NOT FOR DISTRIBUTION IN THE UNITED STATES OR FOR DISSEMINATION TO US NEWS WIRE SERVICES.

31 March 2017

AIM: STEL

Stellar Diamonds plc

("Stellar" or the "Company")

Interim Results for the six months to 31 December 2016

Stellar Diamonds plc, the AIM listed (AIM: STEL) diamond development company focused on West Africa, announces its unaudited interim results for the six months to 31 December 2016.

Operational Highlights:

- Heads of terms signed with Octea Mining Ltd ("Octea) for proposed Tongo-Tonguma tribute mining agreement in February 2017 (post reporting period)
- Robust attributable post-tax Project NPV(8) and IRR of US$104 million and 31% respectively[1]
- Estimated attributable NPV in excess of 40 times current market capitalisation of Stellar
- Estimated projected life of mine revenues of US$1.518 billion[1]
- Significant 4.5 million carats resource over Tongo-Tonguma project with target of additional 8 million carats
- Resource statements, mine plan, financial model completed by independent consultants

Financial Highlights

- US$0.6 million interim loan repaid and replaced by a US$1.24 million convertible loan during the reporting period
- Additional US$0.66 million raised post reporting period through a placing, subscription and open offer
- Continued reduction in administration costs to US$0.55 million for the six months to 31 December 2016

1 Company estimates based on the independent preliminary economic assessment. Assumes the proposed Tribute Agreement remains in place for the estimated life of the mine.

Stellar Diamonds Chief Executive Karl Smithson commented, "With the significant potential of the amalgamation of the Tongo Diamond fields projects in mind, we entered into heads of terms with Octea Mining ("Octea") during the period to combine its adjacent Tonguma project with our own Tongo project in eastern Sierra Leone for commercial exploitation ("Acquisition Heads of Terms"). The terms of the transaction with Octea began to change towards the end of the year from a planned acquisition of Tonguma to a proposed tribute mining arrangement, whereby Stellar intends to fund the mine development and pay Octea a 10%

revenue share of all production from both licences once has recouped our capital expenditure in respect of the mine build. A new heads of heads of terms for the proposed tribute mining agreement was entered into and announced on 20 February 2017 ("Tribute Heads of Terms"). Full, legally binding conditional agreements between Stellar and Octea in respect of the proposed tribute mining agreement are currently being drafted and expected to be finalised in the near future ("Tribute Mining Agreement").

"Independent consultants completed a detailed mine plan and financial model for the combined 4.5 million carat resource at Tongo-Tonguma which demonstrates that over an estimated initial mine life of 21 years some 3.9 million carats is expected to be produced (subject to the Tribute Mining Agreement being entered into and remaining in place). The recovered diamond grades and values of the three kimberlite dykes currently in the mine plan range from 100cpht to 260cpht and US$209/ct to US$310/ct. By worldwide standards these are considered to be some of the highest dollar per tonne kimberlite diamond deposits. Stellar has estimated that the combined Tongo-Tonguma project could potentially generate a post-tax Project NPV(8) and IRR of US$104 million and 31% respectively attributable to Stellar, which is in excess of 40 times our current market capitalisation, on estimated life of mine revenues of US$1.518 billion. We look forward to being in a position to fully unlock the potential of the high value Tongo diamond fields.

"Separately at the Company's Baoulé kimberlite pipe project in Guinea, trial mining of the targeted 100,000 tonnes was completed just prior to the year end in June 2016. A total of 11,564 carats were mined with diamond sales totalling US$1.1 million over the trial mining period. As the project then stood down for the rainy season, we negotiated a joint venture over Baoulé (and the two exploration licences in Liberia) with a Dubai based group, Citigate, which were signed in October 2016. However, to date no funding has been forthcoming from Citigate. Accordingly, we are now considering our options, for the continual development of Baoulé and exploration in Liberia whilst we focus on the Tongo-Tonguma project in Sierra Leone."

Chairman's Statement

Our recent focus has been on bringing together the high grade and high value kimberlites that are covered by the adjacent Tongo and Tonguma licences in Sierra Leone for joint commercial development. These licences cover the whole of the very rich Tongo diamond fields and once developed would represent the second largest kimberlite diamond mine in Sierra Leone and West Africa.

Tongo-Tonguma Project, Sierra Leone

We have previously reported that the stand alone Tongo project of Stellar has an in-situ resource estimated to be 1.5 million carats at a diamond grade of 120cpht and diamond value of US$270/ct and independent consultants prepared a mine plan and financial model which estimated a pre-tax NPV(10) of US$53 million. Whilst this represents considerable value against Stellar's current market capitalisation, in 2016 we took the initiative to approach Octea regarding the adjacent and larger Tonguma mine lease to strike a deal to combine the two licences for future development, seeing an opportunity to drive an even higher value for shareholders.

After an agreement was reached with Octea, we appointed independent consultants to prepare a resource statement for Tonguma and develop a combined mine plan for Tongo-Tonguma. In summary, a combined resource of 4.5 million carats was identified for a 21 year life of mine. Kimberlite grades range from 100cpht to 260cpht (on a recovered +1.18mm basis) with modelled diamond values ranging from US$209/ct to US$310/ct. These are very high grades and values and we believe offer an excellent potential operating margin.

A modest two year capital requirement of US$31.8 million is required to target production levels of 200,000 carats per year, with a forecast total of 3.9 million carats being recovered over the life of mine, importantly with first production being achieved towards the end of the first year of development. Independent consultants attributed a potential pre-tax NPV(10) and IRR of US$172 million and 49% to this combined mine development. The consultants have also identified an exploration target of a further 8 million carats not currently in the mine plan representing significant additional upside if brought into future development plans. Stellar has calculated the potential post-tax returns based on certain assumptions and the fiscal terms of the Tonguma mine lease and Sierra Leone Income Tax Act (2000) as amended, and estimates the post-tax NPV(8) and IRR of US$104 million and 31% respectively.

The initial Acquisition Heads of Terms entered into with Octea envisaged an acquisition of Tonguma by Stellar which was deemed to be a reverse takeover ("RTO") pursuant to the AIM Rules and consequently the shares of Stellar were suspended from trading on AIM. After progressing the RTO and further negotiation a revised agreement with Octea was reached which resulted in the Tribute Heads of Terms being entered into in late February 2017 and should result in the Company entering into the proposed Tribute Mining Agreement in the near future. The Tribute Mining Agreement, which no longer involves the acquisition of Tonguma, is not deemed to constitute an RTO so accordingly shares of Stellar were thereafter unsuspended shortly after the interim reporting period ended and following completion of a fundraise. The Tribute Mining Agreement, if entered into, will enable Stellar to retain 100% ownership of its Tongo licence and essentially contract mine the Tonguma mining licence. The Company will invest 100% of the development capital of the Tongo-Tonguma project but importantly will recoup its investment preferentially, after which a 10% revenue share on production from the combined operation will be paid to Octea. In addition, a US$5 million bullet payment will be made to Octea some five years after the mine development commences. There is no acquisition cost to Stellar. We believe that the terms of this development are attractive to Stellar and, subject to funding and finalisation of related due diligence and contracts, could deliver significant returns to shareholders.

Baoulé Project, Guinea

The trial mining exercise at Baoulé was completed just prior to the interim period with a total of 11,564 carats being produced and sold with total revenues over the programme reaching US$1.1 million. During the rainy season when operations stood down, Stellar entered and concluded negotiations with Citigate and a joint venture agreement was signed in late October 2016 after which period Citigate became responsible for the funding with Stellar remaining as operator. Unfortunately, to date no funding has been forthcoming from Citigate and we are now considering our options to potentially cancel the joint venture and bring in a new partner to take the project forward whilst we focus on the Tongo-Tonguma development in Sierra Leone. The Company will update Shareholders on this in due course.

Kumgbo Project, Liberia

These two licences in western Liberia were granted in February 2016, having been paid for in 2014, and cover some historical indicator mineral anomalies identified from some historical work completed by Stellar. A short field programme was undertaken during the period which identified a number of key target areas some of which have coincident diamond diggings in proximity to the indicator minerals. A nearby diamondiferous pipe discovery to the west, owned by a third party, where an 18-carat Type IIa diamond has been yielded, further emphasises the prospectively of these licences.

However, in order for Stellar to focus on Tongo-Tonguma these Liberia licences were also joint ventured out to Citigate and, as for Baoulé, a decision on the future of this joint venture will be made shortly.

Diamond Market

The rough diamond market remains cautious with some new mines coming on stream and majors such as De Beers and Alrosa are indicating a slight increase in production levels for 2017. Whilst this new product may put slight pressure on prices it seems that 2017 has got off to an encouraging start with prices holding up and increasing in some of the better quality categories and the larger stones. Ongoing stability in the market will be governed by continued economic growth in the USA and China and restraint on production levels from the majors. Forecasts for a drop in rough production from over 140 million carats in 2019 to around 115 million carats in 2029 remain unless new major discoveries are made.

Outlook

Looking ahead our objective for 2017 is for Stellar to conclude the Tongo-Tonguma agreements and secure the necessary funding to bring this high quality project into development. The project provides a significant resource with large upside, low estimated capex requirements, potentially rapid initial cash flow within 12 months and potential estimated life of mine revenues of US$1.5 billion, hence we see this as the key to driving significant shareholder value over the near to medium term. I would like to thank our shareholders for their continual support and look forward to the remainder of 2017 and working hard to deliver on our objectives.

Lord Daresbury
Non-Executive Chairman

**** ENDS ****

For further information contact the following or visit the Company's website at www.stellar-diamonds.com.

Karl Smithson, CEO	Stellar Diamonds plc	Tel: +44 (0) 20 7010 7686
Philip Knowles, CFO	Stellar Diamonds plc	Tel: +44 (0) 20 7010 7686
Emma Earl Sandy Jamieson	Cairn Financial Advisers (Nominated Adviser)	Tel: +44 (0) 20 7213 0880
Jon Bellis	Beaufort Securities Limited (Joint Broker)	Tel: +44 (0) 20 7382 8300
Martin Lampshire	Peterhouse Corporate Finance (Joint Broker)	Tel: +44 (0) 20 7469 0930
Rory Scott	Mirabaud Securities (Financial Advisers)	Tel: +44 (0) 20 7878 3360
Lottie Brocklehurst Charlotte Page	St Brides Partners Ltd (Financial PR)	Tel: +44 (0) 20 7236 1177

Condensed consolidated statement of comprehensive loss (unaudited)
for the six months ended 31 December 2016
(Stated in U.S. dollars)

	Notes	Six months ended 31 December 2016 (unaudited)	Six months ended 31 December 2015 (unaudited)	Year ended 30 June 2016 (audited)
Revenue	2	-	-	499,725
Cost of sales		-	(31,369)	(1,545,769)
Gross loss		-	(31,369)	(1,046,044)
Impairment of intangibles	4	-	-	(4,300,528)
Depreciation of plant and equipment		(503)	(311,219)	(621,629)
Administrative expenses		(545,810)	(646,332)	(1,461,418)
Loss on disposal of tangible fixed assets		-	-	(98,956)
Finance costs		(297,640)	(173,111)	(407,418)
Remeasurement of derivatives		5,808	275,568	877,993
Other income		175,000	-	-
		(663,145)	(855,094)	(6,011,956)
Loss before tax		**(663,145)**	**(886,463)**	**(7,058,000)**
Income tax expense		-	-	-
Loss after tax attributable to equity holders of the parent		**(663,145)**	**(886,463)**	**(7,058,000)**
Total comprehensive expense for the year attributable to equity holders of the parent		**(663,145)**	**(886,463)**	**(3,015,682)**
Basic and diluted loss per share		**(0.021)**	**(0.049)**	**(0.300)**

Condensed consolidated statement of financial position (unaudited) as at 31 December 2016
(Stated in U.S. dollars)

	Notes	31 December 2016 (unaudited)	31 December 2015 (unaudited)	30 June 2016 (audited)
Assets				
Non-current assets				
Intangible assets	3	13,757,565	17,490,007	13,139,699
Property, plant and equipment	4	1,221,224	1,865,401	1,439,124

Total non-current assets	**14,978,789**	**19,355,408**	**14,578,823**
Current assets			
Inventories	-	306,303	26,934
Trade and other receivables	380,271	139,897	296,284
Cash and cash equivalents	89,954	373,602	268,330
Total current assets	**470,225**	**819,802**	**591,548**
Total assets	**15,449,014**	**20,175,210**	**15,170,371**
Equity and liabilities			
Capital and reserves			
Share capital	26,887,434	26,801,078	26,887,434
Share premium	30,449,207	29,746,844	30,449,207
Reverse acquisition reserve	17,073,279	17,073,279	17,073,279
Share option reserve	918,279	4,286,666	918,279
Warrant reserve	-	530,919	-
Accumulated loss	(63,073,254)	(59,606,959)	(62,410,109)
Total equity	**12,254,945**	**18,831,827**	**12,918,090**
Non-current liabilities			
Convertible loan	1,284,902	737,374	953,625
Derivative financial liabilities	-	84,010	12,504
Provision	104,369	104,369	104,369
Total non-current liabilities	**1,389,271**	**925,753**	**1,070,498**
Current liabilities			
Trade and other payables	540,054	417,630	413,840
Convertible loan	1,158,048	-	-
Loans	100,000	-	767,943
Derivative financial liabilities	6,696	-	-
Total current liabilities	**1,804,798**	**417,630**	**1,181,783**
Total liabilities	**3,194,069**	**1,343,383**	**2,252,281**
Total equity and liabilities	**15,449,014**	**20,175,210**	**15,170,371**

Company registration number: 5424214

Condensed consolidated statement of changes in equity (unaudited) as at 31 December 2016

(Stated in U.S. dollars)

	Share capital	Share premium	Warrant reserve	Share option reserve	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 14)	231,473	1,575,358	-	-	-	-	1,806,831
Share issue costs (note 14)		(126,324)	-	-	-	-	(126,324)
Share options expired (note 15)	-	-	-	(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	-	-	-	-	-	(663,145)	(663,145)
Balance at 31 December 2016	**26,801,078**	**29,746,844**	**530,919**	**4,286,666**	**17,073,279**	**(63,073,254)**	**12,254,945**

Condensed consolidated statement of cash flows (unaudited)
For the six months ended 31 December 2016
(Stated in U.S. dollars)

	Six months ended 31 December 2016 (unaudited)	Six months ended 31 December 2015 (unaudited)	Year ended 30 June 2015 (audited)
Cash flows from operating activities:			
Net loss for the period	(663,145)	(886,463)	(7,058,000)
Adjustments for:			
Depreciation of property, plant and equipment	503	311,219	621,629
Impairment of intangibles	-	-	4,300,528
Loss on disposal of fixed assets	-	-	98,956
Remeasurement of derivatives	(5,808)	(275,568)	(877,993)
Shares issued to directors in lieu of fees	-	192,343	192,343
Net foreign exchange (gain)	(96,571)	(79,970)	(226,447)
Interest charge	297,640	173,111	407,418
Change in working capital items:			
(Increase)/Decrease in receivables	(83,987)	26,853	(129,534)
Decrease/(Increase) in inventories	26,934	(152,133)	127,236
Increase/(Decrease) in trade and other payables	126,222	(463,350)	(93,677)
Net cash used in operations	(398,212)	(1,153,958)	(2,637,541)
Cash flows from investing activities			
Purchases of property, plant and equipment	-	-	-
Payments to acquire intangible assets	(400,469)	(773,492)	(706,801)
Net cash used in investing activities	(400,469)	(773,492)	(706,801)
Cash flows from financing activities			
Proceeds of Convertible Loan	639,310	1,551,407	1,551,407
Proceeds of other loans			662,397
Repayment of other loans			(337,500)
Interest paid on borrowings	-	(124,394)	(72,867)
Proceeds from issue of share capital, net of costs	-	699,445	1,488,164
Net cash generated by financing activities	639,310	2,126,458	3,291,601
Net (decrease)/increase in cash and cash equivalents	(159,371)	199,008	(52,741)
Cash and cash equivalents, beginning of period	268,330	94,624	94,624
Effect of foreign exchange rate changes	(19,006)	79,970	226,447
Cash and cash equivalents, end of period	89,953	373,602	268,330

Notes to the consolidated financial statements (unaudited) for the six months ended 31 December 2016

(Stated in U.S. dollars)

1. Basis of presentation

Stellar Diamonds plc (the “Company” or on a consolidated basis the “Group”) is presenting unaudited financial statements as of and for the six months ended 31 December 2016. The comparative periods presented are the audited financial statements as of and for the year ended 30 June 2016 and the unaudited financial statements as of and for the six months ended 31 December 2015.

The information for the six months ended 31 December 2016 does not constitute statutory accounts for Stellar Diamonds plc as defined in section 434 of the Companies Act 2006. A copy of the most recent statutory accounts for the year ended 30 June 2016 has been delivered to the Registrar of Companies. The auditors reported on those accounts: their report was unqualified but drew attention to the Company’s ability to continue as a going concern and the valuation of intangible assets by way of emphasis and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards as adopted by the European Union (“IFRS”). The condensed set of financial statements included in this interim financial report has been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting”, as adopted by the European Union.

1.1 Going concern

The Company’s business activities, together with the factors likely to affect its future development, its key risks and performance are set out in the Chairman’s Statement.

As discussed in the Chairman’s Statement, the Company is focused on completing the Tribute Mining Agreement on the Tonguma licence and developing it into production in conjunction with the Company’s Tongo licence. The Company will require approximately US$31.8 million over a 2 year period to bring the combined operation into commercial production and discussions with a potential strategic investor have been entered into. However there can be no guarantee that the Tribute Mining Agreement will be entered into or that all the conditions precedent will be met or that the required funding will be forthcoming. In February and March 2017 the company raised US$0.66m before costs through a placing, subscription and open offer. Given the progress made on the revised Tonguma Tribute Mining Agreement and the successful placing and open offer completed in March 2017, the Directors believe that the Company will have the ability to access sufficient levels of finance to fund the expenditure requirements at Tongo, and to meet essential administrative expenses and continue the Group’s other projects 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 and the prospects for raising additional equity as required, they consider it appropriate to prepare the financial statements on a going concern basis.

Shareholders should note that the Company's working capital position remains constrained following completion of the Placing, Open Offer and Subscription. As described above, the Company will look to raise further funds to allow implementation of the first stages of the Tongo-Tonguma mine development should the Tribute Agreement be entered into and to provide further working capital for the Group. Whilst the Directors believe that this will be possible, the timing, quantum, structure and pricing of any future fundraises are uncertain and may be dependent on the Company's ability to enter into the proposed Tribute Agreement on a timely basis.

1.2 Changes in accounting policy

The same accounting policies, presentation and methods of computation are followed in the condensed set of financial statements as applied in Stellar Diamonds plc’s latest audited financial statements as of and for the year ended 30 June 2017.

2. Segments

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 focussed on the individual projects in geographical locations. The reportable segments under IFRS 8 are therefore as follows:

- Mandala (Guinea);
- Bomboko (Guinea);
- Kono (Sierra Leone);
- Tongo (Sierra Leone);
- Droujba (Guinea);
- Baoulé (Guinea);
- Corporate and other exploration activities.

Following is an analysis of the Group's revenue, results, assets and liabilities by reportable segment for the six months ended 31 December 2016:

	Mandala/ Bomboko	Baoulé	Kono	Tongo	Droujba	Corporate and other	Total
	$	$	$	$	$	$	$
Revenue – sale of diamonds	-	-	-	-	-	-	-
Segment result	(43,841)	-	(21,191)	26,640*	-	(332,922)	(371,312)
Finance costs							(297,640)
Remeasurement of derivatives							5,808
Loss before tax							(663,145)
Income tax expense							-
Loss after tax							(663,145)
Segment assets	9,908	3,219,190	2,584	7,470,798	4,261,608	484,925	15,449,013
Segment liabilities	(104,369)	-	-	(30,250)	(2,684)	(3,056,766)	(3,194,069)
Carrying value of intangible assets	-	2,073,157	-	7,377,241	4,261,608	45,559	13,757,565
Net book value of property, plant and equipment	-	1,146,034	2,396	61,742	-	11,052	1,221,224
Capital additions – intangible assets	-	364,684	-	248,483	4,698	-	617,865
Depreciation of property, plant and equipment	-	206,501	422	10,896	-	81	217,900

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

	Mandala/ Bomboko	Baoulé	Kono	Tongo	Droujba	Corporate and other	Total
	$	$	$	$	$	$	$
Revenue – sale of diamonds	-	499,725	-	-	-	-	499,725
Segment result	(132,890)	(1,046,044)	(4,364,833)	121,090*	(2,612)	(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	25,415	3,087,944	3,012	7,231,945	4,256,910	565,145	15,170,371
Segment liabilities	(104,369)	-	-	(36,920)	(2,684)	(2,108,308)	(2,252,281)
Carrying value of intangible assets	-	1,708,472	-	7,128,759	4,256,910	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	-	-	-	721,518	18,293	-	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.

3. Intangible assets

	Six months ended 31 December 2016	Year ended 30 June 2016
	$	$
Exploration and evaluation expenditure		
Cost		
Opening balance	35,729,205	34,989,394
Additions	617,866	739,811
Closing balance	36,347,071	35,729,205
Impairment		
Opening balance	22,589,506	18,288,978
Charge for the period	-	4,300,528
Closing balance	22,589,506	22,589,506
Carrying value	13,757,565	13,139,699

4. Property, plant and equipment

	Mining assets	Machinery and equipment	Total
	$	$	$
Cost			
At 1 July 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
Additions	-	-	-
At 31 December 2016	11,079,305	9,593,335	20,672,640
Depreciation			
At 1 July 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 period	-	214,280	217,900
At 31 December 2016	11,079,305	8,368,491	19,451,416
Net book value			
At 31 December 2016	**-**	1,221,224	1,221,224
At 30 June 2016	-	1,439,124	1,439,124

5. Convertible loan

$1,650,000 Convertible Loan

On 19 November 2015 the Company issued a secured convertible loan note ("$1.65m 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 $1.65m 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 $1.65m 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 $1.65m 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 $1.65m CLN and have an expiry date of 21 November 2017.

The conversion feature of the $1.65m CLN and the related warrants represents an embedded derivative for accounting purposes and is separate 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 $1.65m 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:

	31 December 2016	30 June 2016	19 November 2015
Expected life	0.88 years	1.39 years	2 years
Expected Dividend Yield	0%	0%	0%
Risk Free Interest Rate	0.550%	0.396%	0.856%
Share Price Volatility	69.17%	69.17%	89.36%
Share Price at Time of Valuation	7.125p	5.75p	17.5p
Exchange rate	$1.2240/£	$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.

	$
Convertible loan:	
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 to 30 June 2016	264,967
Presented as non-current loans and borrowings at 30 June 2016	**953,625**
Effective interest charged in the period to 31 December 2016	204,423
Presented as current loans and borrowings at 31 December 2016	**1,158,048**
Embedded derivatives:	
Fair value of derivate financial instrument at inception of convertible loan	862,743
Gain recognised on revaluation at 30 June 2016	(850,240)
Presented as non-current Derivative Financial Liability at 30 June 2016	**12,504**
Gain recognised on revaluation at 30 June 2016	(5,808)
Presented as current Derivative Financial Liability at 31 December 2016	**6,695**

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 $1.65m 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 financial year to 30 June 2016 of $850,240 and a further gain of $5,808 in the six months to 31 December 2016. The accounting treatment also results in a significant finance cost relating to the loan element which will be charged to the income statement over the term of the loan, being 24 months from inception and 11 months from the balance sheet date.

In addition to the gain of $850,240 recognised in relation to the convertible loan above during the financial year, an additional $27,754 was released to the income statement relating to derivatives on the balance sheet at 30 June 2015.

On 5 October 2016 the Company entered into an agreement to amend certain terms of the existing $1.65 million 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, additional amendments were made to the convertible loan agreement and these are detailed in Note 6 (Post Balance Sheet Events) below. As with the amendments agreed in October 2016, all amendments are subject to the successful completion of the proposed transaction as detailed in Note 6.

$1,242,183 Convertible Loan

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.

Further to this, in February 2017, amendments were made to the $1.24m CLN and these are detailed in Note 6 (Post Balance Sheet Events) below. All amendments are subject to the successful completion of the proposed transaction as detailed in Note 6. Given the significant uncertainty of pricing of the convertible element of the loan and the attached warrants, the $1.24m CLN has been treated as a loan with no derivative element for the purposes of these interim financial statements.

6. Post balance sheet events

In February 2017 a total of 5,900,000 ordinary shares of 1p each were allotted and issued for gross proceeds of $404,028.

In February 2017 the Company announced that it was no longer undertaking the previously announced acquisition of Tonguma Limited. The Company announced that it had agreed terms for a Tribute Mining arrangement with the owners of Tonguma Limited, which if completed would allow Stellar to simultaneously mine both its wholly owned Tongo project and the adjacent Tonguma project, with Stellar being the operator of the combined mine. The Tribute Mining Agreement would not be considered a reverse takeover under the AIM rules for Companies and as a result the suspension of the Company’s shares was lifted on 27 February 2017.

Also in February 2017 the Company agreed with its loan note holders to make certain changes to the terms of the convertible loan notes to take into account the proposed Tribute Mining Agreement and its completion timetable. The changes to the two outstanding loan notes are set out below:

$1,650,000 convertible loan note

i. The definition of “Transaction”, (as previously defined in the CLN Announcement as “Potential Transaction”), be amended to take into account the Tribute Mining Agreement and the definition of

"Completion" to be the date on which Stellar has raised a minimum initial funding of US$10 million having entered into the Tribute Mining Agreement

ii. A change in the definition of Issue Price, as previously defined in the CLN Announcement, to be the weighted average price of the first US$10 million raised from 1 February 2017 onwards
iii. Extension of the Long Stop date by which the Transaction must be completed to 30 April 2017
iv. Extension of the maturity date of the warrants attached to the first CLN to 30 June 2019

$1,242,183 convertible loan note

i. The definition of "Transaction", (as previously defined in the CLN Announcement), be amended to take into account the Tribute Mining Agreement and the definition of "Completion" of the Transaction to be the date on which Stellar has raised a minimum initial funding of US$10 million having entered into the Tribute Mining Agreement
ii. The Subscription Price (as previously defined in the CLN Announcement) be amended to 70% of the weighted average price of the first US$10 million raised between 1 February 2017 and 30 May 2017
iii. 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 Announcement)
iv. 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 and Association and applicable law to issue shares in relation to the exercise of the warrant.
v. The exercise price of the Warrants be 6 pence for the first 12 months, thereafter rising to 7 pence for the next twelve months ("Exercise Price").
vi. The exercise price of the Warrants in the event that the Potential Transaction is not completed, be amended to the lower of 6.0 pence or the 3 day or 45 day VWAP prior to the notice of exercise ("Default Exercise Price").

All other terms of the loan notes remain unchanged.

In March 2017 a total of 5,019,536 ordinary shares of 1p each were allotted and issued in relation to an open offer, subscription and issue of shares in lieu of Directors fees. The open offer and subscription raised gross proceeds of $254,485 and the shares issued to Directors in Lieu of fees amounted to $90,332.

7. The Company's unaudited six month results to 31 December 2016 will be available to download from the Company's website at www.stellar-diamonds.com.

This announcement contains inside information for the purposes of Article 7 of EU Regulation 596/2014