# Stellar Diamonds plc

Reports and Financial Statements

For the year ended 30 June 2017

*(Stated in U.S. Dollars)*

Company registration number: 5424214

# Stellar Diamonds plc

For the year ended 30 June 2017

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**Corporate information**

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| **Registered office:** | 40 Bloomsbury Way, Lower Ground Floor, London, WC1A 2SE, United Kingdom |
| **Company registration number:** | 5424214 |
| **Company incorporated on:** | 14 April 2005 |
| **Company web site:** | www.stellar-diamonds.com |
| **AIM listing symbol:** | STEL |

# CHAIRMAN'S STATEMENT

Stellar has continued to progress towards combining its high-grade, high-value Tongo Kimberlite diamond project with the adjacent, larger, Tonguma mining concession held by Octea Mining Limited ("Octea") in eastern Sierra Leone. Together, the two licences cover the entire Tongo diamond field which has been exploited by artisanal miners since the 1950's. However, the sources of the alluvial diamonds, the underlying kimberlites, have never been mined commercially and this will be Stellar's primary focus going forward.

In order to focus our resources, the Board took the decision to dispose of the Company's Guinea portfolio of three licences and associated assets. Following due diligence, the final price was agreed at US$1.25 million of which US$0.5m has been received to date was received during the exclusivity and due diligence period. The balance of funds were received after the final tax formalities in Guinea were completed and the transaction closed between Stellar and BDG Capital, post financial year end.

**Tongo-Tonguma Mine Development (Sierra Leone)**

During the first half of the last financial year, Stellar and Octea signed a Tribute Mining and Revenue Share agreement whereby Stellar would acquire the Tonguma licence in return for a future royalty and revenue stream. This was deemed to be a Reverse Take Over under the AIM Rules for Companies ("RTO") and subsequently Stellar's shares were suspended from trading until that transaction was completed. However, towards the end of this suspension period, Octea requested that discussions around acquisition of Tonguma be terminated and instead the Company agreed heads of terms to allow Stellar to mine the Tonguma licence area alongside Stellar's own Tongo project with Stellar becoming operator of the combined mine under a revenue share model. The proposed agreements were deemed not to be an RTO and therefore trading in Stellar's shares resumed in March 2017. Stellar entered into legally binding conditional tribute mining and revenue share agreements with Octea ("Tribute Agreement") at the end of April 2017.

The broad terms of the Tribute Agreement require Stellar to invest 100% of the capital to develop the Tongo-Tonguma mine (estimated at US$32 million excluding working capital and cost overrun facility). Stellar will acquire Octea's in-country 50tph production plant and various other camp and equipment infrastructure at nominal value. Initial cash flow will be used to repay Stellar's capital investment and an initial preferential revenue share of US$5m million to Octea. Following this and once Stellar has recouped its entire investment a 10% gross revenue share arising from diamond sales from the combined mine (after deduction of 6.5% Government royalty) will be paid to Octea. Furthermore, a US$5.5 million bullet payment will be made to Octea after five years from mine development commencing.

The Tribute Agreement resulted in improved economics for Stellar with management estimating a post-tax NPV(8) of US$109 million and IRR of 31% for the estimated 21 year life of the project. This is significantly higher than the current market capitalisation of the Company and demonstrates the significant potential value in the project.

The combined resource for Tongo-Tonguma is established at 4.5 million carats at grades ranging from 100cpht to 260cpht (at a +1.18mm cut off) and diamond values ranging from US$209/ct to US$310/ct. The in-situ dollar per tonne of these kimberlites in resource is some of the highest in the world at up to US$550 per tonne.

Independent Consultants PPM and SRK Consulting undertook a revised Preliminary Economic Assessment ("PEA") and mine plan on the basis of mining both projects simultaneously. For a US$32 million capital outlay, initial production could be achieved within 12 months and build up to over 200,000 carats per annum over a 21 year life of mine. Cash flows at this level of production are significant at over US$45 million at a 49% margin. The PEA indicates significant scope to increase production and life of mine through bringing into resource additional carats from kimberlites already drilled on the Tonguma concession, with independent estimates of a further 8 million carats to be added to the resource base.

Stellar has appointed Exotix Capital, a market leading frontier/development funding group, to seek project debt funding for the mine development. Stellar also continues to engage with various other potential strategic partners to bring the necessary funding for the project development.

**Baoulé Project (Guinea)**

In the first half of this financial year Stellar signed joint venture agreements with Dubai based Citigate Commodities Trading ("Citigate") over the Baoulé (Guinea) and Kumgbo (Liberia) projects. It was incumbent on Citigate to fully fund the projects over a staged earn-in JV and also pay to Stellar a US$150,000 management fee. Unfortunately, no funding was forthcoming from Citigate. Stellar therefore terminated the joint ventures.

**Guinea Disposal**

Once the Citigate joint venture arrangements were terminated, Stellar entered into a terms sheet with Hong Kong based group BDG Capital for the sale of Stellar's three diamond projects in Guinea, namely, Baoulé, Mandala and Droujba. BDG undertook a detailed due diligence and a final transaction price of US$1.25 million was agreed, of which US$0.5 million was advanced by BDG to Stellar during the exclusivity and due diligence period, with the balance being paid post- period end in December 2017 once the final tax affairs in Guinea had been settled and the transaction completed.

The Board believes that the disposal of the Guinea assets is in the interests of shareholders as it enhances the Company's working capital and allows a strategic focus on the key asset of Tongo-Tonguma.

**Kumgbo Project (Liberia)**

No work was undertaken on the two high interest exploration licences in the Kumgbo area of western Liberia while the company was in discussion with Citigate. Past exploration by Stellar has identified a number of high priority indicator mineral targets in areas of known artisanal diamond mining. New diamondiferous kimberlite pipe discoveries have been made in the adjacent exploration licences by another group which reaffirms the exploration potential of the Kumgbo licences. Stellar will continue to seek a joint venture partner for this project.

**Diamond Market Overview**

Global rough diamond supply is estimated to rise to 144 million carats, valued at US$15 billion, in 2017 as three new mines came on stream (5% up on 2016). However, the first half of the year saw the two major producers by volume and value, De Beers and Alrosa, sell down their rough inventory into a market that saw price increases of around 2-5%. The second half of the year is traditionally slower and weaker than the first half and this has again proven to be the case with rough prices softening slightly in recent months.

There remains a short term concern in the mid-stream where certain manufacturers are experiencing tight liquidity and some bankruptcies. This impacts on buyer sentiment and results in softening of prices. Polished prices, as a consequence, have decreased by around 5% this year, which may provide some headwind to rough price in the short term.

However, the USA (being 50% of the diamond market) is showing signs of stable demand while China (being 20% of the market) is showing renewed demand and growth in the luxury-spending category, including jewellery. A strong US economy and stock market could translate to continued demand for diamond goods. Furthermore, increasing wealth creation in China and India will continue to drive rough diamond demand and proposed tax cuts in the USA may also stimulate increased luxury consumer spending in the future.

The long term outlook for rough production remains one of decreasing carats as the older mines approach the end of life. However, one new discovery in Angola by Alrosa (Luaxe) has the potential to be a 10 million carat per year producer after 2020. Nevertheless, this is unlikely to provide an oversupply of rough in the long term and therefore the outlook remains one of positive sentiment for diamonds.

# CHAIRMAN'S STATEMENT (Continued)

**Outlook**

Going forward, Stellar's strategic focus is on Tongo-Tonguma as we believe this is where significant value will be realised for the Company. The project is primed and ready to advance to the development phase subject to the necessary funding being achieved. Stellar believe the project can deliver robust and sustainable returns over the long term and as such should prove attractive to investors and shareholders alike. Once in production at the envisaged levels Tongo-Tonguma has the potential to be the second largest kimberlite diamond mine in West Africa.

I would like to once more thank our shareholders for their continued support in very challenging times for the junior resource sector. Furthermore, I would like to thank our management and in-country teams for their hard work and dedication. Philip Knowles, Stellar's CFO, has recently departed to new ventures and the Board thank him for his contribution in the last six years and wish him well. The Board has put in place an interim accounting support solution and will look to appoint a full time CFO once Tongo-Tonguma is funded into development.

Peter Daresbury

Lord Daresbury
Non-Executive Chairman
19 December 2017

# STRATEGIC REPORT

## STRATEGY

Our strategy is the development of the Tongo-Tonguma kimberlite project through to near term production. Simultaneous with this process, the Group's management expects to continue to use its expertise to potentially acquire further licence interests for diamond exploration and exploitation. The Group has recently concluded a Tribute Mining Agreement over the Tonguma kimberlite mining licence which neighbours the Company's wholly owned Tongo kimberlite project in Sierra Leone and has begun financing development of a commercial scale mine over the combined licences. First production is expected within 12 months of completion of the necessary project funding with commercial production being achieved within 2 years of funding.

With the Company's primary focus being on the development of Tongo-Tonguma project and becoming a commercial scale diamond producer in the near term the decision was taken during the year to divest its other diamond assets in Guinea. Subsequent to the year end Stellar completed the disposal of its Mandala, Droujba and Baoulé assets and licences for $1.25m, net of associated costs, releasing value to be used for general working capital and the Tongo-Tonguma project.

Stellar's medium term vision is to become a mid-tier diamond producer. This can be achieved by bringing the Tongo-Tonguma project into production and through growing our portfolio of assets in the West African region and building on our unique knowledge of and expertise within the area. Over a number of years the Group has positioned itself in the countries in which we operate through building strong local and national connections, including the training and development of a strong local workforce and utilising local skills and expertise wherever possible. We have a strong management team with extensive experience in diamonds and in African projects, particularly in West Africa.

By developing projects through the feasibility stages, Stellar plans to utilise alternative forms of financing to pure equity financing through the debt markets, offtake agreements or strategic investments where possible and thus seek to minimise future dilution to shareholders.

## BUSINESS REVIEW

Stellar Diamonds plc is a UK registered company, focused on diamond exploration and mine development in West Africa. A review of the significant developments and operating results of the Group, as well as the business environment, future prospects and the main trends and factors that are likely to affect the future development, performance and position of the Group's business are contained in the Chairman's Statement.

The loss after taxation for the year amounted to $9,180,288 including an impairment relating to the Guinea Disposal Group on its classification as a Disposal Group of $6,905,703 and an additional loss on discontinued activities of $22,322 (2016: loss $7,058,000 including an impairment relating to the Kono project of $4,300,528).

No dividends have been paid or are proposed for the year (2016: $Nil).

## FURTHER DEVELOPMENTS

The Directors intend to continue their involvement with the projects disclosed in the Chairman's Statement. They expect to continue to seek further acquisition opportunities in relation to diamond exploration and development.

# STRATEGIC REPORT (Continued)

## KEY PERFORMANCE INDICATORS

Given the early stage nature of the Group's kimberlite exploration portfolio, the Directors are of the opinion that analysis using financial KPIs was not appropriate for an understanding of the development, performance or position of the business during the year.

However, as the Group transitions through the mine building stage and into production on the Tongo-Tonguma project over the coming months, the Board will develop appropriate KPIs to allow it to analyse the Group's performance and position on a continuous basis.

In addition to the above, the Board also considers non-financial factors such as the Group's compliance with environmental, rehabilitation and other legislation within the Group's areas of operations.

## CORPORATE GOVERNANCE AND SOCIAL RESPONSIBILITY

The Group is subject to best practice standards and extensive regulations, which govern environmental protection. The Group is committed to uphold these standards and regulations as a minimum and to keep these important matters under continuous review. When appropriate, adequate action and provision is immediately taken to ensure full compliance with the standards expected of an international exploration and development company.

In particular, the Group aims to provide employees with a healthy and safe working environment whilst receiving payment that enables them to maintain a reasonable lifestyle for themselves and their families.

The Group works towards positive and constructive relationships with government, neighbours, and the public, ensuring fair treatment of those affected by the Group's operations.

## GOING CONCERN

Information in relation to going concern is disclosed in note 1.2 of the financial statements.

## FINANCIAL RISK MANAGEMENT

Details of the Group's financial risk management policies are set out in Note 21 to the Financial Statements.

## PRINCIPAL RISKS AND UNCERTAINTIES

The Group is subject to a number of potential risks and uncertainties, which could have a material impact on the long-term performance of the Group and could cause actual results to differ materially from expectation.

The management of risk is the collective responsibility of the Board of Directors and the Group has developed a range of internal controls and procedures in order to manage risk. The following risk factors, which are not exhaustive, are the principal risks relevant to the Group's activities:

# STRATEGIC REPORT (Continued)

## RISKS AND UNCERTAINTIES (Continued)

| Risk | Nature of risk and mitigation |
|---|---|
| **Licence obligations** | Operations must be carried out in accordance with the terms of each licence agreed with the relevant ministry for natural resources in the host country. Typically, the law provides that operations may be suspended, amended or terminated if a contractor fails to comply with its obligations under such licences or fails to make timely payments of relevant levies and taxes. The Group submits six monthly and annual operational reports to the Sierra Leone Ministry of Mines and also has regular communication and meetings with relevant government bodies to discuss future work plans and receive feedback from those bodies.<br><br>Country Managers in each jurisdiction monitor compliance with licence obligations and changes to legislation applicable to the Group and report as necessary to the Board. |
| **Requirement for further funding** | Stellar is reliant upon raising funds to complete the development of the Tongo-Tonguma project and for general working capital until such a time as the project begins generating free cashflow. Financial markets remain weak, making the raising of funds for projects difficult, though Stellar has successfully raised $800,000 since the year end and is confident of raising the remaining required funds following a successful completion of the initial FEED phase of the project. Stellar is also reliant on the continued support of its loan note holders in extending various loan note terms while the necessary funding is completed.<br><br>The Company has in place management reporting procedures, both financial and operational, that are robust and frequent enough to ensure that project elements are delivered on time and on budget. By doing so it proves to shareholders and potential investors that it is able to deliver on promises and will use funds and future funds wisely. As the Company moves through the mine construction phase of the Tongo-Tonguma project it will continuously review its systems and processes to ensure that they are adequate to monitor performance. In particular, the Company intends to strengthen Board and Senior Management. The Board regularly reviews Group cash flow projections and considers different sources of funds. The Group regularly meets with shareholders and the investor community and communicates through their website and regulatory reporting. |
| **Geological and development risks** | Diamond exploration, evaluation and development projects carry clear inherent risks of failing to identify economic projects and successfully bringing them into production. Failure of the Tongo-Tonguma project to meet the resource expectations as defined in the Resource Statements, PEA and Mine Plan would have a significant impact on the Group’s ability to achieve its vision of becoming a mid-tier producer in the medium term.<br><br>The Tongo-Tonguma project has been through the various recognised steps of exploration, identification and initial evaluation of targets, resource building and pre-feasibility over recent years, thus de-risking the project and is currently undertaking a further detailed drilling programme in advance of commencing the decline developments. The project shows clear economic viability and as such Stellar is confident of obtaining the required capital funding for the project, though this cannot be guaranteed. |

# STRATEGIC REPORT (Continued)

## RISKS AND UNCERTAINTIES (Continued)

| Risk | Nature of risk and mitigation |
|---|---|
| **Political and Licence Title risks** | Stellar's key project is situated in Sierra Leone. Sierra Leone has had political instability in the past 10 to 15 years, as is common with emerging economies. In recent years the political situation has stabilised, with a number of democratic elections having been held, however political risk still remains, as was seen by Stellar in 2012 with the arbitrary revocation of its Kono licence.<br><br>The management of Stellar continue to build strong ties with the Governments and Mining Ministries of countries in order to avoid potential conflicts in the future. Forging strong ties with local partners and other senior figures at local and national levels has been a significant part of this and this strategy will continue.<br><br>In order to carry out the Group's strategy and bring the Tongo-Tonguma kimberlite project into production it will require certain Mining and Environmental Licences to be issued and ratified. Stellar continues to work closely with the Government of Sierra Leone to ensure that this process is completed successfully. Since the year end the Company has received its Environmental Licence. |
| **Country risks** | There are inherent risks when operating in developing countries in West Africa. Guinea, Liberia and Sierra Leone suffered from the rapid spread of Ebola throughout 2014 and 2015. However in early 2016 all countries were declared Ebola free. There was an obvious risk to the Company of this virus impacting on its workforce and its ability to operate effectively in the region, but this was well managed throughout the outbreak, with no cases being reported amongst the workforce and no significant impact on operations.<br><br>Company health policies have been updated in light of this recent outbreak in order to reduce the risk of exposure to the virus of its workforce and local communities, and additional health and safety measures were put in place, such as temperature screening, additional sanitation facilities and movement restrictions and monitoring, as well as significant time spent educating local communities and workers on how to remain safe. |

In addition to the above there can be no assurance that current exploration programmes will result in profitable operations. The recoverability of the carrying value of exploration and evaluation assets is dependent upon the successful discovery of economically recoverable reserves, the achievement of profitable operations, and the ability of the Group to raise additional financing, or alternatively upon the Group's and company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write downs of the carrying values of the Group's assets.

# STRATEGIC REPORT (Continued)

### RISKS AND UNCERTAINTIES (Continued)

### APPROVAL OF THE BOARD

This Strategic Report contains certain forward-looking statements that are subject to the usual risk factors and uncertainties associated with the natural resources exploration industry. While the Directors believe the expectation reflected within the Reports and Financial Statements to be reasonable in light of the information available up to the time of their approval of this report, the actual outcome may be materially different owing to factors either beyond the Group's control or otherwise within the Group's control, for example owing to a change of plan or strategy.

Accordingly, no reliance may be placed on the forward-looking statements.

Approved and signed on behalf of the Board by:

Peter Daresbury

Lord Daresbury
Chairman

Date: 19 December 2017

# DIRECTORS' REPORT

The Directors submit their report and the consolidated financial statements for Stellar Diamonds plc (the "Company" or "Stellar" or on a consolidated basis the "Group"), for the year ended 30 June 2017.

## DIRECTORS

During the year under review, the following Directors held office:

| | |
|---|---|
| Lord Daresbury | Non-Executive Chairman |
| N. Karl Smithson | Chief Executive Officer |
| Luis Guilherme Cabrita da Silva | Non-Executive Director (resigned 6 October 2016) |
| Steven J. Poulton | Non-Executive Director |
| Hansjörg Plaggemars | Non-Executive Director |
| | |
| Philip Knowles | Company Secretary (resigned 2 November 2017) |
| Nicholas Karl Smithson | Company Secretary (appointed 2 November 2017) |

## DIRECTORS' INTERESTS

The Directors' interests in the ordinary shares of the Company as of 30 June 2017 are disclosed in note 20 of the Financial Statements.

## SHARE CAPITAL

In February 2017, 5,900,000 ordinary shares of 1p each were allotted and issued for gross proceeds of $404,652.

In March 2017, 5,019,536 ordinary shares of 1p each were allotted and issued for gross proceeds of $344,817.

## SUBSTANTIAL SHAREHOLDINGS

At 30 June 2017 and 4 December 2017 so far as the Company is aware, the only holdings of 3% or more in the issued share capital were:

| | At 30 June 2017 | At 4 December 2017 |
|---|---|---|
| Deutsche Balaton AG | 20.01% | 13.78% |
| Foradex Invest SRL | 8.42% | 5.80% |
| UBS Deutschland | 5.92% | 4.08% |
| Directors and management | 10.64% | 10.76% |

## PROPERTY PLANT AND EQUIPMENT

Details of the Group's property, plant and equipment is set out in Note 11 to the Financial Statements.

## EMPLOYEE CONSULTATION

The Group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Group. This is achieved through formal and informal meetings.

# DIRECTORS' REPORT (Continued)

**SUBSEQUENT EVENTS**

Details of significant post balance sheet events affecting the Group and Company are set out in Note 22 to the Financial Statements.

**AUDITORS**

Each of the persons who is a Director at the date of approval of this report confirms that:

1) so far as the Director is aware, there is no relevant audit information of which the company's auditors are unaware; and
2) the Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act, 2006.

A resolution to reappoint Deloitte will be proposed at the forthcoming Annual General Meeting.

Approved by the Board on 19 December 2017 and signed on its behalf by:

Peter Daresbury

N. Karl Smithson | Lord Daresbury

# DIRECTORS' RESPONSIBILITIES STATEMENT

The Directors are responsible for preparing the Reports and Financial Statements in accordance with applicable law and regulations.

Company Law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. In preparing these financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group and Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

This responsibility statement was approved by the Board on 19 December 2017 and signed on its behalf by:

Peter Daresbury

N. Karl Smithson
Chief Executive Officer

Lord Daresbury
Non-Executive Chairman

## Independent auditor's report to the members of Stellar Diamonds plc

## Report on the audit of the financial statements

## Opinion on the financial statements of Stellar Diamonds plc (the 'company')

In our opinion the Group and Parent Company financial statements:

- give a true and fair view of the assets, liabilities and financial position of the Group and Parent Company as at 30 June 2017 and of the loss of the Group for the period then ended; and
- have been properly prepared in accordance with the relevant financial reporting framework and, in particular, with the requirements of the Companies Act 2006.

The financial statements we have audited comprise:

- the Consolidated Statement of Comprehensive Income;
- the Consolidated Statement of Financial Position;
- the Company Statement of Financial Position;
- the Consolidated Statement of Changes in Equity;
- the Company Statement of Changes in Equity;
- the Consolidated Cash Flow Statement;
- the Company Cash Flow Statement;
- the related notes 1 to 22, including a summary of significant accounting policies as set out in note 2.

The relevant financial reporting framework that has been applied in the preparation of the Group and Parent Company financial statements is the Companies Act 2006 and International Financial Reporting Standards ('IFRS') as adopted by the European Union ("the relevant financial reporting framework").

## Separate opinion in relation to IFRSs as issued by the IASB

As explained in note 1 to the Group financial statements, the Group in addition to complying with its legal obligation to apply IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the Group financial statements comply with IFRSs as issued by the IASB.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are described below in the "*Auditor's responsibilities for the audit of the financial statements*" section of our report.

We are independent of the Group and Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Revised Ethical Standard 2016 as issued by the Financial Reporting Council ("FRC"), as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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**Independent auditor's report to the members of Stellar Diamonds plc**

## Material uncertainty related to going concern

We draw attention to Note 1.2 to the financial statements concerning the Group's ability to continue as a going concern. The Group incurred a net loss for the year of $9,180,288 and, as of that date, the Group's current liabilities exceeded its current assets by $3,180,687. This condition indicates the existence of a material uncertainty in respect of the Group's ability to continue as a going concern. The going concern assumption of the Group is dependent on the Group obtaining additional finance to meet its working capital needs for a period of not less than twelve months from the date of approval of the financial statements. The directors have prepared the financial statements of the Group on the basis that the Group is a going concern. The financial statements do not include any adjustments that would result if the Group was unable to continue as a going concern. Our opinion is not modified in respect of this matter.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

| **Recoverability of Intangible assets (Group), Recoverability of Investment in Subsidiary (Company) and Recoverability of Intercompany Receivables (Company)** | |
|---|---|
| **Key audit matter description** | As of 30 June 2017, the value of intangible assets amounted to $7,583,915 which accounts for more than 86% of the Group's total assets. These intangible assets relate to costs capitalised in relation to the Group's exploration activities in the consolidated balance sheet. In addition, the Company balance sheet includes investments in subsidiary of $4,157,484 and amounts due from subsidiaries of $3,570,723.<br><br>As disclosed in notes 8 and 9 to the financial statements, the recoverability and realisation of these assets is dependent on the discovery and successful development of economic diamond reserves and the ability of the Group to raise sufficient finance to develop the projects. Accordingly, due to the significance of the balances to the financial statements as a whole, combined with the uncertainty of discovery and successful development of economic reserves, recoverability of the intangible assets in the Group, and the recoverability of both the investment in subsidiary and the intercompany receivables in the Parent Company are all considered to be a key audit matter for the Group.<br><br>Refer to the accounting policy on page 30 and the disclosures in notes 8 and 9 of the financial statements. |

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## Independent auditor's report to the members of Stellar Diamonds plc

### Key Audit Matters (Continued)

| Recoverability of Intangible assets (Group), Recoverability of Investment in Subsidiary (Company) and Recoverability of Intercompany Receivables (Company) | |
|---|---|
| **How the scope of our audit responded to the key audit matter** | We considered and challenged the directors' assessment of indicators of impairment in relation to these exploration and evaluation assets and the recoverability of the investment in subsidiary and intercompany receivables. We performed a review of the board of directors' minutes of meetings and press releases in relation to the status of the exploration activities and funding strategies, including a review of the Group's budgeted expenditure for the next 12 months. We also considered the adequacy of the disclosures provided in the financial statements. |
| **Key observations** | An inherent uncertainty exists in relation to the ability of the Group to realise the exploration and evaluation assets capitalised as intangible assets and for the company to recover the investment in subsidiary and intercompany receivables. As noted above, recoverability of these assets is dependent on the discovery and successful development of economic diamond reserves and the ability of the Group to raise sufficient finance to develop the projects. The financial statements do not include any adjustments relating to this uncertainty and the ultimate outcome cannot, at present, be determined. Our opinion is not modified in respect of this matter. |
| **Capitalisation of Intangible Assets – Group** | |
| **Key audit matter description** | A risk exists that exploration costs not meeting the criteria of IFRS 6 are incorrectly capitalised rather than expensed to the Statement of Comprehensive Income. As a level of management judgement is required to be applied to certain costs, we therefore determined this to be a key audit matter.<br><br>The Group capitalised exploration and evaluation expenditure during the year ended 30 June 2017 amounting to $1,335,759.<br><br>Refer to the accounting policy on page 30 and the disclosures in note 8 of the financial statements. |
| **How the scope of our audit responded to the key audit matter** | We selected a sample of additions to intangible assets in the current year and determined the appropriateness of capitalising these costs as exploration and evaluation expenditure, in line with Group policy and IFRS 6 - Exploration for and Evaluation of Mineral Resources.<br><br>We also evaluated management's assessment of these costs with reference to the IFRS 6 criteria. |
| **Key observations** | No observations were identified. |

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## Independent auditor's report to the members of Stellar Diamonds plc

### Key Audit Matters (Continued)

| Valuation of Convertible Loans – Group and Parent Company | |
|---|---|
| **Key audit matter description** | As of 30 June 2017, the value of convertible loans amounted to $2,845,103 which accounts for more than 65% of the Group's total liabilities and more than 80% of the Parent company's total liabilities. There is a risk that the two convertible loan notes and related warrants are not properly valued as at the balance sheet date due to the complexity of the loan agreements, the amendments entered into during the year and the estimation required. A risk exists that embedded derivatives are not identified and separately valued, where necessary. |
| **How the scope of our audit responded to the key audit matter** | We obtained a listing of all the loans, the corresponding loan agreements and all loan amendments. We agreed the terms of the loan agreements to the loan and interest amounts recorded and recalculated the outstanding balance of the loan and interest recorded.<br><br>In addition, we engaged in-house valuation specialists to assist in our audit of the valuation of the loans, warrants and derivatives and the accounting treatment and disclosures of the two convertible loan notes, related warrants and derivatives.<br><br>We assessed and challenged the key judgements made by the Directors in determining that the derivative embedded in the $1.24m convertible loan and related warrants were valued at nil.<br><br>Refer to the accounting policy on page 32 and the disclosures in note 19 of the financial statements. |
| **Key observations** | A significant level of judgement was required in determining the value of the embedded derivatives and warrants attached to the convertible loan notes due to the uncertainty surrounding the probabilities of future transactions occurring as disclosed in note 19. |

| Assets in Disposal Group classified as held for sale – Group | |
|---|---|
| **Key audit matter description** | As of 30 June 2017, the value of assets in the disposal group classified as held for sale amounts to $920,911 (after disposal costs) and the related loss on discontinued operations amounts to $6,928,024. There is a risk that assets are not held at the lower of carrying amount or fair value less costs to sell. There is also a risk that disclosure of discontinued operations is not presented in accordance with IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations. |

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## Independent auditor's report to the members of Stellar Diamonds plc

### Key Audit Matters (Continued)

| Assets in Disposal Group classified as held for sale – Group | |
|---|---|
| **How the scope of our audit responded to the key audit matter** | We obtained the final agreement for the sale which contained the heads of terms.<br><br>We reviewed the agreement for any terms and conditions that may indicate possible liabilities and we assessed whether these were adequately accounted for. We also assessed the accrued exit costs recorded. The disclosures were reviewed for compliance with IFRS 5.<br><br>Refer to the accounting policy on pages 30 and 31 and the disclosures in note 12 of the financial statements. |
| **Key observations** | No observations were identified. |

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

### Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person, relying on the financial statements, would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group to be US $160,000, which represents approximately 2% of the Group's Intangible Assets. We determined materiality for the company to be $144,000, which represents approximately 3% of Net Assets. We have considered Intangible Assets to be the critical component for determining Group materiality because there was no revenue generated during the year as the Group is still in the exploration stage. We have considered quantitative and qualitative factors such as understanding the entity and its environment, history of misstatements, complexity of the Group and Parent Company and reliability of control environment.

We agreed with the Audit Committee that we would report to them all audit differences for the Group in excess of $8,000 and all audit differences for the Parent Company in excess of $7,200 as well as differences below this threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Board of Directors on disclosure matters that we identified when assessing the overall presentation of the financial statements.

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## Independent auditor's report to the members of Stellar Diamonds plc

### An overview of the scope of our audit

In approaching the audit, we considered how the Group is organised and managed. We assessed the Group to be made up of three significant components being Stellar Diamonds plc as a standalone entity, Sierra Diamonds Limited and the entities classified as Guinea Disposal Group.

### Other information

The directors are responsible for the other information. The other information comprises the information included in the Reports and Financial Statements, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

### Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and otherwise comply with the Companies Act 2006, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group and parent company or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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## Independent auditor's report to the members of Stellar Diamonds plc

### Auditor's responsibilities for the audit of the financial statements (Continued)

As part of an audit in accordance with ISAs (UK), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group and parent company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group and parent company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the entity (or where relevant, the Group) to cease to continue as a going concern.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that the auditor identifies during the audit.

This report is made solely to the company's members, as a body, in accordance with Section 393 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Report on other legal and regulatory requirements

### Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

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## Independent auditor's report to the members of Stellar Diamonds plc

### Matters on which we are required to report by exception

Based on the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the directors' report.

We have nothing to report in respect of the provisions in the Companies Act 2006 which require us to report to you if, in our opinion, the disclosures of directors' remuneration and transactions specified by law are not made.

EMER O'SHAUGHNESSY (Senior Statutory Auditor)
For and on behalf of Deloitte
Chartered Accountants and Statutory Audit Firm
Deloitte & Touche House, Earlsfort Terrace, Dublin 2

Date: 19 December 2017

# Stellar Diamonds plc

## Consolidated statement of comprehensive income
## For the year ended 30 June 2017

(Stated in U.S. dollars)

| | Notes | Year ended 30 June 2017 | Year ended 30 June 2016 |
|---|---|---|---|
| Revenue | 3 | - | 499,725 |
| Cost of sales | | - | (1,545,769) |
| Gross loss | | - | (1,046,044) |
| Depreciation of plant and equipment | 4, 11 | (1,007) | (621,629) |
| Impairment of intangibles | 8 | - | (4,300,528) |
| Administrative expenses | | (1,533,675) | (1,461,418) |
| Loss on disposal of tangible fixed assets | | - | (98,956) |
| Remeasurement of derivatives | 19 | 12,504 | 877,993 |
| Finance costs | | (730,085) | (407,418) |
| | | (2,252,263) | (7,058,000) |
| **Loss before tax** | | (2,252,263) | (7,058,000) |
| Income tax expense | 6 | - | - |
| Loss from continuing operations | | (2,252,263) | (7,058,000) |
| Loss on discontinued operations | 12 | (6,928,025) | - |
| **Loss after tax attributable to equity holders of the parent** | 4 | (9,180,288) | (7,058,000) |
| **Total comprehensive income for the year attributable to equity holders of the parent** | | (9,180,288) | (7,058,000) |
| **Basic and diluted loss per share** | 7 | (0.260) | (0.300) |
| **Basic and diluted loss per share on continuing operations** | | (0.064) | (0.300) |

# Stellar Diamonds plc

## Consolidated and company statement of financial position
## As at 30 June 2017

(Stated in U.S. dollars)

| | | Consolidated | | Company | |
|---|---|---|---|---|---|
| | Notes | 30 June 2017 | 30 June 2016 | 30 June 2017 | 30 June 2016 |
| **Assets** | | | | | |
| *Non-current assets* | | | | | |
| Intangible Assets | 8 | 7,583,915 | 13,139,699 | - | - |
| Property, plant and equipment | 11 | 63,810 | 1,439,124 | - | - |
| Investment in Subsidiary | 9 | - | - | 4,157,484 | 4,157,484 |
| Total non-current assets | | 7,647,725 | 14,578,823 | 4,157,484 | 4,157,484 |
| *Current assets* | | | | | |
| Inventories | 13 | - | 26,934 | - | - |
| Trade and other receivables | 14 | 41,062 | 296,284 | 3,581,213 | 10,529,217 |
| Cash and cash equivalents | | 169,505 | 268,330 | - | 447 |
| | | 210,567 | 591,548 | 3,581,213 | 10,529,664 |
| Assets in Disposal Groups classified as held for sale | 12 | 920,911 | - | - | - |
| Total current assets | | 1,131,478 | 591,548 | 3,581,213 | 10,529,664 |
| **Total assets** | | 8,779,203 | 15,170,371 | 7,738,697 | 14,687,148 |
| | | | | | |
| **Equity and liabilities** | | | | | |
| *Capital and reserves* | | | | | |
| Share capital | 15 | 27,023,701 | 26,887,434 | 27,023,701 | 26,887,434 |
| Share premium | 15 | 31,042,176 | 30,449,207 | 31,042,176 | 30,449,207 |
| Reverse acquisition reserve | | 17,073,279 | 17,073,279 | - | - |
| Share option reserve | 16 | 918,279 | 918,279 | 918,279 | 918,279 |
| Foreign currency translation reserve | | - | - | (773,363) | (773,363) |
| Accumulated loss | | (71,590,397) | (62,410,109) | (53,743,755) | (44,563,467) |
| Total equity | | 4,467,038 | 12,918,090 | 4,467,038 | 12,918,090 |
| *Non-current liabilities* | | | | | |
| Convertible loan | 19 | - | 953,625 | - | 953,625 |
| Derivative financial liabilities | 19 | - | 12,504 | - | 12,504 |
| Provision | 17 | - | 104,369 | - | - |
| Total non-current liabilities | | - | 1,070,498 | - | 966,129 |
| *Current liabilities* | | | | | |
| Trade and other payables | 18 | 1,367,072 | 413,840 | 426,556 | 134,976 |
| Loans | 18 | 99,990 | 767,943 | - | 667,953 |
| Convertible loans | 18 | 2,845,103 | - | 2,845,103 | - |
| Total current liabilities | | 4,312,165 | 1,181,783 | 3,271,659 | 802,929 |
| Total liabilities | | 4,312,165 | 2,252,281 | 3,271,659 | 1,769,058 |
| **Total equity and liabilities** | | 8,779,203 | 15,170,371 | 7,738,697 | 14,687,148 |

The company recorded a loss for the year of $9,180,288 (2016: loss $7,058,000).

The financial statements of Stellar Diamonds plc, registered number: 5424214 were approved by the Board of Directors and authorised for issue on 19 December 2017. They were signed on its behalf by:

N. Karl Smithson

Lord Daresbury

Peter Daresbury

# Stellar Diamonds plc

## Consolidated statement of changes in equity
## For the year ended 30 June 2017

(Stated in U.S. dollars)

| | Share capital (note 15) | Share premium (note 15) | Share option Reserve (note 16) | Reverse acquisition reserve | Accumulated loss | Total equity |
|---|---|---|---|---|---|---|
| Balance at 30 June 2015 | 26,655,961 | 29,000,173 | 4,286,666 | 17,073,279 | (58,720,496) | 18,295,583 |
| Total comprehensive loss for the year | - | - | - | - | (7,058,000) | (7,058,000) |
| Issue of placing shares (note 15) | 231,473 | 1,575,358 | - | - | - | 1,806,831 |
| Share issue costs (note 15) | - | (126,324) | - | - | - | (126,324) |
| Share options expired (note 16) | - | - | (3,368,387) | - | 3,368,387 | - |
| **Balance as at 30 June 2016** | 26,887,434 | 30,449,207 | 918,279 | 17,073,279 | (62,410,109) | 12,918,090 |
| Total comprehensive loss for the year | - | - | - | - | (9,180,288) | (9,180,288) |
| Issue of placing shares (note 15) | 136,267 | 613,202 | - | - | - | 749,469 |
| Share issue costs (note 15) | - | (20,233) | - | - | - | (20,233) |
| **Balance as at 30 June 2017** | 27,023,701 | 31,042,176 | 918,279 | 17,073,279 | (71,590,397) | 4,467,038 |

*Notes:*
*Share premium - Share Premium comprises of a premium arising on the issue of shares*
*Share option reserve - Share option reserve arises on the grant of share options under the share option plan*
*Reverse acquisition reserve – Reverse Acquisition Reserve arose on the reverse acquisition of Stellar Diamonds Ltd in 2010*
*Accumulated loss - Accumulated loss comprises of losses incurred in the current and prior years*

# Stellar Diamonds plc

## Company statement of changes in equity
## For the year ended 30 June 2017

(Stated in U.S. dollars)

| | Share capital (note 15) | Share premium (note 15) | Share option reserve (note 16) | Foreign currency translation reserve (note 2.2) | Accumulated loss | Total equity |
|---|---|---|---|---|---|---|
| Balance at 30 June 2015 | 26,655,961 | 29,000,173 | 1,952,748 | (773,363) | (38,539,936) | 18,295,583 |
| Total comprehensive loss for the year | - | - | - | - | (7,058,000) | (7,058,000) |
| Issue of placing shares (note 15) | 231,473 | 1,575,358 | - | - | - | 1,806,831 |
| Share issue costs (note 15) | - | (126,324) | - | - | - | (126,324) |
| Share options expired (note 16) | - | - | (1,034,469) | - | 1,034,469 | - |
| **Balance at 30 June 2016** | 26,887,434 | 30,449,207 | 918,279 | (773,363) | (44,563,467) | 12,918,090 |
| Total comprehensive loss for the year | - | - | - | - | (9,180,288) | (9,180,288) |
| Issue of placing shares (note 15) | 136,267 | 613,202 | - | - | - | 749,469 |
| Share issue costs (note 15) | - | (20,233) | - | - | - | (20,233) |
| **Balance at 30 June 2017** | 27,023,701 | 31,042,176 | 918,279 | (773,363) | (53,743,755) | 4,467,038 |

*Notes:*
*Share premium - Share Premium comprises of a premium arising on the issue of shares*
*Share option reserve - Share option reserve arises on the grant of share options under the share option plan*
*Foreign currency translation reserve – The translation reserve arose from a change in functional currency used at the time of the Reverse Take Over in 2010*
*Accumulated loss - Accumulated loss comprises of losses incurred in the current and prior years*

# Stellar Diamonds plc

## Consolidated and company statement of cash flows
## For the year ended 30 June 2017

(Stated in U.S. dollars)

| | Consolidated | | Company | |
|---|---|---|---|---|
| | June 2017 | June 2016 | June 2017 | June 2016 |
| **Cash flows from operating activities:** | | | | |
| Net loss for the year | (9,180,288) | (7,058,000) | (9,180,288) | (7,058,000) |
| Adjustments for: | | | | |
| Depreciation of property, plant and equipment | 1,007 | 621,629 | - | - |
| Impairment of intangibles | - | 4,300,528 | - | 1,302,561 |
| Impairment on classification as disposal group | 6,905,703 | - | - | - |
| Reversal of rehabilitation provisions | (104,369) | - | - | |
| Loss on disposal of fixed assets | - | 98,956 | - | - |
| Remeasurement of derivatives | (12,504) | (877,993) | (12,504) | (877,993) |
| Shares issued to Directors and officers in lieu of fees | 90,332 | 192,343 | - | - |
| Net foreign exchange (gain) | (102,461) | (226,447) | (77,496) | (11,983) |
| Interest payable | 730,085 | 407,418 | 730,085 | 378,341 |
| Change in working capital items: | | | | |
| Decrease/(Increase) in receivables | 255,222 | (129,534) | 6,753,148 | 2,906,806 |
| Decrease/(Increase) in inventories | 26,934 | 127,236 | | - |
| Increase/(Decrease) in trade and other payables | 703,240 | (93,677) | 518,173 | 29,347 |
| Advance on disposal of Guinea Assets (note 12) | 250,000 | - | - | - |
| Net cash used in operations | (437,099) | (2,637,541) | (1,268,882) | (3,330,921) |
| **Cash flows from investing activities** | | | | |
| Payments to acquire intangible assets | (896,522) | (706,801) | - | - |
| Net cash used in investing activities | (896,522) | (706,801) | - | - |
| **Cash flows from financing activities** | | | | |
| Proceeds of Convertible Loan | 600,000 | 1,551,407 | 600,000 | 1,551,407 |
| Proceeds of other loans | - | 662,397 | - | 662,397 |
| Repayment of other loans | - | (337,500) | - | (337,500) |
| Interest Paid | (47,965) | (72,867) | (47,965) | (45,625) |
| Proceeds from issue of share capital, net of costs | 638,904 | 1,488,164 | 638,904 | 1,488,164 |
| Net cash generated by financing activities | 1,190,939 | 3,291,601 | 1,190,939 | 3,318,843 |
| **Net (decrease) in cash and cash equivalents** | (142,682) | (52,741) | (77,943) | (12,078) |
| Cash and cash equivalents, beginning of year | 268,330 | 94,624 | 447 | 542 |
| Effect of foreign exchange rate changes | 43,857 | 226,447 | 77,496 | 11,983 |
| **Cash and cash equivalents, end of year** | 169,505 | 268,330 | - | 447 |

## 1. Basis of preparation

*Stellar Diamonds plc*

On 22 February 2010, the Company completed its acquisition of Stellar Diamonds Limited in a share for share exchange. Under the terms of the acquisition agreement, the Company agreed to acquire the entire issued share capital of Stellar Diamonds Limited for a consideration equating to approximately three times the value of West African Diamonds plc. ("WAD"), represented by an approximate 75:25 split of the share capital in the enlarged group prior to the issue of Placing shares - 75 per cent being attributable to consideration shares to be allotted to Stellar Diamonds Limited shareholders and 25 per cent being attributable to ordinary shares held by WAD plc shareholders. Subsequent to the acquisition WAD plc changed its name to Stellar Diamonds plc.

*1.1 Basis of accounting*

Stellar Diamonds plc is presenting audited financial statements as of and for the year ended 30 June 2017. The comparative period presented is audited financial statements as of and for the year ended 30 June 2016.

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as published by the IASB. The financial statements have also been prepared in accordance with IFRSs as adopted by the European Union and in accordance with the Companies Act, 2006. The consolidated financial statements have been prepared on an historical cost basis, as adjusted for certain financial instruments carried at fair value.

*1.2 Going concern*

The Group incurred a loss of $9,180,288 during the year ended 30 June 2017 (2016: $7,058,000), and at that date had net current liabilities of $3,180,687 (2016: net current liabilities of $590,235) which included cash and cash equivalents of $169,505 (2016: $268,330) and stock of diamonds of nil (2016: $26,934).

During the year the Group raised $0.75m through placings and entered into a convertible loan note for $1.24m, replacing an existing $0.66m loan. Subsequent to the Balance Sheet date the Group extended the $1.24m convertible loan by $0.1m to $1.34m and raised a further $0.8m through an equity placing and open offer details of which can be found in note 22. At the date of this report the Group is working to finalise the $45m financing of the Tongo-Tonguma project through a combination of debt and equity. The Group has entered into a mandate with Exotix Partners LLP, an experienced funding group in the frontier and emerging markets, to raise the required debt and equity for the Tongo-Tonguma project which, if completed would provide the Group with sufficient funds to undertake the planned 2 year mine construction exercise. Furthermore, Stellar continues engagement with various potential strategic investors which, if successful would provide the Group with potential funding for the Tongo-Tonguma mine development. Should the funding not take place as planned the Group will require additional working capital funding to continue as a going concern. The Group has continued to undertake cost reduction initiatives both at a Corporate and Project level, including the completion of the disposal of the Group's Guinea assets for gross consideration of $1.25m, resulting in significantly reduced cash overheads.

**1. Basis of preparation (Continued)**

*1.2 Going concern (Continued)*

Given the positive evaluation studies concluded on the Tongo project to date, the stage of development of the project, the issuing of the necessary Environment Licence for the Tongo project and the positive progress in obtaining the Mining Licence required to take the project into production which is presently being drafted by the Government of Sierra Leone, and the completion, subject to certain funding requirements, of the transformational Tonguma transaction the Directors believe that the Company will have the ability to access sufficient levels of finance to fund the capital expenditure requirements at Tongo-Tonguma, and to meet essential administrative expenses for the foreseeable future. The directors have reviewed the projected cash flows for the Group and on the basis of the projected cash flow information, the prospects for raising additional equity as required, and the continued support of the Convertible Loan Note holders and Octea on extending certain terms of the loans and transaction they consider it appropriate to prepare the financial statements on a going concern basis.

The going concern of the Group is dependent on obtaining additional finance in order to meet its working capital needs for a period of not less than twelve months from the date of approval of the financial statements and to continue to fund development of exploration projects. This indicates the existence of material uncertainties which may cast significant doubt on the ability of the Company and the Group to continue as a going concern, and hence may be unable to realise its assets and discharge its liabilities in the normal course of business.

The Directors are confident that they can fulfil the funding requirements of the Group through attracting funding through joint ventures, sale of assets, reducing overheads, obtaining debt funding for Tongo or the issue of further shares by way of private placement. On this basis, the Directors are satisfied that it is appropriate to prepare the financial statements of the Group on a going concern basis. The financial statements do not include any adjustment to the carrying amount or classification of assets and liabilities that would occur if the Company was unable to continue as a going concern.

*1.3 Standards adopted during the year*

- Annual Improvements to IFRSs: 2012-2014 Cycle (1 January 2016)
- Amendments to IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations (1 January 2016)
- Amendments to IFRS 7 - Financial Instruments: Disclosures (1 January 2016)
- Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (1 January 2016)
- Amendments to IFRS 10, IFRS 12 and IAS 28 – Investment Entities: Applying the Consolidation Exception (1 January 2016)
- Amendments to IFRS 11 (May 2014) - Accounting for Acquisitions of Interests in Joint Operations (1 January 2016)
- IFRS 14 - Regulatory Deferral Accounts (1 January 2016)
- Amendments to IAS 1 – Disclosure Initiative (1 January 2016)
- Amendments to IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortisation (1 January 2016)
- Amendments to IAS 16 and IAS 41 - Agriculture: Bearer Plants (1 January 2016)
- Amendments to IAS 19 - Employee Benefits (1 January 2016)
- Amendments to IAS 27 - Equity Method in Separate Financial Statements (1 January 2016)

## 1. Basis of preparation (Continued)

### *1.4 Standards in issue but not yet effective*

The following standards and interpretations which have been recently issued or revised have not been adopted early.

- Annual Improvements to IFRSs: 2014-2016 Cycle (1 January 2017 and 2018)
- IFRS 9 – Financial Instruments (1 January 2018)
- IFRS 15 - Revenue from Contracts with Customers (1 January 2018)
- Amendments to IFRS 2 – Measurement of share based payment transactions (1 January 2018)
- IFRS 16 – Leases (1 January 2019)
- Amendments to IAS 7 – Disclosure Initiative (1 January 2017)
- Amendments to IAS 12 – Income Taxes – Recognition of deferred tax assets for unrealized losses (1 January 2017)
- Amendments regarding the interaction of IFRS 4 (Insurance Contracts) and IFRS 9 (Financial instruments) (1 January 2018)
- Amendments to IAS 40 – Investment Property – Amendments to clarify transfers of property to, or from, investment property (1 January 2018)
- IFRS 17 – Insurance Contracts (1 January 2021)
- Amendments to IAS 28 - Investments in Associates and Joint Ventures – Clarifying certain fair value measurements (1 January 2018)

## 2. Significant accounting policies

The accounting policies set out below have been applied consistently in these financial statements, unless otherwise stated.

### 2.*1 Basis of consolidation*

Where the Company has control over an investee, it is classified as a subsidiary. The Company controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control. De-facto control exists in situations where the Company has the practical ability to direct the relevant activities of the investee without holding the majority of the voting rights. In determining whether de-facto control exists the company considers all relevant facts and circumstances, including:

- The size of the Company's voting rights relative to both the size and dispersion of other parties who hold voting rights
- Substantive potential voting rights held by the Company and by other parties
- Other contractual arrangements
- Historic patterns in voting attendance.

The consolidated financial statements present the results of the Company and its subsidiaries ("the Group") as if they formed a single entity. Intercompany transactions and balances between Group companies are therefore eliminated in full.

**2. Significant accounting policies (Continued)**

2.*1 Basis of consolidation (Continued)*

The consolidated financial statements incorporate the results of business combinations using the acquisition method. In the statement of financial position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained. They are deconsolidated from the date control ceases.

*2.2 Foreign currency translation*

2.2.1 Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in U.S. dollars ("$"), which is the functional and presentation currency for all the Group's operations.

2.2.2 Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income.

*2.3 Property, plant and equipment*

All property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditures that are directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amounts of any replaced parts are derecognized. All other repairs and maintenance are charged to the consolidated statement of comprehensive income during the financial period in which they are incurred.

Machinery and equipment, which is comprised of office furniture, automobiles and other equipment, are depreciated at 30% per annum on a reducing balance basis.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

**2. Significant accounting policies (Continued)**

*2.4 Intangible Assets - Exploration and evaluation expenditure*

The Group follows the method of accounting for its mineral properties whereby all costs related to acquisition, exploration and evaluation are capitalized pending determination of the feasibility of the project. These assets are not depreciated. Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. When facts and circumstances suggest that the carrying amount exceeds the recoverable amount, the Group measures, presents and discloses any resulting impairment loss in the consolidated statement of comprehensive income.

The facts and circumstances indicating impairment include the following:

- the period for which the Group has a right to explore in the specific area has expired or is expected to expire;
- exploration for and evaluation of resources in the specific area have not led to the discovery of commercially viable quantities of resources and the Group has decided to discontinue such activities in the specific area;
- sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale;
- substantive expenditure or further exploration and evaluation in the specific area is neither budgeted nor planned.

Exploration costs are capitalised as an intangible asset until technical feasibility and commercial viability of extraction of reserves are demonstrable, when the capitalised exploration costs are re-classed to property, plant and equipment. Exploration costs include an allocation of administration and salary costs (including share based payments) as determined by management.

Prior to reclassification to property, plant and equipment, exploration and evaluation assets are assessed for impairment and any impairment loss recognised immediately in the statement of comprehensive income.

*2.5 Non-current assets (or disposal groups) held for sale and discontinued operations*

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

**2. Significant accounting policies (Continued)**

*2.5 Non-current assets (or disposal groups) held for sale and discontinued operations (Continued)*

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the statement of profit or loss.

*2.6 Impairment*

At each balance sheet date, the Group reviews the carrying amounts of its non-current assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior periods. A reversal of an impairment loss is recognised as income immediately.

*2.7 Inventories*

Inventories are stated at the lower of cost and net realisable value. Cost of production includes an appropriate portion of production overheads. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

*2.8 Provisions*

Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that the Group will be required to settle the obligation and a reliable estimate can be made of the amount of obligation. Where the effect of discounting is material, provisions are discounted. The discount rate used is a risk free rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability.

**2. Significant accounting policies (Continued)**

*2.9 Decommissioning, mine closure and environmental rehabilitation*

The estimated cost of decommissioning, mine closure and environmental rehabilitation is based on current legal requirements and existing technology. A provision is raised based on the present value of the estimated costs. These costs are included in the cost of the related asset. The capitalised assets are depreciated in accordance with the accounting policy for property, plant and equipment.

*2.10 Financial instruments*

<u>Loans and receivables</u>

Trade receivables, loans and other receivables that have fixed and determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are initially measured at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest method. Convertible loans are split into a loan element and an embedded derivative element. The embedded derivative is initially measured at fair value and any changes in fair value at each reporting date are subsequently charged to the income statement.

<u>Impairment of financial assets at amortised cost</u>

Financial assets that are measured at amortised cost are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been affected. The amount of impairment is the difference between the assets' carrying amount and the present value of the estimated discounted future cashflows.

<u>Derecognition of financial assets</u>

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay.

<u>Cash and cash equivalents</u>

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

<u>Financial liabilities and equity</u>

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

**2. Significant accounting policies (Continued)**

*2.10 Financial instruments (Continued)*

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at fair value through profit or loss ("FVTPL")' or 'other financial liabilities'.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

*2.11 Income tax*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

**2. Significant accounting policies (Continued)**

*2.12 Share-based payments*

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Fair value is measured by use of a Black-Scholes model. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Equity-settled share options granted to employees vest immediately and therefore the charge is recognised in the consolidated statement of comprehensive income at the grant date.

Equity-settled share-based payment transactions with other parties are measured at the fair value of the goods and services received, except where the fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

*2.13 Warrants*

Where warrants are issued in relation to an issue of equity, the fair value of those warrants are credited to the warrants reserve and debited to share premium as an issuance cost of the related equity. The warrants reserve is non-distributable and will be transferred to the share premium account upon the exercise of warrants. The balance of the warrants reserve in relation to the unexercised warrants at the expiry of the warrants period will be transferred to accumulated profits.

*2.14 Revenue recognition*

Revenue relating to sale of diamonds is measured at the fair value of the consideration received. Revenue is recognised only following the receipt of funds from the buyer.

*2.15 Critical accounting judgements and sources of estimation uncertainty*

In the application of the Group's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

Key sources of estimation uncertainty and judgements made in applying specific accounting policies are as follows:

*Share based payments*

In determining the fair value of share-based payments made during the period to employees and those parties providing services of a similar nature, a number of assumptions have been made by management.

**2. Significant accounting policies (Continued)**

*2.15 Critical accounting judgements and sources of estimation uncertainty (Continued)*

*Carrying value of non-current assets*

The outcome of ongoing exploration, and therefore whether the carrying value of the machinery and equipment and exploration and evaluation expenditures will ultimately be recovered, is inherently uncertain.

The ability of the Group to realise the carrying values of these assets is dependent on the discovery and successful development of economic mineral reserves, the on-going title to the resource properties, the Group's ability to raise sufficient finance to develop the mineral exploration projects and on the future profitable production or proceeds from the resource properties. The success of the Group's mineral exploration projects is also influenced by significant risks, including legal and political risks and future diamond prices.

The Directors make the judgements necessary to implement the Group's policy with respect to capitalisation of these assets and consider them for impairment at least annually with reference to indicators in IAS 36 and IFRS 6. If an indication exists, an assessment is made of the recoverable amount. The recoverable amount is the higher of value in use (being the net present value of expected future cash flows) and fair value less costs to sell. Value in use is estimated based on operational forecasts for advanced stage projects with key inputs that include diamond resources, diamond prices, production levels including grade and tonnes processed, production costs and capital expenditure. However, because of the above-mentioned uncertainties, actual future cash flows could materially differ from those estimated. The carrying value of exploration and evaluation costs and property, plant and equipment are set out in notes 8 and 11.

*Capitalisation of expenses*

Expenditure on exploration and evaluation projects is capitalised to intangible fixed assets as incurred in accordance with the Group's accounting policies. The Directors make the judgements necessary in order to implement these policies and consider the stage of development.

*Recoverability of amounts due from subsidiaries*

The Directors make judgements as to the recoverability of amounts due from subsidiaries based on the expectation of the projects and investments held by those subsidiaries producing sufficient future cashflows to repay the loans. Therefore the assessment of recoverability is directly linked to the impairment reviews of the various projects.

*Valuation of Financial Instruments*

In determining the fair value of financial instruments a number of assumptions have been made by management. These assumptions are detailed in notes 19 and 21.

*2.16 Investment in Subsidiaries*

Investments in subsidiaries are stated at cost less any accumulated impairment allowance.

The ability of the Company to realise the carrying values of these assets is dependent on the discovery and successful development of economic mineral reserves including the Group's ability to raise sufficient finance to develop the exploration projects.

(Stated in U.S. dollars)

### 3. Segments

During the period the Company is engaged in the acquisition, exploration, development and production of diamond properties in the West African countries of Sierra Leone and Guinea. Information presented to the Chief Executive Officer for the purposes of resource allocation and assessment of segment performance is focused on the individual projects in geographical locations. In the case of the Guinea based projects, following the decision during the year to dispose of all Guinea based assets through a single disposal, these assets have been classified as being a disposal group and as such have been classified as a single segment for reporting purposes. The comparative information has been adjusted to reflect this single Guinea segment. The reportable segments under IFRS 8 are therefore as follows:

- Tongo (Sierra Leone);
- Kono (Sierra Leone);
- Guinea Disposal Group (Guinea);
- Corporate and other activities.

Following is an analysis of the Group's revenue, results, assets and liabilities by reportable segment for the year ended 30 June 2017:

| | Guinea Disposal Group $ | Kono $ | Tongo $ | Corporate and other $ | Total $ |
|---|---|---|---|---|---|
| Revenue – sale of diamonds | - | - | - | - | - |
| Segment result | - | (38,943) | 19,278* | (1,515,018) | (1,534,683) |
| Finance costs | | | | | (730,085) |
| Remeasurement of derivatives | | | | | 12,504 |
| Loss before tax | | | | | (2,252,264) |
| Income tax expense | | | | | - |
| Loss after tax | | | | | (2,252,264) |
| Loss on discontinued operations | (6,928,024) | - | - | - | (6,928,024) |
| Loss after tax and discontinued operations | (6,928,024) | (38,943) | 19,278* | (1,515,018) | (9,180,288) |
| Segment assets | 920,911 | 2,146 | 7,641,649 | 214,497 | 8,779,203 |
| Segment liabilities | - | (5,726) | (54,099) | (4,252,340) | (4,312,165) |
| Carrying value of intangible assets | - | - | 7,538,355 | 45,560 | 7,583,915 |
| Net book value of property, plant and equipment | - | 1,973 | 50,867 | 10,970 | 63,810 |
| Assets in Disposal Groups classified as held for sale | 920,911 | - | - | - | 920,911 |
| Capital additions – intangible assets | 926,161 | - | 409,597 | - | 1,335,758 |
| Depreciation of property, plant and equipment | 405,783 | 846 | 21,711 | 161 | 428,501 |

**The profit shown for Tongo relates entirely to foreign currency gains recognised on transfers of US Dollars in Sierra Leonian Leones in the year.*

(Stated in U.S. dollars)

### 3. Segments (Continued)

Following is an analysis of the Group's revenue, results, assets and liabilities by reportable segment for the year ended 30 June 2016:

| | Guinea Disposal Group | Kono | Tongo | Corporate and other | Total |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| Revenue – sale of diamonds | 499,725 | - | - | - | 499,725 |
| Segment result | (1,181,546) | (4,364,833) | 121,090* | (2,103,286) | (7,528,575) |
| Finance costs | | | | | (407,418) |
| Remeasurement of derivatives | | | | | 877,993 |
| Loss before tax | | | | | (7,058,000) |
| Income tax expense | | | | | - |
| Loss after tax | | | | | (7,058,000) |
| Segment assets | 7,370,269 | 3,012 | 7,231,945 | 565,145 | 15,170,371 |
| Segment liabilities | (107,053) | - | (36,920) | (2,108,308 | (2,252,281) |
| Carrying value of intangible assets | 5,965,382 | - | 7,128,759 | 45,558 | 13,139,699 |
| Net book value of property, plant and equipment | 1,352,537 | 2,819 | 72,637 | 11,131 | 1,439,124 |
| Capital additions – intangible assets | 18,293 | - | 721,518 | - | 739,811 |
| Depreciation of property, plant and equipment | 621,021 | 1,208 | 32,180 | 230 | 654,639 |
| Impairment of intangibles | - | 4,300,528 | - | - | 4,300,528 |

**The profit shown for Tongo relates entirely to foreign currency gains recognised on transfers of US Dollars in Sierra Leonian Leones in the year.*

### 4. Loss for the year

Loss for the year has been arrived at after charging/(crediting):

| | Year ended 30 June 2017 | Year ended 30 June 2016 |
|---|---|---|
| | $ | $ |
| Fees payable to the company's auditors for the audit of the group's accounts: | | |
| - audit services | 49,825 | 30,718 |
| - non-audit services | - | - |
| Net foreign exchange (gain) | (102,461) | (226,447) |
| Depreciation of property, plant and equipment | 1,007 | 621,629 |
| Impairment of Intangibles | - | 4,300,528 |

$427,554 of depreciation charges were capitalised as exploration and evaluation expenditure during the year and consequently are not included in the Statement of Comprehensive Income (2016: $33,010).

(Stated in U.S. dollars)

**5. Staff costs**

| | Year ended 30 June 2017 | Year ended 30 June 2016 |
|---|---|---|
| | $ | $ |
| Wages and salaries | 1,088,306 | 1,506,041 |
| Social security costs | 104,371 | 131,111 |
| | 1,192,677 | 1,637,152 |

The average monthly number of employees (including executive Directors) was 148 (30 June 2016: 150). The remuneration of key management personnel is further disclosed in note 20.

$578,742 staff costs were capitalised as exploration and evaluation expenditure during the year and consequently are not included in the Statement of Comprehensive Income (2016: $643,108).

**6. Income tax expense**

| | Year ended 30 June 2017 | Year ended 30 June 2016 |
|---|---|---|
| | $ | $ |
| Current taxation | - | - |
| Deferred taxation | - | - |
| | - | - |

The analysis of the group's taxation charge for the year based on the Company's statutory tax rate of 20% is as follows:

| | Year ended 30 June 2017 | Year ended 30 June 2016 |
|---|---|---|
| | $ | $ |
| Loss for the year | (9,180,288) | (7,058,000) |
| Tax at the UK corporation tax rate of 20% (2016: 20%) | (1,836,058) | (1,411,600) |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | (864,440) | (212,516) |
| Tax losses not utilised and carried forward | 275,689 | 246,643 |
| Impairments not deductible for tax purposes | 2,424,809 | 1,159,902 |
| Depreciation in excess of capital allowances | - | 217,571 |
| | - | - |

A deferred taxation asset is not recognised in respect of carried forward losses due to uncertainty over the utilisation of the losses. The unrecognised deferred taxation asset is $701,748 (30 June 2016: $656,753) based on carried forward tax losses of $17,458,872 (30 June 2016: of $16,090,253) which expire 10 years from the date these were incurred.

(Stated in U.S. dollars)

## 7. Loss per share

| | 30 June 2017 $ | 30 June 2016 $ |
|---|---|---|
| Loss after tax on continuing operations | (2,252,264) | (7,058,000) |
| Loss after tax attributable to equity holders of the parent | (9,180,288) | (7,058,000) |
| Weighted average number of ordinary shares for the purposes of basic and diluted loss per share | 35,299,944 | 23,487,587 |
| Basic and diluted loss per share on continuing operations | (0.064) | (0.300) |
| Basic and diluted loss per share | (0.260) | (0.300) |

Basic and diluted loss per share is the same as the effect of the outstanding share options and warrants are anti-dilutive and are therefore excluded. Outstanding share options are detailed in note 16.

## 8. Intangible assets

| | **Consolidated** | | **Company** | |
|---|---|---|---|---|
| | 30 June 2017 $ | 30 June 2016 $ | 30 June 2017 $ | 30 June 2016 $ |
| *Exploration and evaluation expenditure:* | | | | |
| Cost | | | | |
| Opening balance | 35,729,205 | 34,989,394 | 4,408,327 | 4,408,327 |
| Additions | 1,335,759 | 739,811 | - | - |
| Transfers to Disposal Group | (8,891,543) | - | - | - |
| Closing balance | 28,173,421 | 35,729,205 | 4,408,327 | 4,408,327 |
| Impairment | | | | |
| Opening balance | 22,589,506 | 18,288,978 | 4,408,327 | 3,105,766 |
| Charge for the year | - | 4,300,528 | - | 1,302,561 |
| Transfers to Disposal Group | (2,000,000) | - | - | - |
| Closing balance | 20,589,506 | 22,589,506 | 4,408,327 | 4,408,327 |
| Carrying value | 7,583,915 | 13,139,699 | - | - |

At 30 June 2017, the Group did not have any contractual commitments for the acquisition of intangible assets.

The impairment charge of $4,300,528 in the previous year related to the impairment of the carrying value of the Kono intangible assets as detailed below.

The realisation of the net carrying value of intangible assets of $7,583,915 is dependent on the discovery and successful development of economic mineral reserves including the Group's ability to raise sufficient finance to develop the exploration and evaluation projects and other factors, as discussed in note 2.15 and 1.2.

(Stated in U.S. dollars)

**8. Intangible assets (Continued)**

In the year ended 30 June 2012 a dispute emerged in relation to the two exploration licenses held for the Kono project. The group received a letter from the Ministry of Mines of Sierra Leone ("The Ministry") which asserts that the Ministry ought not to have granted the renewals of the Company's licences in 2010 under the Mines and Minerals Act of 2009 and that as a result the Company no longer has mineral rights over the licences. The Company disputed the assertions and has continued to pursue the available political, diplomatic and legal routes available. During the previous year no further progress was made in relation to the reinstatement of the Kono licence and the Company took the decision to focus its efforts in Sierra Leone on the completion of the Tonguma transaction and subsequent development of the Tongo-Tonguma commercial mine. The Directors therefore believed that the reinstatement of the Kono licence was unlikely and took the decision to impair the value of the intangible assets relating to that licence which at the time of the impairment had a carrying value of $4,300,528 in the Consolidated Statement of Financial Position and a carrying value of $1,302,561 in the Company Statement of Financial Position.

During the year the Company entered into an agreement to dispose of its Guinea assets. As a result the Droujba, Mandala and Baoulé projects and assets have been classified as a Disposal Group and accounted for accordingly. For details of the Assets in Disposal Groups classified as held for sale refer to note 12.

The Directors have considered the potential impairment of the other intangible assets carried in the books at the year end, being those relating to the Tongo project and the Directors have considered various factors including the stage of development of the assets in question and the planned future work to be carried out on them and any discounted cash flow models or other valuations of the assets produced. The Directors have concluded that no impairment is required on those assets at the balance sheet date. Cash flows were estimated based on the following assumptions:

- economically recoverable reserves and resources are based on management's expectations based on availability of reserves at mine sites and technical studies undertaken internally and by a Competent Person, where available;
- diamond prices are based on independent valuations and models and a real annual increase of 3% thereafter;
- discount rate of 8%;
- the remaining useful life.

**9. Investment in subsidiaries**

| | 30 June 2017 | 30 June 2016 |
|---|---|---|
| | $ | $ |
| At cost, unlisted: | | |
| Opening and Closing balance | 4,157,484 | 4,157,484 |

(Stated in U.S. dollars)

## 9. Investment in subsidiaries (continued)

The subsidiaries of the Company at 30 June 2017 are:

| Company | Country of incorporation | Nature of business | Percentage holding |
|---|---|---|---|
| Stellar Diamonds Limited | Guernsey | Holding company | 100% |
| West African Diamonds SARL | Guinea | Diamond producer | 100% |
| Basama Diamonds Ltd. and its branch: | Republic of Seychelles | Prospecting and exploration of diamonds | 100% |
| Basama Diamonds Ltd. (Sierra Leone Branch) | Sierra Leone | Prospecting and exploration of diamonds | 100% |
| Sierra Diamonds Limited and its branch: | British Virgin Islands | Prospecting and exploration of diamonds | 100% |
| Sierra Leone Diamonds Limited (Sierra Leone Branch) | Sierra Leone | Prospecting and exploration of diamonds | 100% |
| Guinean Diamond Corporation Ltd. and its subsidiaries | Republic of Seychelles | Holding company | 100% |
| Mano River Diamants Guinee SA | Guinea | Prospecting and exploration of diamonds | 100% |
| Ressources Mandala Guinée SARL | Guinea | Diamond producer | 100% |
| Friendship Diamonds Guinee SA | Guinea | Prospecting and exploration of diamonds | 100% |
| Ressource Tassiliman Baoulé SA | Guinea | Prospecting and exploration of diamonds | 75% |
| Stellar Diamonds (Liberia) Incorporated | Liberia | Prospecting and exploration of diamonds | 90% |

The realisation of investments in subsidiaries of $4,157,484 is dependent on the discovery and successful development of economic mineral reserves including the Group's ability to raise sufficient finance to develop the exploration. The Directors have considered the recoverable amounts of investments in subsidiaries and do not consider that any impairment is necessary.

The realisation of the net carrying value of investments of $4,157,484 is dependent on the discovery and successful development of economic mineral reserves including the Group's ability to raise sufficient finance to develop the exploration and evaluation projects and other factors, as discussed in note 2.15 and 1.2.

## 10. Parent company income statement

As permitted by Section 408 of the Companies Act 2006 the parent company's income statement has not been presented in these financial statements. The loss after taxation for the parent company for the year ended 30 June 2017 was $9,180,288 (year ended 30 June 2016: $7,058,000).

(Stated in U.S. dollars)

**11. Property, plant and equipment**

| | Mining assets<br>$ | Machinery and equipment<br>$ | Total<br>$ |
|---|---|---|---|
| Cost: | | | |
| At 30 June 2015 | 11,079,305 | 10,491,367 | 21,570,672 |
| Disposals | - | (898,032) | (898,032) |
| At 30 June 2016 | 11,079,305 | 9,593,335 | 20,672,640 |
| Disposals | | (125,607) | (125,607) |
| Transfer to Disposal Group | (11,079,305) | (8,965,065) | (20,044,370) |
| At 30 June 2017 | - | 502,663 | 502,663 |
| | | | |
| Depreciation: | | | |
| At 30 June 2015 | 11,079,305 | 8,298,648 | 19,377,953 |
| Charge for the year | - | 654,639 | 654,639 |
| Depreciation on disposals | - | (799,076) | (799,076) |
| At 30 June 2016 | 11,079,305 | 8,154,211 | 19,233,516 |
| Charge for the year | - | 428,560 | 428,560 |
| Depreciation on disposals | - | (113,923) | (113,923) |
| Transfer to Disposal Group | (11,079,305) | (8,029,995) | (19,109,300) |
| At 30 June 2017 | - | 438,853 | 438,853 |
| | | | |
| Carrying value: | | | |
| At 30 June 2017 | - | 63,810 | 63,810 |
| At 30 June 2016 | - | 1,439,124 | 1,439,124 |

In accordance with the accounting policy stated in note 2.6, the Group tests property, plant and equipment for impairment when an indication of impairment exists. The recoverable amount of cash generating units is determined based on value-in-use calculations, which require the use of estimates. The estimated cash flows from the exploration projects produced net present values well in excess of their carrying values and are based on the following assumptions:

- economically recoverable reserves and resources are based on management's expectations based on availability of reserves at mine sites and technical studies undertaken internally and by a Competent Person, where available;
- diamond prices are based on independent valuations and models and a real annual increase of 3% thereafter;
- discount rate of 8%;
- the remaining useful life.

The Group did not have any further contractually committed costs for the acquisition of property, plant and equipment at 30 June 2017.

The realisation of the full value of property, plant and equipment of $63,810 may be dependent on the discovery and successful development of economic mineral reserves including the group's ability to raise sufficient finance to develop the exploration projects and other factors, as discussed in note 2.15 and 1.2.

(Stated in U.S. dollars)

**11. Property, plant and equipment (Continued)**

During the year the Company entered into an agreement to dispose of its Guinea assets. As a result the Droujba, Mandala and Baoulé projects and assets have been classified as a Disposal Group and accounted for accordingly. For details of the Assets in Disposal Groups classified as held for sale refer to note 12.

**12. Assets in Disposal Groups classified as held for sale**

| | **Consolidated** 30 June 2017 $ | 30 June 2016 $ |
|---|---|---|
| Assets related to Guinea Disposal Group | 920,911 | - |
| | 920,911 | - |

During the year the Company entered into an agreement to dispose of its Guinea assets in order to focus its efforts on the near term production of the Tongo-Tonguma mine. As a result the Droujba, Mandala and Baoulé projects and assets have been classified as a Disposal Group and accounted for accordingly. The sale was completed in December 2017 with gross proceeds of $1.25 million. $0.25 million of the gross proceeds was received in June 2017 and is included in trade and other payables at the year end. A further $0.25 million advance was received by the Company in August 2017 (refer to note 22). The Company incurred disposal costs of $0.33 million, resulting in net disposal proceeds of $0.92 million. As the aggregate carrying value of assets related to the sale is higher than the estimated net disposal proceeds an impairment on classification as a Disposal Group has been recognised within the income statement and classified as a loss on discontinued operations.

The major classes of assets of the Guinea Disposal Group are as follows:

| | Prior to classification as Disposal Group | Write off on classification $ | Classified as Disposal Group $ |
|---|---|---|---|
| Exploration and evaluation expenditure | 6,891,543 | (6,080,656) | 810,887 |
| Machinery and equipment | 935,071 | (825,047) | 110,024 |
| | 7,826,614 | (6,905,703) | 920,911 |

In addition to the $6,905,703 write off on classification as a Disposal Group, the Company recognised losses in the year of $22,322 in relation to the Guinea Disposal Group that have been classified within Loss on discontinued operations in the Income Statement.

Loss for the year on discontinued operations:

| | Year ended 30 June 2017 $ |
|---|---|
| Revenue | 26,934 |
| Expenses | (49,255) |
| Loss before tax | (22,321) |
| Loss on disposal of operations | (6,905,703) |
| Loss for the year on discontinued operations | (6,928,024) |

(Stated in U.S. dollars)

### 13. Inventories

| | Consolidated | |
|---|---|---|
| | 30 June 2017 | 30 June 2016 |
| | $ | $ |
| Diamonds | - | 26,934 |
| | - | 26,934 |

Inventories of diamonds are carried at the lower of cost and net realisable value. The diamonds held in stock at the year end are carried at the value for which they were sold following the year end.

### 14. Trade and other receivables

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 30 June 2017 | 30 June 2016 | 30 June 2017 | 30 June 2016 |
| | $ | $ | $ | $ |
| Amounts due within one year: | | | | |
| VAT | - | 60,259 | - | 60,259 |
| Prepayments and other receivables | 41,062 | 236,025 | 10,490 | 21,642 |
| Amounts due from subsidiaries | - | - | 3,570,723 | 10,447,316 |
| | 41,062 | 296,284 | 3,581,213 | 10,529,217 |

Trade and other receivables are non-interest bearing and are generally receivable within 90 days. Amounts due from subsidiaries are non-interest bearing and are repayable on demand. At 30 June 2017 other receivables included $nil (2016: $194,747) relating to sales of diamonds, net of selling costs, where the diamonds had been sold and funds received by the Company's sales agents but not yet paid over to the Company.

The Directors consider the carrying amount of trade and other receivables to be approximately equal to their fair value.

The recoverability of loans to subsidiaries is dependent on the success of the projects to which they relate.

| | 30 June 2017 | 30 June 2016 |
|---|---|---|
| | $ | $ |
| Amounts due from subsidiaries comprises of: | | |
| Stellar Diamonds Limited | 3,514,893 | 9,307,213 |
| West African Diamonds SARL | - | 807,205 |
| Friendship Diamonds Guinee SA | - | 277,068 |
| Sierra Diamonds Limited | 55,830 | 55,830 |
| Basama Diamonds Ltd | - | - |
| | 3,570,723 | 10,447,316 |

The realisation of amounts due from subsidiaries is dependent on the discovery and successful development of economic mineral reserves and other factors as discussed in note 2.15.

(Stated in U.S. dollars)

## 14. Trade and other receivables (Continued)

The Company impairs the value of subsidiary loans on an annual basis to ensure that the value of net assets of the Company does not exceed that of the Group. As a result an impairment of $8,081,341 (2016: $5,848,393) was recorded against loans to subsidiaries in the year.

## 15. Share capital and share premium

*Share capital*

**Authorised:**

Unlimited number of ordinary shares of 1p and deferred shares of 4p and 49p each.

| | Number Ordinary Shares | Number Deferred 49p Shares | Number Deferred 4p Shares | Share capital $ | Share premium $ |
|---|---|---|---|---|---|
| **Allotted called-up and fully paid:** | | | | | |
| Balance as at 30 June 2015 | 811,929,724 | - | 216,766,659 | 26,655,961 | 29,000,173 |
| Share consolidation and sub-division (1 for 50) | 16,238,595 | 16,238,595 | - | 26,655,961 | 29,000,173 |
| Shares issued on share placing | 15,563,881 | - | - | 231,473 | 1,575,360 |
| Share issue costs | - | - | - | - | (126,326) |
| Balance as at 30 June 2016 | 31,802,476 | 16,238,595 | 216,766,659 | 26,887,434 | 30,449,207 |
| | | | | | |
| Shares issued on share placing | 10,919,536 | - | | 136,267 | 613,202 |
| Share issue costs | - | - | - | - | (20,233) |
| Correction | (394) | - | - | - | - |
| Balance as at 30 June 2017 | 42,721,618 | 16,238,595 | 216,766,659 | 27,023,701 | 31,042,176 |

On 27 February 2017 the Company allotted and issued 5,900,000 new ordinary 1 pence shares of the Company for gross proceeds of $404,652.

On 27 March 2017 the Company allotted and issued 5,019,536 new ordinary 1 pence shares of the Company for gross proceeds of $$344,817. Issue costs of $20,233 were incurred. Included with the gross proceeds were $90,332 of shares issued to directors in lieu of fees due.

On 19 November 2015 the Company carried out a consolidation and subdivision of its existing share capital on a 1 for 50 basis. For every fifty Existing Ordinary Shares of 1 pence each held at the time of the capital reorganisation date was consolidated into one Consolidated Share of 50 pence and immediately following the Consolidation, each Consolidated Share was then sub-divided into one New Ordinary Share of 1 pence and one New Deferred Share of 49 pence each.

Following the reorganisation described above, on 19 November 2015 the Company allotted and issued 7,594,692 new ordinary 1 pence shares for gross proceeds of $750,928. Issue costs, including costs related to the reorganisation, of $51,484 were incurred.

On 3 December 2015 the Company allotted and issued 1,969,189 new ordinary 1 pence shares in lieu of fees owed to Directors and Senior Management of the Company for gross proceeds of $192,343. There were no issue costs relating to the issue of these shares.

(Stated in U.S. dollars)

**15. Share capital and share premium (Continued)**

On 31 March 2016 the Company allotted and issued 6,000,000 new ordinary 1 pence shares of the Company for gross proceeds of $863,562. Issue costs of $74,842 were incurred.

Neither the 4p or the 49p Deferred Shares entitle their holders (a) to receive notice of or attend and vote at any general meeting of the Company (b) to receive any dividend or other distribution; or (c) to participate in any return on capital on a winding up other than the nominal amount paid on such shares following a substantial distribution to holders of ordinary shares in the Company.

There were no issues of warrants relating to equity issues in the year. For warrants issued in relation to Convertible Loans in the year refer to note 19.

**16. Share options**

The share option reserve represents the value of the share options issued to the Group's Directors and employees under the Group's share option scheme.

There were no share options issued or exercised during the year (2016: nil).

The following is a summary of the share options outstanding and exercisable as at 30 June 2017 and 30 June 2016 and changes during the year:

| | 30 June 2017 | | 30 June 2016 | |
|---|---|---|---|---|
| | Number of options | Weighted average exercise price GBP£ | Number of options | Weighted average exercise price GBP£ |
| Outstanding and exercisable, beginning of year | 1,013,000 | 0.838 | 61,530,000 | 0.030 |
| Restatement of options following share consolidation and sub-division (see note 15) | - | - | 1,230,600 | 1.500 |
| Options expired | - | - | (217,600) | 4.340 |
| Outstanding and exercisable, end of year | 1,013,000 | 0.838 | 1,013,000 | 0.838 |

As at 30 June 2017 the following stock options were outstanding and exercisable:

| Number of stock options outstanding | Exercise price per share GBP£ | Expiry date |
|---|---|---|
| 186,000 | 1.500 | 21-Dec-17 |
| 400,000 | 0.625 | 16-Sep-18 |
| 427,000 | 0.750 | 12-Jun-19 |
| 1,013,000 | | |

(Stated in U.S. dollars)

## 17. Provisions

| | 30 June 2017 | 30 June 2016 |
|---|---|---|
| | $ | $ |
| Balance at end of the year | - | 104,369 |

The provisions relating to the rehabilitation of the Mandala and Bomboko licences were released during the year.

## 18. Trade and other payables

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 30 June 2017 | 30 June 2016 | 30 June 2017 | 30 June 2016 |
| | $ | $ | $ | $ |
| **Amounts due within one year:** | | | | |
| Trade payables and accruals | 1,117,072 | 413,840 | 426,556 | 134,976 |
| Advance on Disposals | 250,000 | - | - | - |
| Loans | 99,990 | 767,943 | - | 667,953 |
| Convertible loans (Note 19) | 2,845,103 | - | 2,845,103 | - |
| | 4,312,165 | 1,181,783 | 3,271,659 | 802,929 |
| **Amounts due after one year:** | | | | |
| Convertible loans (Note 19) | - | 953,625 | - | 953,625 |
| Derivative financial liabilities (Note 19) | - | 12,504 | - | 12,504 |
| | - | 966,129 | - | 966,129 |

The carrying amount of trade and other payables is approximately equal to their fair value.

During the previous year the Company entered into a short term loan agreement for $667,953 (£465,000). The loan was entered into on 13 June 2016 and had a six month term. The loan carried interest of 20% p.a. payable on repayment. The loan was provided by Altus Strategies Ltd and Deutsche Balaton AG, both related parties by virtue of Directors in common and by being shareholders in Stellar Diamonds Plc. This loan was repaid in full during the current year.

## 19. Convertible loans

$1,650,000 Convertible Loan

On 19 November 2015 the company issued a secured convertible loan note (CLN) of $1,650,000, split into 5 equal amounts of $330,000, net of corporate finance and legal issuance costs of $98,599, to Deutsche Balaton. The CLN has a 2 year term and is repayable by 19 November 2017 and carries interest at 6% p.a. payable on the 12, 18 and 24 month anniversary of the issue date. The CLN is secured on the shares of Sierra Diamonds Limited, a wholly owned subsidiary of the Group which holds the Tongo exploration licence and related assets. The CLN is convertible into 3,747,368 ordinary 1p shares of the Company and can also be converted into shares in subsidiaries of the Company based on a set formula. The Company also granted warrants over 5,995,789 shares to Deutsche Balaton with an aggregate subscription value of $1,650,000. The warrants can only be exercised following conversion or repayment of the corresponding proportion of the CLN and have an expiry date of 21 November 2017.

(Stated in U.S. dollars)

**19. Convertible loans (Continued)**

The conversion feature of the CLN and the related warrants represents an embedded derivative for accounting purposes and is separated from the host contract at fair value on the date of issue and presented as a Derivative Financial Instrument liability. This is revalued at each balance sheet date with the movement recorded through the income statement.

In order to determine the fair value of the embedded derivate the Directors have considered a number of applicable valuation techniques. As the warrants and conversion feature can be exercised or converted at either the Stellar Diamonds Plc or at individual subsidiary level a Monte-Carlo simulation method would usually be used. The Directors have considered the requirements of such a valuation and do not believe that it would be possible to accurately derive a fair value in this way due to the lack of accurate available cash flow projections for certain assets and the difficulty in assigning probabilities to potential outcomes around the potential subsidiary level conversion. As a result the Directors consider that the most appropriate valuation method is to use a Black-Scholes option pricing model using the value of the ability to convert and exercise at the Stellar Diamonds plc level as a proxy. The Directors have considered the potential effect of using this technique, which is simplistic, and are of the opinion that it would not have a material effect on the valuations produced. The warrants cannot be exercised until the underlying CLN has been converted and therefore they have been valued and treated using the same inputs. The table below outlines the fair value inputs used in the embedded derivative valuation:

| | 30 June 2017 | 30 June 2016 | 19 November 2015 |
|---|---|---|---|
| *Expected life* | 0.39 years | 1.39 years | 2 years |
| *Expected Dividend Yield* | 0% | 0% | 0% |
| *Risk Free Interest Rate* | 0.635% | 0.396% | 0.856% |
| *Share Price Volatility* | 69.17% | 69.17% | 89.36% |
| *Share Price at Time of Valuation* | 6.25p | 5.75p | 17.5p |
| *Exchange rate* | $1.2990/£ | $1.3390/£ | $1.5273/£ |

As a result of the above fair value methodology and the underlying terms of the loan and warrants the following movements were recorded in the period for the convertible loan and the derivative financial liability.

| | 30 June 2017 | 30 June 2016 |
|---|---|---|
| **Convertible loan:** | $ | $ |
| Balance brought forward at 1 July | 953,625 | - |
| Proceeds from issuance | - | 1,650,000 |
| Issuance costs | - | (98,599) |
| Embedded derivate element relating to conversion option | - | (331,824) |
| Embedded derivate element relating to warrant | - | (530,919) |
| Effective interest charged in the period | 532,353 | 264,967 |
| Presented as loans and borrowings | 1,485,978 | 953,625 |
| | | |
| **Embedded derivatives:** | | |
| Balance brought forward at 1 July | 12,504 | - |
| Fair value of derivate financial instrument at inception of convertible loan | - | 862,744 |
| Gain recognised on revaluation at 30 June | (12,504) | (850,240) |
| Presented as Derivative Financial Liability | - | 12,504 |

**19. Convertible loans (Continued)**

The decrease in value of the derivative since inception is as a result in the fall in the share price of Stellar Diamonds Plc between the date of the issue of the CLN and the balance sheet date. This fall in share price has resulted in a fall in the value of the underlying derivative as calculated using the Black-Scholes Model and the inputs detailed above, and is recognised as a gain in the Statement of Comprehensive Income.

As a result of the accounting treatment of the convertible loan and the movement on share price between the inception of the loan and the balance sheet date, the Company recognised a significant gain on revaluation of derivatives in the previous financial year of $850,240. The accounting treatment also results in a significant finance cost relating to the loan element which is charged to the income statement over the term of the loan, being 24 months from inception and 5 months from the balance sheet date.

On 5 October 2016 the Company entered into an agreement to amend certain terms of the existing $1,650,000 CLN with Deutsche Balaton. Under the terms of the amendment the Company agreed to issue Deutsche Balaton with $1 million of new ordinary shares at the date of completion of the then proposed Tonguma Transaction at the subscription price for equity issued on the Transaction in return for Deutsche Balaton waiving its rights to convert the loan or exercise the attached warrants into subsidiaries of Stellar. Additionally the conversion price and warrant exercise price will be amended to the Transaction equity subscription price and an additional $0.83 million of warrants will be issued to Deutsche Balaton. Deutsche Balaton will also waive any interest payable on the loan. All of these amendments are subject to the successful completion of the Transaction. Further to this, in February 2017, the following additional amendments were made to the convertible loan agreement:

- The definition of "Transaction", (as previously defined as "Potential Transaction"), was amended to take into account the Tribute Mining Agreement and the definition of "Completion" was amended to be the date on which the Company has raised a minimum initial funding of US$10 million having entered into the Tribute Mining Agreement
- A change in the definition of Issue Price, as previously defined, to be the weighted average price of the first US$10 million raised from 1 February 2017 onwards
- Extension of the Long Stop date by which the Transaction must be completed to 30 April 2017
- Extension of the maturity date of the warrants attached to the first CLN to 30 June 2019

On 5 May the Long Stop date by which the Transaction must be completed was extended by a further two months to 30 June 2017.
Subsequent to the year end the Long Stop date by which the Transaction must be completed has been further extended to 30 November 2017 and further extended to 31 March 2018.
As with the amendments agreed in October 2016, all amendments are subject to the successful completion of the proposed transaction.

As the amendments to the terms of the $1,650,000 CLN only come into force should the definition of the 'Transaction' be met within the agreed Long Stop dates, of which there can be no certainty, the CLN has continued to be accounted for under its original and existing terms during the year and at the balance sheet date.

The convertible loan and embedded derivatives have been classified as a Level 3 financial instrument under the fair value hierarchy as described in note 21.

(Stated in U.S. dollars)

## 19. Convertible loans (Continued)

### Sensitivity Analysis

The Directors have undertaken a sensitivity analysis on the key inputs to the Black-Scholes model used to value the convertible loan and embedded derivatives. The table below details the sensitivities of changes in the share price and annualised volatility inputs used in the model for the valuation at 30 June 2017. A positive number represents a potential increase in the gain on revaluation of derivatives and a negative number represents a potential decrease in the gain on revaluation of derivatives. The Directors consider the sensitivity levels used for each input to be suitable.

| | Value used at 30 June 2017 | Lower sensitivity level | Effect on Remeasurement gain $ | Upper sensitivity level | Effect on Remeasurement gain $ |
|---|---|---|---|---|---|
| Share price | 6.25p | 3.125p (-50%) | - | 9.375p (+50%) | (1,513) |
| Annualised volatility | 69.17% | 49.17% | - | 89.17% | (946) |

<u>$1,242,183 Convertible Loan</u>

On 5 October 2016 the Company entered into a $1,242,183 convertible loan agreement ("$1.24m CLN"). Under this agreement the existing $0.66 million loan outstanding at 30 June 2016 was repaid in full. The new convertible loan carries a coupon of 18% for 10 months and 24% for the remainder of the term. Interest is payable monthly and the loan has a term of 20 months. The outstanding principal can be converted into ordinary shares of the Company at any time after the completion of the proposed acquisition of the Tonguma project or after confirmation that the Transaction is no longer expected to complete. The conversion price will be 70% of the subscription price for equity raised to complete the Transaction. In the event that the Potential Transaction does not complete, the conversion price will be based on 70 percent of historical Volume Weighted Average Price ("VWAP") of Stellar Diamonds Plc shares for a fixed period prior to notice of exercise.

In conjunction with the convertible loan and subject to obtaining shareholder authorities in relation to the Company's ability to issue new Ordinary Shares at a general meeting, the Company shall issue the Noteholders with warrants which are equivalent to three times the principal amount of the $1.24m CLN (i.e. warrants with a total subscription price of US$3.72 million) exercisable at a premium of 5 percent to the Issue Price (per Ordinary Share) in the event of Completion occurring. The premium will increase at a rate of 1 percentage point per month from Completion up to a maximum premium of 17 percent to the Issue Price. In the event that the Transaction does not complete, the exercise price in respect of the convertible loan Warrants will be based on historical VWAP. The warrants are exercisable for a period of 18 months following completion of the Transaction or announcement that the Transaction will not occur, or 31 March 2017 if earlier. Should the warrants be exercised then the resulting Ordinary Shares issued to the warrant holder shall be subject to a lock-in period of six months from the date of exercise.

**19. Convertible loans (Continued)**

Further to this, in February 2017, the following amendments were made to the $1.24m CLN:

- The definition of "Transaction", (as previously defined in the CLN), was amended to take into account the Tribute Mining Agreement and the definition of "Completion" of the Transaction was amended to be the date on which Stellar has raised a minimum initial funding of US$10 million having entered into the Tribute Mining Agreement
- The Subscription Price (as previously defined in the CLN) was amended to 70% of the weighted average price of the first US$10 million raised between 1 February 2017 and 30 May 2017
- Extension of the Long Stop date by which the Potential Transaction must be completed to 30 May 2017, after which the Subscription Price becomes the Alternative Subscription Price (as described in the CLN)
- The Warrants to be issued to the Noteholders, conditional on the Company obtaining shareholder authorities, will be exercisable for 24 months commencing from the later of the date of the fundraise undertaken by the Company with which no less than US$10 million is raised in total, and the date of obtaining the required corporate authorisation pursuant to the Company's Articles of Association and applicable law to issue shares in relation to the exercise of the warrant.
- The exercise price of the Warrants amended to be 6 pence for the first 12 months, thereafter rising to 7 pence for the next twelve months ("Exercise Price").
- The exercise price of the Warrants in the event that the Potential Transaction is not completed, be amended to the lower of 6 pence or the 3 day or 45 day VWAP prior to the notice of exercise ("Default Exercise Price").

On 5 May the Long Stop date by which the Transaction must be completed was extended by a further two months to 31 July 2017. Subsequent to the year end the $1.24m CLN was repaid and replaced with a new $1.34m CLN as detailed in note 22.

All amendments are subject to the successful completion of the proposed transaction. Given the significant uncertainty of pricing of the convertible element of the loan and the attached warrants, the derivative elements of the $1.24m CLN have been assessed as having no value for the purposes of these financial statements. The uncertainty lies around a number of elements that would ordinarily be used to value the derivative elements of the loan, in particular:

- The exercise and conversion prices of the warrants and convertible elements of the loan, these being dependent on the pricing of equity issued in relation to the Transaction or, in the event of the Transaction not completing, VWAPs of the share price over a variable period of time and at an unknown future date.
- The timing of completion of the Transaction or announcement that the Transaction will not complete.
- The likelihood of the Transaction completing.
- The likelihood of the Loan Note Holders agreeing extensions to the longstop dates contained in the CLN.
- The likelihood of Octea agreeing extensions to the transaction longstop dates contained in the Tribute Mining Agreements.

Following careful consideration of the above uncertainties, the Directors have concluded that the value of the derivative elements is nil. The valuation will be reassessed at each future reporting date taking into account changes in the likelihood and level of uncertainty related to these inputs. A change in the assessment of the various inputs could have a material effect on the valuation of the derivative elements of the loan.

(Stated in U.S. dollars)

**20. Related parties**

| | Year ended 30 June 2017 | Year ended 30 June 2016 |
|---|---|---|
| *Directors:* | $ | $ |
| - shares issued in lieu of accrued Directors' fees | 90,332 | 192,343 |
| - amounts owed to Directors at 30 June | 92,383 | 105,378 |

The Directors are considered the Company's key management personnel. The remuneration earned in respect of the financial year by each Director is as follows:

| | Year ended 30 June 2017 | Year ended 30 June 2016 |
|---|---|---|
| | $ | $ |
| Lord Daresbury | 73,647 | 85,149 |
| N. Karl Smithson | 241,932* | 287,011 |
| Luis da Silva | 10,117 | 23,091 |
| Steven Poulton | 31,744 | 36,080 |
| Dr Markus Elsasser | - | 16,721 |
| Liviu Meran | - | 16,721 |
| Hansjörg Plaggemars | 20,316 | 13,871 |
| | 377,756 | 478,644 |

* Includes $25,014 salary in lieu of contractual pension contribution and $25,976 in lieu of untaken holiday entitlement. The net amount (converted to GBP) of £21,441 was taken in Stellar shares at a price of 5.5p per share.

The Directors who held office at 30 June 2017 had the following interests in the ordinary shares of the Company as of 30 June 2017:

| | 30 June 2017 | | 30 June 2016 | |
|---|---|---|---|---|
| | Ordinary shares | Share options | Ordinary shares | Share options |
| Lord Daresbury | 1,268,294 | 102,000 | 538,936 | 102,000 |
| N. Karl Smithson | 1,117,012 | 220,000 | 625,019 | 220,000 |
| Steven J. Poulton | 1,456,745 | 90,000 | 317,342 | 90,000 |
| Hansjörg Plaggemars | - | - | - | - |
| | 3,842,051 | 412,000 | 1,481,297 | 412,000 |

The number of Directors to whom retirement benefits are accruing is Nil (2016: Nil).

All remuneration in the current year related to short term employee benefits.

During the year an employee of the Company, Rowan Carr, provided certain loans to the Company on an interest free basis. The amounts advanced during the year amounted to $109,500. At the year end, $109,500 remained outstanding.

(Stated in U.S. dollars)

**20. Related parties (Continued)**

In March 2016 a Director of the Company, Hansjörg Plaggemars, purchased a diamond from Stellar through its sales agent. The diamond was purchased on commercial, arms-length terms following an independent assessment of its value by the sales agent. The diamond was purchased for $8,473. There were no such transactions in the current financial year.

During the previous year in June 2016, Steven Poulton (a related party through being a Director of the Company) and Deutsche Balaton (a related party through its shareholding in the Company) entered into a £465,000 ($667,953) loan to the Company. The loan carried interest at 20% p.a. and had a 6 month term. During the year in October 2016 this loan was repaid through the issue of the $1.24m convertible loan disclosed in note 19. For full details of this loan refer to note 19.

In November 2015 the Company entered into a convertible loan with Deutsche Balaton. Full details of this loan are disclosed in note 19.

See note 14 for disclosure of intergroup balances.

**21. Financial instruments**

The fair value of a financial instrument is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Group and Company's financial instruments are:

- Cash and cash equivalents
- Receivables
- Trade and other payables
- Loans
- Convertible loans
- Derivative financial instruments

The carrying amounts for the financial instruments are as follows:

| **Group** | 30 June 2017<br>$ | 30 June 2016<br>$ |
|---|---|---|
| Financial assets: | | |
| *Loans and receivables, measured at amortised cost* | | |
| Cash and cash equivalents | 169,505 | 268,330 |
| Receivables | 41,062 | 296,284 |
| | 210,567 | 564,614 |
| Financial liabilities: | | |
| Trade and other payables | 1,367,072 | 413,840 |
| Loans | 99,990 | 767,943 |
| Convertible loans | 2,845,103 | 953,625 |
| Derivative financial liabilities | - | 12,504 |
| | 4,312,165 | 2,147,912 |

**21. Financial instruments (Continued)**

**Company**

| | | |
|---|---|---|
| Financial assets: | | |
| *Loans and receivables, measured at amortised cost* | | |
| Cash and cash equivalents | - | 447 |
| Receivables | 3,581,213 | 10,529,217 |
| | 3,581,213 | 10,529,664 |
| Financial liabilities: | | |
| *Other liabilities, measured at amortised cost* | | |
| Trade and other payables | 426,557 | 134,976 |
| Loans | - | 667,943 |
| Convertible loan | 2,845,103 | 953,625 |
| Derivative financial liabilities | - | 12,504 |
| | 3,271,660 | 1,769,048 |

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements is approximate to their fair values.

The information set out below provides information about how the Group determines fair values of various financial assets and liabilities. Financial assets and liabilities measures at fair value are grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

*Foreign currency risk*

In the normal course of business, the Group enters into transactions denominated in foreign currencies (primarily Pound Sterling). As a result, the Group is subject to exposure from fluctuations in foreign currency exchange rates. In general, the Group does not enter into derivatives to manage these currency risks. The Group attempts to reduce its exposure to currency risk by entering into contracts denominated in US Dollars whenever possible. The Group has taken no other action to reduce its exposure to foreign currency risk during the year.

(Stated in U.S. dollars)

**21. Financial instruments (Continued)**

| Carrying value of foreign currency balances | 30 June 2017 $ | 30 June 2016 $ |
|---|---|---|
| Cash and cash equivalents include balances denominated in: | | |
| Pound Sterling (GBP) | 1,856 | 98,476 |
| Receivables include balances denominated in: | | |
| Pound Sterling (GBP) | 16,791 | 9,043 |
| Trade and other payables include balances denominated in: | | |
| Pound Sterling (GBP) | 467,506 | 282,956 |

The sensitivities set out below are based on financial assets and liabilities held at 30 June 2017 where balances were not denominated in the functional currency of the Group. The sensitivities do not take into account the Group's income and expenses and the results of the sensitivities could change due to other factors such as changes in the value of financial assets and liabilities as a result of non-foreign exchange influenced factors.

| | Closing exchange rate | Effect on result of GBP strengthening/weakening 10% $ |
|---|---|---|
| At 30 June 2017 | 1.2990 | +/- 58,307 |
| At 30 June 2016 | 1.3399 | +/- 23,507 |

*Interest rate*

Given the historic low interest rates available on cash deposits, and the Company's need to ensure adequate liquidity and flexibility, cash is held in non-interest bearing current accounts. Therefore there is no interest rate risk associated with the Company's financial assets.

The Company has not issued any interest bearing debts that incorporate variable interest rates and therefore there is no interest rate risk associated with the Company's financial liabilities. All the liabilities are short term.

*Credit risk*

The maximum credit exposure of the Company as at 30 June 2017 amounted to $4,660,302 (30 June 2016: $10,529,664) relating to the Company's cash and cash equivalents and receivables. The Directors believe there is limited exposure to credit risk as the Company's cash and cash equivalents are held with major financial institutions. The credit risk on receivables from subsidiaries is significant and their recoverability is dependent on the discovery and successful development of economic reserves by those subsidiary undertakings. Given the nature of the Group's business significant amounts are required to be invested in exploration and evaluation activities at different locations.

(Stated in U.S. dollars)

## 21. Financial instruments (Continued)

The Directors manage this risk by reviewing expenditure plans and budgets in relation to projects before any monies are advanced to subsidiary undertakings in respect of those projects. This review ensures that any expenditure is value-enhancing and as a result the amounts receivable will be recoverable subject to successful discovery and development of economic reserves. Other receivables relate to amounts due from the Company's diamond selling agent for diamonds sold to third parties. The diamonds are not released to the ultimate customers until cleared funds are received by the selling agent. Once all funds are received by the selling agent the funds are transferred to the Company, net of any invoiced selling costs. There is therefore a small window of credit risk during the period after diamonds have been released and funds are transferred to the Company, which is typically a few days. The Directors manage this risk by ensuring reputable sales agents are used and the credit risk in this respect is not considered to be significant.

The Group manages its credit risk in cash and cash equivalents by holding surplus funds in high credit worthy financial institutions and maintains minimum balances with financial institutions in remote locations.

| | 30 June 2017 $ | 30 June 2016 $ |
|---|---|---|
| Cash held with financial institutions with S&P AA-rating or higher | 107,898 | 207,230 |
| Cash held with financial institutions un-rated or unknown rating | 61,607 | 61,100 |
| | 169,505 | 268,330 |

*Capital management*

The Company's objectives when managing capital are to maintain its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to ensure sufficient resources are available to meet day to day operating requirements and to develop the Group's licences in order to generate revenue and cash from them in the future. The capital structure of the Company consists of net debt (consisting of loans and convertible loans as disclosed in notes 18 and 19) net of cash and cash equivalents, and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings. The Company is not subject to externally imposed capital requirements and there has been no change in the overall capital management as at 30 June 2017.

The Company's Board of Directors takes full responsibility for managing the Company's capital and does so through board meetings, review of financial information, and regular communication with Officers and Senior Management.

## 22. Subsequent events

On 17 August 2017 the Company received a second $250,000 advance on the sale of its Guinea assets as disclosed in note 12.

On 8 December 2017 the Company completed the disposal of its Guinea assets as disclosed in note 12.

**22. Subsequent events (Continued)**

On 27 July 2017 the Company repaid in full the $1.24m convertible loan note disclosed in note 19 and replaced it with a $1.34m convertible loan note with the same parties, with Steven Poulton and Creditforce each adding $50,000 to their original loan amounts. The key terms of the $1.34m convertible loan mirrored the $1.24m convertible loan with the following changes:

- Change in the definition of the "Transaction" (or "Potential Transaction") for the purposes of the $1.34 million CLN to the completion of the Tribute Mining Agreement with Octea Mining Limited over the Tonguma kimberlite project in Sierra Leone and the raising of at least US$35,000,000 in debt or equity finance;
- Change in the conversion period for the $1.34 million CLN to the period commencing on the later of i) the earlier of the date on which the Transaction completes (or the date on which the Company makes an announcement that the Transaction will not proceed) and ii) the date of obtaining the necessary shareholder authorisations which are needed to enable the Company to issue new Ordinary Shares pursuant to conversion of the CLN and ending on 5 June 2018 (the Maturity Date);
- Change in the definition of "Transaction Default" to being upon the occurrence of the earlier of the Transaction failing to complete or upon the Company announcing the termination of the Transaction on or before 31 December 2017;
- Change in the definition of "Subscription Price" of the CLN Warrants (as such warrants are defined in the 6 October 2016 announcement) to the lower of: 5 pence or the Transaction Price (as defined below).
- The Transaction Price is defined as the lower of:
  a) the VWAP of the next US$2 million in equity raised; or
  b) the VWAP of the first US$10 million in equity raised after 1 February 2017; or
  c) the VWAP of equity raisings from the date of this agreement until at least US$35 million in debt financing has been raised for the Tongo-Tonguma Project;
- Change in the definition of the "Default Subscription Price" (or "Alternative Subscription Price") (being the conversion price and subscription price in respect of the $1.24 million CLN and CLN Warrants respectively in the event of Transaction Default) to the lower of 70% of: 5 pence or the 3 or 45 day VWAP prior to notice of exercise of the warrants.
- Amendment of Subscription Price of the Repayment Warrants (as such warrants are defined in the announcement dated 6 October 2016) to 70 percent of the Transaction Price or, in the event that a Transaction Default has occurred the Default Subscription Price.

In December 2017 the Company and $1.34 million CLN Noteholders agreed a change in the definition of "Transaction Default" to being upon the occurrence of the earlier of the Transaction failing to complete or upon the Company announcing the termination of the Transaction on or before 30 April 2018.

Also in December 2017 the Company and $1.65 million CLN Noteholders agreed a change in the definition of "Transaction Default" to being upon the occurrence of the earlier of the Transaction failing to complete or upon the Company announcing the termination of the Transaction on or before 31 March 2018. Additionally it was agreed that the definition of "Placement Price" be amended to:

a) 5 pence; or
b) the VWAP of the next US$2 million in equity raised; or
c) the VWAP of the first US$10 million in equity raised after 1 February 2017; or
d) the VWAP of equity raisings from the date of this agreement until at least US$35 million in debt financing has been raised for the Tongo-Tonguma Project.

**22. Subsequent events (Continued)**

On 14 September 2017 the Company completed a placing to raise £330,000 ($440,529) before expenses through the issue of 10,153,847 ordinary shares of 1 pence each at a price of 3.25 pence. In addition a further 1,978,437 ordinary shares of 1 pence each were issued at a price of 3.25 pence to Directors and employees of the Company in lieu of accrued fees, salaries and expenses.

On 3 October 2017 the Company completed an open offer to raise £200,000 ($353,625) before expenses through the issue of 6,153,846 ordinary shares of 1 pence each at a price of 3.25 pence.

In October 2017 the Company received the Environmental Licence for the Tongo project.

On 28 November 2017 the Company issued 1,000,000 ordinary shares of 1 pence each at a price of 3.25 pence in settlement of certain advisory fees.