# Stellar Diamonds plc

Reports and Financial Statements

For the year ended 30 June 2016

*(Stated in U.S. Dollars)*

Company registration number: 5424214

# Stellar Diamonds plc
For the year ended 30 June 2016

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### Corporate information

| | |
|---|---|
| Registered office: | 355-359 Strand, London WC2R 0HS,<br>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

Although the past year has yet again been very challenging for junior resource companies, it could prove to be a year of inflection for Stellar Diamonds.

Stellar Diamonds is on the point of advancing from its exploration and development stage to the commercial mining stage through its proposed acquisition of the Tonguma diamond mining licence and project currently held by Octea Mining Limited ("Octea"), which is adjacent to Stellar's Tongo licence in eastern Sierra Leone, as announced in August 2016.

**Tongo Project**

During the year Paradigm Project Management ("PPM") completed an independent Preliminary Economic Assessment ("PEA") for the development of the JORC compliant 1.45 million carat Dyke-1 resource at Tongo (at a +1.0mm cut-off). This indicated positive economics and on the basis of this an application for a mining licence was submitted and is currently being progressed by the Ministry of Mines in Sierra Leone. The Environmental Impact Assessment has been completed and approved, and the Company is now negotiating the fee for an Environmental Licence.

**Tonguma Acquisition**

Although only announced after the year end, during the financial year Stellar has been negotiating with Octea for the acquisition of the Tonguma mine lease, which neighbours our Tongo exploration licence. Tonguma holds a JORC compliant 3.45 million carat inferred kimberlite dyke resource (+1.18mm cut off), which when combined with the Tongo kimberlite dyke resource, would offer the potential of an enlarged inferred diamond resource of 4.5 million carats (all at a +1.18mm cut-off).

Terms have been largely agreed and the acquisition, if completed, would constitute a reverse takeover under the AIM Rules. The acquisition remains subject to completion of inter alia, due diligence, finalisation of agreements, completion of a substantial fundraise, publication of an AIM admission document and shareholder approval. There is no up-front acquisition cost associated with the proposed acquisition but there would be a requirement for Stellar to commit a minimum of US$25 million for the development of the Tongo-Tonguma combined project. As part of the proposed acquisition Stellar would also acquire Octea's 50tph production plant which is located approximately 60km north of Tongo-Tonguma, at Octea's Koidu project. The plant, once relocated, is expected to materially reduce the time required to get Tongo-Tonguma into commercial production. From the first positive cash flows Stellar would recoup its mine development costs and thereafter Octea would recoup an amount of US$5 million for the production plant. Stellar would then pay Octea a 10% revenue royalty for 10 years and 5% thereafter. Any free cash flow from the project would be split 75% to Stellar and 25% to Octea. Stellar would however have full legal ownership of the Tongo-Tonguma asset and operational, management and voting control of the new mine.

As part of the proposed transaction, PPM and SRK Consulting have completed an independent PEA on the combined Tongo-Tonguma project. This study estimated the capital requirement in years 1 and 2 to be US$31m, with first production expected to commence within 12 months of completion of the transaction, ramping up to 200,000 carats per year for an initial 21 year mine life. A total of 3.9 million carats are forecast to be recovered at grades ranging from 100cpht to 260cpht and diamond values of US$209/ct to US$310/ct (all at a +1.18m cut-off).

The PEA for both licences shows a pre-tax NPV (10) of US$172m and an IRR of 49%. Furthermore, there is strong evidence of an additional 8 million carats in "geological potential" which can be converted into resource and can offer material upside to the economics of the project and provide for a significantly longer mine life. A full competent person's report has also been produced on the Tongo-Tonguma project which independently reports on the findings from the PEA and the viability of the project and includes an outline of the key risks associated with the project.

Stellar have appointed Mirabaud Securities to lead the fundraising for the proposed acquisition and development of the Tongo-Tonguma project into commercial production.

**Baoulé Project**

During the year, Stellar completed a 101,263 tonne bulk sample of the 5 hectare diamondiferous Baoulé kimberlite pipe, as planned. It yielded 11,564 carats, with the largest stone of 55 carats (low quality), but also many high value gems up to 12 carats were recovered. The highest value was a 10.04 carat fancy yellow high quality stone, which sold for an impressive US$6,788 per carat. Diamond sales from the trial mining exercise were over US$1.1 million.

In order that Stellar can focus its management and financial resources on the exciting project at Tongo-Tonguma, the Company has agreed terms, subsequent to the year end, to joint venture the Baoulé project with Citigate Commodities Trading ("Citigate"), a Dubai based group. This earn-in agreement was entered into in November 2016. Citigate is expected to invest US$1.5 million during the first phase of bulk sampling work in order to earn a 25% interest in the project. Stellar will receive a 56% revenue share of any diamond sales during this phase. Citigate has the right to earn a further 25% interest in the Baoulé Project by completing a resource statement during Phase-2 for US$2 million expenditure and a further 25% interest in the project by completing a pre-feasibility study. During the earn-in period Citigate will be granted offtake rights to any diamonds produced.

**Liberia**

In 2014 Stellar applied for two exploration licences in the west of Liberia that cover an area of high interest, which Stellar partly explored in 2008/9 before the financial crisis led to Stellar ceasing operations in Liberia. These licences were granted to Stellar in February 2016. Since the focus of the company is now on the Tongo-Tonguma transaction and mine development it was decided to also joint venture these two Liberia licences to Citigate. Citigate is required to invest a total of US$6.25 million over three phases of work to earn an 85% interest in the licences and during this earn-in has offtake rights for any diamonds produced. Stellar will not be required to contribute any funds to the project during the Citigate earn-in period. This transaction was completed in November 2016.

**Corporate and other activities**

In November 2015 Stellar brought in a new significant strategic investor in Deutsche Balaton, through a combination of an equity investment and a convertible loan. Deutsche Balaton have also provided additional interim funding since the year end, alongside one of our Directors, Steven Poulton and Creditforce Limited, and this is a strong signal of support of Stellar's strategy to enter into production through the completion of the proposed Tonguma acquisition. As a result of the announcement of the potential Tonguma acquisition in August 2016 the Company's shares were suspended from trading on AIM as is required following the announcement of a transaction, which is classed as a Reverse Take Over under AIM rules pending publication of an AIM Admission Document.

With the Company now focussed on completing the Tonguma acquisition and the subsequent mine construction planned for 2017, subject to the completion of the transaction and raising the estimated US$45 million to bring the combined project into production, the Directors have again reviewed the carrying value of the Kono project in the accounts. Given the focus on Tongo-Tonguma and the passage of time with no additional progress being made on the reinstatement of the Kono licence, the Directors consider that the carrying value of project should be fully impaired at this time and accordingly an impairment charge of US$4.3 million was made during the year.

Finally, the Directors have considered the disconnect between the value of the Group's equity of US$13 million and the market capitalisation of the Company at the time of the shares being suspended of approximately US$3 million. The Directors do not consider the market capitalisation of the Company to be a true reflection of its value and also note that the share price at suspension does not take into account the value of the potential transformational transaction being contemplated, and it is the Directors' view that the undervalued market capitalisation does not represent an indication of impairment of the assets of the Group but a reflection of the poor market that junior resource companies currently operate in.

**Diamond Market**

Rough diamond prices declined by around 25% in 2015 however, prices rebound strongly in the first half of 2016. Demand in the second half of 2016 has remained quite robust thus supporting prices. Polished prices, however, remain sluggish or slightly down on the year so this could restrain rough price growth in the short term. The outlook for rough supply and demand can best be summarised by the 2015 Bain Report, which concludes:

- “The world rough-diamond demand in the next 15 years is forecasted to grow at an average annual rate of about 3% to 4%, and the supply is projected to decline by 1% to 2%, causing the gap between supply and demand to widen starting in 2019. The forecast reflects fundamental supply and demand factors rather than short-term fluctuations or unforeseeable long-term macroeconomic shifts”.
- “Our forecast of the rough-diamond supply is based on the analysis of existing mines, publicly announced plans and anticipated production at every expected new mine. We foresee the global supply of rough declining on average by 1% to 2% per year from 2015 to 2030 because of the aging and depletion of existing mines and relatively little new supply coming online.”

It is also noteworthy that Rio Tinto plc has recently indicated their intention to materially grow their diamond business due to the looming supply and demand deficit, as identified by the 2015 Bain Report.

**Outlook**

All the hard work during 2016 should ensure that 2017 is a very exciting year for the Company. Subject to completion occurring, Tongo-Tonguma has the necessary characteristics to transform Stellar into a mid-tier diamond mining company.

I would like to thank our shareholders for their continued support during very difficult market conditions and I would particularly like to thank Deutsche Balaton and Altus. Their recent support has enabled our excellent team to move our key projects forward and negotiate a transformational transaction which gives Stellar Diamonds a bright outlook.

Peter Daresbury

Lord Daresbury
Non-Executive Chairman
21 December 2016

# STRATEGIC REPORT

## STRATEGY

Our strategy is the appraisal and exploitation of the assets currently owned in West Africa. 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 is currently advancing two key projects towards production and is also currently working on completing an acquisition of the Tonguma project located next to the Group's current Tongo project in eastern Sierra Leone, with a view to putting the combined enlarged project into production in 2017.

In Sierra Leone, the Tongo kimberlite dyke project has already been advanced through the resource definition, economic scoping study and Preliminary Economic Assessment phases. The Group completed the Environmental Social and Health Impact Assessment and received written approval for the Environmental Licence during the year. In addition the Mining Licence application was submitted and verbal approval of the licence received from the National Minerals Agency (NMA). Since the year end Stellar has entered into negotiations to acquire the neighbouring Tonguma kimberlite dyke project and plans to combine it with the Tongo project and to bring the combined enlarged project into production in 2017, subject to the Company being able to secure the necessary funding and finalise the necessary due diligence and agreements. This transaction is expected to offer economies of scale, with three times the production volume and value, as would a stand-alone Tongo kimberlite mining operation.

In Guinea, Stellar entered into a 75% Joint Venture Agreement on the Baoulé project in December 2013.
In June 2016 Stellar completed the planned 100,000 tonne bulk sample exercise and is currently undertaking detailed modelling of the grades and diamond values of the kimberlite. Stellar has recently joint ventured this project to Citigate, a Dubai based commodities trading group in order that the Company can focus on its flagship project at Tongo in Sierra Leone.

Stellar's medium term vision is to become a mid-tier diamond producer. This can be achieved through the development of existing key assets through to 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 $7,058,000 including an impairment relating to the Kono project of $4,300,528 (2015: loss $3,015,682 including an impairment relating to other projects of $605,728).

No dividends have been paid or are proposed for the year (2015: $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 is not appropriate for an understanding of the development, performance or position of the business at this time.

However, the Directors constantly review the planned exploration and evaluation expenditure and general operating costs to ensure that cash resources are available prior to commitment to this expenditure.

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 20 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.<br>The Group submits six monthly operational reports to the 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>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, largely through equity, at its current stage of development. Additionally, plans to complete the acquisition of the Tonguma assets and bring Tongo-Tonguma into production, and later Baoulé into full scale production, will be reliant on the Company's ability to raise both debt and equity, or through strategic partnerships, at larger levels than previously undertaken by the Company. Financial markets remain weak, making the raising of funds for projects difficult.<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 into 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. 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 and evaluation projects carry clear inherent risks of failing to identify economic projects. Failure of a key project to be proven to be financially viable 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>Stellar has taken the Tongo project 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. The Group has also completed a number of key steps in the approval of the required Mining Licence for the operation and has received verbal approval by the National Minerals Agency for the granting of this licence. The project shows clear economic viability and as such Stellar is confident of obtaining both the Mining Licence and the required capital funding for the project, though this cannot be guaranteed. At Baoulé the bulk sampling results from the trial mining exercise have been positive. Along with the drilling data obtained through the Joint Venture partners these results indicate that there is a potentially significant and economic resource at Baoulé. |
| Political and Licence Title risks | Stellar's key projects are situated in Guinea and Sierra Leone. Both countries have had political instability in the recent past 10 to 15 years, as is common with emerging economies. In recent years the political situation in both countries 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>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. |
| Country risks | There are inherent risks when operating in developing countries in West Africa. Both Guinea and Sierra Leone suffered from the rapid spread of Ebola throughout 2014 and 2015. However in early 2016 both countries, as well as neighbouring Liberia, 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>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. |

# STRATEGIC REPORT (continued)

### RISKS AND UNCERTAINTIES (continued)

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.  The Company is also suspended from trading on the AIM market as a result of its announcement in August 2016 of a proposed transaction that is considered a Reverse Take Over under AIM rules.  As a result the Company could be de-listed from AIM should the transaction not be completed within six month of the original suspension.

### 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: 21 December 2016

# 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 2016.

## 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 30 September 2016) |
| Steven J. Poulton | Non-Executive Director |
| Hansjörg Plaggemars | Non-Executive Director (appointed 19 November 2015) |
| Dr. Markus Elsasser | Non-Executive Director (resigned 15 March 2016) |
| Liviu Meran | Non-Executive Director (resigned 15 March 2016) |
| Philip Knowles | Company Secretary |

## DIRECTORS' INTERESTS

The Directors' interests in the ordinary shares of the Company as of 30 June 2016 are disclosed in note 19 of the Financial Statements.

## SHARE CAPITAL

On 19 November 2015 the Company carried out a consolidation and subdivision of its existing share capital on a 1 for 50 basis. 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. Immediately following the Consolidation, each Consolidated Share was then sub-divided into 1 New Ordinary Share of 1 pence and 1 New Deferred Share of 49 pence each.

Following the consolidation, in November 2015 7,594,692 ordinary shares of 1p each were allotted and issued for gross proceeds of $750,928.

In December 2015, 1,969,189 ordinary shares of 1p each were allotted and issued for gross proceeds of $192,343.

In March 2016, 6,000,000 ordinary shares of 1p each were allotted and issued for gross proceeds of $863,562.

## SUBSTANTIAL SHAREHOLDINGS

At 30 June 2016 and 21 December 2016 so far as the Company is aware, the only holdings of 3% or more in the issued share capital were:

| | At 30 June 2016 | At 21 December 2016 |
|---|---|---|
| Deutsche Balaton AG | 26.77% | 26.77% |
| Foradex Invest SRL | 11.31% | 11.31% |
| UBS Deutschland | 7.95% | 7.95% |
| Directors and management | 8.82% | 8.82% |

## 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 21 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 21 December 2016 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 21 December 2016 and signed on its behalf by:

Peter Daresbury

N. Karl Smithson<br>Chief Executive Officer

Lord Daresbury<br>Non-Executive Chairman

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF STELLAR DIAMONDS PLC

We have audited the financial statements of Stellar Diamonds Plc for the year ended 30 June 2016 which comprise of the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statement of Financial Position, the Consolidated and Company Statements of Changes in Equity, the Consolidated and Company Cash Flow Statements and the related notes 1 to 21. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 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 auditors' 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.

**Respective responsibilities of directors and auditor**
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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

**Scope of the audit of the financial statements**
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Opinion on financial statements**
In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 30 June 2016 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF STELLAR DIAMONDS PLC (continued)

**Emphasis of Matter - Realisation of Intangible Assets, Recoverability of Investments in Subsidiaries, Realisation of Property, Plant & Equipment, Recoverability of Amounts due from Subsidiaries, and Going Concern**

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in:

- Notes 8, 9, 11 and 13 to the financial statements concerning the realisation of intangible assets, the recoverability of investments in subsidiaries, the realisation of property, plant and equipment and the recoverability of amounts due from subsidiaries. The realisation of intangible assets of $13,139,699 and property, plant and equipment of $1,439,124 included in the consolidated statement of financial position and investment in subsidiaries of $4,157,484 and amounts due from subsidiaries of $10,447,316 included in the company statement of financial position at the year end 30 June 2016, is dependent on the discovery and successful development of economic mineral reserves, 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 financial statements do not include any adjustments in relation to these uncertainties and the ultimate outcome cannot, at present, be determined.
- Note 1.2 to the financial statements concerning the group's ability to continue as a going concern. The group incurred a loss of $7,058,000 during the year ended 30 June 2016, and, at that date, had net current liabilities of $590,235. These conditions along with the other matters explained in note 1.2 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt on 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 12 months after the date of approval of the financial statements. 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. The financial statements do not include any adjustments to the carrying amount or classification of assets and liabilities that would be necessary if the group or company was unable to continue as a going concern.

**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.

**Opinion on other matter prescribed by the Companies Act 2006**
In our opinion 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.

**Matters on which we are required to report by exception**
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Emer O'Shaughnessy (Senior Statutory Auditor)
for and on behalf of Deloitte
Chartered Accountants and Statutory Auditor

Deloitte & Touche House, Dublin, Ireland
21 December 2016

# Stellar Diamonds plc

## Consolidated statement of comprehensive income
## For the year ended 30 June 2016

(Stated in U.S. dollars)

| | Notes | Year ended 30 June 2016 | Year ended 30 June 2015 |
|---|---|---|---|
| Revenue | 3 | 499,725 | 614,228 |
| Cost of sales | | (1,545,769) | (1,047,608) |
| Gross loss | | (1,046,044) | (433,380) |
| Depreciation of plant and equipment | 4, 11 | (621,629) | (499,807) |
| Impairment of intangibles | 8 | (4,300,528) | (605,728) |
| Administrative expenses | | (1,461,418) | (1,437,838) |
| Loss on disposal of tangible fixed assets | | (98,956) | - |
| Remeasurement of derivatives | 18 | 877,993 | 36,173 |
| Finance costs | | (407,418) | (75,102) |
| | | (7,058,000) | (3,015,682) |
| **Loss before tax** | | (7,058,000) | (3,015,682) |
| Income tax expense | 6 | - | - |
| **Loss after tax attributable to equity holders of the parent** | 4 | (7,058,000) | (3,015,682) |
| **Total comprehensive expense for the year attributable to equity holders of the parent** | | (7,058,000) | (3,015,682) |
| **Basic and diluted loss per share** | 7 | (0.300) | (0.200) |

# Stellar Diamonds plc

## Consolidated and company statement of financial position
## As at 30 June 2016

(Stated in U.S. dollars)

| | Notes | Consolidated | | Company | |
|---|---|---|---|---|---|
| | | 30 June 2016 | 30 June 2015 | 30 June 2016 | 30 June 2015 |
| **Assets** | | | | | |
| *Non-current assets* | | | | | |
| Intangible Assets | 8 | 13,139,699 | 16,700,417 | - | 1,302,561 |
| Property, plant and equipment | 11 | 1,439,124 | 2,192,719 | - | - |
| Investment in Subsidiary | 9 | - | - | 4,157,484 | 4,157,484 |
| Total non-current assets | | 14,578,823 | 18,893,136 | 4,157,484 | 5,460,045 |
| *Current assets* | | | | | |
| Inventories | 12 | 26,934 | 154,170 | - | - |
| Trade and other receivables | 13 | 296,284 | 166,750 | 10,529,217 | 13,241,868 |
| Cash and cash equivalents | | 268,330 | 94,624 | 447 | 524 |
| Total current assets | | 591,548 | 415,544 | 10,529,664 | 13,242,392 |
| **Total assets** | | 15,170,371 | 19,308,680 | 14,687,148 | 18,702,437 |
| **Equity and liabilities** | | | | | |
| *Capital and reserves* | | | | | |
| Share capital | 14 | 26,887,434 | 26,655,961 | 26,887,434 | 26,655,961 |
| Share premium | 14 | 30,449,207 | 29,000,173 | 30,449,207 | 29,000,173 |
| Reverse acquisition reserve | | 17,073,279 | 17,073,279 | - | - |
| Share option reserve | 15 | 918,279 | 4,286,666 | 918,279 | 1,952,748 |
| Foreign currency translation reserve | | - | - | (773,363) | (773,363) |
| Accumulated loss | | (62,410,109) | (58,720,496) | (44,563,467) | (38,539,936) |
| Total equity | | 12,918,090 | 18,295,583 | 12,918,090 | 18,295,583 |
| *Non-current liabilities* | | | | | |
| Convertible loan | 18 | 953,625 | - | 953,625 | - |
| Derivative financial liabilities | 18 | 12,504 | - | 12,504 | - |
| Provision | 16 | 104,369 | 104,369 | - | - |
| Total non-current liabilities | | 1,070,498 | 104,369 | 966,129 | - |
| *Current liabilities* | | | | | |
| Trade and other payables | 17 | 413,840 | 780,974 | 134,976 | 379,100 |
| Loans | 17 | 767,943 | 100,000 | 667,953 | - |
| Derivative financial liabilities | 17 | - | 27,754 | - | 27,754 |
| Total current liabilities | | 1,181,783 | 908,728 | 802,929 | 406,854 |
| Total liabilities | | 2,252,281 | 1,013,097 | 1,769,058 | 406,854 |
| **Total equity and liabilities** | | 15,170,371 | 19,308,680 | 14,687,148 | 18,702,437 |

The financial statements of Stellar Diamonds plc, registered number: 5424214 were approved by the Board of Directors and authorised for issue on 21 December 2016. They were signed on its behalf by:

Peter Daresbury

N. Karl Smithson — Lord Daresbury

# Stellar Diamonds plc

## Consolidated statement of changes in equity

## For the year ended 30 June 2016

(Stated in U.S. dollars)

| | Share capital (note 14) | Share premium (note 14) | Warrant reserve | Share option reserve (note 15) | Reverse acquisition reserve | Accumulated loss | Total equity |
|---|---|---|---|---|---|---|---|
| Balance at 30 June 2014 | 24,906,611 | 28,609,454 | 27,643 | 5,008,756 | 17,073,279 | (56,491,193) | 19,134,550 |
| Total comprehensive loss for the year | - | - | - | - | - | (3,015,682) | (3,015,682) |
| Issue of placing shares (note 14) | 1,749,350 | 440,607 | - | - | - | - | 2,189,957 |
| Share issue costs (note 14) | - | (13,242) | - | - | - | - | (13,242) |
| Warrants issued (note 14) | - | (36,646) | 36,646 | - | - | - | - |
| Transfer to accumulated loss (note 14) | - | - | (64,289) | - | - | 64,289 | - |
| Share options expired (note 15) | - | - | - | (722,090) | - | 722,090 | - |
| 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 |

*Notes:*
*Share premium - Share Premium comprises of a premium arising on the issue of shares*
*Warrant reserve – Warrant reserve arises on the grant of warrants*
*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 2016

(Stated in U.S. dollars)

| | Share capital (note 14) | Share premium (note 14) | Warrant reserve | Share option reserve (note 15) | Foreign currency translation reserve (note 2.2) | Accumulated loss | Total equity |
|---|---|---|---|---|---|---|---|
| Balance at 30 June 2014 | 24,906,611 | 28,609,454 | 27,643 | 2,674,838 | (773,363) | (36,310,633) | 19,134,550 |
| Total comprehensive loss for the year | - | - | - | - | - | (3,015,682) | (3,015,682) |
| Issue of placing shares (note 14) | 1,749,350 | 440,607 | - | - | - | - | 2,189,957 |
| Share issue costs (note 14) | - | (13,242) | - | - | - | - | (13,242) |
| Warrants issued (note 14) | - | (36,646) | 36,646 | - | - | - | - |
| Transfer to accumulated loss (note 14) | - | - | (64,289) | - | - | 64,289 | - |
| Share options expired (note 15) | - | - | - | (722,090) | - | 722,090 | - |
| 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 14) | 231,473 | 1,575,358 | - | - | - | - | 1,806,831 |
| Share issue costs (note 14) | - | (126,324) | - | - | - | - | (126,324) |
| Share options expired (note 15) | - | - | - | (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 |

*Notes:*
*Share premium - Share Premium comprises of a premium arising on the issue of shares*
*Warrant reserve – Warrant reserve arises on the grant of warrants*
*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 2016

(Stated in U.S. dollars)

| | Consolidated | | Company | |
|---|---|---|---|---|
| | June 2016 | June 2015 | June 2016 | June 2015 |
| **Cash flows from operating activities:** | | | | |
| Net loss for the year | (7,058,000) | (3,015,682) | (7,058,000) | (3,015,682) |
| Adjustments for: | | | | |
| Depreciation of property, plant and equipment | 621,629 | 499,807 | - | - |
| Impairment of intangibles | 4,300,528 | 605,728 | 1,302,561 | - |
| Loss on disposal of fixed assets | 98,956 | - | - | - |
| Remeasurement of derivatives | (877,993) | (36,173) | (877,993) | (36,173) |
| Shares issued to Directors and officers in lieu of fees | 192,343 | 55,115 | - | - |
| Net foreign exchange (gain) | (226,447) | (31,770) | (11,983) | (5,198) |
| Interest payable | 407,418 | - | 378,341 | |
| Change in working capital items: | | | | |
| Decrease/(Increase) in receivables | (129,534) | 1,012 | 2,906,806 | 514,478 |
| Decrease/(Increase) in inventories | 127,236 | (154,170) | - | - |
| (Decrease)/Increase in trade and other payables | (93,677) | 578,954 | 29,347 | 393,492 |
| Net cash used in operations | (2,637,541) | (1,497,179) | (3,330,921) | (2,149,083) |
| **Cash flows from investing activities** | | | | |
| Purchases of property, plant and equipment | - | (713,028) | - | - |
| Payments to acquire intangible assets | (706,801) | (1,207,209) | - | - |
| Net cash used in investing activities | (706,801) | (1,920,237) | - | - |
| **Cash flows from financing activities** | | | | |
| Proceeds of Convertible Loan | 1,551,407 | - | 1,551,407 | - |
| Proceeds of other loans | 662,397 | - | 662,397 | - |
| Repayment of other loans | (337,500) | - | (337,500) | - |
| Interest Paid | (72,867) | - | (45,625) | - |
| Proceeds from issue of share capital, net of costs | 1,488,164 | 2,121,599 | 1,488,164 | 2,121,599 |
| Net cash generated by financing activities | 3,291,601 | 2,121,599 | 3,318,843 | 2,121,599 |
| **Net (decrease) in cash and cash equivalents** | (52,741) | (1,295,817) | (12,078) | (27,484) |
| Cash and cash equivalents, beginning of year | 94,624 | 1,358,671 | 542 | 22,810 |
| Effect of foreign exchange rate changes | 226,447 | 31,770 | 11,983 | 5,198 |
| **Cash and cash equivalents, end of year** | 268,330 | 94,624 | 447 | 524 |

## 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 2016. The comparative period presented is audited financial statements as of and for the year ended 30 June 2015.

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 $7,058,000 during the year ended 30 June 2016 (2015: $3,015,682), and at that date had net current liabilities of $590,235 (2015: net current liabilities of $493,184) which included cash and cash equivalents of $268,330 (2015: $94,624) and stock of diamonds of $26,934 (2015: $154,170).

During the year the Group raised $1.8m through placings and entered into a convertible loan note for $1.65m with an additional $1.65m warrant attached and also entered into a $0.66m 6 month loan agreement. Subsequent to the Balance Sheet date the Group replaced the $0.66 million short term loan with a $1.2 million convertible loan, details of which can be found in note 21. At the date of this report the Group is in the process of acquiring the Tonguma project and as part of this process is looking to raise approximately $45 million through a combination of debt and equity to develop the Tongo/Tonguma combined project and subject to actual capital and ongoing costs not being significantly greater than expected, should provide working capital to the Group until commercial scale production is reached. The acquisition of Tonguma and the funding for the Tongo/Tonguma project remains subject to *inter alia*, completion of due diligence, entering into final binding legal agreements, publication of an admission document, shareholder approval and re-admission of Stellar to trading on AIM. Should the acquisition and 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.

Given the positive evaluation studies concluded on the Tongo project to date, the stage of development of the project, the positive progress in obtaining the relevant Mining and Environmental Licences required to take the project into production, and the advanced nature of the transformational Tonguma acquisition the Directors believe that the Company will have the ability to access sufficient levels of finance to fund the capital 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.

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

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 diamond sales, 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*

There were no standards which became effective for the first time this year.

*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: 2012-2014 Cycle (1 January 2016)
- Annual Improvements to IFRSs: 2014-2016 Cycle (1 January 2017 and 2018)
- Amendments to IFRS 10, IFRS 12 and IAS 28 – Investment Entities: Applying the Consolidation Exception (1 January 2016)
- Amendments to IAS 1 – Disclosure Initiative (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 IAS 27 - Equity Method in Separate Financial Statements (1 January 2016)
- IFRS 9 – Financial Instruments (1 January 2018)
- Amendments to IAS 16 and IAS 41 - Agriculture: Bearer Plants (1 January 2016)
- IFRS 15 - Revenue from Contracts with Customers (1 January 2018)
- Amendments to IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortisation (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 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)

## 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.
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

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

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.

*2.4 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 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.

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

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.

*2.6 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.

*2.7 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.

*2.8 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.

*2.9 Financial instruments*

Loans and receivables

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.

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

Impairment of financial assets at amortised cost

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.

Derecognition of financial assets

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.

Cash and cash equivalents

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.

Financial liabilities and equity

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

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Goup 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. Significant accounting policies (continued)**

*2.10 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.

*2.11 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.

*2.12 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.

*2.13 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. Significant accounting policies (continued)**

*2.14 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.

*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.

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

*Provisions*

Estimates and assumptions are made in determining the amount attributable to rehabilitation provision. These deal with uncertainties such as legal and regulatory framework, timing and future costs. The carrying value of the rehabilitation provision is disclosed in note 16.

*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 18 and 20.

*2.15 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.

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

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

# Stellar Diamonds plc

Notes to the financial statements
For the year ended 30 June 2016
(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:

| | 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.*

Following is an analysis of the Group's revenue, results, assets and liabilities by reportable segment for the year ended 30 June 2015:

| | Mandala/ Bomboko | Baoulé | Kono | Tongo | Droujba | Corporate and other | Total |
|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ |
| Revenue – sale of diamonds | - | 614,228 | - | - | - | - | 614,228 |
| Segment result | (178,302) | (930,814) | (129,678) | - | - | (1,701,786) | (2,940,580) |
| Finance costs | - | - | - | - | - | - | (75,102) |
| Loss before tax | - | - | - | - | - | - | (3,015,682) |
| Income tax expense | - | - | - | - | - | - | - |
| Loss after tax | - | - | - | - | - | - | (3,015,682) |
| Segment assets | 23,054 | 3,954,171 | 4,304,755 | 6,540,190 | 4,238,618 | 293,608 | 19,354,396 |
| Segment liabilities | (150,086) | - | - | (76,458) | (2,684) | (829,592) | (1,058,820) |
| Carrying value of intangible assets | - | 1,708,472 | 4,300,528 | 6,407,240 | 4,238,618 | 45,558 | 16,700,416 |
| Net book value of property, plant and equipment | - | 2,069,997 | 4,027 | 107,334 | - | 11,361 | 2,192,719 |
| Capital additions – property, plant and equipment | - | 713,028 | - | - | - | - | 713,028 |
| – intangible assets | - | 1,024,764 | - | 562,932 | (36,346) | - | 1,551,350 |
| Depreciation of property, plant and equipment | - | 795,894 | 1,726 | 46,000 | - | 329 | 843,949 |
| Impairment of intangibles | - | - | - | - | - | 605,728 | 605,728 |

(Stated in U.S. dollars)

## 4. Loss for the year

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

| | Year ended 30 June 2016 | Year ended 30 June 2015 |
|---|---|---|
| | $ | $ |
| Fees payable to the company's auditors for the audit of the group's accounts: | | |
| - audit services | 30,718 | 29,874 |
| - non-audit services | - | - |
| Net foreign exchange (gain) | (226,447) | (31,770) |
| Depreciation of property, plant and equipment | 621,629 | 499,807 |
| Impairment of Intangibles | 4,300,528 | 605,728 |

$33,010 of depreciation charges were capitalised as exploration and evaluation expenditure during the year and consequently are not included in the Statement of Comprehensive Income (2015: $344,142).

## 5. Staff costs

| | Year ended 30 June 2016 | Year ended 30 June 2015 |
|---|---|---|
| | $ | $ |
| Wages and salaries | 1,506,041 | 1,361,190 |
| Social security costs | 131,111 | 120,909 |
| | 1,637,152 | 1,482,099 |

The average monthly number of employees (including executive Directors) was 150 (30 June 2015: 163). The remuneration of key management personnel is further disclosed in note 19.

$643,108 staff costs were capitalised as exploration and evaluation expenditure during the year and consequently are not included in the Statement of Comprehensive Income (2015: $544,719).

(Stated in U.S. dollars)

## 6. Income tax expense

| | Year ended 30 June 2016 | Year ended 30 June 2015 |
|---|---|---|
| | $ | $ |
| 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 2016 | Year ended 30 June 2015 |
|---|---|---|
| | $ | $ |
| Loss for the year | (7,058,000) | (3,015,682) |
| Tax at the UK corporation tax rate of 20% (2015: 20%) | (1,411,600) | (603,136) |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | (212,516) | 123,024 |
| Tax losses not utilised and carried forward | 246,643 | 306,010 |
| Impairments not deductible for tax purposes | 1,159,902 | - |
| Depreciation in excess of capital allowances | 217,571 | 174,102 |
| | - | - |

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 $656,753 (30 June 2015: $1,014,908) based on carried forward tax losses of $16,090,253 (30 June 2015: of $15,433,500) which expire 10 years from the date these were incurred.

## 7. Loss per share

| | 30 June 2016 | 30 June 2015 |
|---|---|---|
| | $ | $ |
| Loss after tax attributable to equity holders of the parent | (7,058,000) | (3,015,682) |
| Weighted average number of ordinary shares for the purposes of basic and diluted loss per share | 23,487,587 | 15,089,933 |
| Basic and diluted loss per share | (0.300) | (0.200) |

The weighted average number of shares in the year and preceding year have been adjusted to reflect the 1 for 50 share consolidation undertaken in during the year. Details of the consolidation can be found in note 14.

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 15.

(Stated in U.S. dollars)

## 8. Intangible assets

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 30 June 2016 | 30 June 2015 | 30 June 2016 | 30 June 2015 |
| | $ | $ | $ | $ |
| *Exploration and evaluation expenditure:* | | | | |
| Cost | | | | |
| Opening balance | 34,989,394 | 33,438,044 | 4,408,327 | 4,408,327 |
| Additions | 739,811 | 1,551,350 | - | - |
| Closing balance | 35,729,205 | 34,989,394 | 4,408,327 | 4,408,327 |
| Impairment | | | | |
| Opening balance | 18,288,978 | 17,683,250 | 3,105,766 | 3,105,766 |
| Charge for the year | 4,300,528 | 605,728 | 1,302,561 | - |
| Closing balance | 22,589,506 | 18,288,978 | 4,408,327 | 3,105,766 |
| Carrying value | 13,139,699 | 16,700,416 | - | 1,302,561 |

At 30 June 2016, the Group did not have any contractual commitments for the acquisition of intangible assets.

The impairment charge of $4,300,528 in the year related to the impairment of the carrying value of the Kono intangible assets as detailed below. The impairment charge of $605,728 in the previous year relates to other exploration projects that are no longer being pursued.

The realisation of the net carrying value of intangible assets of $13,139,699 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 2.14.

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 disputes the assertions and has continued to pursue the available political, diplomatic and legal routes available. During the year no further progress was made in relation to the reinstatement of the Kono licence and the Company has taken the decision to focus its efforts in Sierra Leone on the completion of the Tonguma acquisition and subsequent development of the Tongo-Tonguma commercial mine. The Directors therefore believe that the reinstatement of the Kono licence is unlikely in the foreseeable future and have taken 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.

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, Droujba and Baoulé licences 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:

(Stated in U.S. dollars)

**8. Intangible assets (continued)**

- 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 an annual increase of 4.5% thereafter;
- discount rate of 10%;
- inflation rate of 4.5%;and
- the remaining useful life.

**9. Investment in subsidiaries**

| | 30 June 2016 | 30 June 2015 |
|---|---|---|
| | $ | $ |
| At cost, unlisted: | | |
| Opening and Closing balance | 4,157,484 | 4,157,484 |

The subsidiaries of the Company at 30 June 2016 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.

**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 2016 was $7,058,000 (year ended 30 June 2015: $3,015,682).

(Stated in U.S. dollars)

## 11. Property, plant and equipment

| | Mining assets | Machinery and equipment | Total |
|---|---|---|---|
| | $ | $ | $ |
| Cost: | | | |
| At 30 June 2014 | 11,079,305 | 9,778,339 | 20,857,644 |
| Additions | - | 713,028 | 713,028 |
| 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 |
| Depreciation: | | | |
| At 30 June 2014 | 11,079,305 | 7,454,699 | 18,534,004 |
| Charge for the year | - | 843,949 | 843,949 |
| 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 |
| Carrying value: | | | |
| At 30 June 2016 | - | 1,439,124 | 1,439,124 |
| At 30 June 2015 | - | 2,192,719 | 2,192,719 |

In accordance with the accounting policy stated in note 2.5, 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 an annual increase of 4.5% thereafter;
- discount rate of 10%;
- inflation rate of 4.5%;and
- 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 2016.

The realisation of the property, plant and equipment of $1,439,124 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 and other factors, as discussed in note 2.14.

(Stated in U.S. dollars)

### 12. Inventories

| | Consolidated | |
|---|---|---|
| | 30 June 2016 $ | 30 June 2015 $ |
| Diamonds | 26,934 | 154,170 |
| | 26,934 | 154,170 |

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.

### 13. Trade and other receivables

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 30 June 2016 $ | 30 June 2015 $ | 30 June 2016 $ | 30 June 2015 $ |
| Amounts due within one year: | | | | |
| VAT | 60,259 | 60,259 | 60,259 | 60,259 |
| Prepayments and other receivables | 236,025 | 106,491 | 21,642 | 54,498 |
| Amounts due from subsidiaries | - | - | 10,447,316 | 13,127,111 |
| | 296,284 | 166,750 | 10,529,217 | 13,241,868 |

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 2016 other receivables included $194,747 (2015: nil) 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. These funds were received in July 2016.
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 2016 $ | 30 June 2015 $ |
|---|---|---|
| Amounts due from subsidiaries comprises of: | | |
| Stellar Diamonds Limited | 9,307,213 | 11,974,949 |
| West African Diamonds SARL | 807,205 | 807,205 |
| Friendship Diamonds Guinee SA | 277,068 | 277,068 |
| Sierra Diamonds Limited | 55,830 | 55,830 |
| Basama Diamonds Ltd | - | 12,059 |
| | 10,447,316 | 13,127,111 |

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 2.14.

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 $5,848,393 (2015: $2,724,644) was recorded against loans to subsidiaries in the year.

(Stated in U.S. dollars)

## 14. 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 2014 | 698,007,642 | - | 216,766,659 | 24,906,611 | 28,609,454 |
| Shares issued on share placing | 113,922,082 | - | - | 1,749,350 | 440,607 |
| Share issue costs | - | - | - | - | (49,888) |
| 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 |

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 $51,484were 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.

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.

In October 2014 a total of 25,560,016 ordinary shares of 1p each were allotted and issued for gross proceeds of $638,721. There were no transaction costs associated with the share issue. In addition the Company issued 12,780,008 warrants (see below). The value of the warrants of $36,646, as detailed in this note, were netted against share premium as costs of the share issue.

In January 2015 a total of 88,362,066 ordinary shares of 1p each were allotted and issued for gross proceeds of $1,551,236. Transaction costs of $13,242 were netted against share premium.

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.

(Stated in U.S. dollars)

### 14. Share capital and share premium (continued)

*Share warrants*

The warrants reserve represents the value of the warrants issued by the Company to subscribe for shares in the Company.

| | Number of warrants | Warrant reserve $ |
|---|---|---|
| At 1 July 2014 | 156,098,036 | 27,643 |
| Share warrants issued on placing of new shares | 12,780,008 | 36,646 |
| Share warrants expired | (168,878,044) | (64,289) |
| At 30 June 2015 and 30 June 2016 | - | - |

On 15 October 2014 12,780,008 warrants to subscribe to 12,780,008 ordinary shares of 1p each for a price of 1.55p per share warrant were issued in relation to the placing of 25,560,016 ordinary shares in the Company. The warrants issued have resulted in a charge of $36,646 using 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 84%, a weighted annual risk free rate of 1.321% and an expected life of 6 months. The warrants expired on 30 April 2015.

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 18.

### 15. 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 (2015: nil).

The following is a summary of the share options outstanding and exercisable as at 30 June 2016 and 30 June 2015 and changes during the year:

| | 30 June 2016 | | 30 June 2015 | |
|---|---|---|---|---|
| | Number of options | Weighted average exercise price | Number of options | Weighted average exercise price |
| | | GBP£ | | GBP£ |
| Outstanding and exercisable, beginning of year | 61,530,000 | 0.030 | 64,776,150 | 0.038 |
| Restatement of options following share consolidation and sub-division (see note 14) | 1,230,600 | 1.500 | | |
| Options expired | (217,600) | 4.340 | (3,246,150) | (0.200) |
| Outstanding and exercisable, end of year | 1,013,000 | 0.838 | 61,530,000 | 0.030 |

Options with a fair value at date of grant of $3,368,387 were no longer exercisable at the year end and as a result this amount was transferred to retained earnings.

(Stated in U.S. dollars)

### 15. Share options (continued)

As at 30 June 2016 the following stock options were outstanding and exercisable:

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

### 16. Provisions

| | 30 June 2016 $ | 30 June 2015 $ |
|---|---|---|
| Balance at beginning and end of the year | 104,369 | 104,369 |

The provision relates to the rehabilitation of the Mandala and Bomboko mines. The timing of potential rehabilitation costs is uncertain.

### 17. Trade and other payables

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 30 June 2016 $ | 30 June 2015 $ | 30 June 2016 $ | 30 June 2015 $ |
| Amounts due within one year: | | | | |
| Trade payables and accruals | 413,840 | 780,974 | 134,976 | 379,100 |
| Loans | 767,943 | 100,000 | 667,953 | - |
| Derivative financial liabilities | - | 27,754 | - | 27,754 |
| | 1,181,783 | 908,728 | 802,929 | 406,854 |
| Amounts due after one year: | | | | |
| Convertible loan (Note 18) | 953,625 | - | 953,625 | - |
| Derivative financial liabilities (Note 18) | 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 year the Company entered into a short term loan agreement for $667,943 (£465,000). The loan was entered into on 13 June 2016 and had a six month term. The loan carries 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.

The derivative financial liabilities due within one year at 30 June 2015 relate to the fair value of warrants associated with a convertible loan that had been repaid in full by 30 June 2016. The amount of $27,754 was written off to the income statement in the year.

(Stated in U.S. dollars)

### 18. Convertible loans

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.

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 2016 | 19 November 2015 |
|---|---|---|
| *Expected life* | 1.39 years | 2 years |
| *Expected Dividend Yield* | 0% | 0% |
| *Risk Free Interest Rate* | 0.396% | 0.856% |
| *Share Price Volatility* | 69.17% | 89.36% |
| *Share Price at Time of Valuation* | 5.75p | 17.5p |
| *Exchange rate* | $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.

(Stated in U.S. dollars)

**18. Convertible loans (continued)**

| | 30 June 2016 $ |
|---|---|
| **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 | 264,967 |
| Presented as non-current loans and borrowings | 953,625 |
| | |
| **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 | 12,504 |

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 has recognised a significant gain on revaluation of derivatives in the financial year of $850,240. 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 17 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.

The convertible loan and embedded derivatives have been classified as a Level 3 financial instrument under the fair value hierarchy as described in note 20.

**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 2016. 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 2016 | Lower sensitivity level | Effect on Remeasurement gain $ | Upper sensitivity level | Effect on Remeasurement gain $ |
|---|---|---|---|---|---|
| Share price | 5.75p | 2.875p (-50%) | 4,542 | 8.625p (+50%) | (15,055) |
| Annualised volatility | 69.17% | 49.17% | 4,470 | 89.17% | (12,662) |

(Stated in U.S. dollars)

## 19. Related parties

| | Year ended 30 June 2016 | Year ended 30 June 2015 |
|---|---|---|
| *Directors:* | $ | $ |
| - shares issued in lieu of accrued Directors' fees | 192,343 | 55,155 |
| - amounts owed to Directors at 30 June | 105,378 | 45,638 |

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:

| | Salary or fees | Bonus paid in cash | Bonus paid in shares | Year ended 30 June 2016 | Year ended 30 June 2015 |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| Lord Daresbury | 85,149 | - | - | 85,149 | 91,934 |
| N. Karl Smithson | 220,394 | - | 66,617* | 287,011 | 234,355 |
| Luis da Silva | 23,091 | - | - | 23,091 | 24,931 |
| Steven Poulton | 36,080 | - | - | 36,080 | 38,955 |
| Dr Markus Elsasser | 16,721 | - | - | 16,721 | 24,931 |
| Liviu Meran | 16,721 | - | - | 16,721 | 18,435 |
| Hansjörg Plaggemars | 13,871 | - | - | 13,871 | - |
| | 412,027 | - | 66,617 | 478,644 | 433,541 |

**Bonus relates to the 12 months to 31 December 2014 and reflects the Group ongoing operations in Guinea and Sierra Leone during the Ebola crisis.*

The Directors who held office at 30 June 2016 had the following interests in the ordinary shares of the Company as of 30 June 2016:

| | 30 June 2016* | | 30 June 2015 | |
|---|---|---|---|---|
| | Ordinary shares | Share options | Ordinary shares | Share options |
| Lord Daresbury | 538,936 | 102,000 | 10,432,824 | 6,802,000 |
| N. Karl Smithson | 625,019 | 220,000 | 7,267,371 | 15,006,500 |
| Luis da Silva | 161,598 | 74,000 | 3,265,674 | 5,053,000 |
| Steven J. Poulton | 317,342 | 90,000 | 7,470,145 | 5,952,000 |
| Hansjörg Plaggemars | - | - | - | - |
| | 1,642,895 | 486,000 | 28,436,014 | 32,813,500 |

** Figures at 30 June 2016 are following the 50:1 share consolidation as detailed in note 14.*

The number of Directors to whom retirement benefits are accruing is Nil (2015: Nil).

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

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 previous year.

See note 13 for disclosure of intergroup balances.

(Stated in U.S. dollars)

### 20. 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 2016<br>$ | 30 June 2015<br>$ |
|---|---|---|
| Financial assets: | | |
| *Loans and receivables, measured at amortised cost* | | |
| Cash and cash equivalents | 268,330 | 94,624 |
| Receivables | 296,284 | 166,750 |
| | 564,614 | 261,374 |
| Financial liabilities: | | |
| Trade and other payables | 413,840 | 780,980 |
| Loans | 767,943 | 100,000 |
| Convertible loans | 953,625 | - |
| Derivative financial liabilities | 12,504 | 27,754 |
| | 2,147,912 | 908,734 |
| **Company** | | |
| Financial assets: | | |
| *Loans and receivables, measured at amortised cost* | | |
| Cash and cash equivalents | 447 | 524 |
| Receivables | 10,529,217 | 13,241,868 |
| | 10,529,664 | 13,242,392 |
| Financial liabilities: | | |
| *Other liabilities, measured at amortised cost* | | |
| Trade and other payables | 134,976 | 379,100 |
| Loans | 667,943 | - |
| Convertible loan | 953,625 | - |
| Derivative financial liabilities | 12,504 | 27,754 |
| | 1,769,048 | 406,854 |

## 20. Financial instruments (continued)

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.

| | 30 June 2016 | 30 June 2015 |
|---|---|---|
| Carrying value of foreign currency balances | $ | $ |
| Cash and cash equivalents include balances denominated in: | | |
| Pound Sterling (GBP) | 98,476 | 23,352 |
| Receivables include balances denominated in: | | |
| Pound Sterling (GBP) | 9,043 | 111,516 |
| Trade and other payables include balances denominated in: | | |
| Pound Sterling (GBP) | 282,956 | 361,017 |

The sensitivities set out below are based on financial assets and liabilities held at 30 June 2016 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 2016 | 1.3399 | +/- 23,507 |
| At 30 June 2015 | 1.57174 | +/- 22,615 |

(Stated in U.S. dollars)

**20. Financial instruments (continued)**

*Interest rate and liquidity risk*

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. Nearly all the liabilities are short term. The convertible loan is repayable in November 2017, 17 months from the balance sheet date, as referenced in note 18.

*Credit risk*

The maximum credit exposure of the Company as at 30 June 2016 amounted to $10,529,664 (30 June 2015: $13,242,392) 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. 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 2016 | 30 June 2015 |
|---|---|---|
| | $ | $ |
| Financial institutions with S&P AA- rating or higher | 207,230 | 94,624 |
| Financial institutions un-rated or unknown rating | 61,100 | - |
| | 268,330 | 94,624 |

*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 17 and 18) 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 2016.

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.

**21. Subsequent events**

On 5 October 2016 the Company entered into a $1.24 million convertible loan agreement. Under this agreement the existing $0.66 million loan outstanding at 30 June 2016 was repaid in full (refer to note 17 for details of this loan). 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 ("The Transaction") 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 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.

Also on 5 October 2016 the Company entered into an agreement to amend certain terms of the existing $1.65 million convertible loan with Deutsche Balaton. Under the terms of the amendment the Company has agreed to issue Deutsche Balaton with $1 million of new ordinary shares at the date of completion of the 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.

In October 2016 the Company entered into Joint Venture Agreements over its Liberia and Baoulé (Guinea) projects with Citigate Commodities Trading ("Citigate"). Under the terms of Baoulé agreement Citigate will invest $1.5 million in return for 25% of the shares of Ressource Tassiliman Baoulé SA, a further $2 million for a further 25% shareholding and will complete a Pre-Feasibility Study on the project for an additional 25% shareholding. Under the terms of the Liberia agreement Citigate will invest $0.25 million in return for 25% of the shares of Stellar Diamonds (Liberia) Incorporated, a further $2 million for a further 25% shareholding and a final $4 million for a further 35% shareholding. Stellar will receive a management fee of $25,000 relating to the Liberia joint venture and $150,000 in relation to the Baoulé joint venture agreement for the first year of the joint ventures.

On 19 August 2016 the Company announced that it was in discussions to acquire the Tonguma kimberlite dyke project in Sierra Leone from Octea Mining Limited. The Tonguma licence is located adjacent to the Company's Tongo licence and, if successful in its acquisition and raising approximately $45 million to fund the development of the combined project, the Company plans to bring the project into production in 2017. As the transaction is considered to be a Reverse Take Over under AIM rules, following the announcement of the proposed transaction the Company's shares were suspended from trading on AIM. The shares will remain suspended until the completion of the transaction or confirmation by the Company that the transaction is no longer being pursued. The Company has 6 months from the date of suspension to complete the transaction, after which the Company will be delisted from AIM.