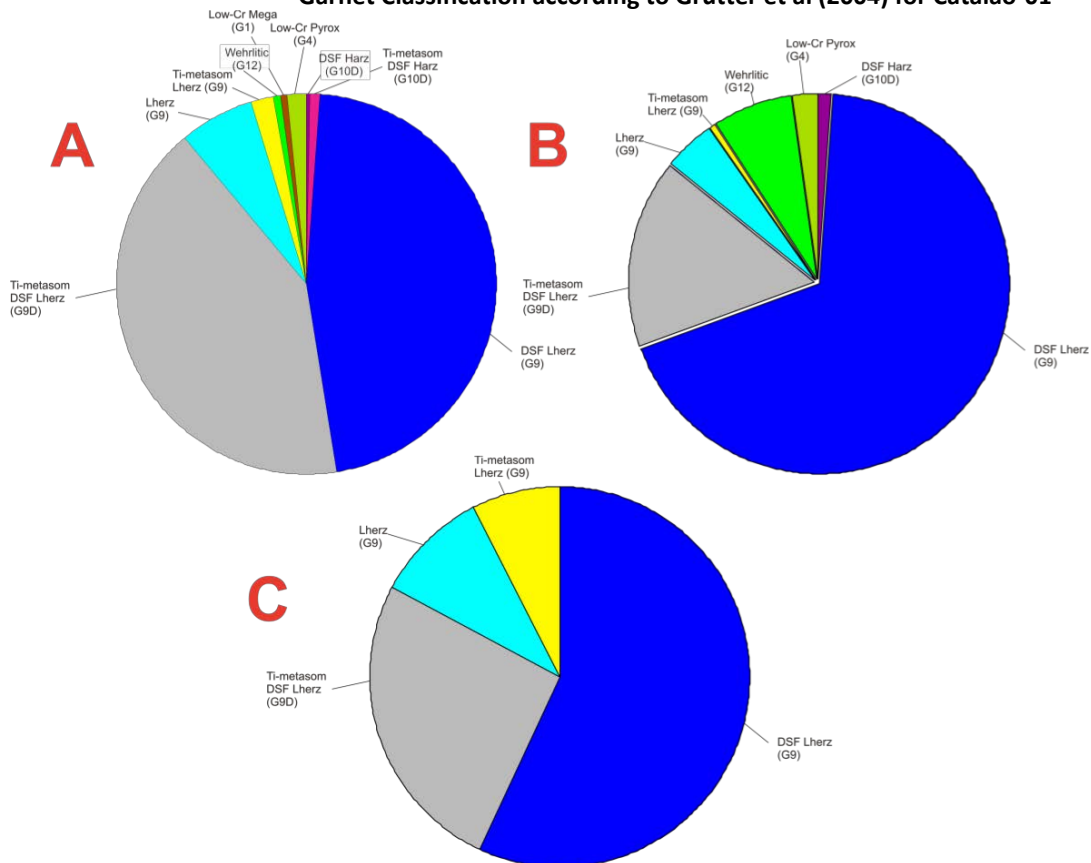
- 278 garnet grains from the diamond drill core at Catalao-01 complex;
- 176 garnet grains from near surface pit at CAT-01B pipe, and;
- 93 garnet grains from surface sample near CAT-01D pipe. Garnet oxide chemistry obtained by Rio Tinto was classified according to Grütter et al. (2004), which is a robust scheme that uses Mn thermometry and Ca-intercept calculations to distinguish diamond stability field lherzolitic G9 and harzburgitic G10 garnets from others derived on the graphite stability field. The classification of all mantle-derived garnets indicated that most of them are peridotitic, especially lherzolitic (G9s). Although the results available indicate that harzburgitic G10 pyrope (conventionally associated with diamondiferous kimberlite) are rare at Catalão, Grütter's classification shows that the G9 garnets are largely derived from within the diamond stability field, which gives confidence to the classification of Catalao-01 intrusion/complex as a potentially diamondiferous kimberlite. It is important to note that the grain selection and methodology employed by Rio Tinto is unknown, and the suite of garnets may or may not be representative of their source rock.

**Summary of Garnet Classification for Catalao-01 Drill Core and Rock Samples**

Grutter Classification	Drill Core (A)		Pit Sample (B)		Rock Sample (C)	
	%	No	%	No	%	No.
DSF* Harzburgitic (G10D)	0.4	1	1.1	2	0.0	0
Timetasom DSF Harzburgitic (G10D)	0.7	2	0.0	0	0.0	0
Harzburgite (G10)	0.0	0	0.0	0	0.0	0
Timetasomatized Harzburgitic (G10)	0.0	0	0.0	0	0.0	0
DSF Lherzolitic (G9D)	46.4	129	68.2	120	57.0	53
Timetasomatized DSF Lherzolite (G9D)	41.4	115	16.5	29	25.8	24
Lherzolitic (G9)	6.5	18	4.5	8	9.7	9
Timetasomatized Lherzolitic (G9)	1.8	5	0.6	1	7.5	7

Wehrlitic (G12)	0.7	2	6.8	12	0.0	0
HighTiO2 Peridotite (G11)	0.0	0	0.0	0	0.0	0
LowCr Megacrystic (G1)	0.4	1	0.0	0	0.0	0
DSF Eclogitic (G3D)	0.0	0	0.0	0	0.0	0
Eclogitic (G3)	0.0	0	0.0	0	0.0	0
DSF Pyroxenitic (G5D)	0.0	0	0.0	0	0.0	0
Pyroxenitic (G5)	0.0	0	0.0	0	0.0	0
DSF LowCr Pyroxenitic (G4D)	0.0	0	0.0	0	0.0	0
LowCr Pyroxenitic (G4)	1.8	5	2.3	4	0.0	0
	<b>Total</b>	<b>278</b>	<b>Total</b>	<b>176</b>	<b>Total</b>	<b>93</b>
<b>Garnet Summary</b>	<b>%</b>	<b>No</b>	<b>%</b>	<b>No</b>	<b>%</b>	<b>No.</b>
Harzburgitic	1.1	3	1.1	2	0.0	0
Lherzolithic	96.0	267	89.8	158	100.0	93
Metasomatic & Megacrystic	44.2	123	17.0	30	33.3	31
Eclogitic & Pyroxenitic	1.8	5	2.3	4	0.0	0
DSF	88.8	247	85.8	151	82.8	77
Nonmetasomatized DSF	46.8	130	69.3	122	57.0	53

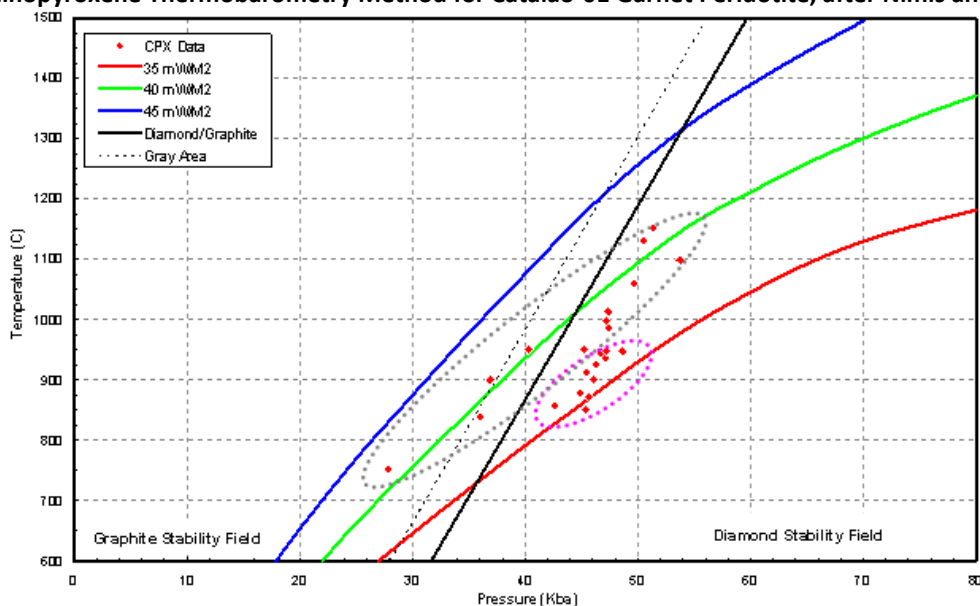
### Garnet Classification according to Grutter et al (2004) for Catalao-01



Rio Tinto also conducted mineral geochemistry on a group of 34 clinopyroxene grains obtained from two samples collected on drill hole CT01H13. The majority of the grains classify as Cr-diopside derived from garnet lherzolite (Nimis and Taylor, 2000) and were suitable for determining single grain clinopyroxene thermobarometry.

Most conductive geotherms labelled 35, 40 and 45 mW/m<sup>2</sup> are after Pollack and Chapman (1977). The Rio Tinto results appear to indicate a bimodal distribution with one group clustered about the 40 mW/m<sup>2</sup> geotherm, intersecting the diamond-graphite stability field at about 4,244 Kba and approximately 9500 to 10000 C and a second cluster of data defining a cooler geotherm at around 37 mW/m<sup>2</sup>, intersecting the diamond stability field at about 35 Kba and 7500C. The latter may represent a xenolith.

### Single Grain Clinopyroxene Thermobarometry Method for Catalao-01 Garnet Peridotite, after Nimis and Taylor (2000)



Overall, the data is consistent with a cool cratonic geotherm that supports favourable diamond potential, not taking into account what the metasomatic effects may have on diamond preservation. The cool geotherm has a large diamond stability window in the lithosphere and shows that the source of the Catalão-01 kimberlite was within the diamond stability field.

#### **4. Geological Setting and Mineralization**

Within this context the project area is located in the Brasília Fold Belt that was developed as the result of island arc amalgamation and continental collision between the Amazonian and São Francisco continents during the Neoproterozoic. According to public data (CPRM 2000), the Brasília Belt structure can be subdivided in two segments:

- The Internal Zone consists of the Araxá Group, the Serra da Mesa Group and the Serra Dourada Group, characterized by allochthonous units of mica schists and volcano-sedimentary associations; and
- The External Zone consists of the metasedimentary units of the Paranoá Group, the Canastra Group and the Ibiá Group, structured in folding belts and thrust faults. Schists of Araxá Group occur as the predominant geological unit in the Catalao property. These rocks are mostly derived from turbiditic sediments, which are associated with chemical sediments with varied contributions of volcanic origin. Tectonic overlapping, with development of low angle shear zones and nappes, marks the structural setting.

In the southeast of Goiás, inside the Alto Paranaíba region, the diamond mineralization is related to recent alluvial sediments, metaconglomerates and alkaline rocks. In the Catalao Project area the known diamond mineralization occurs in both alluvial deposits and associated with kimberlite bodies. According to Leonardos et al. (1993), there are dozens of kimberlite intrusions with multiple pipes associated with carbonatitic complexes. These kimberlites outcrop as typical intrusive rocks in the schists of the Araxá Group, in the region of Catalao-Ouvidor-Três Ranchos

##### *1. Deposit Types*

###### Genetic Model for Primary Diamonds

A variety of mantle-derived igneous rocks comprise the primary sources of diamonds, with the principal host being kimberlite and lamproite. Secondary diamond deposits are formed from these primary source rocks by weathering and transportation.

For many years it was believed that diamond was a phenocryst in kimberlite but the theory of diamond genesis changed after the discovery that the diamonds were much older than their host rocks. This discovery implies that it is impossible diamonds are generated from the kimberlite or lamproite magmas but instead from the rocks these magmas sample during their intrusion in the crust.

Extensive studies on mantle-derived xenoliths and fluid inclusions in macrodiamonds helped to develop the knowledge of the petrological structure of cratonic regions and their surroundings. These studies concluded that diamonds occur in a stable chemical form in the upper mantle of the earth in a domain known as the Diamond Stability Field. The kimberlitic and lamproitic rocks are only the only means of transport that takes them from the bottom of the cratonic shields and upper mantle, at depths greater than 150 km, to near surface.

The Diamond Stability Field at the bottom of cratonic shields, ranges from 45 to 65 Kbars of pressure and temperature between 900° to 1300° C.

The main feature to diamond genesis is the presence beneath the craton and surrounding belt of a keel of rigid lithospheric mantle. The boundary between this keel and the mantle is an unconformity where changes in mechanical and chemical favours the generation of reactions generating ascending magmas or fluids.

Kimberlite are divided into two varieties known as Group 1 or olivine-rich monticellite serpentine calcite kimberlites which is the most common type; and Group 2 micaceous kimberlites also called orangeites that only occurs in the Kaapvaal Craton, probably associated with a metasomatic event.

The kimberlite pipe magmatic system is subdivided into three main zones: effusive rocks, diatreme, and hypabyssal rocks. With the discovery of recent kimberlites in Canada with well- preserved craters a new terminology better describing the effusive rocks was introduced.

Shortly after emplacement, a weathering process starts degrading the cone and the dispersion of debris and minerals take place controlled by climate and topography. This dispersion will play an important role in locating the kimberlitic pipes using the Kimberlite Indicator Minerals (KIM).

KIMs are weathering resistant minerals such as garnet, chrome diopside, chrome spinel, Mg-olivine and ilmenite that are abundant in a kimberlite. These minerals are used as pathfinders to locate their source of dispersion (Kimberlites). Statistically, the samples closer to the kimberlite will present more concentration of KIM allowing to basically pin-point the location of the pipe or kimberlite cluster. Different dispersion process will result in different sampling techniques and better identification of the kimberlite location, i.e. glacial till will be less efficient in dispersing KIM than fluvial dispersion since till tends to spread the mineral on a larger area and drainage tends to confine and concentrate the KIM within the river beds. Topography also plays an important factor on KIM dispersion.

Diamonds are very difficult to find during regional sampling for KIM thus, another important mineral indicator is the Diamond Indicator Minerals (DIM). DIM are a subset of KIM that allow gathering data of mineral formation pressure and temperature compatible with the diamond stability range. The DIMs for peridotitic diamonds are so-called G10 pyrope garnets (high Cr and low Ca), chromite (high Cr + Mg and low Al + Ti), diopside (high Cr + Al), and orthopyroxene (high Mg/Mg+Fe). For eclogitic diamonds, Cr-poor garnets (high Na + Ti) and diopside (high Na) are commonly used.

The diamond grade varies significantly from pipe to pipe within a field, from barren to economic quantities of 20 carats per hundred tonnes (cpht) or more. Also the value (quality) of the stones recovered is important when evaluating a kimberlite economic potential.

#### Area Selection Criteria

As explained above, kimberlites are a product of a special volcanism that brings lower continental crust rocks and upper mantle magma where, when observed the conditions of pressure and temperature, diamonds are stable. With this in mind, kimberlites are the primary source of diamonds and are the exploration target when prospecting for primary sources of diamonds.

The first evidence in identifying kimberlites is the historical recovery of diamonds in an area. The presence of diamonds indicates the actual presence or past existence of kimberlites somewhere nearby. In every diamond producing province in the world diamonds were first recovered from secondary sources such as paleoplacer and marine coastal sediments before their primary sources were identified. The only exception was the discovery of the Canadian prairie kimberlites discovered by seismic during oil & gas exploration in Saskatchewan.

Using KIMs it is possible to back-track the source or narrow down a smaller area where the kimberlite should be present. Airborne and ground geophysics should be used to identify the anomalies that are commonly associated with the kimberlite pipes.

Once kimberlites are located it is important to evaluate if the geological setting associated with stable continental terrains where conditions of pressure and temperature are favourable for the development of diamond stability field which can be confirmed by the presence of macrodiamonds in the kimberlite and by the presence of DIMs inside the mantellic xenoliths and inside the kimberlite.

The rapid transport to surface of the mantelic diamond rich material it is important in order to avoid resorption of diamonds into the magma during slow ascension.

In conclusion, the main criteria for finding kimberlites with economic grade, will depend on a series of factors listed below:

- Existence of diamond occurrences in the area;
- Presence of abundant KIM allowing the identification and location of kimberlite clusters;
- Favourable terrain geology with the presence of old, stable and thick cratons and their proximities where the diamond stability field is achieved. The chemical analysis of the DIM will allow the identification of pressure and

temperature at the base of the crust. Optimal values will range from 900° to 1300° C in temperature and pressures between 45 and 65 kbars;

- Rapid magma ascension preserving diamond integrity and suffering minimal resorption;
- Abundance of diamonds in the diamond stability field;
- Quality of gemstones (average value per carat of diamonds recovered); and
- Depth to the kimberlite body. Outcropping kimberlites will be more feasible than kimberlites buried under thick layers of sediments.

## 5. Five Star Exploration

Exploration on Catalao Diamond Project carried out by Five Star began in April 2015 and is summarized below

**Summary of Exploration Carried Out by Five Star Diamonds Limited in 2015/2016**

Activity	Metric	Survey	Units
Drone Survey/	Area of Survey	20	km <sup>2</sup>
	Area of Survey	5.54	km <sup>2</sup>
	MAG Survey	374.9	Km
Caustic Fusion Analysis	Caustic Fusion	5	Sample
	Holes	20	Holes
	Total Metreage	1,723.01	m
Auger Drilling	94 holes	701.10	m
Density Measurements		890	Units
Test Bulk sample	Pilot-plant	1880.6	Tonnes

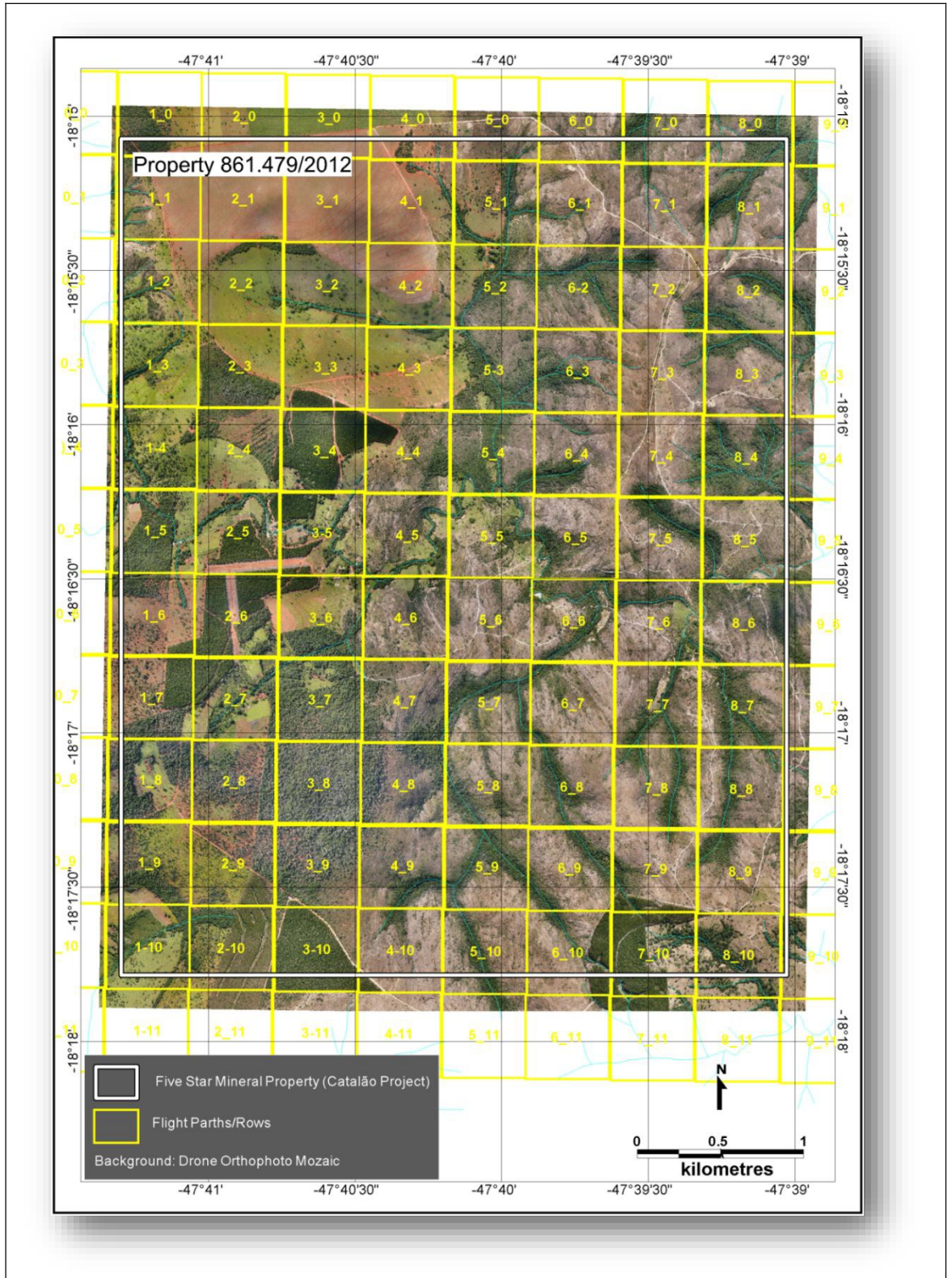
### 1. Grids and Surveys

All surveying was done in UTM SAD69 Zone 23S, coordinates.

#### Drone Topographic Survey

Five Star engaged TecnoSat to conduct a drone topographic survey covering the whole area of the Catalão Project with approximately 20 km<sup>2</sup>. The survey was done in June 2015, using flight lines spaced by 500 metres, which were divided in 15 fly blocks. The data was processed by TecnoSat to produce high-resolution orthophoto images and the digital terrain model of the actual surface area.

### Aerial Orthophoto Image Produced by Drone Survey



## *II. Ground Geophysics Survey*

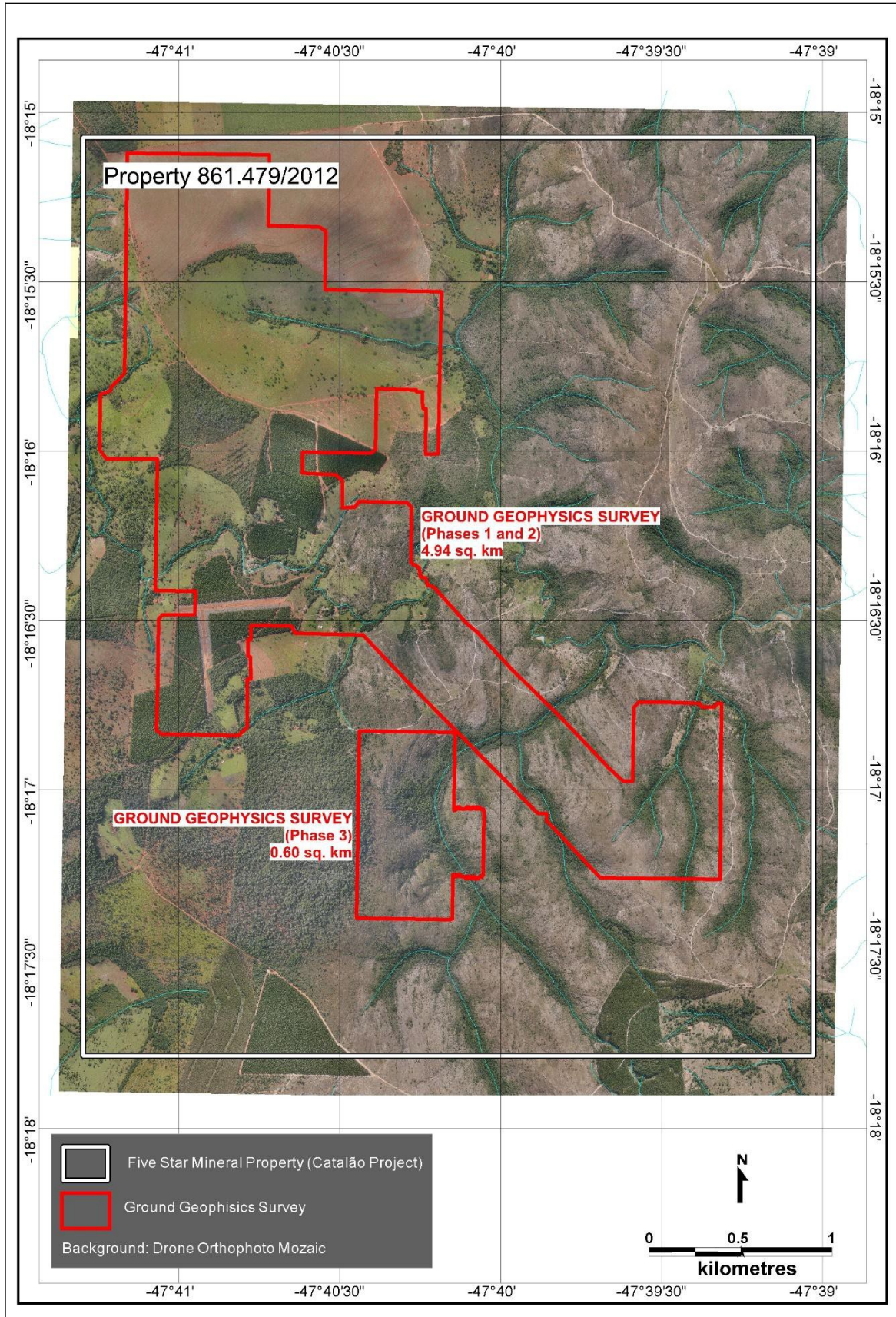
Ground magnetic surveys (three phases) were completed by Five Star on the Catalao Diamond Project. The surveys were carried out between April 2015 to July 2016 and separated into three individual phases (Phases 1, 2 and 3).

Phases 1 and 2 were combined and processed together. Overall, these surveys covered a total area of 4.94 km<sup>2</sup> (total of 349.50 linear kilometres) using a 25 m line spacing with readings 10 m apart along N-S oriented lines.

Phase 3 covered an individual block with an area of 0.6 km<sup>2</sup> (total of 25.4 linear kilometres) using a 10 m line spacing with readings 10 m apart along each line.

To date, the ground magnetic survey covered a total area of 5.54 km<sup>2</sup>, which represents approximately 28% of the whole mineral property owned by Five Star.

### Location of Ground Magnetic Survey (Five Star, 2016)



Data acquisition and processing during Phase 1 were conducted by AFC Geofisica Ltda, a Brazilian geophysical consulting company. Data interpretation was carried out by AFC Geofisica in collaboration with Five Star staff. The whole Phase 2 and Phase 3 were produced by Five Star geophysical team. Magnetic data was processed by the company to generate a series of maps including:

- Intensity of Total Field;
- Intensity of the Residual Field;
- Analytic Signal; and
- 20-metres Upward Continuity of Analytic Signal.

As a result of this exploration work, twenty-six (26) prospective targets were selected to be submitted to further exploration, some of them located along the NW-SE structural trend that host the known CAT-01A, B and C kimberlite pipes. The geological nature of the target rock type is yet to be confirmed through drilling.

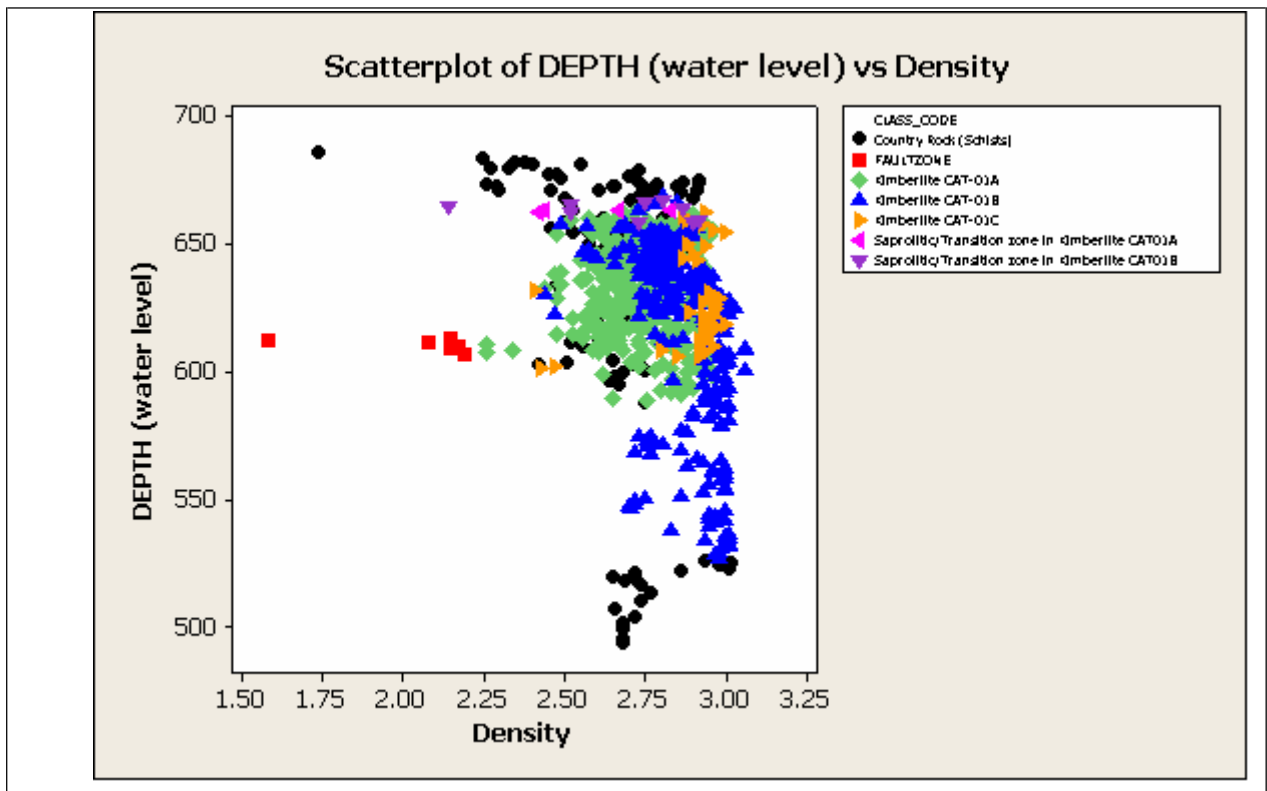
### III. Density

An extensive density measurement programme was carried out by Five Star, based on their 20 drill holes. The measurements were done in 890 samples from a total of 1,723 m of core. The procedures used on density measurements are described on section 10.

The different lithologies generated the following average density values:

- Kimberlite CAT-1A → 2.73 t/m<sup>3</sup>
- Kimberlite CAT-1B → 2.86 t/m<sup>3</sup>
- Kimberlite CAT-1C → 2.89 t/m<sup>3</sup>
- Country Rock → 2.66 t/m<sup>3</sup>
- CAT 1A Saprock → 2.59 t/m<sup>3</sup>
- CAT 1B Saprock → 2.68 t/m<sup>3</sup>

The results from the different lithologies are below.



**Density Measurements from different Lithotypes on Five Star Diamonds Drillcore and Depth Expressed as Altitude Above Sea Level**

These values are compatible with the kimberlite bulk density values in tropical climate environments. An average density of 1.9 t/m<sup>3</sup> was used for the near surface highly weathered saprolite within the kimberlite pipes.

#### IV. Caustic Fusion Analysis

Five Star collected a surface sample of material from within a small drainage course that cuts across the edge of kimberlite CAT-01A. The nature of the material consists of 70% saprolitic kimberlite and 30% colluvial material derived from the CAT-01A kimberlite pipe. A field weight of 420 Kg has been reported for this sample. Five Star conducted a pre-concentration process by washing, which reduced the original weight of 420 Kg to 58.32 Kg. A 0.15 carat stone was recovered by Five Star during the washing pre-concentration process and it extracted from the sample. Inspection of the sample location during the site visit for this report confirms the proximity of the location to the underlying kimberlite.

SGS South Africa (Pty) Ltd ("SGS") received the 58.32 Kg pre-concentrated sample (#15133- PR1-R1) from Five Star and performed the caustic fusion dissolution, which reduced the weight of the sample to a residue of 43.54 g. MSA Group (Pty) Ltd ("MSA") received the caustic fused residue from SGS and then performed a microdiamond analysis.

The sample proved to be problematic and the weight couldn't be reduced much after several secondary re-fusions. MSA therefore sorted a much larger residue (43.54 g) than initially expected (2 g).

The sample log-in weight in the table below represents the weight reported to MSA as recorded in the SGS LIMS on receipt of the sample prior to aliquot preparation for caustic fusion.

**Caustic Fusion Details for Sample #15133-PR1-R1**

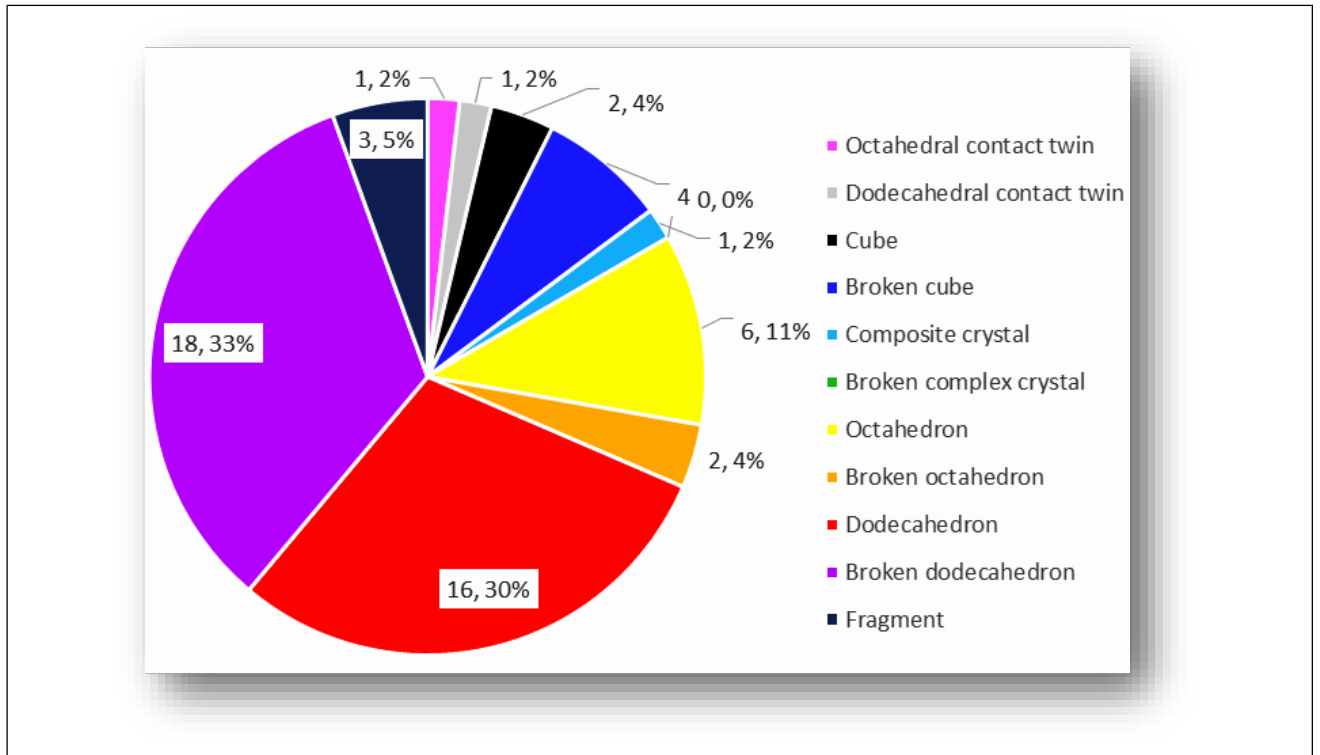
<b>Sample ID</b>	<b>LIMS #</b>	<b>Log-in Weight by SGS (kg)</b>	<b>Pours/re-fusions (#)</b>	<b>Bottom screen (microns)</b>	<b>Residue Sorted weight (g)</b>
#15133-PR1-R1	BCF00800	58.32	11/2	75	43.54

Due to the washing pre-concentration process conducted by Five Star, the microdiamond content smaller than 0.6mm was probably removed. This procedure made microdiamond content invalid for this sample and no modelled estimative can be performed at this time. The only information achieved from this sample is the macrodiamond content larger than 0.5mm. The sample analysed by MSA recovered 0.878 carats in stones larger than 0.5mm.

SGS and MSA implemented standard QA/QC procedures for the caustic fusion.

According to MSA, 85% of all the diamonds recovered and described are transparent stones with 93% of all stones white/colourless and 4% brown and yellow respectively. 50% of the stones found were broken crystals, consisting of mainly broken dodecahedrons (33% of all stones). 31% of the stones displayed frosted surface features and inclusions are present in 19% of the stones.

Crystal Shapes and Number of Diamonds Recovered from Sample #15133- PR1-R1



Fifteen of the stones are commercial-sized macrodiamonds i.e. larger than 1 mm. Nineteen stones larger than 0.5mm were also recovered.

The largest stone is a white transparent octahedron (+2.0 mm in size), weighing 0.268 carats.

Between January and February 2016, Five Star submitted 4 additional samples for caustic fusion and microdiamond analysis (MIDA). These samples were collected on the saprolite intervals related to diamond drilling conducted over the pipes CAT-01D, CAT-01E and CAT-01I. The test work was carried out by SGS Geosol laboratory, which is an independent commercial laboratory.

**Caustic Fusion Details for Samples CAT-CF\_SAP-002, CAT-CF\_SAR-002, CAT-CF\_SAP-003 and CAT-CF\_SAP-004**

Pipe_ID	Sample_ID	Weight (kg)
CAT-01E	CAT-CF_SAP-002	183.02
	CAT-CF_SAR-002	41.30
CAT-01I	CAT-CF_SAP-003	35.00
CAT-01D	CAT-CF_SAP-004	12.50

The residues of the analysed samples were sorted twice, checked and re-checked to ensure the total recovery of all diamonds down to +106 microns in size. These samples results relate only to the sample tested.

SGS Geosol implemented standard QA/QC procedures for the caustic fusion.

Ten (10) synthetic diamonds (-250 µm to +180 µm) and ten (10) synthetic diamonds of (-0.850µ to +600 µm) were added as spikes to each fusion. The recovery obtained for each sample are showed in the table below

**Synthetic Spiked Diamonds Recovery**

Sample	Synthetic diamonds spiked dimensions	
	-850 µm to +600 µm	-250 µm to +180 µm
CAT-CF-SAP-002	100%	100%
CAT-CF-SAR-002		
CAT-CF-SAP-003		
CAT-CF-SAP-004	100%	94%

The average recovery for the 4 samples is 97% and if we make the calculation considering the total number of recovered spiked diamonds versus the added number the percentage is 99%.

For the samples CAT-CF-SAR-002, CAT-CF-SAP-003 and CAT-CF-SP-004 no microdiamonds were recovered.

For the sample CAT-CF-SAP-002 four natural diamonds were recovered and they were individually classified by sieves, 3 of them weighed and described. They collectively weighed 0.0113 carats. The four recovered diamonds from 183.02 kg of kimberlite treated corresponds to one stone / 46 kg of sample.

All the diamonds recovered and described are transparent, white and dodecahedrons stones. 75% of the stones found were broken crystals. 75% of the stones displayed frosted surfaces features and inclusions are present in 75% of the stones.

- One (01) stone (-850 µm to +600 µm) weighing 0.0066 carats was recovered.
- One (01) stone (-600 µm to +850 µm) weighing 0.0030 carats was recovered.

- One (01) stone (-300 µm to +212 µm) weighing 0.0017 carats was recovered.
- One (01) stone (-106 µm to +75 µm) was recovered but not weighed.

V. Bulk Sampling Programme and Grade

Five Star has started the bulk sampling programme on the kimberlites CAT-01A, CAT-01B and CAT-01C aiming to recover enough macrodiamonds for grade estimation on these pipes and, also to gather representative parcels of diamonds for valuation.

The samples were spatially distributed in the three pipes where it was extracted 7,065 tonnes from kimberlite CAT-01A, 10,230 tonnes from CAT-01B and 9,210 tonnes from CAT-01C totalling in a representative sample of 26,505 tonnes.

The mined material was stockpiled separately for each pipe, and important to note that material stockpiled from CAT-1A was diluted by an undesirable amount of schist, from the country rock, or an exceptional xenolith. A “Post Morten” analyse determined that CAT- 01A was diluted in 38.57%, (Country Rock Dilution Estimate).

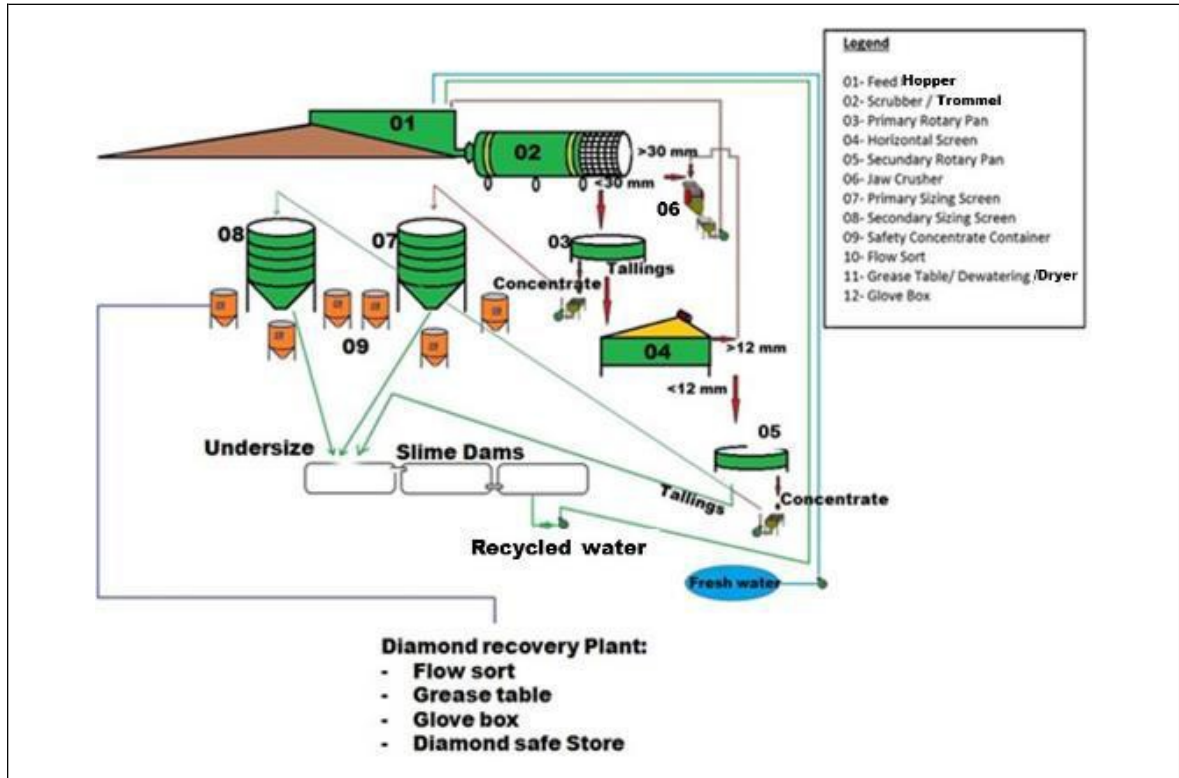
The mining contract for the first 50,000 tonnes was signed with a local contractor (Fagundes Construção e Mineração S/A), with a mining cost of R\$ 3.90 per ton (app. US\$ 1.03/t).

The mining fleet is composed by:

- 1 x 20t Caterpillar excavator (CAT 320D)
- x 20 m3 ADT trucks (ACTROS 4844K)
- 1 x loader (CAT 950K)
- 1 x truck for supervision (Hilux)

A Pilot Plant constructed on the project site was used to recover diamonds in the size range from 1.5 mm to 30 mm. The bulk sample processing plant comprises a static Rotary Pan Pilot Plant with a head feed rate of 5 t/h. The plant was dimensioned in a way that a feed of 10 t/h could be achieved if the two rotary pans are used in parallel increasing the capacity. The process flow chart is illustrated below.

Actual Plant Flow Chart



The final diamond recovery facility is in isolation from the processing unit. It consists of automatic selection equipment based on diamond X-ray fluorescence property (Flowsort). The Flowsort equipment is calibrated and configured for the three grain sizes pre-determined by the pre- treatment. One particle size at the time was processed in the Flowsort.

The Flowsort selected material will be driven by gravity to a dryer and then into a glove box for final manual selection of diamonds.

The tailings from the Flowsort will be taken to a grease table where any non-fluorescent diamonds will be captured by grip and sinking in the grease layer and recovered by melting the grease in hot water bath.

Mixed coluvionar material from the top of CAT-1C pipe was used to make test runs on the pilot plant over two days. This material was composed by fragments of kimberlitic nature and by fragments of country rocks (schists and quartz fragments). The processing of this material resulted in the recovery of 5 stones totalling 0.68 carats from a total of 65 tonnes of mixed material processed. The size of the stones recovered from this test run ranges from 1.5 mm to 4.5 mm, with the biggest stone of 0.36 carats. No grade assumption can be done on this test since the exact nature of the processed material is not appropriate (mix of saprolitic kimberlite and country rock).

After the setup of the plant, the circuit was used to treat 1,880.6 tons of material from the three kimberlites pipes.

The material from the stockpiles was separately fed to the plant, and the runs which was possible to guarantee the recovery and precedence of the diamonds produced are presented in the table below.

**Daily Production and Diamond Recovered**

Date	Processing (t)			Diamond					
	CAT-01A	CAT-01B	CAT-01C	CAT-01A		CAT-01B		CAT-01C	
				Quantity	Carats	Quantity	Carats	Quantity	Carats
30/11/20			18.21						
01/12/20			27.08						
02/12/20			23.22						
03/12/20			32.00					18	1.25
04/12/20			28.00					20	2.05
07/12/20			20.00						
08/12/20			30.00					14	0.98
09/12/20			30.00					12	1.19
10/12/20			30.00					40	3.59
11/12/20			-					14	1.44
12/12/20			14.00					10	0.37
14/12/20			20.00					26	2.6
15/12/20			22.00					34	3.6
16/12/20			7.57					6	0.47
17/12/20			11.94						
18/12/20			6.75					25	2.27
19/12/20			19.15					64	5.72
21/12/20			32.67					31	0
22/12/20			27.90					10	2.64
23/12/20			34.74						
28/12/20			23.87					1	0.11
29/12/20			30.96					10	0
30/12/20			39.71					11	1.73
31/12/20			37.00					5	0.5
04/01/20			38.44					5	0.55
05/01/20									
06/01/20								23	3.07
07/01/20			7.12					37	3.73
08/01/20			18.19					13	1.1
11/01/20			31.48						
12/01/20			48.913					22	2.12
13/01/20			38.815					30	3.04
14/01/20			45.79					20	1.69

15/01/20			15.92					24	2.05
19/01/20			0.36					17	1.65
22/01/20			12						
23/01/20			13					4	0.73
25/01/20			8.39					2	0.2
26/01/20			8.29					10	0.92
27/01/20								5	0.22
28/01/20			20.085					3	0.13
03/02/20						6	0.59		
11/02/20									
12/02/20						2	0.08		
13/02/20		46.995				3	0.08		
15/02/20		17.82				49	3.42		
16/02/20		41.15				18	1.03		
17/02/20		33.965				48	3.02		
18/02/20		69.72				36	2.08		
20/02/20	25.15					58	4.29		
22/02/20				27	2				
23/02/20									
24/02/20		78.24				94	7.51		
26/02/20	24.275			46	4.17				
29/02/20	36.325								
04/03/20									
04/03/20									
05/03/20									
08/03/20	28.38								
31/03/20									
01/04/20									
02/04/20									
04/04/20	42.815								
05/04/20	43.83			13	1.05	146	13.78	159	14.08
06/04/20	39.71			91	8.58				
07/04/20	39.29			171	14.87				
08/04/20	33.32			4	0.28				
11/04/20	22.62								
12/04/20	25.766			43	1.85				
13/04/20	51.35								

14/04/20	41.85								
21/04/20									
22/04/20									
25/04/20									
<b>Total</b>	<b>679.2</b>	<b>327.9</b>	<b>873.5</b>	<b>692</b>	<b>58.8</b>	<b>556</b>	<b>45.0</b>	<b>725</b>	<b>65.79</b>

A total of 2,363 diamonds, totalling 196.86 carats were recovered from the total period of the trial mining operation, including all tests.

The table below presents a result of the size analysis test performed over these diamonds. Diamonds that could not be tracked (the ones that we do not know which pipe it came from or came from tests) were not considered for grade calculation but they were considered in the size distribution analysis (added on CAT-01A.B.C). Also, some identified diamonds (identified by pipe) were mixed at the beginning when they were shipped to a secure location before the size distribution analysis. Then, they were used for the grade calculation (because their origin was properly identified) but they were also added on CAT-01A.B.C class because they could not be separated again for the analysis.

**Size Distribution of the Diamonds found on Rotary Plant (Catalao Project 2015/2016)**

Plate size	CAT-01A		CAT0-1B		CAT-01C		CAT-01A.B.C		Tota	
	Quantity	Carats	Quantity	Carats	Quantity	Carats	Quantity	Carats	Quantity	Carats
20	3	1.71	0	0	0	0	3	1.92	6	3.63
19	1	0.49	1	0.52	0	0	1	0.58	3	1.59
18	1	0.39	0	0	0	0	3	1.17	4	1.56
17	4	1.41	1	0.49	2	0.77	4	1.7	11	4.37
16	1	0.27	1	0.34	1	0.32	19	5.06	22	5.99
15	6	1.5	1	0.31	0	0	2	0.73	9	2.54
14	9	2.21	0	0	6	1.33	27	5.89	42	9.43
13	12	2.42	0	0	0	0	9	2.07	21	4.49
12	28	5.27	14	2.65	7	1.42	56	10.3	105	19.64
11	38	5.9	6	1.05	11	1.85	50	7.59	105	16.39
10	82	9.68	16	2.01	27	3.32	105	12.87	230	27.88
9	57	5.48	11	1.15	15	1.47	84	8.06	167	16.16
8	152	11.48	31	2.33	34	2.54	213	15.15	430	31.5
7	121	6.82	17	1.07	36	2.05	206	10.91	380	20.85
6	170	7.48	22	1.05	36	1.55	280	11.48	508	21.56
5	61	1.82	24	0.81	22	0.66	182	5.56	289	8.85
4	0	0	1	0.02	0	0	7	0.12	8	0.14
3	0	0	0	0	0	0	17	0.24	17	0.24
2	0	0	0	0	0	0	6	0.05	6	0.05
1	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0

00	0	0	0	0	0	0	0	0	0	0
000	0	0	0	0	0	0	0	0	0	0
<b>Total</b>	<b>746</b>	<b>64.33</b>	<b>146</b>	<b>13.8</b>	<b>197</b>	<b>17.28</b>	<b>1274</b>	<b>101.45</b>	<b>2363</b>	<b>196.86</b>

The average grade was calculated for each pipe, based on the tonnage processed on the pilot plan versus the macrodiamonds recovered and their respective weights in carats. The average grade estimated for each pipe is presented in the table below.

**Summary of Production and Grade Estimate**

CAT	Feed (t)		Quantity	Carats	cpht
	Wet	Dry			
CAT-1A	679.2	183.83	692.0	58.8	32.0
CAT-1B	327.9	213.15	556.0	45.0	21.1
CAT1-C	873.5	538.30	725.0	65.8	12.2
<b>Total</b>	<b>1 880.6</b>	<b>935.3</b>	<b>1 973.0</b>	<b>169.5</b>	<b>18.1</b>

A parcel of 44 carats was sent to Robledo Delatorre Ribeiro the owner of R&D Company, a producer and trader in rough diamonds. Mr. Ribeiro is specialized on a broad range of business activities, including buying rough diamonds, manufacturing, and management of production plants in Brazil, in addition to sales and marketing of polished diamonds.

According to Mr. Robledo the stones have Gem Diamond features, for the jewellery industry. The stones in their hegemony are of high quality and 85% of the stones have potential to polish – cutting qualities, with very little inclusions, blemishes and pinpoints. Grading top colour on E to I with some potential fancy colours; yellow, orange and green. Average weight 0,15 carats.

Regarding the valuation, the referred parcel was estimated at a price around U\$150 per carat but in Robledo's opinion, the parcel analysed is not ready for sale. Some larger stones will compose a larger proportion of the parcel as production increases. A larger parcel can significantly increase the average price between U\$200 to U\$400 per carat.

## 6. DRILLING

### 1. Auger Drilling

In the period of March 2015 to February 2016, Five Star conducted an auger drilling campaign with the objective to test exploration targets identified during the ground magnetic survey. This campaign comprised 94 shallow auger holes for a total of 701.10 metres and with final depths ranging between 1.00 and 17.00 metres depth. A summary of the auger drilling programme is provided in the table below.

**Auger Drill Hole Information – Five Star, 2015/2016**

AUGER HOLE_ID	EASTING	NORTHING	ELEVATION	DEPTH	AZIMUTH	DIP	TARGET
CAT-AMH-15-	216986	7977915	704	7.00	0°	-90°	CAT-
CAT-AMH-15-	216980	7977939	705	7.00	0°	-90°	CAT-
CAT-AMH-15-	216970	7977925	704	9.00	0°	-90°	CAT-
CAT-AMH-15-	216839	7977658	690	6.00	0°	-90°	CAT-

CAT-AMH-15-	216862	7977677	683	4.50	0°	-90°	CAT-
CAT-AMH-15-	216726	7977529	688	6.90	0°	-90°	CAT-
CAT-AMH-15-	216822	7977505	681	2.00	0°	-90°	CAT-
CAT-AMH-15-	216721	7978171	732	8.00	0°	-90°	CAT-09
CAT-AMH-15-	216721	7978161	731	5.40	0°	-90°	CAT-09
CAT-AMH-15-	216711	7978171	732	12.50	0°	-90°	CAT-09
CAT-AMH-15-	216743	7978165	726	5.50	0°	-90°	CAT-09
CAT-AMH-15-	216733	7978192	742	4.80	0°	-90°	CAT-09
CAT-AMH-15-	216731	7978149	721	9.30	0°	-90°	CAT-09
CAT-AMH-15-	216921	7978837	736	4.00	0°	-90°	CAT-02
CAT-AMH-15-	216992	7978835	727	2.80	0°	-90°	CAT-02
CAT-AMH-15-	217053	7977714	698	6.00	0°	-90°	CAT-
CAT-AMH-15-	217052	7977730	697	6.00	0°	-90°	CAT-
CAT-AMH-15-	217062	7977750	686	7.30	0°	-90°	CAT-
CAT-AMH-15-	217072	7977750	690	2.80	0°	-90°	CAT-
CAT-AMH-15-	216915	7977775	709	6.00	0°	-90°	CAT-01I
CAT-AMH-15-	216769	7977746	695	8.00	0°	-90°	CAT-
CAT-AMH-15-	216779	7977733	703	7.00	0°	-90°	CAT-
CAT-AMH-15-	216780	7977745	712	6.30	0°	-90°	CAT-
CAT-AMH-15-	216830	7977825	718	14.00	0°	-90°	CAT-
CAT-AMH-15-	216825	7977825	718	14.00	0°	-90°	CAT-
CAT-AMH-15-	216720	7977525	688	12.00	0°	-90°	CAT-
CAT-AMH-15-	216805	7977474	695	12.00	0°	-90°	CAT-
CAT-AMH-15-	216624	7977444	723	11.00	0°	-90°	CAT-
CAT-AMH-15-	216909	7978856	736	15.50	0°	-90°	CAT-02
CAT-AMH-15-	217051	7978758	734	1.00	0°	-90°	CAT-06
CAT-AMH-15-	217090	7977705	672	12.00	0°	-90°	CAT-
CAT-AMH-15-	217090	7977710	672	4.00	0°	-90°	CAT-
CAT-AMH-15-	217090	7977715	670	6.50	0°	-90°	CAT-
CAT-AMH-15-	217120	7977700	705	3.00	0°	-90°	CAT-
CAT-AMH-15-	217120	7977705	705	3.00	0°	-90°	CAT-
CAT-AMH-15-	217120	7977710	704	3.00	0°	-90°	CAT-
CAT-AMH-15-	217120	7977715	700	9.00	0°	-90°	CAT-
CAT-AMH-15-	217130	7977730	702	6.00	0°	-90°	CAT-
CAT-AMH-15-	217125	7977730	701	5.00	0°	-90°	CAT-
CAT-AMH-15-	217120	7977730	701	11.00	0°	-90°	CAT-
CAT-AMH-15-	217070	7977745	658	3.00	0°	-90°	CAT-
CAT-AMH-15-	217071	7977740	688	5.00	0°	-90°	CAT-
CAT-AMH-15-	217055	7977730	693	5.00	0°	-90°	CAT-
CAT-AMH-15-	217048	7977730	695	3.40	0°	-90°	CAT-
CAT-AMH-15-	217060	7977687	699	5.80	0°	-90°	CAT-
CAT-AMH-15-	217050	7977691	704	3.00	0°	-90°	CAT-
CAT-AMH-15-	217061	7977709	693	4.80	0°	-90°	CAT-
CAT-AMH-15-	217066	7977707	690	5.00	0°	-90°	CAT-
CAT-AMH-15-	217093	7977735	688	7.00	0°	-90°	CAT-
CAT-AMH-15-	217093	7977741	688	7.00	0°	-90°	CAT-
CAT-AMH-15-	217093	7977746	699	4.00	0°	-90°	CAT-
CAT-AMH-15-	217103	7977714	704	4.80	0°	-90°	CAT-
CAT-AMH-15-	217102	7977721	702	8.00	0°	-90°	CAT-
CAT-AMH-15-	217113	7977716	705	8.00	0°	-90°	CAT-
CAT-AMH-15-	217056	7977738	696	4.00	0°	-90°	CAT-

CAT-AMH-15-	217038	7977773	688	8.00	0°	-90°	CAT-
CAT-AMH-15-	217039	7977781	698	8.00	0°	-90°	CAT-
CAT-AMH-15-	217032	7977791	700	9.50	0°	-90°	CAT-
CAT-AMH-15-	217071	7977789	697	7.00	0°	-90°	CAT-
CAT-AMH-15-	217068	7977800	693	9.00	0°	-90°	CAT-
CAT-AMH-15-	217069	7977775	697	7.00	0°	-90°	CAT-
CAT-AMH-15-	217068	7977766	696	7.00	0°	-90°	CAT-
CAT-AMH-15-	217057	7977766	694	4.00	0°	-90°	CAT-
CAT-AMH-15-	217057	7977770	699	5.00	0°	-90°	CAT-
CAT-AMH-15-	217052	7977767	699	9.00	0°	-90°	CAT-
CAT-AMH-15-	217068	7977778	701	7.50	0°	-90°	CAT-
1CAT-AMH-15-	217062	7977799	693	8.50	0°	-90°	CAT-
CAT-AMH-15-	217051	7977799	700	6.50	0°	-90°	CAT-
CAT-AMH-15-	216978	7977931	701	13.00	0°	-90°	CAT-
CAT-AMH-15-	216968	7977931	722	6.00	0°	-90°	CAT-
CAT-AMH-15-	216973	7977936	721	7.00	0°	-90°	CAT-
CAT-AMH-15-	216973	7977925	719	7.00	0°	-90°	CAT-
CAT-AMH-15-	216958	7977931	719	13.00	0°	-90°	CAT-
CAT-AMH-15-	216960	7977920	720	13.00	0°	-90°	CAT-
CAT-AMH-15-	216960	7977940	722	8.00	0°	-90°	CAT-
CAT-AMH-15-	216950	7977940	714	11.00	0°	-90°	CAT-
CAT-AMH-15-	216797	7977693	702	7.70	0°	-90°	CAT-
CAT-AMH-15-	216798	7977699	701	7.00	0°	-90°	CAT-
CAT-AMH-15-	216961	7977763	699	2.50	0°	-90°	CAT-01I
CAT-AMH-15-	216961	7977763	699	2.50	0°	-90°	CAT-01I
CAT-AMH-15-	218999	7976592	700	8.00	0°	-90°	CAT-12
CAT-AMH-15-	217399	7977395	693	8.00	0°	-90°	CAT-01L
CAT-AMH-15-	217460	7977510	698	15.00	0°	-90°	CAT-
CAT-AMH-15-	217369	7977734	731	15.00	0°	-90°	CAT-
CAT-AMH-15-	217319	7977525	722	16.00	0°	-90°	CAT-01J
CAT-AMH-15-	217935	7976635	689	3.00	0°	-90°	CAT-
CAT-AMH-15-	218173	7976626	683	3.00	0°	-90°	CAT-
CAT-AMH-15-	217454	7977810	731	3.50	0°	-90°	CAT-01S
CAT-AMH-15-	218425	7976629	705	11.00	0°	-90°	CAT-
CAT-AMH-15-	218477	7976506	722	9.50	0°	-90°	CAT-
CAT-AMH-15-	216623	7977592	700	17.00	0°	-90°	CAT-10
CAT-AMH-15-	216440	7977545	703	14.00	0°	-90°	CAT-
CAT-AMH-15-	216402	7977836	702	7.00	0°	-90°	CAT-07
CAT-AMH-15-	216624	7979060	747	13.50	0°	-90°	CAT-03

The following table presents a summary of the most relevant results obtained in the targets where auger drilling was the only exploration method applied to identify the possible sources of the ground magnetic anomalies.

**Auger Holes - Summary of Results**

Target_ID	Auger Hole_ID	Depth (m)	Revelant Auger Results
CAT-03	CAT-AMH-15-094	13.50	Mafic intrusive rock (from 11.00 to 13.50 m)
CAT-07	CAT-AMH-15-093	7.00	Kimberlite saprolite (from 3.00 to 7.00 m)
CAT-10	CAT-AMH-15-091	17.00	Mafic intrusive rock (from 14.50 to 17.00 m)
CAT-01J	CAT-AMH-15-085	16.00	Kimberlite saprolite (from 12.00 to 16.00 m)
CAT-01K	CAT-AMH-15-083	15.00	Kimberlite saprolite (from 8.00 to 15.00 m)
CAT-01L	CAT-AMH-15-082	8.00	Kimberlite saprolite (from 6.00 to 8.00 m)
CAT-01M	CAT-AMH-15-084	15.00	Kimberlite saprolite (from 11.00 to 15.00 m)

Nearby the main diamond-bearing pipes (CAT-01A, CAT-01B, CAT-01C and CAT-01D), the auger results obtained to date include the confirmation of five (5) targets with the presence of very weathered kimberlite saprolite at shallow levels. These exploration targets represent high-priority areas to be investigated during a new drilling campaign or bulk sampling.

*II. Diamond Drilling*

The diamond drilling programme completed to date by Five Star in the Catalão Project comprises 20 diamond drillholes for a total of 1,723.01 metres. A summary of the drilling completed is provided in the table titled “Diamond Drill Hole Information – Five Star, 2015” below. All drill holes were drilled with HQ (63.5 mm) diameter. The 2015 drilling programme was carried from April 2015 to September 2015 and was undertaken by Eco Sondagem Ltda.

Before commencement of the diamond drilling programme, the company established a series of procedures and protocols that were followed and recorded by the company’s staff and contracted drillers, as indicated below.

- The project geologist was responsible to plan each hole and physically locate them in the field using a hand-held GPS (Garmin 64s model). A drill hole header spreadsheet was digital elaborated, with coordinates, estimated elevation, azimuth, dip, estimated depth and geological target ID.
- Safety and environmental procedures were implemented and checked during the whole drilling programme.
- The drilling company, supervised by a Five Star employee, located the drill rig on site. Five Star’s supervisor was responsible to indicate the azimuth and the dip of the holes.
- Five Star’s supervisor stayed on site the whole period that the drill rig was working. At the beginning of each drilling shift, the supervisor checked the inclination of the ongoing hole with a Brunton Compass.
- While the drilling was advancing, the supervisor and the driller were calculating the drill recovery and manually recording on a table designed by Five Star. On this table, Portuguese was the language used.
- Daily reports were provided by the drilling company. These included daily production, recovery, working period and drilling crew. On this report, Portuguese was also the language used.

- Geology and structure logs were performed on a daily basis by the Project Geologist and manually recorded into adequate spreadsheets.
- Geotechnical logs were done by the Five Star's supervisor and recorded manually recorded on appropriate table designed by Five Star.
- At the end of each working day, the core boxes were close and transported to the Five Star's core shed by the supervisor. At the core shed the information relative to each core box was manually recorded on a spreadsheet. The spreadsheet contains the hole ID, core box number, "from-to" interval and the total length of the interval included on each core box. On this spreadsheet, Portuguese was the language used.
- The decision to stop and terminate each hole was taken by the Project Geologist. At this time, the drilling company was informed to stop the drilling and conduct the downhole survey. The downhole survey was conducted with a Pee Wee equipment using readings at each 3 meters from the top to the bottom of the hole to the collar. Readings were automatically stored on the equipment memory and subsequently download. Afterwards a digital file was provided to Five Star.

Additional procedures and protocols were also designed by Five Star and were implemented after the conclusion of each drill hole, which included:

- A concrete plug with a PVC cylinder was implanted to preserve the location of each hole. The concrete plugs contain aluminum plates with the main information about the holes.
- A topographic company (Vila Rica Consultoria Mineral e Ambiental Ltda) was contracted to conduct a geodesic survey of the collar of each drill hole, providing the accurate coordinates and elevation (X, Y and Z). The equipment used was a GPS RTK Navicom John Deere with a precision extend (Horiz=3cm+1ppm, Vert=6cm+2ppm).
- All drill cores were photographed by Five Star staff.
- Magnetic susceptibility measurements were taken on all drill cores using 25 centimeter intervals from top to the bottom of each drill hole. The equipment used by Five Star was the KT-10 Magnetic Susceptibility Meter from TERRAPLUS. Readings were manually recorded on an adequate spreadsheet designed by Five Star, which include: hole ID, depth(m), values in 10-3SI. On this spreadsheet, Portuguese was the language used.
- Five Star decided to do not make core orientations during the 2015 diamond drilling programme.
- At the current stage, most of the drill core remains uncut and no samples have been taken, except for drill holes CAT-DDH-15-011, CAT-DDH-15-012, CAT- DDH-15-013, CAT-DDH-15-018 and CAT-DDH-15-019 where some intervals were sampled to generate mini-bulk samples for caustic fusion analysis. These holes are located at CAT-01E, CAT-01D and CAT-01I targets.

All the information/data acquired from each drill hole during the 2015 diamond drilling programme are physically archived on the company's office at Catalão city. All the information/data were electronically exported to Excel spreadsheets and incorporated to a drilling database. Strip logs were created based on the data acquired.

Observation of the drillcore confirmed the quality of the drilling with generally high core recovery, even in the near surface saprolitic kimberlite. At this stage, the drillcore has only been used for general kimberlite facies logging, mag susceptibility readings and standard density measurements. Future sampling for microdiamonds is suggested and the core quality is not expected to pose any difficulties in achieving representative samples.

**Diamond Drill Hole Information – Five Star, 2015**

<b>HOLE_ID</b>	<b>EASTING (m)</b>	<b>NORTHING (m)</b>	<b>ELEVATION</b>	<b>DEPTH</b>	<b>AZIMUTH</b>	<b>DIP</b>	<b>TARGET</b>
CAT-DDH-15-001	217,034.68	7,977,794.89	702.59	85.70	84°	-80	CAT-01B
CAT-DDH-15-002	217,085.62	7,977,740.51	695.40	94.95	279°	-70	CAT-01A
CAT-DDH-15-003	217,084.37	7,977,742.10	695.51	127.35	315°	-47	CAT-01A
CAT-DDH-15-004	217,070.16	7,977,824.07	706.33	109.90	227°	-47	CAT-01B
CAT-DDH-15-005	217,141.38	7,977,725.83	698.02	113.55	270°	-47	CAT-01A
CAT-DDH-15-006	217,138.48	7,977,725.72	697.96	122.63	270°	-47	CAT-01A
CAT-DDH-15-007	217,195.98	7,977,659.20	695.08	51.62	60°	-70	CAT-01C
CAT-DDH-15-008	217,209.90	7,977,628.48	695.87	104.45	330°	-60	CAT-01A
CAT-DDH-15-009	217,234.04	7,977,695.87	702.22	29.75	290°	-50	CAT-01C
CAT-DDH-15-010	217,055.24	7,977,745.67	697.69	70.95	135°	-60	CAT-01A
CAT-DDH-15-011	216,974.86	7,977,930.65	711.97	33.53	0°	-90	CAT-01E
CAT-DDH-15-012	216,975.03	7,977,932.12	711.98	21.30	90°	-60	CAT-01E
CAT-DDH-15-013	216,973.70	7,977,931.93	712.09	37.13	270°	-75	CAT-01E
CAT-DDH-15-014	216,932.97	7,977,932.48	710.70	89.95	90°	-60	CAT-01E
CAT-DDH-15-015	217,046.87	7,977,789.12	701.98	200.30	0°	-90	CAT-01B
CAT-DDH-15-016	217,041.62	7,977,815.58	704.25	80.20	0°	-90	CAT-01B
CAT-DDH-15-017	217,051.78	7,977,835.14	707.25	125.45	0°	-90	CAT-01B
CAT-DDH-15-018	216,752.00	7,977,741.00	699.00	55.00	78°	-55	CAT-01D
CAT-DDH-15-019	216,916.00	7,977,774.00	707.00	35.10	0°	-90	CAT-01I
CAT-DDH-15-020	216,912.00	7,978,847.00	700.00	134.20	0°	-90	CAT-02

The 2015 drilling program aimed to define the pipe geometry on CAT-01A, CAT-01B and CAT-01C pipes to a vertical depth of 100-150 metres, as well as to investigate four other potential targets known as; CAT-01D, CAT-01E, CAT-01I and CAT-02 targets.

Existing lithological logging followed the one historically used by Rio Tinto. Five Star is aware that modern descriptive classification may result in modified terminology and lead to better correlations as more detailed work is contemplated.

No verification holes have been drilled at this time, as it is common practise with metals deposits. No sampling of the core has been carried out until the date of this report exempting, at this time, the necessity for an audit of core sampling procedures. The drilling and logging practises for this project follow industry standards and the objectives of the drilling programme.

As no sampling of core has been undertaken, no compositing of analytical results has been made.

CAT-01A Pipe

CAT-01A pipe was tested by 4 drillholes conducted by Five Star during 2015, totaling 402.08 metres of drilling which resulted in intersecting 350.40 metres of core logged as kimberlite.

**Diamond Drill Hole Information on CAT-01A Pipe**

		<b>KIMBERLITE INTERVALS</b>		
CAT-DDH-15-	94.95	88.30	TKB	Geolog
CAT-DDH-15-	113.55	102.85	TKB	Geolog
CAT-DDH-15-	122.63	111.55	TKB	Geolog
CAT-DDH-15-	70.95	47.70	TKB	Geolog
<b>TOTA</b>	<b>402.08</b>	<b>350.40</b>		

Using the information from this drill holes and the historical database from Rio Tinto, Five Star constructed a geological model of the CAT-01A kimberlite pipe.

CAT-01A pipe contains a TKB facies (Tuffisitic Kimberlite Breccia) that seems to be richer in percentage of coarser olivine content and mantle xenoliths, as well as, more abundant garnets compared to the facies described for the other pipes.

CAT-01B Pipe

CAT-01B pipe was tested by 06 drill holes conducted by Five Star during 2015, totaling 728.09 metres of drilling which resulted in intersecting 414.21 metres of core described as kimberlite. To date, the CAT-01B pipe is the one of the three main pipes with more drilling information available.

**Diamond Drill Hole Information on CAT-01B Pipe**

<b>HOLE-ID</b>	<b>Metres Drilled</b>	<b>KIMBERLITE INTERVALS</b>	<b>Facies</b>	<b>Purpose</b>
CAT-DDH-15-001	85.70	73.21	TKB	Geology
CAT-DDH-15-003	127.35	55.63	TKB	Geology
CAT-DDH-15-004	109.90	92.58	TKB	Geology
CAT-DDH-15-015	200.30	149.30	TKB	Geology
CAT-DDH-15-016	80.20	22.49	TKB	Geology
CAT-DDH-15-017	125.45	21.00	TKB	Geology
<b>TOTA</b>	<b>728.90</b>	<b>414.21</b>		

Using the information from these drill holes and the historical database from Rio Tinto, Five Star constructed a geological model of the CAT-01B kimberlite pipe

CAT-01C Pipe:

CAT-01C was tested by 03 drill holes conducted by Five Star during 2015, totaling 185.82 metres of drilling which resulted in intersecting 71.22 metres of core described as kimberlite.

**Diamond Drill Hole Information on CAT-01C**

HOLE-ID	Metres	KIMBERLITE INTERVALS	Facie	Purpose
CAT-DDH-15-007	51.62	36.57	TKB	Geology
CAT-DDH-15-008	104.45	34.65	TKB	Geology
CAT-DDH-15-009	29.75	0.00	TKB	Geology
<b>TOTAL</b>	<b>185.82</b>	<b>71.22</b>		

Using the information from these drill holes and the historical database from Rio Tinto, Five Star constructed a geological model of the CAT-01C kimberlite pipe.

CAT-01E Pipe

CAT-01E pipe was tested by 04 drill holes conducted by Five Star during 2015, totaling 181.91 metres of drilling which resulted in intersecting 57.83 metres of core logged as kimberlite.

**2015 Diamond Drill Hole Information on CAT-01E Pipe**

HOLE-ID	Metres Drilled	KIMBERLITE INTERVALS	Facies	Purpose
CAT-DDH-15-011	33.53	17.21	SAP/TK	Geology
CAT-DDH-15-012	21.30	3.03	SAT/TK	Geology
CAT-DDH-15-013	37.13	30.05	SAP/TK	Geology
CAT-DDH-15-014	89.95	7.54	TKB	Geology
<b>TOTAL</b>	<b>181.91</b>	<b>57.83</b>		

CAT-01D and CAT-01I Pipes

CAT-01D and CAT-01I pipes are new discoveries made 100% by Five Star during the 2015 diamond drilling programme. Each one of those were tested with a single drill hole and together they intersected 14.32 metres of kimberlite from a total of 90.10 metres drilled.

**2015 Diamond Drill Hole Information on CAT-01D and CAT-01I Pipes**

PIPE / TARGET	Number of Drill Holes - FSD	Total of	Kimberlite intersections	Kimberlite evaluation
<b>CAT-01D</b>	02	90.10	14.3	Exploration stage

**7. Sample Preparation, Analyses and Security**

*1. Drilling*

Drill core and auger samples were only logged and not submitted to any chemical analyses, consequently, no QA/QC procedures were applied. The samples are stored on company's core shed located in the mining area. The core shed is security locked and monitored by company's security personnel 24 hours a day.

## II. Density

The method used was the water volume displacement measurement. The core sample was wrapped in plastic film after their weighting.

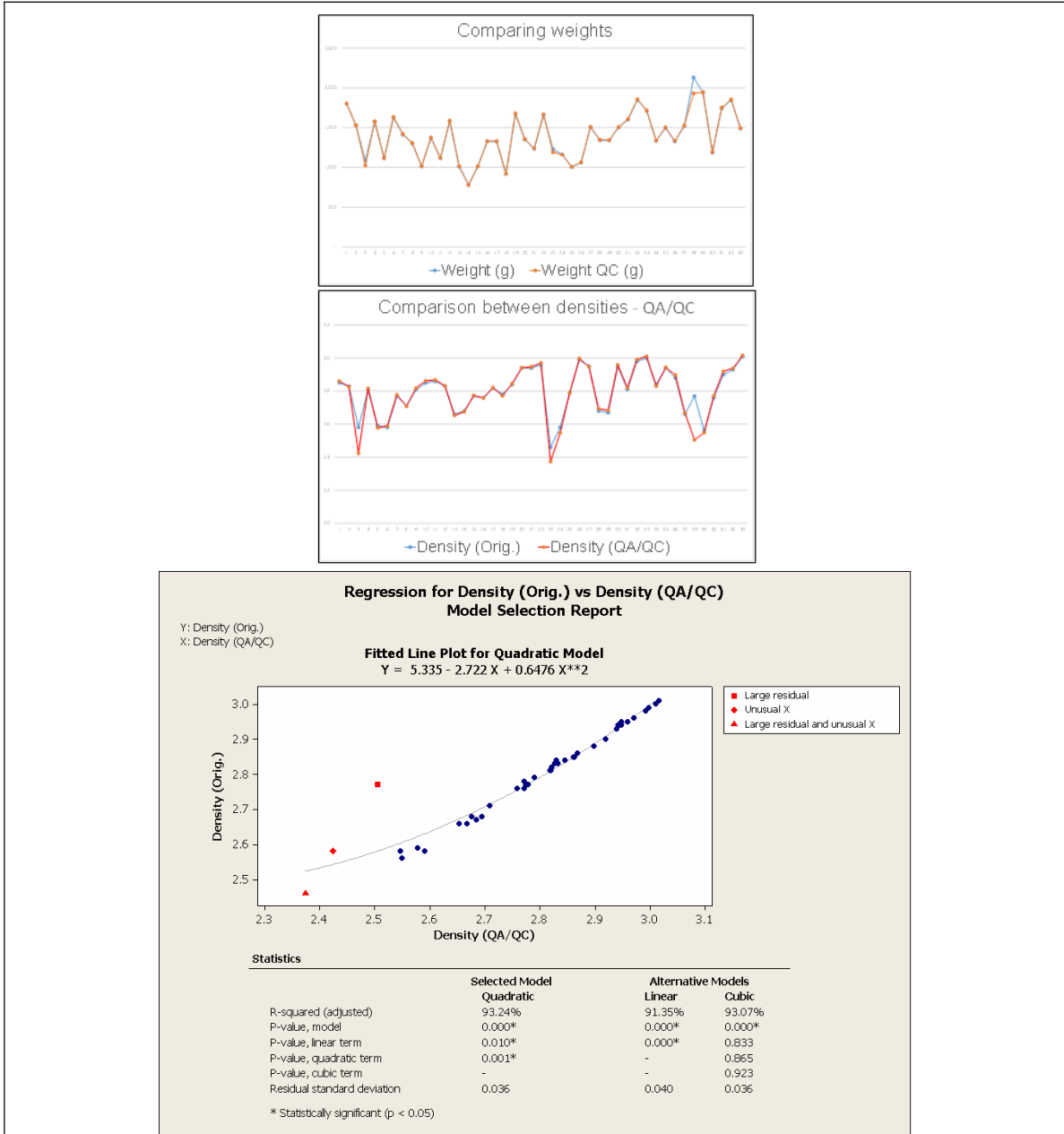
The density measurements were done “in natura” and in order to check the achieved values a QA/QC procedure was executed. From the original samples, 5% of them were oven dried for 8 hours at 100°C.

The check was executed using the steps below:

1. Checking to make sure the correct sample was used and weighing of the sample interval;
2. Drying the sample interval in a temperature of 100°C during 8 hours;
3. Weighing the dry sample;
4. Recording the value and performing the verification of data.

The verification of the data was done by checking the original versus the dry weight and it's correlative density results. The graphics displayed on the following figure shows that a good correlation between both results (original versus oven dried sample) was achieved.

**Dry Density Comparison against “in natura” from selected Density Samples**



**III. Mini-bulk Sampling**

Five Star collected five mini-bulk samples during the period of August 2015 to March 2016. One mini-bulk sample was collected at surface on a weathered kimberlite outcrop which is part of CAT- 01A pipe. The other mini-bulk samples were collected from drill core obtained on CAT-01D, CAT- 01E and CAT-01I pipes. All the mini-bulk samples were submitted to caustic fusion followed by a microdiamond analyses (MIDA).

Basic information about the mini-bulk samples are presented on the table below. All the processes applied to these samples, including preparation, quality control and analyses, are detailed described in this section.

**Mini-bulk Samples Summary**

				Laboratory
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Sample_ID	Weight (kg)	Target	Material	Caustic Fusion	MIDA
#15133-PR1-R1	58.32	CAT-01A	Close surface kimberlitic saprolite	SGS South Africa (Pty) Ltd	MSA Group (Pty) Ltd
CAT-CF-SAP-002	183.02	CAT-01E	Drillcore kimberlitic saprolite	SGS Geosol Laboratorios Ltda	SGS Geosol Laboratorios Ltda
CAT-CF-SAR-002	41.3	CAT-01E	Drillcore kimberlitic saprock	SGS Geosol Laboratorios Ltda	SGS Geosol Laboratorios Ltda
CAT-CF-SAP-003	35.00	CAT-01I	Drillcore kimberlitic saprolite	SGS Geosol Laboratorios Ltda	SGS Geosol Laboratorios Ltda
CAT-CF-SAP-004	12.50	CAT-01L	Drillcore kimberlitic saprolite	SGS Geosol Laboratorios Ltda	SGS Geosol Laboratorios Ltda
Note: MIDA = Microdiamond Analyses					

Samples collected from kimberlite outcrops and core drilling are placed in plastic bags which are sealed with a plastic security seals and a security locking lid is affixed to the bucket. The sample number is written on the bucket and on the bucket lid. The samples are assigned individual, generic sample numbers that do not indicate where the sample came from.

Samples are transported from the field to company's office in Catalao on a company's vehicle. Once in Catalao, the bucket are checked for damage and included on adequate barrels, which are subsequently sealed for transportation. Five Star employee then has the samples sent by aircraft or vehicle to independent commercial laboratories for caustic fusion and microdiamond analyses.

Security seals are checked upon receipt by the respective laboratories and any damage noted. All the samples arrived intact on the laboratories and there were no discrepancies noted.

A chain of custody information was kept in a table which is sent to Five Star's Rio de Janeiro office along with geological and sample location information.

#### Mini-bulk sample #15133-PR1-R1

The sample labelled #15133-PR1-R1 was prepared by the SGS Caustic Fusion facility (58 Melvill Street, Booyens, Johannesburg) and the residue submitted to MSA for sorting of microdiamonds down to 106 micron. The caustic fusion process used the 75 micron bottom screen.

The processing and microdiamond analyses were carried out at the caustic fusion and micro- diamond sorting laboratory jointly developed and managed by SGS South Africa (SGS) and MSA. SGS is an approved service provider to MSA and has provided accurate results on several projects carried out in the past. MSA is an ISO-9001 certified company.

The dissolution by caustic fusion (NaOH) of the kimberlite sample is performed by SGS. No crushing of core is undertaken anywhere in the process in order to minimise the risk of breakage of diamonds. Diamond is highly resistant to caustic soda and therefore the risk of diamond etching and damage is eliminated. SGS provides a concentrate residue to MSA from which liberated diamonds can be readily extracted by microscopic examination.

The sample weight and number of pours and re-fusions required to dissolve the sample are listed in the table below. The sample proved to be problematic and the weight couldn't be reduced much after several secondary re-fusions.

MSA therefore sorted a much larger residue (43.54 g) than initially budgeted (2 g). Sorting results by MSA was completed on 20 August 2015.

The sample log-in weight in the table below is the weight reported to MSA as recorded in the SGS LIMS on receipt of the sample prior to aliquot preparation for caustic fusion. This is the weight to be used in calculating diamond grade.

**Caustic Fusion Details for Sample #15133-PR1-R1**

Sample ID	LIMS #	Log-in Weight by SGS (kg)	Pours/re-fusions (#)	Bottom Screen (microns)	Residue Sorted weight (g)
#15133-PR1-R1	BCF00800	58.32	11/21	75	43.54

\*Note 1: Subcontracted tests in this report are not included in the SANAS Schedule of Accreditation for The MSA Group Laboratory.

MSA monitored the quality control and assurance of the caustic fusion process by the addition of 10 synthetic diamond tracers to the sample at the start of the dissolution process. The residue recovered from the caustic fusion process was sorted by MSA for both the synthetic diamond tracers and natural diamonds down to +75 microns. This did not add significantly to the time required for the processing of the residues.

The standard operating procedure is briefly described below.

- The carbonate content is assessed by testing with hydrochloric acid prior to aliquot preparation and caustic fusion to establish the reactivity of the sample.
- Other than simple breakage of the kimberlite core into +/- 20 mm sized pieces, no other sample preparation is performed prior to dissolution by caustic fusion.
- Caustic soda is added to the kimberlite sample in each pot and the kiln is heated to 550oC. This temperature is maintained for a minimum of fourteen hours.
- After the digestion in molten caustic soda, the sample residue is screened using a bottom screen of 75 microns (µm).
- The residue, greater than 75 µm, is liberated from the NaOH by washing in hydrochloric acid leach and hot water baths. The bottom screen for the acid leach is 75 µm. The washed residue of each sample, enclosed in the 75 µm screen used during the leaching and washing process, is then dried.
- The dry residue of each sample, wrapped in the 75 µm screen used during the acid leach, is received by MSA. The quality control, sorting and diamond characterization is done by MSA.
- Quality control throughout the process is monitored by spiking with sized synthetic diamonds that are easily identifiable. The synthetic diamond spikes are added to the sample at the start of the caustic fusion process.
- The synthetic diamonds used to monitor the process efficiency for each sample are selected from the following 3 size fractions: -212 µm to +150 µm, -150 µm to +106 µm and -106 µm to +75 µm. This is done at the discretion of MSA.
- Natural and synthetic diamonds are recovered from the +75 µm residue using 60X magnification with a binocular microscope. The residue is examined a minimum of two times to ensure the total recovery of diamond. If required re-checking of the residue is undertaken to ensure the recovery of all diamonds from the sample.
- Recovery rate of the spikes (synthetic diamonds) is reported and the recovered spikes are stored on sample cards.
- Synthetic diamonds, either client spikes or released into the sample from diamond drilling, are identified stored on sample cards and reported.
- The recovered natural diamonds are separated into 8 sieve classes by screening and stored on sample cards after weighing.

- Colour, clarity, and morphology of each diamond is determined and reported.
- X, Y and Z dimensions of each diamond are measured in mm.
- All macro-diamonds and each microdiamond greater than 300 µm are weighed individually using a 7 decimal place electronic microbalance and placed on sample cards. The microdiamonds smaller than 300 µm are weighed in groups and their combined weight is reported.
- The gram weight is converted to carats.
- Diamond data is tabulated in Excel spreadsheets. The Excel versions are supplied simultaneously to the client, together with a PDF version of the Test Report.
- All the residues and recovered diamonds are stored for a fixed period as arranged with the client. Mini-bulk samples CAT-CF-SAP-002, CAT-CF-SAR-002, CAT-CF-SAP-003 and CAT-CF-SAP-004 The processing and microdiamond analyses were carried out at the SGS Geosol caustic fusion laboratory located in Vespasiano - MG facility using a bottom screen size of 106 micron. After the residue treatment, the final concentrate was sent to our SGS Geosol Laboratory located in Brasília – DF for microscopic examination. The caustic fusion tests began on January 25 and finished on February 10, 2016. The dissolution by caustic fusion (NaOH) of the kimberlite sample is performed by SGS Geosol, no crushing of core is undertaken anywhere in the process in order to minimise the risk of breakage of diamonds. Diamond is highly resistant to caustic soda and therefore the risk of diamond etching and damage is eliminated. The sample weight and number of pours to dissolve the samples are listed in the table below.

**Caustic Fusion Details**

Sample Number	Sample Start Weight (kgs)	Number of Kilns	Date of 1st fusion	Number of fusions	Date last fusion	Residue weight
CAT-CF SAP-002	183,02	2	01/02/2016	30	10/02/2016	5,930
CAT-CF SAR-002	41,30	2	28/01/2016	7	30/01/2016	0,222
CAT-CF SAP-003	35,00	2	26/01/2016	5	28/01/2016	0,238
CAT-CF SAP-004	12,50	2	25/01/2016	2	26/01/2016	0,151
Total	271,82			44		6,541

SGS Geosol monitored the quality control and assurance of the caustic fusion process by the addition of 20 synthetic diamond tracers to each fusion the sample at the start of the dissolution process. The residue recovered from the caustic fusion process was sorted for both the synthetic diamond tracers and natural diamonds down to +106 microns.

The standard operating procedure is briefly described below.

- The carbonate content is assessed by testing with hydrochloric acid prior to aliquot preparation and caustic fusion to establish the reactivity of the sample.
- Caustic soda is added to the kimberlite sample in each pot and the kiln is heated to 550oC. This temperature is maintained for a minimum of twelve hours.
- After the digestion in molten caustic soda, the sample residue is screened using a bottom screen of 106 microns (µm).
- The residue, greater than 106 µm, is liberated from the NaOH by washing in hydrochloric acid leach and hot water baths. The bottom screen for the acid leach is 106 µm. The washed residue of each sample, enclosed in the 106 µm screen used during the leaching and washing process, is then dried.
- Depending of the weight of the residue, an additional a micro fusion using a zirconium crucible and a flux composed of NaOH and Na2O2 is necessary to reduce the weight.
- Quality control throughout the process is monitored by spiking with sized synthetic diamonds that are easily identifiable. The synthetic diamond spikes are added to the sample at the start of the caustic fusion process.
- The synthetic diamonds used to monitor the process efficiency for each sample are selected from the following 2 size fractions: -850 µm to +600 µm, -250 µm to +180 µm.

- Natural and synthetic diamonds are recovered from the +106 µm residue using 60X magnification with a binocular microscope. The residue is examined a minimum of two times to ensure the total recovery of diamond. If required re-checking of the residue is undertaken to ensure the recovery of all diamonds from the sample.
- Recovery rate of the spikes (synthetic diamonds) is reported and the recovered spikes are stored on sample cards.
- Synthetic diamonds, either client spikes or released into the sample from diamond drilling, are identified stored on sample cards and reported.
- The recovered natural diamonds are separated into 8 sieve classes by screening and stored on sample cards after weighing.
- Colour, clarity, and morphology of each diamond is determined and reported. All macro- diamonds and each microdiamond greater than 212 µm are weighed individually using a 5 decimal place electronic microbalance and placed on sample cards.
- The gram weight is converted to carats.
- Diamond data is tabulated in Excel spreadsheets. The Excel versions are supplied simultaneously to the client, together with a PDF version of the Test Report.
- All the residues and recovered diamonds are stored for a fixed period as arranged with the client. All sample collection, transportation and processing was done to industry standards.

Bulk Sampling CAT-01A, CAT-01B and CAT-01C Pipes

Five Star conducted a bulk sampling programme over CAT-01A, CAT-01B and CAT-01C kimberlite pipes. Shallow pits were excavated over the three pipes and the material mined from each pipe was individually stockpiled on an appropriated area close to the pilot plant. Before processing the material on the Pilot Plant, all the material was weighted. Five Star was feeding the Pilot Plant with a front loader SEM 639C. An electronic scale (RDS, model Alpha 10, precision +/- 2) was acquired by Five Star and installed on the front loader. .

Then, each bucket of material that the front loader was unloading inside the Pilot Plant feeder was properly weighted before and the data was recorded for daily production calculation and further for grade estimation.

Before the front loader unload the material on the Pilot Plant feeder, samples of one kilo of the material were being taken from the bucket of the front loader. This material was separated in bags tagged with the time, date and identification of the material (CAT1-A, CAT1-B, CAT1-C). Afterwards this material was dried on a laboratory oven placed on site for 24hr on a temperature of 105 °C. When the material was taken from the oven it was again weighted to calculate the percentage of the moisture. This procedure was made on daily basis.

**Daily Production Chain of Custody Form**

Date	Time	Source (stockpile)	Wet weight (g)	Dry weight (g)	Difference (g)	Moisture calculated (%)
1/27/16	10:40	CAT-01 C	1000	605	395	39%
1/27/16	12:00	CAT-01 C	1000	614	386	39%
1/27/16	14:40	CAT-01 C	1000	627	373	37%
1/27/16	13:23	CAT-01 C	1000	620	380	38%

1/27/16	15:34	CAT-01 C	1000	603	397	40%
<b>27/01/2016 Média</b>						39%
1/28/16	09:41	CAT-01 C	1000	603	397	40%
1/28/16	10:50	CAT-01 C	1000	611	389	39%
<b>28/01/2016 Média</b>						39%
1/29/16	10:50	CAT-01 C	1000	601	399.	40%
1/29/16	12:26	CAT-01 C	1000	609	391	39%
1/29/16	13:00	CAT-01 C	1000	595	405.	41%
1/29/16	13:28	CAT-01 C	1000	615	385	39%
1/29/16	14:11	CAT-01 C	1000	611	389	39%
1/29/16	15:05	CAT-01 C	1000	622	378.	38%
<b>29/01/2016 Média</b>						39%
02/01/2016	10:30	CAT-01 C	1000	634	366	37%
02/01/2016	10:53	CAT-01 C	1000	619	381	38%
02/01/2016	11:30	CAT-01 C	1000	629	371	37%
02/01/2016	12:20	CAT-01 C	1000	616	385	38%
02/01/2016	13:13	CAT-01 C	1000	624	376	38%
02/01/2016	14:22	CAT-01 C	1000	624	376	38%
02/01/2016	15:22	CAT-01 C	1000	633	367	37%

<b>01/02/2016 Média</b>						37%
02/02/2016	09:00	<b>CAT-01 C</b>	1000	635	365	37%
02/02/2016	10:10	<b>CAT-01 C</b>	1000	622	378	38%
02/02/2016	11:13	<b>CAT-01 C</b>	1000	618	382	38%
02/02/2016	13:05	<b>CAT-01 C</b>	1000	645	356	36%
02/02/2016	13:40	<b>CAT-01 C</b>	1000	620	380	38%
02/02/2016	14:25	<b>CAT-01 C</b>	1000	601	399	40%
02/02/2016	14:55	<b>CAT-01 C</b>	1000	614	386	39%
<b>02/02/2016 Média</b>						38%
02/03/2016	10:15	<b>CAT-01 B</b>	1000	613	387	39%
02/03/2016	11:30	<b>CAT-01 B</b>	1000	609	392	39%
02/03/2016	14:30	<b>CAT-01 B</b>	1000	622	378	38%
<b>03/02/2016 Média</b>						39%
02/12/2016	09:20	<b>CAT-01 B</b>	1000	624	376	38%
02/12/2016	10:32	<b>CAT-01 B</b>	1000	630	370	37%
02/12/2016	13:03	<b>CAT-01 B</b>	1000	637	363	36%
<b>12/02/2016 Média</b>						37%
2/13/16	08:35	<b>CAT-01 B</b>	1000	634	366	37%
2/13/16	10:24	<b>CAT-01 B</b>	1000	634	366	37%
<b>13/02/2016 Média</b>						37%
2/15/16	09:00	<b>CAT-01 B</b>	1000	637	363	36%
<b>15/02/2016 Média</b>						36%
2/16/16	09:15	<b>CAT-01 B</b>	1000	648	352	35%
2/16/16	10:20	<b>CAT-01 B</b>	1000	631	369	37%
2/16/16	12:30	<b>CAT-01 B</b>	1000	616	384	38%
2/16/16	14:00	<b>CAT-01 B</b>	1000	615	385	38%
<b>16/02/2016 Média</b>						37%
2/17/16	09:00	<b>CAT-01 B</b>	1000	635	365	37%
2/17/16	10:00	<b>CAT-01 B</b>	1000	642	358	36%
2/17/16	11:46	<b>CAT-01 B</b>	1000	617	383	38%
2/17/16	14:45	<b>CAT-01 B</b>	1000	629	371	37%
<b>17/02/2016 Média</b>						37%
2/18/16	09:05	<b>CAT-01 B</b>	1000	649	351	35%

2/18/16	10:04	CAT-01 B	1000	626	374	37%
2/18/16	10:47	CAT-01 B	1000	602	398	40%
2/18/16	12:50	CAT-01 B	1000	633	367	37%
2/18/16	13:44	CAT-01 B	1000	621	380	38%
2/18/16	14:37	CAT-01 B	1000	623	377	38%
2/18/16	15:17	CAT-01 B	1000	636	364	36%
<b>18/02/2016 Média</b>						37%
2/19/16	09:13	CAT-01 B	1000	671	329	33%
2/19/16	10:40	CAT-01 B	1000	651	349	35%
2/19/16	12:45	CAT-01 B	1000	618	382	38%
2/19/16	14:44	CAT-01 B	1000	643	357	36%
<b>19/02/2016 Média</b>						35%
2/20/16	09:30	CAT-01 B	1000	660	340	34%
2/20/16	11:20	CAT-01 B	1000	657	343	34%
2/20/16	13:40	CAT-01 B	1000	645	355	36%
<b>20/02/2016 Média</b>						35%
2/22/16	08:15	CAT-01 C	1000	630	370	37%
2/22/16	09:33	CAT-01 C	1000	587	413	41%
2/22/16	11:00	CAT-01 C	1000	596	404	40%
<b>22/02/2016 Média</b>						40%
2/23/16	08:50	CAT-01 C	1000	624	376	38%
2/23/16	10:40	CAT-01 C	1000	616	384	38%
2/23/16	13:44	CAT-01 C	1000	640	360	36%
<b>23/02/2016 Média</b>						37%
2/24/16	08:45	CAT-01 B	1000	624	376	38%
2/24/16	09:24	CAT-01 B	1000	652	348	35%
2/24/16	10:15	CAT-01 B	1000	649	351	35%
2/24/16	11:00	CAT-01 B	1000	629	371	37%
2/24/16	12:57	CAT-01 B	1000	627	373	37%
2/24/16	14:05	CAT-01 B	1000	642	358	36%
2/24/16	15:03	CAT-01 B	1000	624	376	38%
2/24/16	16:15	CAT-01 B	1000	651	349	35%
<b>24/02/2016 Média</b>						36%
2/25/16	08:20	CAT-01 A	1000	634	366	37%

2/25/16	09:40	CAT-01 A	1000	640	360	36%
2/25/16	11:23	CAT-01 A	1000	646	354	35%
<b>25/02/2016 Média</b>						36%
2/26/16	12:50	CAT-01 A	1000	639	361	36%
2/26/16	14:50	CAT-01 A	1000	678	322	32%
2/26/16	16:10	CAT-01 A	1000	628	373	37%
<b>26/02/2016 Média</b>						35%
2/29/16	08:40	CAT-01 A	1000	640	360	36%
2/29/16	10:35	CAT-01 A	1000	616	384	38%
2/29/16	13:34	CAT-01 A	1000	634	366	37%
2/29/16	15:30	CAT-01 A	1000	658	342	34%
<b>29/02/2016 Média</b>						36%
03/01/2016	08:30	CAT-01 A	1000	597	404	40%
<b>01/03/2016 Média</b>						40%
03/07/2016	09:00	CAT-01 A	1000	633	367	37%
03/07/2016	10:28	CAT-01 A	1000	629	371	37%
03/07/2016	12:00	CAT-01 A	1000	633	367	37%
03/07/2016	14:30	CAT-01 A	1000	600	400	40%
<b>07/03/2016 Média</b>						38%
03/08/2016	12:50	CAT-01 A	1000	649	351	35%
03/08/2016	14:25	CAT-01 A	1000	629	371	37%
03/08/2016	16:15	CAT-01 A	1000	671	329	33%
<b>08/03/2016 Média</b>						35%
03/09/2016	08:30	CAT-01 A	1000	637	363	36%
03/09/2016	09:51	CAT-01 A	1000	635	365	37%
03/09/2016	13:10	CAT-01 A	1000	652	348	35%
03/09/2016	15:05	CAT-01 A	1000	663	337	34%
<b>09/03/2016 Média</b>						35%
03/10/2016	08:25	CAT-01 A	1000	624	376	38%
03/10/2016	10:32	CAT-01 A	1000	624	376	38%
03/10/2016	13:00	CAT-01 A	1000	612	388	39%
03/10/2016	14:45	CAT-01 A	1000	621	379	38%
<b>10/03/2016 Média</b>						38%

3/14/16	08:50	CAT-01 A	1000	595	405	40%
3/14/16	10:05	CAT-01 A	1000	586	414	41%
3/14/16	11:15	CAT-01 A	1000	607	393	39%
3/14/16	14:10	CAT-01 A	1000	599	401	40%
<b>14/03/2016 Média</b>						40%
3/16/16	09:20	CAT-01 A	1000	630	370	37%
3/16/16	10:40	CAT-01 A	1000	622	378	38%
3/16/16	13:25	CAT-01 A	1000	633	367	37%
<b>16/03/2016 Média</b>						37%
3/18/16	13:35	CAT-01 A	1000	645	355	35%
3/18/16	14:24	CAT-01 A	1000	639	361	36%
3/18/16	16:15	CAT-01 A	1000	652	348	35%
<b>18/03/2016 Média</b>						35%
3/19/16	08:55	CAT-01 A	1000	636	364	36%
3/19/16	10:25	CAT-01 A	1000	648	352	35%
3/19/16	13:15	CAT-01 A	1000	633	367	37%
3/19/16	15:30	CAT-01 A	1000	648	352	35%
<b>19/03/2016 Média</b>						36%
3/21/16	10:25	CAT-01 A	1000	642	358	36%
3/21/16	11:40	CAT-01 A	1000	634	366	37%
3/21/16	14:10	CAT-01 A	1000	624	376	38%
<b>21/03/2016 Média</b>						37%
3/22/16	09:30	CAT-01 A	1000	635	365	36%
3/22/16	10:40	CAT-01 A	1000	645	355	35%
3/22/16	13:35	CAT-01 A	1000	631	369	37%
3/22/16	14:30	CAT-01 A	1000	634	367	37%
3/22/16	16:00	CAT-01 A	1000	616	384	38%
<b>22/03/2016 Média</b>						37%
3/23/16	08:50	CAT-01 A	1000	644	356	36%
3/23/16	09:40	CAT-01 A	1000	615	385	39%
3/23/16	10:55	CAT-01 A	1000	631	369	37%
3/23/16	11:35	CAT-01 A	1000	608	392	39%
3/23/16	16:20	CAT-01 A	1000	618	382	38%
3/23/16	17:47	CAT-01 A	1000	645	355	36%

<b>23/03/2016</b> Média						37%
3/24/16	09:30	<b>CAT-01 A</b>	1000	637	363	36%
3/24/16	10:30	<b>CAT-01 A</b>	1000	646	354	35%
3/24/16	11:20	<b>CAT-01 A</b>	1000	589	411	41%
3/24/16	14:00	<b>CAT-01 A</b>	1000	646	354	35%
3/24/16	17:10	<b>CAT-01 A</b>	1000	643	357	36%
<b>24/03/2016</b> Média						37%
3/28/16	09:40	<b>CAT-01 A</b>	1000	624	376	38%
3/28/16	10:20	<b>CAT-01 A</b>	1000	617	383	38%
3/28/16	11:30	<b>CAT-01 A</b>	1000	629	371	37%
3/28/16	13:50	<b>CAT-01 A</b>	1000	611	389	39%
3/28/16	14:55	<b>CAT-01 A</b>	1000	647	353	35%
3/28/16	16:10	<b>CAT-01 A</b>	1000	640	360	36%
3/28/16	17:40	<b>CAT-01 A</b>	1000	673	328	33%
<b>28/03/2016</b> Média		<b>CAT-01 A</b>	1000			37%
<b>29/03/2016</b> Média		<b>CAT-01 A</b>	1000	682	318	32%
<b>30/03/2016</b> Média		<b>CAT-01 A</b>	1000	664	336	34%
<b>31/03/2016</b> Média		<b>CAT-01 A</b>	1000	673	327	33%
<b>01/04/2016</b> Média		<b>CAT-01 A</b>	1000	652	348	35%
<b>02/04/2016</b> Média		<b>CAT-01 A</b>	1000	657	343	34%
<b>04/04/2016</b> Média		<b>CAT-01 A</b>	1000	642	358	36%
<b>05/04/2016</b> Média		<b>CAT-01 A</b>	1000	675	325	33%
<b>06/04/2016</b> Média		<b>CAT-01 A</b>	1000	643	357	36%
<b>07/04/2016</b> Média		<b>CAT-01 A</b>	1000	665	335	34%
<b>08/04/2016</b> Média		<b>CAT-01 A</b>	1000	674	326	33%
<b>11/04/2016</b> Média		<b>CAT-01 A</b>	1000	683	317	32%
<b>12/04/2016</b> Média		<b>CAT-01 A</b>	1000	730	270	35%
<b>13/04/2016</b> Média		<b>CAT-01 A</b>	1000	716	284	34%
<b>14/04/2016</b> Média		<b>CAT-01 A</b>	1000	727	273	32%

15/04/2016 Média		CAT-01 A	1000	699	301	30%
16/04/2016 Média		CAT-01 A	1000	702	299	30%
18/04/2016 Média		CAT-01 A	1000	718	282	28%
19/04/2016 Média		CAT-01 A	1000	705	295	29%
20/04/2016 Média		CAT-01 A	1000	732	268	27%
21/04/2016 Média		CAT-01 A	1000	728	272	27%
22/04/2016 Média		CAT-01 A	1000	731	269	27%
25/04/2016 Média		CAT-01 A	1000	771	229	23%

It is very important to remember that after processing each material the Pilot Plant was cleaned as much as possible with water to avoid any the risk of contamination from one material to another.

#### IV. Discussion

The author considers the security aspects implanted on the company's core shed are completely adequate.

The author reviewed mini-bulk samples processing and is of the opinion that processing was performed to industry standards. Security procedures and documentation were observed and monitored. QA/QC procedures were applied by adding synthetic diamond spikes. The author believed that Five Star mini-bulk samples diamond results are true and accurate and have not been affected in any way that would minimize their integrity.

The author reviewed the preparation, processing and QA/QC procedures applied on density measurements and after discussions with company's technical team, the author is of the opinion that processing was adequate for the actual stage of the project.

The author reviewed the security, QA/QC and processing procedures applied to bulk samples. There was a dilution problem on bulk sample collected at CAT-01A pipe but the company conduct a "post mortem" study that minimize the risks on the results obtained. The bulk samples were processed by Five Star on its pilot plant and flowsort recovery facilities. These are not as ISO certified facilities but is in regular use for the recovery of diamonds from bulk samples. Traces were placed on each batch of processed material and recovered in the plant and on the flowsort attesting integrity of the whole process.

In general, the author considers that the results were satisfactory and demonstrated a sufficient degree of confidence that can be used on a grade estimation. In addition to that, the estimated grades for the bulk samples reported by Five Star demonstrate similarities with historical results conducted by Rio Tinto in the same property.

#### 8. Data Verification

##### I. Core Drilling

Core from all Five Star diamond drilling program is secured stored in Five Star's core shed located in the mining area. Core has been documented (collar, recovery and RQD), photographed, logged and submitted to magnetic susceptibility readings. No samples have been collected except from 5 drill holes (CAT-DDH-15-001, CAT-DDH-15-012, CAT-DDH-15-

013 on CAT-01e pipe, CAT- DDH-15-018 on CAT-01D pipe and CAT\_DD H-15-019 on CAT-01I pipe) where the weathered intervals were collected and submitted to caustic fusion and MIDA. No chemical analysis were performed on the core drilling.

Drill core and logs from three drill holes were physically reviewed by the author. The core documentation and logging adequately captured the required data from the drilling. The remaining core samples are available for further verification. No other independent data verification of the core drilling has been performed.

Historical core drilling from Rio Tinto is not available but Five Star has received some digital data that includes collars, logs, recovery, and magnetic susceptibility readings. Photos from the core are not available as well. The author reviewed the Rio Tinto historical data and is of opinion that the data is relatively adequate to be used on the geological modelling.

#### *II. Density*

A simulation of all the steps involved on this process was performed on-site by the Five Star team to the author using 6 samples involved on the previous programme and results from this simulation confirmed previous measurements with insignificant descriptions. The author verified that core samples used for density calculation are marked and well identified on their respective core boxes for further verification. The author verified the whole data acquired by Five Star on density calculation and the database is consistent and adequately documented.

#### *III. Mini-bulk samples*

It is not possible to verify the results of mini-bulk samples collected on HQ core drilling as the samples were entirely consumed in processing. One mini-bulk sample was collected at surface and the author had the opportunity to verify the site location.

The author received and reviewed two technical reports from independent laboratories that performed the caustic fusion and MIDA. No irregularities were noted and there is no reason to suspect the veracity about the results obtained from mini-bulk samples.

#### *IV. Bulk Samples*

The author reviewed the procedures applied on the bulk sampling programme, including volumetric material extracted, stockpiling, pilot plant processing circuit and recovering system.

The author visited the three shallow excavations and the remaining individual stockpiles and verified the nature of the material extracted from CAT-01A, CAT-01B and CAT-01C. The visited was also extended to the on-site pilot plant and company's warehouse where the pre-treatment, concentration and recovery flowsort systems were reviewed, as well as, all the relevant documentation related to daily production, diamond recovery, standard procedures, etc. were verified in conjunct with Five Star operational management.

The author had not access to the diamonds recovered from the bulk sampling programme because they are stored on a private bank. However, a large photographic archive of the recovered stones was provided by Five Star.

#### *V. Mineral Resources Model Database*

The main aspect of the data integration work consisted in combining the Rio Tinto dataset to the Five Star data to construct the geological model of the pipes and produce cross-sections with Surpac software. This was done by Five Star geologists and an IT technician. Data provided by Rio Tinto were formatted in Excel spreadsheets to include the historical diamond drill holes with logs of the geology and susceptibility measurements.

Various checks were done in Excel. Reconciliation and corrections were done when necessary and include the following:

- Checks for duplicate collars;
- Checks of surface collared holes against surface topography;
- Checks for end of holes;

The author received a digital copy of the database used on the mineral resource estimate carried out by independent consultants (GE21 Consultoria Mineral). Using this database, the author created a new resource model based on the 3D geological interpretation and therefore verified resource calculations made by local consultants assuming the initial prospecting data were correct.

#### VI. Discussion

As part of the independent expert review, Mining One conducted the following verification checks on the Catalao Project:

- Review of the geological and mineralization interpretations;
- Review of the historic and current exploration programs;
- Review of the deposit model;
- Review of data that are supporting mineral resource models. The review covered drill core inspection, review of core logging, sampling and assay protocols and methods, and review of sample security measures and sample storage;
- Review of QA/QC data protocols and methods, data integrity and validation of RC, drill core and surface data and
- Review of diamond valuation methodologies.

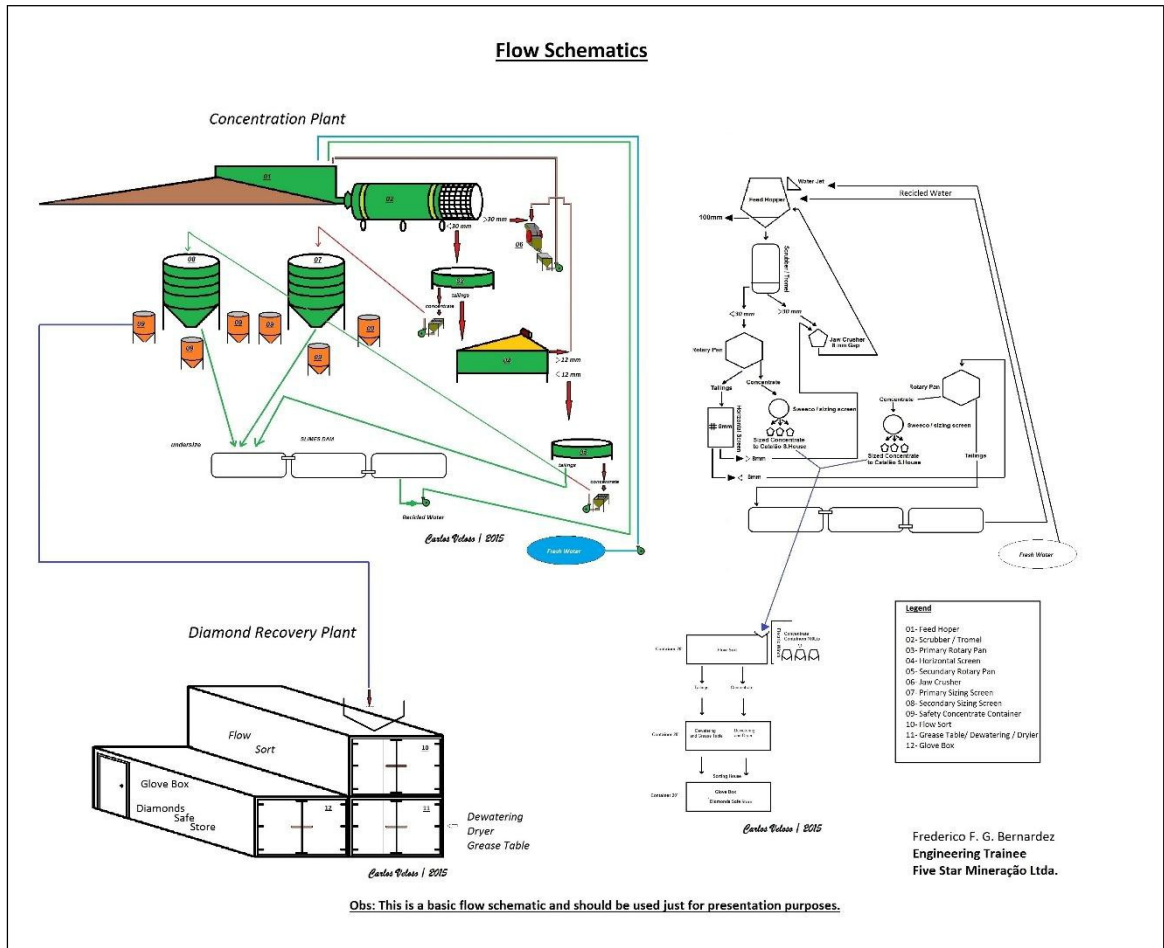
Mining One visited the site in order to audit procedures at Catalao. Independent samples were not collected and treated by Mining One since this is not practical for diamond sampling. The audit process requires matching of raw data from field copies for the various data collection areas to final copies of data to be used in public reporting and resource estimation. Mining One has further reviewed documentation of procedures and verified that activities conform to companies published internal procedures for those activities.

The author is of the opinion that Five Star's published and practiced procedures for collection of data in the field and transposition of these data into data 'products' to support resource evaluation work and initial costing exercises meet industry guidelines.

#### VII. Pilot Plant Metallurgical Testing

##### Description of the Processing

The process includes basically the operations of (1) Pre-treatment, (2) Concentration, (3) Recovery of diamonds with X-Ray equipment (Flowsort), and finally manual selection on a high security place. In this section, the focus are the two first operations that are performed on site using the company's Rotary Pilot Plant. The figure below shows the schematic flow diagram of the beneficiation processing.



**VIII. Pre-treatment**

The ore is removed from the stockpiles kept in the yard behind the concentration plant by a SEM 639C wheel loader, then ore is poured into a feed hopper with a fixed screen (100mm). One pressurized water jet makes the washing of poured material in the feed hopper.

The passing material from the hopper goes to a Scrubber / Trommel, located immediately ahead and below the hopper. In Scrubber, through its rotation (about 18RPM) and tipping material inside, the breakdown of the material is provided. On Trommel, the -30mm material goes to a side chute and after goes to the first Rotary Pan. Material classified as +30mm goes straight through another chute to the crusher.

A jaw crusher regulated to crush the material to 8mm will crush the +30mm material. After crushing, with the addition of water, the material is pumped into the feed hopper and goes through all pre-treatment again.

**IX. Concentration**

The concentration is performed in the Rotary Pan. Through the right combination of centripetal force (water intake) and centrifugal force (through the rotation of the angled blades) heavy minerals will be sent to the exterior of the Rotary Pan and light mineral will go to the center (tailings). Every 360 degrees one gate opens, according to what has been previously adjusted, so the concentrate (heavy minerals) goes to a concentrate receiver.

From the receiver, this concentrate is pumped with water to a circular sieve (Sweeco) where the concentrate will be separated into three different particle size (+1.5mm -5mm; +5mm -12mm; +12mm -30mm) and placed on safe containers (which later goes for recovery of diamonds).

The tailings of the first Rotary Pan go to the horizontal screen. It separates the material + 8mm, and through a conveyor belt it is sent to the crusher, which with its opening 8mm will crush and then this material is pumped into the feed hopper. The -8mm material goes to a second Rotary Pan. The second Rotary Pan is used to check the first, so it is not expected to find any diamonds from there. After concentrating the material in the second Rotary Pan, the concentrate goes to a second circular sieve where the concentrate is separated in three particle size, and put on and safe containers (which later goes for recovery of the diamonds), as done in the first Rotary.

The tailings from the second Rotary Pan goes to the slime dams. The water is recycled reducing the use of stream water from 60% to 80%.

It is important to say that once the plant does not use any type of chemical products for the beneficiation there is almost no environmental risk involved in this operation.

Note: The two circular sieves (Sweecos) are identified, as well as the material that comes from them. Saying that, the company precisely knows the origin of the diamonds, and thus verify the efficiency or inefficiency of the Rotary Pan.

#### X. Quality Control

For quality control purposes on the Rotary Pilot Plant, certified density tracers were added on the material that was being processed to test the recovery. Initially while Five Star Team was setting up the Plant tracers were being lost (normal at this stage) but after the setup all tracers were being recovered. This tracer tests were used to warrantee good concentration performance to the Rotary Pilot Plant.

Tracer Certificate

# Partition Enterprises Pty Ltd

Tracers & Accessories for Mineral Processing

## Quality Control Certification for FIVE STAR DIAMONDS Density Tracers for Diamond Related Applications

The densities of 50 cubic tracers (each with a volume of approximately 0.5cc) from each production batch are individually estimated using the "weigh-in-air/weigh-in-liquid" technique. If, in any batch, the densities of one or more tracers are more than 0.02 RD units off target, the entire batch is scrapped (and not reported here). Within each batch, results are presented in order of increasing density. Tracers of various sizes may be prepared from a single batch. For tracers smaller than 8mm this QC technique is not reliable. For tracers of densities below 2.9 and sizes down to 2mm, float/sink testing in LST solutions is satisfactory. Partition Enterprises Pty Ltd can provide comparative data. These tracers have the desired properties of ferromagnetism and fluorescence under X-Rays or UV Light.

Current as at: 16/12/2015

Nominal RD	3.53	3.53	3.53	3.53	3.53 (20mm)	Individually tested
Batch #	20150618	20150316	20151006	20150714	20150414	
Lowest RD	3.5192	3.5132	3.5248	3.5139	3.5176	
Highest RD	3.5372	3.5336	3.5480	3.5477	3.5220	
Average RD	3.5289	3.5228	3.5369	3.5322	3.5223	
1	3.5192	3.5132	3.5248	3.5139	3.5127	
2	3.5199	3.5138	3.5266	3.5145	3.5112	
3	3.5209	3.5153	3.5283	3.5171	3.5135	
4	3.5223	3.5153	3.5295	3.5201	3.5152	
5	3.5231	3.5159	3.5315	3.5206	3.5132	
6	3.5232	3.5165	3.5322	3.5221	3.5202	
7	3.5236	3.5165	3.5330	3.5232	3.5159	
8	3.5240	3.5176	3.5330	3.5253	3.5149	
9	3.5249	3.5176	3.5333	3.5258	3.5143	
10	3.5257	3.5178	3.5334	3.5268	3.5217	
11	3.5261	3.5179	3.5341	3.5282	3.5151	
12	3.5262	3.5188	3.5343	3.5288	3.5146	
13	3.5263	3.5204	3.5347	3.5291	3.5116	
14	3.5270	3.5205	3.5351	3.5294	3.5143	
15	3.5275	3.5207	3.5352	3.5295	3.5134	
16	3.5276	3.5207	3.5355	3.5296	3.5152	
17	3.5277	3.5210	3.5358	3.5298	3.5143	
18	3.5277	3.5212	3.5359	3.5299	3.5126	
19	3.5279	3.5215	3.5361	3.5302	3.5149	
20	3.5279	3.5222	3.5362	3.5306	3.5189	
21	3.5281	3.5226	3.5363	3.5306	3.5172	
22	3.5282	3.5227	3.5363	3.5319	3.5161	
23	3.5282	3.5227	3.5364	3.5319	3.5177	
24	3.5284	3.5235	3.5364	3.5323	3.5131	
25	3.5285	3.5235	3.5368	3.5323	3.5133	
26	3.5285	3.5238	3.5369	3.5327	3.5161	
27	3.5287	3.5242	3.5373	3.5329	3.5136	
28	3.5291	3.5245	3.5374	3.5333	3.5166	
29	3.5295	3.5245	3.5374	3.5339	3.5106	
30	3.5305	3.5250	3.5375	3.5344	3.5141	
31	3.5305	3.5251	3.5376	3.5349	3.5149	
32	3.5307	3.5251	3.5378	3.5354	3.5153	
33	3.5308	3.5253	3.5381	3.5355	3.5126	
34	3.5308	3.5254	3.5384	3.5362	3.5153	
35	3.5311	3.5255	3.5385	3.5363	3.5151	
36	3.5313	3.5259	3.5386	3.5365	3.5124	
37	3.5313	3.5259	3.5386	3.5365	3.5129	
38	3.5317	3.5260	3.5388	3.5366	3.5151	
39	3.5319	3.5261	3.5392	3.5367	3.5140	
40	3.5323	3.5264	3.5401	3.5376	3.5130	
41	3.5325	3.5270	3.5401	3.5378	3.5220	
42	3.5329	3.5271	3.5411	3.5379		
43	3.5330	3.5274	3.5415	3.5391		
44	3.5340	3.5274	3.5418	3.5406		
45	3.5341	3.5276	3.5423	3.5414		
46	3.5342	3.5280	3.5428	3.5416		
47	3.5353	3.5281	3.5438	3.5422		
48	3.5360	3.5287	3.5438	3.5425		
49	3.5366	3.5290	3.5445	3.5443		
50	3.5372	3.5336	3.5480	3.5477		

Analytical Balance employed for these determinations has been calibrated and certified by Australian Calibrating Services (A/Asia) Pty Ltd, a laboratory accredited with the National Association of Testing Authorities

Recommended date of next calibration: 22 March 2017  
Recommended date of next repeatability test: 22 March 2016

Reported by:

On behalf of: Dr Christopher J Wood, MSc, PhD, CPEng, Managing Director  
Dated: 16/12/2015

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ABN: 28 010 473 542

PO Box 512, Indooroopilly, Queensland 4068, Australia P: +61 7 3321 8735 F: +61 7 3102 6235  
E: pe@partitionenterprises.com.au W: www.partitionenterprises.com.au

## *XI. Rotary Plant and New DMS Plant*

The throughput of the Rotary Pilot Plant used to recover the macro diamonds for the resource estimation is 5 tons per hour. It was working in one shift with average production of 40 tons per day. As part of the expansion plan, Five Star acquired a DMS Plant. This new plant is already unassembled on mine site (Catalão-GO), it will be able to process 100 tons per hour and it has a DMS able to process up to 30 tons per hour of washed material.

The expansion plan is divided in two phases, one called Oxide Commercialization Project and the other one called Fresh Rock Project. Five Star already bought the DMS Plant to fulfill the plans for the Oxide Project and it will start commercial production 6 months post fund raising. The estimated cost for this expansion is around \$1.5M. The plant should run in two shifts and produce 90,000 carats a year. Five Star estimates the life of the mine for this Oxide Project in round 3 years.

When operating it will be able to process 100 tons per hour using approximately 400 m<sup>3</sup> of water per hour (but with the recycling system that will be installed it comes to 160 m<sup>3</sup>/hour) and 450 kW of electrical energy. For this stage, the electricity will be supplied by a generator that has an estimation of 50,000 liters/month of diesel consumption.

This new DMS plant also does not use any type of chemical products for the beneficiation. So, there is almost no environmental risk involved in this operation. Even the Ferro Silicon (FeSi) used in the DMS is inert to the environment and it is constantly recycled.

### **9. Mineral Resource Estimates**

A 3D geological model was created by GE21 Consultoria Mineral (GE21) using the data received from Five Star. Mining One reviewed the data, methodology and estimation process and found it to be a well-executed and thorough piece of work.

Mining One reviewed and accepted the geological model as well as the volumes and tonnages based on a review of the methodology followed by GE21 and from a review of the geological wireframe model. Because no bulk sampling for diamonds has been done at depth, the Mineral Resources estimate relies on a very robust geological model to project grade and revenue to depth. A summary of the work done is therefore included in this Report.

#### *I. Country Rock Dilution Estimates*

While mining, Five Star had a problem with dilution by an undesirable amount of schist from the country rock as mentioned on section 14.1 (Bulk Sample Programme and Grade). This problem occurred just on the CAT1-A material. Because of that, a "Post Morten" analysis was performed by Five Star to estimate the dilution percentage and be able to calculate the grade precisely. The steps and procedures followed to estimate the dilution were performed as below:

**Step 1** (Collecting the Samples) – With the front loader it was "pre-collected" big sample fractions on 5 different places on the stockpile. With the individual fractions still on the front loader bucket, it was collected samples of approximately 20 to 25 kilos of each "pre-collected" samples using a plastic 10 liters bucket. The samples were separated in identified plastic bags identified as Xisto-01, Xisto-02, Xisto-03, Xisto-04 and Xisto-05. It is very important to say that schist with the dimension above 10 cm were manually excluded on this step making these analyses more conservative.

**Step 2** (Weighting the Samples) – Each of the 5 samples were individually weighted in a appropriate scale with precision of 100gr resulting on the humid weight for each sample. The total wet weight of the 5 samples together was 112.4 kilograms.

**Step 3** (Drying the Samples) – Each sample was spread over a piece of black plastic exposed to the sun for a period of 26 hours. During the night they were covered by another additional plastic.

**Step 4** (Weighting the Dried Samples) – After drying under the sun, each sample was weighted individually to obtain the dry weight. The same scale used in the step 2 was used here. For reconciliation purposes, the individual weight of the black plastic was also measured.

**Step 5** (Sizing the Samples) – The dried samples were individually screened with a 5mm screen generating 2 fractions identified as >5mm (“oversize”) and <5mm (“undersize”). The >5mm fraction corresponds to the schist dilution material.

**Step 6** (Weighting the Size Fractions) – After screening of the original samples both size fractions were weighted with the same scale used in the above steps.

**Step 7** (Final Moisture Test) – After all the procedures described above, samples of each size fraction was taken and weighted in a more precise scale and sent to the oven to be dried over 24 hours under 105 °C. After drying, the fractions were weighted to get new moisture percentages. This was used to guarantee that drying process under the sun was efficient and to correct the moisture percentage if necessary

The result shows that the dilution percentage had a variation from 32% (Xisto-01 sample) to 44% (Xisto-03 sample), generating an average dilution percentage of 38.57%.

### Dilution Estimates for CAT-01A Stockpile

#### SCHIST DILUTION ESTIMATE - OXIDE ZONE CAT-01A

SAMPLE_ID	WET WEIGHT	DRY WEIGHT (under the sun with black plastic)	DRY WEIGHT (under the sun without black plastic)	WEIGHT DIFFERENCE (without black plastic)	MOISTURE (without black plastic)	WEIGHT OF PARCEL < 5mm		WEIGHT OF PARCEL > 5mm		SUM OF PARCELS	LOSS
						(kg)	(%)	(kg)	(%)		
UNIT	(kg)	(kg)	(kg)	(kg)	(%)	(kg)	(%)	(kg)	(%)	(kg)	(kg)
XISTO-01	23.40	21.20	20.84	2.56	12%	14.00	68%	6.70	32%	20.70	-0.14
XISTO-02	24.40	23.00	22.64	1.76	8%	14.40	64%	8.20	36%	22.60	-0.04
XISTO-03	22.80	21.70	21.34	1.46	7%	12.00	56%	9.30	44%	21.30	-0.04
XISTO-04	20.20	19.40	19.04	1.16	6%	11.10	59%	7.60	41%	18.70	-0.34
XISTO-05	21.60	21.00	20.64	0.96	5%	12.20	60%	8.20	40%	20.40	-0.24
<b>TOTAL WEIGHT</b>	<b>112.40</b>									<b>103.70</b>	<b>8.70</b>
<b>weight of the black plastic</b>	<b>0.36</b>										
						<b>WEIGHTED AVERAGE OF THE ORE :</b>		<b>WEIGHTED AVERAGE OF SCHIST</b>			
						<b>61.43%</b>		<b>38.57%</b>			
REPRESENTATIVITY OF THE SAMPLE XISTO-01			19.96%								
REPRESENTATIVITY OF THE SAMPLE XISTO-02			21.79%								
REPRESENTATIVITY OF THE SAMPLE XISTO-03			20.54%								
REPRESENTATIVITY OF THE SAMPLE XISTO-04			18.03%								
REPRESENTATIVITY OF THE SAMPLE			19.67%								

XISTO-05									
<b>TOTAL</b>	<b>100%</b>								

It is important to mention, once more, that the schist blocks bigger than 10 cm were excluded from this analyses, underestimating the percentage of dilution and making the analyses more conservative.

This entire dilution test was performed in a dry season, inside Five Star mine site and fully supervised by the senior geologist Paulo Brito and the engineer Frederico Bernardez. The samples are stored on site for future audit if required.

*II. Volume, Tonnage and Resource Estimate*

GE-21 used the data provided by Five Star, to prepare a 3-D model of CAT-01 kimberlite pipes.

The Catalao drilling database is stored in a MS-Access database integrating Five Star and historical Rio Tinto’s drilling data. The table below summarizes the Catalao drillhole database used for the 3D wireframe modelling. Consultants performed a final validity check to ensure the database integrity and no errors were identified.

**Drill Hole Database Summary**

Five Star DD drill holes	20
Five Star auger drill holes	67
RTZ DD drill holes	18
<b>Total</b>	<b>105</b>

Mining One Consultants interpreted horizontal sections at each 10m elevation interval using the drill hole lithological information, ground magnetic interpretation and surface mapping. The 3D model considered two types of mineralized material:

- Saprolitic zone / weathered kimberlite (Oxide material);
- Fresh kimberlite zone.

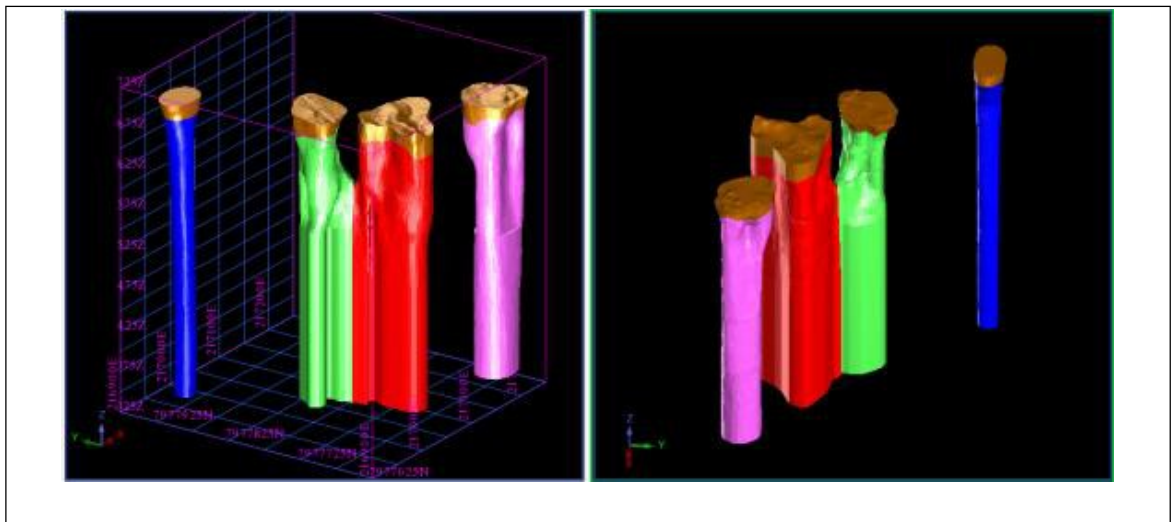
From surface, a layer of 3m of soil material was unclassified and excluded from the model.

The depth limit of each solid (pipe) has been defined by the lower kimberlite drill hole intersection level added by two times the average diameter at that level. Thus, the values used as a lower limit in the interpretation were based on:

- The lower most kimberlite interception in a drill hole was found on CAT-01A pipe at an elevation of 485m masl;
- This elevation corresponds to the drill hole CT01-H01 at 190.40 metres depth;
- The average pipe diameter at level 485 is 74m that implies in an additional 148 metres from level 485 to the interpretation lower limit (2x = 148m);
- Interpreted lower limit at elevation 337m masl (485m – 148m) (approximately 360 m depth below surface).

Surpac 6.4.1 3D modelling software was used to construct the sectional interpretation and 3D solid models of each Kimberlite pipe within the resources area. The Surpac modelling process was based on the bulk sampling and drilling information contained within the Microsoft Access drilling and sampling database.

**Catalao Diamond Project 3D Wireframes for CAT-01A, B, C and E**



The drill hole density samples presented an average of 2.8 t/m<sup>3</sup> for the fresh kimberlite zone, for the saprolitic kimberlite zone, a value of 1.9 t/m<sup>3</sup> has been applied from experience with similar projects. The table below shows the Catalao pipe volumes and potential tonnage estimate.

#### Catalao Pipes Volume Estimation

Pipe	Materia	Volume	Tonnes
CAT-01A	Oxide	0.13	0.25
	Fresh	1.67	4.68
<b>Sub Total</b>		<b>1.80</b>	<b>4.92</b>
CAT-01B	Oxide	0.06	0.11
	Fresh	0.77	2.16
<b>Sub Total</b>		<b>0.83</b>	<b>2.27</b>
CAT-01C	Oxide	0.08	0.15
	Fresh	0.66	1.85
<b>Sub Total</b>		<b>0.74</b>	<b>2.00</b>
CAT-01E	Oxide	0.03	0.06
	Fresh	0.20	0.56
<b>Sub Total</b>		<b>0.23</b>	<b>0.62</b>
<b>Total</b>		<b>3.61</b>	<b>9.81</b>

The pipes are still open at depth. Further drill holes would be necessary to extend the model deeper.

The level of confidence in the conceptual geological model is moderate. The 3D solids are consistent with this level of confidence and may be used as basis for resource estimation when put together with the results obtained by the surface bulk-sampling programme.

Continuity of grade to depth may need further bulk sampling, or a micro diamond sampling campaign, or a combination of the two to improve confidence to an Indicated Resource status on the fresh rock.

*III. Estimation Method*

The average diamond content within the Cat 01-A, Cat 01-B and Cat 01-C where based on the bulk sampling results as detailed in Section 13.1 of the Technical Report. The values were assigned based on actual macro diamond quantities for each size fraction extracted through the pilot plant program for each of the bulk sample parcels. The size distribution and quantities of macro diamonds used to assign the average grade to each pipe are summarised in Section 13.1 of the Technical Report. No microdiamond analysis was completed on the drill core information the forms the basis for the 3D model of the Kimberlite pipes at depth however Kimberlite occurrence was logged within each of these drill holes to enable constraints to be applied to the model.

The grade estimated to the Cat 01-A, Cat 01-B and Cat 01- C was therefore based on the average cpht values derived from the bulk sample for each pipe. The values were coded into the block model as 32 cpht, 21.1 cpht and 12.2 cpht for the Cat 01-A, Cat 01-B and Cat 01-C respectively.

*IV. Resource Classification*

The resources are classified into indicated and inferred categories, the blocks within the oxide domain where the diamond content and quality has been defined by the site bulk sampling programs have been classified as indicated. The indicated component of the resource accounts for approximately 6.7% of the total reported resources. Inferred resources have been reported within the fresh rock Kimberlite domains that exist beneath the modelled oxide domains. The inferred resources are based on blocks reported within the 3D wireframe model that was created using the Kimberlite lithology logged within each of the drillholes. The inferred areas within the block model account for 93.3% of the total reported resources.

*V. Grade*

The average grade was calculated for each pipe, based on the tonnage (bulk sampling) processed on the pilot plan versus the macrodiamonds recovered and their respective weights in carats. The average grade used for each pipe is presented below.

Grade Estimate					
CAT	Feed (t)		Quantity	Carats	cpht
	Wet	Dry			
CAT-1A	679.2	183.83	692.0	58.8	32.0
CAT-1B	327.9	213.15	556.0	45.0	21.1
CAT1-C	873.5	538.30	725.0	65.8	12.2
<b>Total</b>	<b>1 880.6</b>	<b>935.3</b>	<b>1 973.0</b>	<b>169.5</b>	<b>18.1</b>

Continuity of grade to depth may need further bulk sampling, or a micro diamond sampling campaign, or a combination of the two to improve confidence to an Indicated resource status on the fresh rock.

*VI. Diamond Value*

A parcel of 44.40 carats was sent to Robledo Delatorre Ribeiro the owner of R&D Company, a producer and trader in rough diamonds. Mr. Ribeiro specializes in a broad range of business activities, from buying rough diamonds and manufacturing, to management of production plants in Brazil, in addition to sales and marketing of polished diamonds.

According to Mr. Robledo the stones have Gem Diamond features, for the jewellery industry. The stones in its hegemony are of high quality, 85% of the stones have potential to polish – cutting qualities, with very little inclusions, blemishes and pinpoints. Grading top colour on E to I with some potential fancy colours; yellow, orange and green. Average weight was 0,15 carats.

Regarding the valuation, the referred parcel was estimated at a price around U\$150 to US\$170 per carat but in his opinion are not ready for sale. Some larger stones will compose a larger proportion of the parcel as production increases. In his opinion, a larger parcel can significantly increase the average price between U\$200 to U\$400 per carat.

In 2014, the World average price of diamond production was \$116/ct (Kimberley Process statistics [https://kimberleyprocessstatistics.org/public\\_statistics](https://kimberleyprocessstatistics.org/public_statistics)), and average Canadian production was \$167/ct, with a range of \$90 to \$570/ct (Natural Resources Canada and company data). The model Catalao average diamond price is hampered by the lack of larger stones within the valuation parcel but nonetheless has a model average price that fits with other Canadian and World productions. When the potential influence of the bigger stone population is taken into account there is a positive impact on the model average price of the Catalao diamonds and the resulting price is toward the upper end of current Canadian and World productions.

Pit based on US \$164 /ct was used for constraining the resource estimate.

*VII. Resource Constrained by Pit Optimisation*

Pit optimisation exercise was completed in order to supply the requisite of a reasonable prospect for eventual economic extraction and allow a resource declaration.

A recoverable resource model is an estimate of the tonnage and grade of economic material above certain cutoffs, but can also include other geo-metallurgical and geo-mechanical characteristics that affect mill performance.

In order to estimate a resource what is a “reasonable expectation of eventual economical extraction”, a pit optimisation was performed such that a theoretical pit shell to certify that the open pit resource has a minimal mining factor to reach a favourable scenario for a mining operation. Logically, this practice should be to verify the pre-feasibility and feasibility phases of the project. The following table presents the parameters used to design a theoretical Pit Shell for the resource reported in this technical document.

**Technical and Economic Parameters for the Resource Pit**

	Item		Unit	Value
Revenue	Financial Parameters	Price	US\$/carat	200
		Discount Tax	%	10
		Class	Indicated/Inferred	

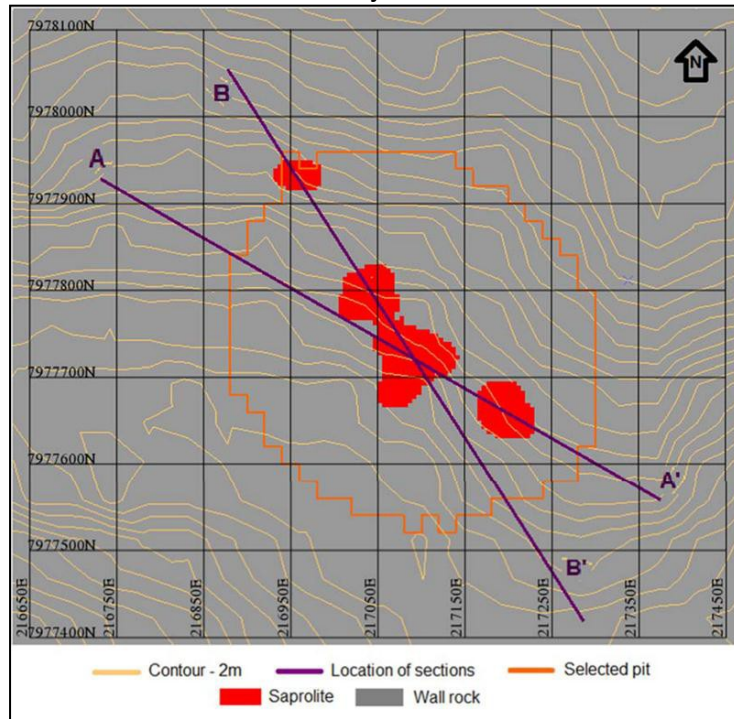
<b>Physical</b>	ROM	Specific Gravity	g/cm <sup>3</sup>	model
		Grade	cpht	model
	Mining	Mining recovery	%	100
		Dilution		0
	Block Model	<b>Block size</b>	<b>Unit</b>	<b>Value</b>
		X	m	20
		Y		20
		Z		10
	General Angles	<b>Zone</b>	<b>Unit</b>	<b>Value</b>
		Oxidate	Degrees	55
		Fresh rock		60
	Diamond Recovery	Todas	%	100
	Cut-off grade	<b>Attribute</b>	<b>Unit</b>	<b>Value</b>
		carat	cpht	NA
	<b>Costs</b>	Mining	US\$/t mined	2.20
Processing		US\$/t ROM	5.40	
Admin		US\$/t ROM	1.78	

#### Conceptual Pit Shells

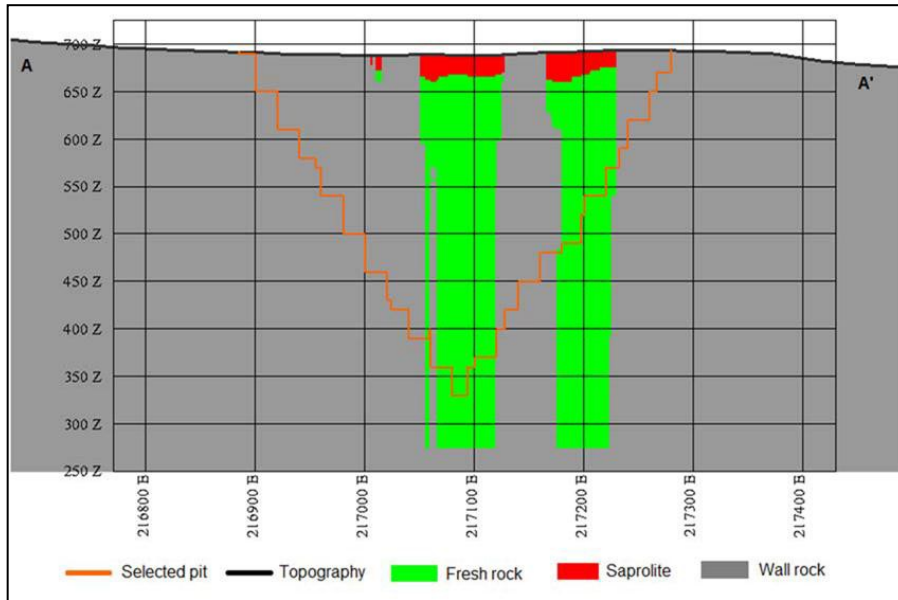
To ensure that the reported resources were potentially economic a series of pit shells were created using the inputs shown in the table above. The resources has therefore been reported using material located within the US \$200/ ct valuation shell. All blocks that fell outside of this shell were therefore not included in the reported resource. In fact, US \$164 /ct pit was used and deemed most appropriate for constraining the resources.

The US \$164/ ct pit shell location in relation to the modelled kimberlite resources is shown below.

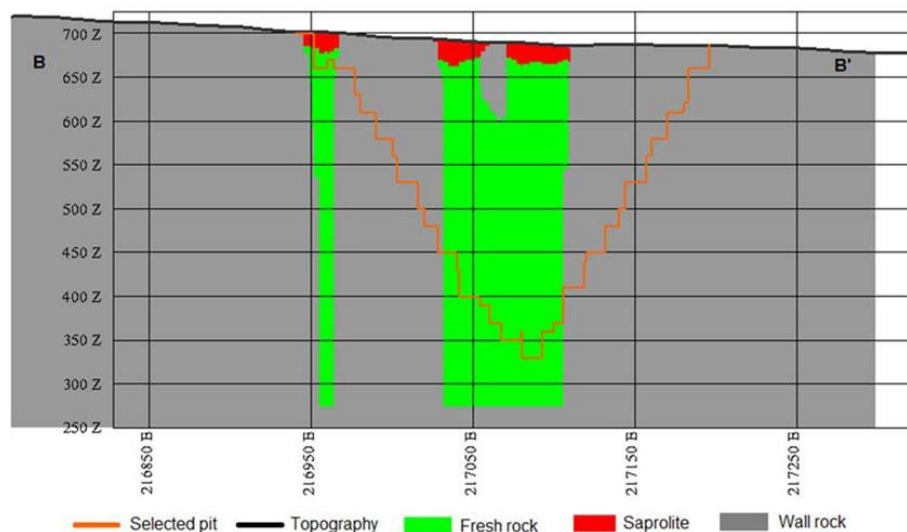
Catalao Diamond Project – Selected Pit Plan View



Catalao Diamond Project – Cross Section AA'



**Catalao Diamond Project – Cross Section BB'**



**VIII. Environmental, Permitting, Taxation, Socio-economic, Marketing & Political Factors**

Author is not aware of any significant environmental, permitting, legal, title, taxation, socio- economic, marketing or political factors which could impact on mineral resource estimate reported in this report materially.

**IX. Reasonable Prospects of Economic Extraction**

Currently, there is no conceptual mining plan for Catalao. However, the size and depth extent of the kimberlite is amenable to an open pit mining scenario.

The Catalao Diamond Project is located near the town of Catalao, near the southeast border of Goiás State in the central region of Brazil. Catalão is a city and municipality located in the south of the state of Goiás, It is approximately 330 kilometres south of Brasília, the Federal District, and 275 kilometres southeast of Goiânia, the capital of Goiás State. The town of Catalão has a population of ~60,000 people and is well connected by road and domestic airlines. It is a large producer of grains, cattle, and phosphates and has a John Deere and Mitsubishi factory.

There are significant opportunities to reduce many of the infrastructure costs associated with traditional mining operations, including, but not limited to, some combination of the following which may also allow flexibility in addressing community concerns:

- Use the existing township facilities at Catalão including airport and existing road network.
- Sourcing of workforce for the township which already has established mining services industries including John Deere and Mitsubishi.
- Build a kimberlite processing plant on the site which hosts the pilot plant on the property.

Given these potential syneries with established infrastructure, providing a direct cost comparison to existing isolated mining projects to demonstrate reasonable prospects of economic extraction is difficult. Infrastructure, capital and mining costs, as well as the related sensitivities, have a huge impact on extractive costs. Establishing these parameters for the Catalao Property is beyond the scope of this Mineral Resource Estimate but, with the economic assumptions

along with the caveats given above, the Mineral Resource as outlined elsewhere in this report, meets the criteria for ‘reasonable prospects of economic extraction’.

X. Resource Declaration

The CIM established the mineral resource definitions as such:

A Mineral Resource is a concentration or occurrence of diamonds, natural solid inorganic material, or natural solid fossilized organic material, including base and precious metals, coal, and industrial minerals in or on the Earth’s crust in such form and quantity and of such a grade or quality that it has reasonable prospects for economic extraction. The location, quantity, grade, geological characteristics and continuity of a Mineral Resource are known, estimated or interpreted from specific geological evidence and knowledge.

An “Inferred Mineral Resource” is that part of a Mineral Resource for which quantity and grade or quality can be estimated on the basis of geological evidence and limited sampling and reasonably assumed, but not verified, geological and grade continuity. The estimate is based on limited information and sampling gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes.

An “Indicated Mineral Resource” is that part of a Mineral Resource for which quantity, grade or quality, densities, shape and physical characteristics, can be estimated with a level of confidence sufficient to allow the appropriate application of technical and economic parameters, to support mine planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough for geological and grade continuity to be reasonably assumed.

A “Measured Mineral Resource” is that part of a Mineral Resource for which quantity, grade or quality, densities, shape, and physical characteristics are so well established that they can be estimated with confidence sufficient to allow the appropriate application of technical and economic parameters, to support production planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough to confirm both geological and grade continuity.

The classification of the mineral resources that was completed by Mining One consultants took into consideration the quality of the data that was used for the resource estimate.

Mining One considered that, the density of data found within the drilling grid and the data from diamond recovery are sufficient to guarantee the level of confidence required to achieve an Indicated and Inferred Resources classification.

Mining One classified the mineral resources of the Catalão diamond project as Indicated for the oxide material and inferred for the fresh material. The indicated and inferred mineral resources estimated for Catalão diamond project are illustrated in the table below, using a valuation of US\$200/ct.

**Catalao Diamond Project Resources – As at September 12<sup>th</sup>, 2016**

Material Type	Pipe	Volume (km <sup>3</sup> )	Mass (kt)	Grade (cpht)	Total Carats (x 1000)
Indicated Mineral Resources				Diamonds	
	CAT-01A	126	240	32.0	77

Oxide	CAT-01B	65	123	21.1	26
	CAT-01C	81	154	12.2	19
	Sub Total	272	517	23.5	122
Inferred Mineral Resources				Diamonds	
Fresh Rock	CAT-01A	1,781	4,841	32	1,549
	CAT-01B	664	1,876	21.1	396
	CAT-01C	378	1,043	12.2	127.24
	Sub Total	2,823	7,760	26.7	2,072

#### XI. Target for Further Exploration

The pipe CAT-01E was classified as an Exploration Target, as no sample was tested on the pilot plant, representing a tonnage ranging from 9Mt to 2Mt at a grade ranging from 6cpht to 12cpht based on diamond drilling results. ***This potential quantity and grade for pipe CAT-01E is conceptual in nature. There has been insufficient testing to define a current mineral resource for pipe CAT-01E. It is cautioned that it is uncertain if further exploration and testing will result in the target being delineated as a mineral resource.***

#### Adjacent Properties

The Catalão Diamond Project comprises single mineral property with 1,999,42 hectares in size and is almost totally surrounded by third-party properties belonging to major and small mining companies, which include; Anglo American (Anglo American Fosfatos Brasil), Ultrafertil-VALE, EMS-Empresa e Recursos Naturais e Serviços Ltda (“EMS”), Empresa Brasileiro do Quartzo Ltda (“CBQ”) and several Brazilian individuals and other very small companies.

Anglo American exploration in the region is focussed on phosphate and niobium mineralization associated with carbonatite intrusions. There are two well-known carbonatite intrusions (Catalão 1 and Catalão 2) that contain phosphate and niobium deposits that are currently being mined by majors Anglo American and Ultrafertil-VALE.

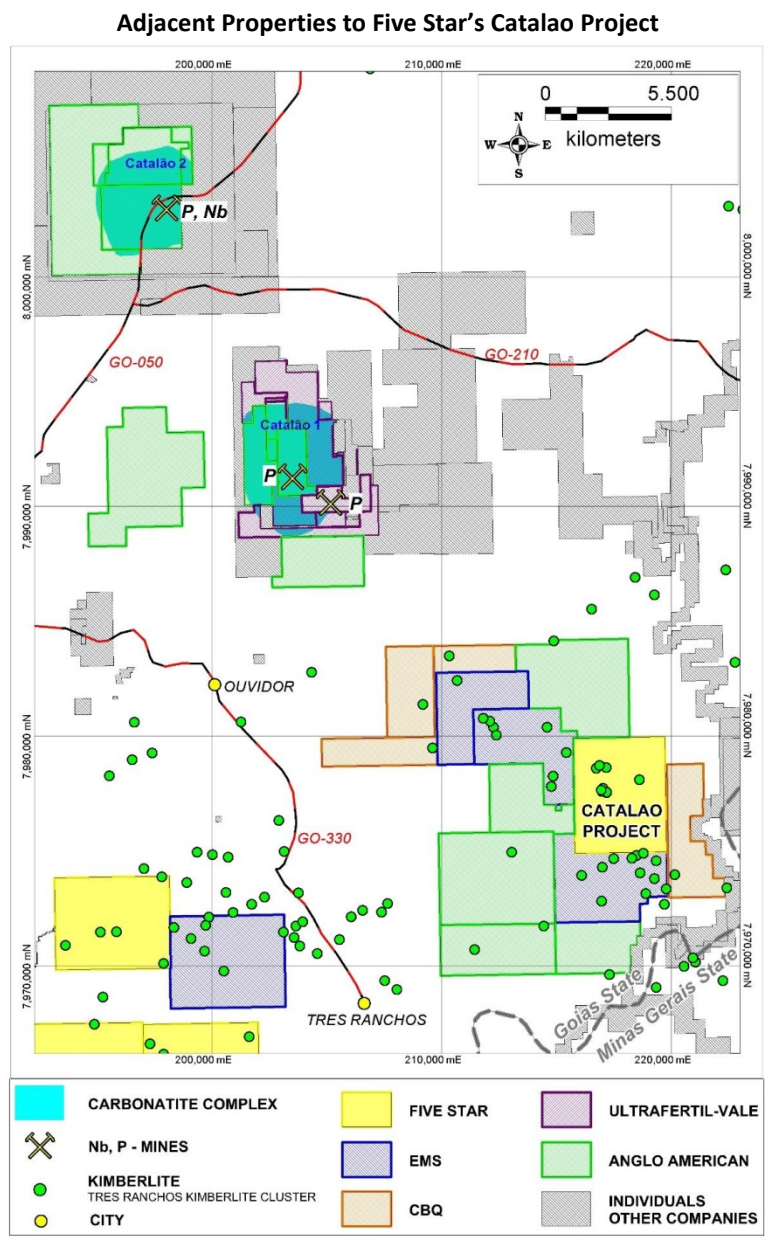
The Catalao 1 carbonatite complex sits approximately 20 km to northwest of Five Star property. The complex contains an estimated mineral resource that include 112 Mt grading 10 t0 12% P2O5. The phosphate mines are being operated by Ultrafertil-VALE and Anglo American.

The Catalao 2 complex is located approximately 33 km to northwest of Five Star property. Mineral resources contained on this intrusion are estimated as 100 Mt grading 13.2% P2O5 and 19 Mt grading 1% Nb2O5. Both deposits are being mined by Anglo American.

“EMS” and “CBQ” exploration strategy is based on primary diamonds and their mineral properties cover some known kimberlite occurrences discovered by De Beers in the 90’s and geologically included on the Brazilian so called Tres Ranchos kimberlite cluster. Both companies are small private Brazilian companies that are looking for third-party investments and the actual exploration level is considered to be very low.

The mineral properties belong to the Brazilian individuals are small in size and concentrated along the major rivers. All of them are looking for alluvial diamonds or sand (civil construction sector).

The figure below summarizes the current adjacent properties situation in respect to Five Star’s Catalao Diamond Project. Five Star has three additional mineral properties located approximately 23 km W-SW of Catalao property which are not part of the Catalao Diamond Project.



**10. Recommendations**

It is recommended to Five Star continues on the feasibility studies on the oxidized zone of CAT 1A, B and C Kimberlites and undertake a specific geological assessment programme to; a) continuing the evaluation of kimberlites found to date; and b) regional exploration for kimberlites within the license area. Sections 9 and 10 of the Technical Report present the

summary of the programme carried to date. Depending on the data achieved with the progress of the exploration proposed, the following steps will be adjusted to adequate the data obtained.

#### Evaluation of Catalao Kimberlites

The definition of the Catalao-01A, B and C pipes via bulk sampling, surface and diamond drilling sampling has provided a considerable level of technical information. This information has then enabled a NI43-101 resource estimate to be reported for the project. Further drilling and sampling will enhance the overall confidence in the resource estimate and also may provide a higher level of confidence in the quality and therefore valuation of the diamonds within each pipe.

#### Regional Kimberlite Exploration

Five Star has commenced regional exploration by applying ground geophysical techniques and auger drilling.

Geological and geophysical surveys will be required to follow up the identified targets. It is envisaged that geological mapping and pitting/drilling may lead to kimberlite discovery and that ground geophysical surveys may be employed to better delineate the surface extent of the bodies.

Any kimberlite discoveries may be tested through an initial kimberlite evaluation using kimberlitic indicator mineral compositions and/or mini-bulk samples for micro and macrodiamonds. Further work would be beyond the scope of this report to comment on but could be expected to pursue a similar phased approach to the evaluation of the Catalão-01 kimberlites.

#### Work Programme and Budget

- Additional diamond core drilling to increase level of confidence in Resource Estimate;
- Bulk sampling at CAT-01A, CAT-01B and CAT-01C pipes to provide initial grade and obtain parcels of diamonds to allow for initial diamond valuations;
- Kimberlites that are being evaluated should be sampled for diamonds by caustic fusion;
- Feasibility study should be completed. The actual work commitment can be adjusted as additional results are obtained. A budget for a proposed two phase Catalao exploration programme is presented in the table titled "Work Programme and Budget (Monthly C\$)" below:

Further work in subsequent years to continue the development of the Catalao Project will be contingent on positive results from this programme.

The author has reviewed these outline programmes and believe the work proposed is appropriate and adequate to the level of knowledge of the project area.

The author considers that the proposed exploration strategy is consistent with the potential of the project. Similarly, the author considers that the committed expenditure is consistent with the proposed programme.

**Work Programme and Budget (Monthly C\$)**

Exploration Activity	Budget Estimate (Canadian \$)																		
	Year 1												Year 2						Total
	Mth 1	Mth 2	Mth 3	Mth 4	Mth 5	Mth 6	Mth 7	Mth 8	Mth 9	Mth 10	Mth 11	Mth 12	Mth 13	Mth 14	Mth 15	Mth 16	Mth 17	Mth 18	
Mineral properties maintenance						1000						1000			1000			1000	4,000
Core drilling			30000	30000	30000	30000	30000							20000	20000				190,000
Laboratory Charges					10000	10000	10000	10000							10000	5000			55,000
Diamond Valuations						10000	10000	10000	10000	10000					20000	20000	10000		100,000
Infrastructure Studies	15000	15000																	30,000
Feasibility Studis & Project Mnagement	25000	25000	30000	30000	30000	30000	30000	30000	30000	30000	30000	30000	30000	35000	35000	35000	35000	30000	550,000
Pre-Construction														100000	100000	100000	100000	100000	500,000
Total Estimated Budget	40000	40000	60000	60000	70000	81000	80000	50000	40000	40000	30000	31000	30000	155000	186000	160000	145000	131000	1,429,000
<b>Total (18 months)</b>	<b>\$ 1,429,000</b>																		

## **Other Mineral Properties**

### **CAIAPO DIAMOND PROJECT – GOIAS**

Historical data from De Beers indicate that all of these pipes are diamond-bearing kimberlites and many diamonds were recovered during past exploration. The project comprises 4 pipe applications for Exploration Licences covering a total area of 3,955.11 hectares.

### **ALECRIM DIAMOND PROJECT – BAHIA**

The Alecrim project comprises 1 Exploration Licence recently granted over an area of 1,994.74 hectares.

### **MARAVILHA DIAMOND PROJECT – MINAS GERAIS**

The Maravilha project comprises 1 Exploration Licence and 1 application for Exploration Licence, covering a total area of 1,268.23 hectares. The licences are currently in the process to be renewed.

### **MEGA DIAMOND PROJECT – GOIÁS**

The Mega project comprises 26 Exploration Licences, totaling 47,849.41 hectares. These properties aim to secure part of the known Antas kimberlite cluster, including 10 pipes associated with significant magnetic anomalies.

### **OUVIDOR DIAMOND PROJECT – GOIAS**

The Ouvidor project comprises 3 Exploration Licences covering a total area of 5,997.44 hectares.

### **GOIANDIRA DIAMOND PROJECT – GOIAS**

The Goiandira project comprises 3 Exploration Licences covering a total area of 2,400.58 hectares.

### **RIACHÃO DIAMOND PROJECT - PIAUI**

The Riachão kimberlite is part of the Gilbúes Kimberlite Province, which also includes the famous Redondão kimberlite (the first diamond-bearing kimberlite discovered in Brazil). The project comprises an area of 1,992.07 hectares.

### **MOANA DIAMOND PROJECT – PIAUI**

The project comprises 1 Exploration Licence covering a total area of 1,992.07 hectares.

### **CONQUISTA DIAMOND PROJECT – BAHIA**

The project comprises 2 applications for Exploration Licences covering a total area of 3,927.88 hectares, which includes the Conquista-01, Conquista-02 and the recently discovered Bob-01 kimberlites.

### **ANGICO DIAMOND PROJECT – BAHIA**

The project comprises 1 application for Exploration Licence with 990.01 hectares.

### **ASA BRANCA DIAMOND PROJECT – BAHIA**

The project comprises 1 application for Exploration Licence covering an area of 1,992.68 hectares.

#### COROMANDEL DIAMOND PROJECT – MINAS GERAIS

The project is located on the western border of Santo Antonio do Bonito river where large diamonds have been extracted, including the famous President Vargas diamond (726 cts). The project comprises 3 applications covering an area of 5,235.07 hectares.

#### COROMANDEL-CARMO DO PARANAIBA DIAMOND PROJECT – MINAS GERAIS

The project comprises 3 individual properties, with a total area of 5,228.94 hectares.

#### CANGUÇU DIAMOND PROJECT – RIO GRANDE DO SUL

The project comprises 1 application for Exploration Licence covering an area of 823.30 hectares.

#### ROSARIO DIAMOND PROJECT – RIO GRANDE DO SUL

The project comprises 1 application for Exploration Licence covering an area of 1,834.32 hectares. The target is the Rosario-12 kimberlite discovered by De Beers.

#### BACURI DIAMOND PROJECT – MATO GROSSO

The project comprises 1 application for Exploration Licence covering an area of 823.68 hectares.

#### CONCORD DIAMOND PROJECT –RONDONIA

The project comprises 1 application for Exploration Licence covering an area of 8,850.350 hectares.

#### JOANA DIAMOND PROJECT – MINAS GERAIS

The project comprises 1 application for Exploration Licence covering an area of 901 hectares.

#### ROMARIO DIAMOND PROJECT –MINAS GERAIS

The project comprises 5 applications for Exploration Licence covering a total area of 7,609 hectares.

#### JAIBARAS DIAMOND PROJECT – PARA

The project comprises 1 Exploration Licence covering an area of 522.26 hectares.

#### VERISSIMO DIAMOND PROJECT – GOIAS

The project comprises 7 Exploration Licences covering a total area of 12,449 hectares.

### **Selected Consolidated Financial Information and Management's Discussion and Analysis**

#### ***Selected Consolidated Financial Information***

The following table sets forth certain selected balance sheet data and financial information as at and for the years ended June 30, 2016 (audited) and June 30, 2015 (unaudited) and for the three-month periods ended December 31, 2016 (unaudited) and December 31, 2015 (unaudited). Such data has been derived from the financial statements of Five Star for such periods attached hereto as Schedule "C". Five Star's financial statements are expressed in US dollars; unless otherwise indicated, all dollar figures expressed in the following tables and under the heading "Management's Discussion and Analysis" below refer to US dollars.

*Condensed Consolidated Statements of Comprehensive Income (Loss) Information:*

	Fiscal Year Ended		Three-Months Ended	
	June 30, 2016 (audited)	June 30, 2015 (unaudited)	December 31, 2016 (unaudited)	December 31, 2015 (unaudited)
Expressed in US dollars				
Total Revenues	-	-	-	-
Net Loss	2,062,043	405,588	460,475	513,152
Net Loss per Share (basic and diluted)	0.02	0.01	0.0047	0.0060
Comprehensive Income (Loss)	(1,561,471)	(423,269)	(461,241)	(533,067)

*Condensed Consolidated Statements of Financial Position Information:*

	Fiscal Year Ended		Three-Months Ended
	June 30, 2016 (audited)	June 30, 2015 (unaudited)	December 31, 2016 (unaudited)
Expressed in US dollars			
Current Assets	1,057,613	2,809,093	397,955
Total Assets	4,683,870	3,307,831	4,449,982
Non-current Financial Liabilities	-	-	-
Total Liabilities	197,637	126,782	727,264
Working Capital	859,976	2,682,311	(329,309)
Shareholders' Equity	4,486,233	3,181,049	3,722,718

**Management's Discussion and Analysis**

The following management discussion and analysis ("**MD&A**") for the three-month periods ended December 31, 2016 and December 31, 2015 and the financial years ended June 30, 2016 and June 30, 2015 has been prepared based on information available to Five Star as at December 31, 2016. This discussion should be read in conjunction with the "Selected Consolidated Financial information" above and the financial statements of Five Star for such periods attached hereto as Schedule "C".

Except for historical information, this information is provided as at December 31, 2016.

This MD&A contains "forward-looking statements" that involve a number of risks and uncertainties. See "*Special Note Regarding Forward Looking Statements*".

*Overall Performance*

During the period ended December 31, 2016, Five Star incurred a net loss of \$460,475 or \$0.0047 per share versus a net loss of \$513,152 or \$0.0060 per share in the corresponding prior period. Five Star capitalised \$171,589 during the period ended December 31, 2016 on exploration activities on its mineral properties compared to \$408,321 during the corresponding prior period.

At December 31, 2016, Five Star had net working capital of (\$329,309) (December 31, 2015 - \$2,163,600). Five Star had cash of \$362,009 at December 31, 2016 (December 31, 2015 - \$2,247,046).

During the year ended June 30, 2016, Five Star incurred a net loss of \$2,062,043 or \$0.02 per share versus a net loss of \$405,588 or \$0.01 per share in the prior year. Five Star capitalised \$1,665,904 during the period ended June 30, 2016 on exploration activities on its mineral properties compared to \$338,479 during the prior year.

At June 30, 2016, Five Star had net working capital of \$859,976 (June 30, 2015 - \$2,682,311). Five Star had cash of \$1,021,278 at June 30, 2016 (June 30, 2015 - \$2,733,571).

To date, Five Star has not earned any revenues from its mining properties, and is considered to be in the exploration and development stage. The ability to ensure continuing operations is dependent on the discovery of economically recoverable reserves, confirmation of its interest in the underlying mineral claims, and its ability to obtain necessary financing to complete the exploration activities, development and advance to production.

### *Results of Operations*

Five Star is engaged in the business of exploration and development, focused on identifying and exploring for diamonds in Brazil. Five Star's exploration activities have historically largely been targeted on the Catalao Diamond Project, Goiã's State, Brazil.

Five Star has not discovered an economic mineral deposit. While discovery of ore-bearing structures may result in substantial rewards, it should be noted that few properties that are explored are ultimately developed into producing mines.

### Three-month Periods ended December 31, 2016 and 2015

Five Star incurred a net loss of \$460,475 for the period ended December 31, 2016, resulting in a loss per share of \$0.0047. For the prior period ended December 31, 2015, the net loss was \$513,152. The loss was attributable to a combination of office and general costs of \$471,091 (December 31, 2015 - \$515,592). Mineral exploration costs have been capitalised to the balance sheet pursuant to IFRS 6 – *Exploration for and Evaluation of Mineral Resources*.

The decrease in the office and general costs can be attributed to decreases in accounting and audit fees to \$23,068 (December 31, 2015 - \$31,997), travel costs to \$35,004 (December 31, 2015 - \$153,542) and marketing costs to \$nil (December 31, 2015 - \$153,542). These decreases have been partially offset by increases in consultant and directors' fees to \$252,486 (December 31, 2015 - \$183,913) and other expenses to \$62,561 (December 31, 2015 - \$24,046) due mainly to activities associated with the Proposed Qualifying Transaction.

### Fiscal Years ended June 30, 2016 and 2015

Five Star incurred a net loss of \$2,062,043 for the year ended June 30, 2016, resulting in a loss per share of \$0.02. For the prior period ended June 30, 2015, the net loss was \$405,588. The loss was attributable to a combination of office and general costs of \$2,067,057 (June 30, 2015 - \$406,466). Mineral exploration costs have been capitalised to the balance sheet pursuant to Australian Accounting Standards Board 6 – *Exploration for and Evaluation of Mineral Resources*.

The increase in the office and general costs can be attributed to increases in administrative expenses to \$244,849 (June 30, 2015 - \$4,251), accounting and audit fees to \$164,889 (June 30, 2015 - \$69,256), consultant and directors' fees to \$764,667 (June 30, 2015 - \$115,000), Travel costs to \$475,220 (June 30, 2015 - \$82,461) and other costs of \$257,408 (June 30, 2015 - \$106,903). Overall office and general costs increased in the fiscal year ended June 30, 2016 as during that period Five Star was activity pursuing a listing on the Alternative Investment Market of the London Stock Exchange.

## *Liquidity and Financial Position*

### Three-month Periods ended December 31, 2016 and 2015

The activities of Five Star, principally the acquisition and exploration of properties that have the potential to contain minerals, are financed through equity offerings.

During the six-month period ended December 31, 2016, the following equity financing transactions occurred:

- 29 July 2016 – Issued 1,000,000 ordinary shares of \$0.225 per share; and
- 24 August 2016 – Issued 50,000 ordinary shares of \$0.228 per share.

During the six-month period ended December 31, 2015, the following equity financing transaction occurred:

- 9 December 2015 – Issued 6,250,000 ordinary shares of \$0.286 per share.

At December 31, 2016, Five Star had \$362,009 in cash (2015 - \$2,247,046). Cash resources are held with select Australian and Brazilian financial institutions.

Accounts payable and accrued liabilities increased to \$727,264 at December 31, 2016 (2015 - \$126,029), primarily due to an increase in the level of activity of the entity from the prior period. Accounts payable and accrued liabilities are short term and non-interest bearing.

Working capital as of December 31, 2016 was (\$329,309) (2015 – \$2,163,600).

### Fiscal Years ended June 30, 2016 and 2015

The activities of Five Star, principally the acquisition and exploration of properties that have the potential to contain minerals, are financed through debt financing, equity offerings and cash received from the exercise of stock options and warrants.

During the year ended June 30, 2016, the following equity financing transactions occurred:

- 9 December 2015 – Issued 6,250,000 ordinary shares of \$0.241 per share;
- 4 January 2016 – Issued 214,251 ordinary shares of \$0.236 per share; and
- 6 June 2016 – Issued 6,336,429 ordinary shares of \$0.228 per share.

During the year ended June 30, 2015, the following equity financing transactions occurred:

- 1 July 2014 – Issued 30,000,000 ordinary shares of \$0.005 per share;
- 14 November 2014 – Issued 10,000,000 ordinary shares of \$0.005 per share;
- 26 May 2015 – Issued 33,811,500 ordinary shares of \$0.10 per share; and
- 26 May 2015 – Issued 10,000,000 ordinary shares of \$0.025 per share.

At June 30, 2016, Five Star had \$1,021,278 in cash (2015 - \$2,733,571). Cash resources are held with select Australian financial institutions.

Accounts payable and accrued liabilities increased to \$197,637 at June 30, 2016 (2015 - \$126,782), primarily due to an increase in the level of activity of the entity from the prior year. Accounts payable and accrued liabilities are short term and non-interest bearing.

Working capital as of June 30, 2016 was \$859,976 (2015 – \$2,682,311).

#### Transactions with Related Parties

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 favorable 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.

During the three-month period ended December 31, 2016, Five Star paid the following amounts for executive compensation arrangements described below:

- Matthew Wood as Chief Executive Officer and Director - \$45,000;
- Brian McMaster, Chief Financial Officer and Director - \$30,000; and
- Luis Azevedo, Chief Operating Officer - \$24,000.

During the three-month period ended December 31, 2015, Five Star paid the following amounts for executive compensation arrangements described below:

- Matthew Wood as Chief Executive Officer and Director - \$45,000;
- Brian McMaster, Chief Financial Officer and Director - \$30,000; and
- Luis Azevedo, Chief Operating Officer - \$24,000.

During the year ended June 30, 2016, Five Star paid the following amounts for executive compensation arrangements described below:

- Matthew Wood as Chief Executive Officer and Director - \$180,000;
- Brian McMaster, Chief Financial Officer and Director - \$120,000; and
- Luis Azevedo, Chief Operating Officer - \$72,000.

During the financial year ended June 30, 2015, Five Star paid the following amounts for executive compensation arrangements described below:

- Matthew Wood as Chief Executive Officer and Director - \$60,000; and
- Brian McMaster, Chief Financial Officer and Director - \$40,000.

#### *Critical Accounting Estimates*

In the preparation of both unaudited condensed interim financial statements and audited annual financial statements, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The most significant critical judgment that members of management have made in the process of applying Five Star's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements is the policy on mineral properties. In particular, management is required to assess mineral property assets for impairment. As part of this assessment, management has carried out an assessment whether there are indicators of impairment. If there are indicators, management performs an impairment test on the major assets within this balance.

The recoverability of mineral property assets is dependent on a number of factors common to the natural resource sector. These include the extent to which Five Star can continue to renew its exploration and future development licenses with local authorities, establish economically recoverable reserves on its properties, the ability of Five Star to obtain necessary financing to complete the development of such reserves and future profitable production or proceeds from the disposition thereof. Five Star uses the evaluation work of professional geologists, geophysicists and engineers for estimates in determining whether to commence or continue mining and processing. These estimates generally rely on scientific and economic assumptions, which in some instances may not be correct, and could result in the expenditure of substantial amounts of money on a deposit before it can be determined whether or not the deposit contains economically recoverable mineralization.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

#### *Changes in Accounting Policies*

##### IFRS 9 "Financial Instruments"

The IASB aims to replace IAS 39 Financial Instruments: Recognition and Measurement in its entirety. IFRS 9 is being issued in phases. To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning on or after January 1, 2015. Further chapters dealing with impairment methodology and hedge accounting are still being developed. Management has yet to assess the impact of this new standard on the consolidated financial statements. However, they do not expect to implement IFRS 9 until all of its chapters have been published and they can comprehensively assess the impact of all changes.

##### Consolidation Standards

A package of consolidation standards is effective for annual periods beginning on or after January 1, 2013. Information on these new standards is presented below. Management has yet to assess the impact of these new and revised standards on the consolidated financial statements.

##### IFRS 10 "Consolidated Financial Statements" ("IFRS 10")

IFRS 10 supersedes IAS 27 "Consolidated and Separate Financial Statements" and SIC 12 "Consolidation – Special Purpose Entities". It revised the definition of control together with accompanying guidance to identify an interest in a subsidiary. However, the requirements and mechanics of consolidation and the accounting for any non-controlling interests and changes in control remain the same.

##### IFRS 11 "Joint Arrangements" ("IFRS 11")

IFRS 11 supersedes IAS 31 "Interests in Joint Ventures". It aligns more closely the accounting by the investors with their rights and obligations relating to the joint arrangement. In addition, IAS 31's option of using proportionate consolidation for joint ventures has been eliminated. IFRS 11 now requires the use of the equity accounting method, which is currently used for investments in associates.

### IFRS 12 "Disclosure of Interests in Other Entities" ("IFRS 12")

IFRS 12 integrates and makes consistent the disclosure requirements for various types of investments, including unconsolidated structured entities. It introduces new disclosure requirements about the risks to which an entity is exposed from its involvement with structured entities.

### IFRS 13 "Fair Value Measurement" ("IFRS 13")

IFRS 13 does not affect which items are required to be fair-valued, but clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. It is applicable for annual periods beginning on or after January 1, 2013. Management has yet to assess the impact of this new standard on the consolidated financial statements.

Management anticipates that those standards and interpretations deemed applicable to Five Star's business will be adopted in the consolidated financial statements of future periods as they become effective and that the adoption will have no material impact on the consolidated financial statements of Five Star in the periods of initial application other than for additional disclosures.

### *Financial Instruments and Other Instruments*

Five Star has exposure to the following risks from its use of financial instruments:

#### Credit Risk

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

The carrying amount of cash represents the maximum credit exposure.

#### Liquidity Risk

Liquidity risk is the risk that Five Star will incur difficulties meeting its financial obligations as they are due. Five Star's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to Five Star's reputation.

Five Star currently has adequate liquidity to fund its accounts payable and accrued liabilities and commitments on its mineral property interests.

#### Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. Five Star is exposed to interest rate risk on its cash and cash equivalents and has determined there is no material exposure related to interest rate risk.

#### Foreign Exchange Risk

Foreign exchange risk is the risk that fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. Five Star has exposure to US dollars, Australian dollars, Great British Pounds, Euro and Brazilian Reals that are subject to fluctuations as a result of exchange rate variations to the extent that transactions are made in this currency. Five Star does not hedge its foreign exchange risk.

Five Star's financial instruments held in foreign currencies were:

	As at December 31, 2016				
	BRL in US\$	AUD in US\$	GBP in US\$	EUR in US\$	US\$
Cash and cash equivalents	76,800	260,526	1,452	6,603	16,628
Accounts payable and accrued liabilities	106,244	11,062	52,006	-	557,952

Based on the net exposures as of December 31, 2016, and assuming that all other variables remain constant, a 10% fluctuation on the US dollar against the Brazilian Real, the Australian dollar and Great British Pound would result in the Company's foreign exchange gain/loss recorded being approximately US\$34,538 (2015 - US\$150,046) higher (or lower).

	As at June 30, 2016			
	BRL in US\$	AUD in US\$	GBP in US\$	US\$
Cash and cash equivalents	9,682	79,273	342,842	589,476
Accounts payable and accrued liabilities	76,119	6,119	44,833	70,731

Based on the net exposures as of June 30, 2016, and assuming that all other variables remain constant, a 10% fluctuation on the US dollar against the Brazilian Real, the Australian dollar and Great British Pound would result in the Company's foreign exchange gain/loss recorded being approximately US\$30,473 (2015 - US\$10,529) higher (or lower).

#### *Valuation of Financial Instruments*

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

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

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

Cash and cash equivalents are classified as held for trading and are therefore recorded at fair value. At June 30, 2016 and 2015 and December 31, 2016 and 2015, Five Star's cash and cash equivalents are classified as Level 1 within the fair value hierarchy.

### *Share Capital*

Five Star is authorized to issue an unlimited number of ordinary shares of which 97,662,180 ordinary shares are issued and outstanding as at December 31, 2016 (June 30, 2016 - 96,612,180). As of the date hereof, there were 99,879,258 ordinary shares outstanding.

### *Proposed Transaction*

On September 9, 2016, Five Star signed a merger agreement with Turquoise which outlined the general term and conditions pursuant to which Five Star and Turquoise would be willing to complete a transaction that will result in a reverse take-over of Turquoise by the shareholders of Five Star. See "Subsequent Events" below.

### *Additional Information*

Further information about Five Star and its operations can be obtained from the offices of Five Star at 2nd floor, Abbott Building, 87 Main Street, Waterfront Drive, Road Town, Tortola, British Virgin Islands or from Five Star's website at [www.fivestardiamonds.net](http://www.fivestardiamonds.net).

### *Subsequent Events*

On September 9, 2016 Turquoise and Five Star entered into a Merger Agreement pursuant to which Turquoise will acquire all of the issued and outstanding shares of Five Star in exchange for the issuance of Turquoise shares calculated in accordance with the Exchange Ratio. See "Part I – The Transaction".

On 27 January 2017, the share capital of the Company was increased by US\$267,750 by the creation of 1,220,000 Ordinary Shares of US\$0.219. The 1,200,000 Ordinary Shares were issued for cash consideration with funds raised to be used for working capital purposes.

On 10 February 2017, the share capital of the Company was increased by US\$227,641 by the creation of 997,078 Ordinary Shares of US\$0.228. The 997,078 Ordinary Shares were issued for no consideration as full and final settlement of amounts owed to consultants and directors totalling US\$227,641.

On 2 March 2017, the Company received conditional approval from the TSX Venture Exchange to be listed on the Exchange with the Company expected to meet the conditional listing requirements within the next month.

On 3 March 2017, the Company's wholly owned subsidiary FSD Brazil Limited entered in to a loan agreement with a third party for an amount of US\$210,000. The funds are to be repaid 30 days from the Company listing on the TSX Venture Exchange but no later than 3 months from the loan date.

### *Capital Management*

Five Star manages its capital with the following objectives:

- to ensure sufficient financial flexibility to achieve the ongoing business objectives including funding of future growth opportunities, and pursuit of accretive acquisitions; and
- to maximize shareholder return through enhancing the share value.

Five Star monitors its capital structure and makes adjustments according to market conditions in an effort to meet its objectives given the current outlook of the business and industry in general. Five Star may manage its capital structure by issuing new shares, repurchasing outstanding shares, adjusting capital spending, or disposing of assets. The capital structure is reviewed by management and the Five Star Board on an ongoing basis.

Five Star considers its capital to be shareholders' equity which at December 31, 2016 totalled \$3,722,718 (December 31, 2015 - \$3,681,375). Shareholders' equity at June 30, 2016 totalled \$4,486,233 (June 30, 2015 - \$3,181,049).

Five Star manages capital through its financial and operational forecasting processes. Five Star reviews its working capital and forecasts its future cash flows based on operating expenditures, and other investing and financing activities. The forecast is regularly updated based on activities related to its mineral properties. Selected information is frequently provided to the Five Star Board. Five Star's capital management objectives, policies and processes have remained unchanged during the years ended June 30, 2016 and 2015 and the six-month period ended December 31, 2016.

Five Star is not subject to any capital requirements imposed by a regulator or lending institution.

#### *Outlook*

For 2017, Five Star plans to continue its exploration programs and to determine if further work is warranted. Five Star continues to monitor its spending and will amend its plans and budgets based on exploration results and expectations of being able to raise financing as and when required.

#### *Risks and Uncertainties*

An investment in the securities of Five Star is highly speculative and involves numerous and significant risks. Only investors whose financial resources are sufficient to enable them to assume such risks and who have no need for immediate liquidity in their investment should undertake such investment. Prospective investors should carefully consider the risk factors that have affected, and which in the future are reasonably expected to affect, Five Star and its financial position.

The principal activity of Five Star is mineral exploration which is inherently risky. Exploration is also capital intensive and Five Star currently has no source of income other than what it raises through financing activities. Only the skills of its management and staff in mineral exploration and exploration financing serve to mitigate these risks and therefore are one of the main assets of Five Star. See "*Risk Factors*".

#### **Description of the Securities of Five Star**

The authorized share capital of Five Star consists of an unlimited number of Five Star Shares. As of the date hereof, 99,879,258 Five Star Shares are issued and outstanding.

Subject to the provisions of the BVI Act, holders of Five Star Shares are entitled to receive notice of and to attend all meetings of the Five Star Shareholders and shall have one vote, in person or by proxy, for each Five Star Share held at all meetings of the Five Star Shareholders. Five Star Shareholders are entitled to (a) receive any dividends as and when declared by the Five Star Board out of the assets of Five Star properly applicable to the payment of dividends, in such amount and in such form as the board of directors may from time to time determine, and (b) received the remaining property of Five Star (after payment of all outstanding debts) in the event of any liquidation, dissolution or winding-up of Five Star. Holders of Five Star Shares have no pre-emptive, redemption or conversion rights.

#### **Consolidated Capitalization**

The following table sets forth the capitalization of Five Star as at the dates indicated.

<b>Designation of Security</b>	<b>Amount authorized or to be authorized</b>	<b>Amount outstanding as at December 31, 2016</b>	<b>Amount outstanding as at Effective Date (prior to giving effect to the TCC Private Placement, the Advisor Compensation Shares, the Anti-Dilution Shares and the Merger) <sup>(2)(3)</sup></b>
Ordinary Shares	Unlimited	97,662,180	99,879,258

Notes:

1. As at December 31, 2016, Five Star had an accumulated deficit of \$3,608,126.
2. Pursuant to the terms of the Financial Advisory Agreement, Five Star will issue 2,992,599 Advisor Compensation Shares (in the case of the Minimum Financing) and 3,325,892 Advisor Compensation Shares (in the case of the Maximum Financing) to ATMACORP Ltd. Immediately prior to the Effective Date.
3. Pursuant to the terms of the CPS Engagement Letter, Five Star Shareholders holding an aggregate of 12,860,680 Five Star Shares have anti-dilution rights that provide for an adjustment of their subscription price to 20% below the going-public price if the going public price is below £0.20. The deemed going-public price for the Proposed Qualifying Transaction is \$0.30, which is equal to approximately £0.18. As such it is expected that Five Star will be required to issue additional Five Star shares immediately prior to the Completion of the Proposed Qualifying Transaction based on the Canadian Dollar/British Pound exchange rate at the time of issuance. For example, assuming an exchange rate of \$C1.00=£0.61, the number of Anti-Dilution Shares to be issued would be 1,189,134.

The table below sets forth for the 12-month period prior to the date of this Filing Statement details of the price at which securities have been issued or are to be issued by Five Star, the number of securities issued at that price and the date on which the securities were issued.

<b>Date</b>	<b>Number and Type of Security</b>	<b>Issue Price per Security</b>	<b>Nature of Issuance</b>
9 December 2015	6,250,000 ordinary shares	US\$0.241	Private Placement - working capital
4 January 2016	214,251 ordinary shares	US\$0.236	Private Placement – working capital
6 June 2016	6,336,429 ordinary shares	US\$0.228	Private Placement - working capital
26 July 2016	1,000,000 ordinary shares	US\$0.228	Private Placement - working capital
24 August 2016	50,000 ordinary shares	US\$0.228	Private Placement – fee settlement
27 January 2017	1,220,000 ordinary shares	C\$0.30	Private Placement - working capital
10 February 2017	997,078 ordinary shares	C\$0.30	Private Placement – Debt/fee Settlement

### Stock Exchange Price

None of the securities of Five Star are, or have ever been, listed for trading on any stock exchange or other securities market.

### Executive Compensation

The following section describes the compensation paid to date to Five Star's most highly compensated executive officers. For a description of the compensation that is proposed to be paid by the Resulting Issuer to its Chief Executive Officer, Chief Financial Officer and its most highly compensated executive officers, please see "Part IV – Information Concerning the Resulting Issuer – Executive Compensation".

## Compensation Discussion and Analysis

The Five Star Board determines human resources and compensation matters and establishes a plan for continuity and development of senior management. The Five Star Board determines the compensation of the Chairman, Chief Executive Officer, Chief Financial Officer and other employees and directors that it feels is suitable. Such determinations are based on, among other things, a comparison of remuneration paid by Five Star to that paid by other companies thought to be similarly situated.

In this section, “Named Executive Officer” or “NEO” means each of the following individuals:

- the Chief Executive Officer (“CEO”);
- the Chief Financial Officer (“CFO”);
- each of the three most highly compensation executive officers, or the three most highly compensated individuals acting in a similar capacity, other than the CEO and CFO, at the end of the most recently completed financial year; and
- each individual who would be a NEO under paragraph (c) but for the fact that the individual was neither an executive officer of Five Star, nor acting in a similar capacity, at June 30, 2016.

### Summary Compensation Table

The following table sets forth the compensation paid each NEO of Five Star during the financial years ended June 30, 2016 and 2015.

Name and principal position	Period ended	Salary (US\$)	Share-based awards (US\$)	Option-based awards (US\$)	Non-equity incentive plan compensation		Pension value (US\$)	All other compensation (US\$)	Total compensation (US\$)
					Annual incentive plans (US\$)	Long-term incentive plans (US\$)			
Matthew Wood, Chief Executive Officer and Director <sup>(1)</sup>	June 30, 2016	\$180,000	-	-	-	-	-	-	\$180,000
	June 30, 2015	\$60,000	-	-	-	-	-	-	\$60,000
Brian McMaster, Chief Financial Officer and Director <sup>(2)</sup>	June 30, 2016	\$120,000	-	-	-	-	-	-	\$120,000
	June 30, 2015	\$40,000	-	-	-	-	-	-	\$40,000
Luis Azevedo, Chief Operating Officer <sup>(3)</sup>	June 30, 2016	\$72,000	-	-	-	-	-	-	\$72,000
	June 30, 2015	-	-	-	-	-	-	-	-

#### Notes:

1. Mr. Wood was appointed Chief Executive Officer of Five Star effective 27 May 2014.
2. Mr. McMaster was appointed Chief Financial Officer of Five Star effective 27 May 2014.
3. Mr. Azevedo was appointed Chief Operating Officer of Five Star effective 27 May 2014.

### Incentive Plan Awards - Outstanding Share-based Awards and Option-based Awards

Five Star does not have any equity compensation plans.

### **Termination and Change of Control Payments**

There were no termination and change of control payments paid by Five Star during the fiscal year ended June 30, 2016.

### **Director Compensation Table**

The following table sets forth information concerning the annual and long-term compensation in respect of the directors of Five Star, other than the NEOs, during the fiscal year ended June 30, 2016.

Name	Fees earned (US\$)	Share-based awards (US\$)	Option-based awards (US\$)	Non-equity incentive plan compensation (US\$)	Pension value (US\$)	All other compensation (US\$)	Total (US\$)
Gizman Abbas	-	-	-	-	-	-	-
Simon Rothschild	39,980	-	-	-	-	-	38,980
Nicholas Pike	-	-	-	-	-	-	-

### **Incentive Plan Awards - Outstanding Share-based Awards and Option-based Awards**

The following table sets out the option-based awards as at June 30, 2016 for each non-executive director of Five Star:

Name and Principal Position	Option-based Awards <sup>(1)</sup>				Share-based Awards	
	Number of securities underlying unexercised options (#)	Option exercise price (US\$)	Option expiration date	Value of unexercised in-the-money options (US\$)	Number of Shares or units of Shares that have not vested (#)	Market or payout value of share-based awards that have not vested (US\$)
Gizman Abbas	-	-	-	-	-	-
Simon Rothschild	-	-	-	-	-	-
Nicholas Pike	-	-	-	-	-	-

### **Incentive Plan Awards – Value Vested or Earned During the Year**

The following table sets out the value vested or earned under incentive plans during the year ended June 30, 2016, for each non-executive director of Five Star:

Name and Principal Position	Option-based awards – Value vested during the year <sup>(1)</sup> (US\$)	Share-based awards – Value vested during the year (US\$)	Non-equity incentive plan compensation – value earned during the year (US\$)
Gizman Abbas	-	-	-
Simon Rothschild	-	-	-
Nicholas Pike	-	-	-

### **Management Contracts**

Other than as described elsewhere in this Filing Statement, Five Star has not entered into management contracts with any director, officer, employee or consultant. Except as disclosed herein, no management function of Five Star or its subsidiaries are performed by a person other than a director or senior officer of Five Star.

### **Indebtedness of Directors and Officers of Five Star**

During the most recently completed fiscal year, no director, executive officer, senior officer, nor any of their respective Associates or Affiliates, is, or has been at any time since the beginning of the last completed fiscal year, indebted to Five Star nor has any such person been indebted to any other entity where such indebtedness is the subject of a guarantee, support agreement, letter of credit or similar arrangement or understanding, provided by Five Star.

### **Non-Arm's Length Party Transactions**

Other than as described herein, within five years prior to the date hereof, Five Star has not acquired any assets or been provided any services from any director, officer, Insider or Promoter of Five Star, except in their capacities as directors, officers, employees or consultants of Five Star.

### **Legal Proceedings**

There are no legal proceedings material to Five Star to which Five Star or a subsidiary of Five Star is a party or of which any of their respective property is the subject matter and no such proceedings known to Five Star are contemplated.

### **Material Contracts**

The only material contracts entered into by Five Star in the last two years (other than contracts entered into in the ordinary course of business), are as follows:

- (a) Merger Agreement;
- (b) Financial Advisory Agreement;
- (c) CPS Engagement Letter; and
- (d) Engagement Letter dated November 14, 2016 among Canaccord Genuity Corp., Turquoise and Five Star.

Copies of these agreements will be available for inspection at the offices of Five Star's legal counsel, Peterson McVicar LLP, Suite 806, 390 Bay Street, Toronto, ON M5H 2Y2 until the date of closing of the Proposed Qualifying Transaction and for a period of 30 days thereafter.

## **PART IV - INFORMATION CONCERNING THE RESULTING ISSUER**

### **Corporate Structure**

#### ***Name and Incorporation***

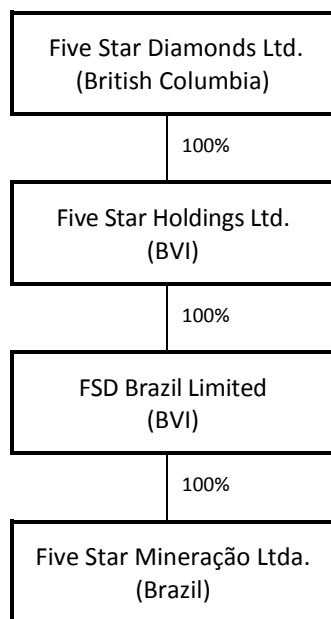
Following the Completion of the Proposed Qualifying Transaction, the Resulting Issuer will operate under the name "Five Star Diamonds Ltd." and will be governed by the provisions of the BCBCA.

The head office of the Resulting Issuer will be 390 Bay Street, Suite 806, Toronto, Ontario M5H 2Y2. The registered office of the Resulting Issuer will be 595 Howe St., Suite 704, Vancouver, British Columbia V6C 2T5

### ***Intercorporate Relationships***

Following the completion of the Merger, the Resulting Issuer will own, directly or indirectly, all of the issued and outstanding common shares of Five Star. As a result of the Merger, the previous shareholders of Five Star will become shareholders of the Resulting Issuer.

The following organizational chart demonstrates the intended corporate structure of the Resulting Issuer:



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Notes:

1. Currently Turquoise Capital Corp.
2. Currently Five Star Diamonds Ltd.
3. FSD Brazil Limited owns 14,095,578 of the issued and outstanding Quotas of Five Star Mineração Ltda. Five Star Holdings Ltd. (currently Five Star Diamonds Ltd.) own one (1) Quota of Five Star Mineração Ltda. in order to comply with the requirement under Brazilian law to have two (2) quota holders.

### **Narrative Description of the Business**

The Resulting Issuer’s business objectives after the Completion of the Proposed Qualifying Transaction will be the business objectives of Five Star, namely the continued exploration and development of the Catalao Diamond Project and other properties in which the Resulting Issuer may hereafter acquire an interest. For the narrative description of the business of the Resulting Issuer, including exploration and development milestones, see “Part III – Information Concerning Five Star – General Development of Business”. For a discussion of the proposed exploration and development activities with respect to the Catalao Diamond Project, see “Part III – Information Concerning Five Star – Narrative Description of Business”.

### **Description of the Securities**

Upon Completion of the Proposed Qualified Transaction, the Turquoise Shares will be the Resulting Issuer Shares. For a description of the attributes of the Turquoise Shares, please refer to “Part II – Information Concerning Turquoise – Description of Securities” of this Filing Statement.

## Pro Forma Consolidated Capitalization

The following table sets forth the pro forma share and loan capital of the Resulting Issuer as at August 31, 2016 on a consolidated basis, based on the pro forma consolidated financial statements contained in this Filing Statement after giving effect to the Proposed Qualifying Transaction and the Financing. This table should be read in conjunction with the pro forma consolidated financial statements and notes thereto included in this Filing Statement.

Designation of Security	Amount authorized or to be authorized	Amount outstanding after giving effect to the Proposed Qualifying Transaction (without giving effect to the TCC Private Placement and the Issuance of the Advisor Compensation Shares and Anti-Dilution Shares)	Amount outstanding after giving effect to the Proposed Qualifying Transaction, Minimum Financing and the Issuance of the Advisor Compensation Shares (without giving effect to the Anti-Dilution Shares)	Amount outstanding after giving effect to the Proposed Qualifying Transaction and Maximum Financing and the Issuance of the Advisor Compensation Shares (without giving effect to the Anti-Dilution Shares)
Resulting Issuer Shares	unlimited	106,369,032	122,694,925	136,361,590
Resulting Issuer Options	10%	200,000	200,000	200,000
Resulting Issuer Finder Warrants	-	-	1,066,666	2,133,333
Long Term Debt	-	-	-	-

Notes:

- After giving effect to the Proposed Qualifying Transaction, the accumulated deficit of the Resulting Issuer will be \$7,730,492.

## Fully Diluted Share Capital

The following tables outline the expected number and percentage of securities of the Resulting Issuer to be outstanding on a non-diluted and fully-diluted basis after giving effect to the Proposed Qualifying Transaction and the TCC Private Placement:

Designation of Security	After Giving Effect to the Proposed Qualifying Transaction					
	Number (Minimum Financing)	Number (Minimum Financing)	Percentage (undiluted) (Minimum Financing)	Percentage (fully-diluted) (Minimum Financing)	Percentage (undiluted) (Maximum Financing)	Percentage (fully-diluted) (Maximum Financing)
<b>Resulting Issuer Shares</b>						
Shares Issued						
Turquoise Shares	6,489,774	6,489,774	5.23%	5.19%	4.72%	4.64%
Five Star Shares	99,879,258	99,879,258	80.62%	79.81%	72.61%	71.40%
TCC Private Placement	13,333,333	26,666,666	10.76%	10.65%	19.39%	19.06%
Advisor Compensation Shares	2,992,599	3,325,892	2.42%	2.39%	2.39%	2.38%
Anti-Dilution Shares <sup>(1)</sup>	1,189,314	1,189,314	0.96%	0.95%	0.86%	0.85%
<b>Subtotals</b>	<b>123,884,278</b>	<b>137,550,904</b>				
Reserved for issuance under the:						
Turquoise Options	200,000	200,000	0.16%	0.16%	0.15%	0.14%
Turquoise Finder Warrants <sup>(2)</sup>	1,066,666	2,133,333	0.86%	0.85%	1.63%	1.52%
<b>Subtotals</b>	<b>1,266,666</b>	<b>2,333,333</b>	<b>1.02%</b>	<b>1.01%</b>	<b>1.78%</b>	<b>1.69%</b>
<b>Total (fully-diluted)</b>	<b>125,150,944</b>	<b>139,884,237</b>				

Notes:

1. Assumes a Canadian Dollar to British Pound exchange rate of (FX C\$1.00 = £0.61) on the date of issuance.
2. The warrants are to be issued to finder's in connection with the TCC Private Placement. The warrants will be exercisable for Resulting Issuer Shares at a price of \$0.30 per share for a period of 24 months from the date of issue.

## Available Funds and Principal Purposes

### Available Funds

Turquoise and Five Star anticipate that immediately following Closing of the Proposed Qualifying Transaction, the Resulting Issuer will have available funds of approximately \$3,502,361 (assuming the Minimum Financing) and \$7,182,361 (assuming the Maximum Financing), based on estimated working capital as at January 31, 2017 of \$17,361 (after giving effect to the settlement by Five Star on February 10, 2017 of US\$277,641 in current liabilities through the issuance of Five Star Shares at a price of \$0.30 per share) and the net proceeds to be received from the TCC Private Placement.

The following table sets forth the estimated available funds of the Resulting Issuer after giving effect to the Five Star Private Placement, as at January 31, 2017.

Source of Funds	Amount (Minimum Financing)	Amount (Minimum Financing)
Consolidated working capital of the Resulting Issuer as at January 31, 2017 <sup>(1)</sup>	\$17,361	\$17,361
Net proceeds from the TCC Private Placement <sup>(1)</sup>	\$3,485,000	\$7,165,000
<b>TOTAL</b>	<b>\$3,502,361</b>	<b>\$7,182,361</b>

#### Notes:

1. After giving effect to the settlement by Five Star on February 10, 2017 of US\$277,641 in current liabilities through the issuance of Five Star Shares at a price of \$0.30 per share.
2. After deducting finder's fees and expenses in respect of the TCC Private Placement estimated to be \$515,000 in the case of the Minimum Financing and \$835,000 in the case of the Maximum Financing.

### Principal Purposes of Funds

The principal purposes of the available funds will be as follows:

Principal Use of Funds	Amount (Minimum Financing)	Amount (Maximum Financing)
Exploration work on Catalao Diamond Project	\$1,429,000	\$1,429,000
General working capital and administrative costs	\$1,881,000	\$1,881,000
Unallocated working capital	\$192,361	\$3,872,361
<b>TOTAL</b>	<b>\$3,502,361</b>	<b>\$7,182,361</b>

The Resulting Issuer will spend the available funds on completion of the principal purposes as indicated above. Notwithstanding the foregoing, there may also be circumstances where, for sound business reasons, a reallocation of funds may be necessary for the Resulting Issuer to achieve these objectives. The Resulting Issuer will require additional funds in order to fulfill all of the Resulting Issuer's expenditure requirements to meet its objectives, in which case the Resulting Issuer Expects to either issue additional equity securities or incur indebtedness. There is no assurance that

additional funds required by the Resulting Issuer will be available if needed. However, it is anticipated that the available funds will be sufficient to satisfy the Resulting Issuer’s objectives over the next 12 months.

## Dividends

The proposed directors of the Resulting Issuer anticipate that the Resulting Issuer will retain all future earnings and other cash resources for the future operation and development of its business, and accordingly, do not intend to declare or pay any cash dividends in the foreseeable future. Payment of any future dividends will be at the discretion of the board of the directors of the Resulting Issuer after taking into account many factors including the Resulting Issuer’s operating results, financial condition and current and anticipated cash assets.

## Principal Securityholders

To the knowledge of Turquoise or Five Star, upon completion of the Five Star Private Placement and the Merger, no person will beneficially own, directly or indirectly, or exercise control or direction over more than 10% of the Resulting Issuer Shares except as follows:

Name and Municipality of Residence	Number of Resulting Issuer Shares Owned	Percentage of Resulting Issuer Shares After Giving Effect to the Minimum Financing and the Issuance of the Advisor Compensation Shares (without giving effect to the Anti-Dilution Shares)	Percentage of Resulting Issuer Shares After Giving Effect to the Maximum Financing and the Issuance of the Advisor Compensation Shares (without giving effect to the Anti-Dilution Shares)	Type of Ownership
R&R Venture Partners II LLC <i>New York, New York</i>	32,500,000	26.5%	23.8%	Registered

Notes:

1. R&R Venture Partners II LLC is entitled to receive approximately 1,161,202 Anti-Dilution Shares assuming a Canadian Dollar/British Pound exchange rate of (\$1.00-£0.61) on the date of issue.

## Directors, Officers and Promoters

### ***Name, Address, Occupation and Security Holdings***

The following are the names and municipalities of residence of each proposed director and officer of the Resulting Issuer, the positions and offices to be held with the Resulting Issuer, their respective principal occupations within the five preceding years and the number and percentage of common shares of the Resulting Issuer which will be held by each of them on completion of the Merger, after giving effect to the Five Star Private Placement. Each director will hold office until the next annual meeting of the Resulting Issuer unless his office is earlier vacated in accordance with the BCBCA.

<b>Name and Municipality of Residence</b>	<b>Position to be Held with the Resulting Issuer</b>	<b>Principal Occupation for the last five years</b>	<b>Number and Percentage of Resulting Issuer Shares After Giving Effect to the TCC Placement and the Issuance of the Advisor Compensation Shares (without giving effect to the Anti-Dilution Shares)</b>
Matthew Wood <i>Ulaanbaatar, Mongolia</i>	President and Chief Executive Officer, Director	Director, Garrison Capital Pty Ltd., a natural resource venture capital and advisory firm, since January 2002.	2,474,742 (2.02% - Min Financing) (1.81% - Max Financing)
Brian McMaster <sup>(1)</sup> <i>London, UK</i>	Chief Financial Officer and Director	Director, Garrison Capital Pty Ltd., a natural resource venture capital and advisory firm, since 2011.	10,675,201 (8.70% - Min Financing) (7.83% - Max Financing)
Luíz Azevedo <i>Barra de Tijuca, Brazil</i>	Chief Operating Officer and Director	Lawyer, FFA Legal Ltda. since April 2004.	10,445,282 (8.51% - Min Financing) (7.66% - Max Financing)
Gizman Abbas <sup>(1)</sup> <i>New York, New York</i>	Director	Partner, TFC Utilities LLC since April 2015. Previously Principal, DI Development LLC from January 2011 to March 2005.	Nil (0%)
Simon Rothschild <i>Oxfordshire, UK</i>	Director	Director, Capital M Consultants since October 2013. Previously Principal, Bankside Consultants from May 2003 to October 2013.	60,592 (0.05% - Min Financing) (0.04% - Max Financing)
Nicholas Pike <sup>(1)</sup> <i>Issigeac, France</i>	Director	Director, Big Acre Ltd. since September 2014. Previously Director, Polonius from June 2009 to September 2013.	Nil (0%)

Notes:

1. Member of the Audit Committee of Resulting Issuer.

Directors will be appointed to the Compensation Committee and the Corporate Governance and Nominating Committee following Completion of the Proposed Qualifying Transaction in accordance with regulatory guidelines.

It is anticipated that the Audit Committee will be comprised of three directors as follows: Messrs: Abbas, McMaster and Pike. Each member will be “independent”, as such term is defined within the meaning of National Instrument 52-110., except for Mr. McMaster who will be an officer of the Resulting Issuer. Each proposed member of the Audit Committee is “financially literate”, as such term is defined within the meaning of National Instrument 52-110, and possesses education or experience that is relevant for the performance of their responsibilities as Audit Committee members.

The term of office of the directors expires annually at the time of the Resulting Issuer’s annual general meeting or when or until their successor is duly appointed or elected. The term of office of the Resulting Issuer’s executive officers expires at the discretion of the Resulting Issuer’s directors. Three of the directors of the Resulting Issuer will not be independent of the Resulting Issuer within the meaning of National Instrument 58-101. Matthew Wood is the proposed Chief Executive Officer, Brian McMaster is the proposed Chief Financial Officer and Corporate Secretary and Luis Azvedo is the proposed Chief Operating Officer of the Resulting Issuer. The remaining proposed directors of the Resulting Issuer are independent within the meaning of National Instrument 58-101.

### ***Shareholdings of Directors and Executive Officers***

As at the date of this Filing Statement, after giving effect to the Proposed Qualifying Transaction (including the TCC Private Placement), the proposed directors and executive officers of the Resulting Issuer, as a group, will own 23,655,817 Resulting Issuer Shares, representing approximately 19.28% of the issued and outstanding Resulting Issuer Shares (on a non-diluted basis assuming the Minimum Financing but without giving effect to the issuance of the Anti-Dilution Shares) and 17.35% of the outstanding Resulting Issuer Shares (on a non-diluted basis assuming the Maximum Financing but without giving effect to the issuance of the Anti-Dilution Shares).

### ***Biographies of Directors and Executive Officers***

The following is a brief description of each of the proposed directors and executive officers of the Resulting Issuer (including details with regard to their principal occupations for the last five years).

#### ***Matthew Wood – President and Chief Executive Officer and Director, Age 47***

Mr. Wood has 20 years of experience in the resource sector with both major and junior resource companies and has extensive experience in the technical and economic evaluation of resource projects throughout the world. Matthew's expertise is in project identification, negotiation, acquisition and corporate development. He holds an honours degree in geology from the University of New South Wales in Australia and a graduate certificate in mineral economics from the Western Australian School of Mines.

#### ***Brian McMaster – Chief Financial Officer and Director, Age 45***

Mr. McMaster is a Chartered Accountant, a registered and official liquidator and has almost 20 years' experience in the area of corporate reconstruction and turnaround and performance improvement. Brian's experience includes numerous reorganizations and turnarounds, including being instrumental in the recapitalization and listing of 12 Australian companies on the ASX. Brian's experience includes significant working periods in the United States, South America, Asia and India. Brian is also a director of a number of ASX listed companies.

#### ***Luís Azevedo – Chief Operating Officer and Director, Age 53***

Mr. Azevedo is a geologist and lawyer with +25 years of business and mining experience in Brazil. He is an independent director of Brazil Minerals, Inc, Avanco Resources, Talon Metals and Harvest Minerals Ltd (formerly Triumph Tin Ltd). He is also the Managing Partner at FFA Legal, a legal firm he founded with main office in Rio de Janeiro, Brazil, and which is focused solely on natural resources companies. His practice is highly active in mergers in acquisitions for companies owning mineral assets and/or operating mining enterprises in Brazil. His experience spans base metals, industrial minerals, diamonds, and precious metals, and he continually works in contact with the highest federal levels of all branches of government in Brazil.

#### ***Gizman Abbas, Director, Age 44***

Mr. Abbas has led natural resources investment and development operations for some of the world's leading financial institutions, leaning on his combined expertise in finance and engineering. Abbas was a founding partner of the commodity investment business at Apollo Management, one of the largest private equity businesses in the world with more than \$160 billion under management. Previously, he was Vice President at Goldman Sachs, where he invested successfully in the oil & gas, power, bio-fuels, metals & mining, and agriculture sectors. Abbas began his finance career in the investment banking division at Morgan Stanley, having previously been a Senior Project Engineer on oil & gas construction projects for Exxon Mobil Corporation and a Co-Op Power Engineer at Southern Company. Abbas, also a successful real estate developer, holds a BS, Electrical Engineering, from Auburn University and an MBA from the Kellogg School of Management at Northwestern University.

*Simon Rothschild, Director, Age 44*

Mr. Rothschild has been active for over 30 in financial public relations and investor relations. He started his career in 1982 at Dewe Rogerson Ltd and more recently was a Principal of Bankside Consultants where he specialised in the natural resources sector with clients such as Antofagasta, Ormonde Mining, Scotgold and Minera IRL. In 2014, he set up Capital Market Consultants Limited.

*Nicholas Pike, Director, Age 56*

Mr. Pike is currently a private investor who manages his own family office based in France. He was most recently the Chief Executive Officer of Polonius Ltd., a Guernsey based investment company that he founded in 2008 to acquire and administer consumer credit agreements. When Mr. Pike left the company, the company had over 6,000 individual accounts with an aggregate value of over £200m. Prior to Polonius, Mr. Pike was a senior executive at Payplan Ltd., one of the UK's largest debt management companies where he was instrumental in its growth from start-up to 600 staff operating in three European locations. Mr. Pike has also been a director of several other listed and unlisted Australian and UK companies.

#### ***Promoter Considerations***

Peter Hinam may be considered to be a Promoter of Turquoise in that he took the initiative in founding and organizing Turquoise. Assuming Completion of the Proposed Qualifying Transaction, Mr. Hinam and his Associates and Affiliates will hold an aggregate of 340,740 Resulting Issuer Shares representing 0.28% of the issued and outstanding Resulting Issuer Shares (on a non-diluted basis assuming the Minimum Financing but without giving effect to the issuance of the Anti-Dilution Shares) and 0.25% of the outstanding Resulting Issuer Shares (on a non-diluted basis assuming the Maximum Financing but without giving effect to the issuance of the Anti-Dilution Shares). Mr. Hinam will also hold Resulting Issuer Options to acquire an additional 50,000 Resulting Issuer Shares at a price of \$0.10 per Turquoise Share.

#### ***Corporate Cease Trade Orders or Bankruptcies***

Except as noted below, no proposed director, officer or promoter of the Resulting Issuer, or any shareholder anticipated to hold sufficient number of securities of the Resulting Issuer to materially affect the control of the Resulting Issuer, is, or, within 10 years before the date of this Filing Statement, has been, a director, officer or promoter of any person or company that, while that person was acting in that capacity:

- (a) was the subject of a cease trade or similar order that denied the relevant company access to any exemptions under applicable securities legislation that was in effect for a period of more than 30 consecutive days; or
- (a) became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold the assets of that person.

Matthew Wood was a director of New Guinea Gold Corporation when it was subject to a cease trade order on July 2, 2013 issued by the British Columbia Securities Commission for failure to file financial statements. Mr. Wood was elected as a director on April 29, 2013 and resigned on July 24, 2013.

#### ***Penalties or Sanctions***

No proposed director, officer or promoter of the Resulting Issuer, or any shareholder anticipated to hold a sufficient number of securities of the Resulting Issuer to materially affect control of the Resulting Issuer; is, or, within the last 10 years, has been:

- (a) been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or
- (b) been subject to any other penalties or sanctions imposed by a court or regulatory body, including a self-regulatory body, that would be likely to be considered important to a reasonable investor making an investment decision.

***Personal Bankruptcies***

No proposed director, officer or promoter of the Resulting Issuer, or any shareholder anticipated to hold sufficient securities of the Resulting Issuer to materially affect the control of the Resulting Issuer, or a personal holding company of any such persons, has, within the last 10 years, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or been subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the individual.

***Conflicts of Interest***

Directors and officers of the Resulting Issuer may also serve as directors and/or officers of other companies engaged in mineral exploration, development and mining and may be presented from time to time with situations or opportunities which give rise to apparent conflicts of interest which cannot be resolved by arm’s-length negotiations but only through exercise by the officers and directors of such judgment as is consistent with their fiduciary duties to the Resulting Issuer which arise under applicable corporate law, especially insofar as taking advantage, directly or indirectly, of information or opportunities acquired in their capacities as directors or officers of the Resulting Issuer. It is expected that all conflicts of interest will be resolved in accordance with the BVI Act, the policies of the TSXV and all other applicable securities laws, regulations and policies. It is expected that any transactions with officers and directors will be on terms consistent with industry standards and sound business practice in accordance with the fiduciary duties of those persons to the Resulting Issuer, and, depending upon the magnitude of the transactions and the absence of any disinterested board members, may be submitted to the shareholders for their approval.

***Other Reporting Issuer Experience***

The following table sets out the proposed directors, officers and promoters of the Resulting Issuer that are, or have been within the last five years, directors, officers or promoters of other reporting issuers:

<u>Name</u>	<u>Name of Reporting Issuer</u>	<u>TSXV or Market</u>	<u>Position</u>	<u>From</u>	<u>To</u>
Matthew Wood	Haranga Resources Limited	ASX	Director	02/2010	-
	Harvest Minerals Limited	ASX	Executive Director	04/2014	-
	Bounty Mining Limited	ASX	Director	03/2016	-
	Wolf Petroleum Limited	ASX	Executive Chairman	04/2012	-
	Avanco Resources Limited	ASX	Executive Chairman	07/2007	09/2014
	Lindian Resources Limited	ASX	Executive Chairman	05/2011	10/2014
	Castillo Copper Limited	ASX	Executive Director	04/2014	08/2015
	Weststar Industrial Limited	ASX	Executive Director	05/2011	08/2015
	Valor Resources Limited	ASX	Executive Chairman	06/2009	03/2016
	Black Star Petroleum Limited	ASX	Executive Chairman	02/2013	05/2016
	Signature Metals Limited	ASX	Executive Chairman	02/2007	02/2012
	New Guinea Gold Corporation	TSXV	Director	04/2013	07/2013

<u>Name</u>	<u>Name of Reporting Issuer</u>	<u>TSXV or Market</u>	<u>Position</u>	<u>From</u>	<u>To</u>
Brian McMaster	Haranga Resources Limited	ASX	Director	04/2014	-
	Harvest Minerals Limited	ASX	Executive Chairman	04/2014	-
	Bounty Mining Limited	ASX	Director	03/2016	-
	The Waterberg Coal Company Limited	ASX	Executive Chairman	04/2012	03/2014
	Firestone Energy Limited	ASX	Director	06/2013	03/2014
	Lindian Resources Limited	ASX	Executive Director	06/2011	09/2014
	Castillo Copper Limited	ASX	Executive Chairman	08/2013	08/2015
	Weststar Industrial Limited	ASX	Executive Chairman	12/2011	08/2015
	IODM Limited	ASX	Director	09/2012	10/2015
	Valor Resources Limited	ASX	Director	08/2014	03/2016
	Black Star Petroleum Limited	ASX	Director	08/2012	05/2016
	Wolf Petroleum Limited	ASX	Director	04/2002	08/2016
Luis Azevedo	Avanco Resources Limited	ASX	Executive Director	12/2007	
	Talon Metals	TSX	Director	02/2004	
	Harvest Minerals Limited	ASX	Executive Director	01/2012	
	Rio Verde Minerals Development Ltd.	TSX	Director & COO	12/2010	05/2013
	Brazilian Gold Corp.	TSXV	Director	06/2010	10/2014
	Paringa Resources Limited	ASX	Director	12/2012	09/2013
Abbas Gizman	Handeni Gold	TSX	Director	01/2012	10/2016
	KLR Energy	NYSE	Director	01/2016	10/2016
Simon Rothschild	n/a				
Nicholas Pike	n/a				

## Executive Compensation

### *Compensation Discussion and Analysis*

After Completion of the Proposed Qualifying Transaction, it is expected that the executive compensation structure of the Resulting Issuer and the philosophy of the directors of the Resulting Issuer in respect of executive compensation will be substantially similar to that of Five Star. For information on the compensation structure and philosophy of Five Star, please see the discussion under the heading “Part III - Information Concerning Five Star – Compensation Discussion and Analysis”.

### *Summary Compensation Table – Proposed Compensation*

Upon completion of the Proposed Qualifying Transaction, each of Matthew Wood (current Chief Executive Officer and Director of Five Star and a proposed director and proposed President and Chief Executive Officer of the Resulting Issuer) and Brian McMaster (current Chief Financial Officer and Director of Five Star and a proposed director and proposed Chief Financial Officer of the Resulting Issuer) will enter into employment agreements with the Resulting Issuer pursuant to which each of Messrs. Wood and McMaster will provide their respective services to the Resulting Issuer. The terms and conditions of such employment agreements have not yet been determined and will be subject to the prior approval of the Resulting Issuer’s board of directors.

### *Incentive Plans Awards*

#### *Share-based awards*

During the 12-month period following Completion of the Proposed Qualifying Transaction, it is not expected that the Resulting Issuer will grant any share-based awards, being awards granted under an equity incentive plan of equity-based instruments that do not have option-like features, including, for greater certainty, common shares, restricted shares,

restricted share units, deferred share units, phantom shares, phantom share units, common share equivalent units, and stock.

#### *Option-based awards*

The Resulting Issuer intends to grant Resulting Issuer Options to its directors, officers, employees and consultants; however, the details of such grants have not yet been determined and will be subject to the prior approval of the Resulting Issuer's board of directors. Such stock options are expected to be granted under the Stock Option Plan which will be assumed by the Resulting Issuer. For an overview of the Stock Option Plan, please see the discussion under the heading "*Part II – Information Concerning Turquoise – Stock Option Plan*".

#### *Pension Plan Benefits*

During the 12-month period following Completion of the Proposed Qualifying Transactions, it is not expected that the Resulting Issuer will provide for defined benefit plans or defined contribution plans, being plans that provide for payments or benefits at, following, or in connection with retirement, or provide for deferred compensation plans.

#### *Compensation of Directors*

It is anticipated that the directors of the Resulting Issuer will be paid fees for their services; however, the amounts of such fees will be determined in the discretion of the board of directors of the Resulting Issuer following Completion of the Proposed Qualifying Transaction. The Resulting Issuer may also grant stock options to directors in recognition of the time and effort that such directors devote to the Resulting Issuer. It is not anticipated that directors who are otherwise employed by or engaged to provide services to the Resulting Issuer will be paid director's fees.

#### **Indebtedness of Directors and Officers**

No individual who is, or at any time since the beginning of the most recently completed financial year of Turquoise or Five Star, was, a director or officer of Turquoise or Five Star, no proposed director or officer of the Resulting Issuer, and no associate of any such director, officer or proposed nominee, is indebted to Turquoise or Five Star or any of its subsidiaries (other than for "routine indebtedness" as defined by applicable securities legislation) or has any indebtedness that is the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by Turquoise, Five Star or any of its subsidiaries.

#### **Investor Relations Arrangements**

There is no written or oral agreement or understanding that has been reached with any person to provide any promotional or investor relations services for the Resulting Issuer.

#### **Options to Purchase Securities**

Other than as set out in the table below, as at the date of this Filing Statement, there are no stock options to purchase securities of the Resulting Issuer that will be held upon Completion of the Proposed Qualifying Transaction by:

- proposed officers of the Resulting Issuer as a group and proposed directors of the Resulting Issuer who are not also officers as a group;
- officers of all subsidiaries of the Resulting Issuer as a group and directors of those subsidiaries who are not also officers of the subsidiary as a group;
- other employees of the Resulting Issuer as a group;
- consultants of the Resulting Issuer as a group; and

- any other person or company, including any agent or underwriter.

The following table sets out information, as of the date of this Filing Statement, of options and broker warrants to purchase Resulting Issuer Shares that will be held upon completion of the Proposed Qualifying Transaction to the extent presently known and subject to applicable regulatory approvals:

Class of Optionee	Name of Holder	Type of Security	Number of Resulting Issuer Shares Under Option	Exercise Price (\$)	Expiry Date
Proposed Directors	-	-	-	-	-
Proposed Officers	-	-	-	-	-
Employees	-	-	-	-	-
Consultants	-	-	-	-	-
Former employees	-	-	-	-	-
Former directors of Turquoise	Peter Hinam John da Costa Timothy Hamilton Ryan Simonds	Option Option Option Option	50,000 50,000 50,000 50,000	\$0.10 \$0.10 \$0.10 \$0.10	July 3, 2018 <sup>(4)</sup> July 3, 2018 <sup>(1)</sup> July 3, 2018 <sup>(1)</sup> July 3, 2018 <sup>(1)</sup>

**Notes:**

1. In accordance with TSXV Policy 2.4, these Resulting Issuer Options will expire on the later of twelve (12) months following the Completion of the Proposed Qualifying Transaction and ninety (90) days after the holder ceases to be a director, officer, employee or consultant of the Resulting Issuer. None of these option holders are expected to have any continuing involvement with the Resulting Issuer, and as such these Resulting Issuer Options will expire twelve (12) months following the Completion of the Proposed Qualifying Transaction.

*Stock Option Plan*

Upon completion of the Proposed Qualifying Transaction, the Resulting Issuer will retain the Stock Option Plan adopted by Turquoise. See *“Part II – Information Concerning the Resulting Issuer – Description of Securities – Stock Option Plan”*.

**Escrowed Securities**

***CPC Escrowed Shares***

An aggregate of 1,777,442 Resulting Issuer Shares (the **“CPC Escrowed Shares”**) issued prior to, in connection with or subsequent to the CPC IPO to the directors and officers of Turquoise and their respective Associates and Affiliates, are currently held in escrow under to the policies of the TSXV pursuant to the CPC Seed Escrow Agreement and the CPC IPO Escrow Agreement (collectively, the **“CPC Escrow Agreements”**).

Pursuant to the CPC Escrow Agreements, the CPC Escrowed Shares are held in escrow by Computershare Trust Company of Canada as the escrow agent. The CPC Escrow Agreements provide that the CPC Escrowed Shares shall not be sold, assigned, hypothecated, transferred within escrow or otherwise dealt with in any manner without the written consent of the TSXV. Under the CPC Escrow Agreements, 10% of the CPC Escrowed Shares will be released from escrow on the issuance of the Final TSXV Bulletin (the **“Initial Release”**) and an additional 15% will be released on the dates 6 months, 12 months, 18 months, 24 months, 30 months and 36 months following the Initial Release. If the Resulting Issuer meets the TSXV’s Tier 1 minimum listing requirements, the release of the CPC Escrow Shares will be accelerated. An accelerated escrow release will not commence until the Resulting Issuer has made application to the TSXV for listing as a Tier 1 issuer and the TSXV has issued a bulletin that announces the acceptance for listing of the Resulting Issuer on Tier 1 of the TSXV.

### QT Escrowed Shares

The following table sets out, as of the date of this Filing Statement and to the knowledge of Turquoise and Five Star, the name and municipality of residence of the Resulting Issuer Shareholders whose Resulting Issuer Shares (the “QT Escrowed Shares”) will be subject to an Exchange Form 5D –Escrow Agreement (on an undiluted basis):

Name and Municipality of Residence of Shareholder	Escrowed Securities	Number and Percentage of Securities After Giving Effect to the Minimum Financing, the Proposed Qualifying Transaction and the Issuance of the Advisor Compensation Shares (without giving effect to the Anti-Dilution Shares) <sup>(2)</sup>	Number and Percentage of Securities After Giving Effect to the Maximum Financing and the Proposed Qualifying Transaction and the Issuance of the Advisor Compensation Shares (without giving effect to the Anti-Dilution Shares) <sup>(2)</sup>
Matthew Wood <i>Ulaanbaatar, Mongolia</i>	Resulting Issuer Shares	2,474,742 (2.02%)	2,474,742 (1.81%)
Brian McMaster <i>London, UK</i>	Resulting Issuer Shares	10,675,201 (8.70%)	10,675,201 (7.83%)
Luiz Azevedo <i>Barra de Tijuca, Brazil</i>	Resulting Issuer Shares	10,445,282 (8.51%)	10,445,282 (7.66%)
Simon Rothschild <i>Oxfordshire, UK</i>	Resulting Issuer Shares	60,592 (0.05%)	60,592 (0.04%)
R&R Venture Partners II LLC <sup>(3)</sup> <i>New York, New York</i>	Resulting Issuer Shares	32,500,000 (26.49%)	32,500,000 (23.83%)
Byambaa Zolzaya <i>Ulaanbaatar, Mongolia</i>	Resulting Issuer Shares	8,654,000 (7.05%)	8,654,000 (6.35%)
<b>Total</b>	<b>Resulting Issuer Shares</b>	<b>64,809,817 (52.82%)</b>	<b>64,809,817 (47.53%)</b>

#### Notes:

1. The escrow agent of these Resulting Issuer Shares will be Computershare Trust Company of Canada (or such other escrow agent as the Resulting Issuer may appoint).
2. Assuming no Resulting Issuer Shares are purchased pursuant to the TCC Private Placement.
3. R&R Venture Partners II LLC is entitled to receive approximately 1,161,202 Anti-Dilution Shares assuming a Canadian Dollar/British Pound exchange rate of (\$1.00-£0.61) on the date of issue, which will also be subject to escrow.

### Release Terms of the Escrow for the QT Escrowed Shares

The QT Escrowed Shares listed above are expected to be subject to a Tier 1 surplus security escrow agreement in accordance with the TSXV policies (“QT Escrow Agreement”). The QT Escrow Agreement will provide for an 18-month escrow release mechanism with 10% of the QT Escrowed Shares being releasable at the time of the Final Exchange Bulletin, and 20%, 30% and 40% of the QT Escrowed Shares being released 6, 12 and 18 months thereafter, respectively.

Where the QT Escrowed Shares are held by a non-individual (a “holding company”), each holding company pursuant to the applicable escrow agreement has agreed, or will agree, not to carry out any transactions during the currency of the escrow agreement which would result in a change of control of the holding company, without the consent of the TSXV. Any holding company must sign an undertaking to the Exchange that, to the extent reasonably possible, it will not permit or authorize any issuance of securities or transfer of securities that could reasonably result in a change of control of the holding company. In addition, the Exchange may require an undertaking from any control person of the holding company not to transfer the shares of that company.

The QT Escrowed Shares may not be transferred within escrow without the approval of the TSXV for release or transfer other than in specified circumstances set out in the applicable escrow agreement.

### ***Seed Share Resale Restrictions***

Pursuant to TSXV Policy 5.4, certain non-Principal Five Star Shareholders, upon exchange of the Five Star Shares into Resulting Issuer Shares, may be subject to seed share resale restrictions (“SSRR”). SSRRs are TSXV hold periods of various lengths or escrow requirements that apply where seed shares are issued to non-principals by private companies prior to the completion of a Qualifying Transaction. The terms of SRRs are based on the length of time such Five Star Shares have been held and the price at which such shares were originally issued. An aggregate of 10,000,000 Resulting Issuer Shares issued in exchange for Five Shares will be subject to SSRR resale restrictions or will be subject to escrow.

### **Auditor, Transfer Agent and Registrar**

Dale Matheson Carr-Hilton LaBonte LLP, whose principal office is located at Suite 1500, 1140 West Pender Street, Vancouver, BC V6E 4G1.

The transfer agent and registrar for the Turquoise Shares is Computershare Trust Company of Canada, whose principal office is located at 2<sup>nd</sup> Floor, 510 Burrard Street, Vancouver, BC V6C 3B9.

## **PART V – GENERAL MATTERS**

### **Sponsorship Relationship**

Pursuant to an engagement letter dated November 14, 2016, Turquoise and Five Star have engaged Canaccord Genuity Corp., 2200 – 609 Granville Street, Vancouver BC V7Y 1H2 to act as sponsor of the Proposed Qualifying Transaction. The engagement letter provides for a sponsorship fee payable to Canaccord of \$75,000 plus expenses. Canaccord and its affiliates do not hold any securities of either Turquoise or Five Star.

### **Experts**

#### ***Reports and Opinions***

The following professional persons have prepared reports or provided opinions that are either included in or referred to in this Filing Statement:

- Dale Matheson Carr-Hilton LaBonte LLP, Chartered Professional Accountants, have provided an auditor’s report on the financial statements of Turquoise for the financial period ended November 30, 2016 and 2015, a copy of which is attached hereto as part of Schedule “A”.
- Crowe Clark Whitehill LLP, statutory auditor, have provided an auditor’s report on the consolidated financial statements of Five Star for the financial periods ended June 30, 2016 and 2015, a copy of which is attached hereto as part of Schedule “C”.
- Scott Hutchin, MAIG, B.Sc., is the author and “independent qualified person” (within the meaning of NI 43-101) responsible for the preparation of the Technical Report.

#### ***Interest of Experts***

Except as disclosed herein, no person or company whose profession or business gives authority to a statement made by the person or company and who is named as having prepared or certified a part of this Filing Statement or as having prepared or certified a report or valuation described or included in this Filing Statement holds more than 1% beneficial interest, direct or indirect, in any property of the Resulting Issuer or of an associate or affiliate of the Resulting Issuer

and no such person is expected to be elected, appointed or employed as a director, senior officer or employee of the Resulting Issuer or of an associate or affiliate of the Resulting Issuer and no such person is a promoter of the Resulting Issuer or an associate or affiliate of Turquoise or the Resulting Issuer.

**Other Material Facts**

There are no material facts about Turquoise, Five Star, the Resulting Issuer or the Proposed Qualifying Transaction that are not disclosed under the preceding items and are necessary in order for the Filing Statement to contain full, true and plain disclosure of all material facts relating to Turquoise, Five Star and the Resulting Issuer, assuming Completion of the Proposed Qualifying Transaction.

**Board Approval**

This Filing Statement has been approved by the board of directors of each of Turquoise and Five Star. Where information contained in this Filing Statement rests particularly with the knowledge of a Person other than Turquoise and Five Star, each has relied upon information furnished by such Person.

**Financial Statement Requirements**

Financial statements for each of Turquoise, Five Star and the Resulting Issuer may be found attached hereto at Schedules "A" through "D", respectively.

**CERTIFICATE OF TURQUOISE CAPITAL CORP.**

Dated: March 29, 2017

The foregoing, constitutes full, true and plain disclosure of all material facts relating to the securities of Turquoise Capital Corp. assuming Completion of the Proposed Qualifying Transaction.

*(signed) "Peter Hinam"*

\_\_\_\_\_  
Name: Peter Hinam  
Title: Chief Executive Officer

*(signed) "Devon Brown"*

\_\_\_\_\_  
Name: Devon Brown  
Title: Chief Financial Officer and Secretary

On behalf of the board of directors of Turquoise Capital Corp.

*(signed) "Greg Bell"*

\_\_\_\_\_  
Name: Greg Bell  
Title: Director

*(signed) "John da Costa"*

\_\_\_\_\_  
Name: John da Costa  
Title: Director

**CERTIFICATE OF FIVE STAR DIAMONDS LTD.**

Dated: March 29, 2017

The foregoing, as it relates to Five Star Diamonds Ltd., constitutes full, true and plain disclosure of all material facts relating to the securities of Five Star Diamonds Ltd.

*(signed) "Matthew Wood"*

\_\_\_\_\_  
Name: Matthew Wood  
Title: President and Chief Executive Officer

*(signed) "Brian McMaster"*

\_\_\_\_\_  
Name: Brian McMaster  
Title: Chief Financial Officer

On behalf of the board of directors of Five Star Diamonds Ltd.

*(signed) "Abbas Gizman"*

\_\_\_\_\_  
Name: Abbas Gizman  
Title: Director

*(signed) "Nicholas Pike"*

\_\_\_\_\_  
Name: Nicholas Pike  
Title: Director

**PERSONAL INFORMATION**

Turquoise Capital Corp. hereby acknowledges and agrees that it has obtained the express written consent of each individual to:

- (a) the disclosure of Personal Information by Turquoise Capital Corp. to the TSXV pursuant to the TSXV's Form 3B1 – Information Required in a Filing Statement For A Qualifying Transaction; and
- (b) the collection, use and disclosure of Personal Information by the TSXV for the purposes described in the TSXV's Appendix 6B or as otherwise identified by the TSXV, from time to time.

DATED this March 29, 2017.

*(signed) "Peter Hinam"*

\_\_\_\_\_  
Name: Peter Hinam  
Title: Chief Executive Officer

*(signed) "Devon Brown"*

\_\_\_\_\_  
Name: Devon Brown  
Title: Chief Financial Officer and Secretary

**SCHEDULE "A"**

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED NOVEMBER 30, 2015 AND  
2014 AND CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS OF TURQUIOSE  
FOR THE PERIOD ENDED AUGUST 31, 2016**

**TURQUOISE CAPITAL CORP.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED**  
**NOVEMBER 30, 2015 AND 2014**  
**EXPRESSED IN CANADIAN DOLLARS**



DALE MATHESON CARR-HILTON LABONTE LLP  
CHARTERED PROFESSIONAL ACCOUNTANTS

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Turquoise Capital Corp.

We have audited the accompanying consolidated financial statements of Turquoise Capital Corp., which comprise the consolidated statements of financial position as at November 30, 2015 and 2014, and the consolidated statements of comprehensive loss, changes in shareholders' equity (deficiency) and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Turquoise Capital Corp. as at November 30, 2015 and 2014, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

### Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes certain conditions that indicate the existence of a material uncertainty that may cast significant doubt about Turquoise Capital Corp.'s ability to continue as a going concern.

DMCL

DALE MATHESON CARR-HILTON LABONTE LLP  
CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, Canada  
March 29, 2016

An independent firm associated with  
Moore Stephens International Limited

**MOORE STEPHENS**



**TURQUOISE CAPITAL CORP.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**  
**(EXPRESSED IN CANADIAN DOLLARS)**

	<b>Year Ended November 30, 2015</b>	<b>Year Ended November 30, 2014</b>
<b>OPERATING EXPENSES</b>		
Administrative fees (Note 6)	\$ 12,000	\$ 12,000
Filing fees	30,204	16,616
Corporate finance fee (Note 4)	55,000	-
Office expense	4,424	2,522
Professional fees	81,252	30,243
Rent (Note 6)	6,000	6,000
<b>Total operating expenses</b>	<b>(188,880)</b>	<b>(67,381)</b>
Impairment of advance receivable (Note 4)	(25,000)	-
<b>Net and comprehensive loss</b>	<b>\$ (213,880)</b>	<b>\$ (67,381)</b>
<b>Basic and diluted loss per common share</b>	<b>\$ (0.07)</b>	<b>\$ (0.02)</b>
<b>Weighted average number of common shares outstanding – basic and diluted</b>	<b>2,986,000</b>	<b>2,986,000</b>

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

**TURQUOISE CAPITAL CORP.****CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)  
(EXPRESSED IN CANADIAN DOLLARS)**

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	<b>Number of Shares</b>	<b>Share Capital</b>	<b>Option Reserve</b>	<b>Deficit</b>	<b>Total</b>
Balance, November 30, 2013	5,012,000	\$ 331,616	\$ 43,364	\$ (138,520)	\$ 236,460
Net and comprehensive loss for the year	-	-	-	(67,381)	(67,381)
Balance, November 30, 2014	5,012,000	331,616	43,364	(205,901)	169,079
Net and comprehensive loss for the year	-	-	-	(213,880)	(213,880)
Balance, November 30, 2015	5,012,000	\$ 331,616	\$ 43,364	\$ (419,781)	\$ (44,801)

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

**TURQUOISE CAPITAL CORP.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(EXPRESSED IN CANADIAN DOLLARS)**

	<b>Year Ended November 30, 2015</b>	<b>Year Ended November 30, 2014</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss for the year	\$ (213,880)	\$ (67,381)
Impairment of advance receivable	25,000	-
Changes in non-cash working capital items:		
GST receivable	(249)	(184)
Trade payables and accrued liabilities	41,691	2,777
Related party payables	759	5,828
Net cash used in operating activities	(146,679)	(58,960)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Advance made	(25,000)	-
Net cash used in financing activities	(25,000)	-
<b>Change in cash for the year</b>	<b>(171,679)</b>	<b>(58,960)</b>
<b>Cash, beginning of year</b>	<b>186,451</b>	<b>245,411</b>
<b>Cash, end of year</b>	<b>\$ 14,772</b>	<b>\$ 186,451</b>
<b>Cash paid during the year for interest</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Cash paid during the year for income taxes</b>	<b>\$ -</b>	<b>\$ -</b>

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

# **TURQUOISE CAPITAL CORP.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOVEMBER 30, 2015 AND 2014

(EXPRESSED IN CANADIAN DOLLARS)

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### **1. NATURE AND CONTINUANCE OF OPERATIONS**

Turquoise Capital Corp. (the “Company”) was incorporated under the Business Corporations Act (British Columbia) on November 14, 2012, and is classified as a Capital Pool Company as defined in the TSX Venture Exchange (“TSX-V”) Policy 2.4. Shares commenced trading on TSX-V on July 3, 2013. The principal business of the Company is the identification and evaluation of assets or a business.

The head office of the Company is located at Suite 810 - 789 West Pender Street, Vancouver, British Columbia, V6C 1H2. The records and registered office of the Company is located at Suite 704 - 595 Howe Street, Vancouver, British Columbia, V6C 2T5.

These consolidated financial statements have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. As at November 30, 2015, the Company had not completed its Qualifying Transaction (“QT”) and is not able to finance day to day activities through operations. The Company’s continuation as a going concern is dependent upon its ability to complete a QT and its ability to attain profitable operations and generate funds from there and/or raise equity capital or borrowings sufficient to meet current and future obligations. These conditions indicate the existence of a material uncertainty that may give rise to significant doubt about the entity’s ability to continue as a going concern. Management intends to finance operating costs over the next twelve months with loans from directors and companies controlled by directors and or private placement of common shares. These consolidated financial statements do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern.

The proposed transaction discussed in Note 4 is intended to be the Company’s QT.

### **2. STATEMENT OF COMPLIANCE**

These consolidated financial statements, including comparatives, have been prepared in accordance with 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”).

### **3. SIGNIFICANT ACCOUNTING POLICIES**

#### **Basis of preparation**

The consolidated financial statements of the Company have been prepared on an accrual basis and are based on historical costs, modified where applicable. The consolidated financial statements are presented in Canadian dollars unless otherwise noted.

#### **Basis of consolidation**

These consolidated financial statements include the accounts of the Company, and its wholly owned, inactive subsidiary, 1030301 B.C. Ltd. All intercompany and transactions have been eliminated on consolidation

#### **Financial instruments**

The Company classifies its financial instruments in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale and financial liabilities. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

## **TURQUOISE CAPITAL CORP.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOVEMBER 30, 2015 AND 2014

(EXPRESSED IN CANADIAN DOLLARS)

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### **3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **Financial instruments (continued)**

Financial assets are classified at fair value through profit or loss when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortized cost. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Company's intention to hold these investments to maturity. They are subsequently measured at amortized cost. Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period.

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not suitable to be classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments and are subsequently measured at fair value. These are included in current assets to the extent they are expected to be realized within 12 months after the end of the reporting period. Unrealized gains and losses are recognized in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary financial assets.

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortized cost.

Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the Company commits to purchase the asset.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

At each reporting date, the Company assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a significant and prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen.

The Company does not have any derivative financial assets and liabilities.

#### **Income taxes**

##### Current income tax:

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

## **TURQUOISE CAPITAL CORP.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOVEMBER 30, 2015 AND 2014

(EXPRESSED IN CANADIAN DOLLARS)

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### **3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **Income taxes (continued)**

##### Deferred tax:

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

#### **Significant estimates and assumptions**

The preparation of consolidated financial statements in accordance with IFRS requires the Company to make estimates and assumptions concerning the future. The Company's management reviews these estimates and underlying assumptions on an ongoing basis, based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are adjusted for prospectively in the period in which the estimates are revised.

Estimates and assumptions, where there is significant risk of material adjustments to assets and liabilities in future accounting periods, include the determination of the fair value of financial instruments and the recoverability and measurement of deferred tax assets.

#### **Significant judgments**

The preparation of consolidated financial statements in accordance with IFRS requires the Company to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgments in applying the Company's consolidated financial statements is the assessment of the Company's ability to continue as a going concern and whether there are events or conditions that may give rise to significant uncertainty .

#### **Share-based payments**

The Company may grant stock options to acquire common shares of the Company to directors, officers, employees and consultants. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the option reserve. The fair value of options is determined using the Black-Scholes option pricing model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

## **TURQUOISE CAPITAL CORP.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOVEMBER 30, 2015 AND 2014

(EXPRESSED IN CANADIAN DOLLARS)

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### **3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **Loss per share**

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributed to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share does not adjust the loss attributed to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

#### **Accounting standards issued but not yet applied**

##### *New standard IFRS 9 “Financial Instruments”*

This new standard is a partial replacement of IAS 39 “Financial Instruments: Recognition and Measurement”. IFRS 9 introduces new requirements for the classification and measurement of financial assets, additional changes relating to financial liabilities, a new general hedge accounting standard which will align hedge accounting more closely with risk management. 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 with early adoption permitted.

##### *Amendments to IAS 32 “Financial Instruments: Presentation”*

These amendments address inconsistencies when applying the offsetting requirements, and is effective for annual periods beginning on or after January 1, 2014.

The Company has not early adopted these revised standards and is currently assessing the impact that these standards will have on its consolidated financial statements.

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company’s consolidated financial statements.

### **4. AGREEMENT IN PRINCIPLE WITH VIGIL TECHNOLOGIES INC.**

On April 1, 2015, the Company entered into an agreement with Vigil Technologies Inc. (“Vigil”) and 1030301 B.C. Ltd. (“Subco”) whereby the Company has agreed to acquire all of the issued and outstanding shares of Vigil by way of an amalgamation. Under the terms of the agreement, each shareholder of Vigil will receive one common share of the Company in exchange for each common share of Vigil. The transaction, if completed, will be structured as a three-cornered amalgamation whereby Vigil will amalgamate with Subco (the “Transaction”). The Transaction is intended to be the Company’s QT.

The Transaction is subject to shareholder and regulatory approval.

The Company has paid \$55,000 of costs pursuant to the Transaction, which have been expensed during the year ended November 30, 2015.

During the year ended November 30, 2015, the Company advanced \$25,000 to Vigil. This amount was due on June 30, 2015. As at November 30, 2015, the Company impaired this loan to \$Nil due to the uncertainty of collectability.

## TURQUOISE CAPITAL CORP.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOVEMBER 30, 2015 AND 2014

(EXPRESSED IN CANADIAN DOLLARS)

#### 5. TRADE PAYABLES AND ACCRUED LIABILITIES

	November 30, 2014	November 30, 2014
Trade payables	\$ 30,201	\$ 6,010
Accrued liabilities	22,000	4,500
	\$ 52,201	\$ 10,510

#### 6. RELATED PARTY TRANSACTIONS

As at November 30, 2015, \$8,259 (November 30, 2014 - \$7,500) was owing to a company controlled by the Company's Chief Financial Officer ("CFO"). This amount owing is unsecured, non-interest bearing, and has no terms of repayment.

During the year ended November 30, 2015, the Company incurred \$12,000 (2014 - \$12,000) in administrative fees and \$6,000 (2014 - \$6,000) in rent to a company controlled by the CFO of the Company. This amount owing is unsecured, non-interest bearing, and has no terms of repayment.

#### 7. SHARE CAPITAL

##### Authorized

An unlimited number of common shares without par value.

##### Issued and outstanding

Pursuant to an escrow agreement dated January 21, 2013 and amended on March 21, 2013, 2,026,000 of the common shares issued and outstanding were held in escrow as at November 30, 2015. On completion of a QT 202,600 common shares will be released from escrow. Every six months thereafter 303,900 common shares will be released.

##### Option reserve

The equity reserve records items recognized as stock-based compensation expense and other share-based payments until such time that the stock options or warrants are exercised, at which time the corresponding amount will be transferred to share capital.

##### Warrants

As at November 30, 2014, the Company had 301,200 agent warrants outstanding with a weighted average exercise price of \$0.10. On July 2, 2015 these agent warrants expired. There are no warrants outstanding at November 30, 2015.

##### Stock Options

The Company follows the policies of the TSX-V under which it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Company. Under the policies, the exercise price of each option equals the market price or a discounted price of the Company's stock as calculated on the date of grant. The options can be granted for a maximum term of five years and vest at the discretion of the Board of Directors.

## TURQUOISE CAPITAL CORP.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOVEMBER 30, 2015 AND 2014

(EXPRESSED IN CANADIAN DOLLARS)

#### 7. SHARE CAPITAL (Continued)

##### Stock options (Continued)

	Number of Options outstanding and exercisable	Weighted Average Exercise Price
Balance, November 30, 2013, 2014, and 2015	200,000	\$ 0.10

As at November 30, 2015, there were 200,000 options outstanding and exercisable, expiring on July 3, 2018, with an average life of 2.59 years.

#### 8. FINANCIAL INSTRUMENTS RISKS AND CAPITAL MANAGEMENT

The Company is exposed to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

##### *Credit risk*

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash held in bank accounts. As most of the Company's cash is held by one bank there is a concentration of credit risk. This risk is managed by using a major bank that is a high credit quality financial institution, as determined by rating agencies. Credit risk is assessed as high.

##### *Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company ensures that there are sufficient funds to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash.

The Company's sole source of funding has been the issuance of equity securities for cash, through private placements. The Company's access to financing is always uncertain. There can be no assurance of continued access to significant equity funding. Liquidity risk is assessed as high.

##### *Foreign exchange risk*

Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. The Company is not exposed to foreign exchange risk.

##### *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.

## TURQUOISE CAPITAL CORP.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOVEMBER 30, 2015 AND 2014

(EXPRESSED IN CANADIAN DOLLARS)

#### 8. FINANCIAL INSTRUMENTS RISKS AND CAPITAL MANAGEMENT (Continued)

##### *Capital Management*

The Company's policy is to maintain a strong capital base so as to maintain investor and creditor confidence and to sustain future development of the business. The capital structure of the Company consists of equity, net of cash.

The Company is not subject to any externally imposed capital requirements. There have been no changes to the Company's approach to capital management during the year.

##### *Classification of financial instruments*

Financial assets included in the statement of financial position are as follows:

	<b>November 30, 2015</b>	<b>November 30, 2014</b>
Loans and receivables:		
Cash	\$ 14,772	\$ 186,451

Financial liabilities included in the statement of financial position are as follows:

	<b>November 30, 2015</b>	<b>November 30, 2014</b>
Non-derivative financial liabilities:		
Trade payables	\$ 30,201	\$ 6,010
Due to related parties	8,259	7,500
	\$ 38,460	\$ 13,510

#### 9. INCOME TAXES

A reconciliation of the expected income tax recovery to the actual income tax recovery is as follows:

	<b>November 30, 2015</b>	<b>November 30, 2014</b>
Loss for the year	\$ (213,880)	\$ (67,381)
Statutory tax rate	26%	26%
Expected income tax recovery	(55,609)	(17,519)
Adjustments to prior year	5,853	-
Effect of changes in tax rate	-	674
Change in valuation allowance	49,786	16,845
Income tax recovery	\$ -	\$ -

The Company has the following deductible temporary differences for which no deferred tax has been recognized:

	<b>November 30, 2015</b>	<b>November 30, 2014</b>
Non-capital losses carry-forward	\$ 102,951	\$ 51,057
Share issuance costs	4,835	6,973
	\$ 107,786	\$ 58,030

## **TURQUOISE CAPITAL CORP.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOVEMBER 30, 2015 AND 2014

(EXPRESSED IN CANADIAN DOLLARS)

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### **9. INCOME TAXES (Continued)**

Management has determined that the realization of the potential income tax benefits related to the non-capital losses is uncertain at this time, and cannot be viewed as more likely than not. Accordingly, the Company has recorded a valuation allowance for the potential deferred income tax asset. As at November 30, 2015, the Company has non-capital losses of approximately \$396,000 that may be applied against deferred income for Canadian income tax purposes which expire between 2033 – 2035, and share issuance costs of approximately \$18,000 which expire between 2036 – 2037.

**TURQUOISE CAPITAL CORP.**  
**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED**  
**AUGUST 31, 2016**  
**EXPRESSED IN CANADIAN DOLLARS**



**TURQUOISE CAPITAL CORP.****CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE LOSS**

(UNAUDITED)

(EXPRESSED IN CANADIAN DOLLARS)

	<b>Three Months Ended August 31, 2016</b>	<b>Three Months Ended August 31, 2015</b>	<b>Nine months Ended August 31, 2016</b>	<b>Nine months Ended August 31, 2015</b>
<b>EXPENSES</b>				
Administrative fees (Note 5)	\$ 3,000	\$ 3,000	\$ 9,000	\$ 9,000
Filing fees	1,319	26,835	12,494	40,267
Financing fees	-	10,000	-	40,000
Office expense	486	1,854	1,042	3,470
Professional fees	6,652	31,677	14,868	68,785
Rent (Note 5)	1,500	1,500	4,500	4,500
<b>Total expenses</b>	<b>12,957</b>	<b>74,866</b>	<b>41,904</b>	<b>166,022</b>
<b>Net and comprehensive loss</b>	<b>\$ 12,957</b>	<b>\$ 74,866</b>	<b>\$ 41,904</b>	<b>\$ 166,022</b>
<b>Basic and diluted loss per common share</b>	<b>\$ (0.00)</b>	<b>\$ (0.02)</b>	<b>\$ (0.01)</b>	<b>\$ (0.06)</b>
<b>Weighted average number of common shares outstanding – basic and diluted</b>	<b>3,012,000</b>	<b>3,012,000</b>	<b>3,012,000</b>	<b>3,012,000</b>

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

**TURQUOISE CAPITAL CORP.****CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)**

(UNAUDITED)

(EXPRESSED IN CANADIAN DOLLARS)

	<b>Number of Shares</b>	<b>Share Capital</b>	<b>Share Subscriptions</b>	<b>Option Reserve</b>	<b>Deficit</b>	<b>Total</b>
Balance, November 30, 2014	5,012,000	\$ 331,616	\$ -	\$ 43,364	\$ (205,901)	\$ 169,079
Net and comprehensive loss for the period	-	-	-	-	(166,022)	(166,022)
Balance, August 31, 2015	5,012,000	331,616	-	43,364	(371,923)	3,057
Net and comprehensive loss for the period	-	-	-	-	(47,858)	(47,858)
Balance, November 30, 2015	5,012,000	331,616	-	43,364	(419,781)	(44,801)
Cancel seed share	(1,000,000)	-	-	-	-	-
Cash received for shares subscriptions	-	-	95,250	-	-	95,250
Net and comprehensive loss for the period	-	-	-	-	(41,904)	(41,904)
Balance, August 31, 2016	4,012,000	\$ 331,616	\$ 95,250	\$ 43,364	\$ (461,685)	\$ 8,545

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

**TURQUOISE CAPITAL CORP.**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**  
**(EXPRESSED IN CANADIAN DOLLARS)**

	<b>Nine months Ended</b>	
	<b>August 31, 2016</b>	<b>August 31, 2015</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss for the period	\$ (41,904)	\$ (166,022)
Changes in non-cash working capital items:		
GST receivable	269	(1,755)
Trade payables and accrued liabilities	11,228	20,133
Related party payables	14,637	3,327
Net cash used in operating activities	(15,770)	(144,317)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Shares subscribed	95,250	-
Net cash from financing activities	95,250	-
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Advance made	-	(25,000)
Net cash used in investing activities	-	(25,000)
<b>Change in cash for the period</b>	<b>79,480</b>	<b>(169,317)</b>
<b>Cash, beginning of period</b>	<b>14,772</b>	<b>186,451</b>
<b>Cash, end of period</b>	<b>\$ 94,252</b>	<b>\$ 17,134</b>
<b>Cash paid during the period for interest</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Cash paid during the period for income taxes</b>	<b>\$ -</b>	<b>\$ -</b>

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

# **TURQUOISE CAPITAL CORP.**

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NINE MONTHS ENDED AUGUST 31, 2016

(UNAUDITED)

(EXPRESSED IN CANADIAN DOLLARS)

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## **1. NATURE AND CONTINUANCE OF OPERATIONS**

Turquoise Capital Corp. (the "Company") was incorporated under the Business Corporations Act (British Columbia) on November 14, 2012, and is classified as a Capital Pool Company as defined in the TSX Venture Exchange ("TSX-V") Policy 2.4. The principal business of the Company is the identification and evaluation of assets or a business.

The head office of the Company is located at Suite 820 - 1130 West Pender Street, Vancouver, British Columbia, V6E 4A4. The records and registered office of the Company is located at Suite 704 - 595 Howe Street, Vancouver, British Columbia, V6C 2T5.

These condensed consolidated interim financial statements have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. As at August 31, 2016, the Company had not completed its Qualifying Transaction ("QT") and is not able to finance day to day activities through operations. The Company's continuation as a going concern is dependent upon its ability to complete a QT and its ability to attain profitable operations and generate funds from there and/or raise equity capital or borrowings sufficient to meet current and future obligations. These conditions indicate the existence of a material uncertainty that may give rise to significant doubt about the entity's ability to continue as a going concern. Management intends to finance operating costs over the next twelve months with loans from directors and companies controlled by directors and or private placement of common shares. These condensed consolidated interim financial statements do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern.

On May 31, 2016 the TSX Venture Exchange (the "Exchange") accepted the Company's application of transferring from the Exchange to the NEX board. In connection with the transfer, the Company cancelled 1,000,000 common shares which were issued at \$0.05 per share and held in escrow.

The gross proceeds raised from the sale of all securities of the Company may only be used to identify a Qualifying Transaction, with the exception that the lesser of 30% of the gross proceeds and \$210,000, being \$170,535, may be used to cover prescribed costs of issuing the common shares in the capital of the Company (the "Common Shares") or administrative and general expenses of the Company.

## **2. SIGNIFICANT ACCOUNTING POLICIES AND BASIC OF PREPARATION**

### **Statement of Compliance**

The condensed consolidated interim financial statements (the "Financial Statements") of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") including International Accounting Standard ("IAS") 34, Interim Financial Statements. These Financial Statements follow the same accounting policies and methods of application as the Company's most recent annual consolidated financial statements, and should be read in conjunction with the Company's annual consolidated financial statements for the year ended November 30, 2015, which were prepared in accordance with IFRS as issued by the IASB. There have also been no significant changes in judgements or estimates from those disclosed in the consolidated financial statements for the year ended November 30, 2015.

### **Basis of preparation**

These Financial Statements have been prepared on a historical cost basis. In addition, these Financial Statements have been prepared using the accrual basis of accounting except for cash flow information. The financial statements are presented in Canadian dollars unless otherwise noted.

## TURQUOISE CAPITAL CORP.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NINE MONTHS ENDED AUGUST 31, 2016

(UNAUDITED)

(EXPRESSED IN CANADIAN DOLLARS)

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### 2. SIGNIFICANT ACCOUNTING POLICIES AND BASIC OF PREPARATION (continued)

#### Basis of consolidation

These Financial Statements include the accounts of the Company and its wholly owned, inactive subsidiary, 1030301 BC Ltd. All intercompany transactions have been eliminated on consolidation.

#### Reclassifications

Certain prior period amounts in the Financial Statements have been reclassified to conform to the current period's presentation. These reclassifications had no net effect on the consolidated results of operations or financial position for any period presented.

### 3. ACCOUNTING STANDARDS ISSUED BUT NOT YET APPLIED

At the date of the approval of the Financial Statements, a number of standards and interpretations were issued but not effective. The Company considers that these new standards and interpretations are either not applicable or are not expected to have a significant impact on the Company's financial statements.

### 4. TRADE PAYABLES AND ACCRUED LIABILITIES

	August 31, 2016	November 30, 2015
Trade payables	\$ 45,929	\$ 30,201
Accrued liabilities	17,500	22,000
	\$ 63,429	\$ 52,201

### 5. RELATED PARTY TRANSACTIONS

During the nine months ended August 31, 2016, 644,442 common shares of the Company were subscribed for by directors of the Company at a price of \$0.0675 per share for the proceeds of \$43,500. (Notes 6 and 8)

As at August 31, 2016, \$22,896 (November 30, 2015 - \$8,259) was owing to a company controlled by a director of the Company. This amount owing is unsecured, non-interest bearing, and has no terms of repayment.

During the nine months ended August 31, 2016, the Company incurred \$9,000 (2015 - \$9,000) in administrative fees and \$4,500 (2015 - \$4,500) in rent to a company controlled by a director of the Company.

### 6. SHARE CAPITAL

#### Authorized

The Company has an authorized capital of an unlimited number of common shares, without par value, of which 4,012,000 common shares are issued and outstanding.

## TURQUOISE CAPITAL CORP.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NINE MONTHS ENDED AUGUST 31, 2016

(UNAUDITED)

(EXPRESSED IN CANADIAN DOLLARS)

### 6. SHARE CAPITAL (continued)

#### Issued and outstanding

On May 31, 2016 the TSX Venture Exchange (the "Exchange") accepted the Company's transfer to the NEX board application. In connection with the transfer, the Company cancelled 1,000,000 seed shares of the 2,000,000 seed shares of the Company issued at \$0.05 per share and held in escrow. The 1,000,000 seed shares were held by directors and a former director of the Company.

Pursuant to an escrow agreement dated January 21, 2013 and amended on March 21, 2013, 1,026,000 of the common shares issued and outstanding were held in escrow as at August 31, 2016. On completion of a QT 102,600 common shares will be released from escrow. Every six months thereafter 153,900 common shares will be released.

#### Share subscriptions

During the months ended August 31, 2016, 1,411,110 shares of common stock were subscribed at a price of \$0.0675 per share for net proceeds of \$95,250. Included in the subscribed shares were 644,442 shares that were subscribed by directors of the Company. (Note 5)

#### Option reserve

The option reserve records items recognized as stock-based compensation expense and other share-based payments until such time that the stock options or warrants are exercised, at which time the corresponding amount will be transferred to share capital.

#### Warrants

There were no warrants outstanding at August 31, 2016 and November 30, 2015.

#### Stock options

The Company follows the policies of the TSX-V under which it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Company. Under the policies, the exercise price of each option equals the market price or a discounted price of the Company's stock as calculated on the date of grant. The options can be granted for a maximum term of five years and vest at the discretion of the Board of Directors.

	Number of Options outstanding and exercisable	Weighted Average Exercise Price
Balance, August 31, 2016 and November 30, 2015	200,000	\$ 0.10

As at August 31, 2016, there are 200,000 options outstanding and exercisable, expiring on July 3, 2018, with an average life of 1.84 years.

### 7. FINANCIAL INSTRUMENTS RISKS AND CAPITAL MANAGEMENT

The Company is exposed to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

#### Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash held in bank accounts. As most of the Company's cash is held by one bank there is a concentration of credit risk. This risk is managed by using a major bank that is a high credit quality financial institution, as determined by rating agencies. Credit risk is assessed as low.

## TURQUOISE CAPITAL CORP.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NINE MONTHS ENDED AUGUST 31, 2016

(UNAUDITED)

(EXPRESSED IN CANADIAN DOLLARS)

### 7. FINANCIAL INSTRUMENTS RISKS AND CAPITAL MANAGEMENT (continued)

#### *Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company ensures that there are sufficient funds to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash.

The Company's sole source of funding has been the issuance of equity securities for cash, primarily through private placements. The Company's access to financing is always uncertain. There can be no assurance of continued access to significant equity funding.

#### *Foreign exchange risk*

Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. The Company is not exposed to foreign exchange risk.

#### *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.

#### *Capital Management*

The Company's policy is to maintain a strong capital base so as to maintain investor and creditor confidence and to sustain future development of the business. The capital structure of the Company consists of equity, net of cash.

The Company is not subject to any externally imposed capital requirements. There have been no changes to the Company's approach to capital management during the year.

#### *Classification of financial instruments*

Financial assets included in the statement of financial position are as follows:

	<b>August 31, 2016</b>	<b>November 30, 2015</b>
Loans and receivables:		
Cash	\$ 94,252	\$ 14,772

Financial liabilities included in the statement of financial position are as follows:

	<b>August 31, 2016</b>	<b>November 30, 2015</b>
Non-derivative financial liabilities:		
Trade payables	\$ 45,929	\$ 30,201
Due to related parties	22,896	8,259
	\$ 68,825	\$ 38,460

## **TURQUOISE CAPITAL CORP.**

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NINE MONTHS ENDED AUGUST 31, 2016

(UNAUDITED)

(EXPRESSED IN CANADIAN DOLLARS)

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### **8. SUBSEQUENT EVENTS**

#### Share Issuance

On September 12, 2016, the Company issued 2,477,774 common shares of the Company at \$0.0675 per share for gross proceeds of \$167,250. Included in the proceeds were \$95,250 received during the nine months ended August 31, 2016 (Note 6) and \$72,000 received in September 2016.

#### Definitive Agreement with Five Star Diamonds Ltd.

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

Under the terms of the Merger Agreement, Five Star will merge with a wholly-owned subsidiary of the Company pursuant to a statutory merger under the BVI Business Companies Act, 2004 and will become a wholly-owned subsidiary of the Company. All of the ordinary shares of Five Star outstanding immediately prior to the merger will, pursuant to the terms of the merger, be cancelled and, in exchange, holders of the cancelled Five Star ordinary shares will receive one common share in the capital of the Company for each ordinary share of Five Star previously held. As at September 9, 2016, Five Star had 97,662,180 ordinary shares.

Prior to completion of the Transaction (and as conditions of closing):

- The Company shall have completed an offering of common shares for minimum aggregate gross proceeds of \$500,000 at a minimum offer price of \$0.30 per share (the “TQC Private Placement”).
- Five Star will obtain the requisite shareholder approvals for the Transaction.
- Five Star shareholders representing in excess of 5% of the issued and outstanding ordinary shares of Five Star will not have exercised any applicable statutory dissent rights with respect to the merger.

The transaction with Five Star is subject to Shareholder and TSX-V approval and has not yet closed.

**SCHEDULE "B"**

**MD&A OF TURQUISE FOR THE INTERIM FINANCIAL PERIOD ENDED  
AUGUST 31, 2016**

# TURQUOISE CAPITAL CORP.

## MANAGEMENT DISCUSSION AND ANALYSIS FOR THE THREE AND NINE MONTHS ENDED AUGUST 31, 2016

The following Management Discussion and Analysis (“MD&A”) of Turquoise Capital Corp. (the “Company” or “Turquoise”) has been prepared by management, in accordance with the requirements of National Instrument 51-102 as of October 7, 2016, and should be read in conjunction with the condensed consolidated interim financial statements for the three and nine months ended August 31, 2016 and 2015 and the related notes contained therein which have been prepared under International Financial Reporting Standards (“IFRS”). The information contained herein is not a substitute for detailed investigation or analysis on any particular issue. The information provided in this document is not intended to be a comprehensive review of all matters and developments concerning the Company. The Company is presently a “Venture Issuer” as defined in NI 51-102.

All financial information in this MD&A related to 2016, 2015 and 2014 has been prepared in accordance with IFRS and all dollar amounts are quoted in Canadian dollars, the reporting and functional currency of the Company, unless specifically noted.

Additional information related to the Company is available for view on SEDAR at [www.sedar.com](http://www.sedar.com).

### Forward Looking Statements

Certain information included in this discussion may constitute forward-looking statements. Readers are cautioned not to put undue reliance on forward-looking statements. These statements relate to future events or the Company’s future performance, business prospects or opportunities. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Company believes that the expectations reflected in those forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking statements contained into this report should not be unduly relied upon. These statements speak only as of the date of this report. 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 report. Such statements are based on a number of assumptions which may prove to be incorrect, including, but not limited to, assumptions about general business and economic conditions; the availability of financing for the Company’s operations; and the ability to attract and retain skilled staff.

These forward-looking statements are subject to certain factors, including risks and uncertainties, which could cause actual results to differ materially from what we currently expect. Actual results may differ materially from those expressed or implied by such forward-looking statements. Factors that could cause actual results to differ materially include, but are not limited to, the risk factors hereinafter. **Investors should not place undue reliance on forward-looking statements as the plans, intentions or expectations upon which they are based might not occur. The Company cautions that the following list of important factors is not exhaustive. Investors and others who base themselves on the Company's forward-looking statements should carefully consider the factors below as well as the uncertainties they represent and the risk they entail. The forward-looking statements contained in this report are expressly qualified by this cautionary statement.** The Company intends to discuss in its quarterly and annual reports referred to as the Company’s management’s discussion and analysis documents, any events and circumstances that occurred during the period to which such document relates that are reasonably likely to cause actual events or circumstances to differ materially from those disclosed in this management discussion and analysis.

### Description of Business

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

The head office of the Company is located at Suite 820 - 1130 West Pender Street, Vancouver, British Columbia, V6E 4A4. The records and registered office of the Company is located at Suite 704 - 595 Howe Street, Vancouver, British Columbia, V6C 2T5. The Company has one subsidiary, 1030301 BC Ltd.

To date, the Company has not conducted operations of any kind. The Company is a Capital Pool Company (CPC) pursuant to the policies of the TSX Venture Exchange (the “Exchange”). The Company proposes to identify and evaluate businesses and

assets with a view to completing a Qualifying Transaction (“QT”). Any proposed QT must be accepted by the Exchange and in the case of a non arm’s length QT is also subject to Majority of the Minority Approval in accordance with the CPC Policy.

On April 1, 2015, the Company entered into a business combination agreement (the “Business Combination Agreement”) with Vigil Technologies Inc. (“Vigil”) and 1030301 B.C. Ltd. (“Subco”) whereby the Company has agreed to acquire all of the issued and outstanding shares of Vigil (the “Transaction”).

On July 13, 2016 the Company, announced that the Business Combination Agreement had been terminated. The agreement was terminated because Turquoise and Vigil were unable to complete certain conditions of closing.

On September 9, 2016 the Company signed a definitive merger agreement (the “Merger Agreement”) with Five Star Diamonds Ltd., a corporation existing under the laws of the British Virgin Islands (“Five Star”), which sets out the terms and conditions pursuant to which Turquoise and Five Star will complete a transaction that will result in a reverse takeover of Turquoise by the shareholders of Five Star (the “Transaction”) and constitute Turquoise’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 the resulting issuer company will focus on the exploration and development of Five Star’s diamond projects located in Brazil.

## Share Capital

On September 12, 2016 2,477,774 shares of common stock were issued at a price of \$0.0675 per share for net proceeds of \$167,250. No finance fees were charged. Included in the above issued shares were 644,442 shares that were issued to directors of the Company.

On June 27, 2013 the Company successfully completed its initial public offering of 3,012,000 common shares of the Company at a price of \$0.10 per share for gross proceeds of \$301,200. The Company paid a cash commission of \$30,120 and granted non-transferable agent warrants to purchase 301,200 common shares of the Company at a price of \$0.10 per share until July 3, 2015. A corporate finance fee of \$11,200 was paid and legal and other costs totaled \$16,366.

On May 31, 2016 the TSX Venture Exchange (the "Exchange") accepted the Company's transfer to NEX application. In connection with the transfer, the Company has cancelled ½ of the 2,000,000 seed shares issued at \$0.05 per share as held by the Company's directors.

Pursuant to an escrow agreement dated January 21, 2013 and amended on March 21, 2013, 2,026,000 of the common shares issued and outstanding were held in escrow. On May 31, 2016 1,000,000 of those escrow shares were cancelled in conjunction with the transfer to the NEX. On completion of a QT 102,600 common shares will be released from escrow. Every six months thereafter 153,900 common shares will be released.

## Selected Annual Information

The Company is providing the following selected information with respect to the Company’s audited financial statements for the fiscal years ended November 30, 2015, 2014 and 2013. The audited financial statements for these fiscal years were prepared in accordance with International Financial Reporting Standards and are expressed in Canadian dollars.

	<b>Year ended November 30, 2015</b>	<b>Year ended November 30, 2014</b>	<b>Year ended November 30, 2013</b>
	(\$)	(\$)	(\$)
Total Revenue	-	-	-
Operating Expenses	(188,880)	(67,381)	(132,970)
Loss Before Other Items and Income Tax	(188,880)	(67,381)	(132,970)
Interest Income	-	-	-
Impairment of advance receivable	(25,000)	-	-
Future Income Tax Recovery	-	-	-
Net Loss	(213,880)	(67,381)	(132,970)
Basic and Diluted Loss Per Share	(0.07)	(0.02)	(0.10)

	As at November 30, 2015 (\$)	As at November 30, 2014 (\$)	As at November 30, 2013 (\$)
<b>Balance Sheet Data</b>			
Total assets .....	15,659	187,089	245,865
Total liabilities .....	60,460	18,010	9,405
Total equity .....	(44,801)	169,079	236,460

## Overall Performance

For the three and nine months ended August 31, 2016, the Company incurred a net loss of \$12,957 and 41,904 respectively (2015 - \$74,866 and \$166,022). The decrease in losses incurred are primarily associated with legal fees and financing fees. Legal fees and filing fees both decreased in the three and nine months ended August 31, 2016 as compared to 2015 due to decreased work on a QT.

On December 21, 2012, the Company granted 200,000 stock options to directors of the Company pursuant to the terms of the Company's stock option plan, subject to regulatory approval. The options were granted for a period of five years beginning on the listing date (July 3, 2013), and each stock option will allow the holder to purchase a common share of Turquoise at an exercise price of \$0.10.

At August 31, 2016, the Company had cash and cash equivalents of \$94,252 (November 30, 2015 - \$14,772). Working capital at August 31, 2016 was \$ (8,545) (November 30, 2015 – (\$44,801)). To date, the Company's sole source of financing has been derived from the issuance of common shares.

### *Initial Public Offering*

During the year ended November 30, 2013, the Company focused its activities on the preparation and filing of its prospectus with the Exchange in connection with its listing as a CPC. On June 27, 2013, the Company completed its initial public offering (the "IPO") of 3,012,000 common shares of the Company at a price of \$0.10 per share for gross proceeds of \$301,200 (the "Proceeds"). Mackie Research Capital Corporation acted as agent (the "Agent") for the IPO. The Company paid to the Agent a cash commission of \$30,120 and granted the Agent and its sub-agents non-transferable agent warrants to purchase 301,200 common shares of the Company at a price of \$0.10 per share until July 3, 2015. The Agent also received a corporate finance fee of \$11,200 and legal and other costs totaled \$16,366.

The Company's common shares commenced listing on the Exchange under the symbol "TQC.P" on July 3, 2013.

The Company is a Capital Pool Company within the meaning of the policies of the Exchange. The Company has not commenced operations and has no assets other than cash.

The Company is using the net proceeds of the IPO to identify and evaluate a Qualifying Transaction under the policies of the Exchange.

### *Proposed Qualifying Transaction*

#### The Merger Agreement

On September 9, 2016 the Company signed a definitive merger agreement (the "Merger Agreement") with Five Star Diamonds Ltd., a corporation existing under the laws of the British Virgin Islands ("Five Star"), which sets out the terms and conditions pursuant to which Turquoise and Five Star will complete a transaction that will result in a reverse takeover of Turquoise by the shareholders of Five Star (the "Transaction") and constitute Turquoise'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 the resulting issuer company will focus on the exploration and development of Five Star's diamond projects located in Brazil.

The Transaction is subject to regulatory approval.

### *Transfer to the NEX*

On May 31, 2016 the TSX Venture Exchange (the "Exchange") accepted the Company's transfer to NEX application. In connection with the transfer, the Company has cancelled one half of the 2,000,000 seed shares issued at \$0.05 per share as held by the Company's directors.

### **Third Quarter Results of Operations**

During the three and nine months ended August 31, 2016 and 2015, the Company incurred a net comprehensive loss before income taxes interest and other income of \$12,957 and \$41,904 respectively (2015 - \$74,866 and \$166,022). The expenses for the three and nine months ended August 31, 2016, include the following items:

- Filing fees of \$1,319 and \$12,494 (2015 - \$26,835 and \$40,267);
- Professional fees of \$6,652 and \$31,677 (2015 - \$14,868 and \$68,785)
- Financing fees of \$nil and \$10,000 (2015 - \$nil and \$40,000).

All items decreased from 2015 to 2016 due to decreased work done on the business combination between Turquoise and Vigil.

### **Summary of Quarterly Results**

	Three months Ended August 31, 2016	Three Months Ended May 31, 2015	Three months Ended February 29, 2016	Three months Ended November 30, 2015	Three months Ended August 31, 2015
Total assets	\$ 94,870	\$ 3,886	\$5,264	\$ 15,659	\$ 44,527
Working capital (deficiency)	8,545	(73,748)	(60,903)	(44,801)	3,057
Shareholders' equity (deficiency)	8,545	(73,748)	(60,903)	(44,801)	3,057
Net loss	12,957	12,845	16,102	47,858	74,866
Loss per share	(0.00)	(0.00)	(0.01)	(0.01)	(0.02)

	Three months Ended May 31, 2015	Three months Ended February 28, 2015	Three months Ended November 30, 2014	Three months Ended August 31, 2014	Three months Ended May 31, 2014
Total assets	\$ 86,172	\$ 144,499	\$187,089	\$ 198,492	\$ 212,579
Working capital	77,923	102,858	169,079	193,843	204,644
Shareholders' equity	77,923	102,858	169,079	193,843	204,644
Net loss	24,935	66,221	24,764	10,801	14,026
Loss per share	(0.01)	(0.02)	(0.01)	(0.00)	(0.00)

On December 21, 2012, the Company granted 200,000 stock options. The options can be exercised at \$0.10 per common share and vested on the listing date (July 3, 2013). The options are valid for a term of five years beginning on July 3, 2013.

### **Liquidity and Capital Resources**

To date, the Company has not yet acquired a QT and realized profitable operations. The Company has relied on equity financings and trade credit to fund the losses. The Company has sufficient funds to satisfy its expenditure plans for the current fiscal year.

These condensed consolidated interim financial statements have been prepared assuming the Company will continue on a going-concern basis. The Company has incurred losses since inception and the ability of the Company to continue as a going-concern depends upon its ability to find a QT and to continue to raise adequate financing. Management is actively targeting sources of additional financing which would assure continuation of the Company's operations. In order for the

Company to meet its liabilities as they come due and to continue its operations, the Company is solely dependent upon its ability to generate such financing.

	August 31, 2016	November 30, 2015
Working capital (deficit)	\$ 8,545	\$ (44,801)
Deficit	\$ 461,685	\$ 419,781

Net cash used in operating activities during the nine months ended August 31, 2016, was \$15,770 (2015 – \$144,317). The cash used in operating activities for the period consists primarily of the operating costs and are offset by the increased balances in related parties payable and trade payable and accrued liabilities.

Net cash used in investing activities during the nine months ended August 31, 2016, was \$nil (2015 - \$25,000). In the year ended November 30, 2015, it was determined that the \$25,000 advance to Vigil Technologies Inc. should be impaired due to the uncertainty of its collectability.

Net cash from financing activities during the nine months ended August 31, 2016, was \$95,250 (2015 - \$nil).

There can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favourable. If adequate financing is not available when required, the Company may be unable to continue operating. The Company may seek such additional financing through debt or equity offerings, but there can be no assurance that such financing will be available on terms acceptable to the Company or at all. Any equity offering will result in dilution to the ownership interests of the Company's shareholders and may result in dilution to the value of such interests.

The Company has sufficient funds to cover anticipated administrative expenses throughout the current fiscal year. It will continue to focus on completing the qualifying transaction.

## **Related Party Transactions**

In the nine months ended August 31, 2016, 2015, the following amounts were paid or accrued to related parties:

- a) Paid or accrued \$4,500 in rent and \$9,000 in administration fees (2015 - \$4,500 and \$9,000) to Da Costa Management Corp. a company controlled by a director of the Company.

As at August 31, 2016, \$22,896 (November 30, 2015 - \$8,259) was owed to Da Costa Management Corp.

The related party transactions are in the normal course of operations.

## **Changes in Accounting Policies**

During the three and nine months ended August 31, 2016, there were no changes in accounting policy.

## **New standards not yet adopted**

### *New standard IFRS 9 "Financial Instruments"*

This new standard is a partial replacement of IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 introduces new requirements for the classification and measurement of financial assets, additional changes relating to financial liabilities, a new general hedge accounting standard which will align hedge accounting more closely with risk management. 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 with early adoption permitted.

### *Amendments to IAS 32 "Financial Instruments: Presentation"*

These amendments address inconsistencies when applying the offsetting requirements, and is effective for annual periods beginning on or after January 1, 2014.

The Company has not early adopted these revised standards and is currently assessing the impact that these standards will have on its consolidated financial statements.

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's consolidated financial statements.

## Financial Instruments

### *Fair Values*

The Company's financial instruments consist of cash and cash equivalents, accounts payable and accrued liabilities and due to related parties. The fair values of these financial instruments approximate their carrying values because of their current nature. The following table summarizes the carrying values of the Company's financial instruments:

	August 31, 2016	November 30, 2015
Fair value through profit or loss	\$	\$
Loans and receivables <sup>(i)</sup>	94,252	14,772
Other financial liabilities <sup>(ii)</sup>	68,825	38,460

(i) Cash, advances receivable and cash equivalents

(ii) Accounts payable and amounts due to related parties

### *Credit Risk*

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash held in bank accounts. As most of the Company's cash is held by one bank there is a concentration of credit risk. This risk is managed by using a major bank that is a high credit quality financial institution, as determined by rating agencies. Credit risk is assessed as high.

### *Liquidity Risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company ensures that there are sufficient funds to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash.

The Company's sole source of funding has been the issuance of equity securities for cash, through private placements. The Company's access to financing is always uncertain. There can be no assurance of continued access to significant equity funding. Liquidity risk is assessed as high.

### *Foreign exchange risk*

Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. The Company is not exposed to foreign exchange risk.

### *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.

## Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements as at August 31, 2016.

## Outstanding Share Data

The following table summarizes the outstanding share capital as of the date of the MD&A:

	Number of shares issued or issuable
Common shares	6,489,773
Stock options (exercisable until July 2, 2018 at \$0.10 per share)	200,000
Agent warrants outstanding	nil

### *Escrow Shares*

On August 31, 2016, one half of the 2,000,000 seed shares held in escrow were canceled when the Company moved to the NEX.

At August 31, 2016, pursuant to an escrow agreement dated March 21, 2013, 1,026,000 common shares issued and outstanding were held in escrow. 10% of these shares will be released on completion of a qualifying transaction and then 15% will be released every nine months for a period of three years thereafter.

## Internal Controls over Financial Reporting

Management has designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of condensed consolidated interim financial statements for external purposes in accordance with IFRS. Lack of optimal segregation of duties has been observed due to the relatively small size of the Company, but management believes that these weaknesses have been adequately mitigated through management and director oversight.

## Management's Responsibility for condensed consolidated interim financial statements

The information provided in this report, including the condensed consolidated interim financial statements, is the responsibility of management. In the preparation of these statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the condensed consolidated condensed consolidated interim financial statements.

## Further Information

Additional information relating to the Company can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

**SCHEDULE "C"**

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF FIVE STAR FOR THE YEARS ENDED  
JUNE 30, 2016 AND 2015 AND UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR  
THE SIX-MONTH PERIODS ENDED DECEMBER 31, 2016 AND 2015**

**Five Star Diamonds Limited**

**Financial Report  
For the year ended 30 June 2016**

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## **DIRECTORS' RESPONSIBILITIES STATEMENT IN RESPECT OF THE FINANCIAL STATEMENTS**

The Directors are responsible for preparing the non-statutory consolidated financial statements in accordance with applicable law and regulations.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the Financial Statements comply with the IAS Regulation. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Legislation in the British Virgin Islands governing the preparation and dissemination of the accounts and the other information included in Annual Reports may differ from legislation in other jurisdictions.

### ***Provision of information to auditors***

Each of the persons who are Directors at the time when this Directors' Report is approved has confirmed that:

- so far as that Director is aware, there is no information relevant to the audit of which the Company's auditors are unaware, and;
- that Director has taken all the steps that ought to have been taken as a director in order to be aware of any information needed by the Company's auditors in connection with preparing their report and to establish that the Company's auditors are aware of that information.

Signed by order of the board

A handwritten signature in black ink, appearing to read 'Matthew Wood', with a horizontal line underneath.

Matthew Wood

Date: 28 March 2017

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FIVE STAR DIAMONDS LIMITED**

We have audited the non-statutory Financial Statements of Five Star Diamonds Limited for the year ended 30 June 2016 which includes the Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows and related notes numbered 1 to 19.

The financial reporting framework that has been applied in the preparation of these non-statutory Financial Statements is applicable law and International Financial Reporting Standards as adopted by the European Union (IFRSs).

This report is made solely to the Company's members, as a body. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by English law, we do not accept or assume responsibility to anyone other than the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### ***Respective responsibilities of Directors and auditors***

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the non-statutory Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Financial Statements in accordance with International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### ***Scope of the audit of the non-statutory Financial Statements***

An audit involves obtaining evidence about the amounts and disclosures in the non-statutory Financial Statements sufficient to give reasonable assurance that the non-statutory Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the non-statutory Financial Statements.

In addition, we read all the financial and non-financial information in any surround information to identify material inconsistencies with the audited non-statutory Financial Statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### ***Emphasis of matter***

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the company's ability to continue as a going concern. The Group incurred a loss of \$2,062,043 for the year ended 30 June 2016 and had net cash outflows from operating activities of \$1,824,672 and net cash outflows from investing activities of \$2,751,847. As at that date, the Group had net current assets of \$859,976.

Given that the group is reliant on future fundraising to continue as a going concern, these conditions indicate the existence of a material uncertainty which may cast significant doubt about the group's ability to continue as a going concern.

The Directors have carefully considered the company's budget and cash flow for this period and have concluded that the company will have adequate resources and facilities to continue in the foreseeable future, as more fully disclosed in note 1 to the financial statements.

# **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FIVE STAR DIAMONDS LIMITED (CONTINUED)**

## ***Opinion on Financial Statements***

In our opinion, the non-statutory consolidated financial statements give a true and fair view of the state of the group's affairs as at 30 June 2016 and of its loss for the year then ended in accordance with IFRS.

## **Crowe Clark Whitehill LLP**

Statutory Auditor

St Bride's House

10 Salisbury Square

EC4Y 8EH

Date: 29 March 2017

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30 JUNE 2016**

	Notes	2016 \$	Unaudited 2015 \$
Revenue		-	-
Expenses	2	(2,067,057)	(406,466)
Other income		5,014	878
<b>Net loss for the year</b>		<u>(2,062,043)</u>	<u>(405,588)</u>
<b>Loss per share</b>			
Basic & Diluted	11	(0.02)	(0.01)
<b>Other comprehensive income, net of income tax</b>			
<i>Items that may be reclassified to profit or loss</i>			
Exchange differences on translation of foreign operations		500,572	(17,681)
Other comprehensive income for the year, net of tax		<u>500,572</u>	<u>(17,681)</u>
Total comprehensive income for the year		<u>(1,561,471)</u>	<u>(423,269)</u>

The accompanying notes on pages 8 to 22 form part of this financial information

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 30 JUNE 2016**

	Notes	2016 \$	Unaudited 2015 \$
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	4	1,021,278	2,733,571
Trade and other receivables	5	14,481	75,522
Inventory		21,854	-
<b>Total current assets</b>		<u>1,057,613</u>	<u>2,809,093</u>
<b>Non-current assets</b>			
Property, plant and equipment	6	1,621,874	160,259
Deferred exploration and evaluation expenditure	8	2,004,383	338,479
<b>Total non-current assets</b>		<u>3,626,257</u>	<u>498,738</u>
<b>Total assets</b>		<u>4,683,870</u>	<u>3,307,831</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	9	197,637	126,782
<b>Total current liabilities</b>		<u>197,637</u>	<u>126,782</u>
<b>Total liabilities</b>		<u>197,637</u>	<u>126,782</u>
<b>Net assets</b>		<u>4,486,233</u>	<u>3,181,049</u>
<b>Equity</b>			
Share capital	10	483,061	419,058
Share premium	10	5,987,912	3,185,260
Foreign currency reserve	13	482,891	(17,681)
Retained earnings		(2,467,631)	(405,588)
<b>Total equity</b>		<u>4,486,233</u>	<u>3,181,049</u>

The accompanying notes on pages 8 to 22 form part of this financial information

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2016**

	Notes	Issued capital \$	Share premium \$	Foreign currency translation reserve \$	Retained earnings \$	Total equity \$
<b>Balance as at 1 July 2015</b>		<b>419,058</b>	<b>3,185,260</b>	<b>(17,681)</b>	<b>(405,588)</b>	<b>3,181,049</b>
Profit for the year		-	-	-	(2,062,043)	<b>(2,062,043)</b>
Other comprehensive income, net of income tax		-	-	500,572	-	<b>500,572</b>
<b>Total comprehensive income for the year</b>		-	-	<b>500,572</b>	<b>(2,062,043)</b>	<b>(1,561,471)</b>
Shares issued during the year	10	64,003	-	-	-	<b>64,003</b>
Share premium	10	-	2,984,782	-	-	<b>2,984,782</b>
Share issue costs	10	-	(182,130)	-	-	<b>(182,130)</b>
<b>Balance as at 30 June 2016</b>		<b>483,061</b>	<b>5,987,912</b>	<b>482,891</b>	<b>(2,467,631)</b>	<b>4,486,233</b>
<b>Balance as at 1 July 2014</b>		-	-	-	-	-
Profit for the year		-	-	-	(405,588)	<b>(405,588)</b>
Other comprehensive income, net of income tax		-	-	(17,681)	-	<b>(17,681)</b>
<b>Total comprehensive income for the year</b>		-	-	<b>(17,681)</b>	<b>(405,588)</b>	<b>(423,269)</b>
Shares issued during the year	10	419,058	-	-	-	<b>419,058</b>
Share premium	10	-	3,412,092	-	-	<b>3,412,092</b>
Share issue costs	10	-	(226,832)	-	-	<b>(226,832)</b>
<b>Balance as at 30 June 2015</b>		<b>419,058</b>	<b>3,185,260</b>	<b>(17,681)</b>	<b>(405,588)</b>	<b>3,181,049</b>

The accompanying notes on pages 8 to 22 form part of this financial information

**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 30 JUNE 2016**

	Notes	2016 \$	Unaudited 2015 \$
<b>Cash flows from operating activities</b>			
Payments to suppliers and employees		(1,826,509)	(354,383)
Interest received		1,837	583
<b>Net cash outflow from operating activities</b>		<b>(1,824,672)</b>	<b>(353,800)</b>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(1,518,642)	(160,789)
Exploration and evaluation expenditure		(1,233,205)	(338,479)
<b>Net cash outflow from investing activities</b>		<b>(2,751,847)</b>	<b>(499,268)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares		3,048,785	3,831,152
Payments for share issue costs		(182,130)	(226,832)
<b>Net cash inflow from financing activities</b>		<b>2,866,655</b>	<b>3,604,320</b>
Net increase in cash and cash equivalents		(1,709,864)	2,751,252
Cash and cash equivalents at the beginning of the year		2,733,571	-
Effect of exchange rate fluctuations on cash held		(2,429)	(17,681)
<b>Cash and cash equivalents at the end of the year</b>	4	<b>1,021,278</b>	<b>2,733,571</b>

The accompanying notes on pages 8 to 22 form part of this financial information.

The financial statements were approved by the Board of Directors and authorised for issue on 28 March 2017 and signed on its behalf by:



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Matthew Wood

# NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION FOR THE YEAR ENDED 30 JUNE 2016

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of preparation

These financial statements are short form financial statements, which have been prepared in accordance with the requirements of International Accounting Standards and Interpretations and comply with other requirements of the law. The financial statements comprise the non-statutory consolidated financial information for the Group. For the purposes of preparing the non-statutory consolidated financial information, the Company is a for-profit entity.

The accounting policies detailed below have been consistently applied to all of the years presented unless otherwise stated. The financial statements are for the Group consisting of Five Star Diamonds Limited and its subsidiaries. The Financial Statements have been prepared in a manner consistent with the accounting policies to be adopted by the Group in its financial statements.

The financial statements have been prepared on a historical cost basis. Historical cost is based on the fair values of the consideration given in exchange for goods and services.

The Company is incorporated in the British Virgin Islands (BVI) and operating in Brazil. The entity's principal activities are Diamond Exploration.

### (b) Adoption of new and revised standards

*New and amended standards adopted by the Group*

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2015 affected any of the amounts recognised in the current year or any prior year and are not likely to affect future years.

*Standards and Interpretations issued but not yet effective*

None of the new standards and interpretations issued but not yet effective for the current annual reporting year have a material impact on the Group.

*Early adoption of standard*

The Directors have not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2015.

### (c) Statement of compliance

The financial report complies with International Financial Reporting Standards as adopted by the European Union (IFRS).

### (d) Significant accounting estimates and judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates. In preparing this financial report, the significant judgements made by management in applying the consolidated entity's accounting policies and the key sources of estimation uncertainty are noted below:

*Exploration and evaluation expenditure*

The future recoverability of capitalised exploration and evaluation expenditure is dependent on a number of factors, including whether the Group decides to exploit the related lease itself or, if not, whether it successfully recovers the related exploration and evaluation asset through sale. Factors which could impact the future recoverability include the level of proved, probable and inferred mineral resources, future technological changes which could impact the cost of mining, future legal changes (including changes to environmental restoration obligations) and changes to commodity prices.

To the extent that capitalised exploration and evaluation expenditure is determined not to be recoverable in the future, this will reduce profits and net assets in the period in which this determination is made. In addition, exploration and evaluation expenditure is capitalised if activities in the area of interest have not yet

reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves. To the extent that it is determined in the future that this capitalised expenditure should be written off, this will reduce profits and net assets in the period in which this determination is made.

## NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION FOR THE YEAR ENDED 30 JUNE 2016

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (e) Going concern

These financial statements have been prepared on the going concern basis, which contemplates the continuity of normal business activities and the realisation of assets and settlement of liabilities in the normal course of business.

As disclosed in the financial statements, for the year ended 30 June 2016 the Group incurred a loss of \$2,062,043 and had net cash outflows from operating activities of \$1,824,672 and net cash outflows from investing activities of \$2,751,847. As at that date, the Group had net current assets of \$859,976. The Directors have prepared projected cash flow forecast for a period of at least 12 months from the date of their approval of the financial statements, and on the basis of this information, the Directors consider that the Company will continue to operate as a going concern.

The Directors have considered the following factors in relation to the projected cash flow forecast and believe that there are reasonable grounds that the Group will continue as a going concern, as:

- Disclosed in note 19, the Company raised an amount of \$228,336.60 in capital subsequent to balance date;
- The Company has the ability to raise further capital and has been successful in doing so in the past; and
- The Group has the ability to scale down its operations in order to reduce costs, in the event that any capital raising or other funding raising activities are delayed or insufficient cash is available, to meet future expenditure commitments.

Accordingly, the Directors believe that the company and Group will be able to continue as going concerns and that it is appropriate to adopt the going concern basis in the preparation of the financial report.

The financial report does not include any adjustments relating to the amounts or classification of recorded assets or liabilities that might be necessary if the company and Group do not continue as going concerns.

#### (f) Basis of consolidation

The non-statutory consolidated financial information incorporates the financial statements of the Company and entities controlled by the Company and its subsidiaries. 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 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 if 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 year are included in the consolidated statement of comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

## NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION FOR THE YEAR ENDED 30 JUNE 2016

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Changes in the Group's ownership interest in existing subsidiaries*

Changes in the Group's ownership interest in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group'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 recognised directly in equity and attributed to the owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised 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 recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group 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 139, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

#### **(g) Foreign currency translation**

Both the functional and presentation currency of Five Star Diamonds Limited is United States dollars. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance date.

All exchange differences in the consolidated financial report are taken to profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

The functional currency of the foreign operations, FSD Mineracao LTD is Brazilian Real (\$R), FSD Brazil Limited is United States dollars (\$USD) and FSD Management Pty Ltd is Australian dollars (\$).

As at the balance date the assets and liabilities of these subsidiaries are translated into the presentation currency of Five Star Diamonds Limited at the rate of exchange ruling at the balance date and income and expense items are translated at the average exchange rate 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.

The exchange differences arising on the translation are taken directly to a separate component of equity, being recognised in the foreign currency translation reserve.

On disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of

an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to the partial disposal of a subsidiary that includes a foreign operation that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or jointly arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments to identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of the reporting period. Exchange differences are recognised in other comprehensive income.

**(h) Revenue recognition**

Revenue is measured at fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

*Interest income*

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group 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.

**(i) Cash and cash equivalents**

Cash comprises cash at bank and in hand. 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 consist of cash and cash equivalents as defined above.

**(j) Trade and other receivables**

Trade receivables are measured on initial recognition at fair value and are subsequently measured at amortised 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.

**(k) Inventories**

Inventories are stated at the lower of cost and net realisable value. Net realisable 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.

**(l) Financial assets**

Financial assets in the scope of IAS 39 Financial Instruments: Recognition and Measurement are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end. All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the marketplace.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method.

Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

**(m) 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 capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation.

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 amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

## NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION FOR THE YEAR ENDED 30 JUNE 2016

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (m) Property, plant and equipment (continued)

##### *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 recognised 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 derecognised 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 derecognised.

#### (n) Trade and other payables

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group 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.

#### (o) Employee leave benefits

##### *Wages, salaries, annual leave and sick leave*

Liabilities accruing to employees in respect of wages and salaries, annual leave, long service leave and sick leave expected to be settled within 12 months of the balance date are recognised in other payables in respect of employees' services up to the balance date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

Liabilities accruing to employees in respect of wages and salaries, annual leave, long service leave and sick leave not expected to be settled within 12 months of the balance date are recognised in non-current other payables in respect of employees' services up to the balance date. They are measured as the present value of the estimated future outflows to be made by the Group.

#### (p) 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.

## NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION FOR THE YEAR ENDED 30 JUNE 2016

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (q) Exploration and evaluation

Exploration and evaluation expenditures in relation to each separate area of interest are recognised 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 amortised 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.

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. The recoverable amount of the exploration and evaluation asset (for the cash generating unit(s) to which it has been allocated being no larger than the relevant area of interest) is estimated to determine the extent of the impairment loss (if any). Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in previous years.

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.

#### (r) Impairment of tangible and intangible assets other than goodwill

The Group assesses at each balance date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

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. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

An assessment is also made at each balance date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss

was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

## NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION FOR THE YEAR ENDED 30 JUNE 2016

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (s) Income Tax

The income tax expense for the period is based on the profit/loss for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates for each jurisdiction that have been enacted or are substantially enacted by the reporting date.

Deferred income tax is provided for on all temporary differences at reporting date between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. No deferred income tax will be recognised from the initial recognition of goodwill or of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss. Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax assets and unused tax losses to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at each reporting date and only recognised to the extent that sufficient future assessable income is expected to be obtained.

No deferred income tax liabilities or assets will be recognised in respect of temporary differences between the carrying value and tax bases of investments in controlled entities if the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary differences will not reverse in the near future. Current and deferred income taxes relating to items recognised directly in equity are recognised in equity and not in the Statement of Profit or Loss and Other Comprehensive Income.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

#### (t) 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.

### NOTE 2: EXPENSES

	Consolidated 2016 \$	Consolidated 2015 \$
Administrative expenses	244,849	4,251
Accounting and audit fees	164,889	69,256
Legal fees	160,024	28,595
Consultant and director fees	764,667	115,000
Depreciation	51,859	830
Foreign exchange loss	(37,154)	-
Marketing costs	63,847	2,343
Travel expenses	475,220	82,461
Other expenses	178,856	103,730
	<u>2,067,057</u>	<u>406,466</u>

## NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION FOR THE YEAR ENDED 30 JUNE 2016

### NOTE 3: INCOME TAXES

The following table shows the component of current and deferred tax expense:

	Consolidated 2016 \$	Consolidated 2015 \$
Current tax expense	-	-
Deferred tax expense		
- Origination and reversal of temporary differences	-	-
	-	-

The reconciliation of income taxes attributable to operations computed at the statutory rate of 0% (2015: 0%) in the Territory of the British Virgin Islands to the income tax provision recorded in the consolidated financial report is as follows:

	Consolidated 2016 \$	Consolidated 2015 \$
Loss before income tax	1,825,982	386,702
Income taxes at British Virgin Islands tax rate of 0% (2015: 0%)	-	-

As the Company is incorporated under the BVI Business Companies Act 2004, it is exempt from tax in the British Virgin Islands. The Brazilian subsidiaries have losses carried forward of BRL1,251,000 (30 June 2015: \$684,000) which converts to approximately \$211,000 (30 June 2015: \$386,000), which are available to offset against future taxable income. These losses have no expiry date.

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Given that the Group has yet to generate revenue, it is not considered reasonable to recognise a deferred tax asset at the time of these non-statutory financial statements. Further consideration will be made by the Directors upon the Group generating revenue.

The difference between the expected tax recovery at statutory rates and the actual tax recovery of \$nil, is due to the tax effect of losses not booked in the subsidiaries, and the exempt status of the parent company.

## NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION FOR THE YEAR ENDED 30 JUNE 2016

### NOTE 4: CASH AND CASH EQUIVALENTS

	Consolidated 2016 \$	Consolidated 2015 \$
Cash at bank and on hand	1,021,278	2,733,571
Short-term deposits	-	-
	<u>1,021,278</u>	<u>2,733,571</u>

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

#### *Reconciliation to the Statement of Cash Flows:*

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand and at bank and investments in money market instruments, net of outstanding bank overdrafts.

Cash and cash equivalents as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

#### *Reconciliation of profit for the year to net cash flows from operating activities*

	Consolidated 2016 \$	Consolidated 2015 \$
Net loss for the year	(2,062,043)	(405,588)
Depreciation	51,859	830
Other	101,080	(302)
(Increase)/decrease in assets:		
Trade and other receivables	61,041	(74,680)
Prepayments	-	(842)
Inventories	(21,854)	-
Increase/(decrease) in liabilities:		
Trade and other payables	13,609	123,931
Current provisions	31,636	2,851
Net cash from operating activities	<u>(1,824,672)</u>	<u>(353,800)</u>

### NOTE 5: TRADE AND OTHER RECEIVABLES

	Consolidated 2016 \$	Consolidated 2015 \$
Advances	10,991	74,680
VAT receivable	3,296	842
Other receivables	194	-
	<u>14,481</u>	<u>75,522</u>

## NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION FOR THE YEAR ENDED 30 JUNE 2016

### NOTE 6: PROPERTY, PLANT AND EQUIPMENT

	Plant and equipment \$	Motor vehicles \$	Consolidated Computer equipment \$	Furniture and fittings \$	Total \$
<i>Gross carrying amount</i>					
Balance at 1 July 2015	112,752	47,766	565	-	161,083
Foreign currency differences	186,160	(1,287)	398	423	185,694
Additions	1,327,365	-	2,760	2,823	1,332,948
Acquisitions through business combinations	-	-	-	-	-
Balance at 30 June 2016	1,626,277	46,479	3,723	3,246	1,679,725
<i>Accumulated depreciation and impairment</i>					
Balance at 1 July 2016	(19)	(796)	(9)	-	(824)
Foreign currency differences	(3,786)	(1,313)	(30)	(39)	(5,168)
Depreciation expense	(43,448)	(7,961)	(188)	(262)	(51,859)
Disposals	-	-	-	-	-
Balance at 30 June 2016	(47,253)	(10,070)	(227)	(301)	(57,851)
<i>Carrying value</i>					
30 June 2016	1,579,024	36,409	3,496	2,945	1,621,874
<i>Gross carrying amount</i>					
Balance at 1 July 2014	-	-	-	-	-
Foreign currency differences	-	-	-	-	-
Additions	112,771	48,562	574	-	161,907
Acquisitions through business combinations	-	-	-	-	-
Balance at 30 June 2015	112,771	48,562	574	-	161,907
<i>Accumulated depreciation and impairment</i>					
Balance at 1 July 2014	-	-	-	-	-
Foreign currency differences	-	-	-	-	-
Depreciation expense	(19)	(796)	(9)	-	(824)
Disposals	-	-	-	-	-
Balance at 30 June 2015	(19)	(796)	(9)	-	(824)
<i>Carrying value</i>					
30 June 2015	112,752	47,766	565	-	161,083

## NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION FOR THE YEAR ENDED 30 JUNE 2016

### NOTE 7: INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

Details of the subsidiaries, all of which have a 30 June year end, are as follows:

Subsidiary	Class of share	% owned 2016	% owned 2015	Country of registration	Nature of business
FSD Brazil Limited	Ordinary	100%	100%	BVI	Management company
FSD Mineracao Ltda	Ordinary	100%	100%	Brazil	Mineral exploration
FSD Management Pty Ltd	Ordinary	100%	-	Australia	Management company - deregistered during 2016 financial year

### NOTE 8: DEFERRED EXPLORATION AND EVALUATION EXPENDITURE

	Consolidated 2016 \$	Consolidated 2015 \$
Costs carried forward in respect of: <i>Exploration and evaluation phase – at cost</i>		
Balance at beginning of year	338,479	-
Expenditure incurred	1,453,755	363,536
Sale of tenements	-	-
	<u>1,792,234</u>	<u>363,536</u>
Transferred to development expenditure		
Foreign currency differences	212,149	(25,057)
Expenditure written off	-	-
Total exploration and evaluation expenditure	<u>2,004,383</u>	<u>338,479</u>

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.

Management have performed their annual impairment assessment and no impairment loss was recognised for continuing operations in the year ended 30 June 2016.

### NOTE 9: TRADE AND OTHER PAYABLES (CURRENT)

	Consolidated 2016 \$	Consolidated 2015 \$
Trade payables (i)	146,111	126,782
Accrued expenses	51,526	-
	<u>197,637</u>	<u>126,782</u>

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

## NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION FOR THE YEAR ENDED 30 JUNE 2016

### NOTE 10: CALLED UP SHARE CAPITAL AND SHARE PREMIUM

	2016		2015	
	Number	\$	Number	\$
Balance at beginning of year	83,811,500	3,604,318	-	-
Shares issued during the year	12,800,680	64,003	83,811,500	419,058
Share premium	-	2,984,782	-	3,412,092
Share issue costs	-	(182,130)	-	(226,832)
Balance at end of year	96,612,180	6,470,973	83,811,500	3,604,318

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Ordinary shares have a par value of \$0.005 per share and the Company does not have a limited amount of authorised capital.

On 9 December 2015, 6,250,000 shares were issued with a par value \$0.005 per share and a share premium of \$0.236 per share.

On 4 January 2016, 214,251 shares were issued with a par value \$0.005 per share and a share premium of \$0.231 per share.

On 6 June 2016, 6,336,429 shares were issued with a par value \$0.005 per share and a share premium of \$0.223 per share.

### NOTE 11: LOSS PER SHARE

The calculation of basic and diluted loss per share at 30 June 2016 was based on the loss attributable to ordinary shareholders of \$2,050,084. The weighted average number of ordinary shares outstanding during the year ending 30 June 2016 are shown below.

	Consolidated	Consolidated
	2016	2015
	\$	\$
Net loss for the year	(2,062,043)	(405,588)
Basic weighted average ordinary shares in issue during the year	87,825,777	30,502,473
Diluted weighted average ordinary shares in issue during the year	87,825,777	30,502,473
Loss per share:		
Basic	(0.02)	(0.01)
Diluted	(0.02)	(0.01)

There are no dilutive shares in 2016 or 2015.

## NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION FOR THE YEAR ENDED 30 JUNE 2016

### NOTE 12: SEGMENT INFORMATION

For management purposes, the Group is organised into one main operating segment, which involves exploration for diamonds. All of the Group's activities are interrelated, and discrete financial information is reported to the Board (Chief Operating Decision Makers) as a single segment.

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

### NOTE 13: RESERVES

#### *Nature and purpose of foreign currency translation reserve*

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries. It is also used to record the effect of hedging net investments in foreign operations.

	Consolidated 2016	Consolidated 2015
	\$	\$
Opening balance	(17,681)	-
Foreign currency translation	500,572	(17,681)
	<b>482,891</b>	<b>(17,681)</b>

### NOTE 14: COMMITMENTS AND CONTINGENCIES

The Group does not have any material commitments or contingent liabilities at balance date.

### NOTE 15: DIRECTORS AND EXECUTIVES DISCLOSURES

The aggregate compensation made to directors and other key management personnel of the Group is set out below:

	Consolidated 2016	Consolidated 2015
	\$	\$
Short-term employee benefits	417,547	115,000
Post-employment benefits	-	-
Other long-term benefits	-	-
	<b>417,547</b>	<b>115,000</b>

### NOTE 16: ACQUISITION

There were no acquisitions for the year ended 30 June 2016.

In September 2014, the Company acquired 100% of the voting shares of Five Star Mineracao Ltda. The total cost of the acquisition was \$20,363.

The fair value of the identifiable assets and liabilities of Five Star Mineracao Ltda as at the date of acquisition were:

	Recognised on acquisition
	\$
Cash	20,363
Fair value of identifiable net assets	20,363
Cost of the acquisition:	
Cash	20,363
Total cost of the acquisition	20,363

## **NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION FOR THE YEAR ENDED 30 JUNE 2016**

### **NOTE 17: FINANCIAL INSTRUMENTS**

#### ***Currency risks***

The Group's operations are primarily located in the British Virgin Islands and Brazil, with the main exchange risk being between the US Dollar and Brazilian Real. Each group company operates primarily within its local currency with little exposure to currency fluctuations other than on inter-group financing, with gains or losses thereon being eliminated through reserves on consolidation which do not affect earnings.

In order to mitigate currency risk, the Group maintains bank accounts in varying currencies and through the Group's bank have the ability to buy and sell currency within a day at corporate rates. The directors closely monitor the global markets to identify any potential adverse currency changes. Due to the limited risks to the Group, forward exchange contracts are not considered necessary and are not used.

The translation risk on the Group's foreign exchange payables and receivables is considered to be immaterial due to their short-term nature.

#### ***Liquidity risk***

The Group currently has no operational revenue streams. Operational cash flow represents the ongoing appraisal and testing of the group's projects, assessing exploration progress and administration costs. The Group manages its liquidity requirements by the use of both short-term and long-term cash flow forecasts. The Group's policy to ensure facilities are available as required is to issue equity share capital and form strategic alliances in accordance with long-term cash flow forecasts. The Group currently has no undrawn committed facilities as at 30 June 2016.

The Group actively manages its working finance to ensure the Group has sufficient funds for operations and planned expansion.

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

#### ***Derivative financial instruments***

The Group does not currently use derivative financial instruments as hedging is not considered necessary. Should the Group identify a requirement for the future use of such financial instruments, a comprehensive set of policies and systems as approved by the directors will be implemented.

In accordance with IAS 39, "Financial instruments: recognition and measurement", the Group has reviewed all contracts for embedded derivatives that are required to be separately accounted for if they do not meet specific requirements set out in the standard. No material embedded derivatives have been identified.

#### ***Commodity contracts***

The Group does not use commodity forward contracts and futures to hedge against price risk in commodities as these are not considered necessary.

#### ***Capital management***

The Group's activities are of a type and stage of development where the most suitable capital structure is that of one entirely financed by equities. The directors will reassess the future capital structure when projects under development are sufficiently advanced. The Group considers its capital to consist of share capital only. The Group's financial strategy is to utilise its resources to further appraise and test the group's projects, forming strategic alliances for specific projects where appropriate together with assessing target acquisitions. The Group keeps investors and the market informed of its progress with its projects through regular announcements and raises additional equity finance at appropriate times.

#### ***Categories of financial instruments***

All of the Group's financial assets are classified as loans and receivables, and all of the Group's financial liabilities are classified as financial liabilities at amortised cost.

## NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION FOR THE YEAR ENDED 30 JUNE 2016

### NOTE 18: RELATED PARTY TRANSACTIONS

#### Subsidiaries

The subsidiaries of Five Star Diamonds Ltd are listed in the following table:

Name of Entity	Country of Incorporation	Equity Holding	Equity Holding
		2016	2015
FSD Brazil Limited	BVI	100%	100%
FSD Mineracao Ltda	Brazil	100%	100%
FSD Management Pty Ltd	Australia	-	100%

#### Controlled entities

Outstanding balances as at 30 June 2016:	\$
Advances – unsecured interest free	
FSD Brazil Limited	2,624,618
FSD Mineracao Ltda	645,000
FSD Management Pty Ltd	-

#### Terms and conditions

All other transactions were made on normal commercial terms and conditions and at market rates. Outstanding balances are unsecured and are repayable in cash.

### NOTE 19: EVENTS SUBSEQUENT TO REPORTING DATE

Subsequent to year end, on 29 July 2016, the share capital of the Company was increased by US\$228,336.60 by the creation of 1,000,000 Ordinary Shares of US\$0.228.

On 24 August 2016, the share capital of the Company was increased by US\$11,417.33 by the creation of 50,000 Ordinary Shares of US\$0.228. The 50,000 Ordinary Shares were issued for no consideration in full satisfaction of vendor services provided.

On 9 September 2016, the Company entered into a definitive merger agreement with Turquoise Capital Corp. ('Turquoise'), a TSX Venture Exchange listed entity, which sets out the terms and conditions pursuant to which Turquoise and the Company will complete a transaction that will result in a reverse take-over of Turquoise by the shareholders of the Company. As at the date of this financial report, the Company continues to work towards meeting the definitive merger agreement conditions.

On 27 January 2017, the share capital of the Company was increased by US\$267,750 by the creation of 1,220,000 Ordinary Shares of US\$0.219. The 1,200,000 Ordinary Shares were issued for cash consideration with funds raised to be used for working capital purposes.

On 10 February 2017, the share capital of the Company was increased by US\$227,641.64 by the creation of 997,078 Ordinary Shares of US\$0.228. The 997,078 Ordinary Shares were issued for no consideration as full and final settlement of amounts owed to consultants and directors totalling US\$227,641.64.

On 2 March 2017, the Company received conditional approval from the TSX Venture Exchange to be listed on the Exchange with the Company expected to meet the conditional listing requirements within the next month.

On 3 March 2017, the Company's wholly owned subsidiary FSD Brazil Limited entered in to a loan agreement with a third party for an amount of US\$210,000. The funds are to be repaid 30 days from the Company listing on the TSX Venture Exchange but no later than 3 months from the loan date.

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

**Five Star Diamonds Limited**

**Interim Financial Report  
For the period ended 31 December 2016**

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## **DIRECTORS' RESPONSIBILITIES STATEMENT IN RESPECT OF THE FINANCIAL STATEMENTS**

The Directors are responsible for preparing the non-statutory consolidated financial statements in accordance with applicable law and regulations.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the Financial Statements comply with the IAS Regulation. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Legislation in the British Virgin Islands governing the preparation and dissemination of the accounts and the other information included in Annual Reports may differ from legislation in other jurisdictions.

### ***Provision of information to auditors***

Each of the persons who are Directors at the time when this Directors' Report is approved has confirmed that:

- so far as that Director is aware, there is no information relevant to the audit of which the Company's auditors are unaware, and;
- that Director has taken all the steps that ought to have been taken as a director in order to be aware of any information needed by the Company's auditors in connection with preparing their report and to establish that the Company's auditors are aware of that information.

Signed by order of the board

A handwritten signature in black ink, appearing to read 'Matthew Wood', with a long horizontal flourish extending to the right.

Matthew Wood

Date: 28 March 2017

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE PERIOD ENDED 31 DECEMBER 2016**

		3-month period ended 31 December 2016 (unaudited)	6-month period ended 31 December 2016 (unaudited)	3-month period ended 31 December 2015 (unaudited)	6-month period ended 31 December 2015 (unaudited)
	Notes	\$	\$	\$	\$
Revenue		-	-	-	-
Expenses	2	(471,091)	(1,153,031)	(515,592)	(816,741)
Other income		10,616	12,536	2,440	3,634
<b>Net loss for the period</b>		<b>(460,475)</b>	<b>(1,140,495)</b>	<b>(513,152)</b>	<b>(813,107)</b>
<b>Loss per share</b>					
Basic & Diluted	10	(0.0047)	(0.0117)	(0.0060)	(0.0096)
<b>Other comprehensive income, net of income tax</b>					
<i>Items that may be reclassified to profit or loss</i>					
Exchange differences on translation of foreign operations		(766)	152,599	(19,915)	(109,349)
Other comprehensive income for the period, net of tax		(766)	152,599	(19,915)	(109,349)
Total comprehensive income for the period		<b>(461,241)</b>	<b>(987,896)</b>	<b>(533,067)</b>	<b>(922,456)</b>

The accompanying notes on pages 8 to 21 form part of this financial information

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2016**

	Notes	31 December 2016 (unaudited) \$	30 June 2016 (audited) \$
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	3	362,009	1,021,278
Trade and other receivables	4	14,260	14,481
Inventory		21,686	21,854
<b>Total current assets</b>		<b>397,955</b>	<b>1,057,613</b>
<b>Non-current assets</b>			
Property, plant and equipment	5	1,564,519	1,621,874
Deferred exploration and evaluation expenditure	7	2,487,508	2,004,383
<b>Total non-current assets</b>		<b>4,052,027</b>	<b>3,626,257</b>
<b>Total assets</b>		<b>4,449,982</b>	<b>4,683,870</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	8	727,264	197,637
<b>Total current liabilities</b>		<b>727,264</b>	<b>197,637</b>
<b>Total liabilities</b>		<b>727,264</b>	<b>197,637</b>
<b>Net assets</b>		<b>3,722,718</b>	<b>4,486,233</b>
<b>Equity</b>			
Share capital	9	488,311	483,061
Share premium	9	6,207,043	5,987,912
Foreign currency reserve	12	635,490	482,891
Retained earnings		(3,608,126)	(2,467,631)
<b>Total equity</b>		<b>3,722,718</b>	<b>4,486,233</b>

The accompanying notes on pages 8 to 21 form part of this financial information

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE PERIOD ENDED 31 DECEMBER 2016**

	Notes	Issued capital \$	Share premium \$	Foreign currency translation reserve \$	Retained earnings \$	Total equity \$
<b>Balance as at 1 July 2016</b>		<b>483,061</b>	<b>5,987,912</b>	<b>482,891</b>	<b>(2,467,631)</b>	<b>4,486,233</b>
Loss for the period		-	-	-	(1,140,495)	(1,140,495)
Other comprehensive income, net of income tax		-	-	152,599	-	152,599
<b>Total comprehensive income for the period</b>		-	-	<b>152,599</b>	<b>(1,140,495)</b>	<b>(987,896)</b>
Shares issued during the period	9	5,250	-	-	-	5,250
Share premium	9	-	234,150	-	-	234,150
Share issue costs	9	-	(15,019)	-	-	(15,019)
<b>Balance as at 31 December 2016</b>		<b>488,311</b>	<b>6,207,043</b>	<b>635,490</b>	<b>(3,608,126)</b>	<b>3,722,718</b>
<b>Balance as at 1 July 2015</b>		<b>419,058</b>	<b>3,185,260</b>	<b>(17,681)</b>	<b>(405,588)</b>	<b>3,181,049</b>
Loss for the period		-	-	-	(813,107)	(813,107)
Other comprehensive income, net of income tax		-	-	(109,298)	-	(109,298)
<b>Total comprehensive income for the period</b>		-	-	<b>(109,298)</b>	<b>(813,107)</b>	<b>(922,405)</b>
Shares issued during the period	9	31,250	-	-	-	31,250
Share premium	9	-	1,482,296	-	-	1,482,296
Share issue costs	9	-	(90,813)	-	-	(90,813)
<b>Balance as at 31 December 2015</b>		<b>450,308</b>	<b>4,576,743</b>	<b>(126,979)</b>	<b>(1,218,695)</b>	<b>3,681,377</b>

The accompanying notes on pages 8 to 21 form part of this financial information

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE PERIOD ENDED 31 DECEMBER 2016**

	3-month period ended 31 December 2016 (unaudited) \$	6-month period ended 31 December 2016 (unaudited) \$	3-month period ended 31 December 2015 (unaudited) \$	6-month period ended 31 December 2015 (unaudited) \$
Notes				
<b>Cash flows from operating activities</b>				
Payments to suppliers and employees	(266,587)	(700,913)	(456,226)	(846,031)
Interest received	184	2,104	514	1,034
Other receipts	10,431	10,431	-	-
<b>Net cash outflow from operating activities</b>	<b>(255,972)</b>	<b>(688,378)</b>	<b>(455,712)</b>	<b>(844,997)</b>
<b>Cash flows from investing activities</b>				
Payments for property, plant and equipment	-	-	(1,034)	(260,465)
Exploration and evaluation expenditure	(162,517)	(466,841)	(456,984)	(789,742)
<b>Net cash outflow from investing activities</b>	<b>(162,517)</b>	<b>(466,841)</b>	<b>(458,018)</b>	<b>(1,050,207)</b>
<b>Cash flows from financing activities</b>				
Proceeds from issue of shares	-	239,400	1,513,546	1,513,546
Proceeds from shares yet to be issued	267,750	267,750	-	-
Payments for share issue costs	-	(11,195)	(90,813)	(90,813)
<b>Net cash inflow from financing activities</b>	<b>267,750</b>	<b>495,955</b>	<b>1,422,733</b>	<b>1,422,733</b>
Net decrease in cash and cash equivalents	(150,739)	(659,264)	509,003	(472,471)
Cash and cash equivalents at the beginning of the period	512,747	1,021,278	1,759,079	2,733,571
Effect of exchange rate fluctuations on cash held	1	(5)	(21,036)	(14,054)
<b>Cash and cash equivalents at the end of the period</b>	<b>362,009</b>	<b>362,009</b>	<b>2,247,046</b>	<b>2,247,046</b>

The accompanying notes on pages 8 to 21 form part of this financial information.

The financial statements were approved by the Board of Directors and authorised for issue on 28 March 2017 and signed on its behalf by:



.....  
Matthew Wood

# NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION FOR THE PERIOD ENDED 31 DECEMBER 2016

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of preparation

These financial statements are short form financial statements, which have been prepared in accordance with the requirements of International Accounting Standards and Interpretations and comply with other requirements of the law. The financial statements comprise the non-statutory consolidated financial information for the Group. For the purposes of preparing the non-statutory consolidated financial information, the Company is a for-profit entity.

The accounting policies detailed below have been consistently applied to all of the periods presented unless otherwise stated. The financial statements are for the Group consisting of Five Star Diamonds Limited and its subsidiaries. The Financial Statements have been prepared in a manner consistent with the accounting policies to be adopted by the Group in its financial statements.

The financial statements have been prepared on a historical cost basis. Historical cost is based on the fair values of the consideration given in exchange for goods and services.

The Company is incorporated in the British Virgin Islands (BVI) and operating in Brazil. The entity's principal activities are Diamond Exploration.

### (b) Adoption of new and revised standards

*New and amended standards adopted by the Group*

None of the new standards and amendments to standards that are mandatory for the first time for the financial period beginning 1 July 2016 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

*Standards and Interpretations issued but not yet effective*

None of the new standards and interpretations issued but not yet effective for the current reporting period have a material impact on the Group.

*Early adoption of standard*

The Directors have not elected to apply any pronouncements before their operative date in the reporting period beginning 1 July 2016.

### (c) Statement of compliance

The financial report complies with International Financial Reporting Standards as adopted by the European Union (IFRS). These interim financial statements are prepared in accordance with IAS 34.

### (d) Significant accounting estimates and judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates. In preparing this financial report, the significant judgements made by management in applying the consolidated entity's accounting policies and the key sources of estimation uncertainty are noted below:

*Exploration and evaluation expenditure*

The future recoverability of capitalised exploration and evaluation expenditure is dependent on a number of factors, including whether the Group decides to exploit the related lease itself or, if not, whether it successfully recovers the related exploration and evaluation asset through sale. Factors which could impact the future recoverability include the level of proved, probable and inferred mineral resources, future technological changes which could impact the cost of mining, future legal changes (including changes to environmental restoration obligations) and changes to commodity prices.

To the extent that capitalised exploration and evaluation expenditure is determined not to be recoverable in the future, this will reduce profits and net assets in the period in which this determination is made. In

addition, exploration and evaluation expenditure is capitalised if activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves. To the extent that it is determined in the future that this capitalised expenditure should be written off, this will reduce profits and net assets in the period in which this determination is made.

## NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION FOR THE PERIOD ENDED 31 DECEMBER 2016

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (e) Going concern

These financial statements have been prepared on the going concern basis, which contemplates the continuity of normal business activities and the realisation of assets and settlement of liabilities in the normal course of business.

As disclosed in the financial statements, for the 6-month period ended 31 December 2016 the Group incurred a loss of \$1,140,495 and had net cash outflows from operating activities of \$688,378 and net cash outflows from investing activities of \$466,841. As at that date, the Group had net current liabilities of \$329,309. The Directors have prepared projected cash flow forecast for a period of at least 12 months from the date of their approval of the financial statements, and on the basis of this information, the Directors consider that the Company will continue to operate as a going concern.

The Directors have considered the following factors in relation to the projected cash flow forecast and believe that there are reasonable grounds that the Group will continue as a going concern, as:

- The Company has the ability to raise further capital and has been successful in doing so in the past; and
- The Group has the ability to scale down its operations in order to reduce costs, in the event that any capital raising or other funding raising activities are delayed or insufficient cash is available, to meet future expenditure commitments.

Accordingly, the Directors believe that the company and Group will be able to continue as going concerns and that it is appropriate to adopt the going concern basis in the preparation of the financial report.

The financial report does not include any adjustments relating to the amounts or classification of recorded assets or liabilities that might be necessary if the company and Group do not continue as going concerns.

#### (f) Basis of consolidation

The non-statutory consolidated financial information incorporates the financial statements of the Company and entities controlled by the Company and its subsidiaries. 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 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 if 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 comprehensive

income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

## NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION FOR THE PERIOD ENDED 31 DECEMBER 2016

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Changes in the Group's ownership interest in existing subsidiaries*

Changes in the Group's ownership interest in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group'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 recognised directly in equity and attributed to the owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised 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 recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group 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 139, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

#### **(g) Foreign currency translation**

Both the functional and presentation currency of Five Star Diamonds Limited is United States dollars. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance date.

All exchange differences in the consolidated financial report are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. The functional currency of the foreign operations, FSD Mineracao Ltda is Brazilian Real (\$R) and FSD Brazil Limited is United States dollars (\$USD).

As at the balance date the assets and liabilities of these subsidiaries are translated into the presentation currency of Five Star Diamonds Limited at the rate of exchange ruling at the balance date and income and expense items are translated at the average exchange rate 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. The exchange differences arising on the translation are taken directly to a separate component of equity, being recognised in the foreign currency translation reserve.

On disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to the partial disposal of a subsidiary that includes a foreign operation that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or jointly arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments to identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of the reporting period. Exchange differences are recognised in other comprehensive income.

## NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION FOR THE PERIOD ENDED 31 DECEMBER 2016

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (h) Revenue recognition

Revenue is measured at fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

#### *Interest income*

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group 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.

#### (i) Cash and cash equivalents

Cash comprises cash at bank and in hand. 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 consist of cash and cash equivalents as defined above.

#### (j) Trade and other receivables

Trade receivables are measured on initial recognition at fair value and are subsequently measured at amortised 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.

#### (k) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable 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.

#### (l) Financial assets

Financial assets in the scope of IAS 39 Financial Instruments: Recognition and Measurement are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end. All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the marketplace.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

#### (m) 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 capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation.

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 amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

## NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION FOR THE PERIOD ENDED 31 DECEMBER 2016

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (m) Property, plant and equipment (continued)

##### *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 recognised 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 derecognised 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 derecognised.

#### (n) Trade and other payables

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group 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.

#### (o) Employee leave benefits

##### *Wages, salaries, annual leave and sick leave*

Liabilities accruing to employees in respect of wages and salaries, annual leave, long service leave and sick leave expected to be settled within 12 months of the balance date are recognised in other payables in respect of employees' services up to the balance date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

Liabilities accruing to employees in respect of wages and salaries, annual leave, long service leave and sick leave not expected to be settled within 12 months of the balance date are recognised in non-current other payables in respect of employees' services up to the balance date. They are measured as the present value of the estimated future outflows to be made by the Group.

#### (p) 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.

## NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION FOR THE PERIOD ENDED 31 DECEMBER 2016

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (q) Exploration and evaluation

Exploration and evaluation expenditures in relation to each separate area of interest are recognised 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 amortised 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.

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. The recoverable amount of the exploration and evaluation asset (for the cash generating unit(s) to which it has been allocated being no larger than the relevant area of interest) is estimated to determine the extent of the impairment loss (if any). Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in previous years.

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.

#### (r) Impairment of tangible and intangible assets other than goodwill

The Group assesses at each balance date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

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. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

An assessment is also made at each balance date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss

was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

## NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION FOR THE PERIOD ENDED 31 DECEMBER 2016

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (s) Income Tax

The income tax expense for the period is based on the profit/loss for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates for each jurisdiction that have been enacted or are substantially enacted by the reporting date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Given that the Group has yet to generate revenue, it is not considered reasonable to recognise a deferred tax asset at the time of these non-statutory financial statements. Further consideration will be made by the Directors upon the Group generating revenue, and assessment for the tax jurisdiction for which the taxable profits can be offset will be considered.

#### (t) 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.

### NOTE 2: EXPENSES

	Consolidated 3-month period ended 31 December 2016 \$	Consolidated 6-month period ended 31 December 2016 \$	Consolidated 3-month period ended 31 December 2015 \$	Consolidated 6-month period ended 31 December 2015 \$
Administrative expenses	9,306	16,319	41,729	47,933
Accounting and audit fees	23,068	48,712	31,997	47,819
Legal fees	43,257	54,236	44,524	70,827
Consultant and director fees	252,486	428,059	183,913	288,354
Depreciation	18,488	36,976	10,545	16,909
Foreign exchange loss	26,921	212,933	1,957	5,826
Marketing costs	-	10,000	23,339	39,560
Travel expenses	35,004	171,026	153,542	249,232
Other expenses	62,561	174,770	24,046	50,281
	<u>471,091</u>	<u>1,153,031</u>	<u>515,592</u>	<u>816,741</u>

## NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION FOR THE PERIOD ENDED 31 DECEMBER 2016

### NOTE 3: CASH AND CASH EQUIVALENTS

	Consolidated 31 December 2016 \$	Consolidated 30 June 2016 \$
Cash at bank and on hand	362,009	1,021,278
Short-term deposits	-	-
	<u>362,009</u>	<u>1,021,278</u>

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

#### *Reconciliation to the Statement of Cash Flows:*

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand and at bank and investments in money market instruments, net of outstanding bank overdrafts.

Cash and cash equivalents as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

#### *Reconciliation of profit for the period to net cash flows from operating activities*

	Consolidated 3-month period ended 31 December 2016 \$	Consolidated 6-month period ended 31 December 2016 \$	Consolidated 3-month period ended 31 December 2015 \$	Consolidated 6-month period ended 31 December 2015 \$
Net loss for the period	(460,475)	(1,140,495)	(513,152)	(813,107)
Depreciation	18,488	36,976	10,545	16,909
Other	9,248	172,319	-	27
(Increase)/decrease in assets:				
Trade and other receivables	4,802	222	47,267	32,939
Prepayments	-	-	64,501	-
Inventories	8	(168)	-	-
Increase/(decrease) in liabilities:				
Trade and other payables	142,892	191,307	(30,904)	(81,443)
Other creditors	29,065	51,461	(33,969)	(322)
Net cash from operating activities	<u>(255,972)</u>	<u>(688,378)</u>	<u>(455,712)</u>	<u>(844,997)</u>

### NOTE 4: TRADE AND OTHER RECEIVABLES

Consolidated 31 December 2016 \$	Consolidated 30 June 2016 \$
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Advances	8,998	10,991
VAT receivable	5,262	3,296
Other receivables	-	194
	<u>14,260</u>	<u>14,481</u>

## NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION FOR THE PERIOD ENDED 31 DECEMBER 2016

### NOTE 5: PROPERTY, PLANT AND EQUIPMENT

	Plant and equipment \$	Motor vehicles \$	Consolidated Computer equipment \$	Furniture and fittings \$	Total \$
<i>Gross carrying amount</i>					
Balance at 1 July 2016	1,626,277	46,479	3,723	3,246	1,679,725
Foreign currency differences	(10,969)	(357)	(28)	(25)	(11,379)
Additions	-	-	692	-	692
Balance at 31 December 2016	<u>1,615,308</u>	<u>46,122</u>	<u>4,387</u>	<u>3,221</u>	<u>1,669,038</u>
<i>Accumulated depreciation and impairment</i>					
Balance at 1 July 2016	(47,253)	(10,070)	(227)	(301)	(57,851)
Foreign currency differences	(9,641)	(48)	(2)	(1)	(9,692)
Depreciation expense	(32,105)	(4,487)	(226)	(158)	(36,976)
Disposals	-	-	-	-	-
Balance at 31 December 2016	<u>(88,999)</u>	<u>(14,605)</u>	<u>(455)</u>	<u>(460)</u>	<u>(104,519)</u>
<i>Carrying value</i>					
31 December 2016	<u>1,526,309</u>	<u>31,517</u>	<u>3,932</u>	<u>2,761</u>	<u>1,564,519</u>
<i>Gross carrying amount</i>					
Balance at 1 July 2015	112,752	47,766	565	-	161,083
Foreign currency differences	186,160	(1,287)	398	423	185,694
Additions	1,327,365	-	2,760	2,823	1,332,948
Acquisitions through business combinations	-	-	-	-	-
Balance at 30 June 2016	<u>1,626,277</u>	<u>46,479</u>	<u>3,723</u>	<u>3,246</u>	<u>1,679,725</u>
<i>Accumulated depreciation and impairment</i>					
Balance at 1 July 2015	(19)	(796)	(9)	-	(824)
Foreign currency differences	(3,786)	(1,313)	(30)	(39)	(5,168)
Depreciation expense	(43,448)	(7,961)	(188)	(262)	(51,859)
Disposals	-	-	-	-	-
Balance at 30 June 2016	<u>(47,253)</u>	<u>(10,070)</u>	<u>(227)</u>	<u>(301)</u>	<u>(57,851)</u>
<i>Carrying value</i>					
30 June 2016	<u>1,579,024</u>	<u>36,409</u>	<u>3,496</u>	<u>2,945</u>	<u>1,621,874</u>

## NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION FOR THE PERIOD ENDED 31 DECEMBER 2016

### NOTE 6: INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

Details of the subsidiaries are as follows:

Subsidiary	Class of share	% owned 2016	% owned 2015	Country of registration	Nature of business
FSD Brazil Limited	Ordinary	100%	100%	BVI	Management company
FSD Mineracao Ltda	Ordinary	100%	100%	Brazil	Mineral exploration

### NOTE 7: DEFERRED EXPLORATION AND EVALUATION EXPENDITURE

	Consolidated 31 December 2016 \$	Consolidated 30 June 2016 \$
Costs carried forward in respect of: <i>Exploration and evaluation phase – at cost</i>		
Balance at beginning of period	2,004,383	338,479
Expenditure incurred	495,392	1,453,755
	<u>2,499,775</u>	<u>1,792,234</u>
Transferred to development expenditure		
Foreign currency differences	(12,267)	212,149
Expenditure written off	-	-
Total exploration and evaluation expenditure	<u>2,487,508</u>	<u>2,004,383</u>

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.

### NOTE 8: TRADE AND OTHER PAYABLES (CURRENT)

	Consolidated 31 December 2016 \$	Consolidated 30 June 2016 \$
Trade payables (i)	372,018	146,111
Accrued expenses	87,496	51,526
Other payables – shares to be issued	267,750	-
	<u>727,264</u>	<u>197,637</u>

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

## NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION FOR THE PERIOD ENDED 31 DECEMBER 2016

### NOTE 9: CALLED UP SHARE CAPITAL AND SHARE PREMIUM

	31 Dec 2016		30 June 2016	
	Number	\$	Number	\$
Balance at beginning of period	96,612,180	6,470,973	83,811,500	3,604,318
Shares issued during the period	1,050,000	5,250	12,800,680	64,003
Share premium	-	234,150	-	2,984,782
Share issue costs	-	(15,019)	-	(182,130)
Balance at end of period	97,662,180	6,695,354	96,612,180	6,470,973

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Ordinary shares have a par value of \$0.005 per share and the Company does not have a limited amount of authorised capital.

On 29 July 2016, 1,000,000 shares were issued with a par value \$0.005 per share and a share premium of \$0.223 per share.

On 24 August 2016, 50,000 shares were issued with a par value \$0.005 per share and a share premium of \$0.223 per share.

### NOTE 10: LOSS PER SHARE

The calculation of basic and diluted loss per share at 31 December 2016 was based on the loss attributable to ordinary shareholders for the relevant period. The weighted average number of ordinary shares outstanding during the period ending 31 December 2016 are shown below.

	Consolidated 3-month period ended 31 December 2016 \$	Consolidated 6-month period ended 31 December 2016 \$	Consolidated 3-month period ended 31 December 2015 \$	Consolidated 6-month period ended 31 December 2015 \$
Net loss for the period	(460,475)	(1,140,495)	(513,152)	(813,107)
Basic weighted average ordinary shares in issue during the period	97,662,180	97,513,276	85,318,349	84,564,925
Diluted weighted average ordinary shares in issue during the period	97,662,180	97,513,276	85,318,349	84,564,925
Loss per share:				
Basic	(0.0047)	(0.0117)	(0.0060)	(0.0096)
Diluted	(0.0047)	(0.0117)	(0.0060)	(0.0096)

There were no dilutive shares in 2016 or 2015.

**NOTE 11: SEGMENT INFORMATION**

For management purposes, the Group is organised into one main operating segment, which involves exploration for diamonds. All of the Group's activities are interrelated, and discrete financial information is reported to the Board (Chief Operating Decision Makers) as a single segment.

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

## NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION FOR THE PERIOD ENDED 31 DECEMBER 2016

### NOTE 12: RESERVES

#### *Nature and purpose of foreign currency translation reserve*

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries. It is also used to record the effect of hedging net investments in foreign operations.

	Consolidated 31 December 2016	Consolidated 30 June 2016
	\$	\$
Opening balance	482,891	(17,681)
Foreign currency translation	152,599	500,572
	635,490	482,891

### NOTE 13: COMMITMENTS AND CONTINGENCIES

The Group does not have any material commitments or contingent liabilities at balance date.

### NOTE 14: DIRECTORS AND EXECUTIVES DISCLOSURES

The aggregate compensation made to directors and other key management personnel of the Group is set out below:

	Consolidated 31 December 2016	Consolidated 30 June 2016
	\$	\$
Short-term employee benefits	218,298	417,547
Post-employment benefits	-	-
Other long-term benefits	-	-
	218,298	417,547

## **NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION FOR THE PERIOD ENDED 31 DECEMBER 2016**

### **NOTE 15: FINANCIAL INSTRUMENTS**

#### ***Currency risks***

The Group's operations are primarily located in the British Virgin Islands and Brazil, with the main exchange risk being between the US Dollar and Brazilian Real. Each group company operates primarily within its local currency with little exposure to currency fluctuations other than on inter-group financing, with gains or losses thereon being eliminated through reserves on consolidation which do not affect earnings.

In order to mitigate currency risk, the Group maintains bank accounts in varying currencies and through the Group's bank have the ability to buy and sell currency within a day at corporate rates. The directors closely monitor the global markets to identify any potential adverse currency changes. Due to the limited risks to the Group, forward exchange contracts are not considered necessary and are not used.

The translation risk on the Group's foreign exchange payables and receivables is considered to be immaterial due to their short-term nature.

#### ***Liquidity risk***

The Group currently has no operational revenue streams. Operational cash flow represents the ongoing appraisal and testing of the group's projects, assessing exploration progress and administration costs. The Group manages its liquidity requirements by the use of both short-term and long-term cash flow forecasts. The Group's policy to ensure facilities are available as required is to issue equity share capital and form strategic alliances in accordance with long-term cash flow forecasts. The Group currently has no undrawn committed facilities as at 30 June 2016.

The Group actively manages its working finance to ensure the Group has sufficient funds for operations and planned expansion.

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

#### ***Derivative financial instruments***

The Group does not currently use derivative financial instruments as hedging is not considered necessary. Should the Group identify a requirement for the future use of such financial instruments, a comprehensive set of policies and systems as approved by the directors will be implemented.

In accordance with IAS 39, "Financial instruments: recognition and measurement", the Group has reviewed all contracts for embedded derivatives that are required to be separately accounted for if they do not meet specific requirements set out in the standard. No material embedded derivatives have been identified.

#### ***Commodity contracts***

The Group does not use commodity forward contracts and futures to hedge against price risk in commodities as these are not considered necessary.

#### ***Capital management***

The Group's activities are of a type and stage of development where the most suitable capital structure is that of one entirely financed by equities. The directors will reassess the future capital structure when projects under development are sufficiently advanced. The Group considers its capital to consist of share capital only. The Group's financial strategy is to utilise its resources to further appraise and test the group's projects, forming strategic alliances for specific projects where appropriate together with assessing target acquisitions.

The Group keeps investors and the market informed of its progress with its projects through regular announcements and raises additional equity finance at appropriate times.

***Categories of financial instruments***

All of the Group's financial assets are classified as loans and receivables, and all of the Group's financial liabilities are classified as financial liabilities at amortised cost.

## NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION FOR THE PERIOD ENDED 31 DECEMBER 2016

### NOTE 16: RELATED PARTY TRANSACTIONS

#### Subsidiaries

The subsidiaries of Five Star Diamonds Ltd are listed in the following table:

<b>Name of Entity</b>	<b>Country of Incorporation</b>	<b>Equity Holding 31 Dec 2016</b>	<b>Equity Holding 30 June 2016</b>
FSD Brazil Limited	BVI	100%	100%
FSD Mineracao Ltda	Brazil	100%	100%

#### Controlled entities

Outstanding balances as at 31 December 2016:	\$
Advances – unsecured interest free	
FSD Brazil Limited	3,034,432
FSD Mineracao Ltda	886,000

#### Terms and conditions

All other transactions were made on normal commercial terms and conditions and at market rates. Outstanding balances are unsecured and are repayable in cash.

### NOTE 17: EVENTS SUBSEQUENT TO REPORTING DATE

On 9 September 2016, the Company entered into a definitive merger agreement with Turquoise Capital Corp. ('Turquoise'), a TSX Venture Exchange listed entity, which sets out the terms and conditions pursuant to which Turquoise and the Company will complete a transaction that will result in a reverse take-over of Turquoise by the shareholders of the Company. As at the date of this financial report, the Company continues to work towards meeting the definitive merger agreement conditions.

On 27 January 2017, the share capital of the Company was increased by US\$267,750 by the creation of 1,220,000 Ordinary Shares of US\$0.219. The 1,200,000 Ordinary Shares were issued for cash consideration with funds raised to be used for working capital purposes.

On 10 February 2017, the share capital of the Company was increased by US\$227,641.64 by the creation of 997,078 Ordinary Shares of US\$0.228. The 997,078 Ordinary Shares were issued for no consideration as full and final settlement of amounts owed to consultants and directors totalling US\$227,641.64.

On 2 March 2017, the Company received conditional approval from the TSX Venture Exchange to be listed on the Exchange with the Company expected to meet the conditional listing requirements within the next month.

On 3 March 2017, the Company's wholly owned subsidiary FSD Brazil Limited entered in to a loan agreement with a third party for an amount of US\$210,000. The funds are to be repaid 30 days from the Company listing on the TSX Venture Exchange but no later than 3 months from the loan date.

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

**SCHEDULE "D"**

**PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS  
OF THE RESULTING ISSUER**

**Five Star Diamonds Ltd.**  
**PRO FORMA STATEMENT OF FINANCIAL POSITION**  
**AND STATEMENT OF CHANGES IN EQUITY**  
**(UNAUDITED)**

**August 31, 2016**

**Five Star Diamonds Ltd.**  
**Pro Forma Statement of Financial Position**  
**Unaudited - Prepared by Management**  
**(Expressed in Canadian Dollars)**

	Five Star (US)	Five Star (CAD)	Turquoise	Pro Forma Adjustments	Note	Pro Forma Consolidated
Cash	\$ 362,009	\$ 474,232	\$ 94,252	\$ 72,000	3a	\$ 5,065,707
				665,123	3a	
				4,000,000	3b	
				(320,000)	3b	
				(195,000)	3d	
				275,100	3e	
Accounts receivable	14,260	18,681	618	-		19,299
Inventory	21,685	28,408	-	-		28,408
<b>Current Assets</b>	<b>397,954</b>	<b>521,321</b>	<b>94,870</b>	<b>4,497,223</b>		<b>5,113,414</b>
Fixed assets	4,052,028	5,308,156	-	-		5,308,156
<b>Total Assets</b>	<b>\$ 4,449,982</b>	<b>\$ 5,829,477</b>	<b>\$ 94,870</b>	<b>\$ 4,497,223</b>		<b>\$ 10,421,570</b>
Accounts payable & accrued liabilities	\$ 727,264	\$ 952,716	\$ 64,429	275,100	3e	\$ 1,291,245
Related party transactions	-	-	22,896	-		22,896
<b>Current Liabilities</b>	<b>727,264</b>	<b>952,716</b>	<b>86,325</b>	<b>275,100</b>		<b>1,314,141</b>
Capital stock	6,695,354	8,770,914	331,616	4,000,000	3b	15,793,228
				(320,000)	3b	
				(167,509)	3b	
				167,250	3a	
				665,123	3a	
				(498,866)	3c	
				1,946,932	3c	
				897,768	3d	
Shares subscribed	-	-	95,250	(95,250)	3a	-
Share-based payment reserve	-	-	43,364	(43,364)	3c	212,485
				44,976	3c	
				167,509	3b	
FX reserve	635,490	832,492	-			832,492
Retained losses	(3,608,126)	(4,726,645)	(461,685)	461,685	3c	(7,730,776)
				(3,004,131)	3c	
<b>Total Equity</b>	<b>3,722,718</b>	<b>4,876,761</b>	<b>8,545</b>	<b>4,222,123</b>		<b>9,107,429</b>

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<b>Liabilities and Stockholder's Equity</b>	\$ 4,449,982	\$ 5,829,477	\$ 94,870	\$ 4,222,123	\$ 10,421,570
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**Five Star Diamonds Ltd.**  
**Pro Forma Statement of Changes in Equity**  
**Unaudited - Prepared by Management**  
**(Expressed in Canadian Dollars)**

		<b>Common shares</b>				
		<b>Number of shares</b>	<b>Share Capital</b>	<b>Equity Reserves</b>	<b>Deficit</b>	<b>Total Equity</b>
Five Star balances at August 31, 2016, prior to the Qualifying Transaction		97,662,180	\$ 8,770,914	\$ 832,492	\$ (4,726,645)	\$ 4,876,761
FSDL share issuance. Private placement	3a	2,217,078	665,123	-	-	665,123
Shares of resulting issuer issued to shareholders of Turquoise	3c	6,489,774	1,946,932	44,976	(2,106,363)	(114,455)
Private Placement concurrent with closing of the qualifying transaction	3b	13,333,333	4,000,000	-	-	4,000,000
Share issuance cost (Broker cash for PP)	3b	-	(320,000)	-	-	(320,000)
Brokers warrants	3b	-	(167,509)	167,509	-	-
Advisory agreement	3d	2,992,559	897,768	-	(897,768)	-
Pro-forma share capital after the Qualifying Transaction		122,694,924	\$ 15,793,228	\$ 1,044,977	\$ (7,730,776)	\$ 9,107,429

**FIVE STAR DIAMONDS LTD.**

**Notes to the Pro Forma Financial Statements (unaudited)**

(Expressed in Canadian dollars)

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**1. Basis of Presentation**

The unaudited pro forma statement of financial position and statement of changes in equity of Five Star Diamonds Ltd. as at August 31, 2016, have been prepared after giving effect to the transaction (the “Qualifying Transaction”) between Turquoise Capital Corp. (“Turquoise”) and Five Star Diamonds Ltd. (“Five Star”). The unaudited pro forma statement of financial position and statement of changes in equity have been compiled from the Turquoise and Five Star statements as follows:

The unaudited pro forma statement of financial position and statement of changes in equity as at August 31, 2016 have been prepared as if the Qualifying Transaction, as described in Note 2, had been completed on August 31, 2016, using the unaudited statement of financial position and statement of changes in equity of Turquoise as at August 31, 2016 and the unaudited statement of financial position and statement of changes in equity of Five Star as at December 31, 2016, based on the assumptions discussed in Note 3.

It is management’s opinion that the unaudited pro forma statement of financial position and statement of changes in equity present fairly in all material respects, the transactions described in Note 2 in accordance with International Financial Reporting Standards (“IFRS”). The accounting policies used in the preparation of the unaudited pro forma financial statements are consistent with the accounting policies of Turquoise as at August 31, 2016 and Five Star as at December 31, 2016. The pro forma adjustments, as described in the notes, are based on available information and certain estimates and assumptions. The unaudited pro forma financial statements are not intended to reflect the financial position of Five Star which would have actually resulted had the Qualifying Transaction been effected on the date indicated. Further, the unaudited pro forma financial statements are not necessarily indicative of the results of operations that may be obtained in the future.

The unaudited pro forma financial statements should be read in conjunction with the historical financial statements and notes of Turquoise and Five Star.

Completion of the Qualifying Transaction is subject to a number of conditions, including but not limited to, TSX Venture Exchange (“TSXV”) acceptance. There can be no assurance that the Qualifying Transaction will be completed as proposed or at all.

Certain elements of Turquoise’s and Five Star’s financial statements have been reclassified to provide a consistent classification format.

## FIVE STAR DIAMONDS LTD.

### Notes to the Pro Forma Financial Statements (unaudited)

(Expressed in Canadian dollars)

The Five Star statement of financial position as at December 31, 2016 has been translated from United States dollars to Canadian dollars using an exchange rate of CAD 1.31 per USD 1.00. A reconciliation of the United States dollar statement of financial position of Five Star to the Canadian dollar statement of financial position is as follows:

	Five Star USD	Rate	Five Star CAD
Assets	\$ 4,449,982	1.31	\$ 5,829,477
Liabilities	(727,264)	1.31	(952,716)
Equity	\$ 3,722,718	1.31	\$ 4,876,761

## 2. Pro Forma Transactions

On September 9, 2016, Turquoise and Five Star entered into a definitive merger agreement (the “**Merger Agreement**”) in respect of the Proposed Qualifying Transaction, as described in a news release dated September 12, 2016. Pursuant to the terms of the Merger Agreement, Turquoise will acquire all the issued and outstanding Five Star Shares through the three-cornered merger of Five Star with Subco, a wholly-owned subsidiary of Turquoise. Holders of Five Star Shares will receive Resulting Issuer Shares in exchange for their Five Star Shares on the basis of the Exchange Ratio.

The Proposed Qualifying Transaction will constitute Turquoise’s Qualifying Transaction pursuant to TSXV Policy 2.4, and will constitute a reverse take-over of the Resulting Issuer to the extent that the former Five Star Shareholders will own (on a non-diluted basis) approximately 6% of the outstanding Resulting Issuer Shares immediately after the Closing (but without giving effect to the issuance of securities pursuant to the Turquoise Private Placement. See “Part IV – Information Concerning the Resulting Issuer).

Turquoise has 6,489,774 Shares outstanding, as well as 200,000 Turquoise Options exercisable at a price of \$0.10 per Turquoise Share until July 3, 2018 (subject to early expiry in accordance with their term as described below).

It is expected that the Resulting Issuer will have 122,694,924 Resulting Issuer Shares, 200,000 Resulting Issuer options and 1,066,667 Broker Warrants (Note 3b) outstanding immediately upon the Completion of the Proposed Qualifying Transaction and after giving effect to the Turquoise Private Placement. (See “Part IV – Information Concerning the Resulting Issuer – Fully Diluted Share Capital of the Resulting Issuer”).

**FIVE STAR DIAMONDS LTD.**

**Notes to the Pro Forma Financial Statements (unaudited)**

(Expressed in Canadian dollars)

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**3. Pro Forma Adjustments**

The unaudited pro-forma statement of financial position and statement of changes in equity have been prepared on the basis that the Qualifying Transaction occurred on August 31, 2016 using the following assumptions and adjustments:

a) Turquoise Share Issuance

After August 31, 2016, as part of the non-brokered Private Placement, Turquoise issued 2,477,774 shares at a price of \$0.0675 per share for net proceeds of \$167,250. \$95,250 of the proceeds had been received by August 31, 2016 and reflected as Shares subscribed. \$72,000 of proceeds from the Private Placement were closed subsequent to August 31, 2016.

FSDL Share Issuance

In January and February 2017, as part of non-brokered Private Placements, FSDL issued 2,217,078 shares at a price of \$0.30 per share for net proceeds of \$665,123.

b) Funding

In conjunction with closing the Qualifying Transaction, the Company will complete a minimum Private Placement financing of 13,333,333 shares at a price of \$0.30 per share for gross proceeds of \$4,000,000. In connection with the Private Placement, the Resulting

The Resulting Issuer will pay a cash fee of \$320,000 and issue a total of 1,066,667 Broker Warrants (Note 2). Each warrant will entitle the holder to purchase one share of the company. One full warrant is exercisable at a price of \$0.30 per share for a period of two years from the date of issue. The estimated fair value of the broker warrants issuable amounts to \$0.16 per warrant for a total value of as \$167,509 which has been accounted for as a share issuance cost and charged to share capital.

The warrants were accounted for in accordance with IFRS 2, share based payments. As the fair value of the service cannot be measured reliably, the fair value of each warrant granted was determined using the Black-Scholes Option Pricing Model and the following weighted average assumptions:

Risk free interest rate	.62%
Expected life	2 years
Annualized volatility based on historical share prices of similar companies	100%
Share price on issue date	\$0.30

**FIVE STAR DIAMONDS LTD.****Notes to the Pro Forma Financial Statements (unaudited)**

(Expressed in Canadian dollars)

**3. Pro Forma Adjustments (continued)**

## c) Share Exchange

The Merger has been accounted for as an acquisition by Five Star of Turquoise as follows:

## Cost of acquisition:

Shares of Resulting Issuer issued to shareholders of Turquoise <sup>1</sup>	\$	1,946,932
Options of Resulting Issuer issued to option holders of Turquoise <sup>2</sup>		44,976
Transaction costs (Note 3d)		195,000
Advisory Agreement Shares (Note 3d)		897,768
	\$	<u>3,084,676</u>

## Cost allocated as follows:

Net assets of Turquoise <sup>3</sup>	\$	80,545
Listing expense <sup>4</sup>		3,004,131
	\$	<u>3,084,676</u>

<sup>1</sup>Determined based on 6,489,774 shares of Turquoise outstanding immediately before the Merger closed valued at \$0.30 based on the price of the Private Placement Financing (Note 3c)).

<sup>2</sup>Determined based on the 200,000 options of Turquoise outstanding immediately before the Merger closed valued at \$0.22 per option determined using the Black-Scholes option pricing model with the following assumptions: share price of \$0.30, expected remaining life of 1.84 years, expected future volatility of 100%, dividend yield of 0% and a risk free rate of 0.62%.

<sup>3</sup>Net assets of Turquoise at August 31, 2016 plus the additional proceeds of \$72,000 from the private placement closed subsequent to August 31, 2016 (Note 3a)).

<sup>4</sup>Turquoise did not constitute a business as defined by IFRS 3. Accordingly, the excess of the consideration paid was not capitalized but instead recorded as an expense of listing the shares of Five Star on the TSXV.

## d) Transaction Costs

In addition to the cash commission payable under the private placement, the Resulting Issuer expects to incur further accounting, audit, legal and TSX Venture filing fees of \$195,000 in relation to the completion of the Qualifying Transaction (Note 2). These transaction costs are included in the Listing Expense.

The Resulting Issuer will be required to issue 2,992,559 shares for services pursuant to an Advisory Agreement (the "Advisory Agreement Shares"). The number of shares is calculated as 2.5% of total Resulting Issuer shares of 119,702,365 issued and outstanding immediately following the transaction. The Advisory Agreement Shares were measured at \$0.30 per share based on the share price of the Private Placement financing for a total of \$897,768 which is included in the Listing Expense.

**FIVE STAR DIAMONDS LTD.**

**Notes to the Pro Forma Financial Statements (unaudited)**

(Expressed in Canadian dollars)

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**3. Pro Forma Adjustments (continued)**

e) Third Party Loan Agreement

On 3 March 2017, the Company's wholly owned subsidiary FSD Brazil Limited entered into a loan agreement with a third party for an amount of US\$210,000 (CAD \$275,100). The funds are to be repaid 30 days from the Company listing on the TSX Venture Exchange but no later than 3 months from the loan date.

**4. Pro Forma Effective Income Tax Rate**

The pro forma effective income tax rate applicable to operations of Turquoise in Canada is 26%.

Federal tax rate	15%
Provincial tax rate	11%
	<u>26%</u>