

# **BlueRock Diamonds PLC**

*(Registered number 08248437)*

**Annual report and accounts  
for the year ended 31 December 2017**

**BlueRock Diamonds PLC**  
**Annual Report and Financial Statements 31 December 2017**  
**Directors and Advisers**

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<b>Directors</b>	P Beck (Chairman) A Waugh T Leslie D Facey
<b>Registered office</b>	4th Floor Reading Bridge House George Street Reading Berkshire RG1 8LS
<b>Nominated adviser and Broker</b>	SP Angel Corporate Finance LLP Prince Frederick House 35-39 Maddox Street London W1S 2PP
<b>Bankers</b>	Arbuthnot Latham & Co., Limited
<b>Independent auditor</b>	Grant Thornton UK LLP Grant Thornton House 30 Finsbury Square London EC2A 1AG
<b>Financial Public Relations</b>	St Brides Partners Ltd 3 St Michael's Alley London EC3V 9DS
<b>Company registration number</b>	08248437

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**Strategic Report**

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## **Chairman's Statement**

Dear Shareholders,

I am pleased to present our annual report and accounts for the year ended 31 December 2017.

2017 was the first year for BlueRock Diamonds plc ("BlueRock") under its new management headed by Adam Waugh, our Chief Executive Officer. During the year, we were delighted to achieve our two primary goals for 2017: our subsidiary Kareevlei Mining Limited ("Kareevlei") reached operational profitability in the three months ended November 2017 and in November 2017, we also reached our targeted monthly volume of 25,000 tonnes.

Our investment case is very simple: we have an exciting, strategically located asset, producing exceptional quality diamonds; we have a defined development plan, focused on increasing both production and the average grade of diamonds extracted; we are operating in a market with robust fundamentals; and we have a strong management team to drive the business forward.

## **Mining**

During 2017 we continued to concentrate on exploiting and developing the first of five known kimberlite pipes at Kareevlei. KV2, which covers an area of 1.1 ha and has an inferred grade of 4.5 carats per hundred tonnes (cpht).

Having shown that the grade exceeds the bottom of our guidance of 3.5 cpht at a level of 20m below surface we are now in the process of removing waste and calcretised kimberlite from the higher levels to be able to mine down to a level of at least 70m below surface. Whilst we develop the mine at the higher levels, we expect grades from KV2 to fall slightly until we start mining consistently at below 20m.

KV1, the second pipe that we will mine, is located 40m from KV2 and is estimated to have a surface area of 1.4 ha. In April 2018 we decided to commence mining at KV1 to increase flexibility in our mine planning and to enjoy the expected higher grades. KV1 which has a very similar geology to KV2, has an inferred grade of 6.3 cpht., 40% higher than the inferred grade of KV2 (4.5cpht). We have already removed over 50,000 tonnes of waste.

This is an exciting step for us as we look forward to a potentially significant increase in grade.

## **Production**

Production levels increased during the year, reaching a peak of over 25,000 tonnes per month in November 2017. We processed a total of over 153,000 tonnes in the year; a significant improvement over the 56,439 tonnes processed in 2016.

## **Recovery, grades and value per carat**

During the year, the grades steadily improved, largely as a result of beginning to mine below the calcretised kimberlite, but also due to the increased efficiency of our crushing and processing plant.

The quality of our stones remain very high and our average value per carat for 2017 was US\$ 362. We are establishing a reputation for the quality of our diamonds and we are now targeted by certain buyers who are seeking a consistent supply of our goods.

## **Management**

I am pleased to report that David Facey was appointed as Finance Director in December 2017. David's experience as an FCA and as a corporate financier will be invaluable to us as we continue to grow.

## **Strategic Report**

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### **Future Developments**

For the time being, we have decided to concentrate on making Kareevlei as profitable as possible. Just from KV1 and KV2 we have an approximate 9-year life of mine using open pit mining methods. KV3 would extend that by a further 8 or 9 years although we have further work to do before we commit to mining it.

We continue to consider other assets as and when they are shown to us but, our policy is to seek to find mines that have already been prospected with sufficient existing data to assess with reasonable certainty their economic prospects.

### **Fundraising**

In 2017 we undertook two equity fund raisings, £366,000 in June 2017; and £860,000 in August 2017 (both before expenses). The money raised was used to fund the development of the mine, provide finance for various modifications to the plant and for working capital whilst we built up production. In addition, we took out a loan of up to £310,000 from one of our major shareholders to fund the acquisition of equipment.

I would like to thank our shareholders, old and new, for their continued support of the Company.

I would also like to thank everyone at BlueRock for their continued efforts and I look forward to updating you on our progress in due course.

**Paul Beck**

**Non-Executive Chairman**

## **Chief Executive Officer's Review**

### **Operational Review of Kareevlei Mine**

We hold the Mining Right over 3000 hectares in the Northern Cape province of South Africa, approximately 100 kilometres North West of Kimberley, Kareevlei. There are five known diamondiferous kimberlite pipes on the licence area, however the Inferred Mineral Resource, totalling 7,984,000 tonnes or 359,000 carats, is based on just three of the pipes, KV1, KV2 and KV3. To put this into perspective, this is a potential inground value of circa USD 130 million. We also have an operating processing plant, which we continue to optimise since its commissioning in March 2017. Our focus is now on producing consistently at a rate in excess of 25,000 tonnes a month and increasing our average grade by mining deeper into KV2 and starting to mine KV1 which has an average inferred grade of 6.3 cpht, some 40% higher than KV2.

### **Overview of the year**

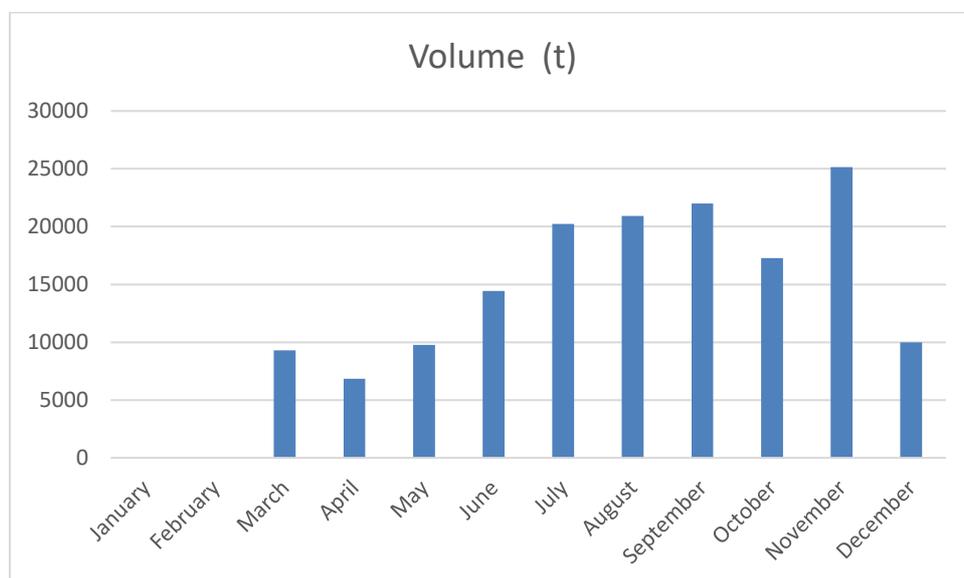
Production grew steadily during the year until we reached our initial target volume of 25,000 tonnes in November 2017. Grades continued to increase throughout the year as we began to process kimberlite from lower levels of KV2 and as the efficiency in our processing plant improved.

The value of our diamonds remained consistently high with an average value per carat of US\$ 362.

### **Operational results**

We processed 153,147 tonnes in 2017 a significant improvement over 2016 (2016: 56,439 tonnes).

Set out below is a chart showing our production volumes on a monthly basis throughout 2017:



**Seasonality**

Our business is seasonal for two reasons. Firstly, there is traditionally an extended break over the Christmas period which lasts for three weeks. During this time we shut down for planned maintenance but in effect we, similar to other miners, lose a month of production in December and January. We have plans in place to mitigate the extent of the closure this year and expect there to be less of an impact. Secondly we are affected by the rainy season, which in the Northern Cape runs from January to April.

Rainfall provides two main challenges for us; extraction from the pit becomes more difficult as in excessively wet conditions travelling in the mine becomes hazardous for large hauling equipment and secondly, kimberlite has a characteristic which when wet will not efficiently pass through the crushing and screening plant.

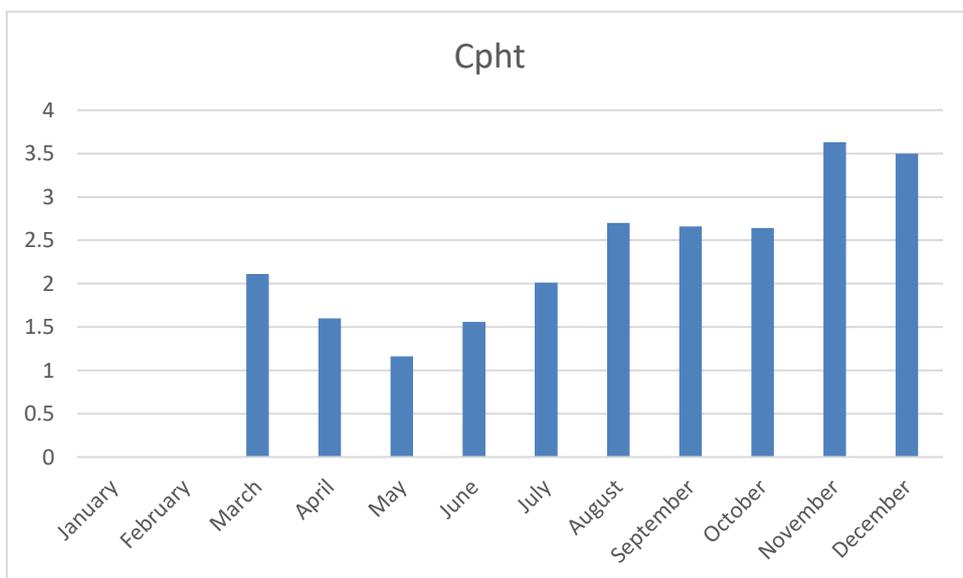
As we get further into the pit, we will stabilise the surface of the haul roads using crushed dolomite which will enable hauling equipment to travel more safely. We are also in the process of deciding how best to create a two month stock pile of crushed kimberlite ready for the processing plant by the end of the year so that in wet conditions we are not required to utilise the crushing circuit and can mitigate the effects of the rainy season.

Nevertheless, we, in common with other miners, will continue to face disruption during the first quarter and the early part of the second quarter and, therefore, our second half results should be expected to be significantly higher than our first half results even when the mine is running at full capacity.

In 2017, the impact of the seasonality was worsened by having no production in January and February as we were commissioning the new crushing circuit. We would estimate that in an average year, when our operations are running at a steady state, first half production will amount to some 30% to 40% of annual production depending largely on the severity of the rainy season.

**Grades**

Grades continued to improve throughout the period as expected.



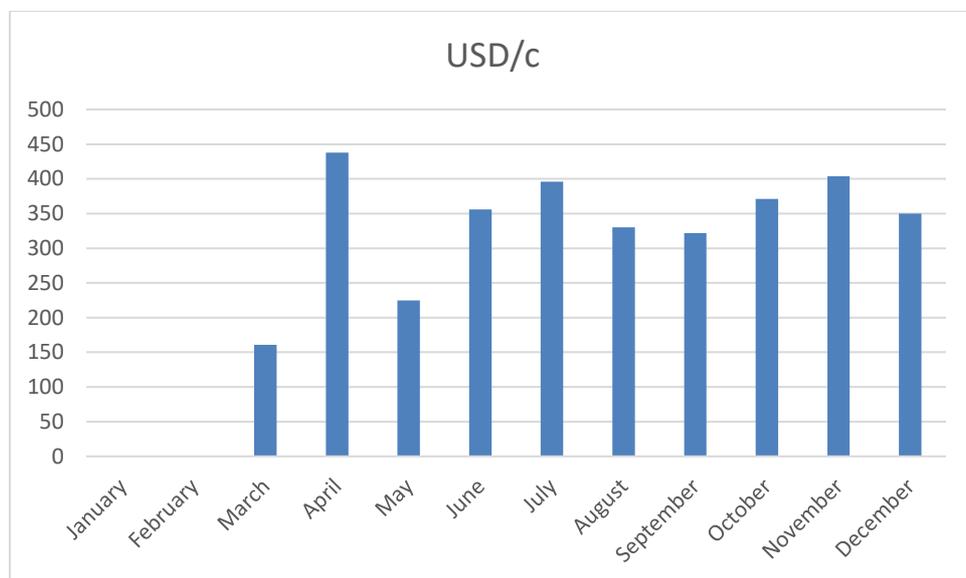
Our results continue to show us that our grade improves as we mine levels below 15 to 20m and has reached above 6 cpht in some areas of the pit. Drill data shows that there is some variation in grade throughout KV2 and KV1 but it is clear that once we are able to mine consistently at the sub 20m level, grades should be consistently around the pit averages of 4.5 and 6.3 cpht respectively.

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**Value per carat**

The value per carat remains exceptionally high. In 2017 we sold 3,385 carats at an average value per carat of US\$ 362. During 2014, 2015 and 2016 a total of 3014 carats were sold at an average price of US\$ 297. The graph below shows the value per carat achieved during 2017.



**Operations to date in 2018**

**Production**

Production has been hampered in the first half by the expected rain fall and more recently from disruption to our crushing circuit as we continue to implement improvements. At the beginning of June we installed a new screen that was funded through a fund raise post year end in April 2018.

In June 2018 a fault was discovered in the cone crusher which led to processing being stopped for around 10 days. A decision was made to replace our existing crusher with a rented crusher at minimal cost per month. The replacement crusher is now working well and we continue to assess whether to refurbish our existing cone crusher. Production for the first six months of 2018 is estimated to be around 75,000 tonnes, which is slightly lower than our expectations due largely to the recent problem with the cone crusher.

We are currently considering further ways of increasing our crushing capacity in order that we can a) exceed our annual target and b) begin to stockpile crushed kimberlite in preparation for next year's rainy season and will update the market as we make progress.

## **Pit development**

### **KV2**

At the end of 2017 we began to process kimberlite from the sub 20m level. This is the first level of uncalcretised kimberlite and, as predicted, grades began to improve significantly reaching above 6 cpht in some parts of KV2. We continue to work on the longer term mine plan of KV2 which due to its close proximity to KV1 will be mined as one pit in the years to come. Grades will continue to vary as we work through the remaining calcretised kimberlite which is likely to take us into the end of 2018 and into 2019.

### **KV1**

The decision was taken to begin to mine KV1 during Q1 2018. KV1 is a virgin kimberlite and as such we are taking a long term view of its development. This involves a significant amount of stripping of the surface layer of waste calcrete, before mining the calcretised kimberlite. In KV2 we blasted and hauled to waste a 7m layer of calcrete. For KV1 we have increased the initial waste blast to 10m, which should increase the grade in the calcretised kimberlite in the level below the calcrete. If KV1 behaves in a similar way to KV2, we would expect grades of around 50% to 70% of the pit grade from the 10m to 20 layer resulting in a grade range of between 3.2 cpht and 4.4 cpht, which is consistent with our guidance for the year.

It is our intention to start to process K1 material towards the end of June 2018.

## **Size frequency distribution**

Our recoveries since 2017 indicate an upward shift in the size frequency distribution graph. Notably, we recovered our two largest stones in 2017; a 9.5 carat stone and a 11.7 carat stone, both of good quality selling for US\$ 3,750 a carat and US\$ 1670 respectively. Our largest value single stone was mined from KV2 in 2017 and sold for US\$ 10,091 per carat grossing US\$ 78,306.

## **Outlook**

Our primary focus continues to be to establish Kareevlei as a self-sufficient mine. The development of KV1 and mining at lower levels of KV2 is expected to increase our average grade during the course of the rest of 2018 and into 2019.

We are pleased to report that the frustrating plant failure which affected throughput earlier this month has been quickly rectified and operations are running smoothly again. With this in mind we look forward to the second half of the year with optimism.

In general, diamond mining in South Africa is conducted either by large companies which are primarily interested in the largest deposits or family style operations which concentrate largely on alluvial deposits. BlueRock is one of the few exceptions to this rule.

Accordingly, we are well placed to exploit the numerous deposits that have been identified by the larger operators, but deemed to be too "small" for them. Whilst too small for the larger companies they represent a good opportunity for a smaller operator like BlueRock which has access to capital and expertise.

## **Financial review**

### **Revenue and profitability**

In 2017, the Group made a loss before tax of £1,179,529 (2016: £495,493) on revenue of £945,924 (2016: £239,646). This loss reflects the relative early stage of our operations in 2017.

## **Cash flows**

### *Investments*

During the year we invested £441,107 (2016: £350,260) in the purchase of plant and equipment and £135,599 (2016: £21,944) in non-current assets being the mining right and rehabilitation costs. The majority of the plant and equipment acquired relates to improving the crushing circuit and the acquisition of key plant that has hitherto been rented.

### *Financing*

In 2017 we undertook two equity fund raisings, raising £366,000 in June 2017 and £860,000 before expenses in August 2017 which were used to fund the development of the mine, to provide finance for various modifications to the plant and to fund working capital whilst we built up production. In addition, we took out a loan of up to £310,000 from one of our major shareholders to fund the acquisition of equipment that we had hitherto rented.

### *Cash position*

At the end of the year the Group's cash balance was £268,128.

Since the year end the Company raised additional finance through equity fundraising. The Company raised £500,000 before expenses via the issue of 33,333,333 new ordinary shares of 1 pence each in the capital of the Company at a subscription price of 1.5 pence per new ordinary share in March 2018. Additionally, 33,333,333 warrants over new ordinary shares will be issued to investors as part of the fundraising. The warrants will be exercisable at a price of 3 pence and are exercisable for a period of 2 years from the date of issue. The warrants become exercisable following the approval of shareholders to increase share authorities at the Annual General Meeting.

In May 2018, the Company raised £350,000 before expenses via the issue of 29,166,667 new ordinary shares of 1 pence each in the capital of the Company at a subscription price of 1.2 pence per new ordinary share in May 2018.

The majority of the funds raised during the funding rounds are to be used to expedite the development of KV1.

**Adam Waugh**  
**Chief Executive Officer**

## **Risk Management**

### **Principal risks and uncertainties**

#### **Introduction**

The principal risks that relate to the Group have been set out below, categorised as follows:

- Operational risks
  - Risks relating to the Group's operations including mining
- Market risks
  - Risks associated with changes in the markets in which the Group operates
- Country risks
  - Specific risks relating to the Group's main country of operation, South Africa
- Other risks
  - Other significant risks

#### **Operational risks**

##### *Reliability of mineral resource and reliance on historic data*

The calculation of a mineral resource involves significant assumptions and estimates that may prove inaccurate, including assumptions of diamond prices. In calculating the Inferred Mineral Resource at the Kareevlei tenements, reliance was placed upon measurements and data collected by Diamond Resources Pty Limited (the vendor of the Kareevlei tenements) and other parties. There can be no guarantee that predicted grades will continue to materialise or that the resource will be economically viable. The Group mitigates this risk by continually assessing its production assets in order to provide further evidence to support the mineral resource estimates set out in the Competent Person's Report dated August 2013 prior to expanding our production facilities.

##### *Exposure to mining hazards*

Whilst the Group's exposure is reduced due to the open cast mining technique, the Group remains exposed to a number of risks and hazards associated with mining including pit wall failure, adverse weather and mechanical breakdown. The Group monitors its mining operations constantly to ensure that mining risks are minimised. In addition, the Group production team has extensive experience operating and maintaining similar production facilities.

##### *Security risks*

Whilst the Group has implemented security procedures, there can be no guarantee that theft of plant, machinery or diamonds will not occur. Should any theft occur, the Group may suffer adverse financial consequences. We have mitigated this risk by ensuring that our security team is present at all times.

#### **Market risks**

##### *Exposure to a decrease in rough diamond prices*

As the Group has commenced diamond sales, the profitability of mining operations is directly related to the prevailing diamond price. Historically, diamond prices have been volatile and are affected by numerous factors which the Group is unable to control or predict, including world production levels, international economic trends, industrial and consumer demand, currency exchange fluctuations, seasonality, speculative activity and political events.

## **Strategic Report**

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### *Exposure to strengthening of the South African Rand and weakening of the US Dollar*

The Group realises US Dollars for its diamond sales, and reports its results in Pounds Sterling. Should the South African Rand strengthen against the Pound, the costs of the Group's mining operations, which are largely denominated in South African Rand, may be adversely affected. Should the US Dollar weaken against the Pound, the Group's revenues may be reduced.

### *Exposure to movements in the prices of raw materials, equipment and services*

Should market prices for raw materials, services and equipment, such as diesel or mining equipment increase, the Group's results may be adversely affected. The Group seeks to obtain the best rate for each product or service, taking into account price, service quality and reliability.

## **Country risks**

### *Operations in South Africa*

The Group's main country of operation is South Africa. Whilst the Directors intend that the Group will carry out its activities in accordance with all applicable laws, rules and regulations, it is possible that new laws, rules or regulations may be enacted or that the interpretation of current laws, rules or regulations may change, either of which may limit the ability of the Group to operate. The Group activities and profitability may also be adversely affected by economic or political factors outside its control.

## **Financial Risk Management**

Details of the Group's financial risk management policies are set out in note 26 of the Financial Statements

## **Other risks**

### *Status of Kareevlei Mining's BEE partner*

Under South African law, it is a requirement that any mining asset is at least 26 per cent. owned by a BEE partner. Kareevlei Mining's BEE partner, Ghaap Mining, holds 26 per cent. of the shares in Kareevlei Mining. Ghaap Mining is a South African private company wholly owned by Mr. William Alexander van Wyk who, in terms of South African legislation, is considered to qualify as a historically disadvantaged South African ("HDSA"). Should Mr. Van Wyk cease to or be deemed not to qualify as an HDSA, there is a risk that the BEE partner may not meet its obligations to the Group which may cause the Group to incur unforeseen additional costs or losses.

## **Strategic Report**

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### **Key Performance indicators**

As a management team we monitor a variety of performance indicators. During the first half of 2017 we concentrated on increasing production throughput and, therefore, our main KPI was production volumes as measured by average monthly throughput calculated by reference to those months that we were in production. During 2017, average monthly production was 12,800 tonnes an increase of 36% over the average monthly in 2016 of 9,400 tonnes. Average monthly production in the second half of the year grew to 18,800 tonnes.

Other factors that we monitor closely are value per carat, which averaged US\$ 362 over the year (2016: US\$ 361) and grade, which averaged 2.4 cphpt over the year (2016: 1.4 cphpt)

In addition the Directors continuously review the expenditure and general operating costs to ensure that cash resources are available prior to commitment to this expenditure. In addition to the above, non-financial factors such as compliance with environmental, rehabilitation and other legislation within the Group's area of operation are also considered.

### **The Strategic Report has been approved**

#### **By order of the board**

**Adam Waugh**  
**Chief Executive Officer**  
**29 June 2018**

**Paul Beck - Non Executive Chairman, aged 72**

Paul Beck is a member of a well-known South African mining family and has experience in the real estate and natural resource sectors, in the UK, US and South Africa. He was a founding Director and Chairman of Firstland Oil & Gas, which owned oil exploration assets in the Falklands and oil and gas producing wells in the US. Mr Beck has undertaken projects with black economic empowerment partners in South Africa, and has worked on tailings retreatment projects in the region.

**Adam Waugh – Chief Executive Officer, aged 54**

Adam Waugh was the Head of Sales and Trading at Brewin Dolphin Plc until 2008 and is currently a Non-Executive Director of Atlas Cloud Ltd, a cloud computer service provider and Chairman of the Northern Counties Children's Benevolent Society.

**Tim Leslie – Non-Executive Director, aged 52**

Tim Leslie has worked in the financial markets for over 25 years. He joined Paribas in 1986 and since has worked for JPMorgan, HSBC and then at Donaldson Lufkin & Jenrette (“DLJ”). In 2000, DLJ was bought by Credit Suisse and Tim left to join the hedge fund Moore Capital Management LLC as a portfolio manager.

In 2003 Tim launched a new fund at Moore Capital, the Moore Credit Fund, for which he was the Chief Investment Officer. Tim left Moore Capital in 2008 and launched James Caird Asset Management LLP with assets under management of US\$3.6bn as at launch. In 2011, Tim founded JCAM investments Ltd to run a family office and make longer term investments.

**David Facey – Finance Director, aged 55**

David is a Fellow of the Institute of Chartered Accountants of England and Wales and has over 20 years experience in Corporate Finance and Equity Capital Markets. After working at PwC, David spent 10 years at HSBC Investment Bank, where he specialised in raising funds in the UK for companies all over the world, particularly in the EMEA region.

Throughout his career David has advised governments, large corporates and smaller enterprises on public fund raising, private fund raising, mergers and acquisitions. In addition, David was a founding partner in SP Angel, an investment banking boutique specialising in advising SMEs on raising funds in the London market, both public and private.

The Company is not required to comply with the UK Corporate Governance Code or the Corporate Governance Code for Small and Mid-Sized Quoted Companies 2013, as published by the Quoted Companies Alliance (the "Code") and it does not. We are conscious of the new AIM Notice 50 which requires companies to review their corporate governance disclosures annually and to adopt a recognised corporate governance code from 28 September 2018. We take our corporate governance responsibilities seriously and will be adopting and working to the Code with appropriate disclosures to be set out on the Company's corporate website.

The Company aims to develop its corporate governance structure and culture to the full extent which is considered appropriate for the size and stage of maturity of the Company. The Directors recognise the importance of sound corporate governance and the Board intends, so far as is practicable for a company of its size, to implement certain corporate governance recommendations. Details are provided below:

The Company holds regular board meetings throughout the year at which reports relating to the Group's operations, together with financial reports are considered. The Board is responsible for formulating, approving and reviewing the Group's strategy, budgets, major items of expenditure and senior personnel appointments.

#### ***Audit Committee***

The Company has established an audit committee, which comprises Paul Beck and Tim Leslie, being non-executive members of the Board, with Tim Leslie appointed as chairman. The audit committee's main functions include, inter alia, reviewing and monitoring internal financial control systems and risk management systems on which the Company is reliant, considering annual and interim accounts and audit reports, making recommendations to the Board in relation to the appointment and remuneration of the Company's auditors and monitoring and reviewing annually their independence, objectivity, effectiveness and qualifications.

#### ***Remuneration Committee***

The Company has established a remuneration committee, which comprises Paul Beck and Tim Leslie, is chaired by Tim Leslie and meets as often as required to enable the remuneration committee to fulfil its obligations to the Company. The remuneration committee will be responsible for reviewing the performance of the Chairman and the executive directors and for setting the scale and structure of their remuneration, paying due regard to the interests of Shareholders as a whole and the performance of the Group. The remuneration committee will also approve the design of and determine targets for any performance-related pay schemes operated by the Company.

#### ***Nominations Committee***

The Company has established a Nominations Committee which comprises Paul Beck and Tim Leslie, is chaired by Tim Leslie and meets when required. The Nominations Committee will consider the selection and re-appointment of board members. It will identify and nominate candidates to fill board vacancies and review regularly the structure, size and composition (including the skills, knowledge and experience) of the board and make recommendations to the board with regard to any changes.

#### ***Share dealing code and AIM Rule compliance policy***

The Company has adopted a share dealing code for the Board and certain employees in accordance with the provisions of MAR and the AIM Rules, and the Company will take all reasonable steps to ensure compliance by the Board and any relevant "applicable employees" (as defined in the AIM Rules) with such code.

#### ***Independence of Non-executive Directors***

The Company has departed from certain aspects of the guidelines set out in the UK Corporate Governance Code and the QCA Guidelines in that non-executive directors have been granted share options. Share options granted to the Board are not subject to performance criteria. Details of the share options granted to the Directors are set out on page 17.

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**Directors' Report**

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The Directors submit their report and financial statements for the year ended 31 December 2017.

**Review of activities**

**Principal activities**

The Group is engaged in diamond mining in the Kimberley region of South Africa.

**Results and dividends**

The Consolidated Statement of Comprehensive Income for the year is set out on page 28. No dividends were declared or paid to shareholders during the year.

**Going concern**

We draw attention to the consolidated statement of comprehensive income, the consolidated and company statement of financial position and the consolidated and company statements of cashflows in the financial statements which indicate that the group incurred a net loss of £1.28 million and cash outflows from operations of £0.98 million during the year ended 31 December 2017 and, as of that date, the Group's current liabilities exceeded its current assets by £0.03 million.

Management has reviewed the forecast of cash flows for 12 months from the date of approval and is confident that the Group will meet its obligations from cashflows generated by continuing improvement in its operations. However, there remains a risk that there will be a need to raise further finance in this period and, although there is no certainty, management is confident that, if required, such funds will be forthcoming.

Accordingly, the financial statements have been prepared on a going concern basis.

**Events after the reporting period**

**Fundraising**

On 19 March 2018 the Company successfully raised an aggregate before expenses of £500,000 via the issue of 33,333,333 ordinary shares of 1 pence each in the capital of the Company through a placing and subscription at 1.5 pence per new share. Each new share issued is accompanied by a warrant to subscribe for a further new share at a price of 3 pence per new share. The Company will use the majority of the funding to develop and expand its ongoing mining activity.

On 31 May 2018 the Company successfully raised an aggregate before expenses of £350,000 via the issue of 29,166,667 ordinary shares of 1 pence each in the capital of the Company through a placing and subscription at 1.2 pence per new share. The Company will use the larger part of the proceeds to expedite the development of KV01 (pipe 1).

**Directors**

The Directors of the Group in office during the year, and up to the date of signing this report, are as follows:

<b>Name</b>	<b>Nationality</b>	<b>Appointment Date</b>	<b>Resignation Date</b>
PJ Beck (Non-executive Chairman)	British	11 October 2012	
A Waugh (Chief Executive Officer)	British	7 December 2015	
TG Leslie (Non-executive Director)	British	4 September 2013	
DA Facey (Chief Financial Officer)	British	1 December 2017	
AT Markgraaff (Non-executive Director)	South African	11 January 2013	31 October 2017

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**Directors' Report**

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**Directors' interests**

The holdings of the Directors and their related parties in the share capital of the Group as at 31 December 2017 are as follows:

<b>Name</b>	<b>Number of ordinary shares</b>	<b>Percentage of share capital</b>	<b>Number of ordinary shares subject to share options</b>	<b>Percentage of share capital subject to share options</b>
T Leslie*	10,636,783	7.61%	3,000,000	2.15%
P Beck**	4,277,658	3.06%	2,751,392	1.97%
A Waugh	6,566,273	4.70%	9,281,958	6.64%
D Facey	4,000,000	2.86%	4,127,088	2.95%

\*Including 1,000,000 ordinary shares held by Timothy Leslie's wife, Sarah Leslie.

\*\*Including 455,455 ordinary shares held by Front Square Securities. Mr Beck and his wife own 100% of the share capital in Front Square Securities Limited and Mr Beck is also a director.

Other than as disclosed above, none of the Directors, nor any persons connected with them, is interested in any related financial product (as defined in the AIM Rules) whose value in whole or in part is determined directly or indirectly by reference to the price of the ordinary shares, including a contract for difference or a fixed odds bet. There are no outstanding loans granted or guarantees provided by any member of the Group to or for the benefit of any of the Directors, nor are there any outstanding loans or guarantees provided by the Directors to or for the benefit of the Group.

Other than as disclosed in this Annual Report and Accounts, no Director has any interest, whether direct or indirect, in any transaction which is or was unusual in its nature or conditions or significant to the business of the Group taken as a whole and which was effected by the Group during the current or immediately preceding financial year, or during any earlier financial year and which remains in any respect outstanding or unperformed.

In the case of those Directors or key managers who have roles as directors of companies which are not a part of the Group, although there are no current conflicts of interest, it is possible that the fiduciary duties owed by those Directors to companies of which they are directors from time to time may give rise to conflicts of interest with the duties owed to the Group. Except as expressly referred to in this Annual Report and Accounts, there are no potential conflicts of interest between the duties owed by the Directors to the Group and their private duties or duties to third parties.

**Financial Risk Management**

Details of the Group's financial risk management is set out in note 26.

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**Significant shareholders as at 31 December 2017**

Other than as set out below, the Group is not aware of any holding in the Group's ordinary share capital which amounts to 3 per cent or more of the Group's issued share capital:

<b>Name</b>	<b>Number of ordinary shares</b>	<b>Percentage of share capital</b>	<b>Notes</b>
T Leslie	10,636,783	7.61	1
M Poole	10,072,077	7.20	2
N Sutton	8,481,885	6.07	
Goldman Sachs Securities Nominees Limited	8,210,576	5.87	3
Spreadex	6,805,000	4.87	
A Waugh	6,566,273	4.70	
P Beck	4,277,658	3.06	4

*Note:*

- 1,000,000 ordinary shares are held by Timothy Leslie's wife, Sarah Leslie.
- Mr Poole holds £725,000 of convertible secured loan notes and his daughter, Emma Poole holds a further £200,000.
- Goldman Sachs Securities Nominees Limited holds 8,210,576 ordinary shares on behalf of Tamla Limited.
- 455,455 ordinary shares are held by Front Square Securities. Mr Beck and his wife own 100% of the share capital in Front Square Securities Limited and Mr Beck is also a director.

**Auditor**

Grant Thornton UK LLP was appointed as auditor for the year ended 31 December 2017. A resolution proposing their re-appointment as auditor to the Group will be put to the forthcoming Annual General Meeting.

**Annual General Meeting**

The annual general meeting will take place on 24 July 2018 at 10.00a.m. (BST) at the offices of St Brides Partners, 3 St Michael's Alley, London, EC3V 9DS.

**Directors' and officers' insurance**

The Group maintains insurance cover for all Directors and officers of Group companies against liabilities which may be incurred by them while acting as Directors and officers.

**Directors' remuneration**

Details of the remuneration of the Directors for the financial year are set out below:

A Waugh – received fees of £50,000 (2016: £22,833)  
D Facey – received fees of £18,000 (2016: £1,500)  
P Beck – received salary shares with a market value of £24,000 (2016: £nil)  
T Leslie – received salary shares with a market value of £12,000 (2016: £nil)  
A Markgraaf – received salary shares with a market value of £16,000 (2016: £nil)

### **Directors' responsibility statement**

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Under that law the Directors have elected to prepare financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards) and applicable law, including International Financial Reporting Standards (IFRS) as adopted by the European Union (IFRSs). 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 and profit or loss of the Company and Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group 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 hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that:

- so far as each Director is aware there is no relevant audit information of which the Group's auditors are unaware; and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

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

### **On behalf of the Board**

**Adam Waugh**  
**Chief Executive Officer**  
**29 June 2018**

## Opinion

### **Our opinion on the financial statements is unmodified**

We have audited the financial statements of BlueRock Diamonds plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2017, which comprise the consolidated and company statements of financial position, the consolidated statement of comprehensive income, the consolidated and company statements of changes in equity, the consolidated and company statements of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements 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.

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 31 December 2017 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.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Material uncertainty related to going concern**

We draw attention to Note 1.1 to the financial statements, which indicates that the group incurred a net loss of £1.28m and cash outflows from operations of £0.98m during the year ended 31 December 2017 and, as of that date, the group's current liabilities exceeded its current assets by £0.03m. As stated in note 1.1, these events or conditions, along with the other matters as set forth in note 1.1, indicate that a material uncertainty exists that may cast significant doubt on the company's and group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### **Who we are reporting to**

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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



#### Overview of our audit approach

- Overall materiality: £65,000, which represents 5% of the group's normalised loss before taxation (excludes non-operating foreign exchange movements and the change in fair value of financial instruments).
- Key audit matters were identified as improper revenue recognition, valuation of mining infrastructure assets and valuation of mining rights and mining rehabilitation.
- We have performed a full scope audit of the financial statements of the parent company, BlueRock Diamonds PLC, and of the financial information of Kareevlei Mining Proprietary Limited, representing 100% of revenue for the Group, 99% of group assets and 99% of group total assets. We have performed analytical procedures on the financial information of the other company within the group, Diamond Resources Pty Limited.

#### Key audit matters

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

In addition to the matter described in the 'Material uncertainty related to going concern' section, we have determined the matters described below to be the key audit matters to be communicated in our report.

**Key Audit Matter – Group**

**How the matter was addressed in the audit – Group**

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Improper revenue recognition

Under ISA (UK) 240 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements', there is a presumption that there are risks of fraud in revenue recognition, and therefore revenue may be misstated due to the improper recognition of revenue.

This risk is rebutted in the parent company and Diamond Resources Pty Limited as they have no revenue and the risk is only applicable for Kareevlei Mining Proprietary Limited.

We therefore identified improper revenue recognition as a significant risk, which was one of the most significant assessed risks of material misstatement.

Our audit work included, but was not restricted to:

- Testing 100% of diamond sales to corroborating documentation in order to confirm the occurrence, validity, and appropriate recognition of the revenue.
- Assessing whether the accounting policies adopted by the directors are in accordance with the requirements of International Accounting Standard (IAS) 18 "Revenue" and whether management accounted for revenue in accordance with accounting policies

The group's accounting policy on revenue, including its recognition, is shown in note 1.7 to the financial statements. and related disclosures are included in note 4.

**Key observations**

Based on our audit work, we did not identify any material misstatement caused by improper revenue recognition in the revenue recognised during the year to 31 December 2017.

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Valuation of mining infrastructure assets

There is a significant risk that mining infrastructure assets are impaired and therefore held at an overstated value in the financial statements. Their carrying value depends on a judgement over the future profitability of the mine.

Mining infrastructure assets are depreciated using a units of production method. There is also risk that the depreciation expense has been incorrectly calculated for the year.

We therefore identified mining infrastructure assets as a significant risk, which was one of the most significant assessed risks of material misstatement.

Our audit work included, but was not restricted to:

- Assessment of management's financial and non-financial information for indicators of impairment including discussions with management and consideration of forecast production and resource reserves
- Assessing the depreciation policies for adequacy
- Assessing the useful economic lives of assets and classification for appropriateness
- Estimation of the expected depreciation charge and comparison to actuals

The group's accounting policy on property, plant and equipment is shown in note 1.2 to the financial statements and related disclosures are included in note 8.

**Key observations**

Based on our audit work, we did not identify any material misstatement in relation to valuation of mining infrastructure assets held at 31 December 2017.

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**Key Audit Matter – Group**

**How the matter was addressed in the audit – Group**

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Valuation of mining rights and mining rehabilitation

There is a risk that mining assets are impaired and therefore held in the financial statements at the incorrect value. Their carrying value depends on a judgement over the future profitability of the mine.

In addition any future restoration requirement capitalised as part of the mining assets may be understated. We therefore identified Mining rights and mining rehabilitation as a significant risk, which was one of the most significant assessed risks of material misstatement.

Our audit work included, but was not restricted to:

- Assessment of management's financial and non-financial information for indicators of impairment including discussions with management and consideration of forecast production and resource reserves
- Inspected documentation from the South African Department of Mineral Resources that supports the value of the future restoration requirement the Group is required to provide for.

The group's accounting policy on mining rights and mining rehabilitation assets is shown in note 1.4 to the financial statements and related disclosures are included in note 9.

**Key observations**

Based on our audit work, we did not identify any material misstatement in the valuation of mining assets and mining rehabilitation held at 31 December 2017.

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We did not identify any Key Audit Matters relating to the audit of the financial statements of the parent company.

**Our application of materiality**

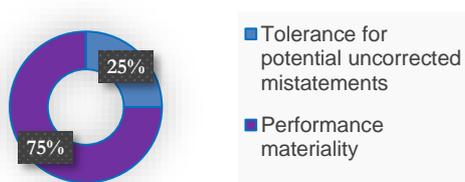
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

Materiality was determined as follows:

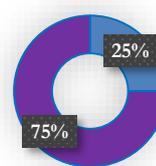
Materiality measure	Group	Parent company
Financial statements as a whole	£65,000, which is 5% of the group's normalised loss before taxation (excludes non-operating foreign exchange movements and the change in fair value of financial instruments). This benchmark is considered the most appropriate for the Group as cost control is deemed to be a KPI.  Materiality for the current year is lower than the level that we determined for the year ended 31 December 2016 as a result of the decreased normalised loss.	£58,000, which is 2% of the company's total assets, capped at 90% of group materiality. This benchmark is considered the most appropriate because the company does not trade and therefore total assets is of key importance to shareholders.  Materiality for the current year is higher than the level that we determined for the year ended 31 December 2016 due to the increase in total assets and the capping referred to above.
Performance materiality used to drive the extent of our testing	Based on our risk assessment, including the Group's overall control environment, we determined a performance materiality of 75% of the financial statement materiality.	Based on our risk assessment, including the Group's overall control environment, we determined a performance materiality of 75% of the financial statement materiality.
Specific materiality	We determined a lower level of specific materiality for certain areas such as directors' remuneration and related party transactions.	We determined a lower level of specific materiality for certain areas such as directors' remuneration and related party transactions.
Communication of misstatements to the audit committee	We communicated misstatements exceeding £3,250 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	We communicated misstatements exceeding £2,900 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.

Overall materiality - group



Overall materiality - parent



### **An overview of the scope of our audit**

Our audit approach was a risk-based approach founded on a thorough understanding of the group's business, its environment and risk profile and in particular included:

- Evaluation by the group audit team of identified components to assess the significance of that component and to determine the planned audit response based on a measure of materiality. Significant components were determined by considering contribution to the normalised operating loss of the group and proportion of total assets.
- Based on this evaluation we determined the significant components are the parent company, BlueRock Diamonds PLC, and Kareevlei Mining Proprietary Limited, due to financial significance;
- For Kareevlei Mining Proprietary Limited we performed a full scope audit to component materiality, capped at 90% of group materiality, utilising a team from Grant Thornton South Africa LLP as component auditors.
- For the parent company we performed a full scope audit to parent company materiality;
- The full scope audits performed the parent company and Kareevlei Mining Proprietary Limited represent 100% of continuing revenue for the year and 99% of total assets. A 100% full scope approach was taken in relation to each of our key audit matters.
- Diamond Resources Pty Limited has been subject to analytical review procedures.

### **Other information**

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

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

We have nothing to report in this regard.

### **Our opinion on other matters prescribed by the Companies Act 2006 is unmodified**

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

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

### **Matters on which we are required to report under the Companies Act 2006**

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

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

We have nothing to report in respect of the following matters in relation to which 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.

### **Responsibilities of directors for the financial statements**

As explained more fully in the directors' responsibilities statement set out on page 19, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

Christopher Smith  
Senior Statutory Auditor  
for and on behalf of Grant Thornton UK LLP  
Statutory Auditor, Chartered Accountants  
London  
29 June 2018

BlueRock Diamonds PLC

Annual Report and Financial Statements 31 December 2017

Consolidated and Company Statement of Financial Position

	Notes	Group 31 December 2017 £	Company 31 December 2017 £	Group 31 December 2016 £	Company 31 December 2016 £
<b>Assets</b>					
<b>Non-Current Assets</b>					
Goodwill	7	-	-	-	-
Property, plant and equipment	8	830,701	-	783,314	-
Mining assets	9	352,642	-	216,276	-
Investment in subsidiary	10	-	5	-	5
		<b>1,183,343</b>	<b>5</b>	<b>999,590</b>	<b>5</b>
<b>Current Assets</b>					
Inventories	11	103,951	-	2,202	-
Trade and other receivables	12	6,361	5,630,197	131,997	4,018,478
Cash and cash equivalents	13	268,128	156,030	291,555	174,063
		<b>378,440</b>	<b>5,786,227</b>	<b>425,754</b>	<b>4,192,541</b>
<b>Total Assets</b>		<b>1,561,783</b>	<b>5,786,232</b>	<b>1,425,344</b>	<b>4,192,546</b>
<b>Equity and Liabilities</b>					
<b>Equity Attributable to Equity Holders of Parent</b>					
Share capital	15	1,398,242	1,398,242	556,796	556,796
Share premium	15	2,811,536	2,811,536	2,443,826	2,443,826
Retained (losses) / earnings		(2,579,999)	432,530	(1,828,598)	165,483
Foreign exchange difference		(390,441)	-	(332,160)	-
		<b>1,239,338</b>	<b>4,642,308</b>	<b>839,864</b>	<b>3,166,105</b>
Non-controlling interest		(1,195,696)	-	(817,386)	-
		<b>43,642</b>	<b>4,642,308</b>	<b>22,478</b>	<b>3,166,105</b>
<b>Liabilities</b>					
<b>Current Liabilities</b>					
Trade and other payables	16	371,298	145,363	413,682	150,054
Borrowings	17	34,723	34,723	-	-
<b>Non-Current Liabilities</b>					
Embedded derivative	17	113,333	113,333	292,839	292,839
Borrowings	17	850,505	850,505	583,548	583,548
Provisions	18	148,282	-	112,798	-
		<b>1,518,141</b>	<b>1,143,924</b>	<b>1,402,867</b>	<b>1,026,441</b>
<b>Total Equity and Liabilities</b>		<b>1,561,783</b>	<b>5,786,232</b>	<b>1,425,344</b>	<b>4,192,546</b>

As permitted by section 408 of the Companies Act 2006, the parent company's profit and loss account has not been included in these financial statements. The profit after taxation for the financial year for the parent company was £174,742 (2016: £525,883).

The financial statements were approved by the Board of Directors and authorised for issue on 29 June 2018. They were signed on its behalf by:

Adam Waugh  
Chief Executive Officer

Company Registration Number: 08248437

**BlueRock Diamonds PLC**  
**Annual Report and Financial Statements 31 December 2017**  
**Consolidated Statement of Comprehensive Income**

	Notes	Year ended 31 December 2017 £	Year ended 31 December 2016 £
Revenue	4	945,924	239,646
Other income		446	500
Operating expenses		(2,294,489)	(1,252,179)
Operating loss	5	(1,348,119)	(1,012,033)
Finance charges	6	(82,384)	(60,229)
Change in fair value of financial instruments designated at FVTPL	17	179,506	(292,839)
Foreign exchange movement		71,468	869,608
<b>Loss before taxation</b>		<b>(1,179,529)</b>	<b>(495,493)</b>
Taxation	23	(22,008)	(90,566)
<b>Total loss for the year</b>		<b>(1,201,537)</b>	<b>(586,059)</b>
<b>Other Comprehensive loss</b>			
<b>Items that may be reclassified subsequently to profit or loss:</b>			
Exchange differences on translating foreign operations		(78,760)	(700,035)
<b>Total comprehensive loss for the year</b>		<b>(1,280,297)</b>	<b>(1,286,094)</b>
<b>Total comprehensive loss attributable to:</b>			
Owners of the parent		(901,987)	(814,981)
Non-controlling interest		(378,310)	(471,113)
		<b>(1,280,297)</b>	<b>(1,286,094)</b>
<b>Loss per share – from continuing activities</b>			
Basic and diluted	24	(0.01)	(0.02)

The annexed notes form an integral part of and should be read in conjunction with these consolidated financial statements

## Consolidated and Company Statement of Changes in Equity

	Share capital	Share premium	Retained losses	Foreign exchange reserve	Attributable to equity holders of the Group / Company	Non-controlling interest	Total equity
	£	£	£	£	£	£	£
<b>Consolidated</b>							
<b>Balance at 1 January 2017</b>	556,796	2,443,826	(1,828,598)	(332,160)	839,864	(817,386)	22,478
Loss for year	-	-	(843,706)	-	(843,706)	(357,831)	(1,201,537)
<b>Other comprehensive income:</b>							
Foreign exchange movements	-	-	-	(58,281)	(58,281)	(20,479)	(78,760)
<b>Total comprehensive loss</b>	-	-	(843,706)	(58,281)	(901,987)	(378,310)	(1,280,297)
<b>Transactions with shareholders:</b>							
Issue of share capital	841,446	449,552	-	-	1,290,998	-	1,290,998
Share issue expenses	-	(81,842)	-	-	(81,842)	-	(81,842)
Issue of share options	-	-	92,305	-	92,305	-	92,305
<b>Total transaction with shareholders:</b>	841,446	367,710	92,305	-	1,301,461	-	1,301,461
<b>Balance at 31 December 2017</b>	1,398,242	2,811,536	(2,579,999)	(390,441)	1,239,338	(1,195,696)	43,642
<b>Company</b>							
<b>Balance at 1 January 2017</b>	556,796	2,443,826	165,483	-	3,166,105	-	3,166,105
Profit for year	-	-	174,742	-	174,742	-	174,742
<b>Total comprehensive loss</b>	-	-	174,742	-	174,742	-	174,742
<b>Transactions with shareholders:</b>							
Issue of share capital	841,446	449,552	-	-	1,290,998	-	1,290,998
Share issue expenses	-	(81,842)	-	-	(81,842)	-	(81,842)
Issue of share options	-	-	92,305	-	92,305	-	92,305
<b>Total transaction with shareholders:</b>	841,446	367,710	92,305	-	1,301,461	-	1,301,461
<b>Balance at 31 December 2017</b>	1,398,242	2,811,536	432,530	-	4,642,308	-	4,642,308

BlueRock Diamonds PLC

Annual Report and Financial Statements 31 December 2017

Consolidated and Company Statement of Changes in Equity

	Convertible loan note reserve	Share capital	Share premium	Retained losses	Foreign exchange reserve	Attributable to equity holders of the Group / Company	Non- controlling interest	Total equity
	£	£	£	£	£	£	£	£
<b>Consolidated</b>								
<b>Balance at 1 January 2016</b>	293,818	321,604	1,335,952	(1,859,800)	185,866	277,440	(346,273)	(68,833)
Loss for year	-	-	-	(296,955)	-	(296,955)	(289,104)	(586,059)
<b>Other comprehensive income:</b>								
Foreign exchange movements	-	-	-	-	(518,026)	(518,026)	(182,009)	(700,035)
<b>Total comprehensive loss</b>	-	-	-	(296,955)	(518,026)	(814,981)	(471,113)	(1,286,094)
<b>Transactions with shareholders:</b>								
Extinguish convertible loan note reserve	(293,818)	-	-	293,818	-	-	-	-
Issue of share capital	-	235,192	1,183,079	-	-	1,343,066	-	1,343,066
Share issue expenses	-	-	(75,205)	-	-	-	-	-
Issue of share options	-	-	-	34,339	-	34,339	-	34,339
<b>Total transaction with shareholders:</b>	(293,818)	235,192	1,107,874	328,157	-	1,377,405	-	1,377,405
<b>Balance at 31 December 2016</b>	-	556,796	2,443,826	(1,828,598)	(332,160)	839,864	(817,386)	22,478
<b>Company</b>								
<b>Balance at 1 January 2016</b>	293,818	321,604	1,335,952	(688,557)	-	1,262,817	-	1,262,817
Profit for year	-	-	-	525,883	-	525,833	-	525,833
<b>Total comprehensive loss</b>	-	-	-	525,883	-	525,833	-	525,833
<b>Transactions with shareholders:</b>								
Extinguish convertible loan note reserve	(293,818)	-	-	293,818	-	-	-	-
Issue of share capital	-	235,192	1,183,079	-	-	1,418,271	-	1,418,271
Share issue expenses	-	-	(75,205)	-	-	(75,205)	-	(75,205)
Issue of share options	-	-	-	34,339	-	34,339	-	34,339
<b>Total transaction with shareholders:</b>	(293,818)	235,192	1,107,874	328,157	-	1,377,405	-	1,377,405
<b>Balance at 31 December 2016</b>	-	556,796	2,443,826	165,483	-	3,166,055	-	3,166,055

**BlueRock Diamonds PLC**  
**Annual Report and Financial Statements 31 December 2017**  
**Consolidated and Company Statement of Cash Flows**

		Group Year ended 31 December 2017 £	Company Year ended 31 December 2017 £	(restated) Group Year ended 31 December 2016 £	Company Year ended 31 December 2016 £
<b>Cash flows from operating activities</b>	<b>Notes</b>				
Cash used in operations	20	(975,201)	(269,828)	(793,151)	594,753
<b>Net cash used in operating activities</b>		<b>(975,201)</b>	<b>(269,828)</b>	<b>(793,151)</b>	<b>594,753</b>
<b>Investing activities</b>					
Purchase of property, plant and equipment	8	(441,107)	-	(350,260)	-
Acquisition of Diamond Resources Pty Limited	7	-	-	(32,826)	(32,826)
Increase in loan advanced to group company		-	(1,148,687)	-	(1,895,197)
<b>Net cash used in investing activities</b>		<b>(441,107)</b>	<b>(1,148,687)</b>	<b>(383,086)</b>	<b>(1,928,023)</b>
<b>Financing activities</b>					
Proceeds on share issues (net of fees)	15	1,147,157	1,147,157	1,343,066	1,343,066
Loans drawn down in the year	26	190,000	190,000	-	-
Loans repaid in the year	26	(180,000)	(180,000)	-	-
Borrowings	17	243,325	243,325	-	-
<b>Net cash from financing activities</b>		<b>1,400,482</b>	<b>1,400,482</b>	<b>1,343,066</b>	<b>1,343,066</b>
<b>Net change in cash and cash equivalents</b>		<b>(15,826)</b>	<b>(18,033)</b>	<b>166,829</b>	<b>9,796</b>
Cash and cash equivalents at the beginning of the year		291,555	174,063	175,755	164,267
Exchange differences on cash and cash equivalents		(7,601)	-	(51,029)	-
<b>Cash and cash equivalents at the end of the year</b>	13	<b>268,128</b>	<b>156,030</b>	<b>291,555</b>	<b>174,063</b>

The annexed notes form an integral part of and should be read in conjunction with these consolidated financial statements.

## **1. Presentation of Annual Report and Accounts**

The annual report and accounts have been prepared in accordance with International Financial Reporting Standards, as adopted by the EU (IFRS) and the Companies Act 2006 applicable to companies reporting under IFRS. The annual report and accounts have been prepared on the historical cost basis, and incorporate the principal accounting policies set out below. They are presented in British Pounds Sterling (Pounds) which is also the functional currency of the Company.

BlueRock Diamonds Plc is incorporated in England and Wales with company number 08248437 with registered office, 4<sup>th</sup> Floor, Reading Bridge House, George Street, Reading, Berkshire, RG1 8LS.

### **1.1 Basis of preparation**

#### **Basis of consolidation**

The consolidated annual report and accounts incorporate the annual report and accounts of the Group and its operating subsidiaries Kareevlei Mining Pty Ltd and Diamond Resources Pty Ltd which are controlled by the Group.

The parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. All subsidiaries have a reporting date of 31 December.

The results of subsidiaries are included in the consolidated annual report and accounts from the effective date of acquisition to the effective date of disposal.

Adjustments are made when necessary to the annual report and accounts of subsidiaries to bring their accounting policies in line with those of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in the net assets of consolidated subsidiaries are identified and recognised separately from the Group's interest therein, and are recognised within equity. Losses of subsidiaries attributable to non-controlling interests are allocated to the non-controlling interest even if this results in a debit balance being recognised for non-controlling interest.

Transactions which result in changes in ownership levels, where the Group has control of the subsidiary both before and after the transaction are regarded as equity transactions and are recognised directly in equity.

The difference between the fair value of consideration paid or received and the movement in non-controlling interests for such transactions is recognised in equity attributable to the owners of the parent.

Where a subsidiary is disposed of and a non-controlling shareholding is retained, the remaining investment is measured to fair value with the adjustment to fair value recognised in profit or loss as part of the gain or loss on disposal of the controlling interest.

#### **Goodwill**

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interest issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

### **Goodwill (continued)**

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Goodwill is not amortised but is reviewed for impairment annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

### **Going concern**

We draw attention to the consolidated statement of comprehensive income, the consolidated and company statement of financial position and the consolidated and company statements of cashflows in the financial statements which indicate that the group incurred a net loss of £1.28 million and cash outflows from operations of £0.98 million during the year ended 31 December 2017 and, as of that date, the Group's current liabilities exceeded its current assets by £0.03 million.

Management has reviewed the forecast of cash flows for 12 months from the date of approval and is confident that the Group will meet its obligations from cashflows generated by continuing improvement in its operations. However, there remains a risk that there will be a need to raise further finance in this period and, although there is no certainty, management is confident that, if required, such funds will be forthcoming.

Accordingly, the financial statements have been prepared on a going concern basis.

### **1.2 Property, plant and equipment**

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits associated with the item will flow to the company; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to or replace part of it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

Mining infrastructure, which includes evaluation and development costs capitalised prior to commencement of production, are depreciated using a unit of production method based on the carats produced over the estimated economically recoverable reserves.

Motor vehicles and plant and machinery are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

### Property, plant and equipment (continued)

The useful lives of items of property, plant and equipment have been assessed as follows:

<b>Item</b>	<b>Average useful life</b>
Mining infrastructure	Unit of production method
Motor vehicles	5 years
Plant and machinery	3 years

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting period. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

The depreciation charge for each period is recognised in profit or loss unless it is included in the carrying amount of another asset.

The gain or loss arising from the de-recognition of an item of property, plant and equipment is included in profit or loss when the item is derecognised. The gain or loss arising from the de-recognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

### 1.3 Mining Rights

Mining rights are recognised at cost, including any directly attributable transaction costs. The amortisation charge for each period is recognised on a 'units of production' method.

### 1.4 Mining exploration and development costs

During the exploration phase of operations, all costs are expensed in the consolidated statement of comprehensive income as incurred.

A subsequent decision to develop a mine property within an area of interest is based on the exploration results, an assessment of the commercial viability of the property, the availability of financing and the existence of markets for the product. Once the decision to proceed to development is made, development and other expenditures relating to the project are capitalised and carried at cost with the intention that these will be depreciated by charges against earnings from future mining operations over the relevant life of mine on a units of production basis. Expenditure is only capitalised provided it meets the following recognition requirements:

- completion of the project is technically feasible and the Group has the ability to and intends to complete it;
- the project is expected to generate future economic benefits;
- there are adequate technical, financial and other resources to complete the project; and
- the expenditure attributable to the development can be measured reliably.

No depreciation is charged against the property until commercial production commences. After a mine property has been brought into commercial production, costs of any additional work on that property are capitalised as incurred.

## **1.5 Investment in subsidiaries**

### **Company annual report and accounts**

In the Company's accounts, the investment in subsidiaries is carried at cost less any accumulated impairment.

The cost of an investment in subsidiaries is the aggregate of the fair value of assets given, liabilities incurred or assumed and equity instruments issued by the Company at the date of exchange.

## **1.6 Inventories**

Inventories, which include rough diamonds, are stated at estimated net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less marketing costs. Net realisable value also incorporates costs of processing in the case of the ore stockpiles. Changes in net realisable value are recognised in the income statement.

## **1.7 Revenue**

Revenue is measured at the fair value of consideration receivable.

Revenue comprises net invoiced diamond sales to customers excluding VAT. Diamond sales are made through a competitive tender process and recognised when significant risks and rewards of ownership are transferred to the buyer, costs can be measured reliably and receipt of future economic benefits is probable. This is deemed to be the point at which the tender is awarded.

## **1.8 Income Taxes**

Tax expense recognised in profit or loss comprises the sum of deferred tax and current tax not recognised in other comprehensive income or directly in equity.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with investments in subsidiaries is not provided if reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates and laws that are expected to apply to their respective period of realisation, provided those rates and laws are enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are recognised to the extent that it is probable that the underlying tax loss or deductible temporary difference will be utilised against future taxable income. This is assessed based on the Group's forecast of future operating results, adjusted for significant non-taxable income and expenses and specific limits on the use of any unused tax loss or credit. Deferred tax liabilities are always provided for in full.

Deferred tax assets and liabilities are offset only when the Group has a right and intention to set off current tax assets and liabilities from the same taxation authority. Changes in deferred tax assets or liabilities are recognised as a component of tax income or expense in profit or loss, except where they relate to items that are recognised in other comprehensive income or directly in equity, in which case the related deferred tax is also recognised in other comprehensive income or equity, respectively.

### **1.9 Mining Rehabilitation asset**

The estimated cost of 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.

### **1.10 Financial instruments**

#### **Initial recognition and measurement**

Financial instruments are recognised initially when the Group becomes a party to the contractual provisions of the instruments.

The Group classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

For financial instruments which are not at fair value through profit or loss, transaction costs are included in the initial measurement of the instrument.

#### **Financial liabilities and equity**

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Management considers that the Group's financial liabilities comprise trade and other payables, loans, convertible loans and derivatives.

#### **Convertible loan notes**

The convertible loan notes are accounted for under the guidance of IAS 32, Financial Instruments: Presentation. These can either be treated as compound instruments or stand alone instruments with an embedded derivative relating to the conversion feature. When the instrument is treated as a compound instrument the fair value of the liability portion of the convertible loan notes is determined using a market interest rate on an equivalent non-convertible loan note. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the loan notes. The remainder of the proceeds are allocated to the conversion option, which is recognised and included in shareholders' equity, net of tax effects and is not subsequently re-measured. In cases where the criteria for compound instrument are not met, the host debt contract is valued initially at fair value and the embedded derivative is separately carried at fair value through profit and loss.

#### **Embedded derivatives**

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

An embedded derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the hybrid instrument to which the embedded derivative relates is more than 12 months and is not expected to be realised or settled within 12 month. Other derivatives are presented as current assets or current liabilities.

#### **Trade and other payables**

Trade and other payables are not interest bearing and are recognised initially at fair value. Subsequently they are carried at amortised cost.

## **Financial assets**

The Group classifies its financial assets under the definitions provided in International Accounting Standard 39 (IAS 39) Financial Instruments: Recognition and measurement, depending on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. Management considers that the Group's financial assets fall under the 'loans and receivables' category.

### **Loans between group companies**

This includes loans between the holding company and its subsidiary which are recognised initially at fair value plus direct transaction costs.

Loans to group companies are classified as loans and receivables.

Loans from group companies are subsequently classified as financial liabilities measured at amortised cost.

### **Trade and other receivables**

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

#### **1.11 Cash and cash equivalents**

Cash and cash equivalents consist of highly liquid instruments, such as bank deposits, certificates of deposit, time deposits, treasury notes and other money market instruments, which have maturities from inception of less than three months.

#### **1.12 Operating expenses**

Operating expenses are recognised in profit or loss upon utilisation of the service on an accruals basis.

#### **1.13 Leases**

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

#### **Operating leases – lessee**

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset. This liability is not discounted.

#### **1.14 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 pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability.

### **1.15 Foreign currency transactions and balances**

Foreign currency transactions are translated into the functional currency of the respective Group entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items denominated in foreign currency at year-end exchange rates are recognised in profit or loss.

Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the transaction date).

### **1.16 Foreign operations**

In the Group's financial statements, all assets, liabilities and transactions of Group entities with a functional currency other than Pounds are translated into Pounds upon consolidation. The functional currency of the entities in the Group has remained unchanged during the reporting period.

On consolidation, assets and liabilities have been translated into Pounds at the closing rate at the reporting date. Income and expenses have been translated into Pounds at the average rate over the reporting period. Exchange differences are charged or credited to other comprehensive income and recognised in the currency translation reserve in equity. On disposal of a foreign operation, the related cumulative translation differences recognised in equity are reclassified to profit or loss and are recognised as part of the gain or loss on disposal.

### **1.17 Equity, reserves and dividend payments**

Share capital represents the nominal value of shares that have been issued.

Share premium includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium, net of any related income tax benefits.

Other components of equity include the following:

- Translation reserve – comprises foreign currency translation differences arising from the translation of financial statements of the Group's foreign entities into Sterling.
- Retained earnings includes all current and prior period retained profits.

All transactions with owners of the parent are recorded separately within equity.

Dividend distributions payable to equity shareholders are included in other liabilities when the dividends have been approved in a general meeting prior to the reporting date.

### **1.18 Share-based employee remuneration**

The Group operates equity-settled share-based remuneration plans for its employees. None of the Group's plans are cash-settled.

All goods and services received in exchange for the grant of any share-based payment are measured at their fair

values. Where employees are rewarded using share-based payments, the fair value of employees' services is determined indirectly by reference to the fair value of the equity instruments granted. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example profitability and sales growth targets and performance conditions).

All share-based remuneration is ultimately recognised as an expense in profit or loss with a corresponding credit to retained earnings. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest.

### 1.18 Share-based employee remuneration (continued)

Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs up to the nominal value of the shares issued are allocated to share capital with any excess being recorded as share premium.

## 2. New Standards and Interpretations

The following relevant new IFRS standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2017, but had no significant impact on the Company:

Standard	Key requirements	Effective date as adopted by the EU
Amendment to IAS 12, Recognition of Deferred Tax Assets for Unrealised Losses	IAS 12, Income taxes are clarified for the following aspects: <ul style="list-style-type: none"><li>- Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.</li><li>- The carrying amount of an asset does not limit the estimation of probable future taxable profits.</li><li>- Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.</li><li>- An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.</li></ul>	1 January 2017
Amendment to IAS 7	IAS 7, Statement of cash flows provide additional disclosure to allow users of financial statements to evaluate changes in liabilities arising from financing activities.	1 January 2017

**New standards and interpretations (continued)**

**Standards issued but not yet effective**

The following relevant new IFRS standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning on 1 January 2017, as adopted by the European Union, and have not been early adopted:

<b>Standard</b>	<b>Key requirements</b>	<b>Effective date as adopted by the EU</b>
IFRS 9	<p>Financial Instruments – Replacement to IAS 39 and is built on a single classification and measurement approach for financial assets which reflects both the business model in which they are operated and their cash flow characteristics.</p> <p>Impairments are changing to an ‘expected credit loss’ model for measurement of the impairment of financial assets, it is no longer necessary for a credit event to have occurred before a credit loss.</p> <p>Hedge accounting, introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.</p>	1 January 2018
IFRS 15	<p>Revenue from contracts with customers – Introduces requirements for companies to recognise revenue, on a principle based five-step model for the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. Also results in enhanced disclosure about revenue.</p>	1 January 2018
IFRS 16	<p>Leases – Introduces a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, within IFRS 16’s approach to lessor accounting substantially unchanged from its predecessor.</p>	1 January 2019

### New standards and interpretations (continued)

Impact assessment:

#### *IFRS 9 Financial Instruments*

The classification and measurement of financial liabilities will depend on how these are managed (the entity's business model) and their contractual cash flow characteristics. These factors determine whether the financial liabilities are measured at amortised cost, fair value through other comprehensive income or at FVTPL. The combined effect of the application in the business model and the contractual cash flow characteristics may result in some differences in the measurements of financial liabilities at amortised cost or fair value compared with IAS 39.

Management have considered the updates and envisage that there will be no material changes to the valuation method of the embedded derivative and the measurement of the financial instruments held in the financial statements of the Company as a result of the revision from IAS 39 to IFRS 9.

#### *IFRS 15 Revenue from Contracts with Customers*

IFRS 15 provides a principles-based approach for revenue recognition, and introduces the concept of recognising revenue for performance obligations as they are satisfied. Management has assessed the impact of IFRS 15 and expects that the standard will have no significant effect, when applied on the financial statements.

### Standards issued but not yet effective and not adopted by the European Union

The following relevant new standards and amendments to standards and interpretations have been issued, but are not effective for the financial year beginning on 1 January 2017, and not yet adopted by the European Union, they have not been early adopted:

Standard	Key requirements	Effective date as adopted by the EU
Amendment to IFRS 2, Share based payments	The amendment clarifies; cash-settled share-based payment transactions that include a performance condition, share-based payment transactions with net settlement features and accounting for modifications of share-based payment transactions from cash-settled to equity-settled.	1 January 2018

### 3. Critical accounting judgements and key sources of estimation uncertainty

The preparation of the Group financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the end of the reporting period. Actual results may vary from the estimates used to produce these financial statements.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Significant items subject to such estimates and assumptions include, but are not limited to:

- the cash generating unit that supports the carrying value of property, plant and equipment and mining assets being £1.2m in total; and
- the intercompany receivable from Kareevlei Mining Proprietary Limited of £5.3m

Their recoverable amounts are supported by the potential value of the current portfolio of projects and their value is underpinned by the economic benefit of future cash flows generated from the project portfolio.

### 3. Critical accounting judgements and key sources of estimation uncertainty (continued)

The main risks and sensitivities impacting their recoverable amounts relate to the following:

- Decrease in rough diamond prices
- Reliability of mineral resource
- Exposure to movements in the prices of raw materials, equipment and services

Other estimates and assumptions:

#### *Valuation of embedded derivatives*

There is an adjustable conversion feature within the convertible loan agreement which effects the conversion price and the number of new ordinary shares issued. IAS 39 requires a fair value calculation of the embedded derivative at recognition, as it is not closely related to the host contract, and a revaluation to be performed at each year end. The embedded derivative has been fair valued using the Monte Carlo model which requires critical judgements in order to ascertain the Group share price volatility. At the year end the fair value of the embedded derivative was £113,333. Further details can be found in note 17.

#### *Rehabilitation provision*

Estimates and assumptions are made in determining the amount attributable to the 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 18.

#### *Useful lives of property, plant and equipment*

Depreciation rates are discussed in detail within the property, plant and equipment policy 1.2. The rates used are considered by management to fairly reflect the expected useful lives of the respective asset categories.

#### *Impairment of non-current assets*

The outcome of on-going exploration, and therefore whether the carrying value of the machinery and equipment and funds in trust will ultimately be recovered, is inherently uncertain.

The ability of the Group to realise the carrying values of these assets is contingent upon production or discovery of economically recoverable mineral reserves, the on-going title to the resource properties, the ability of the Group to finance the development of the properties and on the future profitable production or proceeds from the property. The success of the Group's mineral exploration properties 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. 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 values of property, plant and equipment are set out in note 8.

#### *Impairment of loans to subsidiaries*

The Directors make judgements on an annual basis to assess the recoverability of the loan to the Company's subsidiary. This is after taking into account recoverable diamond reserves, cash flows expected to be generated by estimated future production, sales and costs. If the assumed factors vary from actual occurrence, this will impact on the amount at which the loan should be carried on the Company Statement of Financial Position.

Factors which could impact future recoverability of the loan include future profitable production, future legal changes (including charges to environmental restoration obligations) and the level of proved, probable and inferred mineral resources. The carrying value of the subsidiary loan is set out in note 12.

#### *Valuation of assets and liabilities*

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets.

**3. Critical accounting judgements and key sources of estimation uncertainty (continued)**

This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date (see note 27).

**4. Segmental reporting**

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance.

The Group's operations relate to the exploration for, and development of mineral deposits in the Kimberley region of South Africa and as such the Group has only one reportable segment. The non-current assets in the Kimberley region are £1,183,343 (2016: £999,590). All revenue consists of sales of diamonds in South Africa through auctions as is customary in the industry. The Group sells its diamonds through auctions run by Flawless Diamonds.

**5. Operating loss**

Result from operating activities is stated after charging:

	<b>Group 2017</b>	<b>Group 2016</b>
	£	£
Operational and direct costs	1,253,015	680,166
Depreciation	274,407	171,258
Operating Lease Rentals – Land, Buildings and Equipment	148,977	85,039
Diamonds on hand – inventory movement	(100,461)	(1,845)
Staff costs (note 22)	365,192	194,939
Directors fee	120,000	28,833
Auditors fees (see below)	33,482	33,079
Share option charge	92,305	34,339
Gain on modification extinguishment of debt	-	(147,802)
Gain on disposal of asset	5,042	2,397
	<hr/>	<hr/>
Fees receivable by the Group auditors:		
Fees – audit of financial statements	25,000	23,500
Fees – audit of accounts of subsidiary of the company	8,482	9,579
	<hr/>	<hr/>
	<b>33,482</b>	<b>33,079</b>

**6. Finance costs**

	<b>Group 2017</b>	<b>Group 2016</b>
	£	£
Finance charges	<b>82,384</b>	<b>60,229</b>

Included within finance charges is an amount of £58,355 (2016: £60,229) relating to the unwinding of the convertible loan notes (see note 17).

**7. Goodwill**

	<b>Group 2017 £</b>	<b>Group 2016 £</b>
Diamond Resources (Pty) Limited	-	-

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units ("CGUs") that are expected to benefit from that business combination. There is only considered to be one CGU in the Group which is the mining of diamonds in the Kimberley region South Africa.

In July 2016, the Company acquired 100% of the total share capital of Diamond Resources (Pty) Limited ("Diamond Resources"). At 31 December 2016 the Group's investment in Diamond Resources was fully impaired. The Directors assessed that minimal future economic benefit was expected from the assets of Diamond Resources.

All inventory held in Diamond Resources was sold during the second half of 2016, in addition the speculative assets obtained in the Northern Cape do not have sufficient studies completed to confirm the existence of viable projects. Therefore the Directors deemed it prudent to impair the goodwill recognised on acquisition of the Group. During the year to December 2017 the Directors retain this view on the speculative assets and Diamond Resources remains fully impaired.

**8. Property, plant and equipment****Group**

	<b>2017</b>			<b>2016</b>		
	<b>Cost / Valuation £</b>	<b>Accumulated depreciation £</b>	<b>Carrying Value £</b>	<b>Cost / Valuation £</b>	<b>Accumulated depreciation £</b>	<b>Carrying Value £</b>
Mine infrastructure	97,377	(59,787)	37,590	67,086	(14,765)	52,321
Motor vehicles	35,801	(13,424)	22,377	17,475	(4,284)	13,191
Plant and machinery	1,340,648	(569,914)	770,734	869,749	(151,947)	717,802
<b>Total</b>	<b>1,473,826</b>	<b>(643,125)</b>	<b>830,701</b>	<b>954,310</b>	<b>(170,996)</b>	<b>783,314</b>

**Reconciliation of property, plant and equipment - Group – 2017**

	<b>Opening balance £</b>	<b>Additions £</b>	<b>Cost on disposal £</b>	<b>Depreciation on disposal £</b>	<b>Depreciation £</b>	<b>FX revaluation £</b>	<b>Total £</b>
Mine infrastructure	52,321	4,160	-	-	(18,755)	(136)	37,590
Motor vehicles	13,191	14,463	(2,170)	1,536	(4,614)	(29)	22,377
Plant and machinery	717,802	322,369	(49,523)	31,417	(249,723)	(1,608)	770,734
	<b>783,314</b>	<b>340,992</b>	<b>(51,693)</b>	<b>32,953</b>	<b>(273,092)</b>	<b>(1,773)</b>	<b>830,701</b>

## 8. Property, plant and equipment (continued)

## Reconciliation of property, plant and equipment - Group – 2016

	Opening balance	Additions	Cost on disposal	Depreciation on disposal	Depreciation	FX revaluation	Total
	£	£	£	£	£	£	£
Mine infrastructure	39,816	10,098	-	-	(14,765)	17,172	52,321
Motor vehicles	2,946	14,380	-	-	(4,284)	149	13,191
Plant and machinery	434,973	303,838	(35,156)	16,043	(152,209)	150,313	717,802
	<b>477,735</b>	<b>328,316</b>	<b>(35,156)</b>	<b>16,043</b>	<b>(171,258)</b>	<b>167,634</b>	<b>783,314</b>

Property, plant and equipment is under security of the loan agreement with Mark Poole. The Group cannot pledge these assets as security for other borrowings or sell them to another entity. In the event of default Mark Poole may acquire the equipment of Kareevlei Mining pty Limited for 1.00 South African Rand, see note 17 for further detail.

## 9. Mining Assets

## Mining Rights and Mining Rehabilitation – Group - 2017

	Opening balance	Additions	Depreciation	FX revaluation	Total
	£	£	£	£	£
Mining Rights	87,483	-	-	861	88,344
Mining Rehabilitation	128,793	135,599	(1,315)	1,221	264,298
	<b>216,276</b>	<b>135,599</b>	<b>(1,315)</b>	<b>2,082</b>	<b>352,642</b>

## Mining Rights and Mining Rehabilitation - Group – 2016

	Opening balance	Additions	Depreciation	FX revaluation	Total
	£	£	£	£	£
Mining Rights	63,403	-	-	24,080	87,483
Mining Rehabilitation	77,961	21,944	-	28,888	128,793
	<b>216,276</b>	<b>21,944</b>	<b>-</b>	<b>52,968</b>	<b>216,276</b>

For further details on the mining rehabilitation provision see note 18.

**10. Investment in subsidiary**

Name of company	Holding 2017		Holding 2016	
	%	Carrying amount 2017 £	%	Carrying amount 2016 £
Kareevlei Mining Proprietary Limited	74	5	74	5
Diamond Resources Pty Limited	100	-	100	-

Name of subsidiary	Country of incorporation	Net loss after tax (2017) R	Net loss after tax (2017) £	Net gain/(loss) after tax (2016) R	Net gain/(loss) after tax (2016) £
Kareevlei Mining Proprietary Limited	South Africa	(23,621,522)	(1,376,279)	(22,239,761)	(1,111,940)
Diamond Resources Pty Limited	South Africa	-	-	3,710	185

**Details of minority**

The most significant element of the Mining Charter is the ownership requirement which stipulates that mines must commit to obtaining 26 per cent effective ownership by Historically Disadvantaged South Africans (“HDSAs”) (being the meaningful participation of HDSAs in the ownership, voting rights, economic interest and management control of mining entities) by 2014.

BlueRock’s subsidiary, Kareevlei Mining Proprietary Limited, is 26 per cent owned by Ghaap Mining Proprietary Limited, a Kimberley based company. Ghaap Mining Proprietary Limited is a South African private company wholly owned by Mr. William Alexander van Wyk who, in terms of South African legislation is considered to qualify as an HDSA.

On 15 June, 2017 the Broad Based Socio-Economic Empowerment Charter for the South African mining and minerals industry, 2017, (the '2017 Charter') was announced and gazetted in South Africa. The 2017 Charter aims to introduce far-reaching, new, and in some cases, radical measures and requirements on the industry.

The Group is compliant with the preceding Charter, and if the 2017 Charter is implemented, certain changes will be required to maintain compliance, primarily in respect of: (i) the increased mandatory Black Economic Empowerment shareholding which is currently set at 26%, but is proposed to be increased to 30%, and (ii) in the required make-up of management demographics. The Chamber of Mines of South Africa has publicly rejected the unilateral development and imposition of the 2017 Charter and plans to take legal action on behalf of the industry to interdict the implementation of the 2017 Charter on a number of grounds.

**Summary of Group’s interest in subsidiary**

	2017		2016	
	R	£	R	£
Total assets	23,591,069	1,422,254	19,566,045	1,168,094
Total liabilities	(99,869,487)	(6,020,913)	(72,222,940)	(4,311,714)
Retained losses	52,656,895	3,143,620	30,417,134	2,031,679
Loss for the year	23,621,523	1,455,039	22,239,761	1,111,941
	-	-	-	-

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**11. Inventories**

	2017 Group £	2016 Group £	2017 Company £	2016 Company £
Diamonds on hand	103,951	2,202		

**12. Trade and other receivables**

	2017 Group £	2016 Group £	2017 Company £	2016 Company £
Prepayments	5,359	2,073	3,049	2,073
VAT	-	53,952	-	5,995
Other receivables	1,002	75,972	371,064	366,982
Intercompany balances	-	-	5,256,084	3,643,428
	<b>6,361</b>	<b>131,997</b>	<b>5,630,197</b>	<b>4,018,478</b>

The intercompany balance is a loan to Kareevlei Mining Proprietary Limited that bears interest at the Nedbank Limited prime variable overdraft rate or unsecured loans to corporate customers and is repayable on demand.

The carrying value of all trade and other receivables including the loan to group company is considered a reasonable approximation of fair value.

**13. Cash and cash equivalents**

Cash and cash equivalents consist of:

	2017 Group £	2016 Group £	2017 Company £	2016 Company £
Cash on hand	221	7	-	-
Bank balances	267,907	291,548	156,030	174,063
	<b>268,128</b>	<b>291,555</b>	<b>156,030</b>	<b>174,063</b>

**14. Share based payments**

The share options held by each Director and the exercise prices at 31 December 2017 are as follows:

Director	Number of ordinary shares subject to share options	Tranche 1		Tranche 2		Tranche 3		Tranche 4		Tranche 5	
		Number	Ex. Price	Number	Ex. Price	Number	Ex. Price	Number	Ex. Price	Number	Ex. Price
P. Beck	2,751,392	-	-	-	-	992,096	2.25	992,096	1.25	767,200	1.75
T. Leslie	3,000,000	-	-	-	-	-	-	-	-	3,000,000	1.75
A. Waugh	9,281,958	776,091	11	1,670,387	5	3,417,740	2.25	3,417,740	1.25	-	-
D. Facey	4,127,088	-	-	-	-	2,063,544	2.25	2,063,544	1.25	-	-
<b>Total</b>	<b>19,160,438</b>	<b>776,091</b>		<b>1,670,387</b>		<b>6,473,380</b>		<b>6,473,380</b>		<b>3,767,200</b>	

All exercise prices quoted in pence per option. There were no share options exercised during the year ended 31 December 2017.

**14. Share based payments (continued)**

Movements in the number of share options outstanding and their related weighted average prices are as follows:

	31 December 2017		31 December 2016	
	Average exercise price in pence per share	Number of options	Average exercise price in pence per share	Number of options
Outstanding at the beginning of the year	29.2	3,555,720	34	4,121,131
Granted	2.11	20,308,238	11	776,091
Lapsed	(44)	(1,161,003)	(31)	(1,261,002)
Exercised	-	-	15	280,500
Outstanding at the end of the year	<b>4.40</b>	<b>22,502,955</b>	<b>29.2</b>	<b>3,355,720</b>
Exercisable at the end of the year	<b>5</b>	<b>2,227,182</b>	<b>29.2</b>	<b>3,355,720</b>

Options are valued at date of grant using the Black-Scholes option pricing model. The fair value per option of options granted during the period and the assumptions used in the calculation are shown below:

**2017**

Average exercise price (p)	Average grant date share price (p)	Share price volatility (p.a.)	Risk-free interest rate (p.a.)	Dividend yield (p.a.)	Average contractual life (years)	Average fair value per option (p)
5	5.75	50%	0.70%	0%	5	2.73
2.5	1.75	59.23%	0.005%	0%	5	0.70
1.25	1.75	59.23%	0.005%	0%	5	1.01
2.125	1.75	65.28%	0.004%	0%	2	0.89

**2016**

Average exercise price (p)	Average grant date share price (p)	Share price volatility (p.a.)	Risk-free interest rate (p.a.)	Dividend yield (p.a.)	Average contractual life (years)	Average fair value per option (p)
11	13.5	50%	0.56%	0%	5	6.64

The total share-based payment expense for the year ended 31 December 2017 was £92,305 (2016: £34,339) in relation to share options.

**15. Share capital and share premium issued**

	2017 Group £	2016 Group £	2017 Company £	2016 Company £
2017: 139,824,242 (2016: 55,679,580) ordinary issued share capital of 1p each	1,398,242	556,796	1,398,242	556,796
Share premium	2,811,536	2,443,826	2,811,536	2,443,826
	<b>4,209,778</b>	<b>3,000,622</b>	<b>4,209,778</b>	<b>3,000,622</b>

**15. Share capital and share premium issued (continued)**

In the year ended 31 December 2017 the following Ordinary share issues occurred:

<b>Date of issue</b>	<b>Details of issue</b>	<b>Number of ordinary shares</b>	<b>Share capital £</b>	<b>Share premium £</b>
At 1 January 2017		55,679,580	556,796	2,443,826
1 June 2017	Placing and equity issue	12,200,000	122,000	244,000
1 June 2017	Placing and equity issue expenses	-	-	(32,297)
1 June 2017	Placing and equity issue SP Angel advisory fees	30,000	300	1,200
10 August 2017	Placing and equity issue	68,800,000	688,000	172,000
10 August 2017	Placing and equity issue expenses	-	-	(49,545)
27 September 2017	Directors' remuneration	2,447,059	24,470	27,528
27 September 2017	In consideration for professional services	70,588	706	794
25 October 2017	Repayment of working capital loan	597,015	5,970	4,030
At 31 December 2017		<b>139,824,242</b>	<b>1,398,242</b>	<b>2,811,536</b>

**16. Trade and other payables**

	<b>2017 Group £</b>	<b>2016 Group £</b>	<b>2017 Company £</b>	<b>2016 Company £</b>
Trade payables	231,950	260,117	19,317	29,637
Corporation tax payables	21,953	90,566	21,953	90,566
Accrued expenses	55,173	37,025	48,550	29,851
VAT	35,992	-	55,543	-
Account due to former Director	26,230	25,974	-	-
	<b>371,298</b>	<b>413,682</b>	<b>145,363</b>	<b>150,054</b>

An amount of £194,634 (2016: £192,376) is included within trade payables for amounts claimed as being due to companies related to the former Director of the company. These amounts are disputed in full by the Company based on legal advice received. The account due to a former Director totalling £26,230 (2016: £25,974) relates to amounts claimed but disputed in full by the Company.

**17. Borrowings**

The Group had in issue 3 convertible loan stocks of £850,000 which were fully drawn down by the end of 2015. On 2 November 2016 a fundraising took place and raised an additional £75,000. The convertible loan stocks were materially revised and the changes noted below.

The terms of the convertible loan note were amended such that the conversion price has been reduced to 2.89p (2016: 5p) due to an anti-dilution clause which provides a mechanism for weighted conversion price revisions should additional funds be raised below the prevailing conversion price. The term has been extended to 16 October 2021 and can be converted at any point after 1 May 2018 via an orderly marketing arrangement.

This option to convert the loan into shares has been treated as a separate financial instrument, as an embedded derivative. This is due to a clause in the updated convertible loan note agreement which will require the Company to issue a variable number of shares if future fundraising over life of the convertible loan note raises additional funds at a price per Ordinary share of less than 5p. This requires a separate valuation as it does not relate to the host contract.

**17. Borrowings (continued)**

In addition if the Company sells its interest in its subsidiary undertaking before the final repayment date for consideration equivalent to or greater than 120% of the loan note outstanding then the notes will become redeemable and a 20% premium will be payable to the note holder.

Management have carried out an assessment of the terms of the convertible loan and have judged that the instrument consists of two components:

- a loan instrument; held at amortised cost
- an embedded redemption feature (payable on a sale of the Group's interest for consideration greater than 120% of the loan note value). The embedded derivative should be recognised separately as a derivative financial instrument at fair value through profit and loss (FVTPL).

A fair value exercise to determine the value of the two components was undertaken by the Directors at the date the convertible loan was initially drawn down. The fair value of the host loan instrument (including the embedded redemption feature) has been valued as the residual of:

- The fair value of the first draw down on 16 October 2014 is discounted at a commercially applicable rate of 9.25%. The fair values of the draw downs on 27 May 2016 and 2 October 2016 have been discounted at a commercially applicable rate of 10.5%.

	<b>31 December 2017</b>	<b>31 December 2016</b>
	£	£
Convertible loan	641,903	583,548
Loan facility	243,325	-
<b>Total Borrowings</b>	<b>885,228</b>	<b>583,548</b>
Embedded derivative	113,333	292,839
	<b>998,561</b>	<b>876,387</b>
	<b>31 December 2017</b>	<b>31 December 2016</b>
	£	£
<b>Due within one year</b>		
Loan facility	34,723	-
<b>Due greater than one year</b>		
Convertible loan	641,903	583,548
Loan facility	208,602	-
	<b>885,228</b>	<b>583,548</b>

In 2017 the Company entered into a loan facility agreement with Mark Poole. The total loan facility that can be drawn down upon is £310,000. A 90 day interest free period was included in the agreement from the date of the first draw down. After this point interest accrues on the capital balance at a rate of 10% per annum, which is payable quarterly in arrears. All capital to be repaid within 5 years from the date of the draw down on the facility.

Additionally a security over the property plant and equipment of Kareevlei Mining pty Limited is held, see note 8 for further detail.

During the year ended 31 December 2017 an interest charge of £4,024 was recognised on the total capital drawn down. Outstanding at the year ended 2017 was £239,301 capital and £4,024 interest. For additional detail see note 25.

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**18. Provisions**

**Reconciliation of provisions – Group – 2017**

	<b>2017</b>	<b>2016</b>
	<b>Group</b>	<b>Group</b>
	<b>£</b>	<b>£</b>
<b>Balance at 1 January</b>	112,798	81,718
Movement	35,484	31,080
<b>Balance at 31 December</b>	<b>148,282</b>	<b>112,798</b>

The original provision for environmental rehabilitation closure cost was independently assessed by Ndi Mudau of NDI Geological Consulting Services. The closure cost assessment reports over the Remainder of the Farm No. 113 (Skietfontein), Portion of Portion 2 (Kareeboompan) of the Farm 142, Portion 1 (Westhoek) of the Farm 113, and Portion 2 (Klipvlei) of the Farm 113. The financial provision was calculated in accordance with Regulation 54 of the Minerals and Petroleum Resources Development Act 2002 (Act 28 of 2002) and is dated 12 February 2016.

In 2017 the Department of Mineral Resources (“the Department”) reviewed the rehabilitation provision. During the site inspection it was noted there was a shortfall in some areas of the programme. The suggested revision put forward by the Department has been incorporated into the rehabilitation calculation in 2017.

**19. Commitments**

**Operating leases – as lessee (expense)**

<b>Minimum lease payments due</b>	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<b>Group</b>	<b>Group</b>	<b>Company</b>	<b>Company</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
- within one year	40,800	26,960	-	-
- in second to fifth year inclusive	188,940	181,053	-	-
- later than five years	-	26,746	-	-
	<b>229,740</b>	<b>234,759</b>	-	-

Operating lease payments represent rentals payable by the Group for certain of its mining properties. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable.

## 20. Cash used in operations

	2017 Group £	2017 Company £	(restated) 2016 Group £	2016 Company £
(Loss)/profit before taxation	(1,179,529)	196,750	(495,493)	525,883
<b>Adjustments for non-cash items:</b>				
Depreciation and amortisation	274,407	-	171,258	-
Foreign exchange movement	(71,468)	-	(869,608)	-
Property plant and equipment NBV disposal	18,740	-	19,113	-
Embedded derivative (gain)/charge	(179,506)	(179,506)	292,839	292,839
Share based payment expense	92,305	92,305	34,339	34,339
Shares issued in lieu of Director fees	52,000	52,000	-	-
Finance charge on convertible loan notes	58,355	58,355	60,229	60,229
Interest accrued on intercompany loan	-	(463,969)	-	(245,728)
Taxes paid	(90,621)	(90,621)	-	-
Impairment on acquisition of Diamond Resources Pty Limited	-	-	32,826	32,826
<b>Changes in working capital:</b>				
Decrease/(increase) in trade and other receivables	125,635	938	(124,374)	(155,144)
Increase in trade and other payables	26,230	63,920	37,257	49,509
(Increase)/decrease in inventories	(101,749)	-	48,463	-
	<b>(975,201)</b>	<b>(269,828)</b>	<b>(793,151)</b>	<b>594,753</b>

A prior year restatement has been reported to reclassify the exchange differences on cash and cash equivalents to cash flow used in operations. This has resulted in the cash flow used in operations increasing to (£793,151) (2016: (£144,145)) and the exchange differences on cash and cash equivalents decreasing to (£51,029) (2016: (£700,035)). This has no impact on any other area to the financial statements.

**Reconciliation of net cash flow to movement in net debt:**

Movement in cash and cash equivalents	(23,427)	(18,033)	115,800	9,796
Effective repayment of original convertible loan on 2 November 2016	-	-	647,156	647,156
Recognition of updated convertible loan note after amendments 2 November 2016	-	-	(574,352)	(574,352)
Finance charge: unwinding the discount factor convertible loan note	(58,355)	(58,355)	(60,229)	(60,229)
Embedded derivative gain/(charge)	179,506	179,506	(292,839)	(292,839)
Director and shareholder loan drawn down	(190,000)	(190,000)	-	-
Director and shareholder loan repayment	180,000	180,000	-	-
Director and shareholder loan converted to share capital	10,000	10,000	-	-
Proceeds from Mark Poole loan facility	(239,301)	(239,301)	-	-
Interest accrued on Mark Poole loan facility	(4,024)	(4,024)	-	-
Decrease/(increase) in net debt in the year	(145,601)	(140,207)	(164,464)	(270,468)
Opening net debt	(584,832)	(702,324)	(420,368)	(431,856)
<b>Closing net debt</b>	<b>(730,433)</b>	<b>(842,531)</b>	<b>(584,832)</b>	<b>(702,324)</b>

**Analysis of net debt**

Cash and cash equivalents	268,128	156,030	291,555	174,063
Borrowings	(998,561)	(998,561)	(876,387)	(876,387)
<b>Total net debt</b>	<b>(730,433)</b>	<b>(842,531)</b>	<b>(584,832)</b>	<b>(702,324)</b>

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**21. Contingent Liabilities**

There were no contingent liabilities as at 31 December 2017 (2016: Nil).

**22. Staff numbers and costs**

	<b>2017 Group</b>	<b>2017 Company</b>	<b>2016 Group</b>	<b>2016 Company</b>
	£	£	£	£
Directors' fees (see note 25)	120,000	120,000	28,833	28,833
Staff salaries	365,192	-	194,939	-
	<b>485,192</b>	<b>120,000</b>	<b>223,772</b>	<b>28,833</b>

The table above relates to the Directors remuneration, key management personnel and employees of the Group.

**Average employee, directors and contractor numbers**

	<b>2017 Number</b>	<b>2016 Number</b>
Directors	4	3
Administration and production	29	23
	<b>33</b>	<b>26</b>

**23. Tax expense**

	<b>2017 Group</b>	<b>2016 Group</b>
	£	£
Current tax	22,008	90,566
Deferred tax	-	-
Income tax expense for the year	<b>22,008</b>	<b>90,566</b>

**Factors affecting the tax charge for the year:**

The tax assessed for the year is higher than the UK corporation tax rate of 19.25% (2016: 20%) as explained below:

Loss before tax	(1,179,529)	(495,493)
UK rate of taxation	19.25%	20%
Loss before tax multiplied by the UK rate of taxation	(227,060)	(99,099)
Effects of:		
Difference in rates (South African tax)	110,103	90,699
(Income) / Expenses not deductible for tax purposes	(15,860)	120,559
Utilised losses brought forward	-	(103,155)
Foreign tax losses in subsidiary	154,825	81,562
Tax expense	<b>22,008</b>	<b>90,566</b>

**24. EPS (Earnings per share)**

	<b>Group 2017 £</b>	<b>Group 2016 £</b>
Loss attributable to ordinary shareholders	(901,987)	(814,981)
Weighted average number of shares	90,383,380	39,466,581
Basic loss per share	(0.01)	(0.02)
Weighted average number of shares after dilution	90,383,380	39,466,581
Fully diluted earnings per share	(0.01)	(0.02)

Share options granted to Directors that have an anti-dilutive effect on the diluted earnings per share calculation have not been included.

**25. Related parties****Relationships**

Minority Interest - William van Wyk	Kgalagadi Engineering & Mining Supplies (Pty) Ltd
Close family member of William van Wyk – Gillian Chandre van Wyk	Kgalagadi Engineering & Mining Supplies (Pty) Ltd
Shareholder – Mark Poole	BlueRock Diamonds Plc
Shareholder's Daughter – Emma Poole	BlueRock Diamonds Plc

**Related party balances**

<b>Loan account - Owing by related party</b>	<b>2017 Group £</b>	<b>2016 Group £</b>	<b>2017 Company £</b>	<b>2016 Company £</b>
Kareevlei Mining Proprietary Limited	-	-	5,256,084	3,643,428

As disclosed in Note 22, details of the Directors remuneration for the financial year are set out below:

A Waugh – received fees of £50,000 (2016: £22,833)

D Facey – received fees of £18,000 (2016: £1,500)

A Markgraaf – received salary shares with a market value of £16,000 (£nil)

P Beck – received salary shares with a market value of £24,000 (£nil)

T Leslie – received salary shares with a market value of £12,000 (£nil)

In 2017 Kareevlei Mining made payments of £36,706 to Kgalagadi Engineering & Mining Supplies (Pty) Ltd (2016: £nil) for the purchase of a cone crusher to assist with the processing on the mine site. This transaction was completed on a commercial arms length basis. William van Wyk holds a minority interest in Kareevlei Mining Proprietary Limited and Gillian Chandre van Wyk, is the daughter of William and a Director of Kgalagadi Engineering & Mining Supplies (Pty) Ltd.

On the 15 March 2017 and 20 July 2017 several loans were issued to the Company by the Directors, Tim Leslie, Paul Beck and existing shareholder, Mark Poole, totalling £190,000. The loans carried an annual interest rate of 10% payable on repayment and a maturity date of 31 December 2017. The table below details the timing and amount loaned by individual.

<b>Individual</b>	<b>Issue date and loan amount</b>		<b>Total</b>
	15 March 2017	20 July 2017	
Tim Leslie	£62,500	£20,000	£82,500
Paul Beck	£25,000	£20,000	£45,000
Mark Poole	£62,500	-	£62,500
<b>Total</b>	<b>£150,000</b>	<b>£40,000</b>	<b>£190,000</b>

The Board decided to repay the loans prior to maturity on 25 October 2017.

## **25. Related parties (continued)**

Paul Beck received 597,015 shares equal to £10,000 at the closing mid price on 24 October in part satisfaction of the repayment. The outstanding interest and capital on the loan was paid in cash. All other Director balances were settled in cash.

In 2017 Mark Poole entered into a £310,000 loan facility with the Company to fund the purchase of a new front end loader and generator for use on the Kareevlei site. The total facility drawn down for the purchase was £251,381, at the year end 2017 the capital outstanding was £239,301 and interest accrued of £4,024. For further detail see note 17.

## **26. Risk management**

### **Capital risk management**

The Group's capital management objectives are:

- to safeguard the Group's ability to continue as a going concern and provide access to adequate funding for its exploration and development project so that it continues to provide returns and benefits to shareholders;
- to support the Group's growth; and
- to provide capital for the purpose of strengthening the Group's risk management capability.

The Group actively and regularly reviews and manages its capital structure to ensure an optimal capital structure and equity holder returns, taking into consideration the future capital requirements of the Group including planned exploration work and capital efficiency, projected profitability, projected operating cash flows and projected capital expenditures. Management regards total equity as capital and reserves, for capital management purposes. If additional equity funding should be required, the Group may issue new shares.

### **Financial risk management**

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and cash flow interest rate risk), credit risk and liquidity risk.

#### **Liquidity risk**

The Group's risk to liquidity is a result of the funds available to cover future commitments. The Group manages liquidity risk through an ongoing review of future commitments and credit facilities. The maximum amount payable under the terms of the convertible loan note is disclosed in note 17.

#### **Credit risk**

Credit risk consists mainly of cash deposits and cash equivalents. The Group only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

The credit risk on receivables from subsidiaries is significant and their recoverability is dependent on the discovery and successful development of economic reserves by these subsidiaries undertakings. Given the nature of the Group's business significant amounts are required to be invested in exploration activities. The Directors manage this risk by reviewing expenditure plans and budgets in relation to 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. The maximum credit exposure of the Company as at 31 December 2017 was £5,630,196 (2016: £4,010,410) of which £5,256,084 (2016: £3,643,428) is related to the subsidiary loan. The maximum credit risk of the Group as at 31 December 2017 was £6,361 (2016: £78,044).

**26. Risk management (continued)****Foreign exchange risk**

Management has set up a policy to require group companies to manage their foreign exchange risk against their functional currency. To manage their foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, entities in the group may use forward contracts. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency.

At 31 December 2017, if the pound sterling had weakened/strengthened by 12% against the South African Rand with all other variables held constant, post-tax loss for the year would have been £188k lower (2016: £181k) or £148k higher (2016: £142k), mainly as a result of foreign exchange gains or losses on translation of South African Rand denominated trade receivables and intragroup borrowings. The exchange rates used for conversion of South African rand monetary items to Sterling were – 2017: 16.59, 2016: 16.75.

**Market risk**

As the Group has commenced diamond sales, the profitability of mining operations is directly related to the prevailing diamond price. Historically, diamond prices have been volatile and are affected by numerous factors which the Group is unable to control or predict, including world production levels, international economic trends, industrial and consumer demand, currency exchange fluctuations, seasonality, speculative activity and political events.

The Group realises US Dollars for its diamond sales, and reports its results in Pounds Sterling. Should the South African Rand strengthen against the Pound, the costs of the Group's mining operations, which are largely denominated in South African Rand, may be adversely affected. Should the US Dollar weaken against the Pound, the Group's revenues may be reduced.

Should market prices for raw materials, services and equipment, such as diesel or mining equipment increase, the Group's results may be adversely affected. The Group seeks to obtain the best rate for each product or service, taking into account price, service quality and reliability.

**Summary of assets and liabilities by category**

The carrying amounts of the financial assets and liabilities as recognised at the statement of financial position date of the years under review may also be categorised as follows:

	<b>Group 2017</b>	<b>Group 2016</b>	<b>Company 2017</b>	<b>Company 2016</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
<b>Loans and receivables</b>				
Cash and cash equivalents	268,128	291,555	156,030	174,063
Trade and other receivables	5,359	75,972	5,627,147	4,010,410
	<b>273,487</b>	<b>367,527</b>	<b>5,783,177</b>	<b>4,184,473</b>
<b>Financial liabilities held at amortised cost</b>				
Trade and other payables	313,353	323,115	67,867	59,488
Borrowings	885,228	583,548	885,228	583,548
	<b>1,198,581</b>	<b>906,663</b>	<b>953,095</b>	<b>643,036</b>
	<b>Group 2017</b>	<b>Group 2016</b>	<b>Company 2017</b>	<b>Company 2016</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
<b>Financial liabilities measured at fair value through profit and loss</b>				
Embedded derivative	113,333	292,839	113,333	292,839

## 27. Fair value measurement of financial instruments

Financial liabilities measured at fair value in the statement of financial position are grouped into three Levels of a fair value hierarchy. The three Levels are defined based on the observability of significant inputs to the measurement, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3: unobservable inputs for the asset or liability.

The following table shows the Levels within the hierarchy of financial assets and liabilities measured at fair value on a recurring basis as at each year end:

	2017 Group	2016 Group	2017 Company	2016 Company
<b>Financial liabilities held at fair value through profit and loss</b>				
Embedded derivative (level 3)	<u>113,333</u>	<u>292,839</u>	<u>113,333</u>	<u>292,839</u>

## Measurement of fair value of financial instruments

The Group's management team perform valuations of financial items for financial reporting purposes, including Level 3 fair values. Valuation techniques are selected based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information.

### *Embedded derivative (Level 3)*

The derivative financial instrument is a level 3 valuation as it is not possible to observe all future additional financing requirements for the Group to perpetuity. Therefore, the future conversion price of the convertible loan notes may be reduced. As a result the derivative has been valued using the Monte-Carlo simulation with 5,000 iterations to anticipate the Group share price movements to provide a valuation for the convertible loan note. Inputs included in the Monte Carlo simulation were: the Company's historical and current share price, the convertible loan exercise price, the risk free rate of return, the convertible loan grant date and vesting period.

## 28. Events after the reporting period

### Fundraising

On 19 March 2018 the Company successfully raised an aggregate before expenses of £500,000 via the issue of 33,333,333 ordinary shares of 1 pence each in the capital of the Company through a placing and subscription at 1.5 pence per new share. Each new share issued is accompanied by a warrant to subscribe for a further new share at a price of 3 pence per new share. The Company will use the majority of the funding to develop and expand its ongoing mining activity.

On 31 May 2018 the Company successfully raised an aggregate before expenses of £350,000 via the issue of 29,166,667 ordinary shares of 1 pence each in the capital of the Company through a placing and subscription at 1.2 pence per new share. The Company will use the larger part of the proceeds to expedite the development of KV1 (pipe 1).

## 29. Ultimate controlling party

The Group considers that there is no ultimate controlling party.

**BlueRock Diamonds PLC**  
**Annual Report and Financial Statements 31 December 2017**  
**Notice of Annual General Meeting**

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Notice is given that the annual general meeting of the members of BlueRock Diamonds plc (the "Company") will be held at the offices of St Brides Partners Ltd, 3 St Michael's Alley, London, EC3V 9DS at 10.00a.m. (BST) on 24 July 2018 for the purpose of considering and, if thought fit, passing the following resolutions.

Resolutions 1 to 4 will be proposed as ordinary resolutions and resolution 5 will be proposed as a special resolution.

**Ordinary resolutions**

1. To receive the report and accounts for to the year ended 31 December 2017.
2. To re-appoint Paul Beck as a director, who shall retire from office at the end of the Annual General Meeting and who, being eligible, offers himself for re-election.
3. To reappoint Grant Thornton UK LLP as auditors of the Company and to authorise the directors to fix their remuneration.
4. In addition to all existing authorities granted to the directors of the Company (the "Directors") in respect of the allotment of shares in the Company or the granting of rights to subscribe for or to convert any security into shares in the Company ("Rights") but without prejudice to the proper exercise of such authorities, the Directors be and are generally and unconditionally authorised in accordance with section 551 of the Company Act 2006 (the "Act") to exercise all the powers of the Company to allot shares in the Company or grant Rights up to a maximum nominal value of £2,000,000:

Such authority shall expire at the end of the next annual general meeting of the Company save that the Company may, before such expiry, make an offer or agreement which would, or might, require shares in the Company to be allotted or Rights to be granted after such expiry and the Directors may allot shares in the Company or grant Rights in pursuance of such an offer or agreement as if the authority conferred by this resolution had not expired.

**Special resolution**

5. In addition to all existing authorities granted to the Directors, the Directors be empowered, in accordance with section 570 of the Act, to allot equity securities (as defined in section 560 of the Act) for cash pursuant to the authority conferred by resolution 6 as if section 561(1) of the Act did not apply to such allotment but without prejudice to the prior exercise of such authorities, provided that this power shall be limited to the allotment of equity securities up to a maximum nominal amount of £2,000,000.

These shall expire at the end of the next annual general meeting of the Company, save that the Company may, before such expiry, make an offer or agreement which would, or might, require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such an offer or agreement as if the authority conferred by this resolution had not expired.

By order of the Board

**David Facey**  
Company Secretary

Registered Office:  
4th Floor  
Reading Bridge House  
George Street  
Reading  
Berkshire  
RG1 8LS

Date: 29 June 2018

**Appointment of proxies**

1. As a member of the Company, you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at the meeting and you should have received a proxy form with this notice of meeting. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.
2. A proxy does not need to be a member of the Company but must attend the meeting to represent you. Details of how to appoint the chairman of the meeting or another person as your proxy using the proxy form are set out in the notes to the proxy form. If you wish your proxy to speak on your behalf at the meeting you must appoint your own choice of proxy (not the chairman) and give your instructions directly to the relevant person.
3. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy, you must complete a separate proxy form for each proxy and specify against the proxy's name the number of shares over which the proxy has rights. If you are in any doubt as to the procedure to be followed for the purpose of appointing more than one proxy you must contact Share Registrars Limited, The Courtyard, 17 West Street, Farnham, Surrey, GU9 7DR. If you fail to specify the number of shares to which each proxy relates, or specify a number of shares greater than that held by you on the record date, your proxy appointments will be invalid.
4. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at their discretion. Your proxy will vote (or abstain from voting) as they think fit in relation to any other matter which is put before the meeting.

**Appointment of proxy using the proxy form**

5. The notes to the proxy form explain how to direct your proxy how to vote on each resolution or withhold their vote. To appoint a proxy using the proxy form, it must be:
  - 5.1 completed and signed;
  - 5.2 sent or delivered to the Company's registrars, Share Registrars Limited, The Courtyard, 17 West Street, Farnham, Surrey, GU9 7DR; and
  - 5.3 received by Share Registrars Limited no later than 10.00a.m. (BST) on 20 July 2018.
6. In the case of a member which is a company, the proxy form must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company.
7. Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power or authority) must be included with the proxy form.
8. The Company, pursuant to regulation 41 of the Uncertificated Securities Regulations 2001 (SI 2001/3755) and paragraph 18(c) Companies Act 2006 (Consequential Amendments) (Uncertificated Securities) Order 2009, specifies that only those ordinary shareholders registered in the register of members at 10a.m. (BST) on 20 July 2018 or, in the event the meeting is adjourned, on the register of members 48 hours excluding non business days, before the date of any adjourned meeting, shall be entitled to attend or vote at the meeting in respect of the number of ordinary shares in the capital of the Company registered in their name at that time.

Changes to entries on the relevant register of securities after that time will be disregarded in determining the rights of any person to attend or vote at the meeting.

**Appointment of proxy by joint members**

9. In the case of joint holders of shares, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder (being the first named holder in respect of the shares in the Company's register of members) will be accepted.

**Changing proxy instructions**

10. Where you have appointed a proxy using the hard copy proxy form and would like to change the instructions using another hard copy proxy form, please contact Share Registrars Limited. If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence. Note that the cut off time for receipt of proxy forms specified in paragraph 5 also applies in relation to amended instructions. Any amended proxy appointment received after the specified cut off time will be disregarded.

**Termination of proxy appointments**

11. In order to revoke a proxy instruction you will need to inform the Company by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to Share Registrars. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice.
12. The revocation notice must be received by the Company no later than 10.00a.m. (BST) on 20 July 2018.
13. If you attempt to revoke your proxy appointment but the revocation is received after the time specified then, your proxy appointment will remain valid.
14. Appointment of a proxy does not preclude you from attending the meeting and voting in person. If you have appointed a proxy and attend the meeting in person, your proxy appointment will automatically be terminated.

**Corporate representatives**

15. A corporation which is a member can appoint one or more corporate representatives who may exercise, on its behalf, all its powers as a member provided that no more than one corporate representative exercises powers over the same share.

**Total voting rights**

16. As at 10.00a.m. (BST) on 29 June 2018 (being the last business day prior to the publication of this notice), the Company's issued share capital comprised 202,324,242 ordinary shares of 1p each. Each ordinary share carries the right to one vote at a general meeting of the Company and, therefore, the total number of voting rights in the Company as at 10.00a.m. (BST) on 29 June 2018 is 202,324,242.

**Communication**

17. Except as provided above, members who have general queries about the meeting should contact the Company's registrar, Share Registrars Limited, The Courtyard, 17 West Street, Farnham, Surrey, GU9 7DR.