



DESERT STAR RESOURCES LTD.

Condensed Consolidated Interim Financial Statements

July 31, 2017

Expressed in Canadian Dollars

(Unaudited – prepared by management)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by the entity's auditor.

DESERT STAR RESOURCES LTD.
Condensed consolidated interim statements of financial position
(Expressed in Canadian dollars - unaudited)

	Notes	July 31, 2017	April 30, 2017
ASSETS			
Current assets			
Cash and cash equivalents		\$ 120,547	\$ 406
Receivables	4	17,673	12,077
Prepaid expenses		3,553	4,853
Marketable securities	5,12	358,141	423,668
		499,914	441,004
TOTAL ASSETS		\$ 499,914	\$ 441,004
LIABILITIES			
Current liabilities			
Trade payables and accrued liabilities	7,12	\$ 245,371	\$ 167,783
Convertible notes	8	153,781	148,356
TOTAL LIABILITIES		399,152	316,139
SHAREHOLDERS' EQUITY			
Share capital	10	19,841,916	19,342,126
Subscriptions received	10	-	75,000
Share-based payment reserve	11	1,729,834	1,729,834
Convertible note reserve	11	6,522	6,522
Deficit		(21,477,510)	(21,028,617)
TOTAL EQUITY		100,762	124,865
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$ 499,914	\$ 441,004

Nature and Continuance of Operations (Note 1)

Approved and authorized for issuance on behalf of the Board of Directors on September 26, 2017:

"Vince Sorace"

Vince Sorace – Director

"Gavin Cooper"

Gavin Cooper – Director

DESERT STAR RESOURCES LTD.

Condensed consolidated interim statements of comprehensive loss

(Expressed in Canadian dollars - unaudited)

	Notes	Three Months Ended July 31,	
		2017	2016
Expenses			
Consulting fees	12	\$ 91,187	\$ 61,477
Interest expense	8,9	5,425	17,013
Management fees	12	24,750	49,125
Office and miscellaneous		4,613	13,040
Professional fees		63,138	13,502
Rent		22,000	34,500
Property investigation and maintenance		146,447	19,920
Travel		19,162	-
Transfer agent and filing fees		6,927	12,176
		(383,649)	(220,753)
Other expenses (income)			
Unrealized loss on marketable securities	5	(65,527)	-
Foreign exchange gain		283	20,696
		(65,244)	20,696
Net and comprehensive loss		\$ (448,893)	\$ (200,057)
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Loss per share – basic and diluted	10	\$ (0.02)	\$ (0.01)

DESERT STAR RESOURCES LTD.

Condensed consolidated interim statement of changes in shareholders' equity

(Expressed in Canadian dollars - unaudited)

	Notes	Share capital		Subscriptions received	Share-based payment reserve	Convertible note reserve	Deficit	Total
		Number of shares	Amount					
Balance at April 30, 2016		13,160,401	\$ 18,769,586	\$ -	\$ 1,431,173	\$ 12,913	\$ (19,458,511)	\$ 755,161
Shares issued for cash – private placement, net of share issue costs	10	3,012,500	525,100	-	40,516	-	-	565,616
Transfer on convertible notes repayment	11	-	-	-	12,913	(12,913)	-	-
Net and comprehensive loss		-	-	-	-	-	(200,057)	(200,057)
Balance July 31, 2016		16,172,901	\$ 19,294,686	\$ -	\$ 1,484,602	\$ -	\$ (19,658,568)	\$ 1,120,720
Balance at April 30, 2017		16,447,881	\$ 19,342,126	\$ 75,000	\$ 1,729,834	\$ 6,522	\$ (21,028,617)	\$ 124,865
Shares issued for cash – private placement, net of share issue costs	10	2,500,000	499,790	-	-	-	-	499,790
Subscriptions received	15	-	-	(75,000)	-	-	-	(75,000)
Net and comprehensive loss		-	-	-	-	-	(448,893)	(448,893)
Balance at July 31, 2017		18,947,881	\$ 19,841,916	\$ -	\$ 1,729,834	\$ 6,522	\$ (21,477,510)	\$ 100,762

See accompanying notes to the condensed consolidated interim financial statements

DESERT STAR RESOURCES LTD.
Condensed consolidated interim statements of cash flows
(Expressed in Canadian dollars - unaudited)

	Three Months Ended July 31,	
	2017	2016
Operating activities		
Net loss	\$ (448,893)	\$ (200,057)
Adjustment for non-cash items		
Accretion of convertible notes	1,644	-
Interest expense	3,781	-
Unrealized loss on marketable securities	65,527	-
Changes in non-cash working capital items:		
Receivables	(5,596)	250,409
Prepaid expenses	1,300	4,800
Trade payables and accrued liabilities	77,588	50,925
Net cash flows used in operating activities	(304,649)	(106,077)
Financing activities		
Issuance of stock, net of issuance costs	499,790	565,616
Subscriptions received	(75,000)	-
Convertible notes repayment	-	(518,435)
Loan repayment	-	(257,581)
Net cash flows from (used in) financing activities	424,790	(210,400)
Investing activity		
Exploration and evaluation asset expenditures	-	(39,163)
Net cash flows used in investing activities	-	(39,163)
Increase (decrease) in cash	120,141	(143,486)
Cash and cash equivalents, beginning	406	441,747
Cash and cash equivalents, ending	\$ 120,547	\$ 298,261

DESERT STAR RESOURCES LTD.

Notes to the condensed consolidated interim financial statements

(Expressed in Canadian dollars - unaudited)

For the three months ended July 31, 2017 and 2016

1. Nature and continuance of operation

Desert Star Resources Ltd. (the "Company") is a public company, formed by the amalgamation of Desert Star Resources Ltd. ("Desert Star") and Providence Resources Corp. ("Providence") which became effective on April 15, 2015. The Company's principal activity is the acquisition and exploration of resource properties and has not yet been able to determine whether any of these properties contain resource reserves that are economically recoverable. The Company's shares are traded on the TSX Venture Exchange ("TSX-V") under the symbol "DSR". As of July 21, 2016, certain of the Company's share purchase warrants were traded on the TSX-V under the symbol "DSR.WT". These warrants expired during the period ended July 31, 2017.

The principal address of the Company is located at 1030 West Georgia Street, Suite 717, Vancouver, British Columbia, Canada, V6E 2Y3.

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. Different bases of measurement may be appropriate if the Company is not expected to continue operations for the foreseeable future. As at July 31, 2017 the Company had not advanced its properties to commercial production and is not able to finance day to day activities through operations. The Company's continuation as a going concern is dependent upon the successful results from its mineral property exploration activities and its ability to attain profitable operations and generate funds there from and/or raise equity capital or borrowings sufficient to meet current and future obligations. These factors indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Management intends to finance operating costs over the next twelve months with cash on hand, loans or private placement of common shares.

2. Significant accounting policies and basis of preparation

Basis of preparation and statement of compliance

The condensed consolidated interim financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). Therefore, these financial statements comply with International Accounting Standard ("IAS") 34 "Interim Financial Reporting".

The condensed consolidated interim financial statements do not include all of the information required of full annual financial statements and are intended to provide users with an update in relation to events and transactions that are significant to an understanding of the changes in financial position and performance of the Company since the end of the last annual reporting period. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Company for the year ended April 30, 2017. However, these condensed consolidated interim financial statements provide selected significant disclosures that are required in the annual financial statements under IFRS.

The condensed consolidated interim financial statements have been prepared on an accrual basis, based on historical costs. The condensed consolidated interim financial statements are presented in Canadian dollars, which is the Company's functional currency.

Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned US subsidiary, Desert Star Resources (USA) Inc. Inter-company balances and transactions, including unrealized income and expenses arising from inter-company transactions, are eliminated on consolidation.

2. Significant accounting policies and basis of preparation (cont'd)

Significant estimates and assumptions

The preparation of 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 recoverability of the carrying value of exploration and evaluation assets, fair value measurements for financial instruments, the recoverability and measurement of deferred tax assets, provisions for restoration and environmental obligations and contingent liabilities.

Significant judgments

The preparation of 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 financial statements include:

- 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;
- the classification / allocation of expenditures as exploration and evaluation expenditures or operating expenses;
- the classification of financial instruments; and
- the determination of the functional currency of the parent company and its subsidiaries.

3. Accounting standards issued by not yet effective

New standard IFRS 9 "Financial Instruments"

This new standard is a partial replacement of International Accounting Standard ("IAS") 39 "Financial Instruments: Recognition and Measurement". IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets.

The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. The proposed effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018.

The Company has not early adopted this revised standard and is currently assessing the impact that it will have on its 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 financial statements.

DESERT STAR RESOURCES LTD.

Notes to the condensed consolidated interim financial statements

(Expressed in Canadian dollars - unaudited)

For the three months ended July 31, 2017 and 2016

4. Receivables

	July 31, 2017	April 30, 2017
Sales taxes recoverable	\$ 17,673	\$ 12,077

5. Marketable securities

The Company holds 1,500,000 shares and 750,000 warrants of Black Sea Copper & Gold Corp. ("Black Sea"), formerly a private company, now listed on the TSX-V (Note 12). Each warrant is exercisable to acquire an additional common share of the Black Sea at a price of \$0.20 per share for period ending November 25, 2019. The cost of these securities was \$300,000. Black Sea is a mineral exploration company focused on the identification, acquisition and development of copper and gold projects located in Eastern Europe. This investment is measured at its fair value. At July 31, 2017, the Company recorded an unrealized loss of \$65,527 relating to the investment in Black Sea. The fair value of the shares at July 31, 2017 is \$285,000 and was determined as the underlying market price of the shares. The fair value of the warrants at July 31, 2017 is \$73,141 which was determined using the Black-Scholes option pricing model with the following assumptions: Risk free rate of 1.09%; Expected life of 1.32 years; Expected volatility of 112% and dividend yield of nil.

6. Exploration and evaluation assets

	Period ended July 31, 2017	Year ended April 30, 2017
Property acquisition costs		
Balance, beginning	\$ -	\$ 61,250
Additions	-	-
Balance, ending	-	61,250
Exploration and evaluation costs		
Balance, beginning	-	437,401
Costs incurred during period	-	189
Balance, ending	-	437,590
Advanced minimum royalty		
Balance, beginning	-	71,816
Additions	-	-
Balance, ending	-	71,816
Sub-total	-	570,656
Impairment	-	(570,656)
Total	\$ -	\$ -

DESERT STAR RESOURCES LTD.

Notes to the condensed consolidated interim financial statements

(Expressed in Canadian dollars - unaudited)

For the three months ended July 31, 2017 and 2016

6. Exploration and evaluation assets (cont'd)

The following is a description of the Company's exploration and evaluation assets and the related spending commitments:

Red Top, USA

On September 3, 2013 (the "Signing Date"), the Company signed an option agreement to acquire a 100% interest in the Red Top property located in Arizona, USA. In order to earn the 100% interest, the Company was required to make various cash payments, issue 175,000 common shares (issued), make advance minimum royalty payments ("AMR"), and incur exploration expenditures of US\$5,000,000.

On January 30, 2017, the Company provided the optionor with a notice of termination of the option agreement. Accordingly, accumulated expenses of \$570,656 were written off as at April 30, 2017.

7. Trade payables and accrued liabilities

	July 31, 2017	April 30, 2017
Trade payables (Note 12)	\$ 225,371	\$ 147,783
Accrued liabilities	20,000	20,000
	\$ 245,371	\$ 167,783

8. Convertible notes

On September 9, 2014, the Company closed a non-brokered private placement of convertible notes of the Company for gross proceeds of \$495,000. The convertible notes were to mature after one year and bore interest at the rate of 12% per annum calculated and payable quarterly. On July 31, 2016, the Company made full repayment of the convertible notes and interest accrued in the amount of \$533,406.

The notes were compound financial instruments as they included both liability and equity components. On initial recognition, the Company determined the fair value of the liability component on the date of issue to be \$482,087. The fair value of the liability was determined by calculating the fair value of the future cash flows of the loan assuming a discount rate of 15%. The equity component was determined to be \$12,913, which comprised the proceeds less the liability component. The debt component of the convertible notes was accreted over the term to maturity, with accretion charge included in interest expense.

Details of movements in the convertible notes balances are as follows:

	July 31, 2017	April 30, 2017
Balance, beginning of period	\$ -	\$ 518,435
Amount repaid	-	(495,000)
Accretion of convertible debentures	-	-
Interest accrued	-	14,971
Interest paid	-	(38,406)
Balance, end of period	\$ -	\$ -

DESERT STAR RESOURCES LTD.

Notes to the condensed consolidated interim financial statements

(Expressed in Canadian dollars - unaudited)

For the three months ended July 31, 2017 and 2016

8. Convertible notes (cont'd)

On February 23, 2017, the Company closed a non-brokered private placement of convertible notes of the Company for gross proceeds of \$150,000 (Note 9). The convertible notes are to mature after one year and bear interest at the rate of 10% per annum calculated quarterly and payable at maturity. The lenders have the option to convert all or a portion of the principal into units of the Company at a value of \$0.11 per unit, each unit comprising one common share and one transferable common share purchase warrant.

The notes are compound financial instruments as they include both liability and equity components. On initial recognition, the Company determined the fair value of the liability component on the date of issue to be \$143,478. The fair value of the liability was determined by calculating the fair value of the future cash flows of the loan assuming a discount rate of 15%. The equity component was determined to be \$6,522, which comprises the proceeds less the liability component. The debt component of the convertible notes is being accreted over the term to maturity, with accretion charge included in interest expense.

Details of movements in the convertible notes balances are as follows:

	July 31, 2017	April 30, 2017
Balance, beginning of period	\$ 148,356	\$ -
Amount advanced	-	150,000
Equity component of convertible debenture	-	(6,522)
Accretion of convertible debentures	1,644	1,179
Interest accrued	3,781	3,699
Balance, end of period	\$ 153,781	\$ 148,356

9. Loan payable

The Company entered into a loan agreement on January 25, 2016, to borrow an amount of US\$200,000 to be used for the bond for the Copper King property drilling program (Note 6). The loan bore interest at 10% per annum and was repayable on or before January 25, 2017. The Company issued 125,000 common shares with a fair value of \$37,500 to the lender as additional compensation for the loan (Note 10). During the year ended April 30, 2017, the Company made full repayment of the loan payable and interest accrued in the amount of US\$206,913.

The Company entered into a loan agreement on January 30, 2017 to borrow an amount of \$150,000 to be used for working capital needs. The loan bore interest at 10% per annum and was repayable 90 days from the loan agreement. On February 23, 2017, the loan balance was transferred into convertible debentures (Note 8).

10. Share capital

Authorized share capital

Unlimited number of common shares without par value.

10. Share capital (cont'd)

Issued share capital

Effective August 30, 2016, the Company completed a share consolidation on the basis of two existing common shares for one post-consolidation common share. Effective May 1, 2017, the Company completed a further share consolidation on the basis of two existing common shares for one post-consolidation common share. All common share and per common share amounts in these consolidated financial statements have been retroactively restated to reflect the share consolidations.

At July 31, 2017 there were 18,947,881 issued and fully paid common shares (April 30, 2017 – 16,447,881).

Share issuances

Period ended July 31, 2017:

On May 1, 2017, the Company closed a non-brokered private placement comprising of 2,500,000 units at a price of \$0.20 per unit for gross proceeds of \$500,000. Each unit is comprised of one post-consolidation common share of the Company and one common share purchase warrant. Each warrant entitles the holder to purchase one post-consolidation common share of the Company at an exercise price of \$0.25 per share until May 1, 2019. The Company held \$75,000 in cash as at April 30, 2017, for subscriptions received in connection for the closing of the private placement.

Year ended April 30, 2017:

On July 25, 2016, the Company closed a non-brokered private placement comprising of 3,012,500 units at a price of \$0.20 per unit for gross proceeds of \$602,500. Each unit is comprised of one common share of the Company and one common share purchase warrant. Each warrant entitles the holder to purchase one common share of the Company at an exercise price of \$0.40 per share until July 25, 2018. A total of \$37,360 was incurred in share issue costs in connection with this transaction, including a finders' fee of \$29,000. The Company issued 147,000 finder's warrants in relation to the financing. Each finder's warrant carries the same terms as those issued for the private placement. The finder's warrants have a fair value of \$40,516 which was recorded as a share issue cost. The fair value was determined using the Black-Scholes option pricing model with the following assumptions: Risk free rate of 0.61%; Expected life of 2 years; Expected volatility of 102% and dividend yield of nil.

On February 28, 2017, the Company closed a non-brokered private placement comprising of 275,000 units at a price of \$0.20 per unit for gross proceeds of \$55,000. Each unit consists of one common share of the Company and one transferable common share purchase warrant. Each warrant is exercisable into one common share of the Company at an exercise price of \$0.40 per share for a period of 18 months from the date of issuance. A total of \$7,084 was incurred in share issue costs in connection with this transaction.

DESERT STAR RESOURCES LTD.

Notes to the condensed consolidated interim financial statements

(Expressed in Canadian dollars - unaudited)

For the three months ended July 31, 2017 and 2016

10. Share capital (cont'd)

Warrants

Continuity of share purchase warrants is as follows:

	Number of Warrants	Weighted average exercise price
Outstanding, April 30, 2016	10,341,199	\$ 0.96
Issued	3,434,500	0.40
Expired	(2,601,640)	1.00
Outstanding, April 30, 2017	11,174,059	0.74
Issued	2,500,000	0.25
Expired	(5,687,476)	1.00
Outstanding, July 31, 2017	7,986,583	\$ 0.40

Details of warrants outstanding as at July 31, 2017 are as follows:

Exercise Price	Expiry Date	Balance, end of period
\$0.60	October 25, 2017	2,052,083
\$0.40	July 28, 2018	3,159,500
\$0.40	August 28, 2018	275,000
\$0.25	May 1, 2019	2,500,000
		7,986,583

At July 31, 2017, the weighted-average remaining contractual life of warrants outstanding was 1.03 years.

On June 20, 2016 the Company extended the expiry dates of 7,556,225 share purchase warrants. Of these warrants, 2,160,548 were issued for the acquisition of the assets of Providence (Note 1) and 5,395,677 were issued as part of unit private placements. The extension of the expiry date of the warrants issued for the acquisition of the assets of Providence resulted in an incremental increase in the fair value of these warrants of \$40,368, which was included in the stock based compensation expense for the year ended April 30, 2017. The extension of the expiry of the warrants issued in unit private placements was not originally recorded as stock based compensation and therefore did not result in an additional stock based compensation expense.

Stock options

The Company has adopted an incentive stock option plan, which provides that the Board of Directors of the Company may from time-to-time, in its discretion, and in accordance with the TSX-V requirements, grant to directors, officers, employees and technical consultants to the Company, non-transferable stock options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed a rolling 10% of the Company's issued and outstanding common shares at the time the options are granted.

DESERT STAR RESOURCES LTD.

Notes to the condensed consolidated interim financial statements

(Expressed in Canadian dollars - unaudited)

For the three months ended July 31, 2017 and 2016

10. Share capital (cont'd)

Stock options (cont'd)

Stock option transactions are summarized as follows:

	Number of options	Weighted average exercise price
Options outstanding, April 30, 2016	866,250	\$ 0.88
Granted	792,500	\$ 0.40
Cancelled	(263,750)	\$ 1.00
Options outstanding, April 30, 2017	1,395,000	\$ 0.54
Granted	-	\$ -
Cancelled	(107,500)	\$ 0.67
Options outstanding, July 31, 2017	1,287,500	\$ 0.52

Details of options outstanding as at July 31, 2017 are as follows:

Exercise Price	Expiry Date	Balance, end of period
\$0.80	October 10, 2017	50,625
\$0.80	October 11, 2017	17,500
\$0.80	February 8, 2018	15,000
\$0.60	February 27, 2018	170,625
\$0.80	April 22, 2018	22,500
\$0.80	October 22, 2018	81,250
\$0.40	January 30, 2019	31,250
\$1.00	September 23, 2019	25,000
\$0.80	February 16, 2020	56,250
\$0.80	May 20, 2020	25,000
\$0.40	September 27, 2021	642,500
\$0.40	December 5, 2021	100,000
\$0.40	February 22, 2022	50,000
		1,287,500

At July 31, 2017, the weighted-average remaining contractual life of options outstanding was 2.77 years.

10. Share capital (cont'd)

Stock options

Year ended April 30, 2017:

On September 27, 2016 the Company reduced the exercise price of 95,000 stock options. The reduction in the exercise price resulted in an incremental increase in the fair value of these options of \$6,819, which is included in the stock based compensation expense.

On September 27, 2016, the Company granted 642,500 stock options to directors, officers and consultants of the Company at an exercise price of \$0.40 per common share for a period of five years ending September 27, 2021. The share based compensation expense of \$172,069 was recognized, being the fair value determined using the Black-Scholes option pricing model with the following assumptions: Risk free interest rate of 0.66%; Expected life of 5 years; Expected volatility of 115% and dividend yield of nil. The options vested immediately.

On December 5, 2016, the Company granted 100,000 stock options to a consultant of the Company at an exercise price of \$0.40 per common share for a period of five years ending December 5, 2021. The share based compensation expense of \$18,468 was recognized, being the fair value determined using the Black-Scholes option pricing model with the following assumptions: Risk free interest rate of 1.10%; Expected life of 5 years; Expected volatility of 105% and dividend yield of nil. The options vested immediately.

On February 22, 2017, the Company granted 50,000 stock options to a consultant of the Company at an exercise price of \$0.40 per common share for a period of five years ending February 22, 2022. The share based compensation expense of \$7,508 was recognized, being the fair value determined using the Black-Scholes option pricing model with the following assumptions: Risk free interest rate of 1.19%; Expected life of 5 years; Expected volatility of 104% and dividend yield of nil. The options vested immediately.

Loss per share

The calculation of basic and diluted loss per share for the period ended July 31, 2017 and 2016 was based on the loss attributed to common shareholders of \$448,893 (2016 – \$200,057) and the weighted average number of common shares outstanding of 18,920,707 (2016 – 13,356,879).

11. Reserves

Share-based payment reserve

The share-based payment reserve records items recognized as stock-based compensation expense until such time that the stock options are exercised, at which time the corresponding amount will be transferred to share capital. If the options expire unexercised, the amount recorded is transferred to deficit.

Convertible note reserve

The convertible debt reserve records the equity component of convertible debt with liability and equity components. On conversion, the amount recorded is transferred to share capital.

12. Related party transactions

The Company holds 1,500,000 shares and 750,000 warrants acquired at a cost of \$300,000 in Black Sea, a TSX-V listed company with directors and officers in common (Note 5).

During the period ended July 31, 2017, the Company incurred management fees of \$24,750 (2016 – \$29,000) with a director and officer of the Company and consulting fees of \$62,250 (2016 - \$25,000) with officers of the Company.

12. Related party transactions (cont'd)

Trade payables and accrued liabilities include \$78,776 (April 30, 2017 - \$78,776) in unpaid fees to officers and directors of the Company at July 31, 2017 (Note 7).

13. Financial risk and capital management

The Company is exposed in varying degrees 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. This risk is managed by using major banks that are high credit quality financial institutions as determined by rating agencies. The Company's secondary exposure to risk is on its receivables. This risk is minimal.

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 exposed to currency risk as it incurs expenditures that are denominated in US dollars while its functional currency is the Canadian dollar. The Company does not hedge its exposure to fluctuations in foreign exchange rates. Canadian dollar balances of \$2,569 are held in US dollars at July 31, 2017. This risk is considered to be low.

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 and cash equivalents.

Historically, 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. This risk is considered to be high.

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 exposed to interest rate risk on its cash equivalents as these instruments have original maturities of three months or less and are therefore exposed to interest rate fluctuations on renewal. This risk is considered to be minimal.

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, comprising share capital, net of accumulated deficit.

There were no changes in the Company's approach to capital management during the period.

The Company is not subject to any externally imposed capital requirements.

13. Financial risk and capital management (cont'd)

Fair value

The fair value of the Group's financial assets and liabilities approximates the carrying amount.

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

The Company's cash and marketable securities are measured at fair value. Cash is measured using level 1 inputs. The fair value of the Company's investment in the shares of a public company is measured using level 1 inputs. The fair value was determined by reference to the underlying share price quoted on the open market at the reporting date. The fair value of the Company's investment in the warrants of a public company is measured using level 3 inputs. The fair value was determined by through calculation using the Black-Scholes Pricing Model at the reporting date (Note 5).

14. Proposed transaction

On June 15, 2017, the Company entered into a definitive agreement with Capstone Mining Corp. ("Capstone") to acquire Kutcho Copper Corp., a wholly-owned subsidiary of Capstone, for a cash consideration of \$28.8 million plus such number of the Company's common shares that will, at the time of the completion of the transaction and any concurrent financing, give Capstone the ownership of 9.9% of the issued and outstanding shares of the Company. Kutcho owns a copper-zinc-gold-silver project in northern British Columbia. The transaction is subject to TSX-V approval.

On August 10, 2017 the Company agreed to terms on a non-binding Early Deposit Precious Metals Purchase Agreement ("PMPA") with Wheaton Precious Metals Corp under which Wheaton will pay Desert Star cash consideration totaling US\$65 million for up to 100% of the payable silver production and up to 100% of the payable gold production from the Company's Kutcho Project. In addition, Wheaton will make ongoing production payments to Desert Star equal to 20% of the applicable spot prices of silver and gold delivered. The precious metals stream is subject to completion of a definitive PMPA, completion of the Kutcho acquisition described above and other customary conditions.