

Interim Consolidated Financial Statements
(Unaudited)

Stellar Diamonds plc

For the six months ended 31 March 2010

(Stated in U.S. Dollars)

Company registration number: 5424214

Stellar Diamonds plc

For the six months ended 31 March 2010

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Corporate information

| | |
|------------------------------|--|
| Registered office: | 41 Maiden Lane, London WC2E 7LJ, United Kingdom |
| Company registration number: | 5424214 |
| Company incorporated on: | 14 April 2005 |
| Company web site: | www.stellar-diamonds.com |

CHAIRMAN'S STATEMENT

Stellar Diamonds plc (the "Company" or "Stellar") is required to provide these interim consolidated financial statements under the AIM rules for the six month period following the date of the last audited information in its Admission Document. The Company's financial year end is 30 June and the next set of audited results will be prepared to this date.

In the six months to 31 March 2010 under review Stellar has made considerable progress towards its goal of becoming the leading West African diamond producer. The reverse takeover of West African Diamonds was completed and the enlarged company, Stellar Diamonds plc, was admitted to trading on the Alternative Investment Market ("AIM") on 22 February 2010. This was accompanied by a successful fund raising of £5 million which was co-brokered between RBC Capital Markets (Stellar's nominated adviser and broker) and Astaire Securities.

The funds raised enabled Stellar to pursue its strategy of expansion of the Bomboko and Mandala mines in south east Guinea to increase exposure to strengthening diamond prices. Additional equipment has been purchased to enable mining and production rates to increase and this process has almost been completed.

Production at the 100% owned Mandala mine for the six months ended 31 March 2010 was 34,409 carats at a grade of 36 carats per hundred tonnes ("cpht"). Total production at Mandala since mining commenced in late April 2009 has reached 78,491 carats at a grade of 39cpht, which is well in excess of the expected (modeled) grade of 25cpht. The largest diamond recovered to date is a 37 carat fancy yellow stone that was selected for polishing.

Diamond sales, of both gem and industrial quality for the six months ended 31 March 2010 realised \$1.19 million at an average of over \$24 per carat. Total sales to date from Mandala have reached 74,793 carats at an average of \$30.71 per carat, for total revenue of \$2.3 million. The average sales prices in 2010 are significantly higher than those achieved in 2009 as the rough diamond market continues to improve. The most recent sales have realised prices ranging from \$38 to \$42 per carat, excluding the 37 carat yellow stone.

At Bomboko trial mining continued with production reaching over 2,411 carats at an average grade of around 4cpht for this interim period. Total production from Bomboko has yielded 4,157 carats at a grade of 5cpht. This lower grade relative to Mandala is compensated for by the higher average diamond value at Bomboko. Sales of Bomboko diamonds have realised \$417,000 at average prices of \$120 per carat.

The introduction of additional earth moving machinery at Mandala and a second plant at Bomboko should enable production at both these projects to be significantly increased from the end of the second quarter of 2010. At Mandala monthly carat production is expected to be over 12,000 carats, whereas at Bomboko, once the second plant is installed and operational, the mine will then have the capacity to produce up to 4,000 carats per month. This resulting increase in revenue will provide Stellar with the necessary funds to implement its kimberlite exploration and development programme going forward.

Stellar's medium term strategy and a key driver for growth is the development of its high-grade kimberlite projects at Kono and Tongo (Sierra Leone) and Bouro and Droujba (Guinea). These projects offer significant opportunities to strengthen Stellar's production pipeline in the mid-term and as such fast tracking their development through to production is a core priority for the Company. As part of this strategy Stellar entered negotiations with joint venture partner Petra Diamonds Limited ("Petra") with respect to acquiring Petra's interest in the Kono project. This acquisition was successfully completed in May 2010 through Stellar issuing Petra 4.5 million shares at a price of 20 pence per share, making Petra a 4.4% shareholder in Stellar.

The Kono project remained on care and maintenance during the interim review period. Trial mining has to date produced over 4,200 carats at average in-situ grades of around 65cpht for the Pol-K kimberlite, but grades of up to 140cpht from the Bardu kimberlite. Stellar intends to resume trial mining once the expected increased revenues from Mandala and Bomboko are realised.

Stellar intends to bulk sample the Tongo and Bouro kimberlites during 2010 in order to determine the diamond grade and value with more confidence. A 5 tonne per hour DMS plant has been purchased and will be re-located to the Tongo project in June to process a 1,000 to 2,000 tonne sample. The Bouro kimberlite is located a mere 1km from the Mandala processing plant so the bulk sampling of this kimberlite will utilize the existing mine infrastructure.

CHAIRMAN'S STATEMENT (continued)

At the Droujba kimberlite pipe an aggressive drill programme is planned to commence towards the end of 2010. This will enable a geological resource model to be defined in advance of surface bulk sampling in 2011.

The Board of Stellar continues to assess new projects and acquisition opportunities as the Company seeks to achieve growth by both organic and non-organic means. However, the immediate focus of the management team is to increase production and revenue from its two existing mines to provide a strong financial platform to deliver growth through development of core kimberlite projects.

I would like to take this opportunity to thank my Board, management teams and staff for their hard work under challenging circumstances this past six months. Furthermore, I am thankful to existing and new shareholders for their continued support as Stellar made the successful transition from a private, mainly exploration focussed company to a publicly listed, production and development focussed company.

With an improving diamond sector I feel that the future outlook for Stellar is good as we ramp up production and position the company to become one of the largest diamond producers in West Africa and on AIM.

A handwritten signature in blue ink that reads "Peter Daresbury". The signature is written in a cursive style and is positioned on a light-colored rectangular background.

Lord Daresbury
Non-Executive Chairman
24 June 2010

DIRECTORS' REPORT

The directors submit their report and the interim consolidated financial statements for Stellar Diamonds plc (the "Company" or "Stellar"), for the six months ended 31 March 2010.

PRINCIPAL ACTIVITY

The principal activity of the company is that of diamond production and development.

RESULTS AND DIVIDENDS

On 22 February 2010, Stellar Diamonds Limited completed its reverse takeover (RTO) of West African Diamonds plc (WAD) in a share for share exchange that resulted in the enlarged group being held 75% by Stellar Diamonds Limited shareholders and 25% by WAD shareholders. WAD then undertook a 5 for 1 share consolidation of the enlarged share capital of the group and raised £5 million new funds. WAD changed its name to Stellar Diamonds plc and was re-admitted to AIM on completion of the acquisition on 22 February 2010.

The RTO of WAD has been accounted for as a reverse acquisition as if Stellar Diamonds Limited had issued new shares in exchange for WAD's net assets. Although the consolidated financial statements have been issued in the name of Stellar Diamonds plc, the legal parent, the Group's activity is in substance a continuation of that of the legal subsidiary, Stellar Diamonds Limited, because after the transaction the former Board of Stellar Diamonds Limited were deemed to have control of the Group and of the legal parent. The accounting for this transaction is disclosed in note 2 of the financial statements.

Stellar Diamonds plc (the "Company" or on a consolidated basis the "Group") is presenting unaudited consolidated financial statements as of and for the six months ended 31 March 2010. The comparative period presented is audited financial statements as of and for the nine months period ended 30 September 2009 prepared for the purposes of the RTO of WAD and simultaneous fund raising on 22 February 2010. The results and net assets of WAD are consolidated from 22 February 2010.

No dividends have been paid or are proposed for the period (2009: nil).

The detailed discussion of the results for the period is presented in the Chairman's Report.

SUBSEQUENT EVENT

On 24 May 2010, the Company announced the completion of a share purchase agreement with Petra Diamonds Limited in respect of the acquisition of 51% of the Kono kimberlite project in Sierra Leone in exchange for the issuance of 4,500,000 new ordinary shares to Petra Diamonds Limited as consideration for the agreed purchase price of £900,000, at a price of 20 pence per share.

GOING CONCERN

As further discussed in note 1.1 the Company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Company should be able to operate within the level of its current facility. As a result, the directors have formed a judgment at the time of approving the interim consolidated financial statements, that there is reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they adopted the going concern basis in preparing the interim consolidated financial statements.

DIRECTORS' REPORT (continued)

DIRECTORS

A General Meeting on 19 February 2010 approved the RTO and the appointment of a new Board of Directors effective from 22 February 2010. James Campbell resigned as Executive Deputy Chairman and appointed as a Non-Executive Director in the new Board.

The directors of the WAD who resigned on 22 February 2010:

| | |
|----------------|--|
| John Teeling | Non-Executive Chairman |
| James Campbell | Executive Deputy Chairman |
| Alex Van Zyl | Executive Technical Director |
| James Finn | Non-Executive Director and Company Secretary |
| Paul Nel | Executive Director (appointed 7th August 2009) |

The directors of the enlarged company appointed on 22 February 2010 and thereafter are:

| | |
|---------------------------------|--|
| Lord Daresbury | Non-Executive Chairman |
| N. Karl Smithson | Chief Executive Officer |
| Angus Ogilvie | Financial Director & Company Secretary |
| James Campbell | Non-Executive Director |
| Luis Guilherme Cabrita da Silva | Non-Executive Director |
| Steven J. Poulton | Non-Executive Director |
| Paul Rankine | Non-Executive Director |

APPROVED BY THE BOARD OF DIRECTORS



N. Karl Smithson

24 June 2010



Lord Daresbury

Stellar Diamonds plc

Condensed consolidated statement of comprehensive loss (unaudited)

For the six months ended 31 March 2010

(Stated in U.S. dollars)

| | Notes | Six months ended 31 March 2010 (unaudited) | Nine months ended 30 September 2009 (audited) |
|---|-------|--|---|
| Revenue | 3 | 1,194,853 | 563,705 |
| Cost of sales | | (2,587,518) | (1,403,380) |
| Gross loss | | (1,392,665) | (839,675) |
| Administrative expenses | | | |
| - Impairment of intangible assets | | - | (6,946,107) |
| - Other administrative expenses | | (1,921,693) | (1,757,267) |
| | | (1,921,693) | (8,703,374) |
| Finance income | | 317 | 317 |
| Finance costs | | (171,095) | (98,295) |
| Loss before tax | | (3,485,136) | (9,641,027) |
| Income tax expense | | - | - |
| Loss after tax attributable to equity holders of the parent | | (3,485,136) | (9,641,027) |
| Total comprehensive loss for the period attributable to equity holders of the parent | | (3,485,136) | (9,641,027) |
| Weighted average number of shares | | 56,444,240 | 49,761,490 |
| Basic and diluted loss per share | | (0.06) | (0.19) |

Stellar Diamonds plc

Condensed consolidated statement of financial position (unaudited) As at 31 March 2010

(Stated in U.S. dollars)

| | Notes | 31 March 2010 (unaudited) | 30 September 2009 (audited) |
|--------------------------------------|-------|------------------------------|--------------------------------|
| Assets | | | |
| <i>Non-current assets</i> | | | |
| Intangible assets | 4 | 3,625,717 | 2,781,108 |
| Property, plant and equipment | 5 | 17,456,932 | 10,973,580 |
| Total non-current assets | | 21,082,649 | 13,754,688 |
| <i>Current assets</i> | | | |
| Inventories | | 465,456 | 501,341 |
| Receivables | 6 | 1,029,948 | 488,402 |
| Cash and cash equivalents | | 2,533,723 | 418,981 |
| Total current assets | | 4,029,127 | 1,408,724 |
| Total assets | | 25,111,776 | 15,163,412 |
| Equity and liabilities | | | |
| <i>Capital and reserves</i> | | | |
| Share capital | 7 | 7,624,710 | 998,142 |
| Share premium | 7 | 21,883,734 | 31,397,951 |
| Reverse acquisition reserve | | 16,800,372 | - |
| Warrant reserve | 7 | 412,825 | 269,801 |
| Share option reserve | 8 | 3,127,249 | 2,709,261 |
| Convertible loan reserve | 10 | 87,853 | 87,853 |
| Accumulated loss | | (25,896,931) | (22,411,795) |
| Total equity | | 24,039,812 | 13,051,213 |
| <i>Non-current liabilities</i> | | | |
| Convertible loan | 10 | 397,209 | 390,317 |
| Provision | | 54,369 | 54,369 |
| Total non-current liabilities | | 451,578 | 444,686 |
| <i>Current liabilities</i> | | | |
| Trade and other payables | | 620,386 | 377,044 |
| Other liabilities | 9 | - | 715,478 |
| Convertible loan | 10 | - | 537,456 |
| Derivative financial instruments | 10 | - | 37,535 |
| Total current liabilities | | 620,386 | 1,667,513 |
| Total liabilities | | 1,071,964 | 2,112,199 |
| Total equity and liabilities | | 25,111,776 | 15,163,412 |

Company registration number: 5424214

Stellar Diamonds plc

Condensed consolidated statement of changes in equity (unaudited)

For the six months ended 31 March 2010

(Stated in U.S. dollars)

| | Share capital | Share premium | Warrant reserve | Share option reserve | Convertible loan reserve | Reverse acquisition reserve | Accumulated loss | Total equity |
|---|------------------|-------------------|-----------------|----------------------|--------------------------|-----------------------------|---------------------|-------------------|
| Balance at 1 January 2009 | 973,908 | 31,134,438 | 1,171,714 | 2,333,919 | - | - | (13,672,681) | 21,941,298 |
| Total comprehensive loss for the period | - | - | - | - | - | - | (9,641,027) | (9,641,027) |
| Expired warrants | - | - | (901,913) | - | - | - | 901,913 | - |
| Equity component of convertible loan | - | - | - | - | 87,853 | - | - | 87,853 |
| Issue of share capital | 24,234 | 263,513 | - | - | - | - | - | 287,747 |
| Share-based compensation | - | - | - | 375,342 | - | - | - | 375,342 |
| Balance at 30 September 2009 | 998,142 | 31,397,951 | 269,801 | 2,709,261 | 87,853 | - | (22,411,795) | 13,051,213 |
| Total comprehensive loss for the period | - | - | - | - | - | - | (3,485,136) | (3,485,136) |
| Issue of shares (note 7) | 335 | 33,131 | - | - | - | - | - | 33,466 |
| Conversion of debt to equity (note 2) | 9,049 | 895,868 | - | - | - | - | - | 904,917 |
| Reverse acquisition adjustment | 4,656,462 | (15,731,171) | - | 156,356 | - | 16,800,372 | - | 5,882,019 |
| Issue of placing shares (notes 2 and 7) | 1,951,938 | 5,784,958 | - | - | - | - | - | 7,736,896 |
| Share issue costs (notes 2 and 7) | - | (380,023) | - | - | - | - | - | (380,023) |
| Share warrants issued (notes 2 and 7) | - | (143,024) | 143,024 | - | - | - | - | - |
| Bonus shares issued to directors (note 7) | 8,784 | 26,044 | - | - | - | - | - | 34,828 |
| Re-pricing of Stellar Diamonds Limited share options (note 8) | - | - | - | 261,632 | - | - | - | 261,632 |
| Balance at 31 March 2010 | 7,624,710 | 21,883,734 | 412,825 | 3,127,248 | 87,853 | 16,800,372 | (25,896,931) | 24,039,812 |

Stellar Diamonds plc

Consolidated statement of cash flows (unaudited)

For the six months ended 31 March 2010

(Stated in U.S. dollars)

| | Six months ended 31 March 2010 | Nine months ended 30 September 2009 |
|---|-----------------------------------|--|
| Cash flows from operating activities: | | |
| Net loss for the period | (3,485,136) | (9,641,027) |
| Items not involving cash: | | |
| Loss on disposal of property, plant and equipment | - | 28,070 |
| Depreciation of property, plant and equipment | 834,842 | 730,006 |
| Impairment of intangible assets | - | 6,946,107 |
| Share-based payment expense | 261,631 | 375,342 |
| Shares issued for nil consideration | 34,828 | 287,747 |
| Interest income | (317) | (317) |
| Interest expense | 127,300 | 98,295 |
| Net foreign exchange loss | 79,606 | 21,330 |
| Change in working capital items: | | |
| (Increase)/Decrease in receivables | (388,406) | 705,163 |
| Decrease/(Increase) in stock | 97,025 | (501,341) |
| Increase/(Decrease) in trade and other payables | 97,575 | (291,309) |
| Net cash used in operations | (2,341,052) | (1,241,934) |
| Cash flows from investing activities | | |
| Acquisition of subsidiary | 11,384 | - |
| Purchases of property, plant and equipment | (1,672,698) | (219,774) |
| Payments to acquire intangible assets | (288,921) | (1,477,774) |
| Interest received | 317 | 317 |
| Repayment of other liabilities | (715,478) | - |
| Net cash used in investing activities | (2,665,396) | (1,697,231) |
| Cash flows from financing activities | | |
| Proceeds from issue of convertible loans | - | 1,053,161 |
| Repayment of convertible loans | (100,000) | - |
| Proceeds from issue of share capital, net of costs | 7,356,872 | - |
| Interest paid | (30,060) | (50,327) |
| Net cash generated by financing activities | 7,226,812 | 1,002,834 |
| Net increase/(decrease) in cash and cash equivalents | 2,220,364 | (1,936,331) |
| Cash and cash equivalents, beginning of period | 418,981 | 2,376,642 |
| Effect of foreign exchange rate changes | (105,622) | (21,330) |
| Cash and cash equivalents, end of period | 2,533,723 | 418,981 |

Significant non-cash transactions relate to the issue of shares on reverse acquisition of WAD (note 2), conversion of debt to shares in Stellar Diamonds Limited (note 2), issue of share warrants (note 7) and issue of shares during the period (notes 4 and 7).

Stellar Diamonds plc

Notes to the consolidated financial statements (unaudited)

For the six months ended 31 March 2010

(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 March 2010. The comparative period presented is audited financial statements as of and for the nine months period ended 30 September 2009 for the purposes of the reverse takeover (RTO) of West African Diamonds plc ("WAD") and simultaneous fund raising on 22 February 2010 (see note 2 for further information).

The RTO of WAD has been accounted for as a reverse acquisition as if Stellar Diamonds Limited had issued new shares in exchange for WAD's net assets. Although these consolidated financial statements have been issued in the name of Stellar Diamonds plc, the legal parent, the Group's activity is in substance a continuation of that of the legal subsidiary, Stellar Diamonds Limited, because after the transaction the former Board of Stellar Diamonds Limited were deemed to have control of the Group and of the legal parent.

The information for the nine months ended 30 September 2009 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 April 2009 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 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.

On 1 November 2009, WAD changed its functional and presentational currency from Pound sterling to US dollars as a result of the increasing sales of diamonds and purchases of services and goods being denominated in US dollars.

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 has invested in additional plant and equipment to significantly increase production at its two alluvial producing mines in Guinea. The expected increase in revenue will provide the Company with the necessary funds to implement its kimberlite exploration and development programme in the second half of 2010 and as such at 31 March 2010, there is minimal commitment to exploration activities.

The Company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Company should be able to operate within the level of its current facility and as a result, the directors have formed a judgment at the time of approving the interim consolidated financial statements, that there is reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason the directors continue to adopt the going concern basis in preparing the interim consolidated financial statements.

Stellar Diamonds plc

Notes to the consolidated financial statements (unaudited)

For the six months ended 31 March 2010

(Stated in U.S. dollars)

1. Basis for preparation (continued)

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 Limited's latest audited financial statements as of and for the nine months ended 30 September 2009, except as described below.

In the current financial period, the Group adopted International Financial Reporting Standard 3, "Business Combinations" (revised 2008) and International Accounting Standard 27, "Consolidated and Separate Financial Statements" (revised 2008). The most significant changes to the Group's previous accounting policies for business combinations are as follows:

- acquisition-related costs which previously would have been included in the cost of business combination are included in administrative expenses as they are incurred;
- any pre-existing equity interest in the entity are remeasured to the fair value at the date of obtaining control, with any resulting gain or loss recognised in profit or loss;
- any changes to the Group's ownership interest subsequent to the date of obtaining control are recognised directly in equity with no adjustment to goodwill; and
- any changes to the cost of acquisition, including contingent consideration, resulting from events after the date of acquisition are recognised in profit and loss. Previously, such changes resulted in an adjustment to goodwill.

The revised standards have been applied to the reverse acquisition as described in note 2.

2. Reverse acquisition of West African Diamonds plc

On 22 February 2010, Stellar Diamonds Limited completed its reverse takeover (RTO) of West African Diamonds plc (WAD) in a share for share exchange.

Prior to the completion of the RTO, convertible loans and accrued interest of \$546,241 (note 10), unpaid directors' fees from 1 January 2009 of \$208,676 (note 11) and African Aura Mining Inc.'s management fee charge for 2009 to Stellar Diamonds Limited of \$150,000 (note 11) were converted into new Stellar Diamonds Limited shares. WAD also undertook a 5 for 1 share consolidation of its enlarged share capital.

On 22 February 2010 the enlarged group raised \$7,356,873, net of share issue costs of \$380,023, in new funds (the "Placing"). In addition, the Company also issued share warrants with a fair value of \$143,024 to the Company's broker. The Placing comprised the issuance of 25,000,000 new ordinary shares at 20p per share converted to 31 cents per share (at a rate of 1.56155).

WAD changed its name to Stellar Diamonds plc and was re-admitted to AIM on completion of the RTO on 22 February 2010.

Under the terms of the acquisition agreement, WAD agreed to acquire the entire issued share capital of Stellar Diamonds Limited for a consideration equating to approximately three times the value of 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 shareholders.

Prior to the Placing, a total of 53,248,164 consideration shares were issued and allotted to the shareholders of Stellar Diamonds Limited on the basis of 1.005 new ordinary shares in Stellar Diamonds plc for each Stellar Diamonds Limited share. The fair value attributed to the

Stellar Diamonds plc

Notes to the consolidated financial statements (unaudited)

For the six months ended 31 March 2010

(Stated in U.S. dollars)

consideration shares is \$16.6 million based on the market price of the Placing shares of 20p per share converted to 31 cents per share (at a rate of 1.56155).

2. Reverse acquisition of West African Diamonds plc (continued)

The combination has been accounted for as a reverse acquisition as if Stellar Diamonds Limited had issued new shares in exchange for WAD's net assets. Although these consolidated financial statements have been issued in the name of Stellar Diamonds plc, the legal parent, the Group's activity is in substance a continuation of that of the legal subsidiary, Stellar Diamonds Limited because after the transaction the former Board of Stellar Diamonds Limited were deemed to have control of the Group and of the legal parent.

The following accounting treatment has been applied in respect of the transaction.

- The accumulated loss and other equity balances recognised in the consolidated financial statements reflect the consolidated accumulated loss and other equity balances of Stellar Diamonds Limited immediately before the transaction, and the consolidated loss for the period from 1 October 2009 to the date of the transaction are those of Stellar Diamonds Limited. However, the equity structure appearing in the consolidated financial statements reflects the equity structure of the legal parent, including the equity instruments issued under the share for share exchange to effect the transaction. The effect of using the equity structure of the legal parent gives rise to an adjustment to the Group's issued equity capital ("the reverse acquisition reserve").
- Comparative numbers presented in the consolidated financial statements are those reported in the consolidated financial statements of the legal subsidiary, Stellar Diamonds Limited, for the nine months ended 30 September 2009.
- The fair value of the shares issued by Stellar Diamonds plc has been determined from the perspective of Stellar Diamonds Limited. The substance of the transaction is that Stellar Diamonds Limited received net assets of \$5.9 million representing 100 per cent of the value of the net assets of WAD. This is based on the fair value of the shares acquired from the shareholders of WAD of \$5,725,663, being 18,333,268 shares at a fair value of 20p, converted to 31 cents per share (at a rate of 1.56155) and the fair value of re-issued options previously held by WAD management and employees of \$156,356 (note 8).
- The Company's financial statements and related notes are for the legal subsidiary (treated as the accounting acquirer) for the period from 1 October 2009 to 31 March 2010 and include the results of WAD from the date of acquisition at 22 February 2010.

Refer also to note 7 for the details of the movements in share capital.

Stellar Diamonds plc

Notes to the consolidated financial statements (unaudited)

For the six months ended 31 March 2010

(Stated in U.S. dollars)

2. Reverse acquisition of West African Diamonds plc (continued)

The following table summarizes the fair values of the assets acquired and liabilities assumed on 22 February 2010.

| | Book value | Fair value |
|--|--------------------------|-------------------------|
| | \$ | \$ |
| Current assets | | |
| Cash and cash equivalents | 11,384 | 11,384 |
| Accounts receivable | 3,140 | 3,140 |
| Inventories | - | 61,141 |
| | <u>14,524</u> | <u>75,665</u> |
| Non-current assets | | |
| Intangible assets (Note 4) | - | 522,223 |
| Property, plant and equipment (Note 5) | 11,129,938 | 5,645,495 |
| | <u>11,129,938</u> | <u>6,167,718</u> |
| Total assets acquired | <u>11,144,462</u> | <u>6,243,383</u> |
| Current liabilities | | |
| Accounts payable and accrued liabilities | 472,380 | 361,364 |
| | <u>472,380</u> | <u>361,364</u> |
| Total liabilities assumed | <u>472,380</u> | <u>361,364</u> |
| Net assets acquired | <u>10,672,082</u> | <u>5,882,019</u> |
| Total consideration | | |
| Fair value of shares issued | | 5,725,663 |
| Fair value of share options re-issued (note 8) | | 156,356 |
| | | <u>5,882,019</u> |

The results of WAD have been included in the consolidated financial statements from 22 February 2010. WAD generated a net loss of \$179,177 since the date of acquisition. If WAD had been a member of the Group from 1 October 2009 it would have not contributed any material revenues or profits and losses.

The net cash inflow as a result of the acquisition is \$11,384.

Stellar Diamonds plc

Notes to the consolidated financial statements (unaudited)

For the six months ended 31 March 2010

(Stated in U.S. dollars)

3. Segments

The Company is engaged in the acquisition, exploration, development and production of diamond properties in the West African countries of Sierra Leone, Guinea, Liberia and up to 30 September 2009, the DRC. Information presented to the Chief Executive Officer for the purposes of resource allocation and assessment of segment performance is focused on the projects in geographical locations. The reportable segments under IFRS 8 are therefore as follows:

- Guinea;
- Sierra Leone;
- Liberia;
- Corporate activities in the United Kingdom; and
- Other which include DRC.

Following is an analysis of the Group's revenue and results by reportable segment for the six months ended 31 March 2010:

| | Guinea | Sierra Leone | Liberia | UK | Total |
|---|------------|--------------|---------|-------------|-------------|
| | \$ | \$ | \$ | \$ | \$ |
| Revenue | 1,194,853 | - | - | - | 1,194,853 |
| Segment result | (791,028) | - | 490 | (2,523,820) | (3,314,358) |
| Finance income | - | - | - | 317 | 317 |
| Finance costs | - | (5,465) | - | (165,630) | (171,095) |
| Loss before tax | (791,028) | (5,465) | 490 | (2,689,133) | (3,485,136) |
| Income tax expense | - | - | - | - | - |
| Loss after tax | (791,028) | (5,465) | 490 | (2,689,133) | (3,485,136) |
| Segment assets | 17,399,853 | 2,796,983 | - | 4,914,940 | 25,111,776 |
| Segment liabilities | (70,545) | (795) | - | (1,000,624) | (1,071,964) |
| Share based payment expense | - | - | - | (261,632) | (261,632) |
| Depreciation of property, plant and equipment | (834,842) | - | - | - | (834,842) |
| Capital additions | | | | | |
| - property, plant and equipment | 7,318,193 | - | - | - | 7,318,193 |
| - intangible assets | 743,277 | 101,332 | - | - | 844,609 |

Stellar Diamonds plc

Notes to the consolidated financial statements (unaudited)

For the six months ended 31 March 2010

(Stated in U.S. dollars)

3. Segments (continued)

Following is an analysis of the Group's revenue and results by reportable segment for the nine months ended 30 September 2009:

| | Guinea | Sierra Leone | Liberia | UK and other | Total |
|---|-------------|--------------|----------|--------------|-------------|
| | \$ | \$ | \$ | \$ | \$ |
| Revenue | 563,705 | - | - | - | 563,705 |
| Segment result | (1,263,344) | (7,000,806) | - | (1,278,899) | (9,543,049) |
| Finance income | - | - | - | 317 | 317 |
| Finance costs | - | - | - | (98,295) | (98,295) |
| Loss before tax | (1,263,344) | (7,000,806) | - | (1,376,877) | (9,641,027) |
| Income tax expense | - | - | - | - | - |
| Loss after tax | (1,263,344) | (7,000,806) | - | (1,376,877) | (9,641,027) |
| Segment assets | 11,795,240 | 2,595,698 | 12,094 | 760,380 | 15,163,412 |
| Segment liabilities | (110,851) | (716,273) | - | (1,285,075) | (2,112,199) |
| Impairment of intangible assets | 72,740 | (7,000,000) | - | (18,847) | (6,946,107) |
| Share based payment expense | - | - | - | (375,342) | (375,342) |
| Depreciation of property, plant and equipment | (729,200) | (806) | - | - | (730,006) |
| Capital additions | | | | | |
| - property, plant and equipment | 274,143 | - | - | - | 274,143 |
| - intangible assets | 604,380 | 927,288 | (70,659) | 16,765 | 1,477,774 |

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Notes to the consolidated financial statements (unaudited)

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(Stated in U.S. dollars)

4. Intangible assets

| | Resource properties \$ | Exploration costs \$ | Total \$ |
|----------------------------------|------------------------------|----------------------------|--------------------|
| Cost | | | |
| At 1 January 2009 | 5,043,592 | 18,686,034 | 23,729,626 |
| Additions | - | 1,477,774 | 1,477,774 |
| Transfer to mining assets | <u>(4,933,592)</u> | <u>(2,569,450)</u> | <u>(7,503,042)</u> |
| At 30 September 2009 | 110,000 | 17,594,358 | 17,704,358 |
| Additions | - | 322,386 | 322,386 |
| Acquired as part of WAD (note 2) | <u>522,223</u> | <u>-</u> | <u>522,223</u> |
| At 31 March 2010 | <u>632,223</u> | <u>17,916,744</u> | <u>18,548,967</u> |
| Impairment | | | |
| At 1 January 2009 | 110,000 | 7,867,143 | 7,977,143 |
| Charge for the period | <u>-</u> | <u>6,946,107</u> | <u>6,946,107</u> |
| At 30 September 2009 | 110,000 | 14,813,250 | 14,923,250 |
| Charge for the period | <u>-</u> | <u>-</u> | <u>-</u> |
| At 31 March 2010 | <u>110,000</u> | <u>14,813,250</u> | <u>14,923,250</u> |
| Net book value | | | |
| At 31 March 2010 | <u>522,223</u> | <u>3,103,494</u> | <u>3,625,717</u> |
| At 30 September 2009 | <u>-</u> | <u>2,781,108</u> | <u>2,781,108</u> |

Additions during the period include \$33,466 acquired by issuing shares in the Company.

As a result of impairment reviews carried out during the period an impairment of \$nil has been recorded (2009: US\$6,946,107). The impairment during the prior period relates to the Kono project as a result of management's decision to suspend operations and place the Kono project under temporary care and maintenance until diamond prices recover.

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Notes to the consolidated financial statements (unaudited)

For the six months ended 31 March 2010

(Stated in U.S. dollars)

5. Property, plant and equipment

| | Mining assets | Assets under construction | Machinery and equipment | Total |
|----------------------------------|------------------|---------------------------------|-------------------------------|------------|
| | \$ | \$ | \$ | \$ |
| Cost | | | | |
| At 1 January 2009 | - | 2,257,823 | 2,019,024 | 4,276,847 |
| Additions | 54,369 | 219,774 | - | 274,143 |
| Transfer from intangible assets | 7,503,042 | - | - | 7,503,042 |
| Transfer | 3,134,872 | (2,437,496) | (697,376) | - |
| Disposal | - | (40,101) | - | (40,101) |
| At 30 September 2009 | 10,692,283 | - | 1,321,648 | 12,013,931 |
| Additions | 271,092 | - | 1,401,606 | 1,672,698 |
| Acquired as part of WAD (note 2) | 3,911,750 | - | 1,733,745 | 5,645,495 |
| At 31 March 2010 | 14,875,125 | - | 4,456,999 | 19,332,124 |
| Depreciation | | | | |
| At 1 January 2009 | - | - | 322,376 | 322,376 |
| Charge for the year | 524,776 | - | 205,230 | 730,006 |
| Disposal | - | - | (12,031) | (12,031) |
| At 30 September 2009 | 524,776 | - | 515,575 | 1,040,351 |
| Charge for the year | 657,443 | - | 177,399 | 834,842 |
| At 31 March 2010 | 1,182,219 | - | 692,974 | 1,875,193 |
| Net book value | | | | |
| At 31 March 2010 | 13,692,906 | - | 3,764,025 | 17,456,932 |
| At 30 September 2009 | 10,167,507 | - | 806,073 | 10,973,580 |

Transfers during the period from 1 January to 30 September 2009 relate to the Mandala mine assets in Guinea which was commissioned in April 2009.

Included within mining assets is the rehabilitation provision for Mandala of \$54,369 (2009: \$54,369).

Depreciation of mining assets of \$657,443 (2009: \$524,776) has been charged to cost of sales whilst depreciation of machinery and equipment of \$177,399 (2009: \$205,230) has been charged to administrative expense.

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(Stated in U.S. dollars)

6. Receivables

| | 31 March 2010 \$ | 30 September 2009 \$ |
|---|------------------------|----------------------------|
| Amounts due from shareholder (note 11) | 880,170 | 359,305 |
| Amounts due from associated company (note 11) | - | 128,841 |
| Other receivables | 149,778 | 256 |
| | <u>1,029,948</u> | <u>488,402</u> |

The amount due from shareholder is under dispute and therefore there is uncertainty over the recoverability of this amount. No provision for impairment has been made by the Company as the directors believe the amount is recoverable and the Company is actively pursuing its recovery.

7. Share capital, share premium and warrant reserve

Share capital

Authorised:

Unlimited number of ordinary shares of 5p each.

| | Number | Share capital \$ | Share premium \$ |
|--|-------------------|------------------------|------------------------|
| Alloted called-up and fully paid: | | | |
| Balance as at 1 October 2009 | 50,037,254 | 998,142 | 31,397,951 |
| Issue of shares | 167,330 | 335 | 33,131 |
| Conversion of debt to equity | <u>2,778,678</u> | <u>9,049</u> | <u>895,868</u> |
| WAD shares acquired | 52,983,262 | 1,007,526 | 32,326,950 |
| Reverse acquisition adjustment (note 2) | <u>18,598,170</u> | <u>4,656,462</u> | <u>(15,731,171)</u> |
| Balance on completion of reverse acquisition | 71,581,432 | 5,663,988 | 16,595,779 |
| Shares issued on share placing (note 2) | 25,000,000 | 1,951,938 | 5,784,958 |
| Share warrants issued (note 2) | - | - | (143,024) |
| Share issue costs (note 2) | - | - | (380,023) |
| Bonus shares issued to directors | <u>112,500</u> | <u>8,784</u> | <u>26,044</u> |
| | <u>96,693,932</u> | <u>7,624,710</u> | <u>21,883,734</u> |

As part of the RTO described in note 2, Stellar Diamonds plc, the legal parent, performed a 5 for 1 share consolidation. The number of shares stated above has been restated for the 5 for 1 share consolidation following the RTO of WAD.

As outlined in note 2, the equity structure appearing in the consolidated financial statements reflects the equity structure of the legal parent, including the equity instruments issued under the share for share exchange to effect the transaction. The effect of using the equity structure of the legal parent gives rise to an adjustment to the Group's issued equity capital in the form of a reverse acquisition reserve.

Stellar Diamonds plc

Notes to the consolidated financial statements (unaudited)

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(Stated in U.S. dollars)

7. Share capital, share premium and warrant reserve (continued)

On 23 February 2010, a total of 112,500 ordinary shares of 5p each ("bonus shares") were allotted and issued to Karl Smithson, Chief Executive Officer, and Angus Ogilvie, Finance Director. These allotments are in satisfaction of half of their respective listing bonuses of £30,000 and £15,000 following the successful admission of the Company on AIM (as set out in the Company's Admission Document).

Share warrants

On 22 February 2010 the Company acquired 100 per cent of the issued share capital of Stellar Diamonds Limited for consideration satisfied by the issue of 53,248,164 ordinary shares of 20 pence each in a ratio of 1:1.005. Consequently the number of warrants outstanding has increased by 1.005 times, and the exercise price has increased by 1.005 times.

The number of warrants outstanding is 18,679,451 (2009: 18,679,451). These were issued on 19 December 2008 and are exercisable at 25.1 pence per share up to 30 June 2010.

The Company granted 1,190,125 warrants to the Company's broker for the Placing to subscribe for up to 1,190,125 ordinary shares of £0.05 each in the Company exercisable for a price of 20p per share warrant. The warrants issued have resulted in a charge to the share premium of \$143,024 with the Black-Scholes option pricing model and the following assumptions: nil dividend yield, a weighted average expected volatility of the Company's share price of 67%, a weighted average annual risk free rate of 2.76% and an expected life of two years.

8. Share options

On 22 February 2010 the Company acquired 100 per cent of the issued share capital of Stellar Diamonds Limited for consideration satisfied by the issue of 53,248,164 ordinary shares of 20 pence each in a ratio of 1:1.005. Consequently the number of outstanding share options held by the management and employees presented for the nine months ended 30 September 2009 has increased by 1.005 times.

The following is a summary of the share options outstanding and exercisable as at 31 March 2010 and 30 September 2009 and changes during the period:

| | 31 March 2010 | | 30 September 2009 | |
|--|-------------------|---|-------------------|---|
| | Number of options | Weighted average exercise price GBP£ | Number of options | Weighted average exercise price GBP£ |
| Outstanding and exercisable, beginning of period | 4,012,463 | 0.310 | 3,007,463 | 0.890 |
| Options re-priced | (3,482,325) | (0.225) | (2,477,325) | (0.871) |
| Options re-priced | 3,482,325 | 0.200 | 2,477,325 | 0.225 |
| Options not re-priced | 530,138 | 0.875 | 530,138 | 0.871 |
| Options granted on acquisition (note 2) | 1,420,000 | 0.667 | - | - |
| Options granted | - | - | 1,005,000 | 0.225 |
| Outstanding and exercisable, end of period | 5,432,463 | 0.388 | 4,012,463 | 0.310 |

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Notes to the consolidated financial statements (unaudited)

For the six months ended 31 March 2010

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8. Share options (continued)

On 22 February 2010 the Company re-issued to former management and employees of WAD 1,420,000 options in the enlarged company. The options issued have resulted in a charge of \$156,356 and has been included in the total consideration in the reverse acquisition of WAD with the Black-Scholes option pricing model and the following assumptions: nil dividend yield, a weighted average expected volatility of the Company's share price of 67%, a weighted average annual risk free rate of 2.76% and weighted average expected life of four years. The charge has been included in the cost of the reverse acquisition.

On 22 February 2010 the Stellar Diamonds Limited options were surrendered in exchange for the issuance of new options in the Company. This has resulted in an incremental increase in the fair value of the options of \$261,632 with the Black-Scholes option pricing model and the following assumptions: nil dividend yield, a weighted average expected volatility of the Company's share price of 67%, a weighted average annual risk free rate of 2.76% and an expected life of seven years.

As at 31 March 2010 the following stock options were outstanding and exercisable:

| Number of stock options outstanding | Exercise price per share GBPE | Expiry date |
|--|----------------------------------|-------------|
| 100,000 | 1.000 | 21-Feb-11 |
| 80,000 | 1.175 | 21-Feb-11 |
| 400,000 | 1.000 | 15-Sep-13 |
| 100,000 | 1.000 | 02-Dec-13 |
| 20,000 | 1.000 | 08-Feb-14 |
| 20,000 | 1.175 | 10-Apr-14 |
| 40,000 | 1.150 | 17-Jul-14 |
| 60,000 | 1.225 | 30-Sep-14 |
| 600,000 | 0.150 | 23-Jul-16 |
| 530,138 | 0.875 | 22-Feb-17 |
| 3,482,325 | 0.200 | 22-Feb-17 |
| 5,432,463 | | |

9. Other liabilities

| | 31 March 2010 \$ | 30 September 2009 \$ |
|---------------------------------------|------------------------|----------------------------|
| Amounts due to joint venture partners | - | 715,478 |
| | - | 715,478 |

On 25 February 2010, the Company fully repaid the amounts due to Petra Diamonds Limited, the joint venture partner for the Kono project in Sierra Leone.

Stellar Diamonds plc

Notes to the consolidated financial statements (unaudited)

For the six months ended 31 March 2010

(Stated in U.S. dollars)

10. Convertible loan

| | 31 March 2010 \$ | 30 September 2009 \$ |
|--|------------------------|----------------------------|
| Opening balance | 1,053,161 | - |
| Proceeds from issuance | - | 1,053,161 |
| Fair value accretion | 32,908 | - |
| Unrealised foreign exchange gain | (26,016) | - |
| Conversion to shares in Stellar Diamonds Limited | (474,991) | - |
| Paid during the period | (100,000) | - |
| | <u>485,062</u> | <u>1,053,161</u> |

Presented in the consolidated statement of financial position as:

| | | |
|---|----------------|------------------|
| - Current portion of convertible loan | - | 537,456 |
| - Non-current portion of convertible loan | 397,209 | 390,317 |
| - Embedded derivative | - | 37,535 |
| - Convertible loan reserve | <u>87,853</u> | <u>87,853</u> |
| | <u>485,062</u> | <u>1,053,161</u> |

On 22 February 2010, certain convertible loans issued by Stellar Diamonds Limited on 1 May 2009 amounting to \$474,991 and accrued interest of \$71,250 were converted into Stellar Diamonds Limited shares. On the same date, the remaining \$100,000 of the convertible debentures issued by Stellar Diamonds Limited on 1 May 2010 and accrued interest of \$15,000 were repaid. As a result, the embedded derivative of \$37,535 related to the convertible debentures has been derecognised.

The \$474,991 loans converted to shares in Stellar Diamonds Limited included a \$200,000 held by African Aura Mining Inc., a shareholder of the Company.

Included in trade and other payables at 31 March 2010 is accrued interest on convertible loan of \$41,050 (2009: \$47,968).

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Notes to the consolidated financial statements (unaudited)

For the six months ended 31 March 2010

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11. Related parties

The company's parent company and ultimate controlling party prior to the RTO was African Aura Mining Inc. (AAM). During the period, the Company and its subsidiaries, in the ordinary course of business, entered into various transactions with AAM. These transactions occurred under terms and conditions that are no less favourable than those arranged with third parties.

Transactions with other related parties have arisen within the normal course of business and are payable on demand unless otherwise stated.

The following table summarises the related party transactions:

| | 31 March 2010 | 30 September 2009 |
|--|------------------|----------------------|
| | \$ | \$ |
| African Aura Mining Inc., shareholder | | |
| - management fees | 55,500 | 112,500 |
| - (repayment)/net proceeds of loans from AAM | (400,000) | 400,000 |
| - issuance of convertible loans | - | 200,000 |
| - conversion of convertible loans into shares | 200,000 | - |
| - conversion of unpaid 2009 management fee into shares in Stellar Diamonds Limited | 150,000 | - |
| Directors - bonus shares issued on successful admission of the Company on AIM | 107,361 | - |
| Directors - shares issued in lieu of accrued directors' fees | 208,676 | - |
| Directors - ordinary shares in the company granted at nil consideration | - | 205,323 |
| Directors fees | 296,580 | 289,632 |

The convertible loan and the accrued interest at 31 March 2010 as disclosed in note 10 are owed to Altus Resource Capital. Steven Poulton, Non-Executive Director, is a Director of Altus Asset Management, the manager for Altus Resource Capital.

At the end of the period, the amounts payable to related parties are as follows:

| | 31 March 2010 | 30 September 2009 |
|-------------------------|------------------|----------------------|
| | \$ | \$ |
| Non-executive directors | 15,125 | 120,060 |
| Joint venture partners | - | 715,478 |

At the end of the period, the amounts receivable from related parties are as follows:

| | 31 March 2010 | 30 September 2009 |
|---|------------------|----------------------|
| | \$ | \$ |
| African Aura Mining Inc. | 880,170 | 359,305 |
| Friendship Diamonds Guinee SA, subsidiary (formerly associated company) | - | 128,841 |

The amount receivable from Friendship Diamonds Guinee SA was repaid on 30 October 2009.

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12. Subsequent events

On 24 May 2010, the Company announced the completion of the share purchase agreement with Petra Diamonds Limited in respect of the acquisition of 51% of the Kono kimberlite project in Sierra Leone in exchange for the issuance of 4,500,000 new ordinary shares to Petra Diamonds Limited as consideration for the agreed purchase price of £900,000, at a price of 20 pence per share.