



FIVE STAR DIAMONDS

FIVE STAR DIAMONDS LTD.

NOTICE OF ANNUAL GENERAL AND SPECIAL MEETING OF SHAREHOLDERS

MANAGEMENT INFORMATION CIRCULAR

**SEPTEMBER 8, 2017
11:00 AM EASTERN TIME
390 BAY ST., SUITE 806
TORONTO, ONTARIO**

July 26, 2017

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FIVE STAR DIAMONDS LTD.

NOTICE OF ANNUAL GENERAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN that the annual general and special meeting (the “**Meeting**”) of shareholders of Five Star Diamonds Ltd. (“**Five Star**” or the “**Corporation**”) will be held at **390 Bay Street, Suite 806, Toronto, Ontario** on the 8th day of September 2017, at the hour of 11:00 AM (Toronto time), for the following purposes:

1. to receive the audited consolidated financial statements of the Corporation for the year ended November 30, 2016, together with the report of the auditors thereon;
2. to elect directors;
3. to appoint MNP LLP, Chartered Accountants, as auditors of the Corporation and to authorize the directors to fix their remuneration;
4. to consider, and if thought advisable, to approve an ordinary resolution re-approving the Corporation’s Stock Option Plan, as more particularly described in the Management Information Circular; and
5. to transact such further or other business as may properly come before the Meeting or any adjournment or adjournments thereof.

Accompanying this notice is a Management Information Circular and a form of proxy including a request form to receive annual and interim financial statements and management discussion and analysis. The accompanying Management Information Circular provides information relating to the matters to be addressed at the Meeting and is incorporated into this Notice.

Shareholders are entitled to vote at the Meeting either in person or by proxy in accordance with the procedures described in the Management Information Circular accompanying this Notice. Those who are unable to attend the meeting are requested to read, complete, sign and mail the enclosed form of proxy in accordance with the instructions set out in the proxy and in the Management Information Circular accompanying this Notice.

DATED at Toronto, Ontario this 26th day of July, 2017.

BY ORDER OF THE BOARD OF DIRECTORS

(signed) “Matthew Wood”

President & Chief Executive Officer

FIVE STAR DIAMONDS LTD.

MANAGEMENT INFORMATION CIRCULAR

(Containing information as at July 26, 2017 unless indicated otherwise)

SOLICITATION OF PROXIES

This Management Information Circular (the “**Circular**”) is furnished in connection with the solicitation of proxies by the management of Five Star Diamonds Ltd. (“**Five Star**” or the “**Corporation**”) for use at the Annual General and Special Meeting of holders (“**Shareholders**”) of common shares (“**Common Shares**”) of the Corporation and any adjournment thereof to be held at **390 Bay Street, Suite 806, Toronto, Ontario** on the 8th day of September, 2017, at the hour of 11:00 AM (Toronto time)(the “**Meeting**”). The enclosed proxy is being solicited by the management of the Corporation. While it is expected that the solicitation will be primarily by mail, proxies may be solicited personally, by facsimile or by telephone by the regular employees of the Corporation at nominal cost. All costs of solicitation by management will be borne by the Corporation. The Corporation may also retain, and pay a fee to, one or more professional proxy solicitation firms to solicit proxies from Shareholders.

The contents and the sending of this Circular have been approved by the directors of the Corporation. All dollar amounts referenced, unless otherwise indicated, are expressed in Canadian dollars. All references to the Corporation shall include its subsidiaries as the context may require.

APPOINTMENT OF PROXYHOLDER

The individuals named as proxyholders in the accompanying form of proxy are directors and/or officers of the Corporation. **A REGISTERED SHAREHOLDER WISHING TO APPOINT SOME OTHER PERSON (WHO NEED NOT BE A SHAREHOLDER) TO REPRESENT HIM OR HER AT THE MEETING HAS THE RIGHT TO DO SO, EITHER BY STRIKING OUT THE NAMES OF THOSE PERSONS NAMED IN THE ACCOMPANYING FORM OF PROXY AND INSERTING THE DESIRED PERSON’S NAME IN THE BLANK SPACE PROVIDED IN THE FORM OF PROXY AND SIGNING AND DATING THE PROXY, OR BY COMPLETING ANOTHER FORM OF PROXY.** A proxy will not be valid unless the completed form of proxy is received by Computershare Trust Company of Canada Inc. (“**Computershare**”), Proxy Dept., 3rd Floor, 510 Burrard Street, Vancouver, British Columbia, V6C 3B9 not less than forty eight (48) hours (excluding Saturdays, Sundays and holidays) before the time for holding the Meeting or, with respect to any matters to be dealt with at any adjournment of the Meeting, before the time of the re-commencement of the adjourned Meeting. Proxies delivered after such time(s) will not be accepted.

REVOCAION OF PROXIES

A Shareholder who has given a proxy may revoke it prior to its use by an instrument in writing executed by the Shareholder or by his attorney duly authorized in writing or, where the Shareholder is a corporation, by a duly authorized officer or attorney of such corporation, and delivered to the registered office of the Corporation, at c/o Peterson McVicar LLP, 390 Bay Street, Suite 806 Toronto, ON M5H 2Y2 (Attention: James McVicar) at any time up to and including the last business day preceding the day of the Meeting, or if adjourned, preceding any reconvening thereof, or to the Chairman of the Meeting on the day of the Meeting or, if adjourned, any reconvening thereof, or in any other manner provided by law. A revocation of a proxy does not affect any matter on which a vote has been taken prior to the revocation for a sponsorship fee payable.

VOTING OF PROXIES

The Common Shares represented by a properly executed proxy in favour of persons designated as proxyholders in the enclosed form of proxy will:

- (a) be voted or withheld from voting in accordance with the instructions of the person appointing the proxyholder on any ballot that may be called for; and
- (b) where a choice with respect to any matter to be acted upon has been specified in the form of proxy, be voted in accordance with the specifications made on such proxy.

SUCH SHARES WILL BE VOTED **FOR** EACH MATTER FOR WHICH NO CHOICE HAS BEEN SPECIFIED.

The enclosed form of proxy, when properly completed and delivered and not revoked, confers discretionary authority upon the person appointed proxyholder thereunder to vote with respect to amendments or variations of matters identified in the notice of Meeting, and with respect to any other matters which may properly come before the Meeting. In the event that amendments or variations to matters identified in the notice of Meeting are properly brought before the Meeting or any further or other business is properly brought before the Meeting, it is the intention of the persons designated by management as proxyholders in the enclosed form of proxy to vote in accordance with their best judgment on such matters or business. At the time of the printing of this Circular, the management of the Corporation knows of no such amendment, variation or other matter that may be presented to the Meeting.

INFORMATION FOR NON-REGISTERED SHAREHOLDERS

Only registered Shareholders or proxyholders duly appointed by registered Shareholders are permitted to vote at the Meeting. Most shareholders of the Corporation are “non-registered” shareholders because the Common Shares they own are not registered in their names but are instead registered in the name of a brokerage firm, bank or other intermediary or in the name of a clearing agency. Shareholders who do not hold their Common Shares in their own name (referred to herein as “Beneficial Shareholders”) should note that only registered Shareholders are entitled to vote at the Meeting. If Common Shares are listed in an account statement provided to a shareholder by a broker, then in almost all cases those Common Shares will not be registered in such shareholder’s name on the records of the Corporation. Such Common Shares will more likely be registered under the name of the shareholder’s broker or an agent of that broker. In Canada, the vast majority of such Common Shares are registered under the name of CDS & Co. (the registration name for CDS Clearing and Depository Services Inc., which company acts as nominee for many Canadian brokerage firms). Common Shares held by brokers (or their agents or nominees) on behalf of a broker’s client can only be voted (for or against resolutions) at the direction of the Beneficial Shareholder. Without specific instructions, brokers and their agents and nominees are prohibited from voting Common Shares for the brokers’ clients. **Therefore, each Beneficial Shareholder should ensure that voting instructions are communicated to the appropriate person well in advance of the Meeting.**

Existing regulatory policy requires brokers and other intermediaries to seek voting instructions from Beneficial Shareholders in advance of shareholders’ meetings. The various brokers and other intermediaries have their own mailing procedures and provide their own return instructions to clients, which should be carefully followed by Beneficial Shareholders in order to ensure that their Common Shares are voted at the Meeting. Often the form of proxy supplied to a Beneficial Shareholder by its broker is identical to the form of proxy provided by the Corporation to the registered Shareholders. However, its purpose is limited to instructing the registered Shareholder (i.e. the broker or agent of the broker) how to vote on behalf of the Beneficial Shareholder. The majority of brokers now delegate the responsibility for obtaining instructions from clients to Broadridge Financial Solutions Inc. (“**Broadridge**”). Broadridge typically prepares a machine-readable voting instruction form, mails those forms to the Beneficial Shareholders and asks Beneficial Shareholders to return the forms to Broadridge, or otherwise communicate voting instructions to Broadridge (by way of the internet or telephone, for example). Broadridge then tabulates the results of all instructions received and provides appropriate instructions respecting the voting of Common Shares to be represented at the Meeting. **A Beneficial Shareholder who receives a Broadridge voting instruction form cannot use that form to vote Common Shares directly at the Meeting. The voting instruction form must be returned to Broadridge (or instructions respecting the voting of Common Shares must be communicated to Broadridge well in advance of the Meeting) in order to have the Common Shares voted.**

This Circular and accompanying materials are being sent to both registered Shareholders and Beneficial Shareholders. Beneficial Shareholders fall into two categories – those who object to their identity being known to the issuers of securities which they own (“**Objecting Beneficial Owners**”, or “**OBO’s**”) and those who do not object to their identity being made known to the issuers of the securities they own (“**Non-Objecting Beneficial Owners**”, or “**NOBO’s**”). Subject to the provision of National Instrument 54-101 – *Communication with Beneficial Owners of Securities of Reporting Issuers*, issuers may request and obtain a list of their NOBO’s from intermediaries via their transfer agents. If you are a Beneficial Shareholder, and the Corporation or its agent has sent these materials directly to you, your name, address and information about your holdings of Common Shares have been obtained in accordance with applicable securities regulatory requirements from the intermediary holding the Common Shares on your behalf.

The Corporation’s OBO’s can expect to be contacted by Broadridge or their broker or their broker’s agents as set out above.

Although Beneficial Shareholders may not be recognized directly at the Meeting for the purposes of voting Common Shares registered in the name of their broker, a Beneficial Shareholder may attend the Meeting as proxyholder for the registered

Shareholder and vote the Common Shares in that capacity. **Beneficial Shareholders who wish to attend the Meeting and indirectly vote their Common Shares as proxyholder for the registered Shareholder should enter their own names in the blank space on the proxy or voting instruction card provided to them and return the same to their broker (or the broker's agent) in accordance with the instructions provided by such broker.**

All references to Shareholders in this Circular and the accompanying form of proxy and notice of Meeting are to registered Shareholders unless specifically stated otherwise.

INTEREST OF CERTAIN PERSONS IN MATTERS TO BE ACTED UPON

Other than as set forth in this Circular, no person who has been a director or executive officer of the Corporation at any time since June 30th, 2016 being the beginning of the Corporation's last completed financial year, nor any proposed nominee for election as a director of the Corporation, nor any associate or affiliate of any of the foregoing, has or has had any material interest, directly or indirectly, by way of beneficial ownership of securities or otherwise, in any matter to be acted upon.

VOTING SECURITIES AND PRINCIPAL HOLDERS OF VOTING SECURITIES

The Corporation is authorized to issue an unlimited number of Common Shares without par value. As of July 26, 2017, the Corporation had 128,777,096 issued and outstanding Common Shares. Only Shareholders of record at the close of business (Toronto time) on July 26, 2017 (the "Record Date") who either personally attend the Meeting or who have completed and delivered a form of proxy in the manner and subject to the provisions described above shall be entitled to vote or to have their Common Shares voted at the Meeting.

To the knowledge of the directors and executive officers of the Corporation, there are no persons or companies who beneficially own, or exercise control or direction over, directly or indirectly, Common Shares carrying more than ten percent (10%) of the voting rights attached to all outstanding Common Shares except R&R Venture Partners II LLC.

Name and Municipality of Residence	Number of Outstanding Shares Owned	Percentage of Outstanding Shares Owned	Type of Ownership
R&R Venture Partners II LLC <i>New York, New York</i>	33,875,014	26.3%	Registered

PARTICULARS OF MATTERS TO BE ACTED UPON

GENERAL

Unless otherwise directed, it is the intention of management's proxyholders to vote proxies **FOR** the resolutions set forth herein. **All ordinary resolutions require, for the passing of the same, a simple majority of the votes cast at the Meeting by the Shareholders.**

1. ELECTION OF DIRECTORS

There are six directors to be elected at the Meeting. Mr. Simon Rothschild, a current director of the Corporation, had determined not to stand for re-election in order to pursue other opportunities. Mr. Aneel Waraich has been nominated for election in his place.

The term of office of each of the present directors expires immediately prior to the election of directors at the Meeting. The persons named below will be presented for election at the Meeting as management's nominees and management's proxyholders will vote **FOR** the election of these nominees, unless otherwise instructed on the proxy form. Management does not contemplate that any of these nominees will be unable to serve as a director and all proposed directors have confirmed their willingness to serve or continue to serve as directors. Each director elected will hold office until the next annual general meeting of the Corporation or until his or her successor is elected or appointed, unless his or her office is earlier vacated in accordance with the Articles of the Corporation or the provisions of the *British Columbia Business Corporations Act* ("BCBCA").

The following table and notes thereto sets out the name of each person proposed to be nominated by management for election as a director, the province or state and country in which he or she is ordinarily resident, all offices of the Corporation

now held by him or her, his or her principal occupation, the period of time for which he or she has been a director of the Corporation and the number of Common Shares beneficially owned by him or her, directly or indirectly, or over which he or she exercises control or direction, as at July 26, 2017:

<u>Name, Province or State and Country of Residence</u>	<u>Date First Became a Director</u>	<u>Present Principal Occupation and/or Positions Held During the Preceding Five Years</u>	<u>Number of Common Shares Beneficially Owned, Directly or Indirectly, or Over Which Control or Direction is Exercised</u>
Matthew Wood Ulaanbaatar, Mongolia <i>President and Chief Executive Officer, Director</i>	April 24, 2017	Director, Garrison Capital Pty Ltd., a natural resource venture capital and advisory firm, since January 2002.	2,474,742
Brian McMaster ⁽¹⁾ Greater London, UK <i>Chief Financial Officer, Director</i>	April 24, 2017	Director, Garrison Capital Pty Ltd., a natural resource venture capital and advisory firm, since 2011.	10,675,201
Luíz Azevedo Barra da Tijuca, Brazil <i>Chief Operating Officer, Director</i>	April 24, 2017	Lawyer, FFA Legal Ltda. since April 2004.	10,545,282
Gizman Abbas ⁽¹⁾ New York, United States <i>Director</i>	April 24, 2017	Partner, TFC Utilities LLC since April 2015.	Nil
Aneel Waraich Toronto, Ontario <i>Director Nominee</i>	n/a	Managing Director of ATMA Capital Markets since October 2011.	1,041,989
Nicholas Pike ⁽¹⁾ Sud-Bergeracois, France <i>Director</i>	April 24, 2017	Director, Big Acre Ltd. since September 2014. Previously Director, Polonius from June 2009 to September 2013.	Nil

Note:

1. Members of the Audit Committee.

Biographies

Aneel Waraich – Director Nominee - 36

Mr. Waraich is the founder and managing partner of ATMA Capital Markets and ATMACORP LTD, which focuses primarily on advising public and private companies in the natural resources sector. Prior to founding ATMA Capital Markets, Mr. Waraich worked as an investment banker at Dundee Capital Markets focusing on deal origination, going-public transactions and financings for both public and private companies in the resource and technology sectors. In previous roles at Goldman and Company Investment Counsel and Dundee Capital Markets, Mr. Waraich worked as an analyst valuing private equity companies. Mr. Waraich completed his MBA from the Goodman Institute of Investment Management at the John Molson School of Business and passed level II of the CFA[®] program.

Corporate Cease Trade Orders or Bankruptcies

To the best of the Corporation's knowledge, none of the nominees is, as at the date of this Circular, or has been, within 10 years before the date hereof, a director, chief executive officer or chief financial officer of any company, including the

Corporation, that: (i) was subject to a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, in any case that was in effect for more than 30 consecutive days (an “order”) that was issued while the nominee was acting in the capacity as director, chief executive officer or chief financial officer; or (ii) was subject to an order that was issued after the nominee ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

Personal Bankruptcies

To the best of the Corporation’s knowledge, none of the nominees is, as at the date of this Circular, or has been within the 10 years before the date hereof, (i) a director or executive officer of any company, including the Corporation, that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, 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 its assets; or (ii) has become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become 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 nominee.

Penalties and Sanctions

To the best of the Corporation’s knowledge, none of the nominees has been subject to: (i) 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 (ii) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable securityholder in deciding whether to vote for a proposed director.

2. APPOINTMENT OF AUDITORS

Dale Matheson Carr-Hilton LaBonte LLP ceased to be the auditors of the Corporation following completion of the Qualifying Transaction. The board of directors of the Corporation approved of the appointment of MNP LLP as auditors of the Corporation on May 30, 2017. There was no disagreement, consultation, or unresolved issues between the Corporation and the auditors at the time of the resignation.

Shareholders will be asked to appoint MNP LLP as auditors of the Corporation and authorize the directors to fix their remuneration. Unless such authority is withheld, the persons named in the accompanying proxy intend to vote **FOR** MNP LLP, as the auditors of the Corporation to hold office until its successor is appointed and to authorize the directors to fix their remuneration.

3. STOCK OPTION PLAN

The Corporation has adopted an incentive stock option plan (the “**Option Plan**”), which provides that the board of directors may from time to time, in its discretion, and in accordance with the TSX Venture Exchange (the “TSXV”) requirements, grant to directors, officers, employees and technical consultants to the Corporation, 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 the time of any stock option grant. In connection with the foregoing, in any 12-month period, 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 consultants will not exceed two percent (2%) of the issued and outstanding Common Shares. 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. The exercise price of the options is determined by the board in accordance with the rules of the TSXV. Reference should be made to the full text of the Option Plan, which is contained in Schedule “A” hereto.

The Option Plan was last approved by the Shareholders at the meeting of the Shareholders on May 29, 2015.

Accordingly, the Corporation's shareholders will be asked to approve the following ordinary resolution:

"RESOLVED, as an ordinary resolution, that:

1. the Stock Option Plan of the Corporation, as described in the management information circular of the Corporation dated July 26, 2017, be and is hereby ratified and approved.
2. the number of common shares of the Corporation reserved for issuance under the Stock Option Plan shall be no more than 10% of the Corporation's issued and outstanding common shares at the time of any stock option grant, and
3. the board of directors of the Corporation be authorized to make any changes to the Stock Option Plan as may be required by the TSX Venture Exchange."

OTHER BUSINESS

Management of the Corporation knows of no matters to come before the Meeting other than those referred to in the Notice of Meeting accompanying this Circular. **However, if any other matters properly come before the Meeting, it is the intention of the management proxyholders to vote on the same in accordance with their best judgment on such matters.**

STATEMENT OF EXECUTIVE COMPENSATION

COMPENSATION DISCUSSION AND ANALYSIS

Named Executive Officers

Prior to completing its Qualifying Transaction ("**Qualifying Transaction**") with Five Star Diamonds Ltd. on April 24th, 2017, the Corporation was classified as a Capital Pool Company pursuant to the policies of the TSXV. Consequently, the Corporation did not pay any compensation to its Named Executive Officers in accordance with the policies of the TSXV, other than the grant of options described below. The Corporation did not have any employment agreements with NEOs and did not offer any other benefits or perquisites to NEOs. The Corporation compensated the CEO and three Directors with grants of options to acquire Common Shares pursuant to its stock option plan. The Corporation issued 50,000 options to each NEO and three directors in conjunction with its initial public offering on April 15, 2013. Each option is exercisable for one Common Share at a price of \$0.10 per Common Share. 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 the Corporation, 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.

On the closing of the Qualifying Transaction, certain changes were made to the NEOs and directors of the Corporation. Peter Hinam resigned as CEO and Director, and Devon Brown resigned as CFO, Corporate Secretary, and Director. Peter Hinam was replaced by Matthew Wood, now current CEO, President, and Director. Devon Brown was replaced by Brian McMaster, now current CFO, and Director. In addition, John da Costa (Director), Timothy Hamilton (Director) and Greg Ball (Director) resigned and were replaced with Luíz Azevedo (Director and COO), Gizman Abbas (Director), Simon Rothschild (Director), and Nicholas Pike (Director).

On the completion of the Qualifying Transaction, the financial year end of the Corporation changed from November 30, being the financial year end of the Corporation prior to the Qualifying Transaction, to June 30, being the financial year end of Five Star Diamonds Ltd.

For the fiscal year ended November 30, 2016 the Corporation had two Named Executive Officers: Peter Hinam, who was the Corporation's CEO and Director, and Devon Brown, who was the Corporation's CFO, Corporate Secretary, and Director.

The following describes the particulars of compensation for a) the CEO, b) the CFO, c) each of the three most highly compensated executive officers of the Corporation, including any of its subsidiaries, or the three most highly compensated individuals acting in a similar capacity, other than the CEO and the CFO, at the end of the most recently completed financial year whose total compensation was, individually, more than \$150,000 for that financial year; and d) each individual who would be a named executive officer but for the fact that the individual was neither an executive officer of the Corporation or

its subsidiaries, nor acting in a similar capacity, at the end of that financial year (each a “**Named Executive Officer**” or “**NEO**”). For the financial year ended June 30, 2017, the Named Executive Officers of the Corporation were:

Matthew Wood, Chief Executive Officer and Director

Brian McMaster, Chief Financial Officer and Director

Luis Azevedo, Chief Operating Officer and Director

Compensation Policy Objectives

The Corporation is continuing to define its compensation policies following the Qualifying Transaction. The following summarizes the board’s current position regarding the compensation of executive officers. The executive compensation program is designed to reward corporate and individual performance, and motivate executives to achieve overall corporate goals.

The Corporation’s executive compensation program has the following objectives:

- to attract, retain and motivate qualified executives;
- to provide incentives to executives to maximize productivity and enhance enterprise value by aligning the interests of the executives with those of the Shareholders;
- to foster teamwork and entrepreneurial spirit;
- to establish a direct link between all elements of compensation and the performance of the Corporation and its subsidiaries, and individual performance;
- to integrate compensation incentives with the development and successful execution of strategic and operating plans; and
- to enhance Shareholder value.

The executive compensation program is comprised of fixed and variable elements of compensation; base salary, indirect compensation (benefits), discretionary bonus, and long-term incentives in the form of stock options. In determining actual compensation levels, the Board considers the total compensation program, rather than any single element in isolation. Total compensation levels are designed to reflect both the marketplace (to ensure competitiveness) and the responsibility of each position (to ensure internal equity). The Board believes these elements of compensation, when combined, form an appropriate mix of compensation, and provide competitive salary, link the majority of the executives’ compensation to corporate and individual performance (which induces and rewards behaviour that creates long-term value for Shareholders and other stakeholders), and encourage retention with time-based vesting attached to long-term equity-based incentives.

Base Salaries

Base salaries for the executive officers are designed to be competitive and are adjusted for the realities of the market. Initial base salaries are determined through market comparables, formal job evaluation, commercially available salary survey data, experience level, leadership and management skills, responsibilities and proven or expected performance. The Board reviews the recommendations of the President and CEO for the base salaries for executive officers taking into consideration the individual’s performance, contributions to the success of the Corporation, and internal equities among positions. No specific weightings are assigned to each factor; instead a subjective determination is made based on a general assessment of the individual relative to such factors.

Discretionary Bonus

A discretionary bonus is intended to provide incentives to executive officers to enhance the growth and development of the Corporation, to encourage and motivate executive officers to achieve short-term goals, and to reward individual contribution to the achievement of corporate objectives. The bonus can be based as a percentage of annual salary or a fixed dollar amount and is awarded at the discretion of the Board.

Long-Term Incentives

The Corporation's long-term equity portion of executive compensation is designed to align the interests of executive officers with that of Shareholders by encouraging equity ownership through awards of stock options to motivate executives and other key employees to contribute to an increase in corporate performance and Shareholder value, and to attract talented individuals and encourage the retention of executive officers and other key employees.

Stock Options

The Corporation may stock options to its Named Executive Officers. The timing of the grant, and number of Common Shares made subject to option is generally recommended by the CEO, reviewed and approved (or revised, if thought appropriate) by the Compensation Committee and implemented by a resolution of the Board. Consideration in determining option grants is given to, amongst other things, the total number of stock options outstanding, the current and future expected contribution to the advancement of corporate objectives, the position of the individual, tenure, and previous option grants to selected individuals. No specific weightings are assigned to each factor; instead a subjective determination is made based on an assessment of the individual relative to such factors. Grants of stock option also comprise a portion of the compensation package offered to attract and retain new directors and executive officers to the Corporation.

During the fiscal year ended June 30, 2017, no stock options were awarded to any Named Executive Officers.

Pension Plan Benefits

The Corporation does not provide retirement benefits for directors, executive officers or employees.

Share Ownership Requirements

The Corporation has not imposed minimum share ownership requirements on its directors and the Named Executive Officers.

Risks Associated with Compensation Practices

As of the date of this Circular, the Corporation's directors had not, collectively, considered the implications of any risks associated with the Corporation's compensation policies applicable to its executive officers.

Financial Instruments

The Corporation has not, to date, adopted a policy restricting its executive officers and directors from purchasing financial instruments, including, for greater certainty, prepaid variable forward contracts, equity swaps, collars, or units of exchange funds, which are designed to hedge or offset a decrease in market value of equity securities granted as compensation or held, directly or indirectly, by executive officers or directors. As of the date of this Circular, entitlement to grants of incentive stock options under the Corporation's Stock Option Plan are the only equity-based security elements awarded to executive officers and directors.

Summary Compensation Table

The table below is a summary of total compensation paid to the Named Executive Officers for the Corporation's most recently completed financial year ending June 30, 2017:

Name and principal position	Period ended ⁽⁴⁾	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 ⁽⁴⁾	June 30, 2017	195,000	-	-	-	-	-	-	195,000
	June 30, 2016	180,000	-	-	-	-	-	-	180,000
	June 30, 2015	60,000	-	-	-	-	-	-	60,000
Brian McMaster, Chief Financial	June 30, 2017	120,000	-	-	-	-	-	-	120,000
	June 30, 2016	120,000	-	-	-	-	-	-	120,000

Name and principal position	Period ended ⁽⁴⁾	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\$)			
Officer and Director ⁽²⁾	June 30, 2015	40,000	-	-	-	-	-	-	40,000
Luis Azevedo Chief Operating Officer and Director ⁽³⁾	June 30, 2017	112,000	-	-	-	-	-	-	112,000
	June 30, 2016	72,000	-	-	-	-	-	-	72,000
	June 30, 2015	-	-	-	-	-	-	-	-

Notes:

1. Mr. Wood was appointed Chief Executive Officer of Five Star Diamonds Ltd. on closing of the Qualifying Transaction, April 24, 2017.
2. Mr. McMaster was appointed Chief Financial Officer of Five Star Diamonds Ltd. on closing of the Qualifying Transaction, April 24, 2017.
3. Mr. Azevedo was appointed Chief Operating Officer of Five Star Diamonds Ltd. on closing of the Qualifying Transaction, April 24, 2017.
4. The compensation includes compensation earned in similar roles with the predecessor to the Corporation, Five Star Diamonds Limited, prior to April 24, 2017.

Incentive Plan Awards

Outstanding Share-Based and Option-Based Awards

No share-based or option-based awards were outstanding to an NEOs as of June 30, 2017.

Value Vested or Earned During the Year

There were no option-based or share-based awards outstanding for the Named Executive Officers for which there was a value that vested during the year ended June 30, 2017.

Employment Agreements

The Corporation does not currently have any employment agreements with its Named Executive Officers.

Termination and Change of Control Benefits

As at June 30, 2017, there were no agreements providing for payment of termination or change of control benefits to Named Executive Officers.

DIRECTORS COMPENSATION

Summary Compensation Table

The following table sets forth all compensation paid, awarded or earned by the non-executive directors of the Corporation during the year ended June 30, 2017.

Name	Salary (US\$)	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 ¹	-	-	-	-	-	-	-	-
Simon Rothschild ¹	30,053	-	-	-	-	-	-	30,053
Nicholas Pike ¹	-	-	-	-	-	-	-	-

Notes:

1. Appointed a Director of Five Star Diamonds Ltd. on closing of the Qualifying Transaction, April 24, 2017

The Board, has the responsibility of determining director compensation. The objective in determining such director compensation is to ensure that the Corporation can attract and retain experienced and qualified individuals to serve as directors. The Corporation is currently proposing to compensate its non-executive directors through the grant of incentive stock options.

Incentive Plan Awards

Outstanding Share-Based and Option-Based Awards

There were no option-based or share-based awards outstanding for the non-executive directors as of June 30, 2017.

Value Vested or Earned During the Year

There were no option-based or share-based awards for which there was a value that vested, and no non-equity incentive plan compensation was provided to non-executive directors during the year ended June 30, 2017.

INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS

At no time during the year ended June 30, 2017 (being the Corporation's last completed financial year), was any director, executive officer, employee, proposed management nominee for election as a director of the Corporation or any associate of any such director, executive officer, or proposed management nominee of the Corporation or any former director, executive officer or employee of the Corporation or any of its subsidiaries, indebted to the Corporation or any of its subsidiaries or indebted to another entity where such indebtedness is or has been the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by the Corporation or any of its subsidiaries, other than for routine indebtedness.

INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS

No informed person (as defined in National Instrument 51-102 – *Continuous Disclosure Obligations*), proposed director of the Corporation, or any associate or affiliate of any informed person or proposed director of the Corporation has, since July 1, 2016 (being the commencement of the Corporation's last completed financial year), had any material interest, direct or indirect, in any transactions which materially affected or would materially affect the Corporation or any of its subsidiaries.

STATEMENT OF CORPORATE GOVERNANCE PRACTICES

National Instrument 58-101 – *Disclosure of Corporate Governance Practices* ("**NI 58-101**") requires issuers, such as the Corporation, to provide disclosure with respect to their corporate governance practices in accordance with Form 58-101F2. The required disclosure for the Corporation is set out below.

Board of Directors

The Board is currently composed of (6) directors, half being non-independent directors, as follows:

Name	Position	Independent/Non Independent
Matthew Wood	CEO and Director	Non-Independent
Brian McMaster	CFO and Director	Non-Independent
Luiz Azevedo	COO and Director	Non-Independent
Simon Rothschild	Director	Independent
Gizman Abbas	Director	Independent
Nicholas Pike	Director	Independent

Of the proposed directors, all except Gizman Abbas, Aneel Waraich, and Nicholas Pike, are considered by the Board to be “non-independent” within the meaning of applicable securities legislation.

Other Directorships

As of the current date, some of the Corporation’s current and proposed directors are on the boards of other public companies:

Name	Name of Reporting Issuer	TSXV or Market	Position	From
Matthew Wood	Antler Hill Mining Ltd.	TSXV	Director	06/2014
	Harvest Minerals Limited	AIM	Executive Director	04/2014
	Bounty Mining Limited	ASX	Director	03/2016
Brian McMaster	Valor Resources Limited	ASX	Director	01/2017
	Jangada Mines plc	AIM	Executive Chairman	06/2015
	Harvest Minerals Limited	AIM	Executive Chairman	04/2014
	Bounty Mining Limited	ASX	Director	03/2016
Luis Azevedo	Jangada Mines plc	AIM	Director	05/2017
	Avanco Resources Limited	ASX	Executive Director	12/2007
	Talon Metals	TSX	Director	02/2004
	Harvest Minerals Limited	AIM	Executive Director	01/2012
Gizman Abbas	n/a			
Simon Rothschild	n/a			
Nicholas Pike	n/a			
Aneel Waraich	Antler Hill Mining Ltd.	TSXV	Director	06/2017

Orientation and Continuing Education

All new directors are provided with comprehensive information about Five Star and its subsidiaries. Directors have the opportunity to meet with senior management to obtain insight into the operations of Five Star and its subsidiaries. New directors are briefed on the Corporation’s current property holdings, ongoing exploration programs and mining operations, overall strategic plans, short, medium and long term corporate objectives, financials status, general business risks and mitigation strategies, and existing company policies. Senior management also makes regular presentations to the Board at its meetings and all directors are encouraged to communicate directly with management and other staff.

The skills and knowledge of the Board as a whole is such that no formal continuing education process is currently deemed required. The Board is comprised of individuals with varying backgrounds, who have, both collectively and individually, extensive experience in running and managing public companies, particularly in the natural resource sector and involving non-Canadian mineral properties. It is the Corporation’s view that all current members of the Board are well-versed and educated in the factors critical to the success of Five Star. Board members are encouraged to communicate with management, auditors and technical consultants to keep themselves current with industry trends and developments and

changes in legislation, with management's assistance. Board members have full access to the Corporation's records. Reference is made to the table under the heading "Election of Directors" for a description of the current principal occupations of the members of the Board.

Ethical Business Conduct

The Board expects management to operate the business of the Corporation in a manner that enhances Shareholder value and is consistent with the highest level of integrity. Management is expected to execute the Corporation's business plan and to meet performance goals and objectives. Directors and senior officers are bound by the provisions of the Corporation's articles and the BCBCA which sets forth resolutions for any conflicts of interest. In particular, any director who has a material interest in a particular transaction is required to disclose such interest and to refrain from voting with respect to the approval of any such transaction.

Nomination of Directors

The Corporation does not currently have a Nomination and Corporate Governance Committee. The Board may appoint this committee following the Meeting when determined appropriate. Until appointed, the Board will assume the responsibilities of the committee. The Nomination and Corporate Governance Committee is responsible for reviewing the corporate governance policies and practices of the Corporation generally and making recommendations thereon to the directors of the Corporation, including reviewing and making recommendations to the Board of the Corporation on developing the approach of the Corporation to corporate governance issues and practices. The Nomination and Corporate Governance Committee is also responsible for proposals for new nominees to the Board and conducting such background reviews, assessments, interviews and other procedures as it believes necessary to ascertain the suitability of a particular nominee.

Compensation

The Corporation does not currently have a Compensation Committee. The Board may appoint this committee following the Meeting when determined appropriate. Until appointed, the Board will assume the responsibilities of the committee. The overall purpose of the Compensation Committee is to implement and oversee human resources and compensation policies and best practices for recommendation to the Board for approval and implementation. The responsibilities of the Compensation Committee generally include: (1) reviewing and making recommendations to the Board regarding all share incentive awards; (2) developing an executive compensation strategy to attract, retain and motivate senior management to achieve superior results; (3) reviewing and appraising the performance of the executive officers of the Corporation (4) reviewing short-term and long-term talent management and succession planning; and (5) review the committee's charter and the performance of the committee on an annual basis.

Assessment

The Board as a whole has the on-going responsibility to assess (i) the effectiveness and contribution of the individual directors including the Chairman of the Board and committee chairman of the Corporation on an ongoing basis; (ii) the effectiveness of the directors of the Corporation as a whole; and (iii) the effectiveness of the committees of directors of the Corporation and the mandates of each of such committees.

AUDIT COMMITTEE

Pursuant to the provisions of Multilateral Instrument 52-110 – Audit Committees ("**NI 52-110**"), which came into force on March 30, 2004, the Corporation is required to disclose certain information concerning its Audit Committee including the Audit Committee's charter, the composition of the Audit Committee and its relationship with its independent auditors. Such information is set forth below.

Audit Committee's Charter

As a TSXV listed company, the Corporation is required to have an audit committee for the purpose of monitoring and enhancing the quality of the financial information disclosed by the Corporation. The Audit Committee's charter is reproduced in Schedule "B".

Composition of Audit Committee

The Audit Committee is comprised of three directors as follows: Messrs: Abbas, McMaster and Pike. Each member is “independent”, as such term is defined within the meaning of NI 52-110, except for Mr. McMaster, an Officer of Five Star. Each member of the Audit Committee is “financially literate”, as such term is defined within the meaning of NI 52-110, and possesses education or experience that is relevant for the performance of their responsibilities as Audit Committee members.

Audit Committee Biographies

Gizman Abbas, Director

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.

Brian McMaster, Chief Financial Officer and Director

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.

Nicholas Pike, Director

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.

Audit Committee Oversight

At no time since the commencement of the Corporation’s most recently completed financial year have any recommendations by the Audit Committee respecting the appointment and/or compensation of the Corporation’s external auditors not been adopted by the board of directors.

Reliance on Certain Exemptions

At no time since the commencement of the Corporation’s most recently completed financial year has the Corporation relied on exemptions in relation to “De Minimis Non-Audit Services” or any exemption provided by Part 8 of MI 52-110.

Pre-Approval Policies and Procedures

The Corporation has not adopted any specific policies in relation to the engagement of non-audit services.

External Auditor Service Fees (By Category)

	Financial Years Ended November 30,	
	<u>2016</u>	<u>2015</u>
Audit Fees ⁽¹⁾	CAD\$8,670	CAD\$6,936
Audit-Related Fees ⁽²⁾	CAD\$5,000	-
Tax Fees ⁽³⁾	CAD\$1,500	CAD\$1,400
All Other Fees ⁽⁴⁾	-	-
Total Fees	<u>CAD\$15,170</u>	<u>CAD\$8,336</u>

Notes:

- ⁽¹⁾ The aggregate audit fees billed.
- ⁽²⁾ The aggregate fees billed for assurance and related services that are reasonably related to the performance of the audits or reviewing the Corporation's financial statements and are not included under "Audit Fees".
- ⁽³⁾ The aggregate fees billed for services related to tax compliance, tax advice and tax planning. The services performed for the fees paid under this category may briefly be described as tax return preparation fees.
- ⁽⁴⁾ The aggregate fees billed for services other than those reported above. The services performed for the fees paid under this category may briefly be described as flow-through accounting services.

ADDITIONAL INFORMATION

Additional information regarding the Corporation and its business activities is available under the Corporation's profile on the SEDAR website located at www.sedar.com. The Corporation's financial information is provided in the Corporation's audited consolidated financial statements and related management discussion and analysis for its most recently completed financial year and may be viewed on the Corporation's profile on the SEDAR website at www.sedar.com. Copies of the Corporation's consolidated financial statements and related management discussion and analysis are available upon request, free of charge to Shareholders of the Corporation, by contacting by contacting the President and CEO, at the Corporation's registered office located at Peterson McVicar LLP, 390 Bay Street, Suite 806 Toronto, ON M5H 2Y2.

SCHEDULE "A"

FIVE STAR DIAMONDS LTD.

STOCK OPTION PLAN

1. Purpose

The purpose of the Stock Option Plan (the "**Plan**") of **FIVE STAR DIAMONDS LIMITED**, a company incorporated under the *Business Corporations Act* (British Columbia) (the "**Company**") is to advance the interests of the Company by encouraging the directors, officers, employees and consultants of the Company, and of its subsidiaries and affiliates, if any, to acquire common shares in the share capital of the Company (the "**Shares**"), thereby increasing their proprietary interest in the Company, encouraging them to remain associated with the Company and furnishing them with additional incentive in their efforts on behalf of the Company in the conduct of its affairs.

2. Administration

The Plan shall be administered by the Board of Directors of the Company or by a special committee of the directors appointed from time to time by the Board of Directors of the Company pursuant to rules of procedure fixed by the Board of Directors (such committee or, if no such committee is appointed, the Board of Directors of the Company, is hereinafter referred to as the "**Board**"). A majority of the Board shall constitute a quorum, and the acts of a majority of the directors present at any meeting at which a quorum is present, or acts unanimously approved in writing, shall be the acts of the directors.

Subject to the provisions of the Plan, the Board shall have authority to construe and interpret the Plan and all option agreements entered into thereunder, to define the terms used in the Plan and in all option agreements entered into thereunder, to prescribe, amend and rescind rules and regulations relating to the Plan and to make all other determinations necessary or advisable for the administration of the Plan. All determinations and interpretations made by the Board shall be binding and conclusive on all participants in the Plan and on their legal personal representatives and beneficiaries.

Each option granted hereunder may be evidenced by an agreement in writing, signed on behalf of the Company and by the optionee, in such form as the Board shall approve. Each such agreement shall recite that it is subject to the provisions of this Plan.

3. Stock Exchange Rules

All options granted pursuant to this Plan shall be subject to rules and policies of any stock exchange or exchanges on which the common shares of the Company are then listed and any other regulatory body having jurisdiction hereinafter (hereinafter collectively referred to as, the "**Exchange**").

4. Shares Subject to Plan

Subject to adjustment as provided in Section 15 hereof, the Shares to be offered under the Plan shall consist of common shares of the Company's authorized but unissued common shares. The aggregate number of Shares issuable upon the exercise of all options granted under the Plan shall not exceed 10% of the issued and outstanding common shares of the Company at the time of the grant, provided that so long as the Company remains classified as a capital pool company (a "**CPC**") pursuant to the policies of the TSX Venture Exchange (the "**TSX-V**") the number of Shares issuable upon the exercise of all options granted under the Plan shall not exceed 10% of the issued and outstanding common shares of the Company as at the Closing of its initial public offering. If any option granted

hereunder shall expire or terminate for any reason in accordance with the terms of the Plan without being exercised, the unpurchased Shares subject thereto shall again be available for the purpose of this Plan.

5. **Maintenance of Sufficient Capital**

The Company shall at all times during the term of the Plan reserve and keep available such number of Shares as will be sufficient to satisfy the requirements of the Plan.

6. **Eligibility and Participation**

Directors, officers, consultants, and employees of the Company or its subsidiaries, and employees of a person or company which provides management services to the Company or its subsidiaries ("**Management Company Employees**") shall be eligible for selection to participate in the Plan (such persons hereinafter collectively referred to as "**Participants**"), provided that so long as the Company remains classified as a CPC pursuant to the policies of the TSX-V the following parties will not be eligible to participate in the Plan:

- (a) persons providing investor relations activities or promotional or market making services;
- (b) consultants of the Company, other than technical consultants of the Company (as contemplated under Policy 2.4 of the TSX-V); and
- (c) employees and Management Company Employees of the Company.

Subject to compliance with applicable requirements of the Exchange, Participants may elect to hold options granted to them in an incorporated entity wholly owned by them and such entity shall be bound by the Plan in the same manner as if the options were held by the Participant.

Subject to the terms hereof, the Board shall determine to whom options shall be granted, the terms and provisions of the respective option agreements, the time or times at which such options shall be granted and vested, and the number of Shares to be subject to each option. In the case of employees or consultants of the Company or Management Company Employees, the option agreements to which they are party must contain a representation of the Company that such employee, consultant or Management Company Employee, as the case may be, is a bona fide employee, consultant or Management Company Employee of the Company or its subsidiaries.

A Participant who has been granted an option may, if such Participant is otherwise eligible, and if permitted under the policies of the Exchange, be granted an additional option or options if the Board shall so determine.

7. **Exercise Price**

- (a) The exercise price of the Shares subject to each option shall be determined by the Board, subject to applicable Exchange approval, at the time any option is granted. In no event shall such exercise price be lower than the exercise price permitted by the Exchange.
- (b) Once the exercise price has been determined by the Board, accepted by the Exchange and the option has been granted, the exercise price of an option may be reduced upon receipt of Board approval, provided that in the case of options held by insiders of the Company (as defined in the policies of the Exchange), the exercise price of an option may be reduced only if disinterested shareholder approval is obtained and further provided that in any case the exercise price may be reduced only if at least 6 months have elapsed since the later of (i) the date of commencement of the term of the option, (ii) the date the Company's shares commenced trading on the Exchange, and (iii) the date the exercise price of such option was last reduced.

8. **Number of Optioned Shares**

In any twelve-month period:

- (a) No more than 5% of the issued and outstanding common shares of the Company may be reserved for issuance pursuant to the exercise of options granted to any one individual, unless disinterested shareholder approval is obtained;
- (b) No more than 2% of the issued and outstanding common shares of the Company may be reserved for issuance pursuant to the exercise of options granted to any one Consultant;
- (c) No more than 2% of the issued and outstanding common shares of the Company may be reserved for issuance pursuant to the exercise of options granted to all employees engaged in providing investor relations activities. Options granted to Consultants performing investor relations activities will contain vesting provisions such that vesting occurs over at least 12 months with no more than ¼ of the options vesting in any 3-month period.

9. **Duration of Option**

Each option and all rights thereunder shall be expressed to expire on the date set out in the option agreement and shall be subject to earlier termination as provided in Sections 11 and 12, provided that in no circumstances shall the duration of an option exceed the maximum term permitted by the Exchange. For greater certainty, if the Company is listed on the TSX-V, the maximum term may not exceed 10 years.

10. **Option Period, Consideration and Payment**

- (a) The option period shall be a period of time fixed by the Board not to exceed the maximum term permitted by the Exchange, provided that the option period shall be reduced with respect to any option as provided in Sections 11 and 12 covering cessation as a director, officer, consultant, employee or Management Company Employee of the Company or its subsidiaries, or death of the Participant.
- (b) Subject to any vesting restrictions imposed by the Exchange, the Board may, in its sole discretion, determine the time during which options shall vest and the method of vesting, or that no vesting restriction shall exist.
- (c) Subject to any vesting restrictions imposed by the Board, options may be exercised in whole or in part at any time and from time to time during the option period. To the extent required by the Exchange, no options may be exercised under this Plan until this Plan has been approved by a resolution duly passed by the shareholders of the Company.
- (d) Except as set forth in Sections 11 and 12, no option may be exercised unless the Participant is at the time of such exercise a director, officer, consultant, or employee of the Company or any of its subsidiaries, or a Management Company Employee of the Company or any of its subsidiaries.
- (e) The exercise of any option will be contingent upon receipt by the Company at its head office of a written notice of exercise, specifying the number of Shares with respect to which the option is being exercised, accompanied by cash payment, certified cheque or bank draft for the full purchase price of such Shares with respect to which the option is exercised. No Participant or his legal representatives, legatees or distributees will be, or will be deemed to be, a holder of any common shares of the Company unless and until the certificates for Shares issuable pursuant to options under the Plan are issued to him or them under the terms of the Plan.

11. Ceasing To Be a Director, Officer, Consultant or Employee

If a Participant shall cease to be a director, officer, consultant, employee of the Company, or its subsidiaries, or ceases to be a Management Company Employee, for any reason (other than death), such Participant may exercise such Participant's option to the extent that the Participant was entitled to exercise it at the date of such cessation, provided that such exercise must occur within 90 days after the Participant ceases to be a director, officer, consultant, employee or a Management Company Employee, unless such Participant was engaged in investor relations activities, in which case such exercise must occur within 30 days after the cessation of the Participant's services to the Company.

Nothing contained in the Plan, nor in any option granted pursuant to the Plan, shall as such confer upon any Participant any right with respect to continuance as a director, officer, consultant, employee or Management Company Employee of the Company or of any of its subsidiaries or affiliates.

12. Death of Participant

Notwithstanding Section 11, in the event of the death of a Participant, the option previously granted to him shall be exercisable only within the one (1) year after such death and then only:

- (a) by the person or persons to whom the Participant's rights under the option shall pass by the Participant's will or the laws of descent and distribution; and
- (b) if and to the extent that such Participant was entitled to exercise the Option at the date of his death.

13. Rights of Optionee

No person entitled to exercise any option granted under the Plan shall have any of the rights or privileges of a shareholder of the Company in respect of any Shares issuable upon exercise of such option until certificates representing such Shares shall have been issued and delivered.

14. Proceeds from Sale of Shares

The proceeds from the sale of Shares issued upon the exercise of options shall be added to the general funds of the Company and shall thereafter be used from time to time for such corporate purposes as the Board may determine.

15. Adjustments

If the outstanding common shares of the Company are increased, decreased, changed into or exchanged for a different number or kind of shares or securities of the Company or another Company or entity through re-organization, merger, re-capitalization, re-classification, stock dividend, subdivision or consolidation, any adjustments relating to the Shares optioned or issued on exercise of options and the exercise price per Share as set forth in the respective stock option agreements shall be made in accordance to the terms of such agreements.

Adjustments under this Section shall be made by the Board whose determination as to what adjustments shall be made, and the extent thereof, shall be final, binding and conclusive. No fractional Share shall be required to be issued under the Plan on any such adjustment.

16. Transferability

All benefits, rights and options accruing to any Participant in accordance with the terms and conditions of the Plan shall not be transferable or assignable unless specifically provided herein or the extent, if any, permitted by

the Exchange. During the lifetime of a Participant any benefits, rights and options may only be exercised by the Participant.

17. Amendment and Termination of Plan

Subject to applicable approval of the Exchange, the Board may, at any time, suspend or terminate the Plan. Subject to applicable approval of the Exchange, the Board may also at any time amend or revise the terms of the Plan; provided that no such amendment or revision shall result in a material adverse change to the terms of any options theretofore granted under the Plan, unless shareholder approval, or disinterested shareholder approval, as the case may be, is obtained for such amendment or revision.

18. Withholding Tax

The Company may require the Participant to pay to the Company the amount of any taxes that the Company is required by applicable federal or provincial law to withhold with respect to the grant, vesting or exercise of an option. The Company shall not be required to issue any Shares under the Plan until such obligations are satisfied. The Plan Administrator may permit or require a Participant to satisfy all or part of his or her tax withholding obligations by: (a) paying cash to the Company, or (b) having the Company withhold from any cash amounts otherwise due or to become due from the Company to the Participant.

19. Necessary Approvals

The ability of a Participant to exercise options and the obligation of the Company to issue and deliver Shares in accordance with the Plan is subject to any approvals which may be required from shareholders of the Company and any regulatory authority or stock exchange having jurisdiction over the securities of the Company. If any Shares cannot be issued to any Participant for whatever reason, the obligation of the Company to issue such Shares shall terminate and any option exercise price paid to the Company will be returned to the Participant.

20. Effective Date of Plan

The Plan has been adopted by the Board of the Company subject to the approval of the Exchange and, if so approved, subject to the discretion of the Board, the Plan shall become effective upon such approvals being obtained.

21. Interpretation

The Plan will be governed by and construed in accordance with the laws of the Province of British Columbia.

SCHEDULE "B"

FIVE STAR DIAMONDS LTD.

AUDIT COMMITTEE CHARTER

1. Purpose of the Committee

- 1.1 The purpose of the Audit Committee is to assist the Board of Directors in its oversight of the integrity of the Company's financial statements and other relevant public disclosures, the Company's compliance with legal and regulatory requirements relating to financial reporting, the external auditors' qualifications and independence and the performance of the internal audit function and the external auditors.

2. Members of the Audit Committee

- 2.1 At least one Member must be "financially literate" as defined under NI 52-110, having sufficient accounting or related financial management expertise to read and understand a set of financial statements, including the related notes, that present a breadth and level of complexity of the accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Company's financial statements.
- 2.2 The Audit Committee shall consist of no less than three Directors.
- 2.3 At least one Member of the Audit Committee shall be "independent" as defined under NI 52-110, and a majority of the members must not be executive officers, employees, or control persons of the Company.

3. Relationship with External Auditors

- 3.1 The external auditors are the independent representatives of the shareholders, but the external auditors are also accountable to the Board of Directors and the Audit Committee.
- 3.2 The external auditors must be able to complete their audit procedures and reviews with professional independence, free from any undue interference from the management or directors.
- 3.3 The Audit Committee must direct and ensure that the management fully co-operates with the external auditors in the course of carrying out their professional duties.
- 3.4 The Audit Committee will have direct communications access at all times with the external auditors.

4. Non-Audit Services

- 4.1 The external auditors are prohibited from providing any non-audit services to the Company, without the express written consent of the Audit Committee. In determining whether the external auditors will be granted permission to provide non-audit services to the Company, the Audit Committee must consider that the benefits to the Company from the provision of such services, outweighs the risk of any compromise to or loss of the independence of the external auditors in carrying out their auditing mandate.

4.2 Notwithstanding section 4.1, the external auditors are prohibited at all times from carrying out any of the following services, while they are appointed the external auditors of the Company:

- (i) acting as an agent of the Company for the sale of all or substantially all of the undertaking of the Company; and
- (ii) performing any non-audit consulting work for any director or senior officer of the Company in their personal capacity, but not as a director, officer or insider of any other entity not associated or related to the Company.

5. Appointment of Auditors

5.1 The external auditors will be appointed each year by the shareholders of the Company at the annual general meeting of the shareholders.

5.2 The Audit Committee will nominate the external auditors for appointment, such nomination to be approved by the Board of Directors.

6. Evaluation of Auditors

6.1 The Audit Committee will review the performance of the external auditors on at least an annual basis, and notify the Board and the external auditors in writing of any concerns in regards to the performance of the external auditors, or the accounting or auditing methods, procedures, standards, or principles applied by the external auditors, or any other accounting or auditing issues which come to the attention of the Audit Committee.

7. Remuneration of the Auditors

7.1 The remuneration of the external auditors will be determined by the Board of Directors, upon the annual authorization of the shareholders at each general meeting of the shareholders.

7.2 The remuneration of the external auditors will be determined based on the time required to complete the audit and preparation of the audited financial statements, and the difficulty of the audit and performance of the standard auditing procedures under generally accepted auditing standards and generally accepted accounting principles of Canada.

8. Termination of the Auditors

8.1 The Audit Committee has the power to terminate the services of the external auditors, with or without the approval of the Board of Directors, acting reasonably.

9. Funding of Auditing and Consulting Services

9.1 Auditing expenses will be funded by the Company. The auditors must not perform any other consulting services for the Company, which could impair or interfere with their role as the independent auditors of the Company.

10. Role and Responsibilities of the Internal Auditor

10.1 At this time, due to the Company's size and limited financial resources, the Chief Financial Officer of the Company shall be responsible for implementing internal controls and performing the role as the internal auditor to ensure that such controls are adequate.

11. Oversight of Internal Controls

11.1 The Audit Committee will have the oversight responsibility for ensuring that the internal controls are implemented and monitored, and that such internal controls are effective.

12. Continuous Disclosure Requirements

12.1 At this time, due to the Company's size and limited financial resources, the Chief Financial Officer of the Company is responsible for ensuring that the Company's continuous reporting requirements are met and in compliance with applicable regulatory requirements.

13. Other Auditing Matters

13.1 The Audit Committee may meet with the external auditors independently of the management of the Company at any time, acting reasonably.

13.2 The Auditors are authorized and directed to respond to all enquiries from the Audit Committee in a thorough and timely fashion, without reporting these enquiries or actions to the Board of Directors or the management of the Company.

14. Annual Review

14.1 The Audit Committee Charter will be reviewed annually by the Board of Directors and the Audit Committee to assess the adequacy of this Charter.

15. Independent Advisers

15.1 The Audit Committee shall have the power to retain legal, accounting or other advisors to assist the Committee.