

Convertible Debenture Offering and Catalao Development Update

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TORONTO, Aug. 02, 2018 -- [Five Star Diamonds Ltd.](#) (TSX-V:STAR) [Five Star Diamonds Ltd.](#) ("Five Star" or the "Company") is pleased to announce the following update on financing and other activities.

As previously disclosed, the Company has been pursuing a twin strategy of seeking funding solutions for the development of its Catalao Diamond Project while continuing to drill selected development projects, most recently with drilling at the Maravilha diamond project.

Private Placement

The Company is pleased to announce that it is conducting a non-brokered private placement of up to C\$7,500,000 aggregate principal amount of convertible debenture units (the "Convertible Debenture Units") at a price of \$1,000 per Convertible Debenture Unit (the "Offering"). Each Convertible Debenture Unit will consist of: (i) one \$1,000 principal amount of 12% unsecured convertible debenture (a "Convertible Debenture"); and (ii) 500 common share purchase warrants (each, a "Warrant") of the Company.

The Company has closed an initial tranche of the Offering with its largest shareholder, R&R Venture Partners ("R&R"), which has subscribed for C\$653,000 principal amount of Debentures. R&R has also indicated to the Company that it would be prepared to invest an additional, approximately C\$2 million on comparable terms prior to December 31, 2018 if and when the Company achieves certain project milestones.

The Company is in active discussions with institutional and retail investors to complete the Offering in one or more additional tranches over the coming weeks.

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

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

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

The Convertible Debentures and the Warrants comprising the Convertible Debenture Units and any Common Shares issuable upon conversion or exercise thereof, as applicable, will be subject to a statutory

hold period lasting four months and one day following the the date of issuance.

The proceeds of the Offering will be used to fund final construction of the initial oxide portion at the Catalao project and for general corporate purposes. Major equipment is already on site and construction is expected to take 6-8 months from receipt of final funding with production to commence shortly thereafter.

The participation by R&R in the Offering is considered a "related party transaction" as defined under Multilateral Instrument 61-101 ("MI 61-101"). The transaction will be exempt from the formal valuation and minority shareholder approval requirements under MI 61-101 on the basis that the distribution of securities of the Company is for cash consideration of less than \$2.5 million. Neither the Company nor, to the knowledge of the Company after reasonable inquiry, the related parties, has knowledge of any material information concerning the Company or its securities that has not been generally disclosed.

Prior to its purchase of Convertible Debenture Units, R&R beneficially owned, or exercised control or direction over 36,158,514 Common Shares or approximately 26.32% of the issued and outstanding Common Shares. Following the completion of its purchase of Convertible Debenture Units, R&R R&R beneficially owned, or exercised control or direction over 36,158,514 Common Shares, or approximately 28.05% of the issued and outstanding Common Share on a non-diluted basis and Convertible Debentures and Warrants convertible into an additional 3,591,500 Common Shares. Assuming conversion of the debentures and warrants, R&R would own 39,750,014 Common Shares or 30% of the issued and outstanding Common Shares, on a partially-diluted basis. The acquisition was made solely for investment purposes. R&R may, depending on various factors including, without limitation, market and other conditions, increase or decrease its beneficial ownership, control or direction over Common Shares or other securities of the Company. R&R is a private investment fund owned by billionaire and philanthropist Ronald Lauder, scion of the Estée Lauder fortune and Richard Parsons famed US banker and enterprise CEO. The fund is multi-disciplined and has investments across several sectors including mining, tech, industrial and energy. R&R, which has its head office at 767 5th Ave., Suite 4200, New York, New York 10153. R&R will be filing an early warning report in connection with the Convertible Debenture Units acquired under the Offering in accordance with applicable Canadian securities laws and will be available under the Company's SEDAR profile at www.sedar.com or by contacting Jacqueline Scalisi of R&R at 212.572.3774.

Debt Settlement

In conjunction with the Offering, the Company would also like to announce that it is proposing to settle an aggregate of approximately \$770,000 owing to certain officers and directors of the Company and service providers to the Company through the issuance of an aggregate of approximately 3,850,000 Common Shares of the Company at an implied issue price of C\$0.20 per Common Share.

The amount to be settled includes approximately \$515,000 out of a total of approximately \$850,000 of accrued directors' fees and accrued management and consulting fees owing to the Company's directors and officers, as the case may be. Under the policies of the TSXV, the \$515,000 represents the maximum amount owing to officers and directors that can be settled in shares without first obtaining disinterested shareholder approval.

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

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

Transfer within Escrow

The Company's Executive Chairman, Matthew Wood has entered into an agreement to acquire an additional 4,270,081 Common Shares of the Company from a former director of the Company at a price of C\$0.20. These shares are currently subject to a TSXV escrow and will remain in escrow following completion of the transfer. The TSXV has approved this transfer within escrow. The completion of this acquisition is expected to close on or before August 15, 2018.

Following all of the above transactions, management and directors will control 12.81% of the issued and outstanding Common Shares on a non-diluted basis. R&R Ventures currently holds approximately 28% of the issued and outstanding Common Shares on a non-diluted basis.

As disclosed in a recent early warning report, an individual shareholder, Zolzaya Byambaa, announced that she acquired 5,729,912 Common Shares at a price of C\$0.20 per share pursuant to agreements with Gemstar Investments Limited.

Following the purchase, Ms. Byambaa owned or exercised control or direction over 16,869,912 Common Shares, representing approximately 13.08% of the issued and outstanding Common Shares on a non-diluted basis.

Operational Update

The company recently completed drilling at its Maravilha Diamond Project and has completed 736.33m of HQ (63.5mm) diameter. The drill rigs have now been mobilized to commence a new drilling program on the Company's Catalao Diamond Project. A further 2,000 meters of drilling is planned to test 16 high priority targets at the Catalao Diamond Project.

All drilling is being completed by one of South America's leading drilling companies based on the previously announced equity based contract.

The Company is now focusing on the development of the Catalao Oxide project. Management believes that the Catalao Oxide project can produce commercial quantities of gem quality diamonds for approximately 12-18 months. The resultant cash flow from diamond sales at the Catalao Oxide project will be invested into the expansion of the Fresh Rock component of the Kimberlite pipes at Catalao. Further feasibility work will be conducted while the oxide portion is in production.

"We are very pleased with the support from R&R as we focus on finishing development at Catalao and then commencing production," said Executive Chairman, Matthew Wood.

ABOUT FIVE STAR DIAMONDS

Five Star Diamonds is listed on the TSX Venture Exchange under the ticker symbol STAR. The Company controls a dominant and highly enviable position in the Brazilian kimberlite diamond sector owning 23 diamond projects comprising an aggregate of 50 exploration licences and applications across 130,355 hectares.

To date, the Company has conducted exploration programs on seven projects with the Catalao, Maravilha, Riachao, Jaibaras and Verissimo Projects proven to contain diamond-bearing kimberlites.

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

This release is an update by the Company on its 100% owned Maravilha Diamond Project. It is expected that

the company will be able to provide further update on this and other Projects over the coming months and we look forward to keeping shareholders informed of our progress as we move towards building a truly unique Brazilian Diamond Company.

Qualified Person

Mr Paulo Ilídio de Brito
BSc Geology

Mr. Paulo de Brito is a geologist based in Brazil, has over 30 years of experience in the mining industry, dealing primarily with gold, copper, nickel, iron, industrial minerals and more recently diamonds. Mr. Brito is a Principal of consulting group Brasgeo and was until recently Exploration Manager of Paringa Resources Limited. Previously, he worked as a senior geologist with [WMC Resources Ltd.](#) for 18 years until the closure of their activities in Brazil in 2002.

The exploration activities and their related results included in this announcement were directly supervised and managed by Mr. Brito. According to Mr. Brito, all exploration work carried out to date on the Projects mentioned in this release follow clear mining industry standards.

Mr. Brito is a member of AIG (Australian Institute of Geoscientists), a professional geologist of CREA-RJ (Conselho Regional de Engenharia e Agronomia do Estado do Rio de Janeiro) and a Qualified Person as defined in National Instrument 43-101. Mr. Brito reviewed and approved the scientific and technical information contained in this press release.

On behalf of the Board

Five Star Diamonds Limited

Matthew Wood
Chairman of the Board

For further information, please contact:

Five Star Diamonds Limited

Rajan “Raj” Rai
rrai@fivestardiamonds.net
+1 778 835 9200

Cautionary Note Regarding Forward-looking statements

Information set forth in this news release contains forward-looking statements. Although the Company believes that such statements are reasonable, it can give no assurance that such expectations will prove to be correct. The Company cautions investors that any forward-looking statements by the Company are not guarantees of future results or performance, and that actual results may differ materially from those in forward looking statements as a result of various factors, many of which are beyond the Company's control. Such factors include, among other things: variations in the nature, quality and quantity of any mineral deposits that may be located, significant downward variations in the market price of any minerals produced, the Company's inability to obtain any necessary permits, consents or authorizations required for its activities, to produce minerals from its properties successfully or profitably, to continue its projected growth, to raise the necessary capital or to be fully able to implement its business strategies. Accordingly, actual and future events, conditions and results may differ materially from the estimates, beliefs, intentions and expectations expressed or implied in the forward-looking information. Except as required under applicable securities legislation, the Company undertakes no obligation to publicly update or revise forward-looking information.

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